Economics and Politics in the Global Crisis

OTAVIO SOARES DULCI

THE ECONOMIC CRISIS BEGAN sneakily when the bubble in the U.S. real estate market burst. In mid 2007, what appeared to be a sectoral disturbance – mortgages granted without sufficient guarantees – was seen by the rest of the world as a U.S. problem. Nevertheless, a monumental financial contraption was uncovered assembled from derivatives of bonds and that functioned in a speculative dynamics with no ties to the real value of the goods to which they were originally linked. The size of the problem grew with each news report about the involvement of banks and investors in various parts of the world in this game without limits.

Meanwhile, Brazil's economic environment had an unprecedented glow. In 2007, large government and private projects had been announced in an optimistic atmosphere that continued into 2008 with even greater vigor. The developing financial crisis in other countries was not being ignored, but its influence on Brazil and other so-called "emerging" countries was considered residual. For a long time, it was widely asserted that the emerging economies were detached from the crisis in the central countries.

Given the growing integration of those economies to global capitalism, it was not reasonable to imagine that they were immune to the turbulence. An attempt was made to evaluate the degree of decoupling, under the presumption that the impact of the crisis would differ according to the characteristics and circumstances of each country. This factor is of great importance in the analysis of the process, and in steering government policies and the decisions of private agents. Thus, in the case of Brazil, which is of greater interest to us, it makes sense to analyze the country's specific conditions, vulnerable factors and comparative advantages in this unstable scenario.

Brazil was relatively protected from the disaster in the U.S. and European financial systems, thanks to the solidity of its banks and to the better supervision by the public agencies responsible for the financial sector. Beginning with the Central Bank, such agencies have proven to be better structured and focused than their counterparts in various important countries. In addition, Brazilian regulations do not facilitate the paper games that led so many traditional banks in other countries to delirium and then insolvency. Thus, on the side of the institutions, we have advantages that were built over time – the many years of learning in the fight against inflation, in search of monetary stability, resulting in cautions that today help us weather the storm.

On the side of production and commerce, however, the crisis gradually hit the emerging countries on two fronts. The first was credit, which became hard to obtain, expensive and eventually paralyzed, in the interbanking market, and in that offered by banks to companies. On the other front, prices plunged for basic export products or commodities – raw materials and foods whose prices had reached record levels in the first semester of 2008.

The price of petroleum had also skyrocketed, making alcohol fuel a popular alternative, sparking a global debate about the inconvenience of large scale sugar cane cultivation, because of its environmental impact, and particularly because of the pressure the cane fields placed on food supplies. The use of land to fuel motors instead of feeding people is certainly a shocking idea. While the debate involved good arguments, it was also influenced by multiple interests, including petroleum companies, competitors with biofuels. In any case, the situation changed so quickly that the debate about food shortages now seems so remote that it will probably be forgotten in the narrative of the crisis – until the problem reappears, because the risk cannot be denied.

The year 2008 thus went from one extreme to another. It began under threat of inflation and scarcity. It ended with recession, unemployment and threat of deflation.

And now? What will happen? This is the million dollar question. Everyone is looking for advice and opinions differ widely. There are gloomy predictions, as well as more animating prophecies. Economic indicators are carefully examined. The constant information about losses at banks and financial institutions are avidly followed to determine the size of the problem to be resolved.

That is the stage of operations of the specialists – economists, market analysts, entrepreneurs, rent seekers and investors. They have the technical tools to interpret the economic and financial data and evaluate their consequences. In this text, I do not intend to advance in that field, but to contribute to an analysis that incorporates political, social and historical factors to the understanding of the current crisis, in connection with the economic factors that occupy the center of attention.

Elements for a Research Agenda

I begin by indicating some theoretical and methodological elements that deserve careful analysis. The first concerns the notable fact that the crisis came as a great surprise not only to the general public, but also to specialists. Few foresaw it. Those who did were seen as spoil-sports or even as promoters of speculative interests.

Alan Greenspan, who led the U.S. Central Bank – the Federal Reserve – until early 2006, had warned ten years earlier of the "irrational exuberance" of the markets. He was in a privileged observation post, and could also observe the subprime mortgages and the financial instruments guaranteed by them. It is quite revealing that Greenspan did not interfere, while he had regulatory authority, in this uncertain situation. He later explained that he did not because he trusted the market's self regulatory capacity. "I made a mistake in presuming that the self-interest of organizations, specifically banks, is such that they were best capable of protecting shareholders and equity in the firms", Greenspan stated at U.S. congressional hearings on Oct. 23, 2008. He added: "Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity, myself included, are in a state of shocked disbelief".1

What is at issue, in this declaration, is the very philosophical basis of the free market system: the idea of the "invisible hand", guided by the self-interest of the agents and their capacity for rational choice, resulting, in the aggregate, in collective benefits. Economics, as science, has produced in the last three centuries an entire body of theoretical propositions, measurement formulas, test techniques and robust empiric results. A good portion of its data is inspired by the principle of the "invisible hand". The crisis has made the limitations of that paradigm quite clear. The disaster was not foreseen, or, if there were hints, they were not properly read. Certain critical insufficiencies are displayed in the economic theory and in its application to the real world.

The other social sciences, however, do not have a great advantage over Economics. After all, no political scientist predicted the fall of the Berlin Wall and the deep changes that such an event would cause. Signs of change were seen in Eastern Europe throughout the 1980s – and Gorbachev's opening marked a good part of that period – but the collapse of the Wall in 1989 was a great surprise to everyone.

It is useful to recall that moment of contemporary history, insofar as it is related to the subsequent expansion of unregulated capitalism, as Rubens Ricupero (2008) indicated in a recent article. There is also another reason: such analysis can help deal with the difficulty science has in understanding human behavior in society. Economic field studies are full of uncertainty, as are political field studies. And both gain explanatory scope when they cooperate with each other.

A possible way to confront those uncertainties is to work simultaneously with the long and short term. That is, with one eye on the historical process and another on the specific contexts. This is the second element to be highlighted in the research agenda for the crisis.

Thus, to focus on the nexus between the fall of the Soviet Block and the subsequent trajectory of capitalism that led to today's problems is one type of long term historic approach. But the question of how the events took place, and in what sequence, is answered by context analyses.

A reconstitution of those situations is one way to help explain crises. The crash of 1929 and the Great Depression of the 1930s provided important studies in this line (Galbraith, 1977). Their reading offers us the linking of facts and of personalities that wind up converging on the financial disaster. Nevertheless, this ending was not a given: it was constructed by a series of decisions or omissions made by specific actors. A cognitive quality of context analyses is to avoid fatalistic, rigidly deterministic visions, allowing the observation of history as an open process, conducted by real people – although not exactly as they would like, as Marx cautioned.

The exercise of counterfactual history is interesting for sketching scenarios alternative to those that in fact occurred. Suppose that certain individual decisions had been different. For example, that Greenspan had interfered in the stock market bubble, when he issued his opinion about "irrational exuberance" in the mid 1990s. Or, that U.S. authorities in Sept. 2008 had not let Lehman Brothers go bankrupt. This event is unanimously considered as a crucial moment in the process, that is, the turning point that transformed it into a generalized crisis of confidence. It resulted, of course, from a political decision, based on a vision analogous to Greenspan's. It was supported by the principle that it would not be correct to use public money to save a failed private bank. If the profits belong to the directors and shareholders, why should the losses be spread to the people? And there was also a practical reason: to save a failing bank would create a precedent for saving others – how far would this go? Nevertheless, it was a miscalculated decision, judging by its devastating global effects and by the rapid shift in attitude of the decision makers themselves, who soon came to prepare rescue measures for other weak banks.

On this same ground on which economic and political facts meet, it is worth mentioning another fateful September: that of 2001. The terrorist attacks on New York and Washington created an ominous environment in the United States, leading the U.S. Central Bank to relax controls to reanimate the economy. Many analysts locate the origin of the mortgage crisis in that period.

A third element on the agenda concerns the importance of identifying the different impacts of the crisis in different countries and regions of the world, something that was mentioned in passing at the beginning of this text in relation to the Brazilian situation. Recent decades have witnessed international economic crises of various calibers – the Mexican crisis, the Russian crisis, the Southeast Asian crisis – which hit other so-called "emerging" countries, such as Brazil by triggering uncertainty. In these cases, the International Monetary Fund (IMF) and its partner, the U.S. government, acted to coordinate resources in exchange for bitter counter measures. The current crisis is quite distinct insofar as it emerged at the heart of global capitalism: Wall Street. From there it spread widely, but its impact appears to vary according to the involvement of countries, financial institutions and companies with that epicenter and its practices.

The circuit is planetary, but it is not homogeneous. At the turn of 2008-2009, it was found that the countries of the center were entering recession.

The situation seemed somewhat different in the "emerging" countries. Their economies simply decelerated, with the high growth rates of recent years reduced. And there are distinctions to be made among those countries. Variables such as the size of each country's domestic market and its degree of autonomy in relation to the world economy are crucial determinants of vulnerability to the crisis. In addition, the conditions of the domestic financial system, and its foreign dependence, are also certainly important.

Iceland is a good example of disadvantages in all of these items. Iceland, a pleasant country of 300,000 people, had an economy based on fishing and tourism until, at the beginning of this century, it made a daring step and became an important financial center. Its few banks attracted investments from many origins. It was celebrated as a sort of showcase of the benefits of the free flow of capital. But when the winds changed, the dream collapsed miserably.

Other countries, particularly those in Central and Eastern Europe, have also proven to be quite vulnerable to the rise and fall of the flow of foreign resources, and without the ability to react on their own initiative. In those cases the drop in growth threatened to be deeper and longer lasting, so much so that the International Monetary Fund, which was nearly inoperative, reappeared to offer life preservers to save the shipwrecked. Since the end of 2008, the IMF has granted loans to Ukrania, Byelorussia, Latvia, Hungary and Serbia; other countries in the region will probably need the same.

Neoliberal Globalization: Origins and Consequences

The recognition of differences is the basis for making comparisons that allow reaching more solid inferences about the crisis and its consequences than permitted by the amount of knowledge we have today. At this stage we do not know much about it. Ideas of all kinds have circulated the world, but do not always have sufficient analytical consistency. For this reason, we can use as a guide the transformations of recent decades and see what is happening now in this context. A review of the past is essential for any anticipation of the future.

The core of the changes that have been observed in the last thirty years is well described by the idea of neoliberal globalization. It refers to the integration of peoples of the world stimulated by rapid technological and organizational innovations, which influenced the sphere of culture and forms of sociability. Although this movement is commonly associated to economic relations, its scope has been much wider.

René Dreifuss (1996), in a detailed study of the issue, proposed using distinct concepts to consider the complexity of the process. He used "globalization" to refer to the economic dimension, related to changes in the sphere of technology, production, finance and commerce, which hit all the countries of the world in an unequal and combined form, and not only those which operate on a global scale. He suggested two other terms to describe changes in the social, cultural and political spheres: "worldization", to represent the trend towards a homogeneity of behavior, consumption standards and lifestyles; and "planetarization" to refer to the political-strategic sphere, i.e. to the shifts of power on a transnational scale. Although this might seem like word play, it expresses well the variety of factors to be examined in addressing the issue.

The rebirth of economic liberalism, after a long period of low prestige, provided intellectual justification for the policies that supported the global transformations. Those policies, summarized in the motto "less government, more market", were based on the primacy of individual liberty over social equity, seeking to separate the economy from politics.

They represented, in this sense, an inversion of the global institutional arrangement predominant since the Great Depression – politically regulated economies and social welfare policies. Under that old arrangement, governments had assumed more direct control of economic life, to weaken the effects of the crisis. A classic example of such move was the Roosevelt government's New Deal in the United States. Later, governments came to perform new roles, including the planning and financing of private projects and even the provision of direct investments (for mixed capital or completely government-owned companies). In parallel, they adopted social policies that also contradicted the old liberal-individualistic consensus. Laws to protect workers were introduced, as well as social security systems and mass social services, establishing what is called the Welfare States.

There were important variations among the countries as to the degree of government intervention in the economy and the provision of social well-being. It is worth mentioning such variations because they are closely related to what happened later and also to the perspectives for the future.

In the economic field, the main variations were linked to the phenomenon of unequal development, which stimulated a wide variety of theories about backward or late economies and their consequences. The notion that economic delays largely explain the differences between development models strongly influenced studies of macro-historical change. Suggested by Trotsky and Veblen in the early 20th century, that hypothesis was tested by Gerschenkron (1965), who, studying experiences of industrialization in various European countries, concluded that the larger the economic hiatus to be overcome, the greater the degree of politicization (or of "organized direction" in his words) taken on in the process of its overcoming. In other words, the farther it is removed from a free-market system, which corresponds to the original model of industrialization (the British model), but which is not repeatable by backward countries precisely because they are behind and must seek shortcuts.

Along with this approach, which emphasizes institutional factors (particularly the role of the State), there is the line of sociological studies that expands the focus to encompass the tensions and arrangements among important social actors during the trajectory of modernization. The strategies of the elites and class interests are highlighted as important variables for understanding the different routes taken by the countries towards modernity.2

As far as social policies are concerned, Esping-Andersen (1990), one of the main specialists in the field, studied the formation of three types of Welfare States. He maintains that each type is associated to a certain social and political configuration in each country, notably the class coalition in power. The result is an assemblage of different schemes to guarantee well being.

Thus, there are States with strong liberal traditions that limit the right to public assistance to those who can prove need, in order to sustain the market as the center of social life as much as possible. The best known example is the United States. In contrast, there are those governments of a socialist orientation, such as Sweden, where the welfare system is universal, and everyone benefits, through government financing. The third type is the so-called corporate model, which originated in Continental Europe. Social benefits were adopted by the governments to contemplate select categories (for example the military and civil servants) and extended over time to other sectors. This third formula was the one by which Brazil began to establish its social security and welfare system in the first half of the 20th century. It is still influential in the country, despite efforts to implement universal services, such as the National Healthcare System (SUS).

Notwithstanding the differences among these models, the expansion of social policies was a strong feature of the post-Second World War period throughout the world. The 1950s and 1960s were characterized by the growing idea of welfare promotion as a strategic task of governments. Nevertheless, in the 1970s, the relative consensus around this orientation began to recede, in such a way that in short time the perception of the "crisis of the State" became widespread.

There are various explanations for this reversal. One interesting interpretation was presented by Vacca (1991, cap. 3), who distinguished three dimensions of the process: the fiscal crisis, the crisis of legitimacy and the crisis of governability.

First, the prognosis that the expansion of the Welfare State would lead to a serious fiscal crisis gained influence. The ability to finance the demand for services and public spending, which grew along with the deepening of democracy, the rise in educational levels and the general improvement in the quality of life was questioned. The demand has no limits, while the services depend on the ability of the state to collect revenue. The ability to tax, in turn, is limited by various factors, both economic and political. The level of economic growth is one of them: if the economy is growing, things go well; but, if there is a decline, tax revenue tends to fall while social spending tends to increase (due to the greater volume of unemployment insurance, the poor health conditions that result from the increased poverty of the population and so on).

The 1950s and 1960s were prosperous decades. They are remembered as the "golden years". But in the 1970s the postwar international economic order gave way to growing disorder, with successive crises – the two petroleum crises, the crisis of foreign debt of the peripheral countries and economic-financial rivalries among the central countries. Conflicting pressures were placed on governments by both capital and labor, reducing the margin of governability of the system.

Such pressures were expressed by opposite analyses of the Welfare State and what to do with it. The crisis of legitimacy of the contemporary State is linked precisely to this disagreement. While the owners of capital and their representative agencies proposed limiting social spending, unions and workers' parties questioned the system of protection as a mechanism to accommodate workers within the capitalist system. The latter criticism, of a socialist inspiration, indicated the insufficiencies of the welfare system. Left-wing critics had had their day, but in the 1980s they lost strength in light of the reappearance of the liberal perspective that pointed to the opposite direction – criticizing the excesses of government action.

The crisis, from that perspective, was caused by the abandonment of the "natural" principles of the market economy in favor of political and thus artificial solutions. This ideology maintains that State control of economic life, the paternalism of the Welfare State, labor laws and union pressures disrupt the labor market. According to the liberal canon, economics and politics are separate spheres that should not be confused. The expansion of social and labor rights constitutes improper interference of the political sphere over the economy, altering the natural course of market dynamics. This confusion was blamed for the crisis of the State and the decline of economic growth.

These ideas returned when the relative consensus around the Welfare State showed signs of weakness. In the 1980s, the new model was adopted to replace the Welfare State. The label it received – neoliberalism – expressed well its goal of restoring old ideas to deal with new realities.

Neoliberalism was thus a proposal to return to liberal tradition, but it did not defend – and that would not have been possible – a return to the past. The distinction with its classic source was, in the first place, the fact that it had to consider the social rights that were part of the modern notion of citizenship, as well as the rule of democratic political rights that were difficult to reconcile with the individualist ethic (especially those that refer to collective subjects, such as unions, movements and various associations). In other words, between the periods of the old and the new liberalism an entire institutional architecture had been raised that could not simply be dismantled. There were no political conditions to erase it and this would probably not be interesting to capitalism itself. No system of power can endure without a minimum of popular legitimacy.

For this reason the neoliberal formula found a suitable translation in the theme "less government, more market". The idea was to transfer as much functions as possible to the market sphere, leaving to the State only those which could not be privatized. The concept was crystal clear, but its practical application was not univocal. Neoliberal-inspired programs were introduced by governments in countless countries, although with many variations. A generic classification of these programs would lead us to distinguish between governments of conservative orientation and governments of a social-democratic bent (and even socialist, as in the case of China). The first tended to adopt an affirmative liberalism that was viscerally ideological, while the second promoted a pragmatic mixture of liberal and social ideas.

The icons of conservative neoliberalism were the Thatcher government in the United Kingdom (1979-1991), and the Reagan administration in the United States (1981-1989). The term Reaganomics was coined to designate the economic orientation that emphasized what was called supply-side economics. Meanwhile, the assimilation of neoliberal policies by social-democratic governments had its best examples in the Gonzalez government in Spain (1982-1996), which served as a model for various Latin American governments, and the Mitterrand government in France (1981-1995). All of these governments adopted measures influenced by the "less government, more market" concept, but each at its own pace and with different proposals.

Looking back, the neoliberal period can be divided into three phases. The first, from 1979 to 1989, began with the election of Thatcher in the United Kingdom and culminated with the fall of the Berlin Wall. This was the phase of affirmation of the project in both the economic and political planes. It was expressed, in the British situation, through privatizations and a confrontation with the union movement, in order to subjugate labor and impose a hegemony of capital according to the new model. Meanwhile, in the U.S. situation, the shrinking of government did not involve privatizations (because the country did not have state companies to sell), but large scale deregulation, along with intensified confrontation with the communist block, with an impressive growth in weapons and technology that would decisively weaken the Soviet Union. The liberal thinkers and ideologues, active in economic formulation, were joined by the neoconservatives, who defended the U.S. mission to implant liberal democracy worldwide, by force if necessary. This was a rising intellectual movement that defended the strengthening of military power to promote U.S. interests and principles globally with moral clarity and without mincing words.

Neoliberal globalization reached its peak in the 1990s. With the end of the Cold War, the era of the pax americana embraced the planet, a type of benign command of the international system by the only superpower in action. Liberal ideas were disseminated in conjunction with this movement and codified in the celebrated Washington Consensus. Pro-market reforms, free-trade, free flow of capital, weakening of regulatory norms – these policies led throughout the world to economic growth, improved family income and reduced poverty (but not of social inequality, which in fact tended to increase). Nevertheless, a series of crises erupted in peripheral countries, which, precisely because they were peripheral, did not serve as a warning to identify systemic problems. Such crises were often perceived as local deficiencies, to be cured by greater doses of the same medicine (i.e. "less government, more market").3 The self-confidence of the leaders and ideologues of the model reached its peak. For example: in the United States, the Clinton government deepened Reagan's deregulation policies by abolishing the separation between commercial and investment banks in 1999, a prudential norm that had been in force since the Depression. This measure is now understood as an incentive to the financial bedlam that triggered the crisis of 2008.

The third phase began on Sept. 11, 2001 with the terrorist attacks on New York and Washington. This event dissolved the optimism of the pax americana, which was replaced by the war on terrorism. In the United States, the belligerent positions of the neoconservatives gained prominence, with the application of theses such as preventive war and unilateral interventionism, thus disrupting the weak coordinating ability of the United Nations. The religious right also gained influence, aligning its moral conservatism to popular messianic patriotism. The Bush government served as an estuary for those various movements. Neoliberal economic orientation was maintained, expanding consumption through abundant credit. Nevertheless, the liberal policies of the 1990s lost ground. Such was the environment in which the financial crisis erupted.

What is Changing?

This brief panorama suggests a pendular view of the market-state relationship. The 20th century was the century of the State, to the degree that it was highlighted by political projects supported by active, interventionist governments: Soviet-style communism, fascism, social democracy, and Keynesian, regulated capitalism. It is clear the contrast with the 19th century, when there was growing consensus around liberal ideas. The main traits of a globalized economy were already manifest at that earlier time: a world united by trade, by transportation and communication networks, by flows of capital and migrant labor.

The 20th century, however, began and ended under the aegis of the free market. The primacy of the State and the support for economic and social regulation rigorously corresponded to the period between 1914 and 1989. More precisely, the "brief 20th century", as Hobsbawn defined it, was steered by the rise, expansion and decadence of Soviet communism. To a large degree, it was as a counterpoint to this formula for social revolution that the other three political projects referred to above were established. Not to mention the revival of the liberal ideology, which had aged and lost influence for decades.

The latter returned in a recycled manner, presented as an alternative to the crisis of the State. The scale tipped toward the market. The principle of depoliticization of the economy gained space and was made concrete in the privatization initiatives, deregulation and reduction of government role (as well as of its size and cost). But the handling of political resources, the means of control and power, was essential for all of this to take place. Only through ideological credulity could it be said that the market would recover its function as a spontaneous skeleton of social life. From the time period suggested above, we could infer that the neoliberal globalization project was affirmed dialectically, through confrontations against internal antagonists (unions, civil servants, social movements) or external ones (the communist block and later the terrorist networks and the "Axis of Evil"), nourished by constant mobilization against real or manufactured enemies.

The hegemony of financial capitalism could only be achieved by political means, through the opportune management of power resources. This can be demonstrated by a study of the relations between economic and political elites in several countries. The image of a "revolving door" has been used to portray the constant circulation of members of the elites through government positions and private companies. Such interchange is notorious in the financial field and affects the governability of the system, as the current crisis has made clear. Perhaps this reality is what could be expected from a "less government, more market" movement, meaning less power to the public bureaucracy and more power to business, bankers and private managers in general. It does make sense as long as the responsibilities are properly shared. Hegemony, to recall Gramsci, is intellectual and moral leadership.

For this reason, one of the principal consequences of the crisis is that the absolute power of financial capital has been put into question. Capitalism as a system is not at risk, but the banks, investment institutions, risk analysis agencies and all of the paraphernalia that developed around them, have lost clout. To rebuild their reputation, the banks and financial market agents will have to re-establish their primordial function as support for the real economy.

This is a normative proposition but has a practical side, given that the big international banks are not able to confront the crisis without government help. Therefore, they must submit to certain political conditions. The governments, representing public opinion, demand greater transparency and management austerity, given the revelations of huge salaries, benefits and gratifications bestowed on the administrators of banks and institutions on the brink of insolvency. A true salary bubble was revealed, which was not linked to reality. Even worse, it was not tied to the interests of the companies themselves, which were paying dearly for those who led them to the abyss for short term gains. Nothing could be farther from the puritan ethic that justified capitalism.

With the government rescue of banks and companies, the principle of separation between the economy and politics was broken. In other words, governments once again came to participate directly in the game, and in a strong position. Even if this is seen as an emergency measure, it is a situation that moves the pendulum toward the State, as occurred in the crisis that began in 1929. Is it possible that we are facing the end of an era, as in the 1930s?

The comparison between the two crises has been frequent, and not by chance. The causes of both events were quite similar. The direction of the process has also followed the same course, from the center to the periphery of the world capitalist system. Both began in the financial arena and extended to the real economy. Or, according to the suggestive expression used in U.S. debate, the crisis began on Wall Street and spread to Main Street, where the common citizens live. Nevertheless, the world was very different 80 years ago. It was more rural and provincial than today. Many of the current countries were still colonies. Trade was more limited, and the scale of transactions relatively modest. The international division of labor distinguished the few industrial countries from the others, which sold agricultural products or minerals and purchased manufactured goods.

In any case, the political and social consequences of the crash of 1929 are worth considering. They were of broad scope. There was a collapse in the belief in liberal values and in a world guided by the self-regulated market. In its place, as we indicated before, active, interventionist governments asserted themselves, varying from moderate to deep intervention and even total intervention (totalitarianism). The central values of the 1930s were the strong state, nationalism, racism, corporativism, the command economy and widespread politicization of social life. Due to the economic crisis, countries became more insulated. Each attempted to survive on its own. Trade and exchange declined. The international order was compromised, the arms race expanded and a solution for global disorder was only achieved at the end of a long world war which cost millions of lives. The only positive balance was the emphasis on the social question. Although in many cases (as in Brazil), that advance replaced a constructive approach to the question of democracy.

The most ominous political consequences of that time – dictatorships and war – do not seem probable, at least in the short term. Nevertheless, xenophobia and racial pressures cannot be discarded. They are already manifest in ethnic conflicts in Europe and other continents, and could be aggravated by the unemployment generated by the economic crisis. Barriers to immigration could certainly be tightened, and, in any case, the exodus of the poor towards the rich countries is not likely in times of want. If the flow is inverted, and immigrants return home, how will they be re-integrated, and what are the consequences of the lost flow of foreign currency which immigrants had sent from abroad? In the Central American countries, for example, those resources represent an important portion of national income.

In the economic arena, there are certain analogies that are not surprising.

One impulse similar to that found in the Depression is protectionism. The initial U.S. measures to confront the economic crisis, for example, displayed a tendency to treat it as an internal problem that did not involve the rest of the world. Their autism was revealed in the congressional attempts to introduce protective "buy American" clauses in the Obama government's large public spending package. Of course broad reactions from abroad led legislators to review the package – particularly because the U.S. has often made open market demands on other countries.

In situations such as that which the world is undergoing, there is a broad call for governments to act quickly and decisively, looking only inwards. Even so, it is important to indicate that the best alternative to overcome the crisis is represented by coordinated measures, instead of each country for himself efforts. Unlike 1929, there is now an embryo of global governance composed of multilateral entities and government forums (particularly G-20), which are capable of promoting the search for joint solutions. Insofar as the various interests and needs are placed on the agenda, we have a chance to advance in a constructive direction. This would mean, among other things, focusing on production and labor more than on financial capitalism and on unchecked rent seeking, and also to approach the planet's environmental challenges.

A crisis involves risks, but also creates opportunities. The current crisis curbed the "irrational exuberance" of globalized capitalism and the unsustainable pace of consumption and use of resources which, as we well know, are not unlimited. The opportunity to rethink this route is essential and cannot be lost.

Notes

1 Cf. “Greenspan admite erro de ideologia à frente do FED” at the website BBCBrasil.com, Oct. 23, 2008. See also Greenspan (2007), where the author expresses his view of the economic dynamics in greater depth and justifies the decisions he made.

2 There is an extensive bibliography in this field that came to be labelled Historical Sociology. See Moore (1967) and Bendix (1996).

3 For an analysis of these crises see Krugman (2009).

Bibliographic References

BENDIX, R. Nation-building and citizenship. New Brunswick: Transaction Publishers, 1996.

DREIFUSS, R. A época das perplexidades – mundialização, globalização e planetarização: novos desafios. Petrópolis: Vozes, 1996.

ESPING-ANDERSEN, G. The three worlds of welfare capitalism. Princeton: Princeton University Press, 1990.

GALBRAITH, J. K. The great crash 1929. London: Penguin Books, 1977.

GERSCHENKRON, A. Economic backwardness in historical perspective. New York: Frederick A. Praeger, 1965.

GREENSPAN, A. The age of turbulence – adventures in a new world. New York: Penguin Books, 2007.

KRUGMAN, P. A The return of depression economics and the crisis of 2008. New York: W. W. Norton & Company, 2008.

MOORE, B. Social s origins of dictatorship and democracy. Boston: Beacon Press, 1967.

RICUPERO, R. A crise financeira e a queda do muro de Berlim. Estudos Avançados, São Paulo, v.22, n.64, 2008.

VACCA, G. Tra Itália e Europa: politiche e cultura dell’alternativa. Milano: FrancoAngeli, 1991.

Abstract – The article deals with the current crisis of world capitalism, relating its specifically economic aspects to political and institutional questions raised by the financial crash. It discusses some cognitive and methodological issues that are relevant to a research agenda of the process, followed by an overview of the development of neoliberal globalization. This model, which characterized the world during the last few decades, is at the heart of the contemporary economic problems. The article concludes with a brief look at the changes that may result from the crisis, especially those related to the strengthening of politics and the role of the State.

Keywords: Economic crisis, Capitalism, Globalization, Liberalism, State, International economy, International politics.

Otavio Soares Dulci is a sociologist and political scientist, and is a professor in the Master's Program in International Relations at PUC-Minas. @ – osdulci@terra.com.br.

Received on 3.2.2009 and accepted on 3.6.2009.

Translated by Jeffrey Hoff. The original in Portuguese is available at http://www.scielo.br/scielo.php?script=sci_issuetoc&pid=0103-401420090001&lng=pt&nrm=iso.