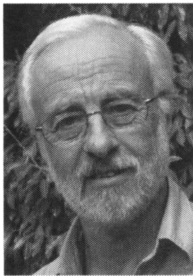
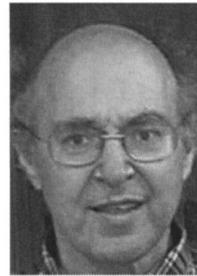
THE CRISIS OF THE EARLY 21st CENTURY: GENERAL INTERPRETATION, RECENT DEVELOPMENTS, AND PERSPECTIVES

Gérard Duménil and Dominique Lévy



Gérard Duménil and Dominique Lévy are economists and former research directors at the Centre National de la Recherche Scientifique, Paris. Co-authors of *The Crisis of Neoliberalism* (2011). Email: gerard.dumenil@u-paris10.fr, dominique.levy@cepremap.cnrs.fr. Website: http://www.jourdan.ens.fr/levy/



Abstract: The current crisis is analyzed as a crisis of "neoliberalism," a social order established in the wake of the structural crisis of the 1970s, to the benefit of upper classes, that is, capitalist and managerial classes. The crisis was the expression of the inner contradictions of this social order. On the one hand, the quest for high income on the part of these classes led to the extraordinary expansion of financial mechanisms and globalization. On the other hand, the US macroeconomy followed an unsustainable trajectory of disequilibrium (as the deficit of foreign trade). This fragile trajectory was destabilized by the subprime crisis. Credit and demand policies were conducted. The crisis entered into a second phase whose main feature was the crisis of sovereign debt. The action (quantitative easing) of the Federal Reserve was spectacular in the United States. In Europe the lack of governance and solidarity slowed down the bailout of the most affected economies, but the consequences on the rate of exchange of the euro remained very limited. The crisis will be long in the old world, though the "national factor" in the United States, confronted with the loss of its international hegemony, could stimulate much more active policies. Many countries in the periphery are now growing more rapidly, defining a new international configuration.

Key words: crisis; sovereign debt; neoliberalism; capitalist classes; managerial classes

More than four years after the appearance of the first symptoms of the current crisis in August 2007, there is still no general agreement concerning the causes of the crisis, the present situation, and the perspectives for the forthcoming decades. It is no surprise that mainstream economists and economists belonging to the radical left have diverged in their interpretations but, even within circles sharing the same

broad viewpoints, it is difficult to identify consensual assessments. There is no need, however, to stress the importance of the diagnosis.

Among Marxist economists, there was, obviously, a general agreement concerning the nature of the event, as a new major crisis of capitalism. The temptation was strong to diagnose the final crisis of capitalism, and quite a few did not resist. A less daring interpretation sees in the current crisis the expression of the growing contradictions of a specific stage of capitalism, neoliberalism, established at the transition between the 1970s and 1980s: "a crisis of neoliberalism." We share this viewpoint. But, again, the question must be raised of the survival of neoliberalism in the coming decades. The complexity of the issue lies in the set of mechanisms involved—real and financial, national and international—but also in the diversity of situations in various countries and regions of the world.

The present article covers these issues from the viewpoint of the radical left, even more specifically, in the perspective of Marxian economics and politics. The scope of the analysis is very broad, so none of the following sections tries to provide detailed investigation. Rather, what follows must be understood as an attempt at a synthesis, a brief summary of former research, and much remains to be done. In our book *The Crisis of Neoliberalism* (Duménil and Lévy 2011a), a much more comprehensive analysis is provided. The present article draws considerably from the book, but new information and discussion are introduced concerning even more recent developments. To this, one must add a study devoted to alternative interpretations among economists of Marxist inspiration (Duménil and Lévy 2011b), but this discussion is not retaken here.

The outline is straightforward. Each of the three main sections focuses on one of the themes listed in the subtitle of the article: interpretation of the crisis, recent developments, and perspectives as a way of conclusion.

1 General Interpretation: A Crisis of Neoliberalism Under US Hegemony

The presentation below moves from historical dynamics to the mechanisms that more immediately triggered the crisis. The emphasis is on the United States, where the roots of the crisis can be located.

1.1 Four structural crises—two basic frameworks of analysis

Even within the field of economics, the word "crisis" is used to refer to quite distinct categories of phenomena. A traditional use is the identification of short periods of time (typically a few quarters) in which output contracts. These are the crises of the business-cycle. There is no strict periodicity, but recurrent declines. Capitalism, however, undergoes more dramatic sets of perturbations lasting a number of years,

about a decade. The contraction of output is only one aspect. Real and financial developments are involved, as well as specific chains of events such as a crisis of competition, a crisis of financial institutions, or inflation. The present crisis belongs to this category.

Such developments are typical of what we call "modern capitalism," that is, capitalism after the three major revolutions—corporate, financial, and managerial—of the late 19th and early 20th century. Four such crises have occurred, as shown in Figure 1. The first was the crisis of the late 19th century, which manifested itself in a crisis of competition, with the formation of trusts, pools, and cartels. The second, the Great Depression, is well known. The third was the crisis of the 1970s, with the slowing down of accumulation and a wave of inflation. The fourth is the current crisis, the crisis of neoliberalism. For reasons that we are unable to explain, the periodicity of such crises is about three or four decades.

Figure 1

The four crises mirror basic mechanisms inherent in the historical dynamics of capitalism. Thus, they can be denoted as "structural crises." Two categories of such mechanisms must be distinguished, as shown by the arrows in the diagram. The first and third crises were caused by declining trends of the profit rate and its ensuing low values. They clearly hark back to Marx's analysis of the falling profit rate. The second and fourth crises are of a distinct nature. We use the phrase "crisis of financial hegemony," but the term "Finance" is given a specific meaning to be introduced in the following section. They relate to another aspect of the dynamics of capitalism as in the *Communist Manifesto*. There, Marx and Engels described capitalist classes as apprentice sorcerers, initiating processes—to their own benefit obviously—that, at some point, they can no longer control. The current crisis is one such crisis. The two dynamics—profitability and financial hegemony—are quite distinct. Within profitability crises capitalism "sinks," while within crises of

financial hegemony it "explodes." This is manifest in the features of each category of structural crises.

1.2 Class and international hierarchies: a crisis of financial hegemony

One important aspect of structural crises is that capitalism must undergo important transformations to find a way out. More or less radical changes are involved. For example, the crisis of the late 19th century (during the 1890s) immediately opened the way to the wave of incorporation around 1900; as is well known, the Great Depression and World War II ushered in a new period in the history of capitalism for about three decades.

Between the four structural crises, three broad periods are distinguished. Among the various aspects involved, we emphasize *class patterns* and the *relations of power among classes* (domination and compromise).

Concerning classes, the three revolutions of the late 19th and early 20th century considerably modified class patterns. There have always been intermediary classes between capitalists and workers (craftsmen, shop-keepers, and the like), but the managerial revolution provoked the emergence of classes of *managerial and clerical personnel* (including within the latter commercial subordinate employees). A strong polarization occurred within these new groups with a concentration of initiative and power in the hands of managers. This led to the establishment of the new class configuration typical of modern capitalism: (1) capitalists; (2) managers; and (3) popular classes (workers and clerical-commercial employees). Another component of the set of transformations was the establishment of a new bourgeoisie at a distance from enterprises, whose ownership of the means of production was expressed in securities (bonds and shares), and whose power was embodied within the new financial institutions. We call "Finance" the upper fractions of capitalist classes and *their* financial institutions.

On such foundations, the prevalence of alternative relations of power allow for the distinction of three successive phases that we denote as "social orders":

1. *The first financial hegemony.* From the early 20th century to the Great Depression, the power of the new bourgeoisie that emerged during those years enjoyed a rather unchallenged domination. The strong class struggle that coincided with the crisis was defeated, and World War I provided favorable conditions for capitalist classes to dismantle the radical worker movement in the United States. There were elements of compromise in the new social arrangement—between capitalist classes and managers, or between the new and old fractions of bourgeois classes, even vis-à-vis workers—but the main aspect was "financial hegemony" in the above sense.

2. *The social-democratic/Keynesian compromise.* The simultaneous impacts of the New Deal, World War II, and the strength of the worker movement internationally, created the political conditions for the establishment of a new social order, with social-democratic components (increased purchasing powers, welfare, etc.). Keynesianism provided the foundations of new macro policies. The power and income of upper classes were significantly diminished, as corporations were managed by managers and new policies favorable to growth and development were enacted. Major differences were, however, observed among countries.

   There were also favorable economic conditions. Such changes would probably have been impossible or ephemeral in the absence of the new upward trends of profit rates since the beginning of the century, hidden by the depression, but that materialized after the war.
3. *The second financial hegemony in neoliberalism.* The crisis of the 1970s created the conditions for a new bout of class struggle, in which popular classes lost, and the power and income of capitalist classes were restored. A new discipline was imposed on workers and management; new policies were enacted; all the barriers to the income and wealth of capitalists were lifted, as in financial deregulation and globalization (the imposition of free trade and free capital movements). All workers of the world were placed in a situation of competition. These transformations would have been impossible in the absence of the adhesion of managerial classes to the neoliberal endeavor. This latter process was rapid in the United States, slower in a country like France but, even in Japan, where this managerial aspect was very strong, neoliberalism was established (with particularly dramatic consequences in the case of Japan).

In the mid-1990s, we put forward this class interpretation of neoliberalism (Duménil and Lévy 2001 [1998]).

1.3 The inner contradictions of neoliberalism and of the US trajectory

Three decades after the establishment of neoliberalism around 1980, the capitalist endeavor could be judged successful according to its own objective, the income and wealth of upper classes. But the current crisis revealed its inner contradictions.

Figure 2 schematically summarizes the analysis of the dynamics that led to the crisis. The entire process begins with "Neoliberalism" in the left part of the diagram. (We will return below to the mention of "US hegemony.") From there, two categories of factors are emphasized.

In the upper part of the diagram are listed mechanisms common to all major capitalist countries around the world. First, the mention of "the quest for high income" recalls the objective of neoliberalism as stated earlier. It was the root of "financialization," the unchecked development of financial mechanisms.

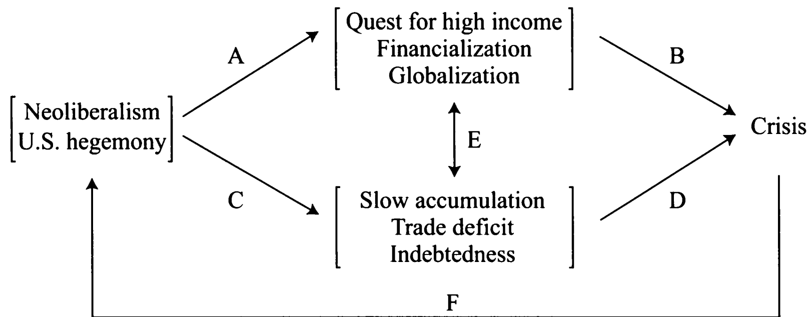


Figure 2

Financialization is a basic process inherent in capitalist dynamics. Neoliberalism opened the way to new achievements. But it is also important to note that financial mechanisms exploded after 2000, as in the rise of derivatives, securitization, collateralized debt obligation, etc. To this set of developments, one must add neoliberal "globalization," free trade and the free movements of capital around the globe. Both trends were made possible by dramatic deregulation. Writing in section 1.1 that capitalism "explodes" in crisis of financial hegemony, we were referring to this set of developments, as capitalist classes lifted all barriers to their enrichment, and lost control of the process.

The crisis of neoliberalism would have probably occurred anyhow at some point, but it came earlier and from the United States. This is due to the set of factors in the lower box in the diagram, unique to the US economy (though there are some common aspects in the economy of the United Kingdom, but much less advanced). This is where the US international "hegemony" comes into play. The economy of the United States followed the trajectory of disequilibria listed in the box. A first feature is the slow accumulation of capital, paralleled by a boom of consumption. A second well-known trait is the growing deficit of US foreign trade. Only the towering position of the country worldwide and the role of the dollar as international currency made the continuation of this trajectory possible during almost three decades. This was a consequence of neoliberal globalization and the gradual decline of the technical leadership of the country, which both diminish the position of the US economy within world competition. Year after year, more commodities were imported from countries with low labor costs such as China. The performances of emerging countries improved, and the US economy (on US territory) was, anyhow, confronted with the competition of countries like Germany (the main source of imports to the United States). The flows of dollars to the world resulting from the deficit of trade have no other ways of returning to the United States

than through the purchase of US securities, such as bonds and shares. The holders of these balances could, thus, expect an income from these holdings. Prior to the crisis the vast majority of these funds financed US private corporations. (The shift toward government securities is typical of the current crisis.) Although stock-shares are not debts, one can refer to this foreign financing of the US economy as an "external (or foreign) debt." These increasing imports from the rest of the world, boosted by very strong levels of domestic demand, impact negatively on the demand directed toward producers still located on US territory. This decline renders necessary the stimulation of demand (already strong) and a growing share of this stimulation benefits the economies from which the goods are imported. The consequence, prior to the crisis, was the rising debt of households (as government deficits were kept under control). Thus, the upward trends of household debt and external debt are two sides of the same coin. As shown in Figure 3, they rose in tandem.

Figure 3 Net debts: US households and Government considered jointly, and the US economy toward the rest of the world (% of US GDP)

Note: The variables are debts in credit market instruments. *Net* debts means debts minus assets.

In Figure 2, the vertical arrow E emphasizes the reciprocal interaction between the two sets of factors. For example, the rise of the debt of households would have been impossible in the absence of the securitization of this debt and the sale of about half of it to the rest of the world (as in financialization and globalization, in the upper part of the diagram).

The crisis was the outcome of the convergence of these two sets of developments. The increasingly fragile financial structure was destabilized by the crash of

the mortgage wave, which had made possible the continuation of this finally unsustainable trajectory.

1.4 How the mortgage crash triggered the crisis

As contended in the previous section, the mortgage wave was not the outcome of a mistake in the conduct of monetary policy. Given the general context of neoliberalism (the refusal to question more basic trends and institutions, notably the refusal to regulate), the mortgage wave was allowed to grow to support the domestic macroeconomy. When recovery from the 2000/01 recession was obtained, Alan Greenspan increased the Federal Funds rate to pre-crisis levels, but the housing boom was not tamed. Anyhow, a decline in lending would have caused a new fall of output. In this respect, the crisis of 2000/01 was a rehearsal of the current crisis. In the context of financial globalization, interest rates tend to be determined "globally" rather than in each particular country, and the Federal Reserve lost control of interest rates, an object of complaint on the part of Greenspan. Despite the policy of the Federal Reserve, the mortgage wave continued its hike, supported by lax borrowing requirements and daring securitization, notably by private-label issuers. Subprime and "jumbo" loans were inflated to unprecedented levels.

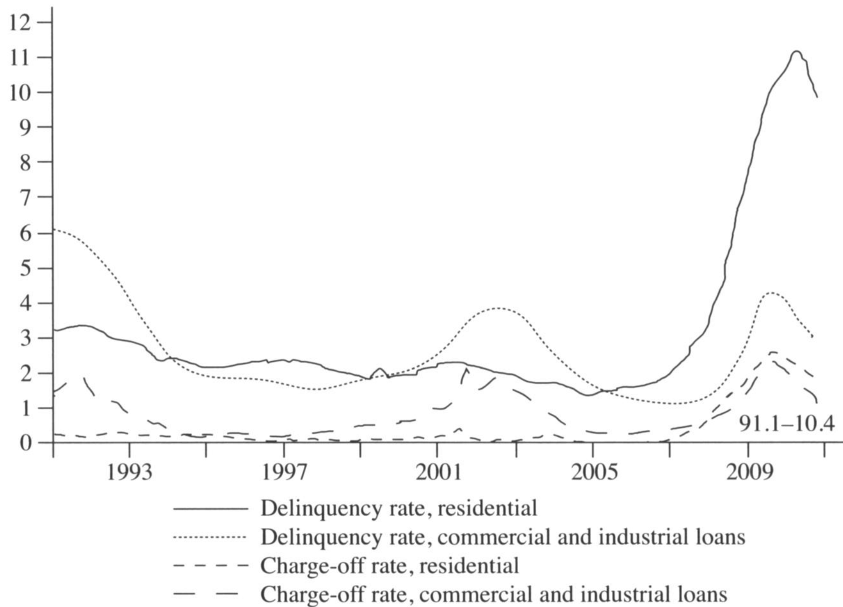


Figure 4 Delinquencies and charge-offs on residential loans, and commercial and industrial loans: US commercial banks (% of loans outstanding)

Note: The variables are quarterly annualized rates.

During the first months of 2006, the first steps in the wave of delinquencies were observed. Contrary to the pattern of events typical of more "standard" recessions, this process did not come from commercial and industrial loans, but from household mortgages. It rapidly reached dramatic proportions, as illustrated in Figure 4. This development triggered the collapse of the financial system. In a process of reciprocal interaction, in September–October 2008, the financial and real economies were destabilized, and the crisis was exported to the rest of the world.

2 Recent Developments: Is the Crisis Over?

This section discusses recent developments within the United States and Europe.

2.1 The United States

As should be clear from section 1, the situation in the United States will not be solved in the near future. Financial regulation would not remedy the disequilibria regarding what the section denotes as the "macro trajectory of the US economy." One important aspect is the deficit of foreign trade and its indirect relationship with the growth of domestic debt—the household debt prior to the crisis and government debt after. Finding a way out in the context of neoliberal globalization will be very difficult. Many in the United States, including President Obama, dream of a boom in "green" technologies, reminiscent of the boom in information and communication technologies during the second half of the 1990s. But nothing guarantees that this miracle will happen and, if it does, it might remain ephemeral given the competition from challengers in the rest of the global economy. Thus, the nature of what we observe now in the United States is the management of an *emergency situation.*

2.1.1 Supporting the economy

The straightforward observation of GDP in the United States reveals the familiar "U" shape (rather that "V"), downward and then upward; though as of April 2011 the pre-crisis levels had not yet been reached. (The NBER locates the contraction of output between the fourth quarter of 2007 and the second quarter of 2009.)

It is important to emphasize that the "recovery" (moving upward) was only obtained at the cost of dramatic policies on the part of the government and the Federal Reserve—very large deficits and the support of financial institutions, respectively. The deficit of the budget is a well-known fact. We consider here in more detail the action of the Federal Reserve.

Figure 5 shows the total credits of the Federal Reserve. One can first observe the sharp increase in all credits to financial institutions in September–October 2008 when the situation suddenly worsened. But the aspect relevant to the present discussion is the continuation of the total support (represented by the solid line) to the last observation in Figure 5. To date, *there has been no relaxation.*

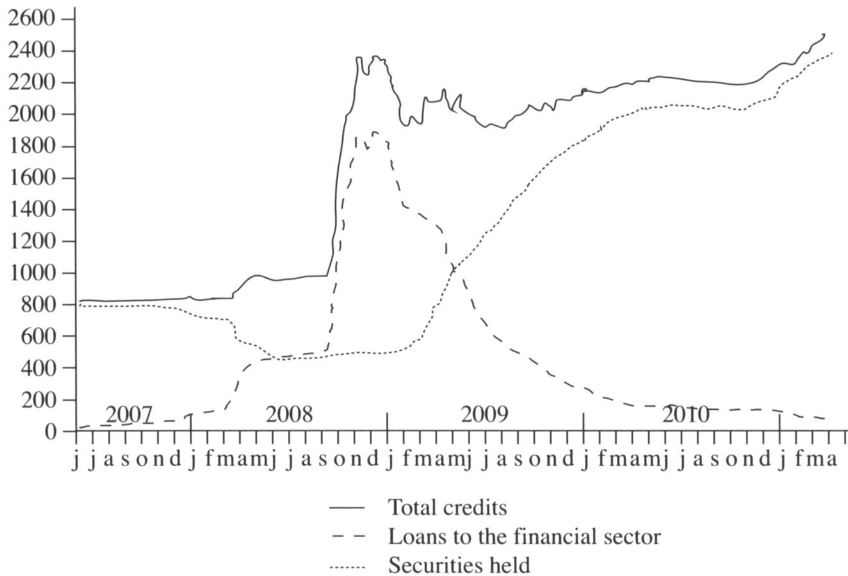


Figure 5 Total credits by the Federal Reserve (billions of dollars, weekly)

Note: Credits are the sum of loans and securities.

Two components are distinguished in the graph: loans and securities held. "Loans" refer to the direct lending to financial institutions. Concerning "Securities," the Federal Reserve purchased massive amounts of the bonds resulting from the securitization of the mortgage debt (issued by government-sponsored enterprises, such as Fannie Mae). This is the main component of these holdings. The graph shows that one form of support (securities) was substituted for the other (direct lending) but the total remained unchanged to the last months of 2010. The later rise in the total securities is discussed in the following section.

The function of the financial sector is to make loans to nonfinancial agents. Given the dramatic loans and purchases of securities from the Federal Reserve, one could expect that the financial sector recovered a more normal functioning. Figure 6 shows the flows of new loans to the nongovernment-nonfinancial economy by financial institutions. The spectacular decline during the current crisis is known as the "credit crunch." The important point here is the fact that, in the last observations in the graph, the financial sector had hardly begun to lend, and only for very limited amounts. In particular, one can notice in the last observations that enterprises' borrowing began to rise modestly, while the net loans (new loans minus loans paid back) to households were still almost nil.

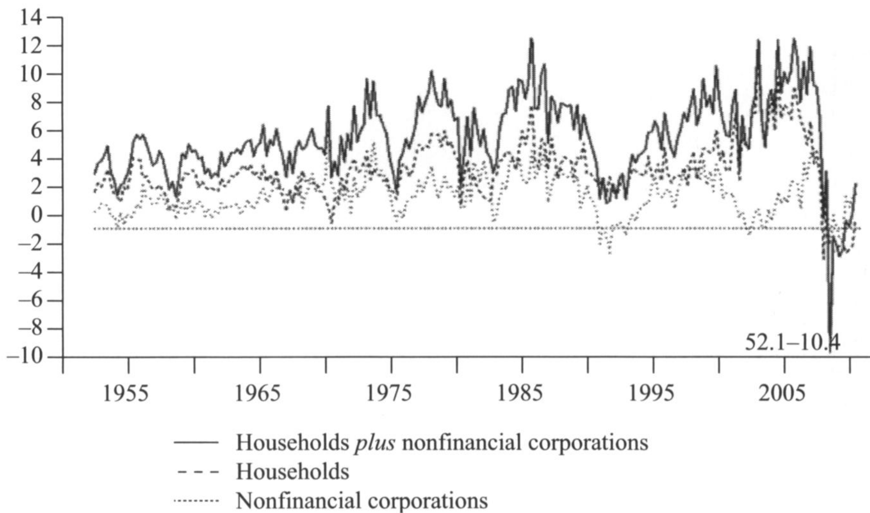


Figure 6 New loans to households and nonfinancial corporations: US economy (% of GDP)

2.1.2 Quantitative easing

It is very hard to imagine a new wave of borrowing on the part of US households, since household debt remains very high. (It only diminished very slightly during the crisis.) Thus, almost all new borrowing originates in the government deficit. The question must therefore be raised of who is lending to the government. The traditional answer is: financial institutions in the United States and the rest of the world. But US financial institutions are in a difficult situation. As is well known, countries with a large foreign trade surplus vis-à-vis the United States buy large flows of US Treasury securities. Besides Japan, reference is made to China's foreign currency reserves. Figure 7 shows the dramatic rise in the reserves of China outstanding. They increased by 500 billion dollars in 2010. Of this total only 20 percent are held in euros (about 6 percent of the total government debt of the euro area). Estimates show that China holds about 10 percent of US Treasury securities and large amounts of securities issued by Fannie Mae and Freddie Mac. How long will these trends be maintained? The pending threat is all too obvious.

The relationship must be established here with the new policy on the part of the Federal Reserve, known as "quantitative easing." Traditionally, the Federal Reserve used to hold a given amount (800 billion dollars) in Treasury securities. During the crisis, this amount was considerably diminished and then restored. This is shown in Figure 8. During the last months of 2010, the Federal Reserve began to buy Treasury securities and a new trend upward is observed in the holdings. These purchases covered the entire new flows of borrowing from the government.

Figure 7 Foreign currency reserves (billions of dollars): China

Figure 8 Treasury securities held by the Federal Reserve (billions of dollars)

The information provided in this section clearly illustrates what has been denoted earlier as the management of an "emergency situation." The United States is now acting dramatically in order to avoid a crisis of the dollar, that is, a sudden collapse of its rate of exchange. It is hard to tell whether the Republicans will actually attempt to cut government spending, but it is easy to predict that, if they do, this new policy will not be continued, given the ensuing consequences.

Overall, the data in this section and the previous fully confirm the earlier diagnosis. The present limited recovery in US GDP is only prolonged at the cost of a twofold dramatic support, the large deficit of the government and the all-out lending from the Federal Reserve. No autonomous growth trends have been established.

A new important factor must be mentioned here concerning the management of the US macroeconomy and the exchange rate of the dollar. When the crisis began, one could have imagined that the euro could work as a substitute world currency instead of the dollar. But the euro area is now facing important difficulties in various countries and reference is even often made to a "crisis of the euro."

2.2 Europe

The first section below briefly recalls a number of straightforward features of the euro area. A second section is devoted to the crisis in various countries, notably Greece.

2.2.1 Hasty integration—Persisting heterogeneity—Deficient and misled governance

A well documented analysis of European integration in the European Union—specifically within the euro area—lies beyond the limits of the present study. The objective here is to summarize a number of basic traits.

We recall that the origins of the European Union must be traced to the 1950s. The Single European Act was signed in 1986/87 and the Maastricht Treaty in 1992/93 (creating the Union under its present name). Among the current 27 member states, a number of Eastern European countries were integrated after 2000. The euro area proper was created in 1999 and is now formed of 17 countries.

In the original project, the idea was the interconnection of countries with comparable levels of development, with an emphasis on policies aiming at the harmonization of the various economies. The objective was the construction of a common market (free trade within the area). This perspective was abandoned. From the 1980s onward, European integration was deeply determined by the new neoliberal trends worldwide, notably the limited government intervention as compared to the first decades after World War II, free trade, and the free movements of capital. Observing that many much less developed countries were gradually integrated, one can contend that the European Union and the euro area moved in the directions opened by neoliberal globalization—placing the workers of the world in a situation of competition, to the benefit of capitalist classes. There was no attempt at creating a zone concerning financial mechanisms similar to the common market. The specifically European endeavor was dissolved within neoliberal globalization, real and financial. But a monetary zone was, indeed, established in 1999. (Setting aside the later entrance into the euro area of the Eastern European countries of Slovakia, Slovenia, and Estonia. Greece joined in 2001.)

Given the above circumstances, there is no surprise in the discovery that important problems are being encountered, in particular, in the turmoil created by the present crisis. Many examples can be given. Entering into the euro area implies losing a traditional lever in the conduct of macro policies. A euro exchange rate in line with German competitive levels does not necessarily match the needs of Greece or Portugal. To this first aspect, one can add that the "Maastricht criterion" limiting government deficits to a maximum of 3 percent of GDP is certainly not appropriate in any economic situation. One must also observe that "tax dumping" as in Ireland can only pose major problems. Finally, it appears retrospectively that there was no form of supervision of credit policies, as became evident in Spain.

As could be expected, the crisis revealed these weaknesses. The rules were inadequate, European policies deficient and 100 percent neoliberal, and no institutions and mechanisms had been devised to handle major crisis circumstances. The current difficulties testify to the dramatic lack of general governance in the Union.

2.2.2 National trajectories and the euro

Within Europe in a broader definition, there is nothing that can compare to the trajectory of the US macroeconomy. (The United Kingdom is an exception, but the disequilibria in this country are much more limited than in the United States.) The euro area as a whole did not experience such cumulative disequilibria. This is shown in Figure 9. The variables are the net foreign assets held in each country or region. "Net" refers to the difference between foreign assets held and the assets of the country held by foreign countries. (As explained in section 1.3, these "net debts" toward the rest of the world result from the deficit of foreign trade.) The euro area's foreign debt remains quite limited. Thus, abstracting from the specific configurations prevailing in the various countries, there is no such structural problem in the area. The euro area's macro trajectory was not a factor of the current crisis as in the United States.

The current crisis, however, created important difficulties within some of the countries. All countries underwent important deficits concerning government expenses, including Germany. The famous 3-percent Maastricht rule was blown to smithereens. Within the neoliberal framework, and with the exception of the present-day US economy, deficits are supposed to be financed by financial institutions in the country and around the globe. They are known as "markets." What "markets" specifically do not like is the simultaneous existence of government deficits and foreign trade deficits. In various countries the two deficits coexist. (A country like Japan typically runs a very large government deficit but holds an also large trade surplus.)

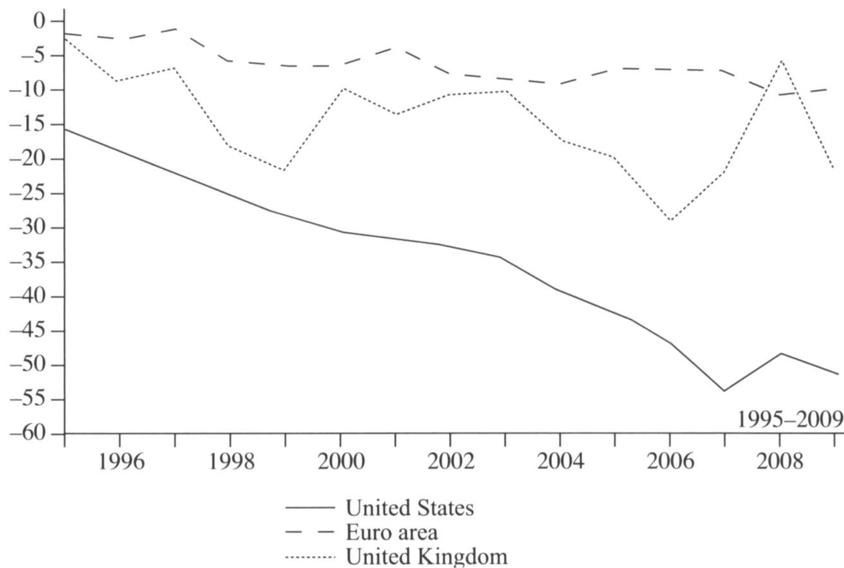


Figure 9 **Net foreign assets held by the United States, the euro area (13 countries), and the United Kingdom (% of the GDP of each unit)**

The case of Greece is well known. Figure 10 shows the two deficits in this country. The government deficit (solid line) has been structural since at least 1980. (An important fraction of this deficit must be related to the large real interest rates to 2000 as shown in the "primary lending/borrowing" dashed line, in which interest paid is subtracted from expenses.) The deficit reached almost 15 percent of GDP in 1990, and was reduced to about 4 percent in 1999 and 2006. But the deficit again increased dramatically with the current crisis, though not more than in many other countries. Simultaneously, Greek foreign trade was almost balanced in 1994, but rose above 14 percent in 2007 and 2008, in the current crisis. There is a temptation in Greece to leave the euro and enjoy the benefits of a devalued currency, that is, to recover the lost "lever" in the conduct of macro policies, as mentioned earlier.

In the assessment of these perturbations, it is important to consider the movements of exchange rates from some distance. As shown in Figure 11, the current crisis had puzzling effects on the hierarchy of exchange rates. The most dramatic impact was the comparative increase in the exchange rate of the yen against the dollar from the last months of 2008. Second, both the euro and the pound were devalued against the two currencies, the yen and the dollar. All the currencies, except the yen, were devalued against the dollar, including the euro. (Greece could dream of an even larger devaluation of its currency after leaving the euro.)

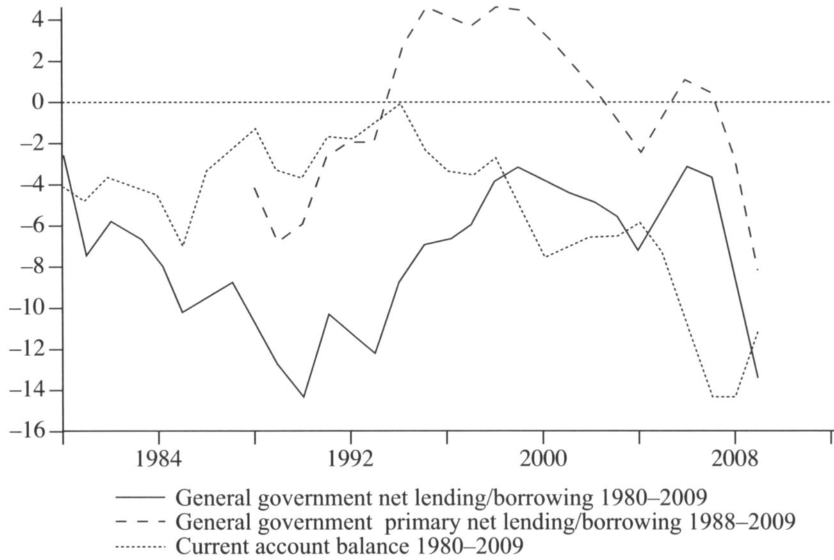


Figure 10 Government deficit and foreign trade deficit (% of GDP): the Greek economy

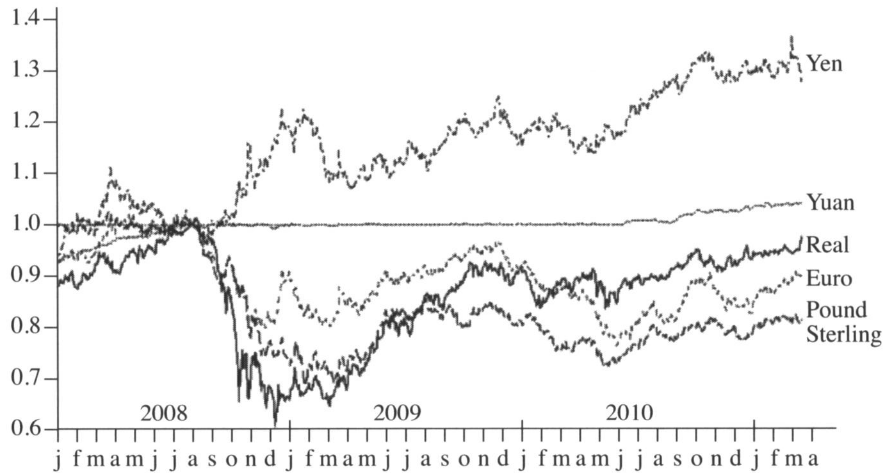


Figure 11 Exchange rates against the dollar: Brazilian real, Chinese yuan, euro, Japanese yen, English pound

Note: All rates have been normalized to 1 on July 24, 2008.

Concerning specifically the euro, one can notice that the pound was even more devalued. The figure also shows that the problems within a number of countries of the euro area did not materialize in further devaluations of the euro, neither against

the dollar nor the pound. One should, therefore, be very cautious when referring to a "crisis of the euro." The big issue is the new pattern of exchange rate during the current crisis.

It is not too surprising that the crisis of neoliberalism caused a currency battle. In a world of "free trade," the only protection a country can expect within international competition is the low value of its exchange rate, as clearly exemplified by the rate of exchange of the yuan. One should, however, also be aware than the variations of exchange rates are strongly impacted by financial flows. The dramatic transformation of relative exchange rates was, most likely, a manifestation of new trends prevailing within global financial mechanisms, as a response to the world crisis situation. The discussion of this latter development lies, however, beyond the ambition of the present article.

To conclude this section on the euro area, the euro will survive the present perturbations, although a few countries might leave the euro area. But they should not expect a miracle. In the meantime, all restrictive policies with the intention of limiting government deficits in Europe jeopardize the chances of recovery of the world economy. The US quantitative easing is probably the only way out even if "markets" (capitalist classes and their financial institutions) lose one of their favorite instruments in the exercise of their power worldwide.

Parenthetically, a final statement. The debts created by neoliberal high interest rates to 2000 and the additional debts caused by the current crisis should never be paid.

3 Perspectives: Variegated Diagnoses

If, in the analysis of the contemporary crisis, it is logical to focus on the situation of the US economy, the same is not true of the discussion of the perspectives now opened to the world. What happened and presently happens within the United States will play an important role in the coming decades, but the future of the world will not be determined only within this one region.

3.1 The old world

As contended in the previous sections, the economic and political circumstances are quite distinct in the United States and Europe. Despite the present difficulties of the euro, the situation in Europe is much less severe on the continent than in the United States.

Most likely the neoliberal social order will be continued in Europe. Economic performances there will remain rather poor in the context of neoliberal globalization. Contrary to what is often contended, there is no economic miracle in Germany, despite the country's capacity to export. (In the last twenty years, growth rates in

Germany have been no larger than in, for example, France. See http://www.jourdan.ens.fr/levy/dle2010d.htm.) Given the features of the European Union described earlier, it is difficult to expect an increased and more efficient central governance. Anyhow, the trends are now 100 percent neoliberal.

The only alternative option would be a strong popular movement that could perhaps destabilize the alliance at the top of social hierarchies between capitalist classes and the managers of the private sector and government sector. Neoliberal propaganda is very efficient ("There is no alternative"), and the death of utopia does not leave open any clear perspectives. One must, however, observe that the most shocking excesses of the upper classes and the gradually more obvious collusion between these classes and governments now point more clearly to the class nature of these societies. In addition, one must mention the increasing degrees of consciousness of the risks inherent in present technological trends with respect to the protection of the globe.

Most of what has just been said can be repeated concerning the United States, but the situation there is rather distinct in other respects. There are two prominent aspects to this difference. On the one hand, the country's situation will be much harder to manage during the coming decades. It is difficult to imagine how US disequilibria will be curbed. As was explained, this defines, however, an absolute requirement. Now, it is not because the problem is there, that the solution will be found. To this, one must add that, contrary to the situation in Europe, the central government is powerful and committed to the interests of the nation. There is, in the United States, a very strong national feeling, what we denote as the "national factor." It will be hard for the country to accept the decline of its international hegemony, now under way at high speed. The United States has proven in the past, as during the two World Wars and the New Deal, that it possesses a high capability to react. But what will happen will also depend to a large extent on the trajectory of emerging countries and new challengers.

3.2 Emerging countries and the new challengers

Many distinct situations are now observed around the globe, often depending on the degrees and forms of integration within neoliberal globalization.

One can compare, for example, countries like Mexico and Brazil. The former is linked to the United States by the 1994 North American Free Trade Agreement. Besides the crisis in 1994, which disarticulated Mexican society, the country's performance is particularly poor. No favorable dynamics were created by the *maquiladora*. Mexico's economy is now tightly articulated to that of the US, and its fate will mirror the situation of its northern neighbor, and we can expect it to be particularly bad. To the contrary, Brazil preserved its economy, with a

much lower degree of integration in the world economy. In recent years, with diminished exchange rates and exports of raw materials, the country has performed comparatively well.

All eyes, however, are on countries like India and, in particular, China. The question there is whether this latter country will be able to maintain its growth trends, even at diminished rates, and the final nature of the society to be built there. One must keep in mind the experience of the Japanese economy in particular. To 1993, Japan's growth was rapid, and its financial sector was seen by many economists as gradually moving toward global dominance. The outcome was, however, quite different.

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