

## THE CRISIS IN PERSPECTIVE: TOWARDS AN ECONOMIC AND SOCIETAL REORIENTATION

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### Introduction

There is much to suggest that the economic crisis we are in now is like nothing we have seen before. With a view to economic data, whether it is export statistics, trends in General Domestic Product (GDP) developments, or industrial production, globally, these data are showing contractions not witnessed in the past decades. In recent history several economic crises did occur that showed similarities with the contemporary situation, but none had the magnitude and scope of the one which is currently coming to pass.

In 1991-2, the Savings and Loans (S&L) crisis also led to a recession emanating from problems in the financial sector of the United States (U.S.). The recession however was limited in scale and duration. In the early phases of the current crisis, technical solutions that helped to overcome the S&L crisis, like the creation of the Resolution Trust Corporation (RTC), were proposed as means to counter current problems.

Taking into account the problems that many emerging markets are experiencing at the moment, for instance the countries in Eastern Europe that have had to turn to the International Monetary Fund (IMF) for aid, a comparison can be made with the East Asia crisis of 1997. The major difference with our current situation is that in 1997 the crisis was local. Major capital flight during the East Asia crisis brought countries that were highly dependent on foreign lending and ran large current account deficits (just like many Eastern European countries now) major problems. Currencies depreciated, capital controls were put into place and income levels declined dramatically. One reason why the countries of East Asia were able to resume growth quickly was that the global economy was strong enough to facilitate a resumption of export-led growth. In our current situation, economic growth has turned negative in almost every region in the world, both in developed markets and in emerging markets.

What makes the current crisis all the more unique is the extent of globalisation that has taken place in the last decades. Initially, it was believed that the crisis would be mostly confined to the U.S. It then quickly spread to Europe and the rest of the world, dragging down the prospects of every global region.

The realisation of the gravity of the current situation, forces us to analyse the origins and dynamics of the crisis from a broad perspective. This is

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important as we run the risk of merely fighting symptoms if our diagnosis does not go to the roots of the problems. In this paper, an attempt will be made to sketch the contours of such a broad perspective.

In paragraph I, I start my analysis by briefly looking at the way the current crisis has unfolded. Paragraph II deals with economic factors that led to the crisis. In this section, several structural imbalances in the global economy are discerned. We will see that many of the remedies recently employed by the governments, although they may be necessary, do not point towards a solution for the major imbalances. In paragraph III a perspective is proposed, which takes into account a wider perspective than merely the economic perspective, and the technical solutions brought forward to solve its maladies. We will sketch some of the societal causes of the current crisis. It will be argued that over the last few decades a way of life lies at the root of our economic problems as well as some of the problems that, although not as imminent, are major problems that need to be addressed. Finally, in the Conclusion, we will look at the prospects for addressing all these issues. Rather than believing that the process that is unfolding is irreversible, it will be argued that there are reasons to see a certain cyclicity in modern history. It is illuminating to see that to a great extent our current problems have had precedents.

In the following the emphasis will be on the U.S. The factors that will be discussed are also present in other parts of the developed world, but as the origin lies in the U.S., it exhibits the problems in their purest form.

## **I. The Sudden Eruption of the Crisis**

Although there were a few analysts who warned of the coming global economic crisis, world leaders and markets were largely taken by surprise as the crisis unfolded. It followed a period of historically high global economic growth. Practically all global regions were growing rapidly, but this was most prominently the case in several emerging markets. The Chinese economy, which had been growing at an average of 9.7% annually for a period of 28 years, grew more than 11% in 2007. Growth was picking up in India, Brazil, but also in many African countries. As a consequence of the rise of these emerging markets, commodity prices, especially energy prices increased rapidly, boosting the economies of Russia and several countries in the Middle East. Oil prices exceeded the record price of \$140 a barrel, and also the prices for metals and agricultural products went up. With inflationary pressure increasing, the world economy seemed closer to overheating than to the start of a recession.

There were warning signals that problems lay ahead, like the decline in U.S. housing prices which set in, but it wasn't until the summer of 2007 that the perception of a crisis spread internationally. In early August, central banks around the world had to intervene to provide liquidity to the banking system. On August 6, in the U.S., American Home Mortgage filed for bankruptcy. In

the four days after August 10, the European Central Bank provided in excess of 200 billion euros of funds for banks. A month later, in the U.K., Northern Rock experienced a classical run on the bank. Over the months problems surfaced in many financial institutions like Bear Stearns. Then, a year later, a second and more severe wave of concern spread across global markets with the bankruptcy of Lehmann Brothers, a financial services firm that had survived both the American Civil War and the Great Depression. This triggered a fear concerning the solvability of a great deal of the world's largest financial corporations. In the course of time, many of these needed financial assistance from authorities and some eventually even needed to be nationalised to survive.

From subprime mortgages, problems spread to credit in general and from the investment banks the crisis spread to insurers and issuers of credit cards. Recently, we have seen that the crisis has spread from the financial sector to other sectors as many countries are entering into recession. Most notably, the automobile industry is under severe pressure with the iconic General Motors having to receive financial aid from the government. To gain some perspective on the logic of these developments and to explore the possible solutions, we need to look at the origins of the crisis.

## **II. The Economic Causes of the Crisis**

What is clear from recent developments is that governments are called upon to tackle the current economic troubles. We can distinguish most of the policies that are employed by governments in two broad categories. First, they have sought to stabilise and restore financial markets. This has been done through nationalisation of financial institutions, the creation of funds that are meant to take over bad assets from financial institutions and of the provision of guarantees for financial transactions. This is done with the goal to make financial institutions, like banks, 'do their jobs' again, i.e. provide funding. Since the start of the financial crisis, banks have been very reluctant to lend to each other as well as to companies and individuals. By stabilising the financial sector, governments aim to reverse the crisis and start the process of borrowing again.

The second type of policy governments are pursuing involves increasing economic activity by increasing their own spending. Several large countries, currently most notably the United States and China, have introduced so-called 'stimulus packages'. The goal of this type of policy is to make up for the overall decline in economic activity and this way underpin income and employment.

Important as these two types of policy may be, we will see that in themselves they do not address the underlying problems of the economic crisis. For these policies to be enough to fix the global economy, the assumption has to be made that the principles of economic development of recent history were

sound. In this section, it will be argued that this assumption is problematic. The global economy was predicated on several structural imbalances that have to be addressed. This makes a recovery much more difficult to achieve, but failing to address these imbalances could make our problems much more severe.

Our first issue is to the attempt to restore financial markets so that they will provide the wider economy with credit again. At the heart of the matter is the question of what amount of credit is manageable for an economy. Developments that began after the Second World War, and which were exacerbated in the last decade, have led to a great rise in the level of credit, which leads us to the question whether credit has not gone to unsustainable levels. If this is true, a structural adjustment of 'deleveraging' (bringing down credit) is what is required, making a return of the financial sector to 'business as usual' in the short term impossible.

The decades after the Second World War saw a progressive rise in the level of debt in the global economy, but especially in developed economies. Debt rose in the public sector, but also in the private sector, with consumers taking on more loans. George Soros has charted the total level of debt to the Gross Domestic Product (GDP) in the U.S.. It stood at 100% in the early 1960's, over 200% in the 1990's and at 350% in 2007.<sup>1</sup> Although debt levels had been rising for several decades, they rose specifically fast in the years after 2001-2002. The crash of the Nasdaq, with the bursting of the dotcom bubble, led to a massive destruction of wealth. Rather than seeing this crash as a necessary adjustment to unrealistic expectations, authorities feared it would precipitate a painful recession and acted to evade such a development. Most importantly, this was done by bringing down interest rates to 1%, which made lending cheap and hence attractive for individuals while it made saving very unattractive. It was this lending that drove much of the rise in housing prices. The rise in housing prices was accompanied and exacerbated by new financial instruments that were tied to the housing market. Tranches of mortgages were 'repackaged' and used as assets to create further borrowing. This tying of mortgages to other financial instruments created what economists call 'perverse incentives'. Using mortgages in alternative structures created an incentive for banks to maximise the amount of mortgages, as this could lead to further revenues, rather than focusing on the ability of the lender to repay the mortgage. This led to the rise of 'sub-prime mortgages', the most notorious of which are so-called 'Ninja mortgages', where the lender had 'No Income, No Job, and no Assets'. The rise in consumer debt, through mortgages, however, was much smaller than the rise in debt created by the new financial products. It is very difficult to assess the size of these instruments as well as the losses that have to be taken as a result of these products. The most recent expert-estimates have gone up to over \$4

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<sup>1</sup> G. Soros, *The New Paradigm for Financial Markets*, New York: PublicAffairs 2008, p. 94.

trillion, implying that most of the write-downs still lie ahead. The opaqueness of these financial products haunt the world's financial institutions.<sup>2</sup>

In sum, it appears that the rise in the level of debt has reached such a height that a return to 'business as usual' for financial institutions seems unlikely. The brief overview above suggests that a large amount of debt still has to be brought down. A structural adjustment has to be made towards a system in which credit will be more scarce.

Similar structural imbalances underlie the field that the second type of policy, the stimulus packages, has the purpose to address. The way governments are stepping in to save corporations may be a necessary step in order to stabilise the global economy and mitigate the sense of crisis. Moreover, with for instance large infrastructure projects, governments can raise demand in the economy, supporting income and employment. It can even be argued that failing to do so, might make the scenario of the 1930's likely. The amount of money that evaporated in the aftermath of the 1929 stock market crash led to a severe contraction of the economy, leading to the Great Depression. With the government stepping in to fill the gap in the economy, the effects of the crisis could be made less severe.

However, as a consequence of these policies, we have to be attentive of a different danger than looms on the horizon. For this purpose it is illuminating to compare the current economic situation with that of Japan after 1990.<sup>3</sup> Just as we saw for the U.S., Japan experienced large increases in the price of assets for several years. The stock market surged to such an extent that in 1990 the Tokyo Stock Exchange made up 60% of the total global market capitalisation. Moreover, real estate prices rose at a very rapid speed. A common joke in Japan at that time was that the ground underneath Japan's imperial palace was worth more than all the land in the state of California.

After this bubble burst in 1990, the equivalent of 350% of the country's GDP was destroyed in a few years time. Japan's economic actors stopped investments and *en masse* started to reduce their debts, leading to a collapse of demand in the economy. In order to prevent this from leading to a massive economic contraction, the Japanese government stepped in to fill this gap in demand with stimulus packages. The Japanese government managed to stave off a tremendous shock to its economy, but did this at a high price. In saving its corporate sector and maintaining demand in the economy, government debt increased a lot. Currently, at over 170% of GDP, it has the highest level

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<sup>2</sup> This is the figure estimated by the IMF in its Global Financial Stability Report of April 2009. See: <http://www.imf.org/external/pubs/ft/gfsr/2009/01/pdf/text.pdf> (last accessed on 23 April 2009). Independent writers like Nouriel Roubini have earlier made similar estimates.

<sup>3</sup> For an illuminating inquiry into this issue see R.C. Koo, *The Holy grail of macroeconomics – Lessons from Japan's Great Depression*, Singapore: John Wiley & Sons 2008.

of debt among large developed countries and it is not clear how it is going to reduce this debt, especially now the government is coming with new stimulus packages in response to current problems. With an ageing population, which implies a declining tax base, the burden on the Japanese population will become even more severe.

Turning back to the situation in the U.S., it is important to note that much of the followed policy, like taking bad loans off the balance sheets of banks, is also merely a shift of debt from the corporate sector to the public sector. Without a clear plan on how debt will be reduced over the years, the fundamental problem will not be addressed.

This follows upon a historical trend of significant budget deficits for many years especially since the Reagan administration. The other of the so-called 'twin deficits' of the U.S. is the current account deficit which concerns the relationship between imports and exports. Here we come across another structural imbalance in the global economy. Over the decades, but especially in the last ten years, a curious relationship has developed between the U.S. and several export-oriented economies, mostly in Asia. China particularly has emerged as one of the most powerful export countries in the world, mostly to the U.S. As China's exports far outstripped its imports, the country experienced long periods of current account surpluses and this way accumulated massive foreign currency reserves. Rather than investing in the domestic economy, a large part of these reserves were 'recycled' by buying government bonds of the U.S. This way, lending became cheap in the U.S., which contributed to high spending of which Chinese exporters were a main beneficiary. Hence there was a relationship where the U.S. consumed more than it produced and China and other Asian countries produced more than they consumed. Whereas China accumulated foreign reserves, the U.S. accumulated foreign debt. At the same time, consumption in the U.S. went up to over 70% of GDP (compared to less than 60% in the rest of the developed world) and the savings rate turned negative.

Just as in the financial sector, the stimulus packages also operate in a field where the situation before the crisis was built on structural imbalances. Fundamental rebalancing has to take place before anything like a real recovery can occur. This involves the U.S. government deficit, especially now the government is amassing new debt, the relationship with China, where both parties need to bring consumption and production more in line with each other, and a decline of consumption and a rise of saving in the composition of GDP of the U.S.

In sum, governments around the world are protecting the financial sector and stimulate their economies in order to mitigate the potentially destructive effects of the current economic crisis, but what is required is to go beyond 'ad hoc' patchwork. The structural imbalances that lie behind the economic

distress require comprehensive policy in which the move of rebalancing is envisioned.

In our attempt to put the economic crisis in perspective, we have avoided focussing upon recent events and tried to discern a broader economic background. In the final analysis however, the crisis is not merely about economics. Addressing problems described above, such as reducing debt and consumption and increasing savings, cannot simply be done by technical means, but point towards the way of life of people. Our problems point towards a social philosophy and the values that dominate in a society. To broaden our perspective, we will now turn to addressing the societal background of the economic crisis.

### III. The Societal Causes of the Crisis

The severity of the current situation prompts the idea that we are at the end of an era. Although some commentators have spoken about the end of capitalism, there are no clear signs that this is happening. What seems to be becoming more clear is that the basic assumptions of neo-liberalism that prevailed in the last three decades are being challenged. Here neo-liberalism is understood not just as an economic doctrine, but as a social philosophy that encompasses beliefs and ideals across different fields of human activity. In this section, we will look at three social issues that are linked to and underpin the problems of our time and that are explicitly associated with neo-liberalism, understood as a social philosophy. These issues are (1) the replacement of state regulation with a technical and economic rationality, (2) the decline of community and the rise of social atomism, and (3) the replacement of long-term thinking with short-term thinking.

As an economic doctrine, neo-liberalism became *en vogue* in the 1980's, championed by Ronald Reagan in the U.S. and Margaret Thatcher in England. Adherents argued that the large states created in the sixties and seventies had led to low productivity and high unemployment. They believed that the power of the free market should be put to use in more spheres, applying what Reagan called 'the magic of the marketplace'.

This resulted in a global wave of deregulation and privatisation under the heading of New Public Management. Two developments gave this movement extra impetus. The rise of the new ICT fostered a spirit of freedom and innovation. Technological innovation was seen as the fruit of a deregulated economy. Secondly, the early 1990's brought the collapse of communism. With the fall of the Soviet Union and the communist regimes of Eastern Europe, the superiority and victory of free market capitalism seemed vindicated. In this atmosphere, Francis Fukuyama proclaimed the End of History as the victory of capitalist democracy.<sup>4</sup>

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<sup>4</sup>This is the central argument in: F. Fukuyama, *The End of History and the Last Man*, New York: Avon Books 1992

### III.1 Deregulation

A first field where financial crisis-related problems emerged early on was that of deregulation. The neoliberal critique of regulation was directed against the large amount of red-tape in government organisations that stifled the flexible working of the economy as well as the spirit of innovation. The powerful new technological breakthroughs in the field of ICT were cases in point. This same line of reasoning was applied to financial markets at a time when numerous new instruments were being developed. There was a general belief that financial markets would regulate themselves. We saw in the previous section that after 2002, the macroeconomic climate made a tremendous growth of the financial sector possible. Neoliberal philosophy added the deregulation of much of the financial sector to this growth.

The erstwhile chairman of the Federal Reserve, Alan Greenspan, was a strong defender of self-regulation in financial markets. He argued that sophisticated markets had become increasingly adept at carving up risks themselves and dispersing them widely, hence managing risk better. A Wall Street Journal Article quotes him:

“All of the sophisticated mathematics and computer wizardry essentially rested on one central premise: that enlightened self interest of owners and managers of financial institutions would lead them to maintain a sufficient buffer against insolvency by actively monitoring and managing their firms’ capital and risk positions,” the Fed chairman said. The premise failed in the summer of 2007, he said, leaving him “deeply dismayed.”<sup>5</sup>

The lack of regulation has played a large part in creating the perils of the financial system. Risk assessments throughout the market were highly problematic and it has also become clear that the rating agencies had not done their job well.

In Greenspan’s remark we can see that the reliance on complex computer models was grounded in ‘enlightened self-interest’, which was supposed to lead the market to an equilibrium.

We thus see a dual movement in the field of regulation. On one side, neoliberal philosophy sought to depoliticise large parts of the economy. Politics was replaced on the other side by a form of technocratic rationality: mathematical models and the profit-motive were considered superior to political decisions.

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<sup>5</sup> Wall Street Journal, 17 February 2009. Cited from: <http://blogs.wsj.com/economics/2009/02/17/greenspan-vs-the-greenspan-doctrine/> (last accessed 15 April 2009).

At the beginning of the twentieth century, the philosopher Oswald Spengler described the antagonistic relationship between capital on the one hand and politics on the other.<sup>6</sup> According to Spengler, in modernity capital progressively becomes more powerful. The financial elite (*Hochfinanz*), particularly, becomes prominent in modern democracies and it has a disastrous effect on society. In contrast with other sectors of the economy like industry, finance is completely de-territorialised. It has no commitment to the country or its locality. In the pursuit of making profit, the financial world progressively capitalises all of reality. The crisis generated by this system of perpetual flux leads to a backlash against the financial world. This happens in the form of a new concern for country or locality emanating from the political world. In Spengler's scenario, this will eventually lead to the rise of authoritarian regimes (*Caesarism*) and the overthrow of democracy. Without having to take this last step with Spengler, the antagonistic relationship between capital and politics, understood respectively as de- and re-territorialisation, provides an effective means to understand a fundamental dynamic of our time.

### III.2 Social Atomism

A second field where a problematic side of the neo-liberalist philosophy has become clear, concerns the decline of community and the rise of social atomism. The liberation of the individual from oppressive ties with community has, of course, a long history. As an idea, it was championed by Enlightenment philosophy, but can already be found in early works of modern writers. In the last several decades since the 1960's however, it gained special momentum. While individualism can be found in the *oeuvres* of writers such as Thomas Hobbes and John Locke, they left intact much of the institutional setting and values of their time. With the advent of the French Revolution, oppressive political authorities were cast aside. In the 1960's, partly as a response to the atrocities of the world wars, all traditional institutions were challenged, both in politics, as well as in civil society. The liberation of the individual was supposed to counter 'the authoritarian personality' and modern man's escape from freedom.<sup>7</sup> Initially, the liberation of the individual was meant to make new freely chosen communities possible, and the state was also seen as a means to emancipate the people through social engineering. Neo-liberalism stands in this line of liberation of the individual, albeit that it rejects this last element. The retreat of traditional structures of authority, combined with a critique of the state, made Margaret Thatcher's famous statement possible: "There's no such thing as society." This decline of community and rise of social atomism belonging to the social philosophy of neo-liberalism has increasingly proven to be problematic.

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<sup>6</sup> O. Spengler, *Der Untergang des Abendlandes*, München: C.H. Beck Verlag 1998, pp. 1183-1195

<sup>7</sup> These terms are associated with the *Frankfurt School*. Theodor Adorno conducted research on the so-called 'authoritarian personality' and Erich Fromm argued that violence and automaton behaviour are modern man's ways to escape from his freedom.

Francis Fukuyama has labelled the decline in the importance of families, neighbourhoods and other forms of community ‘the Great Disruption’.<sup>8</sup> It represents a radical break in human association. Similarly, sociologist Manuel Castells has documented the transformations that have taken place in recent decades in spheres like the family and the workplace. The contemporary man has lost many of the traditional anchors and is caught between the Net on the one hand, which represents the global space created by capitalism and ICT, and the Self on the other hand, which is forced to find and create new sources of meaning and identity.<sup>9</sup> This distinction is comparable to Benjamin Barber’s distinction in ‘McWorld and *Jihad*’.<sup>10</sup> In our contemporary world, man is caught between an individualising ‘global village’ which breeds an irresponsible and infantile *ethos* and which Christopher Lasch has penetratingly analysed as narcissism, and associations that seek to find meaning in the negation of individuality. Finally, the rise of social atomism has been analysed in terms of social capital. The loss of social capital is associated with a loss in the ethos that underpins democratic politics.<sup>11</sup>

This line of reasoning goes back at least into the nineteenth century, where philosopher Hegel, thematised the potentially unbalancing effects of the individualism of the marketplace (*bürgerliche Gesellschaft*).<sup>12</sup> He argued that the market in itself has no limits as, to paraphrase him, someone can always convince you that what you experience as comfort is actually discomfort. The anomie associated with the marketplace had to be counterbalanced by the spheres of the family, the state, and the organised workplace. Without such counteracting forces, people will lack in fulfilment of the central human desire for recognition.

A specific field where we can clearly see the impact of the roll-back of state intervention in the marketplace and the move towards individualism, is income distribution. Over the last decades a steep rise in income inequality has occurred throughout the West. In the U.S. it has reached its highest level since the 1930’s. It is unclear what the ‘right amount’ of income inequality should be, but the current distribution has caused an increasing polarisation that is explicitly connected with the unfolding of the current economic crisis. It can be seen in the widespread perception that it was the egotistical behaviour of the economic upper-class that caused the crisis. Public discontent has mounted against the rewarding of bonuses, especially in companies that had to be saved from bankruptcy with public funds. The lack

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<sup>8</sup> F. Fukuyama, *The Great Disruption – Human Nature and the Reconstitution of Social Order*, New York: Touchstone 1999.

<sup>9</sup> M. Castells, *The power of Identity*, Oxford: Blackwell Publishing 1997.

<sup>10</sup> B. Barber, *Jihad versus McWorld: How globalism and tribalism are reshaping the world*, New York: Random House 1995.

<sup>11</sup> See: B. Barber, *Consumed*, New York: W.W. Norton & Company 2007; C. Lasch, *The Culture of Narcissism*, New York: W.W. Norton & Company 1991; R. Putnam, *Bowling Alone*, New York: Simon & Schuster 2000.

<sup>12</sup> G.W.F. Hegel, *Grundlinien zur Philosophie des Rechts*, Frankfurt am Main: Suhrkamp 1986, pp. 339-398.

of community values in the elite and increasing polarisation is voiced in the often invoked distinction between ‘Wall Street’ and ‘Main Street’.

### III.3 Short-term Thinking

A third field where we can see the necessity to move away from the neo-liberal social philosophy concerns its focus on short-term thinking. Christopher Lasch explicitly connects this with the spirit of individualism and formulates it this way:

“To live for the moment is the prevailing passion – to live for yourself, not for your predecessors or posterity. We are fast losing the sense of historical continuity, the sense of belonging to a succession of generations originating in the past and stretching into the future.”<sup>13</sup>

To connect this claim with the current crisis, we can link the short-term focus with economic indicators. The lack of long-term thinking underpins the economic phenomena of a negative savings rate and excessive borrowing, discussed in the previous section. There is a host of other problems however, that do not seem as imminent in the contemporary crisis, but which represent serious concerns and should be addressed if the structural imbalances of the last decades are to be attended to. These problems are the flipside of the high percentage of consumption in GDP and can be described economically as an absence of sufficient long-term investments.

The most common fields where this is present are the fields of medical care and social security. As regards pensions, significant problems surface, as the savings rate is low, but also the value of real estate and stock assets (important sources of income for consumers), has strongly declined.

Another field where investments have not been made concerns infrastructure. Great infrastructure projects like dams and railway stations tend to have a lifespan of fifty years, after which big investments have to be made to maintain them. Much of this infrastructure was created in the postwar period and has lacked considerable upgrading ever since. A report by the private firm Ernst & Young shows that a large part of U.S. infrastructure is not in good order and not capable of withstanding natural disasters.<sup>14</sup>

A final and hotly debated field that lacks long-term planning is the field of energy. Whereas France has turned to nuclear energy and Brazil has invested in bio-fuel and Japan has focused on increasing energy efficiency, the U.S. still has the task to come up with a comprehensive plan for its energy sector.

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<sup>13</sup> C. Lasch, *supra* note 11, p. 5.

<sup>14</sup> Report by Ernst & Young, *Infrastructure 2007 – A global perspective*: [http://www.ey.com/global/content.nsf/International/Real\\_Estate\\_Library\\_Infrastructure\\_2007](http://www.ey.com/global/content.nsf/International/Real_Estate_Library_Infrastructure_2007) (last accessed on 15 April 2009).

Thomas Friedman notes that instead the automotive lobby in the U.S. had achieved to classify Sports Utility Vehicles as light trucks, which actually decreased the mileage standards for these automobiles.<sup>15</sup>

In conclusion, the problems including the absence of state regulation, social atomism and short-term thinking, as presented above as elements of the neoliberal philosophy, are three fields that require a radical reorientation. This leads us to the next question: To what extent is such a radical reorientation possible? What seems to exacerbate the difficulties for such a reorientation is that much of the social problems we described were already noted by earlier philosophers that described them as fundamental problems of modernity. This suggests that the contemporary crisis is predicated on powerful historical trends.

### **Conclusion: Towards a Cyclical View on the Crisis**

That we are dealing with problems that have been identified in earlier times does not necessarily imply that there is an irreversible historical trend towards further decline. Taking into consideration the three identified social problems that require a move from self-regulation towards state regulation, from individualism towards community-spirit and from short-term thinking towards long-term thinking, an analogy can be drawn with other historical periods. The concerns and the problems voiced here strongly mimic those that were prevalent in the so-called 'roaring twenties' that cumulated in the stock market crash of 1929. This period was then followed by a radical reorientation along the lines suggested in this paper. In the U.S. this took the form the Roosevelt's New Deal and in the broader economic theory it was articulated in 'Keynesianism'. Indeed, Francis Fukuyama has argued that after the Great Disruption, indicators are now showing signs of some form of reconstruction that he compares to the Great Awakenings in earlier American history. Is there any evidence for recurring patterns along these dimensions and in what way can we conceptualise such a cyclical view of history?

A model for this was proposed by Carlota Perez, who stands in the tradition of the economist Joseph Schumpeter.<sup>16</sup> She argues that since the beginning of the industrial revolution, we have gone through several cycles that are determined by the interplay between finance and technology. When an old technology is saturated, finance starts to move away from it in the search for higher yielding investments. This focus of finance then brings forth a new cluster of technological innovations that radically transform society. The new innovations come together with a spirit of deregulation, adventure and risk taking and this is exactly what leads to a financial bubble. The bust of the bubble leads to a turn in society as the new technological innovations have to

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<sup>15</sup> Thomas Friedman, *Hot, Flat and Crowded*, New York: Farrar, Straus & Giroux 2008, p. 17.

<sup>16</sup> See specifically her book: C. Perez, *Technological revolutions and financial capital*, Massachusetts: Edward Elgar Publishing Limited 2005.

be brought in line with society at large and this goes together with a decline in risk taking, more state intervention and a more communitarian spirit. The spirit in the 1920's came together with the innovations in mass production, most strongly associated with the automobile. Similarly, the neoliberal spirit can be interpreted in the light of the ICT revolution leading to a financial bubble and thus, just as the previous cycle, currently requires a reorientation towards state regulation, communitarian values and long-term thinking.

An alternative model was proposed by William Strauss and Neill Howe in their works on generations.<sup>17</sup> They argue that throughout modern history we can discern an eighty year long cycle that has similar characteristics to that proposed by Carlota Perez. Rather than technology and finance, it is the life of generations, that is shaped by their youth experiences and the general interplay with other generations, which creates these cycles. For our current situation they describe a time of crisis following a period of decline in values and institutions (what they call an 'Unravelling') that will in turn generate a new period of 'building' similar to the postwar period. As such, they too describe a historical pendulum between individualism, deregulation and inner freedom on the one hand and communitarian spirit, state intervention and institution-building on the other.

We need not decide on what fundamentally drives these cycles. What is relevant for our view is that both models point towards comparisons with other times which makes it possible to interpret the current crisis in terms of long-term cycles. In this manner, we can work towards a more comprehensive understanding of our situation with which some light is shed on the path of reorientation that lies before us.

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<sup>17</sup> W. Strauss & N. Howe, *The Fourth Turning*, New York: Broadway Books 1997.

