

CONTESTED FUTURES: IS THE FINANCIAL CRISIS A TIPPING POINT?

Sylvia Walby
Lancaster University UK
S.Walby@lancaster.ac.uk

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Sylvia Walby
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INTRODUCTION

There are contested futures, contested forms of modernity. The financial crisis of 2007-9 and the ensuing recession in the real economy create the potential for a global tipping point away from neoliberalism. There may be an alternative form of global modernity that is either social democratic or one that is nationalist, protectionist, authoritarian and xenophobic.

Whether the future is neoliberal, social democratic or something else depends on the balance of forces at global as well as country levels. In part this depends on whether the USA or the EU leads in the creation of the new financial architecture that is constructed to replace the old. While the global South has been increasing its influence in global governance, at this moment the key contesting forces are still the hegemonies of the USA and EU, although these hegemonies have varying levels of internal cohesion. A tipping point in the balance of power of the USA and EU had been on the horizon before the development of the 2007-9 financial crisis, but has not yet occurred. This potential tipping point from a more neoliberal USA to a more social democratic EU is key to wider global futures.

In order to assess the potential for change, this paper addresses the nature of the financial and economic crisis of 2007-9; alternative pathways out of this crisis; rethinking democracy; and the changing balance of the USA and EU.

FINANCIAL AND ECONOMIC CRISIS 2007-9

The crisis of 2007-9 is the latest and largest of a series of financial crises. Its current impact on the 'real' economy and social relations is already enormous and its potential impact is cataclysmic. A range of policy and political responses have been developed, drawing from different projects and visions of society including neoliberal, social democratic and premodern.

The significance of the crisis of 2007-9 depends upon whether this becomes a tipping point in the global financial and economic system, or whether it is just the bursting of yet another bubble, though with wider effects than previously because of the extent of global processes. The scale of the finance sector, especially the shadow banking system, newly dwarfs the size of the 'real' economy, therefore having tremendous power to transfer funds from taxpayers in the real economy to finance capital through the threat of meltdown (Sassen 2009). However, bursting financial and asset bubbles are not uncommon in the history of capitalism. Since the Dutch tulip bulb mania in seventeenth century Holland and the South Sea Bubble in England in 1720, there have been a long series of bubbles (Morris 2008). During the 1990s, financial crises laid low the economies of East Asia and Latin America, followed by the bursting of the dot.com bubble (Stiglitz 2002; Krugman 2008).

The most important financial crisis in the twentieth century was the bursting of the stock market bubble in 1929, which led to deep depression in the USA and Europe (Galbraith 1975; Krugman 2008). This produced a critical turning point in which the countries of Europe diverged: the Nordic countries produced a social democratic settlement while much of central Europe descended into fascism. While social democracy in the Nordic countries has been locked-in through the development of a wide range of supporting institutional formations, fascism in central Europe was defeated by war. There is thus a historic precedent for financial crises and their consequent depressions to produce new alternative pathways of development.

The 2007-9 financial crisis is larger and deeper than previous crises (except 1929), with the simultaneous global bursting of bubbles in housing and the stock market and consequently larger effects on the real economy (Fleckenstein and Sheehan 2008), together with effects that are spread further and faster as a consequence of globalization and electronic communications. The depth of this latest financial crisis is exacerbated by deregulation and the emergence of a non-regulated shadow banking system (Stiglitz 2006; Haseler 2008; Krugman 2008). The relative absence of regulations on the financial sector was part of the neoliberal orthodoxy (Greenspan 2008).

There are several features of the 2007-9 financial crisis that are relatively new, consequent upon developments in a much less regulated financial environment.

Controls upon the conduct of banks were lightened with consequences in the extension of credit to ever riskier projects. One key example of this was the growth of the 'sub-prime' housing market in the USA, in which people with low and precarious incomes were granted mortgages to buy homes, which were only repayable if housing values continued to escalate (Fleckenstein and Sheehan 2008; Krugman 2008; Shiller 2008). The bubble in housing values affects more people than the bubble in stock markets in those countries where the level of home ownership has increased to very high levels and where equity withdrawal became commonplace, such as the USA and UK.

The most important change has been the growth of a shadow banking system that is not subject to regulation, which rivalled the regulated banks in size. Hedge funds operate largely outside the regulatory framework set up for banks. Private equity operates largely outside the regulatory framework set up for limited liability companies publicly quoted on the stock exchange. In 2007, while the total assets of the top five US banks were around \$6 trillion, that of the five major 'investment' banks was around \$4 trillion and the hedge funds just under \$2 trillion (Krugman 2008). The new financial derivatives included synthetic securitizations or collateralised debt obligations and credit default swaps. Since the 1990s, until the crash of 2007-9, there was a rapid increase in the scale of this market. In 1990 the size of the collateralised debt obligation market was estimated at \$2.2bn, rising to \$250bn in 2002, of which 75% is estimated to be the new synthetic CDOs (Tavakoli 2003), further rising to \$600bn in 2007 (Treanor 2008). The collateralised debt obligations (CDOs)

use a special purpose company or vehicle, with assets, liabilities and a manager, to transfer risk between financial institutions such as banks (Picone 2002), ostensibly tiering the level of risk so that it could be separately costed. The risks in this system were compounded by poor assessment of the risk by the ostensibly specialised risk rating agencies (Fleckenstein and Sheehan 2008; Morris 2008). By 2007 the combined size of asset-backed commercial paper conduits in structured investment vehicles, auction-rate preferred securities, tender option bonds and variable rate demand notes in the USA was around \$2.2 trillion (Krugman 2008). The period of light financial regulation also saw the increased use of tax havens and banking regimes that permitted exceptional secrecy and hence the possibility of tax avoidance and evasion, which permitted corporations and wealthy individuals to avoid tax obligations in the countries where they had earned or created their wealth (Murphy 2007).

There has been some variation between countries and regions in the extent of regulation of the financial sector, but the global system is now highly interconnected. Thus, the financial packages that contained poor quality US mortgage debt were sold in parcels to banks around the world. Hence the financial crisis is global in reach.

The financial crisis of 2007-9 was precipitated by the collapse of the subprime mortgages in the US housing market, triggering a general collapse in the US housing market. This was followed by a collapse in the value of the financial derivatives that contained US subprime debt and, when it became clear that no one really knew which financial packages contained this poor debt, a collapse in confidence and value of a range of financial derivatives. This in turn provoked a collapse in the bubble in the stock market. Each of these has global consequences because of the extent of interconnections.

The collapse in this series of interrelated bubbles in the valuation of financial assets caused the collapse of a series of financial institutions, including banks. Some of these financial institutions went bankrupt, such as Lehman. In the UK there was a run on Northern Rock (mainly a housing bank) before it collapsed. Mergers were arranged for weaker institutions, such as Lloyds and HBOS in the UK. Vast quantities of public funds were used to support financial institutions, including banks and insurance companies linked to the housing market (such as Fannie Mae, Freddie Mac and AIG in the US), often resulting in part or occasionally full public ownership (Fleckenstein and Sheehan 2008; Morris 2008; Shiller 2008).

The crisis in the financial sector caused a crisis in the 'real' economy in several ways. The rapid depreciation of assets reduces the income people have available to spend, as dividends and pensions linked to the stock market decline and falls in housing equity limit withdrawals. The collapse in confidence in the financial sector lead to a credit crunch, with the resulting lack of access to credit meaning that some businesses went bankrupt, with knock-on effects on people's income. There is a rapid downward spiralling of the real economy leading to recession and maybe to depression. While the financial crisis started in the USA, and despite the significant variations

between countries in the regulation of finance, the effects on the real economy are spreading around the world. Table 1 shows the declines in the USA, EU, Ireland, Sweden and the UK in GDP, stock market and rise in unemployment in 2008. The downturn in the real economy created unemployment and poverty, thereby deepening inequalities (because of the gaps between employed and unemployed) unless radical policy interventions were made.

Table 1 Economic recession 2008-9: USA, EU, Eurozone, Sweden, UK and Ireland

	GDP Q2 2008 change on previous quarter	GDP Q4 2008 change on previous quarter	Unemployment % June 2008	Unemployment % Dec 2008	Share price change on previous year Feb 2009, %	House price change during 2008, %
USA	0.70	-1.60	5.6	7.2	-44	-18
EU			6.9	7.4		
Eurozone	-0.25	-1.50				
Ireland	-0.61		6.0	8.2	-66	-10
Sweden	-0.46	-2.40	5.8	6.9	-36	-13
UK	-0.02	-1.53	5.5	6.1 (Oct)	-31	-18

Data for GDP, unemployment and share prices: OECD (2009) *OECD.StatExtracts*

<http://stats.oecd.org/wbos/Index.aspx?QueryName=251&QueryType=View&Lang=en> accessed 6 March 2009.

Data for house prices: Ireland (Finfacts Ireland 2009); Sweden (Sweden Price History 2008); UK (BBC 2009); US (Hopkins 2009).

One initial policy response to the crisis has been a massive transfer of funds from taxpayers to financial institutions under the (realistic) threat of meltdown of the financial system. This is a distinct form of expropriation. It is not entirely new, since it occurred during country-specific and regional financial crises in the 1980s and 1990s (Stiglitz 2002, 2006), however, the global scale is new.

PATHWAYS OUT OF THE CRISIS

There were a range of policy responses to the crisis, which depended on political responses which varied over time and between countries. There are

three main areas of policy development: the financial architecture; the rescue of financial institutions; and the response to the emerging recession. First, the overall structure of the global financial architecture has been challenged by the crisis and critics have found to be wanting. Several bodies set up processes to review the global financial architecture and make proposals for reform, including the UN's Commission (Stiglitz 2009) and the G20 summits (G20 2008). Issues concern the functioning of the World Bank and the International Monetary Fund and whether a new institution to promote financial stability is needed; transparency and governance; as well as tax havens and secret banking regimes. Second, there is the immediate response to the collapse of financial institutions, especially by states. A range of instruments has been tried including: funds to bank in trouble supplied variously as loans, equity, and insurance, and recapitalisation and liquidity schemes. The implications have included full or partial nationalisation of threatened institutions. There are issues as to the implications of the forms of the funds, the nature of the conditionalities attached such as in relation to lending criteria and revision of the remuneration of bankers so as to reduce short term incentives. Third, there are policy responses to the recession and threatened depression in the real economy. Some of these are explicitly stimulus packages to increase the flow of funds through the economy, though not all countries accept such a Keynesian approach. The funds have taken a variety of forms including: tax cuts, increases in public works expenditure, and loans to big companies. The implications of these stimulus packages for different social groups and inequality are potentially highly varied depending on who receives the funds. There is also a significant issue in the extent to which the conditionalities are protectionist, explicitly prioritising the country's own citizens or not.

Within each of these three areas of policy response, there are significant variations. They vary significantly in relation to: governance, distribution and scape-goating. The reforms to institutions entail a position on governance, as to whether they are going to be made more transparent, accountable and democratic. The changes might be minimal, such as increased transparency, or more substantial, such as ensuring a significant presence of women on decision-making boards. The stimulus packages vary as to their distributional consequences: whether the beneficiaries are richer or poorer, men or women, majorities or minorities. The use of tax cuts tends to favour the better off and men who pay more tax, and disadvantage the poor and women who benefit significantly from state expenditures on welfare, health and education. Spending on public works and bailouts to companies will benefit those who are employed on these, for instance, more often men if these are construction jobs. The conditions applied vary in the extent to which they identify groups to blame or to protect: bankers, foreign workers, the unemployed, or the poor. If bankers' bonuses are targeted then this is a class and gender redistribution taking money away from rich men; if foreign workers, then it is often the poor from minority nationalities and ethnicities who will suffer.

There are three potential pathways out of the crisis: neoliberalism with minor reforms; social democracy and global justice; or nationalist protectionism.

Neoliberalism.

The neoliberal response to the financial crisis has usually been one of minor reforms in order to stabilise the financial system within the context of a restatement of the principles of a free and open global market economy (see G20 2008). In this perspective, there is a need for slight adjustments rather than major changes. The policy responses are thus a small increase in the regulation of and degree of multilateralism in the global financial institutions; temporary bail outs of banks that retain their autonomous decision making; and modest if any stimulus packages. Financial institutions are considered so important to the economy that they need to be rescued at almost any price, including significant transfers of taxpayer funds to banks. The freezing of the credit markets due to the existence of bad debts is also to be remedied by the provision of taxpayers' money. The transfer from citizens to financiers at times of financial crisis is common feature of neoliberal financial systems (Stiglitz 2002). Any transfer of ownership of banks to the public is to be regretted and rectified as soon as circumstances allow (for example, in the USA in 2008). Financialization is not seen as a problem in principle; indeed its further development is to be applauded (G20 2008; Greenspan 2008; Shiller 2008). This approach involves reforms to governance that concern greater transparency rather than more substantial aspects of democracy. There is little concern with distributional inequalities and the bank bail outs often involve significant transfers from the majority of the population to financiers.

Social democracy.

The social democratic response to the financial crisis is usually been one of a call for substantial change in the financial architecture; to substantially increase public democratic control over banks in exchange for state funds; and to put substantial funds into stimulus packages so as to prevent the recession turning into a global depression. The rescue of banks in times of financial crisis in social democratic systems, such as in Sweden in the early 1990s, involved the banks taking responsibility for their bad debts, not citizens (Aslund 2009). Proposed reforms and regulations of the financial architecture include: the abolition of the shadow banking system, so that no financial transactions are outside of public scrutiny and regulation; the abolition of tax havens and secret banking regimes by which corporations and rich individuals avoid and evade taxation; the severe regulation if not abolition of financial derivatives and the practice of financialization of the economy; the separation and support of utility banking but not speculation; changing the governance of financial institutions, making them and their transactions transparent, ensuring that boards of companies, banks and regulators include a wide range of people, including a proper proportion of women (e.g. quotas for women on Boards as in Norway); the reform of the global financial architecture including the World Bank, International Monetary Fund so that their aims include global justice; fair trade; the introduction of the Tobin tax on currency transactions to slow down speculation in currencies; promote public and mutual forms of ownership rather than privatisation; take governmental control over part-nationalised banks in order to secure more appropriate forms of remuneration to bankers to reduce the incentive for short-term risk-taking and develop appropriate policies for access to credit; reduce the propensity for housing

bubbles by increasing the proportion of homes for social renting; ensure that the stimulus packages focus on productive and sustainable investment rather than tax cuts and that they disproportionately benefit the poor who are most vulnerable in the downturn rather than the rich; expand alternatives to unemployment including education and jobs; provide a floor to the real economy through facilitate access to essentials and reduce financialization and bubbles, such as social rented housing, allotments and free school meals (George 2004; Stiglitz 2006; Murphy 2007; Attac 2008; Krugman 2008; World Social Forum 2008).

Nationalist protectionism.

This focuses the blame for the scarcity of resources in the recession following the financial crisis on foreigners or ethnic minorities. Various components of this approach have emerged, especially populist blaming of foreign workers for taking jobs (e.g. UK 2009), the insertion of protectionist clauses into stimulus packages (e.g. USA 2009), and the national limitations to the bailouts for banks and companies (Europe and US 2008). Responses to the recession/depression can be led by states for the protection of their own populations at the expense of citizens of other countries, pulling away from the principles and practices of more open global processes. Historically, this response has appeared in some countries to some economic recessions, most notoriously in Germany in the 1930s. The approach to governance is a demand for control to be re-centred in the country rather than internationally, though with no necessary implications for transparency and democracy. The implication for inequalities is to privilege the national population to the detriment of those defined as 'other', especially foreigners whether in that country or abroad.

Implications.

The three projects have implications for different forms of inequalities and for global processes. The neoliberal approach is likely to increase inequalities, as it moves resources from taxpaying citizens to banks and financial institutions, away from the less developed to the more developed countries of the world. The nationalist protectionist approach is likely to increase inequalities based on citizenship, nationality and ethnicity. Only the social democratic approach is likely to resist increasing inequalities, though whether this applies to all inequalities depends upon the specific policies introduced. States remain an important node in democratic as well as authoritarian responses to economic events, a focal point for attempts to change the financial architecture and the structure of the economy. This is especially the case in the nationalist-xenophobic responses, but is sometimes an element in social democratic programmes to regulate finance capital. However, de-globalisation is not the only route to financial regulation; indeed some forms of regulation of finance, require global cooperation.

The relative importance of these three potential pathways is subject to change. The outcome depends on struggle, resources and the wider environment: who participates in the political discussions and struggles; what alliances are built; how the issues get to be framed; what resources are mobilised behind each position; and how events intervene. They are embedded in projects,

programmes and social formations at national, regional and global levels with different resources for their promotion. There are planned for 2009 a series of global meetings at which there will be competition for the hegemony of one or other view, including those of the G20 and the UN's Stiglitz Commission. The G20 includes Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the UK, the USA, and the EU (G20 2009). The Commission established by the UN is intended to represent all the countries of the world (Stiglitz 2009). The EU is striving to achieve an internal cohesion over these issues, with the UK and some of the new Member States in the east taking more neoliberal positions than the old core of Germany and France (Traynor and Gow 2009). Key to the outcome of these meetings will be the positions adopted by the USA and the EU and the strength with which they are promoted, though many other countries and global organizations are making representations. The relative balance of power between these two hegemonies is key to whether the global pathway out of the crisis takes a neoliberal or social democratic form.

DEMOCRACY

The 'depth' of democracy is a key factor in the outcome of these contested futures. Democracy can vary in its depth (Fung and Wright 2001; Beetham et al. 2002). While the oft stated goal of democracy is to provide equal access to political decision making for all citizens and to ensure the accountability of government, in practice, the conventional definition is primarily procedural, involving universal suffrage and free, fair and competitive elections that elect representatives of the population to parliament, in the context of freedom of speech and association (Dahl 1989; Held 1996; Potter 1997; Freedom House 2007). These are important, but not sufficient to capture the depth of democracy. The conventional definition of democracy is too narrow: in order to address complex inequalities it needs to be broadened to include in addition to suffrage and elections, the presence of women and minorities within the institutions of governance. The focus here is on the full range of procedures that are needed to achieve democracy. The timing of democracy is often different for different social groups, with implications for the depth of the democracy of the polity as a whole. Here a 10 point scale is proposed to capture the depth of democracy:

1. no hereditary or unelected positions, including monarch and members in either chamber of Parliament;
2. no colonies; i.e. no governance of territories that do not also meet these criteria;
3. no powers of governance held by additional non-democratic polity, e.g. organised religion;
4. universal suffrage, de facto as well as de jure;
5. elections, especially those that are free, fair and competitive; in a context of free speech and free association and developed civil society associations;
6. low cost of electioneering, either by law or by custom;
7. electoral system with proportional representation;

8. electoral system with quotas for under-represented groups such as women;
9. proportionate presence in parliament of women and minorities;
10. significant range of institutions (e.g. welfare services) that are governed by the democratic polity.

These ten points are grouped into three forms of democracy each of different depth. The shallowest is that of 'suffrage-democracy', involving points 1-5 concerning the absence of hereditary, military and religious governance together with universal suffrage, free fair and competitive elections in the context of a free civil society. A deeper form of democracy is that of 'presence democracy', additionally includes points 6-9 and the presence of all groups in the governing institutions. The deepest form is 'broad democracy', which includes point 10 concerning the application of democratic principles of governance across a broad rather than a narrow range of institutions.

Developing democracy in a global era is a challenge, since this involves processes beyond the boundaries of the countries within which democracy is usually considered (Held 1995). The differential contribution to the setting of global rules by different countries contributes to the uneven nature of democracy. The role of the UN is important in providing access to such decision making for small and developing countries. It provides greater democratic access than do the small groups of rich countries in the G8 or G20.

CONTESTING HEGEMONS AND THE FUTURE OF THE WORLD

The US and EU are contesting global hegemony with competing societalisation projects. Rather than a unitary West or North, there are significant differences in the projects of these hegemony: the US leading a neoliberal project; the EU a more social democratic one. The outcome of this contestation is having important implications for all people in the world because of their power in structuring of the rules by which the world is governed. The balance of power is currently in the favour of the US; but a tipping point is coming that may change this to the EU.

Which are the current and future global hegemony?

Global hegemony are polities that have extended dominance beyond their territorial borders, to affect the whole world, as discussed in chapter 4 on polities. Hegemony is established through a mixture of coercion and consent, using multiple forms of power drawn from the economy, polity, violence and civil society.

The EU and US are the current contesting global hegemony. There are further potential or would-be global hegemonic projects that do not currently achieve such hegemonic power, including: Islamic jihadism (not Islam as a whole), China, Japan and the G77. Global hegemony are not new, nor ever permanent; the British Empire once ruled one quarter of the world.

The US and EU have different powers and potentials. The EU is larger in population size than the US: the EU27 at 486,616,440 is more than one and a half times larger than the US: 296,410,404 people. The EU has a slightly larger economy than the US: the GDP of the EU27 is \$12,886,810m as compared with \$12,416,505m for the US. The US owns slightly more of the world's wealth than the EU: 33% in the US, 30% in Europe. Both the US and EU are influential in determining the policies and personnel of the institutions of global financial governance, including the WTO, IMF and World Bank; but the US is more powerful. The US has a larger military than the EU. It spends 4.1% of its GDP on the military as compared with 1.7% of the EU (EMU), spending more than twice as much overall: \$509,077m for the US as compared with \$219,076m for the EU (Data for 2005; World Bank 2007; Davies et al. 2008). European countries and the US are represented on the UN Security Council and NATO; but the US is more powerful.

China has the potential to become a global hegemon, but not yet. China has the largest population in the world: 1,304 million, making up 20% of the world's population. It has the largest military in the world, with 3.755 million people; though a smaller budget (2% of its GDP costing \$174,534m) than the US (World Bank 2007). Its market economy of \$8,914,960 million is smaller than that of the EU or US; however, if it continues to grow at 8% a year (since 1975) and 10% more recently, as compared with 2% of the US and EU, it might eventually have a larger GDP, though this date may be significantly deferred as the US is likely to continue to grow through immigration and the EU through the accession of more countries. China has 3% of the world's wealth, significantly less than the US or Europe. Historically, China has been politically a relatively self contained country, perhaps near to a nation-state, with international engagements that are more regional (for example with Korea and Iran) than global. This may be changing, for example, China hosted the 2008 Olympic Games. But, at the moment China is not a global hegemon, despite the size of its population and army. Whether and if so when China seeks to restructure the global fitness landscape to suit itself remains a question for the future; especially as the Chinese economy develops and its GDP may become the world's largest.

Islam is being increasingly confidently articulated; but with internal differences. There is economic power from oil, political power through its states and violence by its states and jihadists. It is a religion held by many people in the world; it acts as a frame of reference for many. However, Islam is not politically cohesive and has many divisions and different forms. Its relationship with states is highly varied; the use of religious Shari'a law to govern intimacy is highly varied. There are severe divisions between jihadists and less theologically-minded leaders, especially acute in those Islamic countries with Western links such as Pakistan and Saudi Arabia. Huntington is wrong to suggest that there is a civilisational divide between the West and Islam; Islam has its own internal divisions as great as those in the West. This does not mean that Islam does not act as a frame of reference to many; but it does mean that it is not an effective global hegemon.

There are various further entities and alliances that operate at a global level. One of these is the Catholic Church. Similarly to Islam, this organised religion has power through the countries in which it is embedded; variously governs intimacy through its religious rulings; and acts as a frame of reference to many. Once it acted as a major division that drove group and state killings, from the burning of heretics at the stake to the crusades; but not today. It has a presence at the UN, not least because it has its own state, the Vatican, through which it coordinates opposition to sexual and reproductive freedom for women. During the 1970s Japan was looked upon as an emergent hegemon; but with the slowing of its rate of economic growth since the bursting of its financial bubble, it is now better thought of as a major regional leader; no longer a global model for economic growth, let alone global hegemon. At the UN there are various alliances between states; the largest is the G77 alliance of 130 developing countries that is active in protecting their interests in global trade negotiations, but none are hegemonic.

Comparative trajectories of development of EU and US

The conventional view has been that the US has higher economic growth leading to higher income per capita (GDPpc) than in the EU as a result of a neoliberal form of capitalism that frees the economy from regulations and costs that might hinder growth. However, while the US does have higher income per person, it does not currently have a faster rate of economic growth per person than the EU. The source of the greater levels of income lies in the past to a time when the US did grow its economy more quickly than Europe. In particular, the US economy grew while Europeans destroyed their own economies through war, especially 1914-1918 and 1939-1945. Differential rates of violence are key to explaining previous growth rates.

The US and EU, despite similar levels of economic development, are very different. The EU has seen the development of social democracy and its deepening by employed women; and changes in the institutionalisation of ethno-nation relations so as to prevent state violence. The development of social democracy in Europe was associated with the mass organisation of labour in trade unions that was much less common in the US. Its maintenance and transformation in the context of a decline in the industries where this unionisation was most dense is due to the emergence and mobilisation of employed women as the new champions of social democracy in the context of polities that allow for the emergence of women as a political force in democracy. The emergence of employed women as a political constituency maintains and transforms the project of social democracy in the EU. In the US, despite similar levels of women's employment, the political system is less democratically open to their participation, precluding a similar outcome to the EU. A critical turning point away from violence took place in mid-twentieth century in Europe but not the US. In a Europe devastated by the holocaust and wars of nationalist militarism, the formation of the European Union with the aim preventing ever again a holocaust against a minority and war between European states constituted a critical turning point in the violence nexus in Europe. The reduction in significance of ethno-national boundaries with the emergence of a new transnational polity has led to the

cessation of war between the countries that are members of the European Union. The association between militarism and other forms of violence means that there is less violence in the EU than the US.

Tipping point

The EU is getting bigger as a consequence of enlargement through the accession of countries from ever further east in Europe. The EU started in 1957 with only 6 Member States (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands), in 1973 growing to 9 (with the accession of Denmark, Ireland and the UK), in 1981 to 10 (Greece), in 1986 to 12 (Spain, Portugal), in 1995 to 15 (Austria, Finland, Sweden), in 2004 to 25 (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia) and in 2007 to 27 (Bulgaria and Romania). It will grow further with the accession of further countries in Eastern Europe: three are already formal candidates (Croatia, Macedonia and Turkey); several more (Albania, Bosnia and Herzegovina, Kosovo, Montenegro and Serbia) are in discussions over membership. There are further countries that are members of the Council of Europe, some of which might be expected to seek membership at some point: Andorra, Armenia, Azerbaijan, Georgia, Iceland, Liechtenstein, Moldova, Norway, Russian Federation, San Marino, Switzerland, and Ukraine. The EU has long been larger in population size than the US. In 2007, the EU population was 487 million as compared with 296 million in the US; more than one and a half times as big. If the 3 candidate countries (Croatia, Macedonia and Turkey), which have a combined population of 74,543,410 and the potential candidate countries (Albania, Bosnia and Herzegovina, Kosovo, Serbia and Montenegro) with a combined population of 15,101,000 were to join, then the EU population would increase to 576,260,850, nearly double the size of the US.

The economy of the EU became larger than that of the US in 2004, with the accession of 10 further states. The EU27 GDP is \$12,886,810 million; the US is \$12,416,505, in 2005. If the candidate countries, GDP \$678,469, and the potential candidate countries, GDP \$52,800, were to join, the size of the EU economy would grow to \$13,618,079m. At the moment not all members of the EU are members of the Eurozone; but many are expected to join as their economies develop and stabilise. At some point this change in the relative size of the US and EU economies will contribute to the tipping of the balance of power between the two economies and their currencies of the dollar and the Euro. This will have implications for the power balance within bodies of global financial governance including the World Bank, IMF, WTO, and G8.

The EU is less politically centralised and cohesive than the US, but this is changing as powers continue to stream from the Member States to the EU. The process of integration and centralisation of powers slowed for a short period after the over-reach on the proposed Constitution; but it has not and will not stop. Most of the changes proposed in the Constitution were agreed in the Treaty of Lisbon in 2007, including a Foreign Minister (High Representative of the Union for Foreign Affairs and Security Policy), a less temporary President, and streamlined majority voting (Council of the

European Union 2007). The logic for further powers to move to the EU level of political institutions is as strong now as it ever has been. In particular, outward facing policy areas such as trade and foreign policy are very likely to become more cohesive, generating significantly more capacity to act as a global hegemon.

The importance of the EU as a significant player on the global stage in matters of economic policy is increasing. It is a major trading bloc, which gives it a presence in the context of geo-politics, such as collective membership as the EU of the World Trade Organisation, and is able to command deference from other polities for its actions, such as representing the interests of all Member States of the EU in world trade discussions (Bornschiefer 1999; Hettne 1999; Held et al. 1999; Leibfried and Pierson 1995). The EU and US are both influential in determining the policies and personnel of the WTO, IMF and World Bank. As the size of the EU economy continues to grow even larger than that of the US, it will become more significant relative to the US. When the Euro becomes larger than the dollar, further changes are to be expected.

The military is one area where the US holds considerably more power than the EU, both in the size and cohesion of the forces. The EU does not yet have its own standing army; however, there are plans to develop EU military and policing capacity, coherence and engagement. The EU increasingly articulates a common position during international crises, and has had a sustained foreign policy on certain issues, for example, the EU financially supports the Palestinian Authority. In 2003 the European Council adopted a European Security Strategy, identifying key threats, terrorism, proliferation of weapons of mass destruction, regional conflicts, state failure and organised crime, but not large-scale aggression, and agreeing how to address them: a European Union that was more active, more capable and more coherent. The policies were to intervene in regional conflicts and failed states, including the Balkans, especially in the neighbourhood, including the resolution of the Arab/Israeli conflict, strong support for a multilateral international order led by the UN. In 2004 there was the first deployment of the European Union Force (EUFOR) in Bosnia, followed by the Congo and Chad. In 2007, this move to greater coherence was considerably enhanced by the Lisbon Treaty which created an EU Foreign Minister (High Representative of the Union for Foreign Affairs and Security Policy) for the first time (Council of the European Union 2007). There must be doubt as to whether the UK would have followed the US into the war in Iraq if the EU foreign policy capacity had been more developed at that time. Further, as the EU grows in size and resources, its participation in decision-making within NATO and the UN is likely to grow. The US is currently overstretched militarily, and faces failure to achieve its goals. This is likely to diminish its capacity and willingness to enter into new armed conflicts; perhaps enhanced by democratic pressures. Thus the greater power of the US than the EU in the domain of the military may become less overwhelming. Further, it is unlikely that the US would use force directly against the EU, although this does not rule out disputes by proxy. The lesser deployment of violence by the EU than the US means that it wastes fewer human and economic resources in death and destruction, both in its

external relations and the associated interpersonal, group and criminal justice system violence at home.

The tipping point in the balance of power of the EU and US on the world stage will happen. But it is not clear when. This depends on changes in the EU: how quickly new states join the EU; how quickly new Member States convert their currencies to the Euro; how rapidly the next steps on cohesion of internal governance is taken. It depends on changes in the US: whether it continues its high violence route and military actions; how quickly the military over-extension of the US bites into its economic performance. It depends also on the global environment: the actions of emerging powers such as China; the re-emergence of Russia on the global stage; the actions of jihadists; the extent and response to the crisis in the global financial system; and the sustainability of the environment undergoing global heating. But these are caveats over timing; not over whether the tipping point in the balance of power between the US and EU will happen.

What might be different? The neoliberal dominance of the global financial institutions would be softened and reduced; with consequences for developing countries as well as the developed world. The liberalisation of world trade in the WTO in the interests of the US would be slowed; the neoliberal conditions attached to loans would be softened; safety would be given greater priority in the development of risky science such as genetically modified crops. On human rights, the EU would face less opposition in the deepening of the human rights regime and its institutionalisation in UN and other international bodies, from the International War Crimes Tribunal to women's rights to sexual and reproductive freedom. On the environment, the US would lose some of its power to obstruct the environmental agenda to prevent catastrophic climate change as a result of the emission of greenhouse gases from the burning of fossil fuels; UN treaties would be more likely to be effective. The likelihood of war led by the US would reduce. The EU could restrain its Member States from military adventures in support of the US; and strengthen the UN machinery of committees and inspectors in support of peaceful resolution of conflicts. This would be a different global path.

CONCLUSION

There is a potential social democratic pathway out of the crisis. But this depends on political developments.

Summary synthesised social democratic programme

There are many social democratic proposals. Here these are synthesised into a social democratic programme today, with a focus on political economy, expanding on the earlier section. While the emphasis is on addressing the financial and economic crisis, it embeds this in older and wider social democratic agendas. It includes post-crisis suggestions from Hutton (2008), the Tax Justice Network (2007), Sassen (2009), the EU (2009), the World Bank (2008) and the UN Stiglitz Commission (2009), as well as pre-crisis social democratic programmes – including Attac (2008), Held's (2004) global

social democratic covenant, Compass (Shah and McIvor 2006), George (2004), Murphy (2007), World Social Forum (2008). The post-crisis proposals concern especially the restructuring of the governance of finance and the policies to recover from the economic recession caused by the financial crisis. There are five main elements:

- Deepen democracy
- Definancialise
- Collect taxes
- Reduce inequalities
- Green the economic recovery

Deepen democracy

Deepening democracy is a core part of social democracy. Long-standing issues in the UK include: abolish the House of Lords; proportional representation and quotas for women and other minoritised groups; reduce the ease of corporate lobbying; replace democratic interventions in health, education, transport and media.

More specific issues include:

Introducing transparency and accountability of finance, ensure that composition of finance oversight committees is representative of those who bear the risk of systemic financial failure¹

Extend democratic governance to state owned banks;

Support the increased cohesion and effectiveness of the EU so as to provide a counter-balance to the US hegemon in the global system.

Support UN-led institutions rather than those of the USA, G8 or G20, for example supporting recommendations for the reform of global financial governance of the UN-sponsored Stiglitz Commission rather than those of the G20.

Definancialise

Make finance the servant of the real economy, not vice versa;

Down-size finance;

impose Tobin tax or equivalent on currency and financial transactions;

close down many types of financial derivatives and financial speculation through regulation – they are unnecessary for the real economy, systematically expropriate taxpayers during crises and destabilise the real economy;

tighter and more democratic regulation of finance, especially those aspects with systemic effects;

separate utility and casino banking: support utility banking only;

support mutuals e.g. cooperatives;

¹ 'Those who are affected by the failure of regulation – workers who lose their jobs, retirees who see their pensions diminished, taxpayers who have to bear the costs of bail-outs – should have a large voice in any regulatory structure.' Stiglitz (2009)

To include women might mean including those who are not the most technically expert, is not necessarily a problem, as Stiglitz (2009: II, 9) notes: 'if those who are supposed to regulate the financial markets approach the problem from financial markets' perspectives, they will not provide an adequate check and balance.'

increase social rented housing to stabilise the volatile housing market by providing a realistic alternative to speculative investment and to prevent homelessness;

increase allotments and other productive assets providing an alternative to financialised access to necessities.

Collect taxes

Tax is a feminist issue and a pro-poor issue. Tax is a key democratic mechanism.

Eliminate tax evasion and tax avoidance: eliminate tax havens and secrecy jurisdictions using readily available instruments in the US, EU and OECD to economically sanction offender jurisdictions;

Require alignment between company working/turnover (whether publicly quoted or private equity) with company registrations and with tax jurisdiction: and require all companies (whether public or private) to publish the size of their turnover in each country, the location of their company registration, and the taxes paid in each country.

Increase taxation (and its 'progressive' nature) rather than decreasing state expenditure on public services, tax unearned income as much as earned income e.g. capital gains, inheritance.

Investing in the post-recovery economy: Investment in infrastructure for the post-recovery economy should adopt the principles of: reducing inequalities, investing in people before machines, and greening the economy.

Reduce inequalities

End child poverty in line with existing commitments

Reduce wage inequalities

Reduce inequalities linked to class, gender, ethnicity, disability, age, sexual orientation and religion.

Increase taxation, starting with a populist move on the bankers' bonuses.

Prioritise human capital (e.g. education) over fixed capital (e.g. car companies): Human capital is more important and more fragile than fixed capital (World Bank 2008), while the emerging knowledge economy (goal of the EU) requires human capital more than fixed capital.

Support education, training, childcare and health (e.g. expanding education especially to reduce unemployment)

Green the economic recovery

Let the car companies go bankrupt and spend the money on more important things for the environment (Monbiot 2009) e.g. building greener forms of mobility (e.g. trains, trams, buses, pedestrianisation, cycle ways), greener forms of energy production.

Potential tipping point

There is a potential tipping point away from neoliberalism. This may be towards social democracy, but it may be towards a xenophobic protectionism.

The right has been adept at utilising crises to tip countries into neoliberalism in the last 30 years, as Klein (2007) has so clearly demonstrated. In the financial and economic crisis of 1929 Europe divided: the Nordics had a critical turning point to social democracy; central-southern Europe had a critical turning point to fascism.

Whether there will be a turn to social democracy in the present conjuncture depends on the nature of the social democratic forces and their mobilisation. In identifying social democratic forces, it is important to take notice of the actually existing variations in the forms of regimes of inequality, in particular varieties of capitalism and of gender regime. Neoliberalism is not the only form of contemporary capitalism or gender regime. In particular, this requires that taking account of the significance of democracy and the different depths of democracy in different countries.

It is not enough to examine social and political forces in the UK alone. It is important to consider forces acting at a global level, in particular the contesting hegemonies of the USA and EU. The EU is the only force large enough to contest the neoliberal hegemon of the USA. For all its imperfections (and there are many), the EU is the only option for social democracy. The EU needs greater internal coherence and greater capacities if it is to effectively challenge the US in setting the global rules for finance and other aspects of global governance. The UK is a major obstacle to these developments in the EU, thereby reducing the likelihood of this happening. Other global forces are also important, including the developing countries for example organised in the G77 at the UN and the global justice movement, but these are not as powerful as the EU.

The financial crisis is not yet over. There are still many 'toxic' debts and instabilities in the finance sector. If the current crisis does not lead to a critical turning point in the governance of finance, there is likely to be another opportunity when the next threat of meltdown occurs.

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