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# World Economic Crisis and World Society: Introduction to the Special Issue

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## 1 Introduction

The future course of the world financial and economic crisis is still wide open. Whilst in the last quarter of 2009 many proclaimed an early end to the worldwide recession, the drastic deterioration of the economic situation on the periphery of the euro zone in the spring of 2010 again heralded considerable uncertainty. What followed was a plethora of protectionist measures, and a veritable currency war erupted at end-2010. It is therefore still too early to make a final assessment of how the crisis may have changed global social relations. The articles in this journal issue, finalized towards end-2010, can therefore offer no more than an interim assessment, and identify the first basic trends. What is nevertheless clear is that the worldwide social impacts of the crisis are already considerable and are affecting the very foundations of the prevailing world order – namely world economic power relations, the institutional structures of international politics and the way they are perceived socially.

The scale of the crisis fallout so far can only be properly assessed if the perspective of emerging and developing countries is taken into account. The fact is that the crisis began in the industrialized countries but is causing pronounced reverses in economic development and poverty reduction precisely in the world's peripheral regions. Although individual emerging countries, China in particular, are still posting remarkable overall economic growth and have bounced back more quickly from the effects of the crisis than others, developing and emerging countries on average suffered greater growth declines as compared to the pre-crisis period than did OECD countries in the year 2009. Especially hard hit by the social consequences were the poorer segments of the population, which in many cases had already been compelled by the 2008 food crisis to sacrifice their scant economic reserves. The World Bank (2010, 41) estimates that the global recession drove 50 million people below the absolute poverty line in 2009. It is expected that another 64 million will be added to that figure in 2010.

Along with the material consequences of the crisis the institutional and non-material impacts must also be considered. For in the light of its acute repercussions

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on the material living conditions of most of the world's population, global political institutions have clearly failed. Not only did the relevant international organizations fail to foresee and avert the looming crisis in time, but neither were they in a position to implement concerted global economic stimulus measures. Despite this, the thorough reforms needed to these organizations have still not materialized. The planned realignment of quotas and restructuring of executive bodies at the International Monetary Fund (IMF) and World Bank are more symbolic than substantial in nature. A sufficiently strict new system of international financial market regulation is still lacking.

On the other hand, at the non-material level of expectations and the scope for world social identification, the crisis has effected a transformation that has been further magnified by the lack of institutional reforms. Although the neoliberal paradigm of free market fundamentalism seems to have failed, no consensus has so far emerged regarding alternative proposals. There is now a heightened perception amongst developing countries that the industrialized countries' self-interest in greater world economic integration is matched by a patent lack of global solidarity in times of crisis. Hence, the industrialized countries invested billions in bailouts for their financial institutions and stimulus packages to grow themselves out of recession as quickly as possible, whilst the developing countries, caught in the crisis through no fault of their own, must yet again resort to reimbursable International Monetary Fund loans with fiscal conditionalities attached. It is hardly surprising therefore that the governments of developing countries are aspiring more than ever towards alternative forms of regional integration rather than greater global integration.

The crisis is therefore not proving conducive to the harmonious coexistence of peoples in the world society. Instead, it is exacerbating the potential for conflict – one of the World Bank's long-standing concerns. The 2002 World Development Report already pointed out that the frustration of developing countries over global inequalities and the skewed distribution of world political power had rarely been greater (World Bank, 2002, 110). For Nuscheler (2005, 133), the gap between the world's well-to-do minority and its poor majority, combined with the continuing political domination of developing countries, is "the most dangerous conflictual mix of the 21st century." The crisis has further exacerbated these inequalities and the frustrations associated with them.

## 2 Crisis causes and dynamics

The immediate reasons for the crisis are sufficiently well known. The short-term trigger factors include the real estate boom in the USA that was financed with unsecured loans, as well as the worldwide spread of highly complex credit derivatives. Yet regulatory shortcomings in government supervision of financial markets also played a pivotal role. The financial oversight bodies had left it largely up to the private rating agencies to undertake the risk evaluations that have fed into the calculation of capital requirements for financial institutions since the adoption of the revised Basel Accord ("Basel II"). Besides, the capital requirements prescribed in the Basel Accord applied only to commercial banks, not to their special purpose vehicles or to insurance companies and hedge funds also present on the credit market. The incomplete Basel regulations therefore constituted excellent incentives to commercial banks to transfer risky loans to their special purpose entities and increasingly to transform them into complex securities (Münchau, 2008, 77 ff.). Warren Buffett was not wrong in describing these financial instruments as financial weapons of mass destruction.

Speculative credit booms (frequently based on novel financial instruments) in combination with monetary expansion, however, have played a decisive role not only in the present financial and economic crisis. As Charles Kindleberger (1978) already stated over 30 years ago in his economics history classic and in reference to Hyman Minsky's (1977) theory of systemic fragility, this mechanism has been central to most of the national and international financial crises of the past 200 years. The extensive historical and empirical literature produced over the past 10 to 20 years on the various financial and debt crises in peripheral and semi-peripheral countries has also substantiated the close link between credit booms, banking crises and debt and economic crises, with the various economic, institutional and political factors being in part differently weighted by individual authors (cf. in particular Pfister and Suter, 1987; Eichengreen, 1991, 2002; Suter, 1992, 2009; Sturzenegger and Zettelmeyer, 2006; Reinhart and Rogoff, 2009, 2010; Thompson and Reuveny, 2009).

Critical observers have now concluded that the gaps so far observed in government supervision of financial markets have not been merely accidental, but deliberate policy. Joseph Stiglitz for example points out that the dereliction of duty by government financial oversight authorities occurred under the influence of massive lobbying by the financial sector (Stiglitz, 2010; see also Martinelli's contribution to this journal issue). The theoretical rationale was supplied by the economics institutes of the world's elite universities, which propagated the naive belief in the free-market's unlimited capacity for self-regulation (Martinelli, in this issue). To the benefit of the increasingly influential financial sector, it was at the same time overlooked that systemically important major enterprises were enjoying oligopolistic advantages on financial markets whilst individual market players lacked access to full information.

But how can we account for the increasing economic weight of the financial sector that underlies its growing political and social influence? The answer to this key question lies in the growing intra-national and international inequality which has led, together with insufficient demand for the output from the real economy, to the "financialization" of the economy, that is to say the flight of capital into financial speculation (Bello, 2008). The only explanation for the bloating and disconnection of financial markets from the real economy is that owing to globalization, the profits accruing to the owners of capital have risen much faster than the income and purchasing power of the masses. The flight into the increasingly unregulated financial sector has thus proved clearly more profitable than traditional investment in expanding the production sector with its stagnating outlets (Wallerstein, 2000). The above-cited literature on historical financial and economic crises shows that such phases of "financialization" have also been observed in the run-up to earlier financial crises.

If the danger of future world financial and economic crises is to be reduced, stricter regulation of financial markets is therefore indispensable though not enough. It does not solve the basic problem of limited outlets for production capital. Trade unions and development non-governmental organizations are therefore calling more than ever for regulatory measures that also have a global redistribution effect, for example a worldwide financial transaction tax. Not only would this curb high-risk speculation but would also generate funds that could be used for development financing and measures to curb global demand (and for climate protection). Although individual enlightened governments – including the German and French Governments – do support the introduction of such a tax, the international policy debate is currently focusing on a considerably less profitable banking levy for the (defensive) pre-financing of future crisis measures.

## 3 Crisis fallout at the periphery of the world system

Macroeconomic data such as Gross Domestic Product (GDP) growth rates would suggest that the developing countries have weathered the global recession relatively well. Table 1 shows that average economic growth of 1.2 per cent in crisis year 2009 placed them in marginally positive territory, which contrasted starkly with the negative growth rate of industrialized countries (–3.3 per cent). However, it is mainly the continuing high growth rates of China and India that account for these gratifying averages. These two highly populous economic heavyweights have continued their economic catch-up process vis-à-vis the industrialized countries and have also gained in world political importance. The picture changes if they are left out of the analysis. It becomes clear that on average, the economic performance of the poorer countries has declined almost as sharply as that of the rich industrialized countries.

Even more revealing of course is the comparison of 2009 and 2007 growth rates (see also Table 1). It shows that the growth declines in relation to the pre-crisis period have been even more pronounced in the global South than in the countries where the crisis began. Hence, 2009 economic growth in developing countries lagged the pre-crisis period by all of 6.9 percentage points (–8.4 without China and India), whilst in the industrialized countries, the difference was "only" –5.9 percentage points. While the long-term macroeconomic process by which developing and emerging countries are catching up on industrialized countries has only slowed, not stopped, the truly global scale of the crisis has been confirmed. In per capita terms, the UN estimates that only 14 developing countries have achieved growth beyond the 3-per cent threshold required for successful poverty alleviation (United Nations, 2010, 5). In southern Africa, average income has again fallen for the first time in 10 years (World Bank, 2010, 154).

Table 1 GDP growth (in %, 2007 and 2009)

| | 2007 | 2009 | Difference |
|---|---|---|---|
| World | 3.9 | –2.2 | –6.1 |
| High-income countries | 2.6 | –3.3 | –5.9 |
| Developing and emerging countries | 8.1 | 1.2 | –6.9 |
| (Without China and India) | 6.2 | –2.2 | –8.4 |
| Latin America and Caribbean | 5.5 | –2.6 | –8.1 |
| Middle East and North Africa | 5.9 | 2.9 | –3.0 |
| Eastern Europe and Central Asia | 7.1 | –6.2 | –13.3 |
| Sub-Saharan Africa | 6.5 | 1.1 | –5.4 |
| South Asia | 8.5 | 5.7 | –2.2 |

Source: World Bank (2010, 3).

Table 2: Trade and Foreign Direct Investment (FDI) in % of GDP (2005)

| | Trade/GDP | FDI (inward stock)/GDP |
|---|---|---|
| High-income countries | 45 | 21 |
| Developing and emerging countries | 55 | 26 |

Sources: Worldbank, World Development Indicators 2010 On-line (Trade); Unctad, FDI Stats 2009 On-line (FDI).

As such there can be no talk of a periphery supposedly disconnected from the world economy having been only "mildly" impacted by the crisis. Instead, the crisis substantiates theoretical misgivings that accelerated world market integration heightens the risk of external shocks that on the one hand could wipe out earlier growth, and on the other, could affect the poorest, most vulnerable population groups the most. As Table 2 shows, by comparison with their individual economic performances, developing countries are on average more strongly integrated into the world economy than industrialized countries. Their share in overall world trade and global foreign direct investment (FDI) is indeed negligible, yet their economic activities show above-average concentration on the world market. It is no surprise therefore that the crisis-driven decline in export opportunities and FDI inflows has caused sharp growth reverses precisely in developing countries with a particularly strong foreign-trade orientation.

Several articles in this special journal issue nevertheless show that some differentiation between various macroregions and individual countries within those regions is in order when it comes to the impacts of the economic crisis. Bizberg's study for instance clearly shows that in Latin America the various countries have reacted to the crisis with widely varying measures. As Amacker et al. assert in this issue, a comparison of Latin American countries also shows appreciable variations in the impacts of the crisis and the way they are perceived by households in precarious economic conditions. Emerging countries like China and India have weathered the crisis considerably better than the industrialized countries and by the same token have stood apart from the poorer developing countries. The process of economic differentiation outside the OECD area and the growth in the global importance of individual emerging countries have thus accelerated further (but see Hung, in this issue, on China's insecure long-term economic prospects).

Yet even in emerging countries like India, which continue to record high overall economic growth, the social impacts of temporary growth declines have been dramatic. Initial qualitative studies show that particularly amongst export-oriented small and medium-sized companies in labor-intensive processing industries, the crisis has led to business closures or to radical job cuts (WIEGO, 2009; ODI, 2010). Those affected first and foremost were unskilled workers, mainly women and young people. Moreover, the crisis has provoked a sharp decline in remittances from guest workers abroad (Ratha et al., 2010), which in many places represented the main source of income for the lower echelons of the population. In developing and emerging economies, the global recession has combined with the repercussions of the 2008 food crisis, which had forced numerous families to liquidate their savings and means of production. It therefore quickly became a veritable development crisis. Despite this, numerous industrialized countries have seized on the crisis as an opportunity to postpone urgently needed increases in development aid indefinitely.

We have no statistical data so far regarding the impact of the crisis on income distribution in emerging and developing countries. Yet the popular notion that the crisis has led to income declines mainly amongst financial speculators in the upper class and brought about a leveling of income disparities comes up somewhat short. After all, the lower income strata too have been impacted by the real economic consequences of the crisis, perhaps even disproportionately so. The fall-off in public revenues and, where it did take place, additional government spending for economic stimulus programmes could however be offset in many places by raising forms of taxes that target mainly the middle classes, for example, by increasing the regressive value-added tax on consumer goods. The relative weight of these different factors in the distributional effects of the crisis is likely to vary from country to country.

## 4 International policy failure

The worldwide impact of the current economic and financial crisis once again illustrates the need for well-functioning global governance. The increasingly dense web of cross-border economic relations harbors risks of worldwide scope that call for globally coordinated policies (see Martinelli, in this issue). At the same time, the respective measures must be suited to the problems in a variety of contexts and must be sufficiently legitimate to be implemented by all countries, effectively and with the requisite degree of ownership. This presupposes that decisions of global concern are worked out jointly and equitably and in accordance with democratic principles by all potentially concerned countries.

The crisis has nevertheless led to the strengthening precisely of those international bodies that are the most lacking in democratic legitimacy. Examples are the informal G20 and the International Monetary Fund (IMF). The G20, for instance, has now mandated itself to act as the "premier forum for our international economic cooperation" (G20, 2010, Preamble) though not a single developing country is represented in it despite being home to the bulk of the world's population who are affected by global economic relations. This means that the proposal by the Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System to study the introduction of a representative World Economic Council along the lines of the Security Council (with rotating national representation) (United Nations, 2009, §21ff.) is off the agenda for the time being – although the French Government still actively supports this proposal. The IMF for its part is experiencing not just a veritable renaissance as lender of last resort but has received an expanded financial market supervision mandate from the G20.

The rationale given for this political strengthening of the G20 and the IMF is that unlike the UN, the homogeneity of interests of its leading members renders them sufficiently capable of acting to devise rapid and effective crisis responses. The fact is that the predominance of the most powerful industrialized countries in these bodies is precisely what partly accounts for the failure to detect the crisis early and contain it effectively enough. By reason of the USA's political supremacy, the IMF for example was unable to point emphatically enough to the USA's high foreign indebtedness and impose the corresponding cures. The G20 for its part lacked the political will to set up a global fund for economic stimulus measures from which developing countries too might have been able to benefit. The United Nations Economic and Social Council (ECOSOC, 2009, 15 ff.) has calculated that such a global stimulus program would also have enabled the industrialized countries to recover much more rapidly from the crisis than the current juxtaposition of national rescue packages only in those countries that have the required resources.

The IMF's prominently announced rescue packages in contrast are insufficient as bailout programmes for developing and emerging economies that find themselves in crisis. They entail reimbursable loans with relatively short durations, and except for the credit lines for the poorest developing countries, carry considerable interest rates. Besides, IMF loans are often still tied to fiscal conditionality (Herkenrath, 2010; Van Waeyenberge et al., 2010). The sole exception to this conditionality is the new Flexible Credit Line (FCL) with which the IMF is rewarding individual emerging countries *ex post* for their restrictive pre-crisis budget policy. In the remaining cases, the IMF continues to demand from its clients the same drastic austerity measures that had already shown an unintended recessionary effect during the Asian crisis (Krugman, 2009, 115 ff.).

Yet the crisis has so far not led to any thorough democratic reform of the IMF. The reforms decided in April 2008 (recalculation of basic votes and quota formula) have fallen far short of the expectations of emerging and developing countries. High-income countries by World Bank classification still hold a quota share of some 67 per cent and a voting majority of about 65 per cent – although their share of the world population is a mere 15 per cent. The 6-per cent quota realignment planned for 2012 to favor hitherto underrepresented emerging countries will change very little in this regard, particularly as the alignment will be partly at the expense of other emerging and developing countries. The introduction of a double-majority system for crucial decisions by the Executive Board (i.e., a country majority in addition to the current voting power majority) is indeed up for discussion, but seems to have little chance of success. On balance, the crisis has therefore not led to any real reforms to the system of global governance but merely to the marginal upgrading of the status of selected emerging countries, which have now been admitted to the G20 and have witnessed a slight increase in their voting weight at the IMF. It is no surprise therefore that the IMF itself is now facing increasing competition from regional liquidity funds and must reposition itself vis-à-vis those regional initiatives (Vols and Caliari, 2010).

## 5 Demise of neoliberalism?

The crisis has nevertheless had major implications for the ideological hegemony of the neoliberal globalization project. Neoliberal free market fundamentalism had long laid claim to having found a simple recipe for a more just world: the world economy should be rid of market interventions by incompetent governments and even the developing countries could ultimately realize their growth potential. International free trade, it was argued, would strengthen the entrepreneurial drive to innovation particularly in developing countries, and unregulated inflows of foreign direct investment would provide recipient countries not just with fresh capital but also with additional job creation opportunities, new technologies and a modern corporate and work culture. Had things evolved in accordance with these neoliberal promises over the past quarter century, economic globalization should have brought the developing countries untold prosperity.

The crisis makes it clear, however, that the neoliberal cheerleaders' model world has a fatal design flaw. International free trade increases not only entrepreneurial propensity to innovation but also the vulnerability of the economies concerned to price shocks emanating from world market conditions. As Harvard economist Dani Rodrik was able to demonstrate in the 1990s, such sporadic price shocks often trigger growth-inhibiting conflicts over resource allocation, and when government safety nets fail in openly trading developing countries, world market-driven price fluctuations translate into protracted and deep-seated social crises. The consequential costs to the economy of such crises often turn out to be just as high as the gains from growth secured during earlier periods of prosperity (Rodrik, 1999). This means that open trading generates only negligible prosperity if at all, but increases social inequality. Research by World Bank economist Branko Milanovic shows that over the past two and a half decades, segments of the lower classes in industrialized countries also benefited from trade opening, whilst in developing countries it was almost exclusively the upper classes (Milanovic, 2005).

In the economically highly advanced OECD countries, the dangers of external price shocks could be minimized by not deregulating foreign trade relations simultaneously across all sectors of the economy. Neither was such deregulation accompanied in those countries by the overall government spending cuts also prescribed by neoliberalism, but instead went hand-in-hand with an expansion of the public sector (Bornschier, 2008, 188 ff.). In the developing countries in contrast, government safety nets remained chronically weak and were even further downsized in the wake of neoliberal reforms. Heterodox market interventions by governments, such as those that helped the East Asian "tiger economies" to succeed (Herkenrath, 2003), are not foreseen in free market fundamentalism, although individual countries such as Costa Rica may well continue to implement them.

The upshot of a quarter-century of neoliberal globalization policies therefore seems rather sobering. Instead of the promised generalized prosperity, the outcome has been the exacerbation of international and intra-national income disparities (Milanovic, 2001), food supply emergencies, and ultimately a global financial and economic crisis in 2008 – and all of this with dramatic social repercussions mainly on the poorest segments of the world's population. At 1.4 billion, the absolute number of poor people remains very high and poverty reduction to date is still well short of the UN Millennium Development Goals (Chen and Ravallion, 2008, 19). The UN Commission of Experts under the leadership of Joseph Stiglitz estimates that the current financial and economic crisis could well drive a further 200 million people below the poverty line in the years ahead (United Nations, 2009, §4).

In the meantime, however, the same Commission of Experts has tabled a number of proposals for making global financial markets and the world economy not only safer but also more equitable in the future. In addition to the abovementioned World Economic Council, they include the introduction of a new world reserve currency, new taxes for development financing, regulated insolvency proceedings for over-indebted states, and measures to curb capital flight from developing countries to the tax havens in the global North. While these measures together do not yet amount to a "grand theory" of equitable economic and political globalization, they nevertheless refute the notion that the *de facto* failure of actually existing neoliberalism has left an ideological vacuum behind. What is missing is the political will to implement already existing proposals.

## 6 Four preliminary theses

On balance, the likely impact of the global financial and economic crisis can be summed up in four theses. *First,* economic reverses with partly disastrous developmental consequences have occurred not only in the countries where the crisis originated but also in developing and emerging countries. Despite massive reverses as compared to the pre-crisis period, emerging countries such as China and India continue to show very high overall economic growth rates and also to gain in world political influence. *Second,* the crisis highlights the failure of world political institutions which, given the political supremacy of the interests of systemically important countries, are not exactly in a position to contain global risks. Yet the crisis has so far led to no corresponding institutional corrections but rather to the strengthening of regional integration initiatives.

*Third,* the crisis has triggered much more reflection on alternatives to the neoliberal globalization project – no longer within left-leaning civil society organizations alone, but now also within specialized world political entities. *Fourth,* the lacking political will of the "leading" industrialized nations to put the relevant proposals into practice could cloud North-South relations and make it impossible for the peoples in the South to develop a stronger self-perception as part of a harmonious and inclusive world society. The current neoliberal order of world economic integration and its institutional support organizations are now in the grip of a severe crisis of legitimacy.

## 7 Overview of the articles

The four theses above are also reflected in one form or another by the essays in this issue. Alberto Martinelli, for example, points out in the first article that the global financial and economic crisis by no means resulted from mere chance and unpredictable events but is essentially systemic in nature. Although it does not herald the demise of global capitalism as such, the current crisis is the traumatic manifestation of the many contradictions of current globalization, particularly the contradiction between increasing global interdependence and the lack of effective global governance. As Martinelli demonstrates in his contribution, before the onset of the world-wide recession global finance had developed at an unprecedented rate and for the most part in new, unregulated forms. The lack of coordinated national regulations and global rules for global finance had in turn been caused by two mutually reinforcing factors, the cultural hegemony of the neoliberal conception of the self-regulating market and the massive lobbying efforts by representatives of the financial industry. Continuous political pressure in the interest of global finance had not only prevented the passing of new rules for new products, but also weakened previously established systems of institutional controls.

While the crisis has had calamitous consequences across the entire globe, social perceptions of its impacts have been shaped not only by first-hand experiences but also by the mass media. As Mario Schranz and Mark Eisenegger show in the second contribution, a quantitative contents analysis of crisis reports in three leading daily newspapers in the US, the UK, and Switzerland, it was only in the second half of 2007 that the media started warning about the possible world-wide social and economic implications of what had previously been seen as merely a mortgage crisis in the US or a crisis of individual financial sectors in the US and Europe. Before that, a strongly events-driven and personality-focused reporting style had prevented the media from warning of the risks associated with a rapidly developing and increasingly globalised financial system growing out of political control. The blame for the crisis was for the most part put on the misbehavior of individual actors in the financial industry and politics. Only from the second half of 2008 on have the leading dailies in a majority of their crisis reports asked for stronger political regulations and clear limits to the reign of free markets.

Given the growing public criticism of neoliberal market fundamentalism, the question arises as to what will become of its previous defenders in mainstream economics. Another crucial question is why economic sciences, including the majority of scholars at the margins of the disciplinary mainstream, were incapable of predicting the crisis in the first place. Possible answers to these questions would require a sociology of the economic sciences with clear hypotheses about the structure of the disciplinary discourse. Yet, as Hanno Pahl shows in the third contribution, a sociological understanding of knowledge production in the economic sciences exists so far only in fragments, if at all. In his qualitative discourse analysis of an ongoing methodological debate between various fractions of the economic discipline in major German newspapers, Pahl therefore investigates how knowledge production in economics differs from that of other disciplines. He finds, inter alia, that economics is marked by a hierarchical core-periphery division which contrasts sharply with the heterarchichal and polycentric theory pluralism of the social sciences. Moreover, his analysis shows that economic sciences in general neglect not only the historicity of economic processes, but also the obvious importance of non-rational and macro-determined behavior by what Keynes has called the "animal spirits" of financial market participants.

While mainstream economists will have to redress some fundamental flaws in their theoretical premises, economic and political sociologists will have to further explore the question of why crisis impacts and reactions to the crisis have differed not only across world-regions, but also from country to country. From a world-system perspective, possible explanatory factors include a country's position in the core, the semi-periphery or the periphery of the global division of labor. As Jenny Chesters and John Western argue in their contribution to this issue, an analysis of crisis impacts on employment and incomes in Australia, semi-peripheral countries "may be less affected by economic downturns and in fact, may even be able to improve their position within the hierarchy during periods of stagnation" (Chesters and Western, in this issue). In the case of Australia, which is usually placed somewhere at the margin between the world system's semi-periphery and the core zone, the contributors' comparative analyses of survey data from 2006/07 and 2007/08 show that, at least at the beginning of the global crisis, employment rates stayed relatively high and incomes remained mostly stable. Other examples of countries in the semi-periphery of the world system that have weathered the crisis relatively well include Canada and Norway.

The case of semi-peripheral China, however, whose recent economic ascendancy has been based on its rapid export-oriented industrialization and accumulation of foreign exchange reserves, may been seen as somewhat different. As Ho-fung Hung argues in the fifth article in this issue, China's growth has been dependent on a policy-induced agrarian crisis, which created a large rural labor surplus and suppressed the rise of manufacturing wages in the export sector. Yet the same agrarian crisis also hindered the increase of domestic consumption, forcing the Chinese economy to depend on the US market for its exports. As the global financial crisis brought an end to the debt-financed consumption spree in the US, it also precipitated the demise of China's current export-led growth model. According to Hung, the continuous rise of China as the new center of global capitalism will therefore hinge on whether the Chinese government can use the global crisis as an opportunity to shift to a new model of development driven by domestic private consumption.

In the Latin American context, crisis impacts and government responses to the global crisis have so far been highly path-dependent. This is one of the main findings of Ilán Bizberg's comparative analysis of the four cases of Argentina, Brazil, Chile, and Mexico, which shows that the way these countries react to the current crisis has been shaped by the economic, social and political institutions and organizations created in the past and has therefore also been strongly reflective of previous crisis experiences. While the current crisis may present an excellent opportunity to address flaws in the existing development model, not all countries have been able to seize this opportunity. According to Bizberg, the Mexican government, for instance, seems to have completely missed the chance to modify the economy's precarious dependence on export-oriented subcontracting and to fortify the internal market. In stark contrast, Chile used the crisis to finally correct the most unjust elements of the welfare reforms of the Pinochet dictatorship. Among other things, the Chilean government, while not abandoning an economic model oriented towards the external market or its liberal welfare policies, made access to the old contributory pension system more flexible and universalized a non-contributory pension for the poor. Last but not least, it also introduced fiscal incentives for companies to maintain and qualify their workers.

Accordingly, Michèle Amacker, Monica Budowski and Sebastian Schief conclude in the last contribution to this issue that Chilean households in precarious economic conditions do not seem to have perceived the global financial crisis as a crucial event impacting on their everyday situation. As the contributors' qualitative interviews reveal, "even when issues may be directly related to the financial crisis, (…) the general precarious circumstances appear more apt to explain the ups and downs of the interviewed households' trajectories than the global crisis" (Amacker et al., in this issue). The same seems also true in the case of Costa Rica, which has long resisted radical neoliberal reforms and fared relatively well in the current crisis. In both countries, Chile and Costa Rica, households living in precarious prosperity appear to generally relate feelings of insecurity not to the current crisis, but to problems already existing before the crisis.

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