Deconstructing and reconstructing the global financial crisis

Sohail Inayatullah

Abstract

Using causal layered analysis, the underlying stories of the global financial crisis (GFC) are explored. The six narratives presented are the GFC as: (1) a mortgage crisis, (2) a global banking crisis, (3) creative destruction, (4) a geopolitical shift, (5) a symptom of the inequity of capitalism, and (6) a window of opportunity to a different, greener more peaceful world.

Narrative That Define

While many believe the global recession is now over (Kahler 2009, 3), taking a deeper structural view, there are still major challenges ahead. Now that the stimulus option has disappeared, few policy alternatives are left at national levels. Lena Komileva, an economist with British firm, Tullett Prebon, writes "The foundation of the global economy remains unstable even if the cracks have been smoothed over and we are happy to forget what lies beneath the heavy layer of public sector's liquidity insurance" (Kaiser 2010, online).

Uncertainty and complexity are ahead of us. This chapter does not forecast the future of the GFC; rather, inspired by Galtung’s work on epistemes and deep cultures, it analyzes the myths underlying how we perceive this crisis, with the intention of creating policy contexts for alternative futures.

The methodology I use to understand the global financial crisis is narrative based. Writes Daniel Yergin, chairman of IHS Cambridge Energy Associates, "narrative goes beyond the dramatic stories of how it unfolded. It provides the explanation of what happened and the framework for organizing thinking for the future" (Yergin 2009, p. 11). I call this approach Causal Layered Analysis (CLA) (Inayatullah 2004). In this approach there are four overlapping levels of reality: (1) the day to day visible and objective presentation of data, or litany; (2) the systemic – the interrelated parts that comprise the issue, similar to Galtung’s notion of structure (Galtung 1971, 81-117); (3) the worldview or the interests and perspectives of stakeholders, similar to Galtung’s cosmology level of analysis (Galtung 2008, 95); and (4) finally the underlying, often unconscious, myths and metaphors that support and provide meaning to the entire framework. Myths and worldviews shape the data we are able to see and thus the systemic solutions we offer.

By stepping back and deconstructing the underlying stories of the global financial crisis, causal layered analysis helps reconstruct alternative deeper policy options. The stories that explain the global financial crisis are multifold, but six are foundational: (1) a
mortgage crisis, (2) a global banking crisis, (3) creative destruction, part of natural cycles, (4) geopolitical shift, (5) symptom of capitalism, and (6) a window of opportunity to a different, greener transformed world.

1. Mortgage Crisis

The narrow view is that this is, was, just a mortgage crisis; there was a lack of regulation as to who banks could lend money to – the famous sub-prime crisis. Rising stock and housing prices fueled a bubble (Longchamp 2009, 4-7). Banks were caught in a bubble as were shareholders in stocks. During speculative bubbles, no one assumes the bubble will end, but as with all bubbles, the end comes in a swift and shocking way.

Within this narrative, the solutions are simple: (1) more oversight, and (2) more rules – covering levels of borrowing, down payment requirements, debt to net capital ratios that are sustainable (the long standing rules were that for every $15 of debt, lenders needed to have $1 of equity) (Karlyle 2009, 7), and use of money during the good times to ward off problems during the bad times.

The underlying story of this story is to live within one's means. Systemic rules need to be in place to ensure this. As well, a new story – especially in America – of purpose needs to be told. The foundational story of “I shop therefore I am” needs to be challenged and replaced with “living within one’s means.”

Table 1

<table>
<thead>
<tr>
<th>LEVEL OF REALITY</th>
<th>Deconstruction – the problem</th>
<th>Reconstruction - Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>LITANY</td>
<td>Mortgage crisis</td>
<td>Down payment, job required. Lend to those who can pay back.</td>
</tr>
<tr>
<td>SYSTEMIC</td>
<td>Lack of regulation</td>
<td>Save those who may default but generally regulate banks and other lenders. Stricter national and international rules.</td>
</tr>
<tr>
<td>WORLDVIEW</td>
<td>Consumer debt based Capitalism</td>
<td>Responsible spending, savings, even frugality</td>
</tr>
<tr>
<td>MYTH</td>
<td>I shop therefore I am</td>
<td>Live within one's means</td>
</tr>
</tbody>
</table>

2. Global Banking Crisis

Even if one believes the core issue is the mortgage crisis, the sub-prime debacle has been contagious, spreading throughout the banking and broader financial system. Indeed, the mortgage crisis has led to a financial crisis which has caused an overall economic crisis.

Given the contagion, it is not just the USA that has to set its house in order but the entire world. While Americans may need to save more, Asian nations may need to rethink nirvana as defined as the rapacious American consumer. Global regulation and a change in global values are required. British Prime Minister Gordon Brown goes so far as
to say that a new global organization is needed to supplant both the World Bank and the IMF, creating a new financial world order (Hooper 2009). It is not less globalization – protecting one's financial boundaries – but more (effective) globalization that is the solution. The key is to restore trust in the system. Credit, as the British Prime Minister reminds us, comes from credo.

Those adhering to this narrative argue that since inequity was foundational in the creating the problem (labor wages did not keep up with corporate profits) more equity is the solution. Finding ways to enhance equality will regain confidence. Capitalism has its ills but these can be controlled through sound governance. In an age of global capitalism, smarter and wiser global governance is required.

At the structural level, specific projects that are part of the solution include: (1) infrastructure development – roads and other grand projects; (2) the protection of jobs via job sharing; and (3) limiting the salaries of those corporations that receive government hand-outs. Without a doubt, Keynes is the hero, and the guiding story is that "we are all in the same boat". Luckily we can see a beautiful future ahead; a city with jobs and a shopping centre ahead …so let’s spend, spend and spend. The state as parent will dole out the dollars so this can be made possible.

Table 2
CLA—The global banking crisis story

<table>
<thead>
<tr>
<th>LEVEL OF REALITY</th>
<th>Deconstruction – the problem</th>
<th>Reconstruction – the solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>LITANY SYSTEMATIC</td>
<td>Stock prices in decline</td>
<td>Government intervention</td>
</tr>
<tr>
<td></td>
<td>Bank failures</td>
<td>New banking rules; purchase toxic assets and work on new international banking regulatory structure</td>
</tr>
<tr>
<td>WORLDVIEW</td>
<td>Untamed unruly</td>
<td>Mature and equitable globalization</td>
</tr>
<tr>
<td>MYTH</td>
<td>Globalization</td>
<td>Restore faith and trust in the system – Credo</td>
</tr>
</tbody>
</table>

3. Creative Destruction – What Crisis?

In contrast are the true blue capitalists. For them, the global financial crisis is just the normal (if extreme) part of the business cycle. Yes, some more regulation is required but endless stimulus packages are not the solution as they only transform private debt to public debt. Inflation is the likely result. The underlying story is: “The patient is ill and he needs bitter medicine”. While the entire financial system needs to be rescued, particular banks should be allowed to fail. “Let the weak fail and the strong emerge”, is another underlying myth. Destruction followed by consolidation is a normal process in business and technology cycles. One should never forget that, in this story, the market is always right. And the market quite correctly is punishing those who have ‘sinned’ (the corrupt or, like Detroit car companies and large financial institutions, those who have not
understood the changing business landscape. Bail-outs rarely work as they allow the weak to survive, thus putting in jeopardy the entire pack.

In this process of creative destruction, it is crucial not to prop up the losers but let them disappear, as new winners will emerge from the wreck. The new winners will innovate, create new products, find new markets and all will be well again. Saving those who have lost their homes merely rewards the lazy. Indeed, major crises lead to opportunities; for many the 2008–2009 market devaluation (as the 1987 market crash) has been the best buying opportunity in a century. For those ready to take risks and find good undervalued companies (for example, those who embrace ideas on the edge, who have great products, little competition in their area, lots of cash, research budgets that lead to innovation, and a vision of the future), everything will work out fine.

Table 3
CLA—The creative destruction story

<table>
<thead>
<tr>
<th>LEVEL OF REALITY</th>
<th>Deconstruction – the problem</th>
<th>Reconstruction – the solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>LITANY</td>
<td>Prices dropping, recession, perhaps depression</td>
<td>Buy low, new opportunities</td>
</tr>
<tr>
<td>SYSTEMIC</td>
<td>Banks are being propped up</td>
<td>Let banks fail, housing ownership is not a right. Allow risk</td>
</tr>
<tr>
<td>WORLDVIEW</td>
<td>Markets are being distorted by governments and central bankers</td>
<td>Creative destruction – true markets</td>
</tr>
<tr>
<td>MYTH-METAPHOR</td>
<td>Natural cycle of events</td>
<td>Time for strong medicine, invisible hand, no pain, no gain</td>
</tr>
</tbody>
</table>

4. Geopolitical Shift

Others see the GFC as not merely a crisis of housing and banking but also as signaling change in the geopolitics of the world economy. Chinese Premier Wen Jiabao squarely sees the global financial crisis as American created, based on incorrect macroeconomic policies and lack of savings. But in a deeply interconnected world, the American problem is everyone's. Says the Chinese leader:

*The crisis is attributable to a variety of factors and the major ones are: inappropriate macroeconomic policies of some economies and their unsustainable model of development characterized by prolonged low savings and high consumption; excessive expansion of financial institutions in the blind pursuit of profit; lack of self-discipline among financial institutions and rating agencies and the ensuing distortion of risk information and asset pricing; and the failure of financial supervision and regulation to keep up with financial innovations, which allowed the risks of financial derivatives to build and spread.*

*(People’s Daily Online, 2009)*
In contrast, by the end of December 2009 China had $2.4 trillion in foreign reserves reports the *Financial Times* (*Financial Times*, online). A number of factors explain China’s economic rise. These include an ethic of hard work and savings, low cost labor, the lack of a regulatory framework to protect labor and environment, an undervalued currency, and an efficient mix of State control and free market. Metaphorically, China is the world’s factory. Indeed, just recently China overtook Germany as the world’s biggest exporter and reported a near $200 billion dollar trade surplus for 2009 (*ABC News*, online).

With the “day of reckoning” for the American economy having arrived (*Travers & Tapper* 2009, online) it appears that a China-led Asia can save the day and in the process Asia can rediscover herself. In the 18th century, China and India accounted for nearly 50 per cent of the world’s wealth (Maddison 2001; IMF, 2005) and it appears we are moving in that direction again. By 2032, if current trends continue, China will be the largest economy in the world and by 2050 China will be 20 per cent larger than the USA. India’s economy, its GDP, is expected by many analysts to go from $1.1 trillion in 2009 to $17.8 trillion in 2050. For China and India, together, GDP is projected to increase by nearly $60 trillion (*Dadush & Stancil* 2009, online). In this scenario, the USA would remain a major player but its relative power would certainly decline.

The new system would remain capitalist but with an Asian face. It would display more collectivism and family focus, more concern for equity, have a more authoritarian (as in Singapore …You will be Creative!) style, as well as far more government intervention with endless ministries of trade, investment, innovation, bio-technology, nano-technology and genomics. Productivity would grow because of wise technocrats guiding a market, not the market guiding the state. ‘Chindia’ will be like Japan inc., but without the Japanese fear of immigration, and with a smaller burden associated with ageing.

It is important to note that better control of inflation, lower deficits, increasing productivity, a demographic dividend, richer social programs and greater political stability have given the emerging giants greater room for error at a time when the macro-economic environment in rich countries has been deteriorating (*Foroohar* 2009). Thus conditions favor Chindia at this stage of the world economy. Their future is bright.
Table 4
CLA—The geopolitical shift story

<table>
<thead>
<tr>
<th>LEVEL OF REALITY</th>
<th>Deconstruction – the problem</th>
<th>Reconstruction – the solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>LITANY</td>
<td>High debt ratios</td>
<td>Low debt, two plus trillion dollars in savings; East Asia $4.5 trillion in savings</td>
</tr>
<tr>
<td>SYSTEMIC</td>
<td>Aging society, lack of savings</td>
<td>Savings plus hard work plus low cost labor plus demographic dividend</td>
</tr>
<tr>
<td>WORLDVIEW</td>
<td>Western corporate capitalism</td>
<td>Capitalism with an Asian face</td>
</tr>
<tr>
<td>MYTH-METAPHOR</td>
<td>Day of Reckoning for the West</td>
<td>Peaceful rise of Asia</td>
</tr>
</tbody>
</table>

5. Symptoms of Capitalism … Even Broader

But while there may be a change of the guard, of the global elite, a fifth story is that the mortgage and banking crisis is a reflection- a symptom of the deeper problem of world capitalism. Essentially the issue is a lack of equity, the highest since prior to the great depression (Huang & Stone, 2008, online). Instead of increasing wages, debt has been the solution in the USA. This strategy worked in the short-run but – as the GFC testifies – enhanced economic imbalances (Batra 2008, online). Moreover, valuable resources have been lost in the $1–3 trillion war in Iraq (Bilmes & Stiglitz 2008, online).

But this is predictable behavior as nations at the core of the world system spend on weapons of war, seeing enemies everywhere, as potential challenges to their hegemony. They tend to become the global police and use their military and financial power to remain at the core of the system (Galtung 2009). In the US case this has been accomplished via the military-industrial-think tank complex on one hand and having the dollar as the world currency, thus allowing the USA to print out of crisis. In response, Leftist organizations such as the world social forum make the claim that the end is in sight and a new world system will emerge from this and subsequent crisis ahead (Ramos, 2006).

Thus a world view shift from capitalism to some other sort of economic system is required. This could be a democratic world socialist system or progressive cooperative system as per the works of PR Sarkar (Inayatullah 2002) and Johan Galtung (Galtung 1997). What is needed are ways to enhance equity, to move from the corporatist model to a cooperative model far more focused on sustainability; that is, a guaranteed basic constitutional right to food, clothes, health, education and housing plus an innovative incentive based economy.

In this narrative the system does not work for the majority of people on the planet, even if from time to time there are huge gains for the elite within rich and poor nations. To keep the world secure, as in Roman times, military force is used on one hand and
*panis et circenses* (bread and circuses) on the other (Galtung 1979, 318-361). This is not to say poor nations should continue business as usual. Inequity cannot be an excuse for avoiding endogenous change. Poorer developing nations must become more transparent, encourage gender equity, focus on sustainability, use tradition to innovate, create governance structures where green tape rules the day, not endless red tape, and invest in educational systems that are person and earth tailored not poor copies of the West. Challenging feudal oligarchies and communist hierarchies is equally important. Economic democracy and global governance are necessary to overcome this crisis and make the transition to a new world system.

Table 5
*CLA—The symptoms of capitalism story*

<table>
<thead>
<tr>
<th>LEVEL OF REALITY</th>
<th>Deconstruction – the problem</th>
<th>Reconstruction – the solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>LITANY</td>
<td>Mortgage and banking crisis</td>
<td>Mortgage and banking crisis is the tip of the iceberg</td>
</tr>
<tr>
<td>SYSTEMIC</td>
<td>War economy, highly centralized, inequity</td>
<td>Economy needs to become localized, expenditures on innovation and education – refocus on the social</td>
</tr>
<tr>
<td>WORLDVIEW</td>
<td>Imperial over-reach, neo-liberalism</td>
<td>Democratic socialism, globalism with a human face</td>
</tr>
<tr>
<td>MYTH-METAPHOR</td>
<td>It's not fair.</td>
<td>Fair go for all</td>
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</table>

6. Eco-spiritual – A Window of Opportunity

The last narrative combines aspects of the work of Eckhart Tolle, Sarkar and Galtung, integrating the spiritual with equity, sustainability, peace and worldview change.

Historically 9/11 is seen as a window of opportunity that was wasted. No real change in the Islamic or Western world occurred: the Right wing carried the day throughout the world. Terrorism became an excuse to retreat from the positive aspects of globalization, terrorism became an excuse to create a clash of civilizations. The main result has been clarity on who it is that we think is evil – Them.

As with the leftist view, capitalism is the problem; less that it creates wealth but that it creates inequity. Higher inequity leads to increased unhappiness and bad health outcomes. Capitalism is important for innovation but not for creating a good society. Wealth should be spread differently: on investment in peace and conflict resolution initiatives; on evidence based preventive approaches such as teaching mediation and meditation in schools; on reducing meat consumption, for example. War represents a failure of creativity, of the human spirit. However, in contrast to on the Left, the focus is less on what is wrong with the current system and more on how to create a new system. Spiritual practice is central here as is an ethics of neo-humanism, on going beyond identification to the nation-state, religion or even humanism (Sarkar, 1982). In this future,
policy is neither left nor right but balancing inner and outer, what the Indian philosopher Sarkar has called Prama, or dynamic balance (Inayatullah 1999). This is only possible through deep inner presence (Tolle 2003).

There is a strong link between the crisis and sustainability. The crisis has shown that that companies that are not energy efficient and effective will be punished by markets. All nations, cities, corporations need to make the transition to a greener world economy. The sooner there are global regulations for making the energy transition to renewable energy the better.

Some specific grand reforms include:

1. Speculation needs to be reduced or at least taxed. Hazel Henderson argues that we should either terminate the 3 trillion dollar of daily currency trading or tax it less than 1$ and use it to meet global millennial goals (http://www.hazelhenderson.com/recentPapers/advice_for_summiteers.html. Accessed 7 February 2010).

2. A new world currency is required as are new global governance rules. This is an opportunity to do something different. James Robertson has suggested the creation of a new currency called the Earth. http://www.jamesrobertson.com/article/freelunches.htm. Accessed 7 February 2010). We need to start all over. Amazingly, while Robertson is left oriented humanist thinker, China has also called for a new global currency (Joe McDonald, “China calls for new global currency,” http://abcnews.go.com/International/story?id=7156932&page=1. Accessed 7 February 2010).

3. There needs to be a shift from the corporatist model to the cooperative model with stakeholders having a greater say, if not controlling their company. Moreover, if bankrupt companies require federal funding, they would need to change their ownership structure.

4. New measures are needed to account for progress, not just GDP but triple bottom line measurement that take into account prosperity plus social inclusion (all important for health and wealth generation) and nature (the base of the economy). Even over time a 4th bottom line of inclusive spirituality (Inayatullah 2005).

The metaphor is that of the great transition to another type of world economic system. After 500 years, the world capitalist system has spread all over the world, led to incredible innovation but not solved the challenges of nature and equity. A more democratic economic system is needed. Fortunately technologies like the web enable peer to peer networks challenging feudal structures and allowing the possibility for a new world. The GFC is a potential trigger of this transition.
Table 6
CLA—The eco-spiritual story

<table>
<thead>
<tr>
<th>LEVEL OF REALITY</th>
<th>Deconstruction – the problem</th>
<th>Reconstruction – the solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>LITANY</td>
<td>Individualism disowning the collective</td>
<td>Individual and society</td>
</tr>
<tr>
<td>SYSTEMIC</td>
<td>Dollar, unfair trading rules, energy inefficiency</td>
<td>New currency, new global trading rules</td>
</tr>
<tr>
<td>MYTH-METAPHOR</td>
<td>The endless rise to progress</td>
<td>The grand transition, Gaia tech</td>
</tr>
</tbody>
</table>

**Conclusion: deepening and broadening our focus**

These six narratives provide an overall explanation of the crisis (and there are others, not covered here such as God’s plan and inner transformation narratives). While for some, there is only one explanation, a case can be made that parts of each story are true or provide a useful understanding of the global financial crisis. If one uses the image of concentric expanding circles, the narrowest story is that of the crisis being only a housing crisis. The next circle is that of a banking and financial crisis. There is certainly some truth to the story of creative destruction. However, given that the entire system was unstable and massive suffering would result if it fell apart, stimulus packages certainly have made sense. There is also truth in the narrative that there is a much broader shift to Chindia. And one cannot deny the problem of inequity, and the need for a more equitable system. Nor with the broadest circle, that of the need for a foundational peaceful transition to a greener more peaceful world, with major transformations in currency, global governance and our measurement of success.

The main argument is that the lenses we use to look at the real world can be narrow and shallow or broad and deep. The challenge is to use simultaneous strategies and tactics, meeting the needs of future generations and the needs of the present. Broadening our focus changes the possibilities of the future, expands what is possible. Deepening our focus by moving from litany to inner story, myth, allows for more potent and transformative change. As we go broader and deeper, the mistakes that created the current global financial crisis can be understood and alternative futures created.

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References


