

Cities and Crisis

New Critical Urban Theory

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Introduction: Cities and Crisis: New Critical Urban Theory¹

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The 2008 Global Financial Crisis, Cities and New Challenges for Urban Theory

The extraordinary event of the 2008 global financial crisis calls for the reinvigoration of urban theory. The 2008 crisis began with an American spectacular housing bubble and followed catastrophic bust. It then triggered similar crises and panics in many parts of the world. It was a seismic global event. Nothing could help understand the crisis of this magnitude and its relations to cities better than history and theory. History and theory tell that it was the biggest financial crisis since the Great Depression of the 1930s and that there is Keynesian macroeconomic theory to fight crisis effects. The crisis, therefore, ultimately presents new challenges to urban theory, in particular, contemporary urban theories which have failed to grasp the historical and theoretical perspective of capitalist financial crises.

Going into the sixth year, the crisis aftermath and infliction still evolve. Let alone solving the fundamentally internal cause of the crisis – the unfettered financial industry – nowhere have effective urban and national political and policy responses appeared to get out of the crisis aftermath. Despite historical lessons and the availability of Keynesian macroeconomic theory to alleviate crisis-induced economic slumps, wrong politics and policies – including the denying of the 2008 crisis as the major financial crisis² and austerity policies of slashing spending and raising taxes as elixir for an economic recovery – have led cities and nations to launch into an even more prolonged recession than an already predicted long-term slump period that typically follows a financial crisis. The depressed economy continues to accompany debt deflation and high unemployment in crisis-inflicted countries (OECD, 2012).

Global imbalances, which played an external cause of the 2008 crisis, are also still left untouched. Referring to differences between spending and saving in national current accounts among countries, global imbalances between developed countries, in particular, the United States which spent (consumed and imported) more than saved (produced and exported), and

developing countries like China, India, Brazil, Russia and oil-producing countries which saved (produced and exported) more than spent (consumed and imported), became dangerously unsustainable before the crisis. Developing countries invested their trade surplus in US treasury bills and US assets, accumulated the US dollars, manipulated their currencies artificially low, and kept their development (industrialization and urbanization) and international trade going. By contrast, the United States kept consumer interest rates low thanks to foreign money inflows, sustained consumer debt, and ultimately in part helped create the housing bubble. In the immediate post-bubble year, American consumer debt sharply declined, but it still remains high. In the absence of a globally coordinated monetary system, developing countries continue to save, produce, and export more than spend, consume, and import and keep buying and accumulating US dollars. As developing countries slow down³, global imbalances may diminish. Left unresolved, global imbalances may potentially contribute to another global financial crisis, challenging both developed and developing countries.

Besides, global imbalances have new, grave implications for the global climate catastrophe. While developed countries have been the primary culprits of global warming, China, India and other developing countries are now the source of the planet's soaring emissions of carbon dioxide (CO₂). Global imbalances enable them to emulate the industries of the West and be engaged in unsustainable degrees of urbanization and industrialization. Bill McKibben (2012) warns three simple numbers that add up to global catastrophe. The first number is 2 degrees Celsius which presents the scientific view that the increase in global temperature should be below two degrees Celsius. So far, we have raised the average temperature of the planet by just under 0.8 degree Celsius, and that has caused far more damage than most scientists expected.⁴

The second number is 565 gigatons. Scientists estimate that humans can pour roughly 565 more gigatons of CO₂ into the atmosphere by midcentury and still have some reasonable hope of staying below two degrees. Computer models calculate that even if we stopped increasing CO₂ now, the temperature still is likely to rise another 0.8 degrees, as previously released carbon continues to overheat the atmosphere. That means we are already three-quarters of the way to the two-degree target. Finally, the third number is 2,795 gigatons. This number is the scariest of all and most likely consumed by developing countries. The number describes the amount of carbon already contained in the proven coal and oil and gas reserves of the fossil-fuel companies, and countries like Venezuela and Kuwait that act like fossil-fuel companies. These coal and gas and oil reserves are still technically in the soil. But they are already economically

aboveground – they are figured into share prices; companies are borrowing money against them; nations are basing their budgets on the presumed returns from their patrimony.⁵ The scariest number, 2,795 gigatons, is, according to Elizabeth Kolbert (2012), one of the most salient – but also, unfortunately, the most counterintuitive aspect of global warming is that it operates on what amounts to a time delay. Behind summer heat in 2012 were greenhouse gases emitted decades ago. Before many effects of today's emissions are felt, it will be time for the Summer Olympics of 2048. Kolbert (2012) claims that it is quite possible that by the end of the century we could, without even really trying, engineer the return of the sort of climate that has not been seen on earth since the Ecocene, some fifty million years ago. The 2008 crisis has thus far-reaching implications for the global climate catastrophe and challenges the global environment.

Cities have played an important role in the crisis. They have embodied what the crisis and its aftermath meant in the spatially condensed form. While history and theory tell that common patterns in the nature of a financial crisis emerge across nations and regions as well as very divergent institutional settings, urban crisis experience differs from city to city as does from a nation to a nation, depending upon the national and regional configurations in which bubbles took place. Some cities experienced unsustainable bubbles in the housing construction industry and witnessed the reckless practices of unfettered banks and shadow banks as well as their citizens' debt consumption growth, while others experienced inflated economic and consumption booms and expanded financial and public sectors that depended upon the inflows of foreign capital and investment.

When the bubbles burst and severe recessions followed, cities experienced catastrophic busts and faced an enormous waste and human sufferings – the loss of jobs, in particular, the sudden surge of unemployed youth; housing closures; business bankruptcies; the disappearance of retirement funds; dwindling employment and education opportunities; the growth of child poverty; declined social and welfare services; and ultimately the loss of hope. Yet, urban experience in catastrophic busts and recessions too, varies from city to city, depending on national and regional policy responses to busts and recessions.

Cities have also become central to protest movements in the post-bubble era as they traditionally were in the troubled times before. Occupy Wall Street movement emerged in New York City.⁶ Symbolizing their "We are 99%" slogan, occupiers protested the growth of income inequality and government's bailout of banks (Beals, et al., 2011; Reich, 2012a; Greenburg, 2012; Byrne, 2012). Occupy movement spread to countless

other American cities. Urban protest movements also appeared in Europe where harsh austerity policies began to choke already dismal employment conditions and social and urban services. Since protracted depression undermines the living standards of an entire generation of Americans and Europeans, there is no wonder why the young have played the central role in urban protest movements in Washington, DC (Marche, 2012), Athens (Huffington, 2012), Madrid (Minder, 2012) and Frankfurt (Eddy, 2012).

This book attempts to explore various national and urban experiences resulting from the 2008 global financial crisis and its aftermath. The crisis provides us with rare moments of opportunity to look at the way finance plays in the economy. Finance is like the blood circulation system of the economic body: If the blood stops flowing, the body goes into cardiac arrest. The 2008 crisis literally stopped the blood from flowing and most societies suffered from cardiac arrest. But cardiac arrest was severer in some societies than in others. The importance of finance in the economy as a whole and yet different degrees of cardiac arrest raise serious questions: What ideologies and institutions shape the finance industry? How are financial policy-making decisions made? How do various government agencies, financial institutions and other policy-making apparatus interact in a crisis like this one? Who plays an important role in financial rule-making and who benefits most – bankers, politicians, government officials or international organizations like Bank for International Settlements (BIS)? How do global, regional, national, and urban financial systems actually work? How do global and regional financial inflows and outflows affect national and urban economies? How do the global and regional flows of money influence cities and urban society? To what extent are global imbalances linked to national and urban development? What strategy and policy can best work to keep global imbalances from leading to global catastrophe? The moments of opportunity also provoke otherwise unimaginable, but fundamentally basic, questions. If cities cannot escape from a systemic financial crisis, what policy and strategy should they adopt? Is there any strategy that can be integrated into urban development and planning to alleviate and tame crisis effects on cities when a financial crisis occurs?

These opportunities in turn lead us to examine and rethink contemporary urban theories in the light of empirical and historical evidences that the 2008 crisis and its aftermath have brought about. In particular, the book emphasizes two specific empirical and historical evidences. One is a crisis perspective. History and the Keynesian crisis theory tell that a financial crisis is inherent in the market economy and that cities cannot escape from a systemic crisis but that there are some policy solutions when it happens.

Yet, contemporary urban theories have never taken a financial crisis seriously. When they have actually taken it into consideration, the lack of historical and theoretical perspective of the crisis has failed them to reckon the importance of the crisis in capitalist urban society.

The other is their interpretation of globalization. The 2008 crisis was a synchronized global financial crisis. Several trillion dollars disappeared from the world economy just overnight when the bubble burst in 2008 and almost all countries experienced panics and sharp dips in GDP in 2008–2009. Some countries experienced time-lagged bust a few years later as was seen in the euro crisis and the Cyprus debacle. The crisis was also globally contagious when catastrophic social and economic calamities hit many cities and nations simultaneously. As will be seen later, real causes of and actual policy responses to the crisis, however, depended upon the national and regional context. What the crisis revealed by “global,” turned out to be no more than an aggregate of nation-states. The crisis has disclosed how fragile the truly interconnected global financial system was. It has made it clear that there existed neither the global financial architecture nor global institutional system that could save globally run banks and rescue the globally interconnected banking system. It was national governments after all that saved their own banks.

In consequence, the evidence of national government’s role in the crisis debunks the notion of weakened nation-states vis-à-vis empowered global cities in the world economy, which is one of myths of globalization conceived by currently popular urban theories like global city, global networks and neoliberal urbanization.

Urban theory has always attempted to understand challenging and transforming forces for cities, renew sociological interests and expand their imagination and research scopes. Facing an extraordinary event like the 2008 financial crisis, urban theory, as in any theory construction, needs to be rechecked and reexamined for its validity according to the changing reality of cities in the new times. Can urban theory meet today’s challenges, take up an opportunity to explore new insights and perspective, and renew itself? Given the lack of the crisis perspective in contemporary urban theories, what new and existing theories can help us understand the crisis and its aftermath and their relations to cities? What new approaches and insights are to be added to urban theory? Chapters in the book attempt to integrate the crisis perspective into urban studies and address what needs to be done to understand cities in the time of crisis. This book concludes that the 2008 global financial crisis and its aftermath challenge urbanists to reinvigorate urban theory with their embracement of the crisis perspective and a fuller vision of globalization than we have so far grasped.

The 2008 crisis with a view to history

The 2008 financial crisis needs to be seen with a view to history. Major financial crises are similar historically: the Dutch Tulip Crisis of the fifteenth century, the South Sea Crisis of the seventeenth century, the Great Crash of 1929, the Latin American debt crisis in the 1970s, 1980s and 1990s, the Asian crisis of 1997–1998, Japan's financial crisis of 1990, Nordic financial crisis of the early 1990s, and the Argentine sovereign debt crisis of 2001. Reinhart and Rogoff (2012) argue that all these crises developed from financial engineering on their own at the time without exception. They also maintain that these crises were followed by a subsequently prolonged slow growth because when credit bubbles burst, spending cuts by households and companies which were left with high levels of debt depressed the economy as a whole (Reinhart and Rogoff, 2009).

There are clear similarities between the 2008 crisis and the Great Depression of the 1930s in the scales and magnitudes (Reich, 2010; Krugman, 2009a; Almunia, et al., 2010; Eichengreen and O'Rourke, 2012a; Romer, 2011).⁷ They are caused by market uncertainty and instability fundamentally built into the capitalist economy. In the case of the United States, the 1929 Great Crash began with the unleashed American finance system in the 1920s, housing boom in Florida and then the stock market crash (Galbraith, 1954; Shiller, 2008; Ahamed, 2009; Reich, 2010). The 2008 crisis began after a few decades of deregulation, lax supervision, shadow banking development, and financial innovations that circumvented rules and regulations (Tett, 2009; Stiglitz, 2010a). The Great Crash also began with global imbalances that caused money flows to the US from Europe and other countries in the 1920s (Ahamed, 2009) and created the spectacular stock market bubble, while the 2008 crisis accompanied money flows from China and other emerging markets and created easy and abundant consumer credits in the United States (Roubini and Mihm, 2010; Stiglitz, 2010a). In both cases, money flows from abroad helped in part lead to spectacular housing and stock market booms and catastrophic bubble bursts.

Both crises are also truly globally synchronized ones. As in the 1930s, the US 2008 crisis triggered similar crises and panics in many parts of the world, while generating the most severe and synchronized global financial crisis and recession since the Great Depression. But this does not mean that the 2008 American crisis led to the crisis in other parts of the world. As Krugman calls American and European cases twin housing bubbles and bursts, crisis conditions were ripe in Spain, Iceland, and Ireland where capital and investment flows from Germany and other rich European countries led to booms and thus inflated prices (2012a:18–24).

And finally, DeLong and Eichengreen (2012) contend that the parallels between Europe in the 1930s and Europe today are stark, striking, and increasingly frightening. They claim that financial instability and distress are widespread and that there is growing political support for extremist parties of the far left and right as in the 1930s.

The Crisis Perspective

A financial crisis is a huge and unnecessary wasting, taking huge social and economic cost and resulting in human miseries. And it lasts a prolonged time as seen earlier and affects a generation. In order to integrate the crisis perspective into urban theory, we need to understand what causes the crisis, what tools are available to get out of it when we face it, and what the crisis brings about in terms of research scope and perspective. Following is the Keynesian interpretation of the 2008 crisis regarding the causes of the crisis and crisis policy responses to busts and recessions by governments and central banks in historical and comparative perspective and the debate on relations between the growth of income inequality and the crisis, which the 2008 crisis has opened up as a new area where urban inequality growth research can be conducted.⁸

The Keynesian Crisis Theory

Uncertainty

If there is something that can be called a crisis theory, it is the Keynesian crisis theory. Learning about the 1929 Great Crash and Great Depression in the 1930s, John Maynard Keynes contributed, 77 years ago, to the understanding of how a financial crisis would occur in the capitalist market economy and what policy responses would help to get out of the crisis. Keynes kept financial instability and uncertainty at the heart of his theory in his influential book, *The General Theory of Employment, Interest and Money* (1964). Keynes theorized the necessity of macroeconomic policy solutions underpinned by full employment, public spending, and regulation. Keynesian theory proved to buttress the long-term stable growth in the post-World War II era in Europe, Japan, and North America.

Before the 2008 crisis, one of the biggest debates in economics was whether a modern capitalist economy is inherently stable. The mainstream view by both Keynesian and neoclassical economists was that the crisis-ridden market economy would be over if one had a competitive economy and a central bank that anchored inflation expectations. Quiggin (2012) and Krugman (2012b) argue that the 2008 crisis has debunked this view by relying on Keynes who believed that “deep slumps were always possible

in a market system left to itself, and that there was therefore a continuous role for government in ensuring that they did not happen” and that “deep slumps were not ‘one in a century event’, but an ever-present possibility” (Skidelsky, 2009a: xvii).

Marxists are perhaps best to explain the 2008 crisis as the deep-seated systemic failure of capitalism (Smith, 2010; Meszaros and Foster, 2010; Harvey, 2010; Albo, et al., 2010). But they offer neither any other cause than capital accumulation crisis nor any other solution than a revolutionary movement leading to socialism. Too much disappointment to the left and progressive, there was no revolutionary movement by the working class anywhere in the wake of the crisis. If there was such a moment as the public’s taking over banking, that moment was long gone. The crisis did not bring any sign for the new era of revolution anywhere. But David Harvey (2012) claims that the Occupy movement in New York City and urban movements in many cities of the world are signs that the deep currents of social and political change rise to the surface.⁹ Harvey may be right. There needs to be seen, however, an evidence that protest movements would turn into a revolutionary movement.

Keynes agreed with Marx in that a financial crisis was inherent to the market economy. But unlike Marx, Keynes did not believe that a crisis would lead to socialism. In the midst of rising fascism in Europe and authoritarian planned economy in the Soviet Union, Keynes was worried that unless governments took steps to stabilize market economies at full employment, the undoubted benefit of markets would be lost and political space would be opened up for extremists who would offer to solve the economic problem by abolishing markets, peace, and liberty. Europe now faces similar conditions with the rise of extreme right-wing politics as in Keynes’ time. Skidelsky (2009a) argues that Keynes was rather conservative and wished to save capitalism from such rising authoritarian economies. Keynes’ solution was to create full employment through public spending so that an increased demand from full employment would encourage the private sector to invest and produce more. Expansionary public policy was, Keynes wrote in *The General Theory*, the only way that could restore the economy back on a recovery path. He wrote that when the economy is in a liquidity trap, the private sector cannot make investment and production as many companies are on debt and high unemployment rates make market demand low (Krugman, 2011a). It is only the government that could make investments and create more jobs and thus more demand. In the US, F.D. Roosevelt’s New Deal policy was directed to Keynesian macroeconomic policy, while promoting unions, raising wages and increasing government investment and employment. Then, the war economy – the expansionary government spending policy – that followed the New Deal firmly put the

US economy back to work and continued to lead to the postwar growth. Similarly, most developed countries took the Keynesian macroeconomic policy and experienced the unprecedented postwar economic growth era without any big financial crisis (Hall, 1989; Ahamed, 2009; Gorton, 2010; Eichengreen and O'Rourke, 2012a, 2012b).

Minsky moment: instability

Following Keynes, Hyman Minsky (1986) developed the concept of systemic instability. According to Galbraith (2007, 2012), the concept of systemic instability is the cornerstone of Minsky's work. Minsky argued that stability would spur risky behavior such as Keynes' "animal spirit" and showed how systemic dynamics inherent to capitalism breed systemic fragility and crisis. Minsky articulated stability was destabilizing. The leveraging of returns, principally by borrowing, was viewed as a certain route to wealth. To him, those engaged in the financial system created such leverage.¹⁰ When people underestimated perils, as they did in good times, leverage exploded. For Minsky, the apparent stability of the postwar economy was founded on the combined impact of strong regulation enforced by strong institutions, and the policies of Big Banks and Big Government effectively implemented from the onset of the New Deal. This stabilizing framework precluded excessive risk-taking and blocked the movement of financial players from hedge to speculative positions. Those movements that did occur could be managed; if the overall system was stable, the instability of small elements within it could be largely offset when difficulties arose. Yet, as Minsky's instability thesis would predict, the stable system did not last.

Keynes' uncertainty and Minsky's instability differ from many economists like Johnson and Kwak (2010) and policy makers like the Secretary of Treasury Geithner who currently emphasize financial regulations, including regulating "Too Big To Fail" banks, to curb risk-taking and speculative behaviors in the financial sector and therefore to keep from another crisis. Keynes and Minsky also differ from Marxian regulation theorists.¹¹ To regulation theorists, the finance capital hegemony and deregulation associated with it caused the instability of the postwar growth regime. However, Keynes and Minsky present uncertainty and instability inherently built in the finance market system but not only in the postwar development of finance capital. Regulation helps to reduce uncertainty as seen in the postwar era, but uncertainty cannot be eliminated or predicted. Stability turns sooner or later to instability. To Keynes and Minsky, the crisis does not end with regulation and reregulation of the finance system. What regulation does is to help to contain market uncertainty and instability. Galbraith (2007) argues that the postwar regulation regime perhaps

helped small financial crises grow big like the Great Depression in the 1930s in the developed world but did so by channeling instability to the developing world like sovereign debt crises in Latin America.

The crisis theory raised by Keynes and Minsky implies that the future of the market is uncertain and sooner or later bound to be unstable so that governments need to embrace in no-crisis time full employment policy, reduction of debt in balance sheets, regulation, and institutions which would reduce uncertainty and instability.

Which group of population is a government rescue policy directed at? Who is going to be saved? Investors? Bankers? As Keynes addressed in the 1930s, who to be saved would be the working people. This is also the position of Keynesian economists today (Stiglitz, 2010a; Romer, 2011; Krugman, 2012a; DeLong and Summers, 2012; Portes, 2012; EPI, 2009; Blinder, 2013). In particular, Krugman (2012a) vehemently advocates the creation of jobs to the unemployed through government expansionary policy in the US and Europe. To Keynes, the bailout of failed banks that the US, the UK, Spain, Ireland, Greece, and Cyprus did in the 2008 crisis and its aftermath could not have been accepted unless the unemployed were also bailed out through expansionary public policy that leads to create full employment. In the case of the US, government officials eagerly served Wall Street interests at the public's expense (Sorkin, 2009) and regulators were captured by the very industry they were supposed to be regulating and did not serve the public interest as they should.¹² Keynes maintained that investors (and bankers) who took risks should be left alone. Krugman (2012c) also belatedly acknowledges that the unconditional bailout of banks might not be the best policy. Furthermore, Keynes repeatedly maintained that full employment was the best policy not only in the crisis time but also in the normal time as the future of market economy was uncertain.

Liquidity trap and debt deflation

Keynes clearly stated that depressed economic condition that followed bubble burst was a liquidity trap. Businesses have debt in balance sheets so that they do not make investment because of the lack of sufficient demand in the depressed economy. Without adequate market demand and investment, they do not borrow money and interest rates stay low.¹³ In such a liquidity trap, fiscal deficit or government spending by borrowing money (or printing more money), will not raise interest rates. Keynesian liquidity trap theory goes against neoclassical loanable funds theory that says that the interest rate is determined by the supply of and demand for saving and fiscal deficits raise interest rates up. According to Krugman (2009b, 2010), John Hicks later made Keynes's liquidity trap clearer with the concept of

the “IS curve,”¹⁴ which shows how the equilibrium interest rate from loanable funds varies with the level of GDP. Then, Krugman (2010) argues that Keynes’s liquidity preference – the demand for money – needs to be added to the general theory of interests, which Hicks represented with the “LM curve.”¹⁵ Keynes made it clear that under depression conditions, which mean a liquidity trap, the interest rate is entirely determined by liquidity preference (Krugman, 1998, 2009b; Eggertsson and Krugman, 2011). Krugman (2009a) and Koo (2008) maintain that Japan proved Keynes theory. Japan had had the fiscal deficits of over 200 percent of GDP but interest rates for short-term loans and government bonds have remained near zero for almost two decades. The current situations of the UK and the US show the same liquidity trap where interest rates are low or near zero.

Notwithstanding evidences from Keynesian liquidity trap theory, political leaders and policy makers in the US and the European Union have turned to austerity politics and policies as they have, under their disguised concerns with fiscal deficits, high interest rates, inflation, and bond market investors, politically sided with bankers who wanted to get their money back sooner with high interest rates under austerity policy. In the US, policy responses to the crisis by classical economists have all proved to be wrong: Initial government expansionary spending in the US neither raised interest rates nor inflation. Nevertheless, political leaders and policy makers have relied upon the debunked classical supply side theory and feared that fiscal deficits caused by public spending would deter investors from investment, lead to a shortage of funds and thus raise interest rates.

When the crisis makes fiscal deficits worse than the normal time as tax revenues from profits and income decline and requires government spending on social services like unemployment insurance and food stamps, austerity policy of cutting public spending in the liquidity trap would choke the economy. Krugman (2012b) contends that austerity policy does not benefit the great masses of people who need government to be on their side now more than ever. Austerity policy threatens unnecessarily to further prolong the typical recovery that would take, history tells, considerably long time.¹⁶ Indeed, it was lessons and knowledge from history and the Keynesian crisis theory that initially kept the 2008 crisis from repeating the same gravest Great Depression-type crisis. Internationally coordinated expansionary policy saved the world economy from a freefall. But lessons were half-glass full to political leaders and policy makers who soon turned to austerity policies elsewhere.

What does government borrowing do, then? It gives some of those excess savings a place to go – and in the process expands overall demand, and hence GDP. Krugman (2009b) contends that government spending (borrowing) does not crowd out private spending, at least not until the

excess supply of savings has been sucked up, which is the same thing as saying not until the economy has escaped from the liquidity trap. Now, there are real problems with large-scale government borrowing – mainly, the effect on the government debt burden. Irving Fisher summarized American experience in the 1930s as “debt deflation” (Krugman, 2010). And Krugman (2012b) claims that today’s entire austerity death spiral in Europe illustrates Fisher’s debt deflation.

Debt-financed public investments create jobs and are essentially self-financed and federal spending on rail lines, green energy, and education would lead to higher productivity and higher living standards (Irons and Bivens, 2010; Pollack, 2012; Grunwald, 2012). Public investment now has an effect on private sector productivity, at a rate of as much as 45 percent. Moreover, just \$250 billion a year for a decade would boost GDP to 2.8 percent by 2021 (it would be 0.9 percent otherwise). And because money is so cheap right now, and services are offered at such deep discounts, there’s no better time to invest. All that expense, like the best long-term investments, would pay for themselves eventually. The wealth of the United States is crucially dependent on public investments and public capital. Weiss (2013) also argues for public spending and claims that there is a striking correlation between the decline of infrastructure and the rise of inequality over the past four decades. The more the money goes to the top 1 percent income earners, the more the rest 99 percent deal with potholes, decrepit bridges, rusting rail cars, and the rest. If spending on infrastructure is the best way to create jobs, boost demand, and heal the economy, why aren’t we doing that?

Role of government and central bank

Keynes made it clear that governments and the central bank have an active role in stabilizing a freefall economy during the crisis: The central bank can use monetary policy (low interest policy) and printing more money (quantitative ease). The solution to the 2008 crisis, orchestrated by Ben Bernanke and Hank Paulson in the United States, was to flood the banking system with hundreds of billions of dollars while buttressing the system with many other measures to calm investors (Bernanke, 2013). But history tells that central banks also acted as destabilizing forces before the crisis. The Federal Reserve responded too aggressively to incipient recessions in previous decades and the government was too willing to encourage excessive leverage in the American household sector (Wessel, 2009). The Federal Reserve’s zero-bound monetary policy in the 2008 crisis aftermath may also be encouraging risky leveraging on Wall Street and leading to another bubble as easy money has not been directed to job creation and public infrastructure investment.

In Europe, the European Central Bank (ECB) did exactly what a central bank would not do in the crisis: increasing interest rates and tightening bond markets by letting Europe's southern periphery's interest rates hike. Krugman argues that despite the Keynesian crisis theory that could provide intellectual underpinnings for policies to better manage and reduce the likelihood of future financial crises, politicians and policy makers are trying to walk in the new dark age unwisely and wastefully (2012a: 91–105).

Banks are important and special in society (Shiller, 2012), because the risks they take are borne, in large part, by taxpayers and the economy as a whole. Institutions backed by taxpayer guarantees and playing a key role in the financial system should not have any business engaging in “proprietary trading,” basically speculating with depositors' money.¹⁷ Investment banks like JPMorgan made a huge bet on the safety of corporate debt, something like the bets that the insurer A.I.G. made on housing debt before the 2008 crisis (Morganson and Rosner, 2011). Yet, history tells that banking is, and always has been, subject to occasional destructive “panics,” which can wreak havoc on the economy as a whole (Schlarick and Taylor, 2012). In the 1930s, the scope for panic was limited due to government-backed deposit insurance and bank regulations like Glass-Steagall Act which came into law in 1933 and separated investment and commercial banks. Banks with government-guaranteed deposits weren't allowed to engage in the risky speculation characteristic of investment banks. This system gave the US half a century of relative financial stability. Since the 1980s, new forms of banking without government guarantees proliferated, while both conventional and new fangled banks were allowed to take on ever-greater risks after the drop of the Glass-Steagall Act in 1999. The twenty-first century version of a Gilded Age banking panic, with terrible consequences, arrived in 2008 (Krugman, 2012a).

Global Imbalances

Global saving glut

Global imbalances and financial crises are closely related. Global imbalances are differences between spending and saving in national current accounts among countries. The world trade and worldwide money flows created global imbalances between countries as was seen earlier. Excess money always looks for investment for profits worldwide.¹⁸ Global saving glut inflows into US Treasuries and US private label asset based securities (ABS), in particular, sizable capital inflows from European investors into ABS, contributed to the crisis in the US (Bertaut, et al., 2011).¹⁹

Yet, what made the global imbalances in the 2008 crisis particularly striking was a function of the complex integration of emerging markets in the global economy. It was saving-glut in China, the Middle East, Brazil and other emerging markets that in part led to the American bubble (Fratzscher, 2011). The emerging markets developed and grew spectacularly in the pre-crisis years, while engaging in more exports than imports and thus in more production than consumption. Then, their accumulated trade surplus made an inroad to US Treasury securities and semipublic mortgage companies like Fannie Mae. They made investment in US Treasury bills primarily because the dollar was the world reserve currency. Holding the dollar would give them two advantages. First, they could hold down their exchange rates, domestic prices, wages, and consumption. In so doing, they could keep their export growth and competitiveness. Second, they could keep from the influence of the Washington Consensus – the US Treasury Department, the IMF, and Wall Street. They learned lessons from their past financial crises in which they had gone through the severely austere monetary policy imposed by the Washington Consensus, which advocated neoliberal policies for developing countries: free trade, privatization, deregulation, balanced budgets, inflation targeting, and floating exchange rates. In the 1997 Asian crisis, when financial inflows from abroad in the form of hot money basically led to bubbles, high interest rates were enforced as part of austerity policy by the Washington Consensus led banks and businesses to bankruptcy and left populations suffering from the crisis effects in countries like Thailand, Indonesia, South Korea, and Hong Kong (Fujita, 2000). When the 2008 crisis occurred in the US, US Treasury Department took the reverse policy of the Washington Consensus: lowering interest rates to near zeros and recapitalization of banks.

But the other side of saving-glut was low mortgage interest rates and debt-financed consumption in the United States. Ben Bernanke, the US Federal Reserve chairman, and American economists contended that the 2008 crisis was caused by cheap credit supply provided by Chinese investment in the US (Wolf, 2008; Bernanke, 2013). But it was simultaneously the Federal Reserve's policy that made plenty of easy money available after the 2001 dot-com crisis. The Federal Reserve did little to supervise and regulate the financial system and instead helped create the unsustainable boom that attracted these Third World savings in the first place (Skidelsky, 2009b; Roubini and Mihm, 2010). Roubini and Mihm contend that the Federal Reserve policy, more than any "global saving glut," helped create the housing boom in the US, leading to an increase in residential investment financed with savings from other countries (2010: 250).

Robert Triffin (1956) foresaw coming of the external cause of the 2008 crisis – that the dollar’s hegemony would drive foreign countries to run trade surpluses with the US and reserve the dollar as “the world currency.” Triffin then predicted that this would undermine power of the US economy. And the 2008 crisis did just that.

American debt dependence on foreign money consisted of about 30 percent of the total debt at the wake of the catastrophic bust, while the rest owed to American domestic institutions and citizens. Upon the bubble burst, debt-based consumption could not go on and American household debt came down quickly in the few years after the bubble burst. American consumers have not been spending since then, contributing to debt deflation and the depressed state of the economy. Besides, the collapse of financial markets makes it impossible for savings to be channeled into investment. DeLong (2012) writes that financial markets’ ability to price relative risks and returns sensibly has been broken at a deep level, leaving them incapable of doing their job: bearing and managing risk in order to channel savings to entrepreneurial ventures.

Trade imbalances: China and the US

The US still has trade deficits with its many trade partners – Canada, Mexico, China, Japan, and oil producing countries as it was before the crisis. US trade deficit with China took a lion’s share and still does. But US trade deficits do not mean that the US owes to China or any other countries. US trade deficits play the minor role in the overall US current account which covers both US external investment and foreign domestic investment.

On the other hand, China’s ratio of trade surplus in GDP has recently declined as recessions in China’s trade partners – Japan, Europe and the US – have made Chinese exports decline and the Chinese economy slow down, leading China to massive domestic investment.²⁰ Yet, China keeps accumulating the dollar and manipulating its currency artificially weak with minor fluctuations to maintain its export-based growth (Bremmer and Roubini, 2011). The rapid growth level of production and trade in China and other emerging markets is not sustainable. The emerging markets consume more of the world resources to produce goods for exports and contribute to growing CO2 emissions.

The functions of currency devaluation

In the absence of an internationally coordinated monetary system, global imbalances could lead to not only another financial crisis but are also a destructive threat to society, the economy, and the environment. Global

imbalances need to get adjusted. It requires more than China consuming more and America producing more to narrow international balances.

Krugman (2010) argues that adjusting global imbalances needs something to be done with the exchange rates. The trade deficit can't be solved by returning to more or less full employment and experiencing a significant reduction in imbalances. For full employment to happen the deficit country must start spending more within its means; overall spending will have to fall relative to GDP.

Correspondingly, spending in China must rise. But the decline in US spending would impact US-produced goods and services as much as Chinese product prices represent US distribution and retailing costs. Meanwhile, a much smaller fraction of the rise in spending abroad will impact US products. This reallocation of spending would lead to an excess supply of US goods and services, an excess demand for goods and services produced elsewhere. The relative price of US output, and along with it such things as US relative wages, has to fall.²¹ Then, exchange rates need, Krugman (2009a; 2010) argues, to be considered. To narrow international imbalances, the US needs a lower relative price of US output and the easiest way to get there is dollar depreciation. The US did exactly that in 2009. So did the UK and Iceland.

Global solution?

Keynes' solution to global imbalances was the Bretton Woods agreement that replaced the UK controlled international gold standards system in 1944 (Eichengreen, 1996; Steil, 2013). Then, the Bretton Woods treaty backed by the geopolitical power of the US in the post WWII collapsed in 1971 when the US abandoned the dollar based gold system. Developed countries moved to the floating system. And yet the cold war made it possible for the US to play the dominant role in the floating system (Eichengreen, 2010). But with the end of the cold war, the rise of developing countries, and the arrival of the euro, it was difficult to maintain geopolitics that sustained the dollar as the international reserve currency. Then, the 2008 crisis came and imposed the urgent need for a new architect to create an international treaty like the new Bretton Woods agreement. Its realization will, however, face dauntingly geopolitical difficulties.

The new global solution requires the global geopolitical shift from the current US dollar regime to the new world currency reserve system (Eichengreen, 2010; Stiglitz, 2010b). Skidelsky contends that a willingness to end global imbalances depend on a willingness to accept geopolitical balance. If an American empire on borrowed money is rejected, other political centers – the European Union (EU), China, Japan, Latin America, the Middle East – will have to assume responsibility for their own security

by way of regional alliances, in which the US can take part, but not the dominant part (Skidelsky, 2009a: 191–192). Yet, Cohen and DeLong bluntly argue that the ability of the US to play the dominant role is limited as the US simply does not have money.

A much more extensive group of stakeholders – BRICS and other countries – that make up the ascendant G-20 – has, Cohen and DeLong (2010) also argue, more money and these increasingly powerful nations will profoundly shape the handlings of future crises. BRICS are, nonetheless, severely divided today and unlikely to reach the consensus in years to come (Bremmer and Roubini, 2011; Yardly, 2012). In political terms, China, India, and Russia vie with each other for power in Asia. And in economic terms, Brazil, India, and South Africa are concerned about the effects of China's undervalued currency on their economies. The lack of unity among BRICS is apparent in recently proposed their development bank (Polgreen, 2013). Their development bank is to challenge the dominance of the World Bank and IMF in dollar-based international reserve system. While BRIC is unlikely to become a serious political organization of like-minded states (Nye, 2013) and set out to solve their own global imbalances.

The external cause of the crisis no doubt necessitates more global efforts in order to keep from another big global financial crisis and save the global economy and the environment (United Nations, 2009). A new global currency reserve system should be on the agenda nationally and internationally. But such global efforts have so far failed and are unlikely to bear fruit in the foreseeable future.

Regional Imbalances within the Euro Zone

Sovereign debt crisis

The sovereign debt crisis in Europe is in fact a form of regional imbalance within the EU. Trade imbalances between Northern Europe, in particular, Germany and currently debt-troubled countries like Greece, Ireland, Portugal, Spain, and Italy (GIPSI), have grown since the inception of the euro in 1999 (Bragar and Vincelette, 2010; Krugman, 2012c; Holinski, et al., 2012). Monetary integration enabled Europe's periphery – not only GIPSI but also other periphery like Iceland, Estonia, Latvia, and Cyprus – to get a lot of capital and investment flows from Germany, France and other core European countries. Investors thought GIPSI were as safe as Germany.

Also, the eurozone's one-size-fits-all interest rate provided an irresistible temptation for countries like Greece, Spain, and Ireland to build homes that people had never been able to afford before. For a decade, Spain built more houses than France, Germany and the UK combined (Paumgarten, 2013).²² Wages rose faster than productivity in GIPSI, fueling a consumer

boom. Furthermore, governments were lulled into excessive borrowing because for nearly a decade, bondholders accepted almost the same return when lending to Greece and Portugal as they did from the economic powerhouse Germany. Monetary union thus led to booms and bubbles in the European periphery, fueled inflation, and pushed wages up relative to wages in Germany. Trade imbalances between Germany and the European periphery widened as Germany grew trade surplus and GIPSI grew trade deficits (Krugman, 2012b; Norris, 2012a).

The euro made the European periphery uncompetitive in Europe. The financial crisis was well under way in Iceland and Southern Europe by 2008. When the Spanish and Irish real estate bubbles burst and Greece disclosed in 2009 that its public debt and deficit were far higher than previously declared, the fundamental flaws in the whole euro system came to the surface and compounded the catastrophic bust (De Grauwe, 2011). There was panic on bond markets and the euro system threatened to melt down. As their deficits and debt grew sky-high, they had to borrow money to pay interest rates for previous debt. Iceland, non-euro member, simply defaulted and let its banks go bankrupt and started to rebuild the economy by devaluing its currency.

By contrast, GIPSI, euro members, faced no flexible policy to get out of the crisis. There is no central bank that could save these countries by printing more money as the UK, non-euro member, managed to do to keep from the initial threat of credit crunch. A common currency turned to be the nightmare.

Fiscal integration – a willingness to move money from richer areas to poorer ones as a crucial component of any nation or group of nations bound together by a successful monetary union – could have solved debt and deficit problems in the European periphery. But there existed no such system in the EU. The EU turned out to be an aggregate of national policy makers and national interests.²³ Besides institutional problems of the EU, EU leaders assumed that high deficits and debt were caused by fiscal irresponsibility and demanded for unilateral austerity from GIPSI (Branchflower, 2012) and now from Cyprus.

The EU's initial emergency loans provided on ad hoc bases through the troika – the EU, the ECB, and the IMF – turned out to be too little and too late. Besides the EU's austerity policy by which the EU intended to win back the favor of the bond markets created new risks not only in economic but also social and political spheres. Its immediate and draconian programs of spending cuts and tax hike programs pushed the southern periphery into even deeper slumps and let it fall short even in purely budgetary terms as shrinking economies caused falling tax receipts. Unemployment rates jumped up to 22 percent in Greece and 30 percent in Spain. In particular, youth unemployment rates grew dramatically, doubling national

unemployment rates in GIPSI (OECD, 2012; Scarpetta, et al., 2010; Morris, 2012). Euro area unemployment rates too kept going up and reached a record 12 percent in 2013 (Eurostat Newsrelease, 2013). The EU and ECB's austerity policy has resulted in deepening GIPSI's social and economic catastrophes with increasingly volatile political conditions (Shorto, 2012; De Grauwe and Ji, 2013). Cyprus now joins GIPSI.

As GIPSI's problems lie with regional trade imbalances, trade imbalances between GIPSI and Northern Europe, in particular, Germany, need to be solved by balancing trades (Krugman, 2012d). The only way how GIPSI can get out of deficit and debt is to gain competitiveness by export growth. To be competitive in export requires internal devaluation (lowering wages). Since bubbles in GIPSI raised wages 30 to 40 percent higher than pre-bubble years, the wages must come down (Krugman, 2012a: 175). Currency devaluation, which is the easiest means to lower wages, as Iceland, a non-euro member, did, is out of question for GIPSI.²⁴ As Ireland has showed, internal devaluation is the hardest thing to do. Despite high unemployment in Ireland, Irish wages have fallen only about 0.6 percent in three years between 2008 and 2011 (Eurostat Newsrelease, 2012). And this process is very, very slow. It may take Ireland decades to lower wages and be competitive again. The same thing can be applied to Greece, Portugal, Spain, and Italy, and Cyprus.²⁵

An alternative to internal devaluation in GIPSI is a combined policy of very expansionary monetary policy from the ECB, fiscal stimulus in Germany, and lowering wages in GIPSI (Krugman, 2012a: 186).²⁶ While the ECB decision to be a lender of last resort in the government bond markets eliminated the fears about the future of the euro zone, its expansionary policy resulted in no specific effect.²⁷ Borrowing costs have been stabilized but remained high in these countries and the ECB's expansionary policy has turned out to be another austerity policy.

Rescue of Europe's debt-distressed countries depends upon Europe's richest country – Germany – after all. But the bitter collective memory of the catastrophic inflation that the Reichsbank created by printing money in the 1920s keeps German policy makers from any expansionary monetary policy.²⁸ German policy makers are also bound to their national political interests and their austerity policy and cannot extend help to the eurozone crisis.²⁹ Furthermore, in Germany, the notion of a so-called transfer union, which many economists see as essential to any enduring common currency, is still firmly resisted.³⁰

European crisis

The euro crisis now undermines the existence of the EU. It has revealed the fundamental problems of the EU: democracy, regional gap in income

and growth, and internal social inequality.³¹ The architects of the euro disregarded warnings about standard optimum currency, or anticipated that the institutional framework necessary to support the euro would eventually follow. Kenen (1969) argued that grand monetary integration was not ready without the establishment of fiscal integration. Mundel (1968) also argued that labor integration was necessary for optimum currency area.³² Guided by grand ideals of peace and democracy, EU leaders never dreamed of an immanently dangerous situation like the 2008 financial crisis and the sovereign debt crisis of GIPSI, Iceland and Cyprus. As seen earlier, the euro monetary system enabled the periphery to have huge monetary inflows from Northern Europe, in particular, Germany. These inflows made the bubble and the bubble burst. Then, the euro zone was caught in a deflationary debt trap today as Soro (2012) argues. Wolf (2012) also contends that a fiat currency backed by heterogeneous sovereigns is irremediably fragile. It is European leaders as the architects of the euro that can be blamed to have caused the European crisis.

The sovereign debt crisis revealed that the EU consisted of nation-states that had their own elected officials and governments, their own decision-makings and their own budgets. Let alone fiscal and political integration, the EU has neither a credible long-term plan nor political consensus about borrowing by local governments and private companies even today.³³ Krugman argues that the EU problems cannot be solved without the establishment of a federal government like the United States (2012a: 183). Or the EU project will fail. And yet, fiscal integration does not guarantee to save the EU. As Dani Rodrik argued back in 2000, EU member nations now face “trilemma” – deep economic integration, democratic politics, and autonomy of nation-states – they can have only two of them in the crisis but not all three.³⁴ The crisis has disclosed incompatibility of the three and thus the impossibility of the EU project. Despite all efforts of EU leaders to solve the sovereign debt crisis, EU’s flawed policies – austerity and internal devaluation – and flawed institutional arrangements remain intact.³⁵

The Crisis and Inequality Growth

Keynes did discuss the failure to provide full employment and the arbitrary and inequitable distribution of wealth and income as injustice (1964: 372–384) and refer to the theory of the rate of interest as the future of inequalities of wealth (1964: 375). But Keynes did not explore a close relation between a financial crisis and inequality growth. The study on the relation has begun with the 2008 crisis. The Wall Street Occupiers succinctly voiced concerns on inequality growth between top 1 percent and the rest 99

percent in the US, while the growth of income inequality was well documented (Piketty and Saez, 2003, 2010; EPI, 2009; CBO, 2011; IRS 2011; Mishel, 2012a).

According to the Congressional Budget Office (2011), the top 1 percent of the population took a lion's share of wealth growth between 1979 and 2007. Their average real after-tax household income grew by 275 percent, while the rest 99 percent rest and the middle class gained modestly (CBO, 2011).³⁶

Inequality–crisis causal theory

Two approaches appeared to explain the relations between the crisis and inequality growth. Some argue that inequality growth caused the crisis (Wade, 2010; Rajan, 2010, 2012; Reich, 2010; Cohen and DeLong, 2010; Lansley, 2011; Stiglitz, 2012a, 2012b). The causal theory embraces the notion that inequality growth before the 2008 crisis led to situations in which there was insufficient demand to keep the economy growing. Conservatives in this camp argue that the Federal Reserve compensated for that by creating a bubble (Rajan, 2010). That is, government response to the rising inequality and insufficient demand was to democratize credit – via financial liberalization – and thereby fueling a rise in private debt as households borrowed to make up the difference. In this conservative view, the subprime mortgage meltdown was, therefore, the result of government policy which was directed to low-income and minority households via Fanny Mae and Freddie Mac.

By contrast, progressives argue as follows. Inequality was caused by a system of maldistribution through deregulation, weakened unions, unbridled CEO pay, the excessive financialization, and financial innovation directed at circumventing the regulations, leading to the market instability that led to the crisis. Reich (2010; 2012b) writes that the population on stagnant or near-stagnant incomes tried to increase their consumption and investment by borrowing. With easy access to credit, markets provided the poor and low-income households with a rising demand for non-prime mortgages, car loans, and other consumer goods, on the one hand. On the other, people at the top of income-earners list took a high ride in the age of global imbalances and financialization of the economy.

Wade (2010) writes that the global imbalances provided the proliferating billionaires around the world enormous opportunities to augment their wealth through financial innovation. People at the top – high net worth individuals, investment funds, pension funds, and the like – greatly increased the demand for complex financial products as they searched for ways to store their wealth and pressured institutions like Goldman Sachs and JP Morgan to supply them with complex financial securities. The

investment banks generated huge fee and commission revenues by obliging, and neoliberal economic principles allowed the regulators to believe that the surging growth of complex financial instruments must be to the society's benefit.

Furthermore, Stiglitz (2012a) contends that companies, managers, and CEOs have been redistributing wealth from the bottom to the top. That is, the corporate sector too joined people at the top. CEOs walked off with mega-bonuses when they brought their company down (or to bankruptcy). Over the last 30 years, for the top 1 percent, the share of the national income they get, has doubled. In the recovery of 2009–2010, the top 1 percent of US income earners captured 93 percent of income growth (Stiglitz, 2012b; Mishel, 2012b). The people in the middle, with the median income, are today worse off, adjusted for inflation, than they were one decade and a half ago. Stieglitz concludes that inequality growth is the outcome of CEO rent-seeking.

Crisis–inequality correlation theory

Others do see correlation between the crisis and inequality growth but reject the above causal theories (Krugman, 2012a; Krugman and Wells, 2012a; Atkinson, et al., 2011). Krugman (2012a) attributes the cause of the growth of income polarization to the rise of narrow oligarchy that market forces and politics and policies have helped to create by concentrating income and wealth in the hands of a few elites over the past three decades. The rise of oligarchy distorted the redistribution system so that the gains from productivity in the past three decades fell in the hand of the oligarchy: Explicit fiscal redistribution from the winners to the losers and particularly to the children of the losers; subsidization or direct provision of jobs; big efforts to improve the quality of education and childcare for all, including public financing of access to higher education; and a determination to sustain demand more effectively in severe downturns. After all, over the past 30 years, there has been a stunning disconnect between huge income gains at the top and the struggles of ordinary workers. Politics and policies in the past three decades have helped the oligarchy rise and the crisis has aggravated the inequality growth trend (Krugman and Wells, 2012b). The crisis–inequality correlation theory concludes that the inequality growth has not caused the 2008 crisis.

Uncritical Contemporary Urban Theory

Contemporary urban theories have so far lacked any perspective on the above-mentioned financial crises, global (regional) imbalances and

relations between crises and inequality growth.³⁷ Given the central role of cities in the concentration and manifestation of bubbles and busts and the followed recessions, the absence of the crisis perspective is even much more deplorable. There is no discussion about whether urban development, the quality of urban life, and cultural and creative projects are firmly based on balanced sheets or supported by debt foreign finance. For instance, global capital flows made it possible for Bilbao and other cities to ascend as creative cities before the crisis. But as soon as global capital retreated from Spain upon the crisis, Bilbao, Barcelona and other Spanish cities faced the catastrophic bust. Have contemporary urban theories looked into the cities' balance sheets and Spanish current accounts for inflated housing construction and cultural projects? When the 2008 crisis occurred, what could they say about it? They can narrowly focus on either subprime mortgage meltdown (Aalbers, 2009a, 2011, 2012; Harvey, 2010) as the cause of the crisis or selected developed countries (Aalbers, 2009b) neglecting other fundamental causes³⁸ and the involvement of developing countries through global imbalances. As a result, their interpretation of the crisis tends to follow mainstream classical (or neoclassical) economics and ideologies.

The Limited Understanding of Globalization

Contemporary urban theories have been greatly influenced by following globalization myths. Technological leap in transport and communications, new modes of governance including transnational networks of regulators, international civil society organizations and multilateral institutions have had the consequence of erased national borders and shrunk the globe. Globalization is said to be transcending and supplanting nation-states. Nation-states are claimed to be largely powerless in the face of global markets run by global players such as multinational corporations, global financial firms, and global business elite. Yet, the 2008 global financial crisis and its aftermath have proved that nation-states are where the principal locus of legitimate and democratic accountability firmly resides and shattered the fallacies of the globalization myths. It is true that the global ramifications in the 2008 crisis were as great as in the 1930s seen earlier. But the Keynesian crisis theory and empirical study of the crisis and its aftermath could tell that there is nothing special about contemporary globalization and the global flows and forces of capital, finance, and technology. Money could move globally as easily in the 1920s as in the 2000s. When the 2008 financial crisis happened and banks failed, the economy went bust and the social fabric was torn, it was national governments that took a responsibility for the social and economic consequences of the crisis everywhere as in the 1930s.

There is nowhere like urban theory area that the globalization myths were popularized in and applied in great deal to. In particular, global city and global network theories absurdly empowered so-called “global city” like London and New York, while relegating nation-states to irrelevance in the world economy. These urban theories interpret that global forces – represented by multinational corporations, global financial system, and information technology – have empowered cities and weakened the power of nation-states in the contemporary global economy. But the crisis proved otherwise.

It is also true that the 2008 crisis has inflicted pains upon every corner of the world economy. But this is not because of global myths and some contemporary urban theory claim that we live in the more globally interconnected world than in the 1920s and 1930s or that banks are so internationally connected. But as mentioned earlier and Pickvance (2013) writes in this volume, it is primarily because conditions for the crisis preexisted in various national contexts and unsustainable bubbles and debts were well under way and ready to burst in some other countries like the UK, Iceland, and Spain when the 2008 crisis broke out in the US. As seen earlier, historically and empirically developed crisis theory tells that all crises are caused by diverse internal and external factors.

The crisis effects on nations and regions vary accordingly, depending on the kind and nature of national banking systems and debt levels as Gartner (2013) points out in this volume. National crisis policy responses also vary, depending upon national politics and institutions. The 2008 crisis revealed that while finance went global, financial regulation remained a national affair. It was national governments that wielded power in crisis policy from the bailing out of the failed banks to providing the safety nets for the unemployed and that kept the social fabric of nations intact. This is even true in the eurozone where more regional integration was in principle expected as Souliotis (2013) explains in this volume. At the city level, crisis responses and effects are even much greater as Indergaard (2013) writes on New York and Fujita (2013) writes on Tokyo.

Global City and Global Networks Uprooted from National and Local Entities

It took the 2008 crisis to discover just how fragily interconnected the global financial system is. This revelation brought an end to the American model of unregulated finance industry and the American hegemony in the global finance industry (Lowenstein, 2010; Vogel, 2009). If one can not see the end of free flow of global capital at the time of the crisis, the recent

Cyprus fiasco is a strong indicator that there will not be any more unregulated global capital flow. The revelation also means the end of global city and global city network theories that have heavily relied upon the American model of the global financial industry (Therborn, 2011; Fujita, 2011). Global city proponents base their hypotheses on global capital mobility that they see has superseded nation-states. They see global cities as finance and producer services centers, having replaced the nation-states as the primary global players in the world economy (Sassen, 1991; Taylor, et al., 2006). They contend that global cities are coming to dominate the world economy.

They even contend that global urban network or world city network challenges conventional, state-centric social science interpretation of globalization and that transnational spatial relations have become a key analytical lens through which to study the geographies of contemporary globalization (Derudder and Witlox, 2010). Their studies primarily focus on assessing and ranking cities according to their functions such as financial services, legal services, and advertising (Taylor, et al., 2010). Even cities in the developing world like Bangkok, Cairo, Hong Kong, and Sao Paulo are also studied in the same way to follow the global city claims in the West (Gugler, 2004). Similarly, networked cities are emphasized as the impact of information technology on cities and argued to open up the brave new world (Castells, 1992, 2000, 2011).

Despite their interests in globalization, the proponents of these theories have not sought for the complexity of the globally integrated finance industry which heavily operates on risky leveraging and inevitably faces the danger of deleveraging sooner or later (Lewis, 2010; Hale, 2011; Stiglitz, 2010a; 2010b; Morganson and Rosner, 2011). They have no clue to answer the following questions: What does the role of globally increased financial integration mean to cities? To what extent are cities exposed to risks of leveraging and deleveraging by international banks via their local banks? To what extent can local banks access the information about international banking operations? How important is leverage and liquidity shortage in local banks to cities? Are there any urban policies that address the implications of global financial integration? How effective are different policies such as reserve accumulation and capital controls in protecting urban economies from a financial crisis, national or global? Is there any variation in the financial architecture from city to city or nation to nation?

Despite banks' dependence on national governments for rescue in past financial crises in the US, East and Southeast Asia, Scandinavia, and Latin America, global city proponents have kept insisting on the ahistorical and utopian global city view uprooted from any financial crisis and nation-states.

Proponents of global city and global networks lack the articulation of city and state relations. Since they dissociate cities from the reality of capitalist urban societies nested in nation-states, they simply follow the classical free market ideology that claims that we live in a crisis-free society. In the real world, the concept of global city is, if anything, a nightmare, as a big financial crisis is bound to happen and crash financial centers like London and New York.

The 2008 crisis disclosed the reality of finance industry–state relations as well as city–state relations and revealed how groundless global city and global city network arguments were. Furthermore, they are totally blind to the global imbalances on which London’s City and New York’s Wall Street thrived. It turned out that global cities – New York and London – depended upon high risks of leveraging and geopolitics. In particular, the imperial role of the dollar as the world’s chief reserve currency cannot be ignored. Using the dollar as the world reserve currency, the US federal government made the Washington’s Dollar Wall Street consensus play a powerful role in the ascendance of American geopolitics (Gilpin, 2001; Gowan, 1999). Their arguments are dangerously uprooted from the complex reality of global geopolitics and contemporary cities nested in various national and regional configurations across the world.³⁹

Global city theory also considers globalization as the cause of growing inequality, poverty, and social and spatial polarization in cities. Yet, the 2008 crisis revealed it false that global cities like New York would face more polarization along the line of class, race, and ethnicity as globalization progressed. Between 1980 and 2010, polarization between whites and blacks measured by neighborhood residential segregation decreased from 82 to 62 in New York City and US metropolitan areas as a whole (Logan and Stults, 2011). Also, empirical studies on the relations between the crisis and the growth of income inequality as seen earlier overwhelmingly support the cause of class polarization as the result of domestic politics and policies. As discussed earlier, politics and policies – which included unionization declines, tax reform, unbridled executive pay compensation, the Federal Reserve policy to democratize credit to create demand, and deregulation – led to income transfers from the bottom to the top. The crisis clearly revealed that globalization did not play a big role in social and spatial polarization in American metropolitan areas.⁴⁰

Furthermore, despite the focus on globalization, the concept of global imbalances is totally absent in these theories. Galbraith (2007, 2012), Wade (2009, 2010) and Cohen and DeLong (2010) argue that American debt growth depending on foreign money is partially the cause of the staggeringly growing class inequality gap since 1990 and ultimately caused the 2008 mortgage meltdown in the US. Subprime mortgage

meltdown that plagued low-income people in many cities of the US was caused by easy credit in the market supplied through global imbalance as seen earlier. But no urban literature dealing with subprime mortgage meltdown addresses the global imbalances as the source of growing urban social inequality and thus the instability that ultimately led to the mortgage meltdown.

Globalization may not be right description of the US economy.⁴¹ According to Hale and Hoblin (2011) at the Federal Reserve Bank of San Francisco, the US economy actually remains relatively closed: In 2010, imports were about 16 percent of US GDP and the vast majority of goods and services sold in the United States is produced here. Take an example of “Made in China.” Imports from China amounted to 2.5 percent of GDP. Of the 2.7 percent of US consumer purchases going to goods labeled “Made in China,” only 1.2 percent actually represents China-produced content. Good and services from China accounted for only 2.7 percent of US personal consumer expenditure in 2010, of which less than half reflected the actual costs of Chinese imports. The rest went to US businesses and workers transporting, selling, and marketing goods carrying the “Made in China” label. Although the fraction is higher when the imported content of goods made in the US is considered, Chinese imports still make up only a small share of total US consumer spending.⁴²

For intermediary goods such as personal computers that use imported goods and services, 13.9 percent of US consumer spending can be traced to the cost of imported goods and services.⁴³ If we take into account imported intermediate goods, about 13.9 percent of US consumer spending is attributable to imports, including 1.9 percent imported from China. The share of Personal Consumption Expenditure (PCE) attributable to imports from China is less than 2 percent and some of this can be traced to production in other countries (Hale and Hoblin, 2011). Six out of seven American workers are employed in service industries, which are largely insulated from international competition, and even US manufacturers sell much of their production to the domestic market (Krugman, 2012a).

Market Modeled Neoliberal Urbanization

Neoliberal urbanization arguments presume that the state unravels the previous liberal Keynesian state activism and ensures the regulatory norm of market competition – freer financial markets, more privatization of public enterprises, more localized control over taxes and public services, and extension of the market model beyond the economy to government and society (Lemke, 2001; Peck and Tickell, 2002; Brown, 2006). Cities and regions play, in their arguments, a key role in the uneven

spread of neoliberalism as sites where neoliberal policies are applied, contested and selectively appropriated (Brenner and Theodore, 2002).

The crisis has revealed that seemingly neoliberal phenomena such as reduction in the welfare state and the retreat of government interventionist role in the economy. The austerity policy is also seen as neoliberal because it would reduce welfare state and public services. But even in the non-crisis time, policy intentions and effects vary from city to city, depending upon national and institutional frameworks, local politics and historical context (Pickvance, 2012; Fujita and Hill, 2012). In the crisis time, differences in policy responses and capabilities at all government levels are magnified. Unlike national government, cities and states in the US have, for example, to balance their budgets every year. Cities and states either raise taxes or cut services for balanced budgets. The initial American Recovery Act provided states with fiscal relief that preserved state and local jobs.⁴⁴ But as post-crisis recession prolonged, states and cities faced fiscal crunch and austerity politics and policies sheeped in. Cities and states started laying off public sector jobs – teachers, police, maintenance workers – and unevenly affected cities and states (Auerbach, et al., 2009; Kober and Rentner, 2011). Yet, it was in the Republican Party states that public employees lost their jobs most, while Democratic Party states kept the public sector jobs⁴⁵ (Konczal and Covert, 2012). Local politics really matters. Also, the seemingly neoliberal (and conservative) project of seeking to limit public employment and thus a small government is as old as American history. The right had long waged an unrelenting war to take over state governments (Rogers, 2004) before neoliberalism's arrival in the 1980s. Neoliberal urbanization arguments imply that disclosing neoliberal attempts at the city level is the progressive thing to do just as the left uses the neoliberal finance as the global front to fight an imaginary enemy. Yet, local politics and historical and institutional context matter and reject simplified neoliberal interpretation.

The crisis has also made it clear that deregulation cannot be explained by neoliberalism only. It has disclosed what deregulation means in the financial sector and that Washington has been captured by the money power.⁴⁶ Close relations between Washington and Wall Street at the wake of the 2008 financial crisis were often depicted as crony capitalism (Johnson, 2009). The bailout of the banking system involved government officials and Wall Street bankers who worked together to reduce government intervention in Wall Street and mutually benefitted each other (Morganson, 2012). Then, Obama came into office and vowed to end crony capitalism. But nowhere did a reckoning with justice seem more due than in the financial sector. There has not been any serious investigation of any of the large financial entities by the Justice Department and the Federal

Bureau of Investigation (FBI). Boyer and Schweizer (2012) claim that is the reason why Washington's revolving door is at work. The Obama administration is closely linked to Wall Street banks for its officials and political contribution as previous administrations have been (Krugman and Wells, 2012b). The bailout of the banks thus cannot be explained by profit-making through competition. It is corruption and crony capitalism, both of which cannot be explained by neoliberalism.

Furthermore, the crisis brought a plenty of government economic intervention and regulation to curb competition. It has firmly proved that governments have not retreated from the economy at all and that cities have not actually been powerful enough to create and lead the economy. For instance, the role of the Federal Reserve, the Pentagon, and government research institutions in the economy. Central banking always requires national government policy and mobilization as spending on national defense, infrastructure building, and basic science and technology development do in the United States (Rohatyn, 2009). As the Federal Reserve has historically intervened in the time of crises, so government research institutions like the Defense Department's Advanced Research Projects Agency (DARPA) and the National Institute of Health (NIH) have played a major role in science and technology development.⁴⁷ Government research institutions have spun new industries and created jobs. The role of the Federal Reserve as well as the Pentagon and NIH questions basic assumptions underlying neoliberal arguments.⁴⁸ Cohen and DeLong (2010: 11) argue government discretionary power in the form of technocrats in the Federal Reserve and government research institutions is perhaps needed to support a stabilizing wheel to make neoliberal arguments functional.

Most importantly, policy activism was apparent during the crisis including the Federal Reserve's creation of huge amounts of liquidity, and Congress's expansion of the social safety net and passage of large-scale fiscal stimulus programs. In particular, Obama's 800 billion dollar stimulus bill that turned into the Recovery Act represents the strong interventionist role of the federal government in the economy. The Recovery Act has played a vital role in leading an economic recovery in the aftermath of the 2008 crisis. Michael Grunwald (2012) meticulously demonstrates that the Recovery Act has marked a pivotal shift to a clean energy economy, doubled renewable, and financed unprecedented investments in energy efficiency, a smarter grid, electrical cars, advanced biofuels and green manufacturing. Like the first New Deal, Obama's stimulus has created legacies that last: the world's largest wind and solar projects, a new battery industry, a fledgling high-speed train, and the world's higher speed Internet network (Grunwald, 2012).

Towards New Critical Urban Theory

The crisis perspective leads us to reckon with the reality that market economy, which is inherently unstable, cannot be escaped from a financial crisis, the reality of globalization that global imbalances may lead to a financial crisis and exacerbate the global environment, and the correlation that urban inequality growth is related to the financial crisis. New critical urban theory must embrace the crisis perspective. Chapters in this book attempt to do that.

Cities in the Post-crisis World Order

The crisis perspective makes it clear that the power of cities does not exist independently of their nation-state power in the given world order. The 2008 global financial crisis has firmly proved that nation-states, but not cities, wield power. Göran Therborn (2013) reexamines, historically, city power that is located in the national power but not in the global economic power in “The Power of Cities and the Cities of Power.” World/global city theory locates, Therborn argues, the power of global cities on places as global cities wield power as a command point of the world economy or business networking point. But the financial crisis of 2008 has demonstrated the falsity of the stateless global cities argument as nation-state governments bailed out the failed banking system. In Therborn’s view, cities do not have power. Cities of power are only urban manifestations of national, sometimes also imperial and/or global, power. Cities of power are rather overwhelmingly located in national capital cities. Cities are built history, which have to be understood as juxtapositions of coexisting historical layers, in a power vision of historical layers of power. Therborn also examines how the post-crisis multipolar world order affects capital cities of the world. In the conclusion, cities have, Therborn asserts, to be recognized, understood, and analyzed as built environments of people. An approach to cities, more on the lines of Shakespeare and Mumford than of the world economy, has something to teach us, of urban culture and politics, of the urban something more than a business location that global city and global network proponents emphasize.

Global Financial Crisis but a National Cause and Solution

Why is another crisis likely to occur soon? Only the crisis perspective can tell why. Chris Pickvance contends that it’s important to understand why the crisis happened in a given nation. Pickvance (2013) explores specific institutional factors that caused the crisis in Britain and refutes critical

urban explanation that the subprime crisis in the US played a crucial and necessary role in the US and UK financial crisis via the global interconnections between banks. Pickvance provides the cause of the UK financial crisis in “Conflicting Interpretations of the UK Financial crisis: Was the US Subprime Crisis the Prime Mover?” Pickvance argues that the banking systems in the US and UK had developed in a fundamentally unstable way and that this was the primary cause of the financial crises, with the subprime crisis playing at most a contributory role. By using the sociology of knowledge, Pickvance explores how various state crisis policy proposals and banking reforms have exposed the instability of the UK banking system, the direction of state interests and the realistic position of state’s relations with the city of London and global forces (international banks). And he reaches the conclusion that the minimal degree of reform in the banking system and its regulation shows the continuing dominance of the finance sector over government, relative to households and business. Pickvance warns that a future banking crisis is entirely possible.

Green Urban Economy for the Twenty-first Century

The 2008 global financial crisis has forced cities to depart from the current way of consumption and production and lead to a radical shift to the green economy. New York City is one of such cities which want to be the global center of the green economy. Michael Indergaard (2013) provides how the crisis has enabled the city of New York to plan to move to such a green economy in “After Wall Street? New York’s Green Economy Imaginaries.” Highlighting multiscalar politics in promoting the green economy at federal, state, and city levels, Indergaard attempts to weave the efforts of various groups and organizations engaged in planning the green economy – in particular, the elite clean tech and green collar movement coalitions – into a new institutional framework that may work as a vision for green urban development. The new institutional framework can, Indergaard argues, transcend the fragmented policy and governance system inherent in the US intergovernmental system and enable locally based green collar movement coalitions to garner influence through taking brokering roles. He concludes that the new framework not only goes beyond the current urban development model but also opens up the new development model in multiple sectors: the elite clean tech vision stresses professional-managerial and entrepreneurial occupations in the city’s already established sector such as culture, creative and information and the green collar movement coalitions call for more expansive inclusion of working class and lower middle class occupations.

Implications of Region-based Banks in the Crisis

The crisis perspective leads us to see the varieties of capitalist society where banks operate differently. Some countries are more affected by the 2008 global financial crisis, while others like Germany and Sweden are less affected this time. Why? Answers lie in the fact that the world consists of various forms of market economy or “varieties of capitalist society.” Stefan Gärtner (2013) presents merits of Germany’s region-based banks and reasons why the 2008 crisis hit Germany less in “World Capitals of Capital, Cities and Varieties of Finance Systems: Internationally-versus Regionally-oriented Banking.” Gärtner explores the advantages of regional banks embedded in Germany vis-à-vis borderless global banks in the US and UK. Gärtner questions if local outlets of international banks concentrated in the world’s financial hubs could serve customers more efficiently than Germany’s region-based banks. Comparing between German region-based banks and centralized financial centers raised by global city proponents, he argues that regionally oriented banks based on spatial proximity constitute the stability of the financial industry, reduce risks of the credit crunch, and bring trust, confidence, and a sense of responsibility together. The strongly regulated and regionally oriented banking system also reduces the risk of financial crises. In this regard, he raises questions whether the world/global cities are as powerful and wealthy spaces as world city proponents have so far claimed. Gärtner concludes that urban analyses can, for instance, deal with the question of how disparities within cities and the connected downward spirals in some areas could be broken and – to make the connection to finance – how “real” (social) innovations could help to finance local economies, even if these loans cannot be securitized and dealt with internationally.

The Impacts of the Financial Crisis on Urban Neighborhood

The financial crisis impacts cities in various ways. The signs of economic distress are most symbolically aggregated in urban spaces already filled with markers of inequality and poverty. Jerome Krase and Timothy Shortell (2013) visualize the impact of the crisis on neighborhoods in New York City: Catastrophic housing closures and dynamic urban movement like Occupy Wall Street. They present in “Seeing New York City’s Financial Crisis in the Vernacular Landscape,” how dramatically the financial crisis has destroyed and transformed urban neighborhoods through visual data. They focus on the effects of the crisis in the form of residential and business property foreclosures, homelessness, rising unemployment and shelter populations, vacant unsold or unsalable real estate, construction projects halted by lack of funding, residential and commercial rental and price

declines, reverse migration, as well as less typical indicators of economic downturn such as closing or reductions of government services, changes in preferences for eating out such as less expensive restaurants and the recent practice of alternative uses for vacant store windows such as those used for free displays of artwork. They conclude that sociological analysis of visual data can be a tool to understand how urban neighborhoods are changing as a result of the global financial crisis and that these transformations demonstrate the complex effects of economic decline.

Port Cities in the Global Urban Hierarchy

The crisis perspective, in addition to climate change, makes it possible to measure the sustainability of port cities. Alex Hicks and Ryan Hicks (2013) focus on port cities which global city and network theses have so far neglected. They argue the importance of port cities in the global urban hierarchy. They investigate in “Ports in the Global Urban Hierarchy” how port cities play the prominent role in the global urban hierarchy but question the sustainability of the port cities from financial risks coming from the crisis like the 2008 global financial crisis and the risk of sea-level rise due to global warming. Their research findings on port status as a factor for what cities dominate and what risks these cities face hardly invalidate the relevance of the corporate-production-based global urban hierarchy. Their research also demonstrates the incompleteness of the global city tradition of scholarship as a basis for understanding the economically prominent modern city. Furthermore, they stress the importance of placing modern city in the context of what remains of the global natural system, in particular, its aquatic aspect. They conclude stressing natural environment as inextricable as global production and finance.

The City under the Sovereign Debt Crisis

The crisis perspective makes it clear why the sovereign debt crisis within the eurozone is bound to happen. Nicos Souliotis (2013) argues in “Athens and the Politics of the Sovereign Debt Crisis” that the current EU governance style besets the EU’s nonhierarchical and collaborative policy-making procedures that involve state and non-state actors and political institutions of different levels (international, supranational, national, and urban). Souliotis investigates how Athens’ urban policies are now largely subordinated to the EU level politics that involve harsh intergovernmental bargaining, the coordinative role of the European Commission and the participation of international organizations like the IMF. Souliotis found that intergovernmental tensions between Greece and the EU are in a more top-down and elite-controlled direction under the Greek sovereign debt

crisis. The destiny of the city is not shaped by local or even national elites but by intra-EU interstate relations. Souliotis concludes that urban realities in Greece and contradictions inherent in the EU governance system may change the EU's top-down policy.

The Crisis and Urban and Global Insecurity

It is the crisis perspective that connects all dots of urban violence and protest movements in many cities of the world. The 2008 global financial crisis and its aftermath have a far-reaching impact on urban orders and security issues as seen in protest movements in many cities of the world. Sophie Body-Gendrot (2013) highlights disorders and mobilizations in cities as seen in the Arab spring and emphasizes the dark and dangerous effects of globalization in "Globalization and Urban Insecurity: Comparative Perspectives." Body-Gendrot argues that a growing disenchantment with financial domination over economic and political governance and the indebted states' choice of imposing policies of austerity in order to cut social expenditures, while rescuing the banks, have been a trigger to indignant movements expressed visibly in public space. The Occupy Movement and other crisis-related urban movements share the same growing concern about inequality, corruption, and the lack of opportunities with urban movements in Madrid, Tel-Aviv, London, New York, Santiago, Mexico, etc. Yet she rejects one-dimensional view that global factors cause this local unrest and instead emphasizes the local and national context that allows or does not allow mobilization and the formulation of alternative strategies. She provides following reasons why local actors are shaped by the past history and opportunity structures in national and even global conditions and constrained by legal and economic forces. While there is a convergence of social and economic forces at work with a worldwide financial crisis impacting cities' instability, the response differs according to country, region, and city. Body-Gendrot concludes that isolating episodes of urban unrest allows seeing whether and how they fit into a whole set of theories and practices, to examine the balance of social forces, power relations, political-institutional arrangements, marginalization and exclusion, and possible alternatives of empowerment.

Financial Crises, the Growth of Income Inequality and Urban Spatial Polarization

The crisis perspective is crucial to see connections between contemporary urban income inequality and spatial polarization. Contemporary urban theories tend to imply that globalization, neoliberalization, and technological

changes are the cause of growing class inequality, poverty, and social and spatial polarization in cities. But a financial crisis may cause the growth of income inequality and social polarization as the 2008 crisis triggered much study on relations between financial crises and income inequality growth in the United States. Kuniko Fujita (2013) investigates the case of Tokyo, focusing on Japan's two financial crises: the 1990 crisis and the 2008 global financial crisis in "Financial Crises and Spatial Income Inequality: The Case of Tokyo." Looking into spatial income inequality growth among Tokyo's neighborhoods, Fujita argues that there is a strong correlation between Japan's two financial crises and Tokyo's spatial income inequality growth patterns. Fujita also shows that spectacular bubbles were concentrated in Tokyo's central core area, while catastrophic busts affected all neighborhoods of Tokyo. Furthermore, Fujita presents Japan's redistributive system and national and urban politics and policies which keep the effects of the crises on Tokyo's spatial income inequality growth relatively moderate. Fujita concludes that contrary to popular urban claims, the financial crises are the main cause of Tokyo's spatial income inequality growth.

Notes

1 This collection has been developed from papers presented in ISA-RC21 (Regional and Urban Research Committee) program, XVII ISA World Congress of Sociology, Gothenburg, Sweden, July 11–17, 2010.

2 Some people think of the 2008 crisis as one of typical cyclical financial crises that have occurred numerous times in the past and that have not inflicted much enduring damage on the main street economy. Others also think that the financial industry has little relevance to the main street economy—where the jobs, factories, and shops are. They, therefore, think the crisis in the financial industry is irrelevant to the main street economy.

3 Continued recessions in many countries and in particular the deepening European crisis have effected on the slow growth of developing countries (IMF, 2012).

4 McKibben (2012) also insists that many scientists think that any number much above one degree involves a gamble and the odds become less and less favorable as the temperature goes up.

5 Much of the profit in fossil-fuel companies like BP, Exxon, Gazprom and countries like Saudi Arabia stems from a single historical accident: Alone among businesses and countries, the fossil-fuel industry is allowed to dump its main waste, carbon dioxide, for free. It is the fossil-fuel industry and countries which act like fossil-fuel companies that oppose regulation and international accord on climate change (McKibben, 2012).

6 See more Occupy Movement at <http://occupywallst.org/>, <http://interoccupy.net/>.

7 Eichengreen and O'Rourke also argue that a major difference would be that a recovery path from the crisis recession is slower in the current crisis than in the 1930s.

8 I relied on Keynesian macroeconomic theory which has proved right in the analysis of the 2008 financial crisis. And I also relied on Keynesian economists, who provided, in the words of Jonathan Portes (2012), empirically testable predictions that proved to be broadly consistent with the data and base those predictions on an analytic framework that was persuasive. This does not mean that all Keynesian theories are without critiques. For

example, Shiller (2011) criticizes Reinhart and Rogoff (2010) who argue that when government debt exceeds 90 percent of GDP, countries suffer slower growth. Shiller points out that Reinhart and Rogoff picked the 90 percent figure almost arbitrarily and chose without explanation, to divide debt-to-GDP ratios into the following categories: under 30 percent, 30–60percent, and over 90 percent. Krugman also refutes their 90 percent figure with historical evidences that the British economy grew under high degrees of debt in the 1950s and 1960s (Krugman, 2013).

9 The urban protest movements the crisis triggered may be broadly seen as a global wave of social and political turmoil and instability in the early twenty-first century: the Arab Spring in Cairo, riots in London (Ponticelli and Voth, 2011), Chilean student protest movement in Santiago (Wilson, 2012), middle class protest movement in New Delhi (Yardley, 2011), and protest against corruption and inequality in Dalian and other Chinese cities (Bradsher, 2011). They express concerns for future, employment prospects, security and sustainability by the young and working and middle classes living in cities.

10 Finance then progresses from what Minsky called hedge, in which interests and principal are repaid out of expected cash flow, to speculative, but debt needs to be rolled over, and finally to Ponzi, in which both interest and principal are to be paid out of capital gains (Wolf, 2012).

11 Following Polanyi (1944), Aglietta (1998) contends that the rise of finance capital in the 1980s in the US and UK led to the collapse of the postwar regulation regime or global Keynesian policy that essentially supported an unprecedented economic growth in the world economy.

12 This is well documented in books by Washington insiders like the Federal Deposit Insurance Corporation (FDIC) chairman Sheila Bair (2012), the Special Inspector General in charge of the Troubled Asset Relief Program (TARP) Niel Barofsky (2012), and the former vice chairman of the Federal Reserve Board Alan Blinder (2013).

13 Krugman (2009a, 2009b) maintains that Keynes pointed out that the supply of saving was endogenous, depending on the level of output or GDP.

14 IS represents Investment and Saving.

15 LM represents Loans and Money.

16 IMF (2012) has belatedly reached this conclusion in *World Economic Outlook*.

17 Wall Street fights to delay, water down and/or repeal reregulation and financial reform such as Volcker Rule, which would prevent banks with government-guaranteed deposits from such bets. If there is one lesson from the financial crisis, it is that unregulated derivatives are prone to catastrophic failure. Yet nearly six years after the financial meltdown, the multitrillion-dollar derivatives market is still dominated by a handful of big banks in the US and reregulation is slow everywhere. Properly regulated, derivatives–financial instruments that hedge risk, help to stabilize the economy. Unregulated, they are all too easily converted into tools for vast speculation, as demonstrated by their role in inflating the real estate bubble, amplifying the bust and provoking the bailouts. Even if they don't cause a meltdown, unregulated derivatives are economic threats. That's because derivatives have become deeply embedded in the market economy. Pension systems use them to hedge investment risk. Food and energy companies use them to lock in crop and energy prices. Airlines and manufacturers use them to lock in prices for fuel or metal. But because there is no central exchange where derivatives' prices are listed, no one knows if the prices banks charge are reasonable.

18 The global imbalances may be called the global demand imbalance or global imbalances between consumption and production or global payment imbalances or global account imbalances or trade imbalances.

19 Both global saving glut inflows into Treasuries and European acquisitions of ABS played a role in contributing to downward pressures on US interest rates (Bertaut, et al., 2011).

20 The huge stimulus of RMB4 trillion (\$586 billion) in November 2008, mostly poured into loss-making state-owned enterprises via directed bank lending, sustained China's growth in the face of global recession. But the price was an increasingly serious misallocation of capital, resulting in growing portfolios of bad loans, while excessive Chinese household savings have inflated real-estate bubbles.

21 There are three ways this could happen: (1) deflation in the United States; (2) inflation in the rest of the world; and (3) a depreciation of the dollar against other currencies (Krugman, 2009b).

22 At the peak of the boom, Spain was building nearly a million houses a year. In 2012, it built a hundred and fifty thousand (Paumgarten, 2013).

23 The European Financial Stability Facility, the temporary bailout fund was created by eurozone countries. Each member state can veto its actions, and loan guarantees are issued by individual nations, not the Union as a whole. This dysfunctional decision-making system has not improved since it began in late 2009. The European Commission has gradually taken greater power in crisis responses but cannot come up with a correct solution to satisfy divergent national interests.

24 Iceland also took a radical policy solution by letting banks go bankrupt and a usual policy of devaluing its currency (Lewis, 2011).

25 MGI study shows that a long period of deleveraging nearly always follows a major financial crisis. Deleveraging episodes are painful, lasting six to seven years on average and reducing the ratio of debt to GDP by 25 percent. GDP typically contracts during the first several years and then recovers (MGI, 2010).

26 To be competitive again, inflated wages in GIPSI must lower than those in Germany. As the case of Ireland shows, internal devaluation takes a long time. Besides, German labor market conditions compound the difficulty of narrowing wages gaps. Labor is kept in the times of economic downturns in Germany (Norris, 2012b), while labor is fired in bad times in Ireland and other European periphery. Differences in labor market policies between Germany and the periphery make it even much harder to narrow competitive gaps in the eurozone area.

27 Spanish bond interest rates continued to rise and remained high. Despite high interest rates among GIPSI, a speech by Mario Draghi (2012), president of the ECB, showed that the ECB did not grip with the urgent reality of the euro crisis.

28 Ahamed writes that Germany experienced the single greatest destruction of monetary value in human history. By August 1923, a dollar was worth 620,000 marks and by November 1923, 630 billion marks (Ahamed, 2009: 121). Hungary in 1945–46 and Zimbabwe in 2008 experienced worse inflation than Germany. But Hungary then and Zimbabwe in 2008 were tiny economies. Germany in the 1920s was the third largest economy in the world (Ahamed, 2009: footnote on page 121).

29 A political veto by Germany blocked the boldest solutions proposed by many economists, like mutualizing Europe's debts, issuing common eurozone bonds or creating a joint bank resolution and guarantee system. With countries locked into the single currency and unable to devalue, the only option was for stronger member states to bail out the weaklings while imposing eye-watering austerity conditions to make them cut public spending, wages and pensions.

30 If national banks do not have excess reserves, they can borrow from their national central banks which then borrow from the European Central Bank. The European Central Bank gets the money mostly from the Bundesbank as the German banks have more deposits

than they need, and they deposit money with the Bundesbank. The largest lender to the European Central Bank under the program – 644 billion euros at last count – is the Bundesbank. But the national banks of Luxembourg, Finland and the Netherlands are also substantial creditors (Norris, 2012b).

31 According to Eurostat Newsrelease (2012), per capita ranges from 45 percent to 274 percent of GDP percent with 27 EU member countries.

32 According to Krugman (1999), Robert Mundell (1968), the father of the euro, actually suggested that having an optimum currency area like the euro was a bad idea given the lack of labor mobility. Peter Kenen (1969) also warned that the euro could be flawed without fiscal integration.

33 German Chancellor Angela Merkel knew that the EU needs fiscal and political integration in the long run (Applebaum, 2012). For the short term plan, Merkel has demanded structural reforms to troubled debt countries, something like wage restraint and greater labor-market flexibility that could mirror those Germany adopted over a decade ago. Merkel was also quoted to say that Germany will do anything to help troubled countries. But help needs to be by German terms (Kulish and Geitner, 2012). German terms are austerity policy.

34 Cited in Castel (2012).

35 While both Stiglitz (2012c) and Krugman (2012e) see the survival of the euro itself in doubt, Sabel and Zeitlin (2012) provides more optimistic view of the European Union.

36 CBO reports that income after transfers and federal taxes for households at the higher end of the income scale rose much more rapidly than income for households in the middle and at the lower end of the income scale. In particular, for the 1 percent of the population with the highest income, average real-after tax household income grew by 275 percent (CBO, 2011). For others in the 20 percent of population with the highest income (those in the 81st through 99th percentiles), average real after-tax household income grew by 65 percent over that period, much faster than it did for the remaining 80 percent of the population. For the 60 percent of the population in the middle of the income scale (the 21st through 89th percentiles), the growth in average real after-tax household income was just under 40 percent. For the 20 percent of the population with the lowest income, average real after-tax household income was 18 percent higher in 2007 than it had been in 1979. The Internal Revenue Service's income tax return reports also show that income shares of the top 1 percent grew much larger than those of the top 5 percent and the top 10 percent which hardly changed between 1986 and 2008 (IRS, 2012).

37 Even being published after the 2008 crisis, recent urban theory readers such as Corey and Boehm (2010), LeGates and Sout (2010), and Judd and Simpson (2011) do not include any crisis perspective, let alone recently revised version of urban sociology readers like Campbell and Fainstein (2011), Gottdiener (2010) and Lin and Mele (2012).

38 Many Keynesian economists identify Fannie Mae and Freddie Mac—with their low-income and subprime mortgage portfolios—as being only secondary supporting actors in the financial crisis (Krugman, 2012a; Blinder, 2013).

39 They look for presumed outcomes of their arguments: urban polarization as effects of the global city; gentrification and regional uneven development as the effects of finance capital domination in urban development.

40 The effects of international trade – in particular, imports from developing countries – on US wage inequality have been debated. Some argue that imports lower wages and increase unemployment (Biven, 2007; Lawrence, 2008; Autor, et al., 2012; Scott, 2012), while others argue that the growth of international trade on the distributional effects cannot be quantified and requires a much better understanding of the increasingly

fine-grained nature of international specialization and trade (Krugman, 2008: 135). Other economists like Robert Gordon also argue that changes in the wage inequality are unlikely to be explained by one factor alone, especially trade. For example, Acemoglu and Autor (2012) contribute wage inequality to technological change. Similarly, Barlett and Steele (2012) argue that the loss of manufacturing job too was partly caused by technological evolution but not only by international trade and production shifts to lower wage countries.

41 According to US International Trade Commission (2011), the US is one of the world's most open economies. US International Trade Commission claims that the US average tariff on all goods was only 1.3 percent on an import-weighted basis in 2010. This means that the US is highly integrated in global supply chains.

42 For instance, Hale and Hoblin (2011) show that a pair of sneakers made in China costs \$70 in the United States, not all of that retail price goes to the Chinese manufacturer. In fact, the bulk of the retail price pays for transportation of the sneakers in the United States, rent for the store where they are sold, profits for shareholders of the U.S. retailer, and the cost of marketing the sneakers. These costs include the salaries, wages, and benefits paid to the U.S. workers and managers who staff these operations. Another example is iPhone. In 2009, it cost about \$179 in China to produce an iPhone, which sold in the United States for about \$500. Thus, \$179 of the U.S. retail cost consisted of Chinese imported content. However, only \$6.50 was actually due to assembly costs in China. The other \$172.50 reflected costs of parts produced in other countries, including \$10.75 for parts made in the United States. The rest are for transportation, marketing, storing, selling, etc.

43 This is substantially higher than the 7.3 percent, which includes only final imported goods and services and leaves out imported intermediates. Imported oil, which makes up a large part of the production costs of the “gasoline, fuel oil, and other energy goods” and “transportation” categories, is the main contributor to this 6.6 percentage point difference.

44 The American Jobs Act proposed \$35 billion that would have prevented hundreds of thousands of ongoing layoffs. But it diminished in the dysfunctional Congress and was left with the fiscal drag.

45 In particular a handful of Republican-controlled states and cities saw massive public sector job losses (Konczal and Covert, 2012).

46 Jeff Connaughton, a former Washington public insider, described how the influential industry – the lobbying, the media campaigns, grassstoppers, the revolving door – dictated power over financial reforms in Congress in George Packer's article (2012).

47 Jet aircraft in Seattle and biotech and electronics around Boston and California's Silicon Valley were always inconceivable without the MIT, without Stanford, without NIH, and without the Pentagon (Cohen and DeLong, 2010:11).

48 Also, deregulation, austerity policy and lower corporate taxes cannot always be seen as neoliberalism. The business community is not always in favor of deregulation, lower taxes or lower spending. While major trade organizations like the National Association of Manufacturers and the Business Roundtable favor government spending that supports businesses, the Club for Growth is against it. Large companies also often support more regulation as regulation functions as a mechanism for price fixing like the old Interstate Commerce Commission. Furthermore, businesses favor some types of government spending such as defense contractors, free public education, which historically gave them a more skilled workforce.

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