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Book section

Original citation:
Originally published in Calhoun, Craig (2013) *What threatens capitalism now?* In: Immanuel, Wallerstein, Randall, Collins, Michael, Mann, Derleugian, Georgi and Calhoun, Craig, (eds.) Does Capitalism Have a Future? Oxford University Press, Oxford, UK. ISBN 9780199330850

Forthcoming in I. Wallerstein, R. Collins, M. Mann, G. Derluguian and C. Calhoun: Does Capitalism Have a Future? (Oxford University Press 2013)

5. What Threatens Capitalism Now?

Craig Calhoun

Capitalism appears to be surviving the worst financial and economic crisis since the Great Depression. Though its lows were not as low, in the world's rich countries this has brought a longer period of depressed or absent growth than the Depression itself. Moreover, the current crisis comes on the heels of a damaging era of lopsided financialization, neoliberal weakening of social institutions, and intensified inequality. This exacerbates problems, undercuts capacity to deal with them, and reduces the buffers that protect ordinary people from the effects of economics upheaval. Investors are still making money; no states have completely collapsed. Yet the future looks precarious.

However, this and most talk of collapse, reflects views from the old core countries of the capitalist world-system and their close neighbors as they lose their privileged and profitable position. The views are different from many places in Asia, Africa, and Latin America. The current crisis both reveals and accelerates a shift of economic momentum away from longstanding core economies in Europe and North America towards newly developing regions. A key question for the future of capitalism is whether this momentum can be sustained. Capitalism is being transformed through this West to East and North to South shift, perhaps in ways that will restore its vitality. But the rapidly growing economies also face challenges. And renewed capitalist growth in the old "core" economies also depends on transformation, particularly in the relationship of capitalism to political power and social institutions. Crucially, capitalism is vulnerable not just to market upheavals, excessive risk-taking, or poorly managed banks but also to wars, environmental degradation and climate change, and crises of social solidarity and welfare.

To think well about how capitalism may face decline, or be renewed, or be transformed, we need to recognize that it is not a perfectly self-contained system. One may abstract from more complex historical conditions to examine a putatively pure capitalist system. But the lived reality of capitalism always involves articulation with non-capitalist economic activity and with political, social, and cultural factors; it is a legal and institutional as well as an economic system. And many of the deepest threats capitalism faces come from its dependence on factors beyond the purely economic.

I will argue against the notion that capitalist collapse is imminent, and suggest that if capitalism were to lose its dominant place in global economic affairs this would more likely come about through protracted transformation and the rise of other kinds of economic organization alongside continuing capitalist activity. But this doesn't mean capitalism's long-term future is assured.

First, there remain issues of systemic risk and the balance of finance with other economic sectors. Second, capitalist profitability often depends on externalizing the costs of its activities – human and ecological as well as financial. Issues like pollution or unemployment in volatile markets demand the attention of governments or other social institutions. There is a deficit of institutions to do this work; social development has lagged behind economic growth where capitalist growth is newly rapid, and neoliberalism and inequality have weakened the institutional capacities of Western countries and even created challenges for political legitimacy. Third, capitalism is vulnerable not only to "intra-economic" or institutional factors, but also to external issues like climate change and war. There are questions about the extent to which capitalism – that historically unparalleled machine for producing economic growth - is up against environmental limits to growth and potential geopolitical conflicts exacerbated by unequal growth.

In each of these areas, dealing with the threats to capitalism may transform it, not cause its collapse. Together, they may bring about a world in which capitalism remains enormously important and potentially recovers some of its vitality, but is no longer able to organize and dominate a world-system to the degree it has through recent history.

Why not collapse?

The idea of capitalism simply collapsing, as say the Soviet Union collapsed, is a bit misleading. This implies suddenness, a transition over just a few years from existing to not existing. The Soviet Union could cease to exist almost overnight because it was a particular institutional structure – a state – and its legal form could be dissolved. But capitalism is not strictly analogous.

As a state, the USSR was a kind of corporation, and it was in the first instance this corporation that dissolved. But of course the dissolution of this legal-political structure also brought wide-reaching changes in other relations of power and practical activity. Still, many institutions that had been knit together through the Soviet state continued to exist with varying degrees of change in its absence. The city of Moscow had a legal and institutional status in the Soviet Union and a not completely dissimilar one in the successor Russian federation and republic. Gazprom changed more. Its creation in 1989 restructured the legal status and operating organization of the pre-existing Russian gas industry. But after the dissolution of the USSR, Gazprom was privatized in 1992 and has since operated as a joint-stock company. It was subjected to asset-stripping in the 1990s, then partially reintegrated and brought under state control in the first decade of the 2000s. In similar fashion one could trace a long list of partial continuities and partial transformations.

Nonetheless, Derluguian's account of how the USSR could be treated as stable and obviously enduring almost to the moment it reached its end is instructive. It is a mistake to view the future only in terms of linear projections without considering possible sharp discontinuities. Derluguian reminds us of how pressures can build up to make a system both hard to sustain and vulnerable to small actions and events that have large consequences because of the unstable integration of the whole. He reminds us also that even a large structure that has come to be taken for granted as providing the basic context and conditions for the rest of life can be much more mutable than its surface continuity suggests. But we should recognize that the Soviet Union was not equivalent to socialism and thereby somehow directly analogous to capitalism. It was something more particular and of a different order.

This is so whether we treat capitalism as a set of practices that can be undertaken by capitalists anywhere, or as an economic system that knits together enterprises, markets, investments, and labor throughout the world. Capitalism is a historical formation, grounded as Michael Mann would say in a set of power networks. It has existed for the last 400 years primarily in the form of the modern world-system that Immanuel Wallerstein has analyzed. This is a hierarchical and unequally integrated organization in which the primary units are nation-states and economic actors are crucially dependent on relations with and conditions provided by political power.

To be sure, the idea of a nation-state is in a sense aspirational; the suturing of socio-cultural identity to governmental institutions is never perfect; economic integration can itself advance national integration and certainly economic actors also influence government. Yet even if partially a fiction, the nation-state is a crucial formal unit for participation in global affairs, reproduced in political isomorphism. Most international organizations are literally that

– structured by nationally organized participation. And states organized in this way provide crucial underpinnings to capitalism. They provide the legal and monetary bases for both firms and markets. They manage, or provide settings for the management of interdependence among different firms, industries, and sectors. By organizing structures of cultural and social belonging, however imperfectly, and sometimes by regulating markets, they organize workforces, consumer markets, and trust. The term "nation-state" may be only shorthand for "efforts to organize politics and socio-cultural belonging in terms of nation-states" but the era of capitalism and the era of nation-states have been one and the same. There is no "real" capitalism, no matter how global, that isn't conditioned by this political-economic and socio-cultural organization. The import of this is that existing capitalist prosperity and sustainability depend on nation-states and institutional affordances they have provided. These must be renewed or replaced. Yet, for 40 years the OECD countries have turned away from this task. Instead they have hollowed out the "welfare state" institutions of the past, reducing costs and pursuing immediate competitiveness but neglecting the long-term well-being and security of their populations and the collective investment that enables future economic participation.

That said, most of the old capitalist countries of Europe or European settlement are not at the point of immediate collapse. Britain's National Health Service still works, though costs are rising and threaten national budgets. The US has actually, very belatedly, improved health provision (particularly addressing the large number of people who do not get health benefits from their jobs). And so forth. There has been great erosion. National budgets are in deficit and do not allow for easy rebuilding. But it is not necessarily too late to get houses in order. A wakeup call comes from those European economies that face such dire fiscal crises that they can only cut support for their citizens – precisely at a moment when they need it urgently. Spain, Portugal, Ireland, Italy, Greece, and Cyprus have teetered on the brink and others may. But this threatens the European Union more than capitalism as such.

Capitalism could swing further and further out of equilibrium. This might represent the irreversible "bifurcation" of a quasi-natural system (as Wallerstein has it, following Prigogine) or the failures of regulation, corporate strategy and investor prudence in a chaotic capital markets or indeed simply weak institutional coordination among dispersed and differently interested actors. It could represent a failure to distribute wealth widely enough to create demand for enhanced productivity, one possible consequence of the decline in job creation Collins envisages (though the political consequences of unemployment may be more immediate). Whatever the underlying dynamics, loss of a stable equilibrium increases the costs of trying to hold the capitalism together, heightens political strains, and produces social tensions. This kind of disequilibrium is one way of interpreting what crises mean, and the greater the disequilibrium the more difficult and expensive the action required to restore equilibrium.

Nonetheless, I think capitalism is not likely to collapse. It may lose some of its grip on the course of social change. It may organize less of social, economic, and political life. But the image of collapse is misleading. To say the Roman Empire collapsed is meaningful, but it is worth noting that it took over 200 years, not just a single crisis. To say feudalism collapsed and in the process gave birth to modern capitalism – the schema offered in *The Communist Manifesto* – is less realistic. First, feudalism was not "systemic" in quite the sense modern capitalism is. But second, there was no moment of the collapse of feudal relations or related institutions. The long decline in feudal relations came in an era of state-building and war, of agricultural innovation and growing global commerce, of religious revitalization and Reformation – and it lasted at least 300 years. It was not simply a collapse. The Catholic Church was deeply transformed during the era when feudalism declined, and never played the same role afterwards, but it survived. Many monarchies disappeared, though not all; some managed transformations enough to remain – and sometimes remain significant – in an era that could hardly be called feudal.

The end of the capitalist era, if and when it comes, is likely to be comparably rough, uneven, and hard to discern in mid-process. There will be institutions that survive it, including quite possibly many business corporations, which needn't stop trading, manufacturing, or speculating just because capitalism stops being the driving force of the age. The effort to buy cheap and sell dear long predated capitalism and likely will last long after.

Capitalism in general and finance-dominated capitalism in particular

Capitalism creates a variety of problems for itself, for human society, and for nature. But for the most part these problems don't drive capitalism into potentially fatal tailspins. Extreme financialization does produce such vulnerability.

Finance is of course a basic part of capitalism, providing it with dynamism, capacity for rapid expansion, and tools for managing costs over time. It has been crucial to technological revolutions. More generally, it is central to the basic, definitive ability to move capital from one investment to another based on anticipated greater profits.

As its name suggests, capitalism is centrally a way of organizing economic activity through the fluid deployment of wealth – capital – by means of investments in different kinds of profit-making enterprises. Capital is invested or investable wealth. Finance – including straightforward debt but also a range of tradable securities - is an important part of this, crucial to the liquidity and mobility of capital as well as to expansion and spreading costs over time. Entrepreneurial dynamism depends on financial backing. But lopsided financialization can be distorting in a variety of ways. It brought dramatic increases in domestic income inequality in all the major capitalist economies; it channeled funds away from investment in productive enterprises. It fueled a long "megabubble" in asset prices, including the more specific bubble in mortgage-backed housing prices that helped precipitate the 2008-9 crisis. It encouraged speculation.

During the years before the 2008-9 market crisis, trading in equities and debt overtook employment-generating and profit-sharing industries in the old core of the capitalist world-system. Where financial instruments accounted for only a quarter of invested assets in the 1970s, by 2008 financialization had brought the total to 75%. Globally, financial assets accounted for some 4 times the value of all equities and 10 times total global GDP.

This was a global phenomenon, shaped by a range of factors largely dating from the 1970s and accelerating toward the end of the 20th century. Because of its unpopularity, the US financed the last years of the Vietnam War largely on credit. Seeking to manage economic difficulties in the 1970s, the US and other core capitalist countries brought the Bretton Woods monetary system to an end, replacing the stabilization of backing by precious metals with floating, infinitely tradable fiat currencies. After the 1973 Arab-Israeli war OPEC oil producers restricted supply, vastly multiplying their returns from a world deeply dependent on petroleum and then channeled much of the money into sovereign wealth funds. But financialization was at its most extreme in the world's longstanding core capitalist economies (and weaker economies yoked to them, for example by membership in the European Union). And while it was led by big capital it also drew in ordinary citizens who saw their incomes stagnate but continued high levels of spending by relying on credit. A better balance between productive industrial enterprise and finance is in fact one of the advantages of today's higher growth economies like China or India as they move from semi-periphery to core in global capitalism.

The recent financial crisis reveals the main internal vulnerability of capitalism. This is systemic risk – that is, risks embedded in the complex web of internal connections that make up the modern financial system. It is important to be clear about this and about the nature of the crisis. This was not a "classic" capitalist crisis of overproduction and underconsumption. While it had a wide range of impacts in the "real" economy of manufacturing and consumption, it was first and foremost a financial crisis. Its impact was multiplied by the enormous growth in global finance during the decades preceding, and especially the extent to which financial assets came to dominate especially in advanced Western economies. It was this that made overleveraging, excessive risk-taking, poor or absent regulation, and the heavy use and abuse of a range of new financial technologies so dangerous and ultimately so damaging. Not only did financialization increase the scale of financial assets, thus increasing the impact of a financial crisis. In addition and more basically, it increased the interconnection of capitalist institutions joined not only in more or less transparent market transactions but also in a host of complicated and often opaque financial relationships. This was particularly true of the financial industry. When major banks were described in 2008-9 as "too big to fail" it might have been more accurate to say: "too connected to fail". But financialization did not only affect firms in the financial sector; it became a basic part of all large-scale global capitalism. Car companies became auto-finance companies. Mining companies were tied centrally to exchange-rate arbitrage.

Financialization enhances the dynamism of capitalism. It facilitates the "creative destruction" of existing structures of capital (e.g., specific modes of industrial production) and spurs the development of new technologies, products, production processes, and sites of production. When extreme, though, it drives investments towards ever more short-term profits and undercuts long-term and deeper growth. It also produces speculative bubbles and busts. It increases market pressure on firms bringing less than median returns to capital, driving disinvestment from still-profitable older businesses and thus driving down wages and reducing the tendency of industrial capitalism to share profits through rising wages. It intensifies inequality.

Financialization leads to returns on invested wealth that far outstrip returns on productive employment. It rewards traders more than material producers (and despite celebrated exceptions, far more than most entrepreneurs). It makes all other sorts of businesses pay more for financial services. The 2010 bonus pool for securities industry employees in New York City alone was $20.8 billion; the top 25 hedge fund managers earned $22.7 billion. And this was after the market meltdown revealed the damage financialization was doing to the larger economy. As an organization of wealth production, this does much less for the larger economy – or society – than most forms of industry.

While technological obsolescence and spatial reorganization are both general features of capitalist growth, they are accelerated by financialization. Financialization increases the rate at which investments move from old to new industries and old to new locations. The result of this is not only technological and economic change, but also human displacement. Rapid urbanization in developing countries and decaying industrial cities in older core countries are two sides of the same process. With declining profits in manufacturing, European and American companies in a range of industries responded by demanding that workers take cuts in compensation, introducing new technologies, insisting that governments provide tax breaks or outright subsidies, and/or relocating of manufacturing to other countries. Sometimes relocation came even after corporations benefitted from subsidies and wage cuts, in defiance of commitments to stay put. Neoliberal governments aided corporations in breaking the power of unions to resist these changes. This brought the loss of good jobs that Collins sees as a long-term threat, but the reasons were not all technological. Financial capital enabled the rapid relocation of industrial production.

Fluid financial resources also fuel asset price bubbles. The long, international real estate boom of the late 20th century is an example. This brought dramatic housing price increases, especially in cities and tourist areas. This often added to economic imbalance and produced other distortions, but crucially it knit real estate and construction, the personal savings of homeowners and the once-prudent operations of local banks into a gigantic international system. It was this linkage that generated the systemic risk that led to crisis in 2008-9.

This systemic risk was enhanced by new techniques in financial engineering and investment. Hedge funds and derivatives took on central economic roles, aided by failures of regulation. Basically this meant developing a host of new financial instruments, many of them knitting different economic actors together in a web of mutual obligations like debt and insurance, and attracting unprecedented amounts of money to those new sorts of investments and deploying this money in trades largely hidden from public view. A host of seemingly stable local assets – like home mortgages – were bundled into securities traded globally by investors unable to assess their underlying quality. Even though many of the new instruments were designed to reduce risk and make capitalism more predictable, they became objects of largely speculative trading. Risk became more concentrated and dangerous. It became harder for specific firms to know how much they were exposed and to whom.

Derivatives – essentially securities based on bets about the eventual price of an underlying asset –were used as insurance to offset other risky investments. They also became high risk but potentially high-payoff investments, not least by hedge funds. By the 1990s, capital in such "alternative" investments has passed $50 trillion and it reached about $600 trillion by the 2008 crisis. This may have encouraged fund managers and other investors to believe risk had been tamed, but recurrent failures of hedging suggest otherwise. Sudden liquidity shortages and political actions could trigger massive failures. This was well known in advance of the most recent crisis. As Raghuran Rajan, former IMF chief economist, remarked in light of the Russian government debt default in 1998: "A hedged position can become unhedged at the worst time, inflicting substantial losses on those who mistakenly believe they are protected."

Completely eliminating these problems would end capitalism as we know it. We would no longer have capitalism if capital could not be moved among investments seeking greater return, and absent the demand for reinvestment in pursuit of greater productivity that drives innovation and accumulation. Regulation that attempted this would undercut dynamism and wealth creation. On the other hand, some level of regulation combined with well-organized government spending may be crucial to recovery and resilience. And economies with more widespread entrepreneurship may fare better than those that remain dominated by finance capital. In any case, it is sobering to consider that regulatory improvements since the financial crisis began have been minimal. Almost nothing has been done to reduce the potential for systemic risk.

Thinking from the crisis

In March 2008 stock markets plummeted; retirement savings were wiped out. Major banks failed, especially in Britain and the US. Other banks were judged "too large to fail" (in a process we now know to be partly a matter of insider-dealing between corporate executives and the government). They were bailed out on a massive scale, turning public revenues not only into a compensation for private risk-taking but also a direct source of private wealth. Some industrial companies were also kept alive by bailouts but by far the largest subsidies went to the finance industry where they were turned directly into capital without passing through the circuits of job creation or relief for homeowners struggling against foreclosure. Had governments not provided this support it is possible capitalist financial markets would have spiraled much further down, still more deeply damaging global capitalism.

The US made enormous countercyclical investments both in infrastructure and in direct subsidies to the financial industry (yet possibly not as large as were required). Britain chose a program of fiscal austerity by imposing even more cutbacks on itself than credit markets demanded. And Europe's North – especially Germany – imposed austerity on its South, bringing the European Union near to a breaking point.

Continental Europeans thought their institutions had weathered the crisis better than those of Anglophones until the public finances of several EU member states began to collapse under strain. Banking bailouts, especially in Southern Europe turned crisis of the private for-profit financial industry into a fiscal crisis of states. Greece, Ireland, Portugal and Spain all teetered on the brink of bankruptcy even after severe austerity programs had been imposed. Financial crisis exposed weaknesses in the very constitution of the EU and the Eurozone – which were, in large part, products of the era of financialization. Intensified global competition seemed to call for a larger Europe to compete effectively with China and the US – a logic not dissimilar to that which led Citigroup and the Royal Bank of Scotland in their rushes to expansion. The desire for a common currency – attractive to financial and business leaders in Europe – had led to its introduction without mechanisms for common financial governance or in general the political institutions to back it up. The European Central Bank was governed by a board representing different national governments with competing interests. Different countries pursued different fiscal policies and practices. And as the EU expanded beyond its original core states, European integration linked very disparate economies. Commitments to redistribution that were tacitly tolerated in years of growth became points of contention in the midst of crisis.

The futures of the Euro and the Eurozone remain uncertain. Spain and Portugal have gained minimal stability only for Italy to wobble and Cypus enter a tailspin. No one knows how far the European crisis will spread: perhaps to old member Belgium or new member Slovenia, perhaps to the EU itself, endangering the very common currency agreement. Meanwhile, austerity programs seek macroeconomic rectitude by rolling back state provision of services and security. In varying combinations cutbacks were national self-imposed, responses to market pressures, and the result of external imposition not unlike the structural adjustment policies the IMF demanded of debt-ridden Third World countries in the 1980s. States are harnessed to save investors from losses and global markets from deep depression. Though it was investors and the transnational financial industry that reaped the huge profits of the bubble era and most directly benefitted from bailouts and government-provided liquidity the crisis and remedial actions are discussed in terms of nation-states. Of course, trying to grasp all this as a matter of profligate Greeks and prudent Germans obscures the central role of financialization itself (and of course the construction of the financial crisis narrative in overwhelmingly national terms reinforces other aspects of nationalist ideology, including increasingly widespread xenophobia and especially Islamophobia). Profits made by financial institutions encouraged the European Union to expand and to turn a blind eye to fiscal problems in member states. Now the citizens of EU countries with stronger banks and balance sheets complain about having to bail out other nations, straining the European Union itself, and forgetting the extent to which the benefits of bailout went to the financial industry and those with large capital assets.

Even after massive infusions of taxpayers' money, European and American financial institutions remain shaky. Some had to take a "haircut" on loans made in high-risk markets; only intergovernmental finance has held off collapse. Almost all face a continuing effort to strengthen their balance sheets after ill-considered expansion during the bubble. But stock markets have regained much of what they lost. Initial public offerings are again producing profits (and again for a mixture of firms with serious products and profitability and those with little more than hopes and image). Investment banks and other firms have resumed paying big bonuses, thus renewing one of the incentives to excessive risk-taking (though more now pay bonuses in corporate stock and ban its immediately sale in order to tie employees' interests to the firm's well-being). But some are also laying off employees in recognition of "excess capacity" and fears of return to recession are serious. Regulatory reform has been minimal, leaving derivatives markets far from transparent and allowing massive leverage against modest assets. Banking is even more concentrated in a few giant firms than before the crisis. Housing prices remain low, and in some places are falling again after the seeming to stabilize. Credit remains tight; interests rates are virtually nil.

The "real economy" remains depressed – if not quite "in depression". Growth in GDP is low; unemployment remains high; new job creation recurrently fails to meet analysts' expectations. Yet anxieties about inflation and government debt lead some to argue that the pursuit of growth must be foregone in favor of fiscal austerity. The fiscal position of many US states is almost as bleak as that of Greece or Spain, and though the federal government has fiscal tools states lack, it faces massive deficits without an agreement on a budget to cut or finance them in any combination. Economic discontent is a primary factor in widespread and deep political discontent with populist anger at corrupt, self-serving or incompetent government linked to both more conventionally right wing and left wing ideologies. Weakened political legitimacy is a challenge to the continuity of capitalism.

But the developing European path seems to be neither collapse nor revolution but rather stagnation. Europe lacks growth, but still enjoys a relatively high standard of living and basically functional economic systems. There are goods in the shops (though more and more shops close). Most governments pay their bills (though they continue to cut expenditures). The dominant policy response has been austerity, the attempt to overcome deficits in state accounts. As this has little positive effect, however prudent in the abstract and long-term, politicians look more and more for growth but so far find few palatable mechanisms to produce it.

Having failed to address its financial problems as a Union, Europe faces a series of nationally structured fiscal crises. Yet there remain enough economic strength and political will in the EU to bail out banks and financial markets in each case. There is widespread popular discontent but so far no large-scale social movements challenging existing political parties or processes. Huge rallies and sometimes occupations in public squares signal the unhappiness but so far haven't found a way to turn this to new political programs rather than only objections to old. Right wing populists have seized the moment with anti-immigrant and other reactionary programs, but even though they have seen ominous growth so far they remain fringe movements, their biggest effect being to pull mainstream conservative parties to the right. Europe's Left is barely visible unless one counts basically self-interested strikes and statist manifestoes in France. What has instead emerged is rather a series of essentially "anti-political" movements, exemplified by Italy's Five Star movement under Beppe Grillo but echoed in other countries where citizens vote not for more effective government but against government and especially politicians. Popular response to economic crisis and weak government legitimacy has often included right wing and xenophobic agitations.

The US tried more pro-growth stimulus and is being rewarded with modest economic improvement: perhaps 2 or 2.5% growth by 2013 – vastly better than Europe's 0 to 1% but nothing to cheer about. US prospects are improved at least temporarily by new energy resources and longer-term by a more entrepreneurial economy. But the country's dynamism is undercut by a deadlocked political process. While the Tea Party is now organized electorally mainly as a wing of the Republic Party, its roots are much more anti-political – not unlike Italy's Five Star movement. Its legacy pulls the Republican Right not towards different solutions so much as a resistance to compromises and thus to all available political options. The Obama administration is mostly technocratic centrist, though making its major policy innovations on a handful of liberal issues. But it has been unable to bring about a major reorientation in the wake of the crisis. In finance the same organizations remain dominant and pursue agendas largely similar to before the crisis. Some of the biggest threats to the US economy lie in deficit-ridden state and municipal governments. Cost-cutting at these levels reduces the impact of federal stimulus spending, but more basically state and local governments face long-term obligations that could spell fiscal collapse unless a combination of growth and inflation reduces the burden.

Though the roots of the 2008 crisis were centered in the US and the EU, its effects have been worldwide. The dense interconnections and rapid flows of global capitalism and global media made it seem immediately obvious that the crisis was simply global. This was half fact and half illusion, or perhaps, a distortion based on perspective. The roiling of capital markets did have far-flung effects. Plunging asset prices damaged sovereign wealth funds in Abu Dhabi and nearly bankrupted its neighboring emirate, Dubai. Exacerbated unemployment – especially among youth - may have helped to spark the so-called Arab Spring (though clearly the economic crisis can be no more than part of a more complex story). Stock markets in Shanghai, Tokyo, and Johannesburg sank with those in New York and London, though they regained ground much faster. Factory workers in China and Vietnam were laid off with sagging global demand, though after faltering briefly the Chinese and Vietnamese economies kept growing. Prices for energy and other natural resources became extremely volatile. After first falling dramatically, they recovered on demand from still growing economies like China, then in some cases sagged again as the Chinese economy did the same.

For a time, even as the US struggled to escape a double-dip recession and Europe struggled with the sovereign debt of several member states, China, India and several other developing countries maintained rapid growth. Indeed, Chinese policy-makers' biggest concern through 2011 was not an economic downturn, per se, but rather "overheating" in which economic growth outstripped supplies of raw materials, labor, and other inputs and brought hard-to-harness inflation. Since China had become one of the biggest creditors of the United States, it (like other foreign investors) had to worry about the value of its dollar-denominated assets as well as about markets for its export goods. At writing, Chinese growth continues at a rate that would thrill Europeans, but has slowed rapidly proving China is not immune from the global downturn. The overheated financial markets pose one challenge. Thousands of apartments sit empty in Beijing and Shanghai, bought by speculators hoping to sell them again quickly. If growth doesn't pick up soon, or worse, falls much below 5%, this real estate bubble could burst bringing a downward spiral as overleveraged owners unload their holdings. This is a relatively local and contained example of systemic risk, but there are others on a much larger scale where highly leveraged financial markets are highly interconnected with each other. This is also one factor making China's leaders fear domestic discord.

In India, capitalism is comparably vital, more entrepreneurial, and less tied to central government. The last is a blessing, because central government is considerably less effective. India has more endemic poverty and a less developed infrastructure. Its growth has been substantial, but has recently slowed perhaps due to local inefficiencies and a poor system for international investment, though it seems to face less threat from speculative bubbles. Like China, though, its economic and political efficiency weakened by widespread corruption. And like China it faces widespread ecological-environmental problems (though not yet anything like China's air pollution disaster). More open to autonomous institutions, India has a more substantial range of philanthropic efforts to mitigate risk and alleviate poverty. But it faces massive inequality, and rapid urbanization presents this in newly challenging forms. State institutions to support those without the resources for market solutions remain modest.

Happily growth has also continued in much of Africa and in some of the emerging markets of Asia and Latin America. After years of being snubbed by the EU, Turkey now has a growth rate the envy of Europe. But many economies throughout the world are, at best, unsettled and global capitalist expansion is close to stalled. This exposes as illusion the notion that the BRICS and other emerging markets would simply carry on capitalist expansion without interruption – or in other words, that the crisis was entirely local to the world's richer economies. It was a global crisis and it is embedded in the globalization capitalism has helped to produce. That said, of course it did not have the same implications everywhere. The crisis speeded up the transfer of global economic power to China (and in varying degree other "emerging" economies) that had begun as a dimension of the financialization of the world's richer industrial economies. Ironically, this closed the gap between rich and poor countries more than the pro-development policies and assistance of the earlier decades of industrial boom. Long-term growth has not made China immune to the global downtown and other "BRICS" have seen much greater volatility (like Russia) or sharper slowdowns (like Brazil).

Still, the bottom line is that capitalism is not likely to end as a result of any economic crisis alone. It is the intersection of economic with political crises that threatens it most, or the erosion of the implicit bargain in which people accept damages to society or environment in the pursuit of growth. Europe raises the spectre of no growth capitalism – almost a contradiction in terms – and it's not clear how it will cope. Asia seems still to offer growth, but in combination with volatile and vulnerable politics. And political unrest is recurrent, both where faltering growth brings disappointment to those with rising expectations and where elected leaders seek to diminish public freedoms and quash dissent.

Though the capitalist era has been shaped by the notion that an imagined pure economy was sharply differentiated from state and civil society, capitalism itself has always been and must be produced in practices and organizations that cross those boundaries. The relationship between states and economic activity is constitutive not incidental. Capitalism depends not only on the organization of markets as "objective" systemic phenomena but also on social and cultural constructions like the corporation – not just as a legal entity but as an organization of work. The expansion of capitalism has not only depended on states and societies, but on the exploitation of nature. In each of these three cases, capitalism is destructive of conditions on which capitalism depends – and extreme financialization and neoliberalism exacerbate this tendency. The future survival of capitalism depends on whether ways can be found to limit or reverse this destruction without eliminating capitalism.

Institutional deficits

One can feel transformation and renewal underway in much of Asia and parts of Africa and Latin America. High growth rates make for widespread optimism about a capitalist future and even encourage governments to join activists in declaring commitments to "green growth" and the building of better social support systems. The contrast with austerity-plagued Europe and the politically deadlocked and only slightly faster growing US is palpable. Yet there is a crucial similarity despite differences of mood and trajectory.

Capitalist growth has imposed enormous costs in pollution, social upheaval, and inequality. The appropriation of disproportionate wealth by a capitalist elite is manifest, even flaunted, though so far enough others have shared in development to mute protest. Corruption adds a further challenge on top of inequality. At the same time, huge investments in infrastructure and resources are demanded, both for industry itself and to house rapidly urbanizing populations. These costs are largely externalized, while the new wealth is appropriated by those able to own, command salaries from, or tax capitalist profits. That is, the environmental and social costs are not borne by charges on corporate balance sheets; moreover, governments pick up much of the bill for needed infrastructural investments.

So is it ever with capitalism. It depends on an "externalization regime" that enables its enterprises to rely on states, non-profit organizations, and indeed families and ordinary people generally to bear the costs of both enabling conditions like infrastructure and damages inflicted as by-products of capitalist growth. Indeed, much of capitalism's profitability and growth depends on externalizing costs. Firms seldom pay in full for public investments from which they benefit - like health care, educating workers or building needed infrastructure. They produce pollution and waste but do not shoulder the financial, human, or natural costs of the damage. Capitalism generates terrific wealth, in other words, but it does it always with the byproduct of severe "illth" (to use the term coined by John Ruskin in polluted and poverty-stricken 19th Century England). It can continue to generate the wealth only as long as the illth is tolerated. States try to manage the trade-off, but taxing capitalism adequately to pay for its own costs undercuts their international competitiveness and potentially eliminates capitalism's very wealth-generating dynamism.

Capitalist enterprises also derive a number of other benefits from states, ranging from defense of their property claims to opportunities to harness for private commercialization the products of government-funded research. States provide needed inputs from currencies to roads and security in such matters as contract law. Capitalism also depends on social solidarity and a range of institutions from schools to health care. These often provide opportunities to profit, even when they are partially organized on public or non-profit bases. But more basically, they provide services that enterprises would otherwise need to internalize and a stable context for business.

Indeed, even business corporations are not altogether contained within or controlled by capitalism as an economic system; they are legally structured, enmeshed in politics, and do work for their members beyond the profits for their owners. Corporate employment has been a major source of welfare benefits including pensions and health care insurance, though this has been in decline during the era of extreme financialization as companies subject to disinvestment or takeover bids lost ability to plan for the long-term and pared expenses to make their profitability more immediate to please fickle financial markets. Even more important in mitigating life's risks – including those produced or intensified by capitalism – are governmental institutions from health to education to care for the aged and support for the unemployed. Many of these have been subjected to debilitating pressures during the era of financialization. At the same time, older institutions like family, community, and religious organizations are able to pick up only some of the additional burden. There are newly created nonprofit organizations founded both for self-help and as charities. For those with money to pay there are other approaches to managing risk, from insurance to savings. But as an economic system that inescapably produces risk and volatility capitalism depends on some structure of supporting institutions to help ordinary people cope. There has already been sharp erosion in socially organized mitigation of risks in longstanding capitalist economies and relatively slow development of new institutions for this purpose in emerging capitalist economies. This in turn raises questions about whether capitalism, and governments that support it, can sustain political legitimacy.

Capitalism has flourished – and secured widespread legitimacy - on the basis of institutions and social relations that have been damaged in recent decades; its renewal will depend on their renewal. This is partly a matter of providing for legitimacy, social solidarity, and social support. It is also a matter of dealing with the fact that capitalist growth is at the same time a matter of urbanization, resource demands, environmental degradation, migration and a host of other issues – not simply investment, production and profit. The capacity to deal with these comes not just from markets but governments and indeed a wide range of social institutions. As Karl Polanyi argued in the midst of 20th century depression and war, looking back at the 19th century as well as forward, unbridled capitalist development always undermines the social conditions of its own survival as well as the greater good; efforts to build new institutional supports can both stabilize the capitalist system and underpin more effective sharing of the benefits of capitalist growth.

An implicit social contract underwrites the legitimacy not just of capitalist enterprise but also of the states that provide for its continuity: citizens tolerate inequality and the externalization of long-term costs in return for growth. Today's high-growth countries in Asia, Latin America, and Africa all face serious challenges producing balance enough in their growth patterns to maintain national cohesion and investment in the conditions of future growth. They will not obviously be able to sustain recent growth rates, especially in a low-growth global economy, and absent such growth they will face both bursting speculative bubbles and citizen discontent.

Europe and the US face the same challenges without the benefit of optimism or growth. Anxiety about the long absence of economic growth and manifest political weakness dealing with this is palpable, but so far has not produced a social movement response capable of really shaping the likely outcomes. Popular response to economic crisis and weak government legitimacy has come largely in right-wing and often xenophobic agitations.Government response in Europe is a debilitating effort to restore state fiscal balances by austerity programs while preserving the capital of those who were the primary beneficiaries of financialization and precipitators of crisis. The US has done more to stimulate renewed growth, but suffers from political deadlocks as well as the same determination that costs should be borne by taxpayers at large more than by financial institutions or their investors.

During eras of sustained and substantial growth, especially following the Second World War, capitalism generated employment and improving pay. At the same time, economic growth underwrote expansions in health-care, education, transportation, and other benefits in which citizens widely shared on the basis of progressive taxation and government investments. Now, citizens doubt their children will enjoy greater prosperity or opportunity than they do. The desire of citizens in rich countries to get richer is confronted by their countries' need to remain internationally competitive (not just for trade, but to command the allegiance of elites and corporations that may flee high tax regimes). There are good reasons to expect growth rates in the old rich capitalist core countries to lag global growth so even if they remain rich, improvements will be reduced absent major structural reform. At the same time, institutional structures that long ensured the overall legitimacy of capitalism have been eroded since the 1970s and more sharply in the context of financial and fiscal crisis.

The term “neoliberalism” is used to refer to a package of policies that sought simultaneously to reduce government costs and active participation in economic activity and to reduce government regulation of capitalist markets. This post-1970s liberalism owed much to 19th century liberalism. A central difference is that the later version sought to unravel a host of social protections and economic arrangements put in place as part of mature capitalism. Its major targets were institutional arrangements put in place in response to the Great Depression and in the long postwar boom. But the link to 19th century liberalism is instructive, for it reminds us to recognize that the tension between pursuit of “unfettered” capitalism and the effort to compensate for capitalism’s limits and excesses is an old one. In the 19th century, liberals often sought to dismantle traditional institutions that got in the way of capitalist profits as well as to limit new ones. And this is an issue throughout the developing world today.

In China, for example, the development of highly dynamic capitalism is in tension with longstanding local community structures as well as alternative institutions put in place during the communist era – like the *danwei* which made a “work unit” the central provider of housing, health care, and employment (with certain similarities to paternalistic company towns in an earlier phase of Western capitalist development). Workers taking new jobs, especially those migrating to new jobs in fast growing urban regions, are stripped of both older forms of social capital in their communities of origin and the institutional provisions once offered by the *danwei*. They make new ways of life in cities, doing well to the extent that they have money to purchase market substitutes for the older forms of provision and struggling more when they don’t. Sometimes they create new social institutions for themselves, much as migrants to cities such as Shanghai a generation ago created native place and clanship associations. Often they live somewhat marginal existences, trying to save money either to send home or to bring families. The government attempts to regulate this process, for example using the *houkou* system to restrict unauthorized migrants’ access to urban institutions like schools. The very existence of the restriction is evidence of the institutional deficit as much as a tool of social control.

As China develops further in a capitalist direction, however, it needs stronger institutions. The government is indeed expanding education and restructuring health care, not least through introducing a new system of primary care. There are anxieties about what institutions will provide care for the elderly in a rapidly aging society (with family provision undercut not just by changing attitudes but by labor migration and the one-child family policy). One may only speculate at what may develop to provide unemployment protection or social services. The new institutions could be charitable undertakings or mutual benefit societies, though so far the government has been reluctant to allow either much autonomy. It seems clearly to be following a capitalist path but it is unclear how much this will involve a replication of Western institutions, an emulation of the Western neoliberalism that tries to minimize such institutions, or some variety of state capitalism (“with Chinese characteristics”).

State capitalism has been an exception during the last 450 years, but one possible transformation of capitalism would be for it to grow more common. Arguably Soviet communism already involved something like state capitalism. Certainly fascism did. Where governments today use reactionary nationalism to shore up their legitimacy, state capitalism seems more likely. The key point is that future capitalism need not be an extension of the “liberal capitalism” dominant in the last two centuries of Western history. The widely remarked link between capitalism and liberal democracy may turn out to have been only one way of relating capitalism to politics, shaped by particular historical conditions and struggles.

Of course domestic neoliberalism was closely related to the international promotion of “free trade”. Reduction of tariffs and other trade regulation is in a sense similar to reducing restrictions on internal mobility and government efforts to shape markets. Providing military security (or advantage) and delivering social security converge with the perceived advantages of state-dominated capital investment and buffers against global markets to make it a plausible model. This is particularly likely in countries with little experience of liberal democracy. Of course, Western states have also run business ventures – especially in transportation, communication, and power industries - but these have seldom been organized for purposes of capital accumulation as distinct from compensating for market failures. It was a hallmark of neoliberalism to demand their privatization, and this has been extensive – not only in old core economies like Britain but in a number of developing countries, notably in Latin America. In any case, it remains an open question whether the characteristic institutional structure for capitalism moving forward will distinguish government, business institutions, and civil society from each other as sharply as has been the case in the West.

Scarce resources and degraded nature

Continued capital accumulation is limited not only by internal economic difficulties and problems in the reproduction of its social and political support-systems, but also by destruction of its “natural” environment. Capitalism depends on raw materials, on the sustenance of a human population, and on the willingness of humans organized in different societies to tolerate the externalization of the costs of environmental degradation from corporate accounts to public ones – either in the form of government payments or socially distributed human suffering.

Addressing ecological and climate challenges is made harder by the ways in which “nature” has come to be understood. It has long been seen, especially but not only in the West, as the other to human society, often an obstacle to be overcome – thus obscuring the extent to which we too are natural beings and live only as a part of nature. More specific to the rise and flourishing of capitalism has been the construction of “nature” as *resources*. For capitalism, nature has existed to be used, exploited. Examples are familiar, from forests to water. Taking just the latter, global freshwater use tripled during the second half of the twentieth century (while population doubled). Technological advances let farmers and other water users pump groundwater from greater depths, potentially draining aquifers and lowering water tables. Building more and larger dams generated electrical power and sometimes controlled flooding, but it also displaced people, flooded farms, and killed fish. Rivers are literally running dry and lakes disappearing. Attempting to manage by price calculations almost always radically underestimates the costs contemporary use imposes on future generations.

Because nature-as-resources always appears limited and capitalism is organized as a system of perpetual expansion, capitalism also nurtures efforts to transcend the limits of nature. The combination of modern science with business and government backing has been remarkably productive of new technologies. These include engineered resources to augment natural ones, such as improvements in agriculture, new materials, and new ways of extracting energy. Capitalism thus has been basic to increased capacity to support human life, complementing “natural” potential with intensified agriculture based on fertilizers, mechanization, drainage and irrigation, and new crops produced on the basis of research. It has also brought science-based medicine with its own range of new technologies from pharmaceuticals to equipment-intensive hospitals. These have extended “natural” human life and also enabled more people to live full life-courses. New technologies also include production processes and equipment that vastly alter and largely reduce the role of living labor in creating new commodities. They include transportation and communication technologies that overcome obstacles of distance and geography, and other infrastructural technologies that make possible urban life on unprecedented scale. Along with enormous infrastructural investments, these have allowed for dramatic expansion in human population, massive urbanization and huge increase in geographic mobility.

But the new organization of social life has also multiplied demands for energy, met especially by carbon sources from coal to petroleum but also by nuclear and other forms of power. New technologies have increased demand for a range of minerals. And not only does the great expansion in the scale of human life depend on scarce inputs, it comes with the cost of large-scale environmental damage, including potentially catastrophic climate change. The very intensification of agriculture that boosts food production commonly leads to soil erosion and other damage. Newly engineered materials are often less biodegradable. Carbon-based energy sources pollute. And a wide range of activities that expand with capitalist growth bring global warming. This is, indeed, one of the central reasons why from Rio to Kyoto to Doha it has proved so hard to find an international consensus supporting serious action on climate change.

More generally, in an era of financialization, efforts to tackle environmental degradation themselves become objects of trading. Proposals to manage polluting carbon emissions by carbon trading offer a prime example. Such “cap and trade” schemes mean setting a limit on emissions but letting those who don’t pollute as much as that notional limit sell their alleged “savings” to polluters to allow them to pollute more. That such schemes gained traction owed more to the fact that rights to pollute could be profitably bundled into securities and traded by investment bankers than to their actual efficacy in reducing emissions.

The extent to which nature is used up or irretrievably damaged is a problem for the future of capitalism (as well as life generally). It is a problem that exceeds the categories of economic analysis. This is partly because natural resources are extremely hard to price appropriately (especially with attention to long-term sustainability). It is also because thinking of nature only as resources severely limits understanding of the true character of human participation in nature and dependence on the rest of nature.

Understood as essentially limited resources, nature is also an object of competitive appropriation among capitalist organizations and the states on which they depend. The politics and economics of petroleum have been the standout example of this for a hundred years, and especially since the 1970s. But a host of new competitions for scarce resources shape the near future and pose challenges to capital as well as to states and human societies. Energy is basic. Minerals are needed for modern technologies. Water is in short and unpredictable supply and often polluted. Even agricultural farmland is an object of competition as arid Arabia and crowded China fight to acquire rights to fertile Africa.

Struggles over resources are also important among the potential provocations to geopolitical conflict. They are already basic to a range of mostly small-scale armed conflicts that straddle the boundaries among civil wars, interstate wars, and criminal activity. But securing natural resources – both oil and a range of minerals - is centrally important to China as it grows. And securing these resources entangles China in relations with a far-flung range of countries including volatile but significant ones like the newly partitioned two Sudans, which sell most of their oil to China. Selling natural resources is crucial to Russia and some other parts of the former Soviet Union. Europe is a major importer from Russia, and has already been involved in conflicts over supplies on which it depends. Iran is an unpredictable power in the Middle East and influence on Muslim populations more widely. The Gulf States are major international investors as significant players in the security of the region. If they become increasingly unstable, the repercussions will be major. Nigeria, long a prime example of the “resource curse” appears to have begun a more successful but still fraught path to development. Several Latin American countries are significant oil exporters and some, like Brazil, are also emerging powers. The US has reduced its dependence on international energy sources partly by investments during the financial crisis, including new hydraulic fracturing technologies. New capacity to extract oil and gas from shale is perhaps the clearest example of a possible technological fix to one of the major threats to the future of capital accumulation (more so that “greener” technologies that so far have proved harder to scale up proportionately to energy demand). But the technological fix brings new environmental conceerns. And capitalism remains deeply entangled in global energy and resource politics. The list of powerful countries so entangled could be extended. Energy joins with ideological commitments to sovereignty in disputes over islands in East Asia as in the politics of central Asia and even Britain's post-colonial feud with Argentina.

Energy resources are perhaps the most prominent factors making violent conflict more likely but not the only ones. Water and arable land are perhaps as scarce. And beyond resources there are tensions over religion, migration, borders, and quasi-imperial desires to expand territories – not to mention tensions simply over evidence that neighbors are stockpiling weapons or acquiring nuclear capacity. A variety of dictators and non-state actors are additional sources of instability and potentially sparks to ignite conflict. And actual conflicts of the last decade – especially the invasion of Iraq and lingering war in Afghanistan - have both exacerbated tensions and reduced the capacity of the US to complement its hegemonic power by effective policing. All this makes war more likely in the future, and makes it more likely that small-scale or regional conflicts will become drawn into larger-scale geopolitical conflicts. In many ways the forty-five years of Cold War appear as an interlude in a longer history of geopolitical conflict and restructuring.

The informal sector and illicit capitalism

Together financialization and neoliberalism weakened a variety of institutions crucial to stabilizing capitalism in the relatively rich Western countries. These included not only state regulatory institutions but also trade unions and even corporations. Business corporations that had seemed to be stable frameworks for individual careers ceased to provide health care, pensions, and long-term job security; in many cases they ceased to exist as their assets were traded in capital markets, stripped of any obligations to employees, communities, or business counterparts. Communities were undermined by disruption of economic bases and population movements. Formal organizations provided less and less of a safety net to ordinary citizens, indeed fewer opportunities as well. The transition was not as sharp a shock as the crisis of institutions attendant on the fall of the USSR but it moved in the same direction. Religious organizations stepped in not just with charity but also with a range of institutional services from employment to counseling. And throughout the OECD countries, local networks emerged to organize partially non-cash economies of mutual exchange.

Weak formal institutions are associated with growth in the informal sector. The term derives from the efforts (notably by Arthur Lewis and Keith Hart) to describe Third World settings where formal institutions had not developed on a national scale and as a result the formally recorded, monetary economy contained only a fraction of total economic activity. The rest, crucial to the actual survival of much of the population, involved in varying combinations reliance on "traditional" social relations repurposed to provide support in new circumstances, development of new alternatives for formal market relations such as barter, and networks of face-to-face relationships in which transactions could be conducted without regard to law or taxation. Some of the informal sector activities would be classed as criminal, others not. But though the concept originated in studies of the Third World, it is clear that an informal sector has always accompanied capitalism and the efforts of nation-states to organize legal frameworks to support and cope with it.

The informal sector has expanded dramatically during the last forty years. It is an important dimension of economic life in rich countries as well as poor, an important part of how people cope with poor performance of public institutions (as during the latter years of communism and formally planned economies), and central to how people cope with declining provision of public goods (not least in post-transition formerly communist countries but also in capitalist countries imposing regimes of neoliberalism and austerity). Much of this is organized on a community level: small-scale barter, cooperative associations, cash trade that evades both taxes and the financial industry. The informal sector is not simply a site of social problems. It is also a setting for creativity. The garage-based inventors and entrepreneurs who form something of a Silicon Valley myth often organized their nascent businesses informally (at least in periods when venture capital was hard to come by). So do similar entrepreneurs in India and Nigeria today. And so do filmmakers and artists. The informal sector can appear sometimes as bohemian, sometimes surprisingly middle class. Its dynamic, attractive businesses may or may not pay taxes, however, and their workers may or may not have pensions or health insurance.

The informal sector is not just local community networks and other face-to-face alternatives to formal markets and formal institutions. It also has a large-scale dimension of transnational capitalist structures that operate at least partially outside state institutions and laws. The latter include money-laundering, banking, and investments backed up by force as well as contracts. They include tax-evasion, trafficking, and a range of illicit flows – from minerals (blood diamonds or coltan), to weapons (small arms mostly, but also tanks, aircraft, and missiles), to drugs, to people. This often illicit capitalism is often more formally organized than the name "informal sector" suggests, and it has revenues and investments running into many trillions of dollars (though not surprisingly hard to calculate precisely).

The already substantial industry of tax evasion and illicit investment flows was dramatically heightened by the manner in which communism was replaced by capitalism in Russia. To a very large extent this involved the theft of state assets by former state agents and their transformation into a mixture of capitalist enterprise with organized crime. This helped to give rise to massive illicit trade and poured huge new amounts of money into an already thriving global network of illicit markets. Perhaps a trillion dollars worth of unrecorded capital flowed quickly from countries like Russia to tax-shelters like Cyprus and the Cayman Islands, and then in turn was invested in legal as well as illegal businesses back in Russia and around the world.

The importance of both relatively local informal sector activity and large-scale illicit capitalism reveal weaknesses in formally recorded capitalist growth. In the first place, this growth is unable to accomplish distribution necessary to sustain social life and reproduction. Formal capitalism actually depends on the informal sector to maintain the basic conditions of life in many societies – and thus the social peace necessary for prosperity of the parts of societies based on legitimate markets. This is particularly true in the parts of capitalist societies most affected by formal market failures – in slums, for example, where residents must rely largely on each other and very small-scale entrepreneurship to survive because both large-scale capitalism and the state are ineffective. But it is also true sometimes on larger scales, where corruption testifies not just to individual greed but also to institutional underdevelopment. Secondly, the large amounts of capital drawn into illicit global trade both implicitly tax or siphon funds from the formal sector and make markets and risks less predictable. Of course, capital from the illicit sector may also find its way into legitimate capital markets and into direct investment in legitimate businesses (where it may or may not be accompanied by illegitimate management tactics – like bribery or threats of violence). Informalization and corruption undercut state regulation that is needed and they integrate legitimate businesses directly or indirectly with illegitimate ones like drug or sex trafficking.

Much of global political economy is organized in ways that exceed the "official" world-system of nation-states and capitalism. Collusion between states and corporations, organized crime on various scales, the political power of warlords and cartels that hold no political office, and the economic power of semi-autonomous parts of states including militaries all reveal a more complicated world – and one threatening to capitalism as we know it. So do cybersecurity challenges from Wikileaks to hacking, malware, spear-phishing and other tactics deployed sometimes with state backing and sometimes by freelancers, sometimes against states and sometimes against corporations. This is part of the transformation of capitalism, not all without historical precedent, but with an unclear future.

Conclusion

Though capitalism seems unlikely to collapse next week, it is also unlikely to last forever. It remains unwise to imagine the future only in terms of linear projections from the present.

Capitalism could be felled by internal contradictions, including its general propensity to crises and the specific intensification of risk that has accompanied lopsided financialization in much of the world. Indeed, surprisingly little has been done after the 2008-9 market meltdown to improve regulation or market structures; the same firms and people remain largely in charge. The same risks are therefore still with us.

As important, though, are potentials for external disruption, whether from environmental catastrophes, diseases, wars, or rebellions. Infrastructural systems on which capitalism depends, like communications networks or energy supplies, could also by disrupted, possibly by political actors. For all these reasons, what has been a process of ever-tighter global integration may be partially reversed. Coping with disruptions may depend on more loosely coupled systems with different bases for resilience.

Capitalism could decline without collapsing, simply organizing less of economic activity as alternative systems organize more. Growth could slow. This could happen globally or, more likely, unevenly by country and region. The ever-tighter integration of global markets that capitalism has driven might be slowed or reversed, with differently organized systems in different settings. Capitalism might be more central to some of these, more hemmed in or marginal in others. Business firms, operating in close relationship to governments, could manage economic relations more, leaving less to "free" markets. They could be organized with more attention to goals other than capital accumulation. Social and political institutions might provide stronger or weaker counterbalance to capitalism; illicit capitalism could loom larger or smaller. Capitalism could remain a vital part of global political economy, thus, but be less dominant. Or a more radically new economic structure could develop.

The current crisis is not the first time that capitalism has survived only because states were willing to intervene and assume enormous costs created by capitalist "excesses". Of course, the citizens to whom these externalized costs are distributed are often unhappy. But if states aid capitalism by absorbing costs firms externalize, they also aid citizens by managing risks from unemployment to illness. So far there is little sign of social movements potentially able to topple states that impose austerity in order to defend capitalist financial institutions. This does remind us, though, that at least as important as capitalist vulnerability to crises is the likelihood that capitalism will be undermined by destruction of the political, social and environmental conditions on which it depends.

Meeting institutional deficits is a basic challenge. Of course the challenge can be met by non-state institutions as well as states, particularly by non-profit organizations but also sometimes by capitalist firms where they are stable enough to work as social institutions supporting their employees. Contemporary global capitalism is also buffered for many people by an informal sector that sustains populations poorly served by existing institutions but that also extends into large-scale corruption. A massive illicit sector mingles tax evasion with criminal enterprises. Both informal and illicit sectors are interdependent with more formal and legitimate capitalism. Yet they undermine institutions on which it depends, including states.

Whether states are able to continue providing operating conditions for capitalist growth is a serious question, as much in parts of Europe as in less developed countries more commonly associated with the phrase 'fragile states'. Fiscal crises complement security challenges. Infrastructural and other growth-oriented investments have been hard to deliver effectively. Regulating global finance and meeting environmental challenges call for effective large-scale, transnational governance structures, but efforts to create these are relatively weak. Holding together a global world-system depends on the hegemony and disproportionate contributions of some members. US willingness to carry these burdens unilaterally is declining but neither a replacement nor a multilateral alternative has emerged. One possibility is that the world-system will lose cohesion in favor of competing regional structures – and capitalism may matter more in some than others.

Capitalism itself contributes to some of the 'external' disruptions that may challenge its future growth – notably environmental degradation and climate change. There may be possibilities for "green growth" that will sustain capitalism and deal with the environmental challenge. Or there may be limits to growth that make capitalism itself problematic and unsustainable, simply because it is in the end a growth machine.

With regard to each sort of threat, there are actions to be taken that could counterbalance the damage and mitigate the risks of one-sided capitalist development. These could come from for-profit and non-profit entrepreneurs as well as governments. They could be pursued by social movements - though so far none have risen to the scale of the global challenges. In any case, capitalism cannot thrive if institutions are not reshaped, employment restored, and environmental, public health and other challenges addressed.

The large-scale, more or less simultaneous collapse of capitalist markets would be catastrophic, not only bringing economic upheaval but also upending political and social institutions. It could be precipitated by systemic crises or more likely brought about by ecological change or violence. The risk is heightened by capitalist externalization of costs and damage both to the environment and to potentially stabilizing social institutions. But discontinuous changes are not always sudden or catastrophic.

As I began by suggesting, it is at least as likely that capitalism will be transformed over generations, possibly beyond recognition. Arguably stronger states, better agricultural productivity, and renewal of religious faith were all solutions to problems in feudal Europe. They also transformed it and in the long run brought a new era. The rise of both state risk management and economic facilitation and capitalist corporations offered solutions to problems in mid-20th century capitalism. These were transformative, though contained in a still-capitalist order.

That capitalist order is a very large-scale, highly complex system. The events of the last 40 years have deeply disrupted the institutions that kept capitalism relatively well-organized through the post-war period. Efforts to repair or replace these will change the system, just as new technologies and new business or financial practices may. Even a successful renewal of capitalism will transform it and the modern world-system within which it has driven growth for four hundred years. If nothing else, capitalism will be transformed by the extent to which growth is led from outside its longstanding Western core regions and this will integrate it with different histories, cultures, and social institutions.

The question is whether change will be adequate to manage systemic risks and fend off external threats. And if not, will there be widespread devastation before a new order emerges?