

**THE
ECONOMIC
CRISIS
AND
AMERICAN
SOCIETY**

**MANUEL
CASTELLS**

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'The Economic Crisis and
American Society,

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Therefore, although I assume the entire responsibility for the book, I want to emphasize the collective character of the production of the analysis presented in the following pages.

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THE ECONOMIC CRISIS AND
AMERICAN SOCIETY

INTRODUCTION

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THE SHADOW OF the crisis spreads over the world. Beyond the effects of temporary variations of the business cycle, the daily life of people in most countries is being shaped by the economic crisis of the 1970s and its lasting effects on the world capitalist system.

Closed factories, empty offices, millions of unemployed, days of hunger, declining cities, crowded hospitals, ailing administrations, explosions of violence, ideologies of austerity, fatuous discourses, popular revolts, new political strategies, old political conflicts, hopes, fears, promises, threats, manipulation, mobilization, repression, fearful stock markets, militant labor unions, disturbed computers, nervous policemen, stunned economists, subtle politicians, rampaging prophets, suffering people—so many images that we have been told were gone forever, gone with the wind of post-industrial capitalism. And now they are back again, brought by the wind of capitalist crises.

These images raise some basic questions—about work and pleasure, about jobs and cities, about repression and beliefs, about women and men, about history, about politics. Suddenly, the cultural patterns that have been grounded on continued economic growth are shaken. Our jobs can be lost, our house mortgages foreclosed, our children out of school, our institutions unstable, our peace bombed. We realize that life is not an endless cute commercial advertisement. Thirty years of sustained economic growth have been called into question in a few months. To be sure, economic recovery is announced at regular intervals and, from time to time, business activity does pick up. It also goes down. There were still 16 million unemployed people in the OECD countries at the end of 1977. And several important capitalist countries (Britain, France, Italy, Spain) still had double-digit inflation. The United States still had 8 million unemployed and was under continuous threat of inflationary spurts.

The problem is not only the economy. Since the end of 1973, a number of economic, political, and ideological factors, which had

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previously been isolated, came together to form a whole, which led to a potential calling into question of the economic and social organization of advanced capitalism. The inflationary process that had followed a continuous upswing since the 1940s reached a peak that deeply affected the financial markets and excessively raised the interest rates. The international monetary system became increasingly unstable as a consequence of the changing patterns of world capital flows and international trade, leading to the crisis of the dollar. Profits were being squeezed because of an overheated economy, tightened financial markets, and militant labor demands. Public expenditures and state involvement in the economy have reached a breaking point for a market economy. Under these conditions, the sudden increase in the oil prices by the OPEC countries, the subsequent speculative maneuvers by the oil companies, and the general rise in the price of energy constituted accelerating factors that triggered the crisis. Worldwide inflation led to worldwide recession, mostly because of corporate and state policies purposely designed to discipline labor, stabilize financial markets, and reorganize public services. The crisis thus became visible. Because of the widespread impact of the oil-price increase the capitalist governments decided this was a good moment to announce that the crisis had been provoked by “the Arab sheiks.” But, in fact, the crisis had been latent for a long time (at least since 1967). The purpose of this initiative was to provide a cause absolutely external to the logic of capitalism—a historical accident was responsible for the crisis. By this device the capitalist governments could try to make people accept austerity policies without blaming the system for their hard times.

Nevertheless, the crisis was deeper than anybody could imagine. If the business cycle needed a recession to restore the rate of profit, it soon became very clear that inflation and stagnation were linked in such a way that correcting one process triggered the other. Economic policies were increasingly ineffectual since the fine tuning, between stimulating the economy and controlling inflation, became more and more impossible. This “stop-and-go” process seems to have become a permanent feature of the leading capitalist economies. The consequences of such a trend are ever more disruptive.

Furthermore, for the first time since the Great Depression,

business cycles became synchronized all over the world. In fact, this is a sign of the formation of a world economy. In periods of expansion, the cycles between different countries are complementary, as capital shifts its investments according to the variations in investment opportunities. But when there is a crisis, the interpenetration of production and distribution of commodities and the circulation of capital flows determine a general pattern of recession. Consequently, it is much more difficult to restart the economy because it requires a simultaneous, or at least complementary, upswing in several major countries. This is extremely unlikely to happen because the evolution of each national economy will depend upon social and political processes largely specific to each society. Therefore, the crisis is deepened by its world dimension and by the contradiction of interests between the international economy and national states, which remain the primary policymakers.

Still worse for the stability of advanced capitalism, the crisis is not only economic but also *political and ideological*. And it is the linkage among these three dimensions that characterizes it as a structural crisis in the historical expansion of the capitalist mode of production.

Actually, we are not living in the midst of social disruption caused by the economic crisis. On the contrary, *we are living in an economic crisis caused by a general process of social disruption in most advanced capitalist societies, which has called into question the structure of social relationships underlying the pattern of capital accumulation*. The crisis came because, on the one hand, there was a breakdown of the prevailing social order that triggered the structural tendencies toward a falling rate of profit; on the other hand, there were influences from some contingent precipitating factors (such as the increase in the price of oil and raw materials brought about by changes in international social relationships of dominance).

During the decade 1967-1977, most of the advanced capitalist societies went through a period of turmoil, social innovation, and political conflict. In the United States the social movements of the 1960s profoundly affected the consciences of millions of Americans. Civil rights movements, black protest, student revolts, antiwar activities, community and social welfare demands,

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public workers' struggles, increased union organizing, wildcat strikes, women's liberation—all of these movements undermined the social hegemony of the corporate elite, notwithstanding the political innocence of the participants (which prevented them from becoming a revolutionary challenge in the short term).

In different forms all the major capitalist societies* experienced very important social movements that eventually produced decisive changes in their model of economic growth and political systems. The May 1968 movement in France was the beginning of a process of social struggle that led to the crisis of Gaullism and the resurgence of the Left. In Italy, the student revolt of 1968 and, particularly, the *autunno caldo* in the factories in 1969 gave rise to a powerful multidimensional social movement, to the crisis of hegemony of the Italian bourgeoisie, and to the early steps of the historical compromise with the Communists. In Britain, the increasing radicalization of the trade unions brought the Labour party into the government and formed within it a solid left wing that developed a mass-based socialist strategy in the old bastion of conservative capitalism. Fascism was wiped out in Europe after the collapse of the dictatorships in Portugal, Greece, and Spain, as a result of the combined pressure of social struggles and the internal crises of state apparatuses.

Even more, these social upheavals came at a time when the world system was being challenged by the greatest defeat of imperialism in history: the final stages of the Indochina War, leading to the liberation of Vietnam, Laos, and Cambodia.

These domestic and international social conflicts seriously hurt the political domination of the ruling classes in Western capitalism. The stability of the institutions themselves was threatened, and there followed dramatic changes of political personnel and sudden crises of legitimacy. Watergate was not an "accident." It was, as we try to show, the consequence of political contradictions within the ruling class in the aftermath of the social movements of the 1960s, of the weakening of U.S. imperialist hegemony, and of the first symptoms of the economic crisis. In any case, there were too many similar events in the

* As well as some socialist countries, *significantly enough*. Remember the Chinese Cultural Revolution (1966), the Czechoslovakian Spring Revolution (1968), the Polish popular revolts (1971).