SECTION II

Networks of Capital

Dimensions of Global Capitalism

Introductory Essay: Salvaging What Wall Street Left Behind

Global economic quakes shook the world in the summer of 2007. Rumblings about troubled assets, zombie banks, and "naked shorts" (yes, that is a real thing) all hinted at deeper fault lines in something bigger, something with more layers than the earth and more questions than answers. As news reports about rising unemployment and government bailouts hinted at a catastrophe on the level of the Great Depression, it became apparent to many that the structure on which our modern economy operates had suddenly revealed its fragility. Yet, despite the doomsday predictions and the real life struggles many people experienced, many of us still lined up around the block for the latest iPad or biked to the co-op for some organic (and more expensive) apples. Perhaps it goes back to that old saying: the more things change, the more they stay the same.

This is to say that where we fit into the big economic picture is complicated. Or, that's the easy answer, but we're more interested in the difficult one. A good place to start for making sense of the global financial crisis is to think about how our economic choices relate to the bigger picture through a series of relationships, much like a network. Take, for example, the subprime mortgage crisis, a major culprit in the global financial meltdown. The problem with subprime mortgages—loans given at high rates to people with less favorable credit histories—was not just that mortgages were given to people who couldn't afford them. Rather, subprime mortgages were simply one layer in a complex system of debt and credit that spanned across the globe through something called "credit default swaps."

Credit default swaps were the hottest thing to hit Wall Street since the power lunch. In the late 1990s, investment banks like Morgan Stanley realized that keeping money on hand as a way to protect themselves against the risk of defaults on the loans they were handing out simply wasn't going to work (after all, money sitting in the bank couldn't make nearly as much as money invested in new markets). So, they began selling those risks, called "credit swaps," to third parties who would assume the risk in exchange for regular payments from the banks, sort of like an insurance policy. For the bank and the investors, this made a lot of sense so long as the original loans were eventually paid off—until then, the money being traded was practically imaginary. According to *Newsweek*, the credit default market was so successful that it doubled annually until reaching more than $6 trillion by 2004.