The threat perceived from conservative-dominated courts gained as Bush's 2005–2008 nominations took the spotlight. In the early summer of 2005, 65 percent of Americans told Gallup that they favored appointment of a justice who would uphold *Roe v. Wade*, a majority that included 47 percent of Republicans.[67] The same summer, a Pew Center survey asking voters whether *Roe v. Wade* should be overturned found 65 percent saying no, while just 29 percent said yes, although a second question spotlighted the range within the *Roe*-upholding 65 percent. Among the entire sample, 35 percent said abortion should be generally available, but 23 percent chose "more limited"; 31 percent said illegal except in cases of rape, incest, or saving the mother's life; and 9 percent said abortion should never be available.[68] Some of the pro–*Roe v. Wade* majority is soft. Even so, loss of *Roe v. Wade* protection to new judicial appointees approved by the religious right became an increasingly tangible apprehension.

Some polls even showed red states turning a little more purple, while purple states took on bluer tones. The idea of theocrats' marshaling government intervention, as in the Schiavo case, struck a negative chord. Many Europeans found the confrontation hard to fathom, perceiving that in some way the United States was still locked in the religious militance and radical sectarianism that had riven sixteenth-century and seventeenth-century Europe, but then had faded into the Enlightenment of the eighteenth century. Indeed, colonial America did take in many immigrants born in or descended from those radical streams—Puritans; English, Dutch, and German Anabaptists; Mennonites; Amish; Moravians; Quakers; French Huguenots; Scottish and Scotch-Irish covenanters. Thereafter, as chapter 4 discussed, the American population kept the radical and sectarian pot ever bubbling. The United States also took in large numbers of Methodist, Baptist, and other nonconformist immigrants from nineteenth-century England, including numerous radicals—English converts won to polygamous Mormonism and Plymouth Brethren followers of John Nelson Darby, the nineteenth-century trailblazer for the *Left Behind* series.

No longer, as in the 1970s and early 1980s, could the rightward movement in the early 2000s be characterized as simply one of people of faith countermobilizing against the disdain for religion shown by elements of secular liberalism. New forces were being interwoven. These included the institutional rise of the religious right, the intensifying biblical focus

on the Middle East, and the deepening of insistence on church-government collaboration within the GOP electorate. By the 2000s the moral counterrevolution had manifestly fallen short in some areas—control of pornography, the sexual revolution, and the erosion of families (divorce rates were actually highest in born-again states). Even so, the ascent of the Christian right, George W. Bush's emergence as its leader, and the surprising religification of the Republican party shifted the relative danger away from secular excesses to the influence of the new mass power base and its motivations.

We have seen the unfortunate precedents. Militant Catholicism helped undo the Roman and Spanish empires; the Calvinist fundamentalism of the Dutch Reformed Church helped to block any eighteenth-century Dutch renewal; and the interplay of imperialism and evangelicalism led pre-1914 Britain into a bloodbath and global decline. The possibility that something similar could propel the United States into war in the Middle East—and that once again, God would decline to rescue his chosen people—is the precedent that needs to be kept in mind.

In the meantime, though, there are plenty of people in the financial community who have their own considerable worries about a different kind of Armageddon.

Financialization: A Volckerian Götterdämmerung?

By 2005, as U.S. wise men of great financial wealth or the exalted status of former Federal Reserve Board chairmen—the Warren Buffetts, Paul Volckers, et al.—watched the global markets in Wagnerian contemplation, waiting for the clichéd fat lady to sing, no one could deny the dramatic circumstances of potential economic crisis. Even Alan Greenspan had commented on "exotic forms of adjustable-rate mortgages" and the uncertain dangers posed by hedge funds.[69]

For the U.S. financial system to avoid a crisis would take a miracle, some thought, because policies by the Bush White House, the GOP Congress, and a sympathetic Federal Reserve Board had brought about excesses ranging from huge tax cuts and deficit finance to deregulation and growth of a massive credit bubble. In this context, a half-dozen circumstances and practices—the fodder, perhaps, for some future book in the style of *Manias, Panics, and Crashes*—stood out for speculative conflagrational potential.

Several of the new derivative instruments were front and center. Collateralized debt obligations (CDOs) became popular in the late 1990s, conjoining the unprecedented total of consumer borrowing—papers of indebtedness incurred for purchases that ranged from cars and boats to face-lifts—with the financial sector's own innovative packaging talents. In a descriptive nutshell, CDOs in the multiple millions of dollars are pasted together by banks and investment firms from almost any kind of debt that lenders are willing to sell. These confections are then sliced up—"tranched" is Wall Street's preferred word—and sold off by risk levels, according to mathematical models of how they will behave in the aggregate. The high-priced guesswork, not surprisingly, commands rich fees. One investment firm, for example, set aside a $100 million litigation fund in 2005 to deal with a federal securities regulatory challenge into how it determined a fair value and priced a CDO package. By then, CDOs represented a huge, multitrillion-dollar market. However, because they were complicated and sold only institution to institution, skeptics worried about dangerous illiquidity in a panic.

The second major variety of credit derivatives, so-called credit-default swaps (CDSs), elicited this distillation from one investment banker: "Credit default swaps offered a way to 'short' corporate bonds, or bet on them to decline in value, without paying high borrowing costs for money to actually purchase and then sell them. Moreover, they provided a way to buy and sell the perceived credit risk of a corporation without actually exchanging the underlying corporate bonds."[70] These, too, grew from peanuts in the mid-1990s to multiple trillions in less than a decade.

Regulation of what had become a $5 trillion over-the-counter credit-derivatives market by 2005 was negligible in the United States. In Britain, though, a more vigilant Financial Services Authority warned that the volume of these arrangements had caused banks to fall behind in documenting and confirming the complex terms involved.[71] Unfortunately, the lesson of financial history—that debacles often involve the untested cutting edge of innovation, such as Enron in 2001, and so-called portfolio insurance back in 1987—is that credit derivatives could play a role if push came to shove. Warren Buffett, as we have seen, called them "a time bomb."

Which brings us to hedge funds, the coteries of clever people who make money by playing angles too chancy for regulated institutions. Hedge funds are not regulated. But between 1990 and 2005, they multiplied from only a few hundred to about 8,500 in the United States alone, many rushing boldly onto the credit-derivatives playing field.[72] In mid-2005 the Fitch credit-ratings company issued a special report: "Hedge Funds: An Emerging Force in the Global Credit Markets." Estimating that 30 percent of the $8.4 trillion credit-derivatives market was controlled by the funds, Fitch saw potential for "a far-reaching liquidity squeeze and price dislocation across multiple credit markets due to hedge funds' presence."[73]

The interaction between the hedge funds and the banks they borrow from could also be electric. Because they borrow so much money to pursue their strategies, the hedge funds have been among the best customers of the big banks. The banks have indulged them, just as several indulged Enron to the point of being almost co-conspirators.[74]

The housing and mortgage markets, especially after 2001, had blended into the larger financialization of America in multiple and unnerving ways. Simply put, for many people, homes had become vehicles of household financing—"my home is my castle" giving way to "my home is my ATM." As such, and with the collusion of the Federal Reserve Board, homes became financial assets in everything but statistical classification. Beyond that, they became tools of speculative finance in that persons mortgaging or refinancing had to choose from a dizzying array of options, many of which held out, in credit-card fashion, unusual attractiveness in the first months or years. In June 2005 Chairman Greenspan deplored some of the most egregious, allowing that "the dramatic increase in the prevalence of interest-only loans, as well as the introduction of other relatively exotic forms of adjustable-rate mortgages, are developments of particular concern."[75]

In fact, reported *The Washington Post*, there were some two hundred different kinds of mortgage products on the market, differentiated by interest-rate schedules, down-payment requirements, payback terms, fees, and potential penalties. Douglas Duncan, the chief economist of the Mortgage Bankers Association, told the newspaper that the "exotic" loan referred to by Greenspan was probably the "option adjustable rate mortgage," which permits borrowers to decide themselves how much to pay, how long the loan term should be, and when they can convert from a fixed rate to a variable rate or back again.[76]

Even credit cards were tied into the speculative side of finances. For several years issuers had been merchandising credit cards tied to home-

equity lines of credit.[77] This took place at the same time as home purchases and mortgages themselves were taking on speculative characteristics.

Worriers over the possibility that the United States had exchanged a stock-market bubble for an even larger credit bubble even had their own Web sites where the latest developments and nuances could be monitored with professional aplomb or trepidation.[78] History, to be sure, backed the case for trepidation.

While these examples peel back only the first layers of the speculative onion, as opposed to showing a full cross section, they do capture its rank flavor. Between 2000 and the market bottom in 2002, when U.S. stocks lost $7 trillion of their $15.5 trillion value, home values held up and then spurted ahead. To critics, the rescue was essentially a rebubbling. Should a credit and financial collapse follow that second stage in the manner that Volcker and others feared, stock and home prices would presumably sink together, making that second downturn the more destructive of the two. In which case, imploding consumer debt and the harsh provisions of the new federal bankruptcy code could interact to yoke middle-class debtors in the quasi-indentured status Democrats predicted.

To those Americans who say that it can't happen here, the answer is that something almost as harsh did overtake Britain in the 1940s and the Dutch Republic in the 1770s and 1780s. A generation earlier, few would have believed such comedowns possible. Such a painful upheaval overtakes a leading world economic power only when it is losing or has lost that global laurel. Whether that time is at hand for the United States or still decades away, no one can say. On the other hand, in light of the trends in manufacturing and the credit markets alike, there is little doubt left about the next dominant continent, Asia, and the next leading world economic power—China, possibly in the 2030s, barring some extraordinary disruption. This prospect, coupled with China's emergent role as a leading U.S. creditor, is part of what has to warn Americans, just as the surging economic growth of both the United States and Germany became a warning to Britain in the 1890s.

Globally, the prospect has two faces. The first, of course, is the threat to the United States and the well-being of its people. The final act of a Volckerian opera, in which the fat lady of misfortune finally does sing, could be tragic not just for many in the United States, but conceivably for world stability. At the same time, there is a fascination—not least in the

United States—with the implications of a new economic supremacy in Asia. Every year brings more attention to the rising skyline of Shanghai and China's extraordinary industrial growth, to the emergence of India as the communications back office of the English-speaking world, to the emergence of South Korea as the world's most advanced broadband telecommunications society, to the location of the world's tallest buildings in Kuala Lumpur, Malaysia, to the world's first "seven-star" hotel in Dubai, to the urban model of Singapore, to the money being made in Middle Eastern stock markets, and to the growing belief in the West as well as the East that global leadership will pass to Asia by 2040 or even 2030. The belief held in some Asian circles—that the balance of power and wealth is shifting back to Asia for the first time since unbeatable Western warships passed through the Strait of Malacca in the fifteenth century—could well turn out to be true. Not a few Asian Americans, educated or even born in the United States, are returning to grasp a future in Taiwan, Korea, India, and China.

In the Middle East, the oil price surge that grew in 2003–2005 after the Bush administration failed in its Iraq-centered oil policy has elevated what was already a major new wave of regional economic development. Industrialization is growing, bolstered by oil and natural gas availability. Finance is becoming more locally oriented—Middle Eastern stock markets were among the world's best performing in 2004–2005—and less tributary to the United States and Britian. Cities and resorts are becoming sophisticated enough that tourism and duty-free shopping are booming from Bahrain to Abu Dhabi. The next decades should be extraordinary.

The economic realignment favoring southwest and central Asia that flows from recent and projected oil and natural gas prices already resembles that occurring in East Asia because of the migration of manufacturing, not least from North America. If, as some believe, some 30 to 35 percent of world energy will come from natural gas by the 2020s, the principal beneficiaries will be major gas producers—Qatar, Iran, Turkmenistan, and Russia hold more than half of the known reserves, but Venezuela and North Africa are also important. The energy outflow of American dollars, in short, can only burgeon under an oil and gas regime. Besides the currency flowing to East Asia and the Middle East, two other buildups deserve note: Russia's international reserves ballooned from $18 billion at the end of 1997 to $124 billion as 2004 closed,