

Globalisation, economic crisis and prospects for multilateral reform

CENTRE FOR
CIVIL SOCIETY

by Patrick Bond
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Presentation to the GENTA seminar on the
Role of International Financial Institutions
and Trade Negotiations
Johannesburg, 29 January

OUR OBJECTIVE IS TO ADVANCE SOCIO-ECONOMIC AND ENVIRONMENTAL JUSTICE BY DEVELOPING CRITICAL KNOWLEDGE ABOUT, FOR AND IN DIALOGUE WITH CIVIL SOCIETY THROUGH TEACHING, RESEARCH AND PUBLISHING.

South Africa's Social Movements United march from Alexandra Township to the World Summit on Sustainable Development in Sandton, 31 August 2002

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Multilateral financial institutions 'policy coherence' on trade: excellent analysis of problem

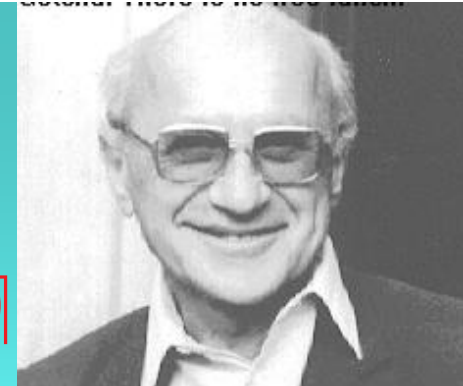
- **Capacity of International Financial Institutions to Support Trade Liberalisation in Low-income and Vulnerable Countries**
- **Aldo Caliari, Centre of Concern (aldo@coc.org) and Mariama Williams, International Gender and Trade Network (mwilliams@coc.org)**
- **the expanded involvement of the International Financial Institutions (IFIs) in trade-related activities has resulted in constraints to the policy space of the borrowing countries to develop their own national development strategies.**

Prior analysis of globalisation, crisis and resistance

- Globalisation as response to the crisis of **overaccumulation** that capitalism experienced in the late 1960s and early 1970s
- Defining economic features:
 - **financialisation**
 - **imperialism** (capital's geographic expansion + aggressive geopolitics – 'Shock Doctrine')
 - '**accumulation by dispossession**' and outright 'looting'
- Has capitalism 'resolved its **crisis**' or instead displaced it?
- Is the system now unraveling? What has happened to financialisation and how does it exacerbate the crisis?
- US imperial overreach? Iran as possible desperation grab, loss of Iraq, Israeli defeat in Lebanon, trouble in Afghanistan, and unable to turn North Korea, Venezuela, the Andes countries, Nicaragua, Zimbabwe
- **New rival 'imperialisms'** – notably China, but also the rise of India, Brazil and South Africa (or are some of these 'subimperial' sites, e.g. SA in Africa?)
- Central institutions of globalisation now severely stressed: **WTO, IMF and World Bank**
- US neoconservatism both inside and outside the neoliberal framework
- Some states break with neoliberalism and new experiments emerge – e.g. **Venezuela, Bolivia, Ecuador** (inspired partly by **Cuba**) - initiatives such as ALBA trade cooperation, the new Bank of the South, attack on IMF
- The rise of popular forces – **global justice movements** – and 'fix it or nix it' debate



The Shock Doctrine by Naomi Klein (and Milton Friedman)



- According to Friedman (advisor to Pinochet after 9/11/73 coup): *'only a crisis - actual or perceived - produces real change'*
- Klein: 'It was the most extreme capitalist makeover ever attempted anywhere, and it became known as a "Chicago School" revolution, as so many of Pinochet's economists had studied under Friedman there. Friedman coined a phrase for this painful tactic: economic "shock treatment". In the decades since, **whenever governments have imposed sweeping free-market programs, the all-at-once shock treatment, or "shock therapy", has been the method of choice.**'
- Other examples: Malvinas war of 1982 (Argentina, Britain), China's Tiananmen Square 1989, Eastern Europe 1990s, 9/11/01, 3/03 war on Iraq, 12/04 tsunami, 8/05 Katrina - also SA
- Psychological dynamic: 'The bottom line is that, for economic shock therapy to be applied without restraint, some sort of additional **collective trauma** has always been required.'

The
Accumulation
of Capital
in Southern
Africa

Key feature of imperialism:
Capitalist/non-capitalist relations

Rosa Luxemburg



Accumulation of capital periodically

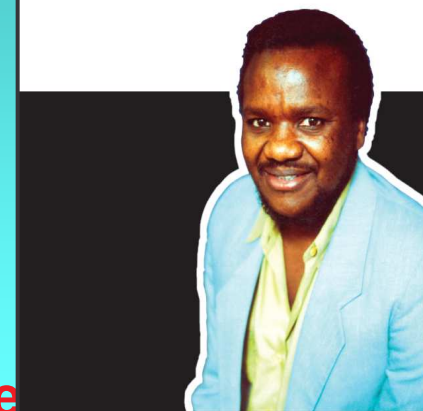
bursts out in crises and spurs capital on to a continual extension of the market. Capital cannot accumulate without the aid of non-capitalist organisations, nor ... can it tolerate their continued existence side by side with itself. **Only the continuous and progressive disintegration of non-capitalist organisations makes accumulation of capital possible.**

-- Rosa Luxemburg, *The Accumulation of Capital*, 1919.



Guy Mhone on the production of poverty through 'enclavity'

BEYOND ENCLAVITY IN
AFRICAN ECONOMIES:
THE ENDURING WORK
OF GUY MHONE
EDITED BY PATRICK BOND



unequal access to **economic and social infrastructure services**;
inequitable **spatial arrangements** that continue to throttle participation;

persistence of **skills shortages**;

unequal development and unequal incidence of the gains from regional economic interaction among the countries and in particular between South Africa and the rest of the countries in the region;

brain drain;

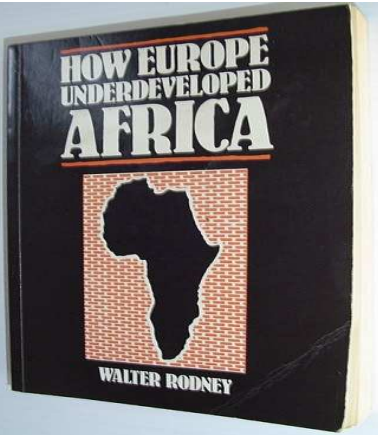
cross-border **labour migration among low skilled workers**;

cross-border informal trade...

while it is true that many of the forgoing problems can be found in the other countries and regions of Africa, it is contended here that they have a unique manifestation in the context of Southern Africa primarily because they have been **historically mediated by past problems of racial discrimination...**

neoliberal economic policies tend to reinforce or postpone the resolution of many of these problems.

Source: 'Labour Market Discrimination and its Aftermath in Southern Africa' (UN Res. Inst. for Soc. Development, 2001)



Walter Rodney on the *production* of poverty



The question as to who and what is responsible for African underdevelopment can be answered at two levels. Firstly, the answer is that the operation of **the imperialist system** bears major responsibility for African economic retardation by **draining African wealth and by making it impossible to develop more rapidly the resources of the continent**. Secondly, one has to deal with those who manipulate the system and those who are either **agents or unwitting accomplices of the said system**.



‘I am sure that **Cecil John Rhodes would have given his approval** to this effort to make the South African economy of the early 21st century appropriate and fit for its time.’

Nelson Mandela, August 2003, Rhodes House, CT

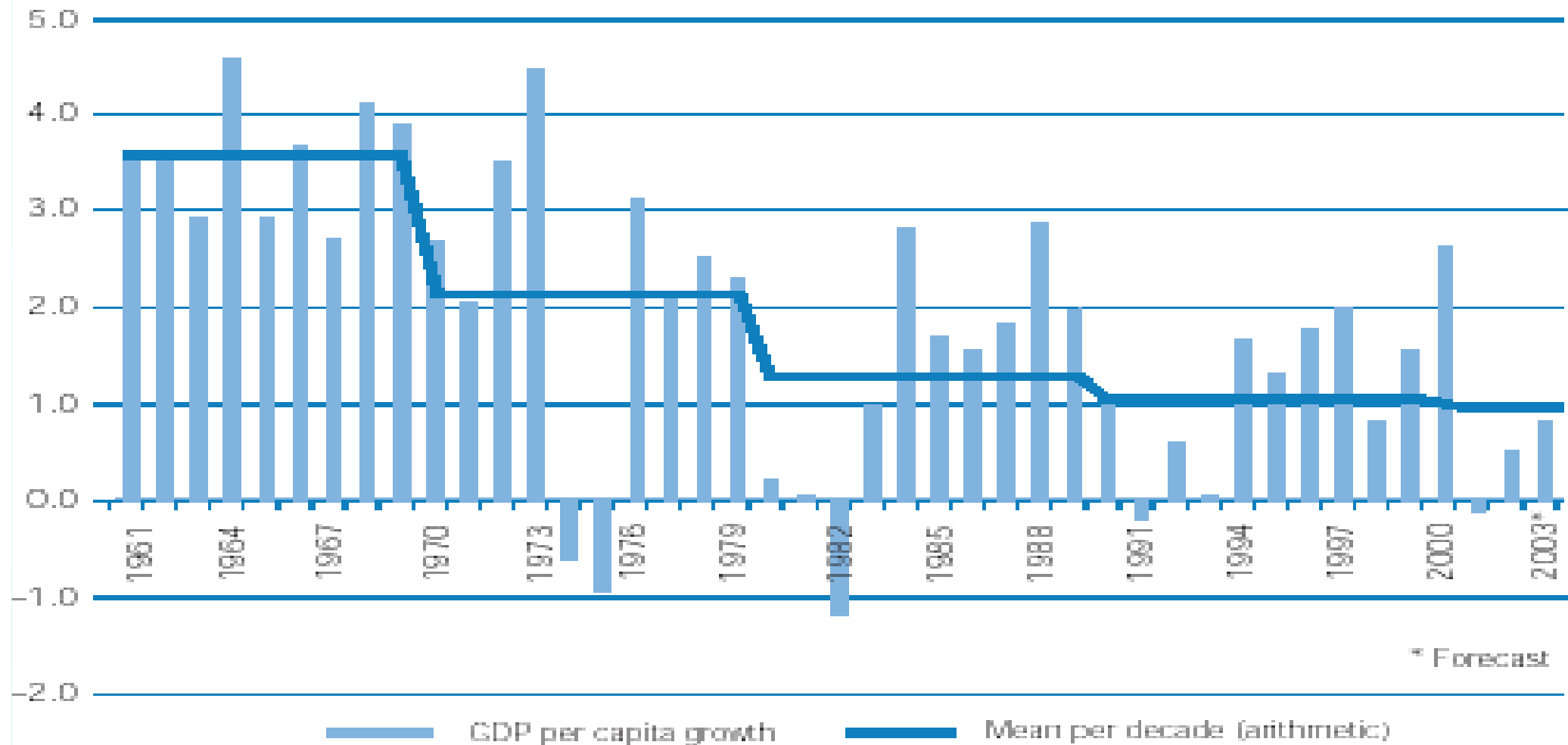
Accumulation by dispossession is *male-biased*

- patriarchal modes of surplus extraction include residual, worsening sex discrimination at the **point of production** and disturbing sites of **labour reproduction**:
- 'mainstream economic policymaking fails to recognize the contributions of women's unpaid labour - in the home, in the fields, or in the informal market where the majority of working people in African societies function... **these biases have affected the perception of economic activities and have affected economic policies in ways that perpetuate women's subordination.**'
 - Dzodzi Tsikata and Joanna Kerr, *Demanding Dignity: Women Confronting Economic Reforms in Africa*, Ottawa: The North-South Institute and Accra: Third World Network-Africa, 2002.

Context: Stagnation of world GDP growth

(‘overaccumulation’ thesis of Walden Bello, David Harvey, Robert Brenner)

World GDP per capita growth, 1961-2003 (annual change in per cent)



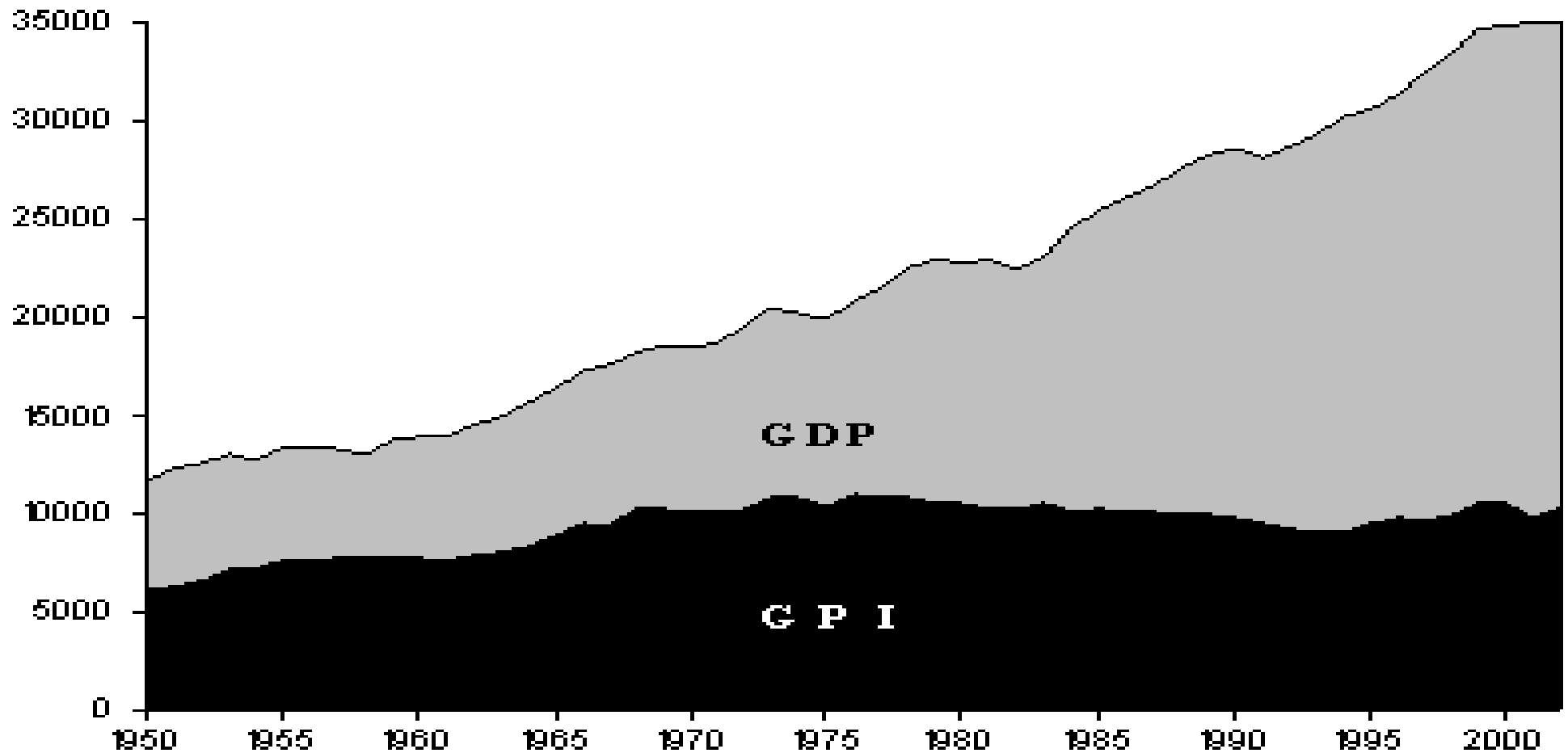
* Forecast

Sources: World Bank, *World Development Indicators 2003* (online version) and World Bank, *Global Economic Prospects 2004*.

Dubious data: Adjusting the GDP statistics

- **Subtract resource depletion;**
- **Subtract pollution;**
- **Subtract long-term environmental damage (climate change, nuclear waste generation);**
- **Add household and volunteer work (gender implications);**
- **Correct for income distribution (rewarding equality);**
- **Subtract crime and family breakdown;**
- **Add opportunities for increased leisure time;**
- **Factor in lifespan of consumer durables and public infrastructure;**
- **Subtract vulnerability upon foreign assets.**

Dubious data: Correcting the GDP bias (global)

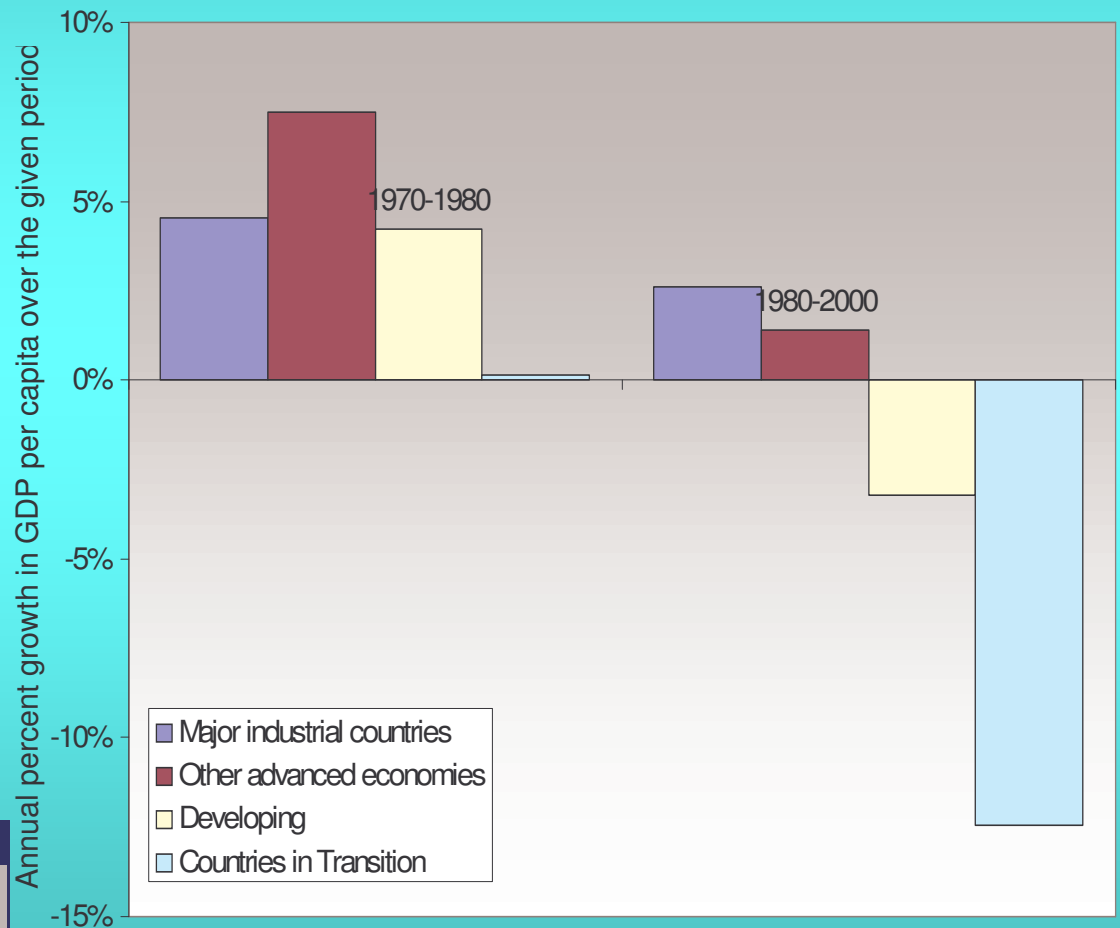


Source: redefiningprogress.org

Especially low growth since 1980, and extremely uneven development

- **Dramatic differences in annual % change of per capita GDP** (note: constant 1995\$, not PPP values)

Source: Alan Freeman



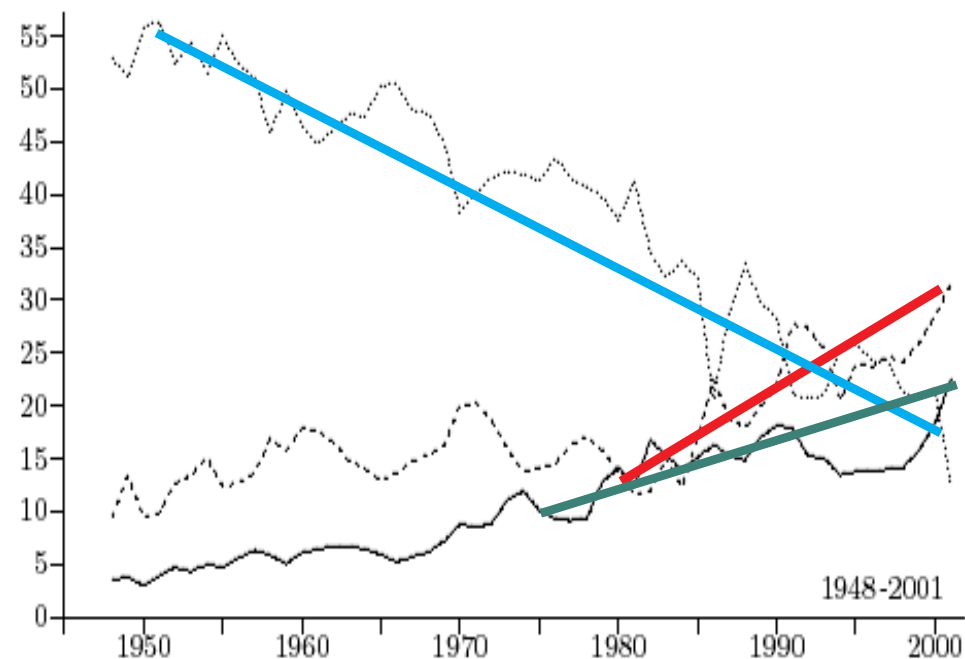
GDP per capita in 1995 dollars, 1982-2000

	1982	2000
Rest of the World	1,457	1,116
Advanced or Advancing Countries	15,383	26,134

Root 'overaccumulation' process: Source of US profits changed during globalisation/finance era

- US corporate profits derived **much less from manufacturing products**;
- much greater sources of profits **came from abroad**;
- profits also came more from returns on **financial assets**.

Source: Gerard Dumenil and Dominique Levy

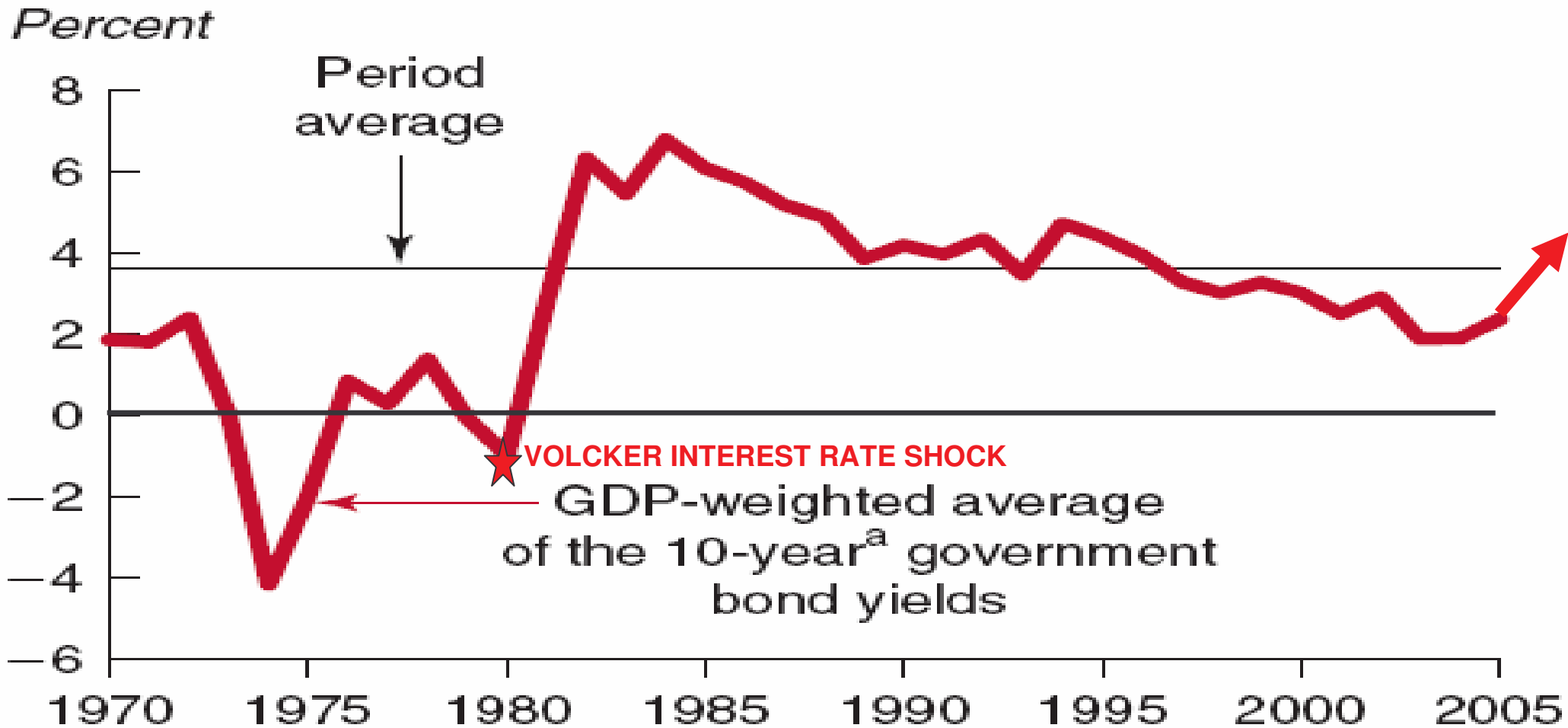


Rest of the world: (—); Financial sector: (-----); Manufacturing: (.....)

Profits are measured before profit taxes. The *rest of the world* corresponds to the excess of profits made on US investments abroad over the profits made by the rest of the world on foreign direct investment in the US. (These profits may remain in the country where the investment is made.) Trade, Construction, Public Utilities, Transportation and Communications, and services are not represented.

Source: NIPA (BEA).

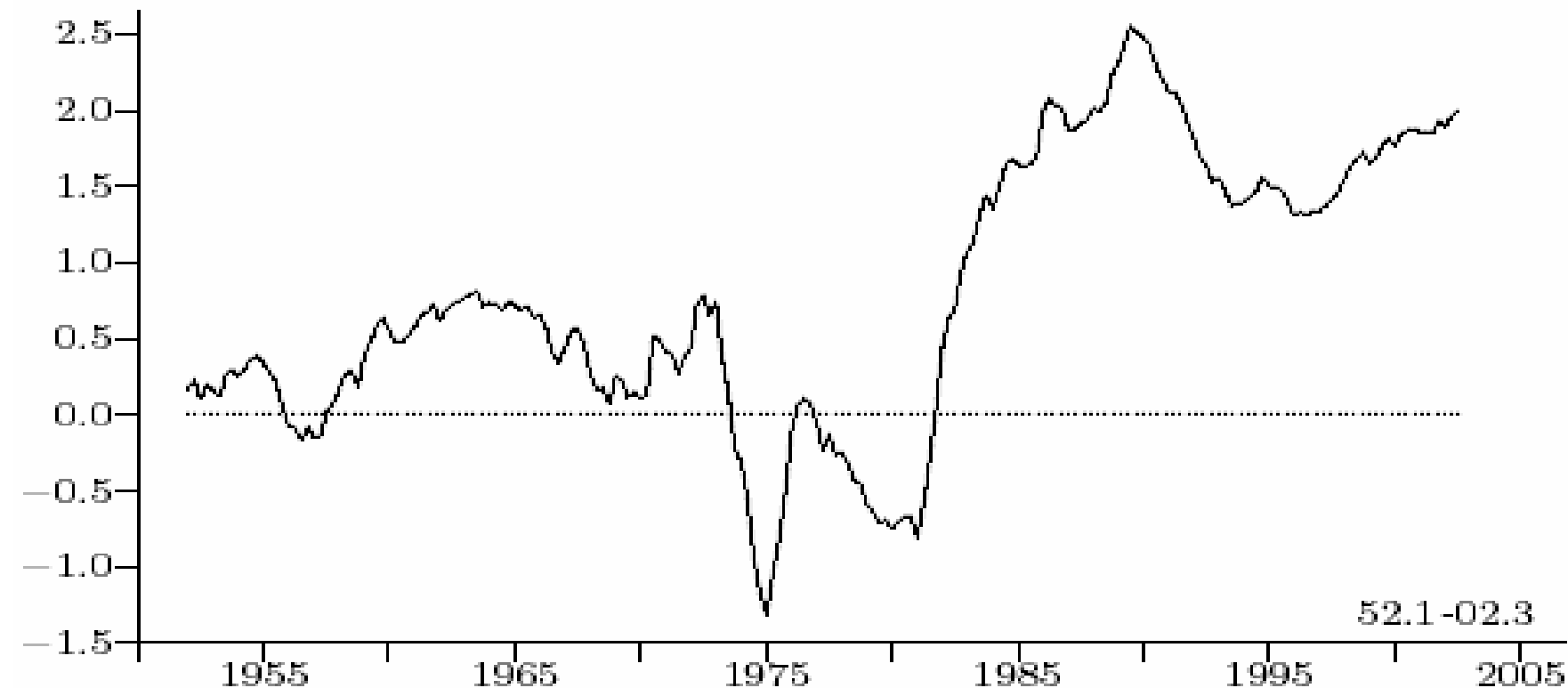
US reversion to **high interest rates** during 1980s-90s



Source: World Bank.

Corporations spent 1980s-90s paying off historically high debt

Ratio of the charge of net interest of nonfinancial corporations to their net worth (quarterly data, %)

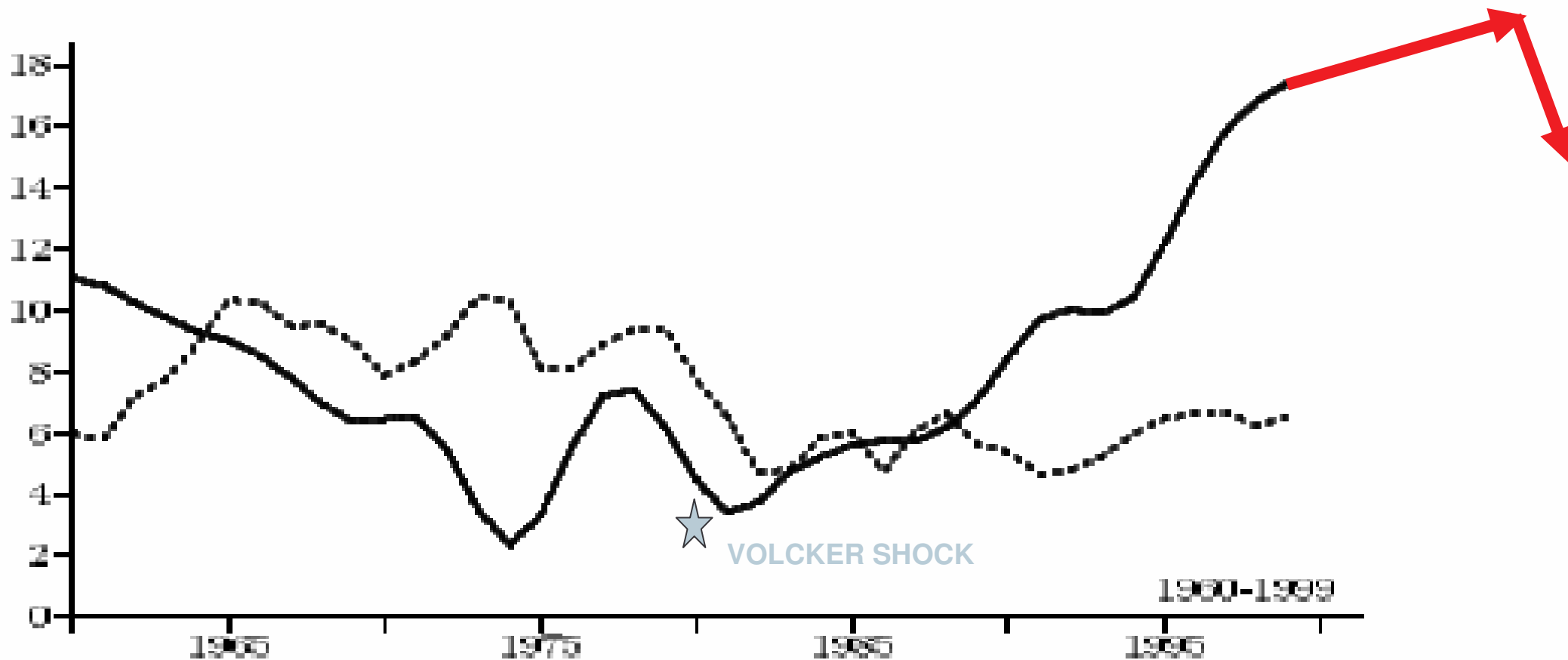


n is made for the devaluation of the debt by inflation.

Source: Gerard Dumenil and Dominique Levv

Credit/stock market bubbles: US financial profits

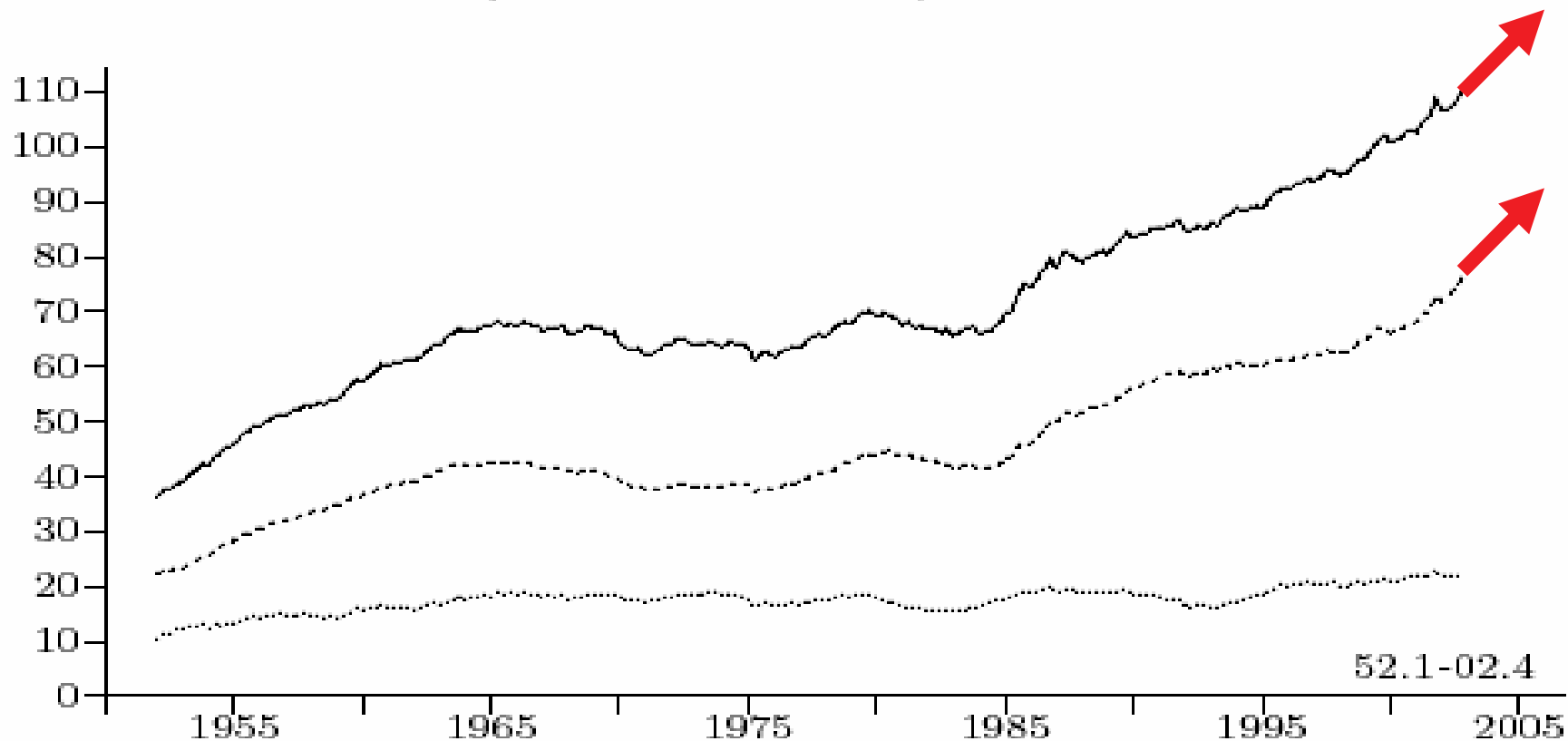
US: Profit rate of nonfinancial (-----) and financial corporations (—), %



Source: Gerard Dumenil and
Dominique Levy

Another feature of the credit bubble: Is US household debt sustainable?

Ratio of the debt (total liabilities and its components) of households to their disposable income (quarterly data, %): US



ities: (—); Home mortgages: (-----); Consumer credit: (.....)

Source: Gerard Dumenil and Dominique Levv

Are US households now so indebted that they cannot save?

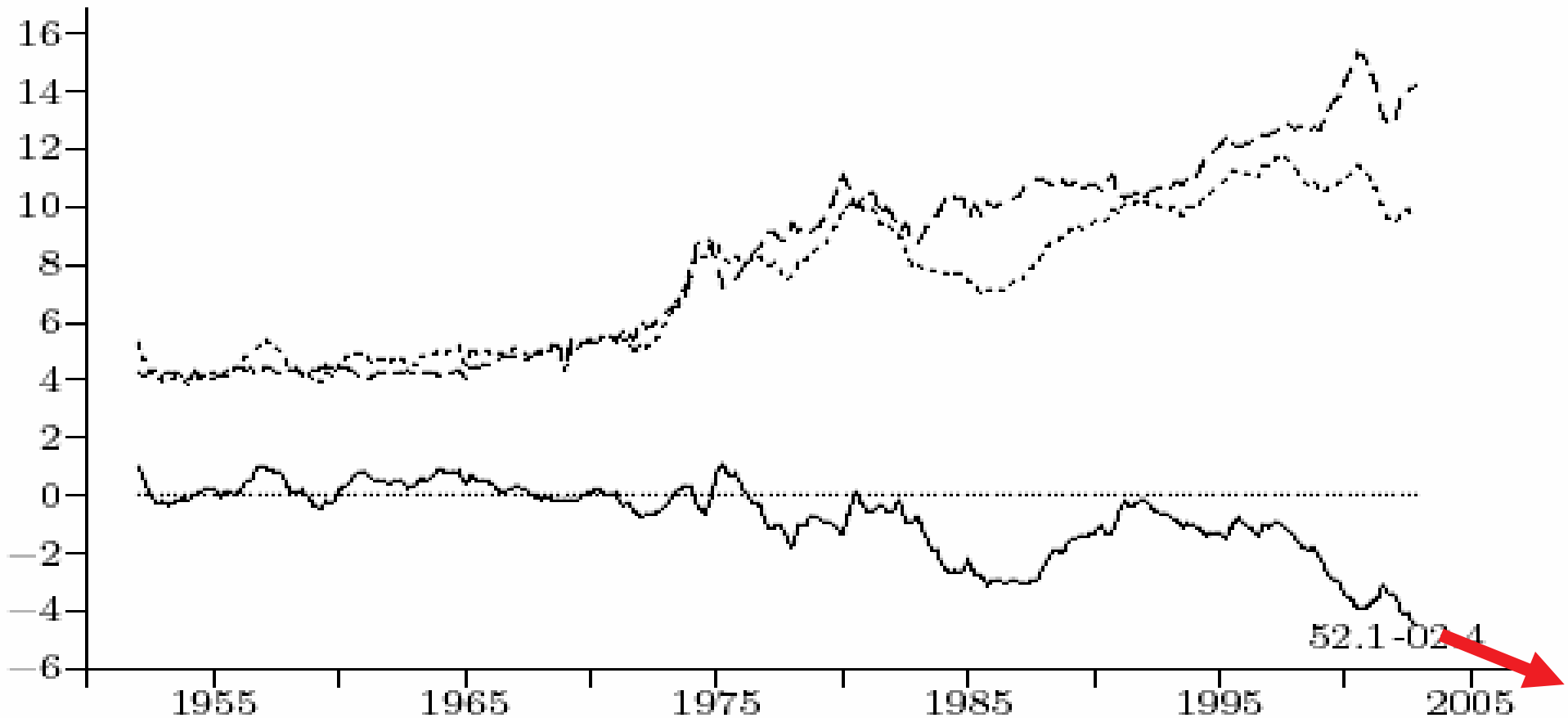
Ratio of savings* to disposable income (quarterly data, %): Households in the US



Source: Gerard Dumenil and Dominique Levy

US trade deficit

Ratios of imports, exports, and balance of trade to the GDP (%): US



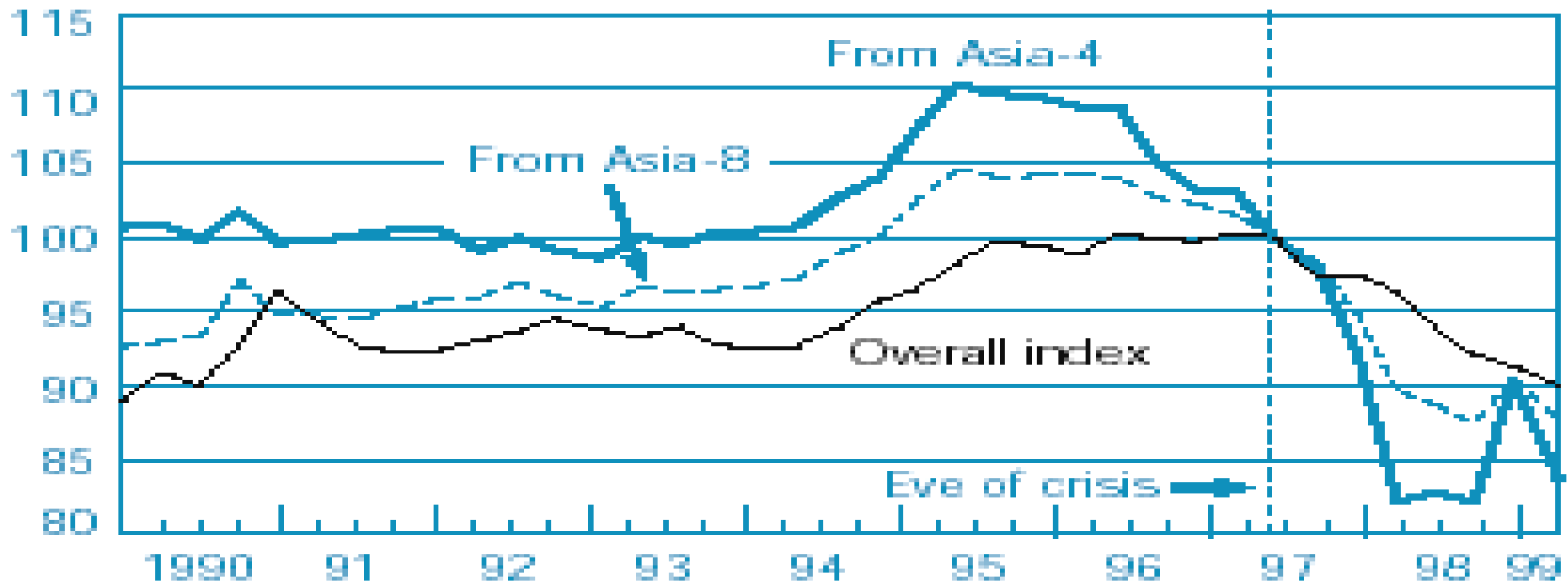
Balance of Trade: (—); Exports: (-----); Imports: (- - -)

Source: Gerard Dumenil and Dominique Levy

US trade benefits from East Asian crisis: currency-induced import boom

Real U.S. Import Price Indexes Relative to the GDP Deflator

Index: 1997:2 = 100

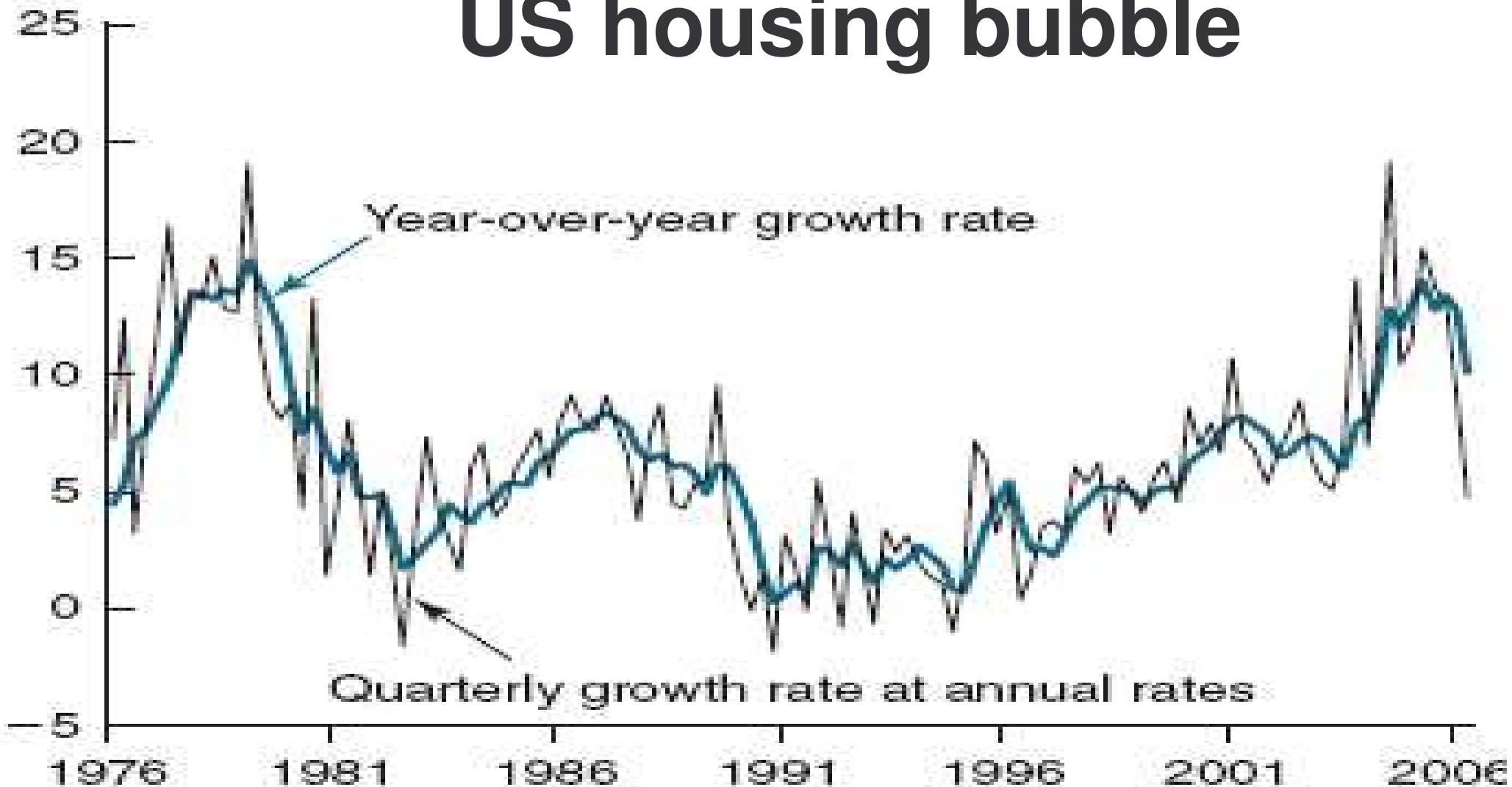


Source: Federal Reserve Bank of NY

Increase in the price of existing U.S. houses

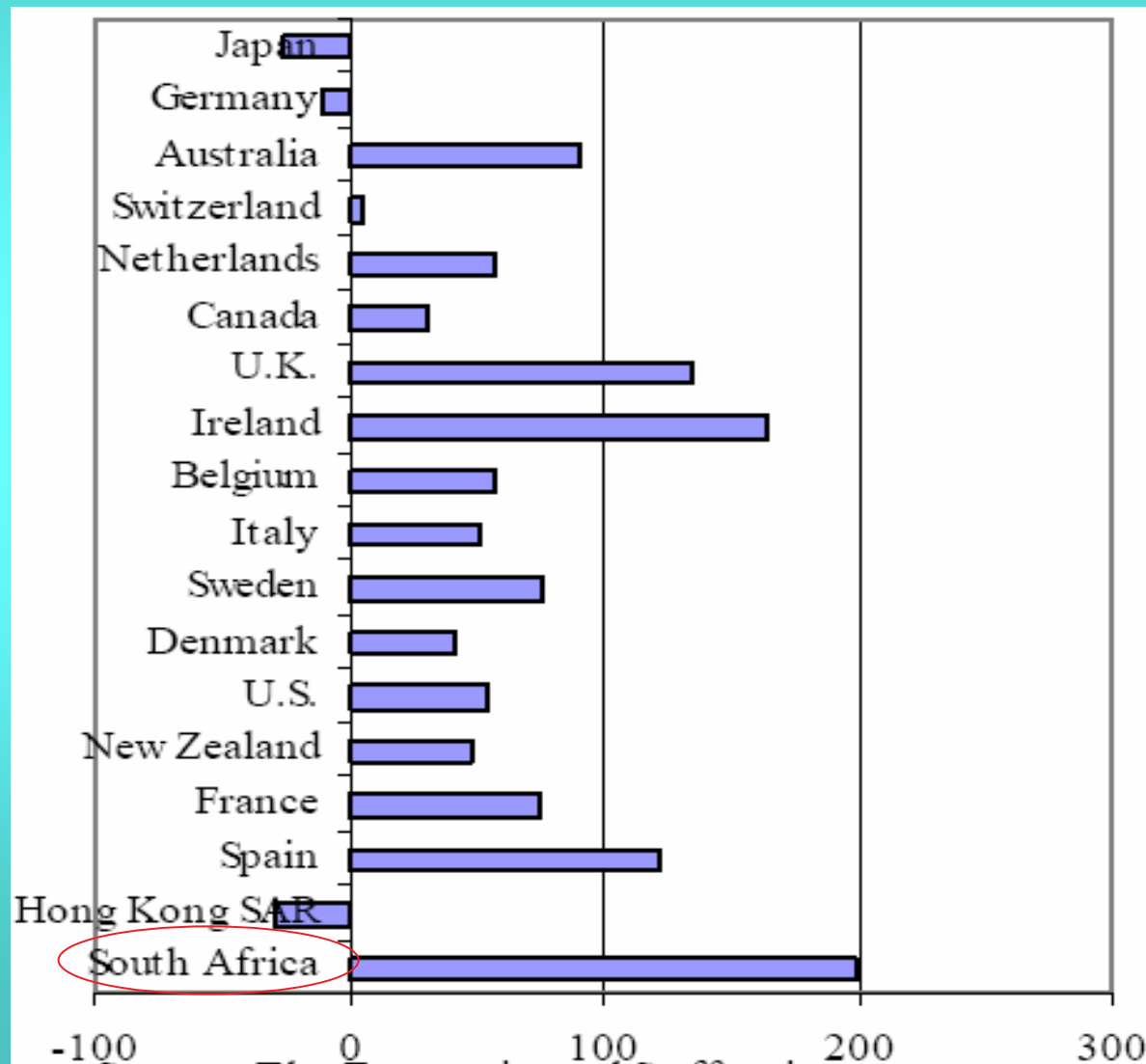
Percent

US housing bubble



Sources: World Bank; Office of Federal Housing Enterprise Oversight.

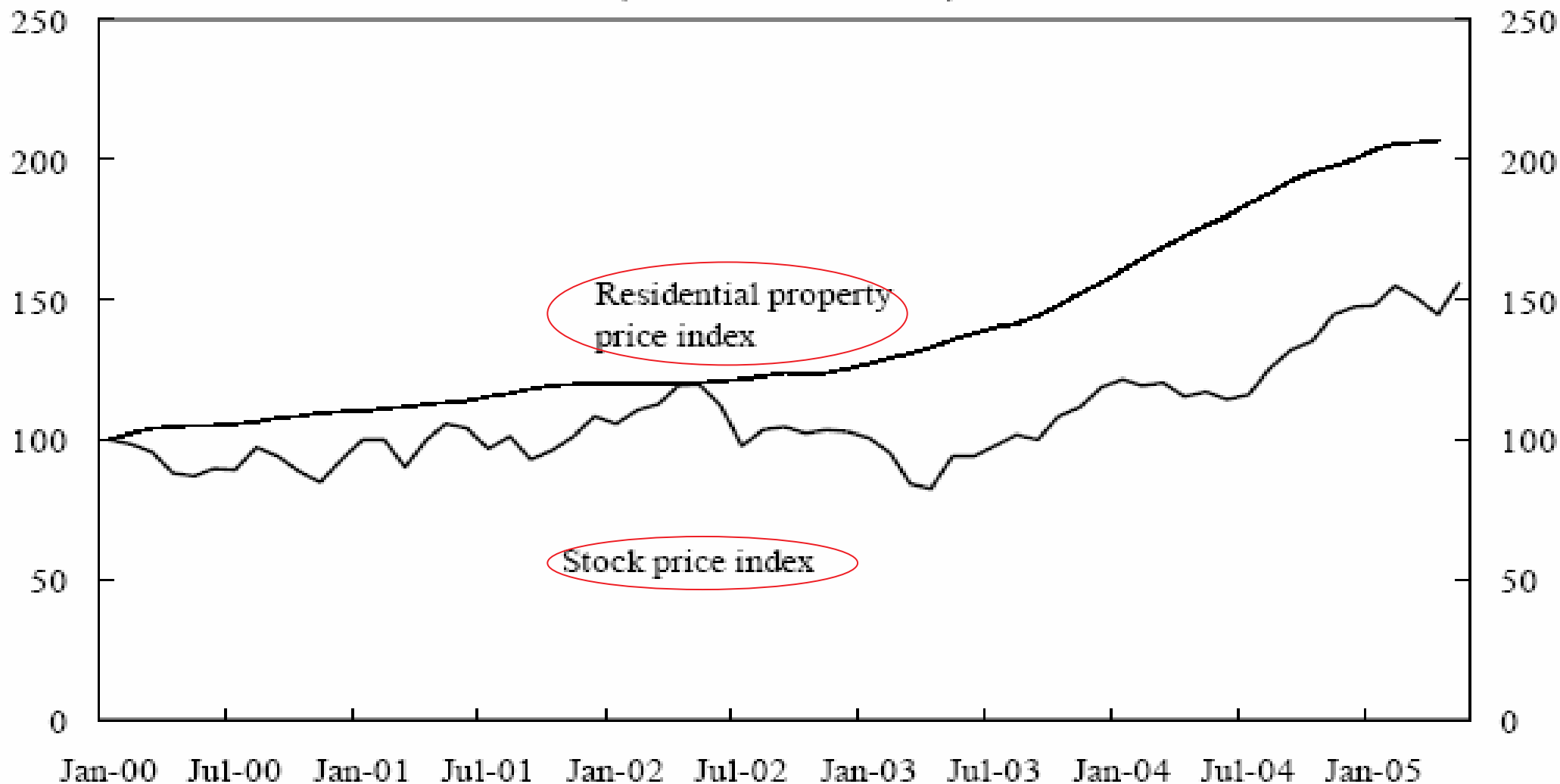
Change in house prices, 1997-04 (%): SA has world's most speculative real estate



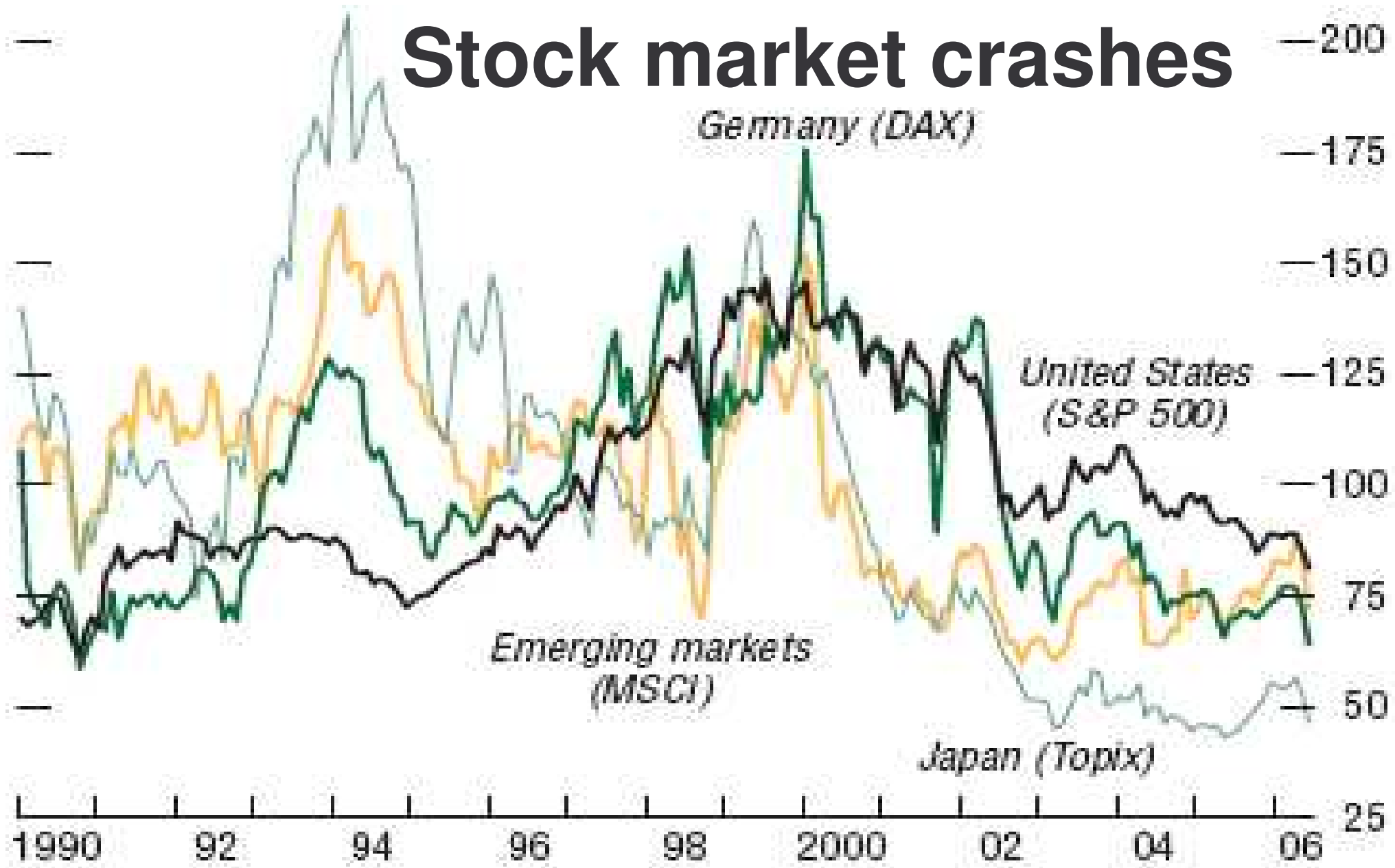
Source: IMF, 'South Africa:
Selected Issues', September
2005

If SA capital is not being reinvested in production, then where does it go?

House and Stock Prices in Real Terms
(Index Jan 2000 = 100)



Stock market crashes



Sources: Thomson Financial I/B/E/S; and IMF staff estimates.

Stock market volatility: emerging markets

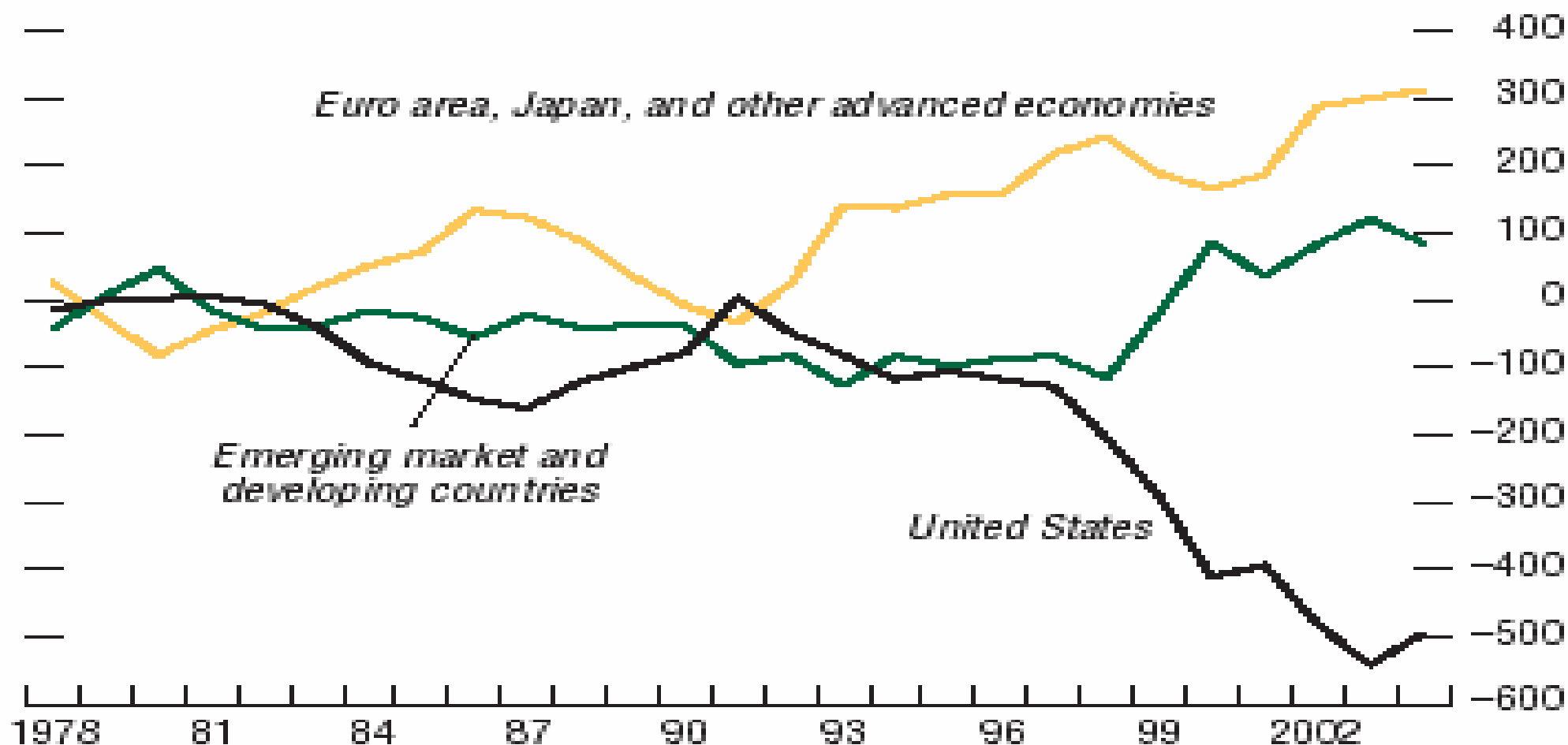
Emerging Market Equity Volatility
(In percent)

MSCI Emerging Markets index²



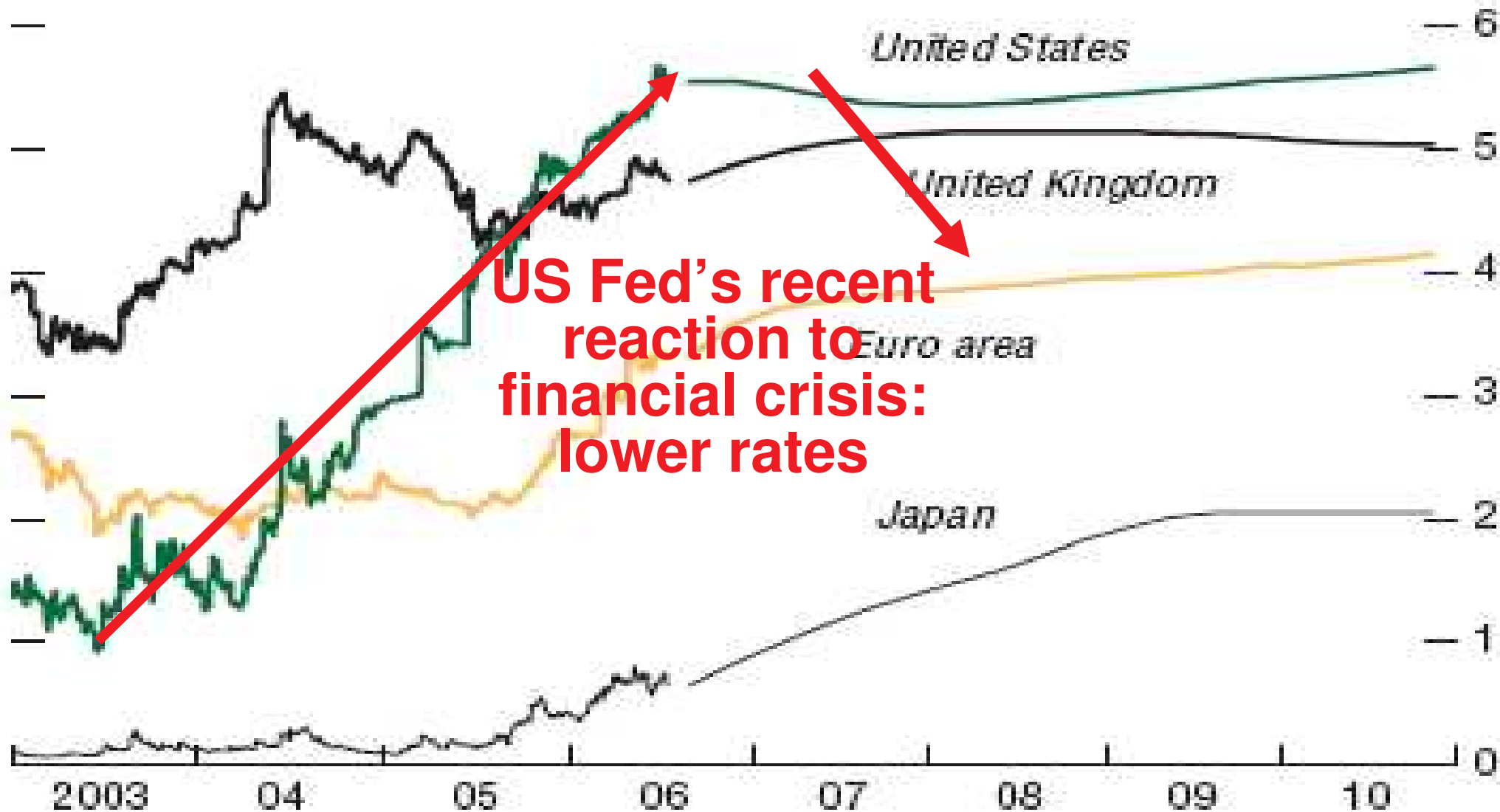
Financing of US capital inflows

(In billions of U.S. dollars)



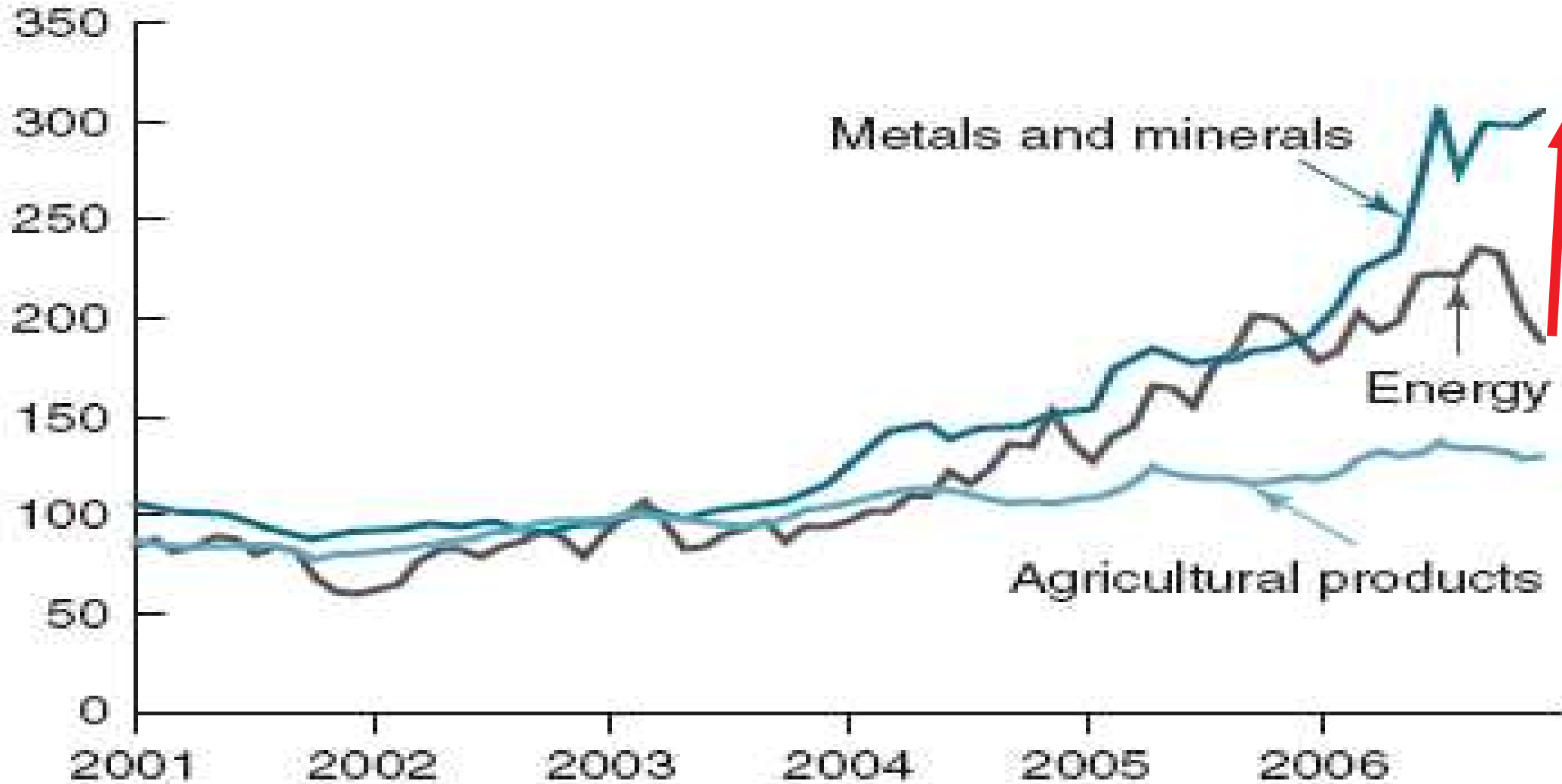
Source: International Monetary Fund
Global Financial Stability Report 2004, p.148

Higher interest rates to attract funding, but what happens when bubble bursts?



Since 2002, substantial commodity price increases

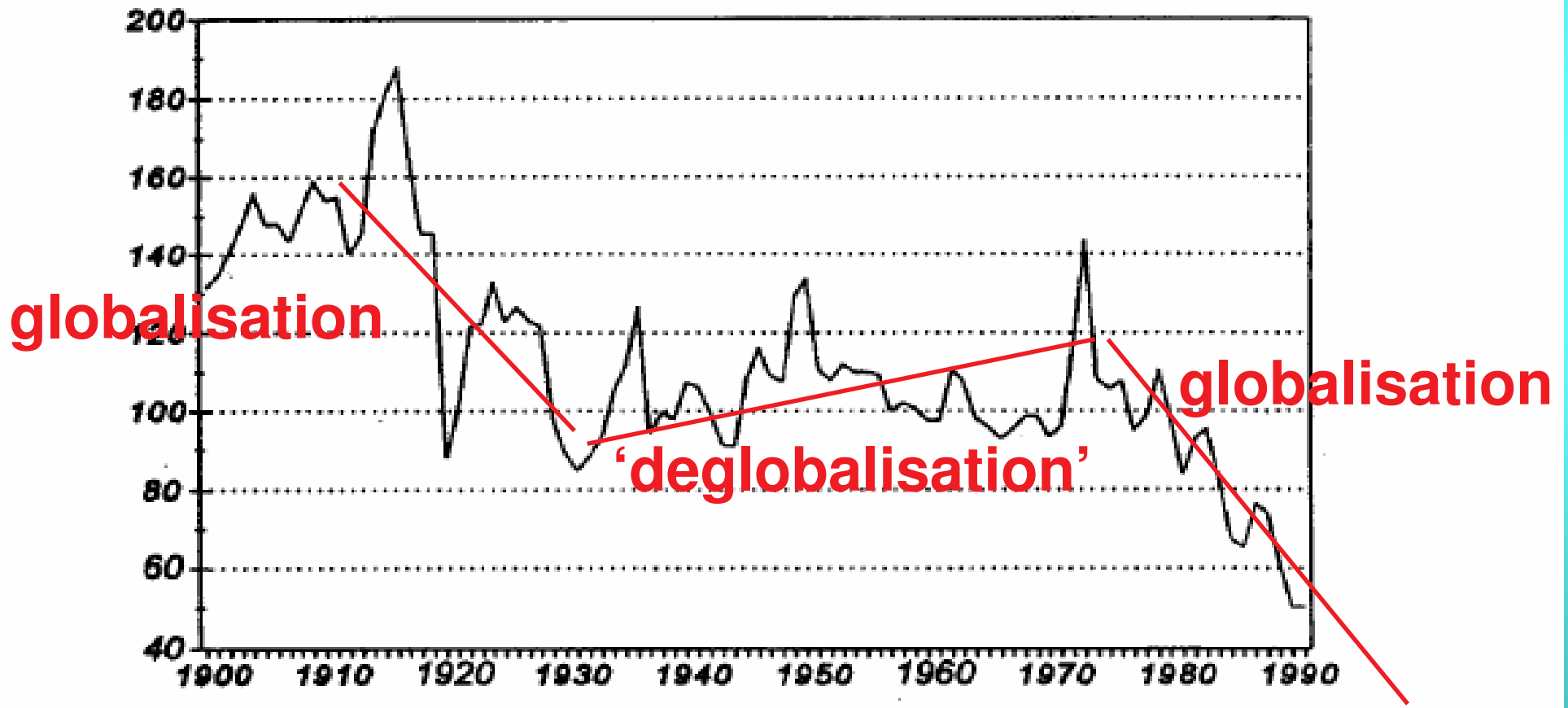
Index, Jan. 2003 = 100



Source: World Bank.

But longer-term commodity export value trends are negative

Aggregate Commodity Price Index, 1900-1990
1970=100



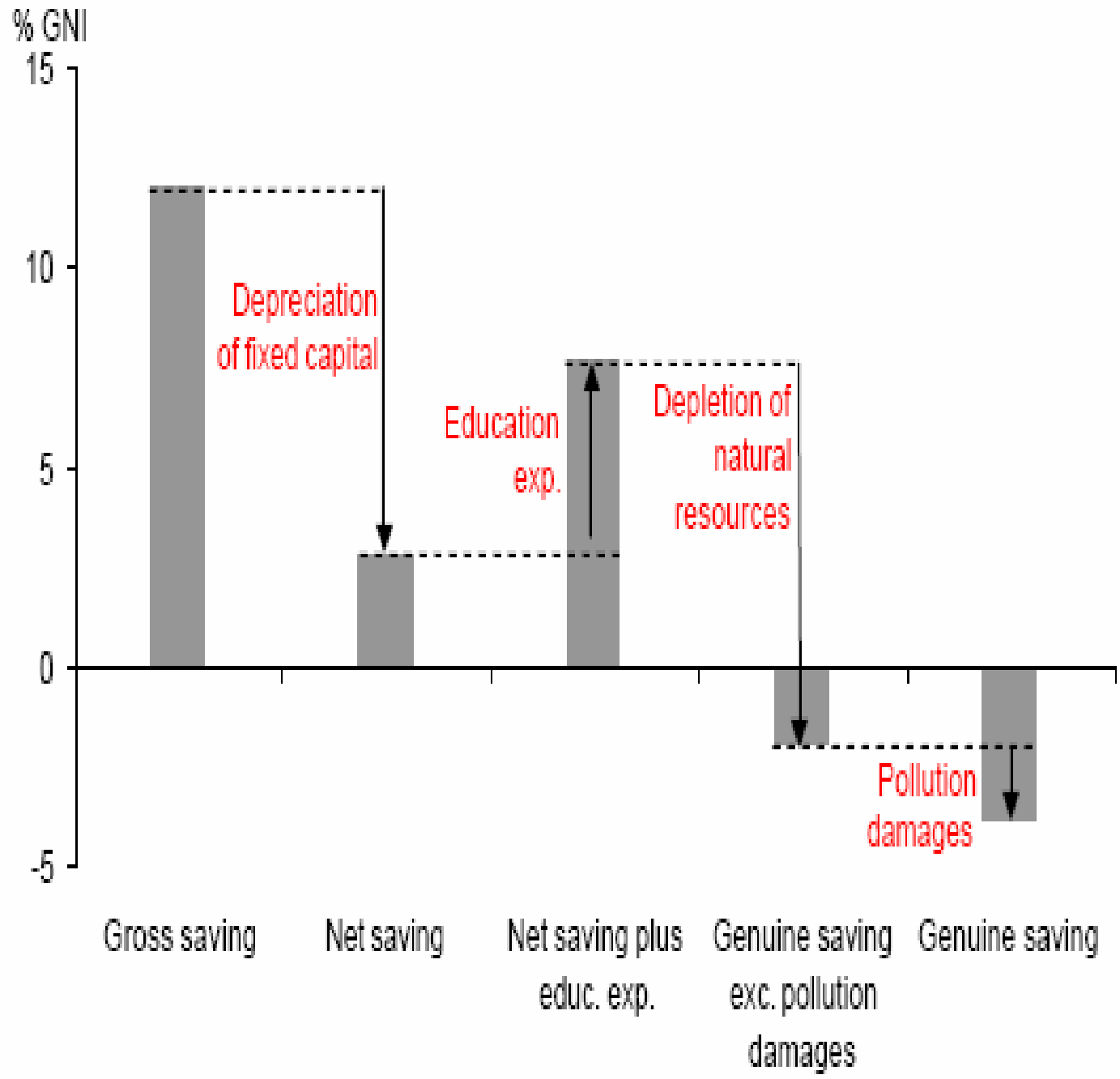
Source: : Javier León and Raimundo Soto, "Structural Breaks and Long-Run Trends Commodity Prices," *Journal of International Development*, 9, 1997, 347-66, p. 350.

Jubilee South: ecological debt is
'the debt accumulated by
Northern, industrial countries
toward Third World countries on
account of resource plundering,
environmental damages, and the
free occupation of environmental
space to deposit wastes, such as
greenhouse gases, from the
industrial countries.'

Types of ecological debt

(Joan Martinez-Alier):

- unpaid costs of reproduction or maintenance or sustainable management of the **renewable resources that have been exported**;
- actualised costs of the **future lack of availability of destroyed natural resources**;
- compensation for, or the costs of reparation (unpaid) of the local **damages produced by exports** (for example, the sulphur dioxide of copper smelters, the mine tailings, the harms to health from flower exports, the pollution of water by mining), or the actualised value of irreversible damage;
- (unpaid) amount corresponding to the commercial use of information and knowledge on **genetic resources**, when they have been appropriated gratis ('biopiracy');
- lack of payment for environmental services or for **disproportionate use of 'Environmental Space'**, e.g. (unpaid) costs of free disposal of gas residues (carbon dioxide, CFCs, etc) assuming equal rights to sinks and reservoirs (\$75 billion/year);
- (unpaid) reparation costs or compensation for the impacts caused by **imports of solid or liquid toxic waste**.



World Bank (minimalist) adjustments to derive 'genuine savings'
fixed capital (-), education (+), natural resource depletion (-), and pollution damage (-)

Where *is* Africa's wealth?

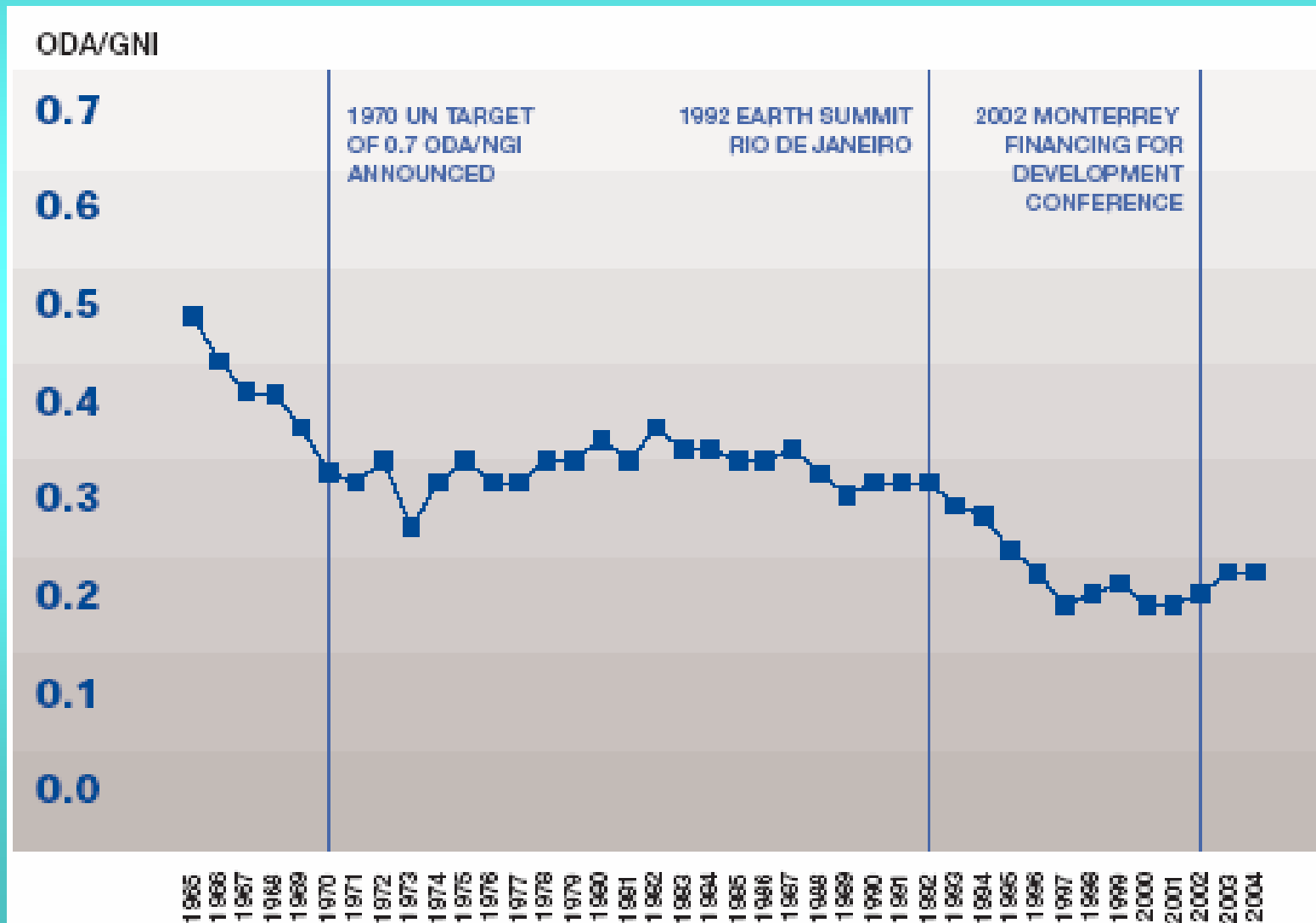
World Bank recording of African countries' adjusted national wealth and savings gaps', 2000

	GNI per capita	Population growth rate (%)	Adjusted net saving per capita	Change in wealth per capita
Benin	360	2.6	14	-42
Botswana	2925	1.7	1021	814
Burkina Faso	230	2.5	15	-36
Burundi	97	1.9	-10	-37
Cameroon	548	2.2	-8	-152
Cape Verde	1195	2.7	43	-81
Chad	174	3.1	-8	-74
Comoros	367	2.5	-17	-73
Congo, Rep. of	660	3.2	-227	-727
Côte d'Ivoire	625	2.3	-5	-100
Ethiopia	101	2.4	-4	-27
Gabon	3370	2.3	-1183	-2241
Gambia, The	305	3.4	-5	-45
Ghana	255	1.7	16	-18
Kenya	343	2.3	40	-11
Madagascar	245	3.1	9	-56
Malawi	162	2.1	-2	-29
Mali	221	2.4	20	-47
Mauritania	382	2.9	-30	-147
Mauritius	3897	1.1	645	514
Mozambique	195	2.2	15	-20
Namibia	1820	3.2	392	140
Niger	166	3.3	-10	-83
Nigeria	297	2.4	-97	-210
Rwanda	233	2.9	14	-60
Senegal	449	2.6	31	-27
Seychelles	7089	0.9	1182	904
South Africa	2837	2.5	246	-2
Swaziland	1375	2.5	129	8
Togo	285	4.0	-20	-88
Zambia	312	2.0	-13	-63
Zimbabwe	550	2.0	53	-4

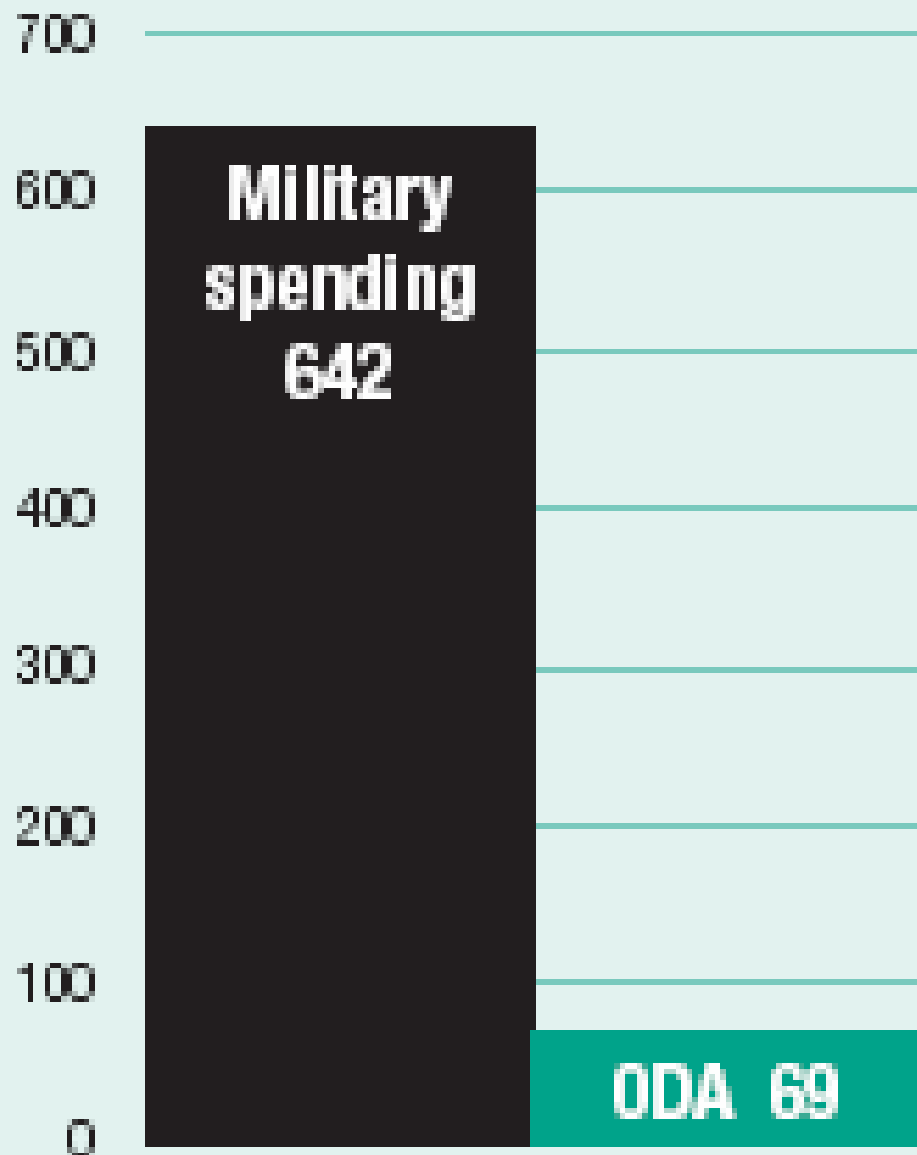
Note: All dollars at nominal exchange rates.

AID: Declining commitments

Source: World Development Movement



Spending by OECD donors, 2003
(US\$ billions)



**Aid in context:
Far less than
military spending**

Source: UNDP HDR 2005

Reconstitution of global ruling class ideology: neocon-neolib fusion, 2004-present

- EU chose Spanish neocon **Rodrigo Rato** as IMF director in mid-2004;
- new head of UNICEF, chosen in January 2005, was Bush's agriculture secretary **Ann Veneman**, although the US and Somalia are only two countries which refused to ratify UN Convention on Rights of the Child;
- in February 2005, outgoing neoliberal head of the WTO, **Supachai Panitchpakdi** from Thailand (who served US and EU interests from 2003-05), was given UN Conference on Trade and Development;
- **Paul Wolfowitz** – architect of the disastrous, illegal US/UK war against Iraq – was appointed to head the World Bank in March 2005;
- EU's hardline trade negotiator **Pascal Lamy** made WTO director;
- neoconservative ideologue **John Bolton** was US Ambassador to the UN from mid-2005-2006, replaced by US-Iraqi neocon **Zalmay Khalilzad**;

Global ruling elite: neocon-neolib fusion, 2004-present

- neoliberal former World Bank spokesperson **Mark Malloch-Brown** took up a central job in Kofi Annan's office and then became top UK official;
- neoconservative US State Department official **Christopher Burnham** became UN undersecretary-general for management;
- another State Dept official and former *Washington Times* editor, **Josette Sheeran**, directs UN World Food Programme;
- **Ban-ki Moon's** first act as UN secretary general in January 2007 was to applaud US bombing of Somalia;
- replacing Wolfowitz after the sex/money scandal is even more dangerous **Robert Zoellick**, formerly US Trade Rep;
- new IMF head – promoted by EU with no consultation - is former French finance minister **Dominique Strauss-Kahn**.

Global elites encourage African elites, to abolish – or *polish* – global apartheid?

New Partnership for Africa's Development is 'philosophically spot on':

Walter Kansteiner, US State Dep't, 2003



Codesria and Third World Network-Africa Declaration on Africa's development challenges, 26/4/02

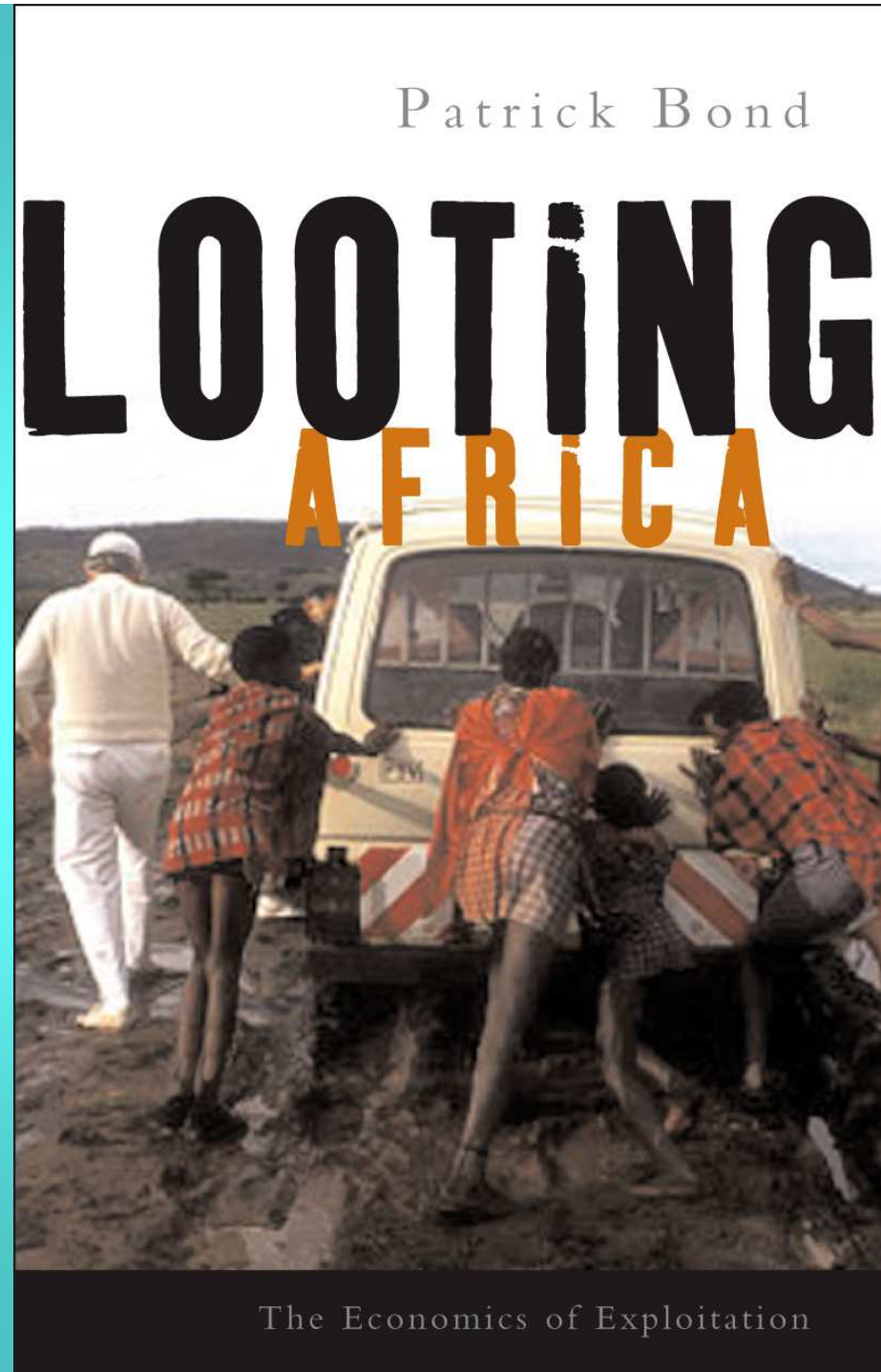
The **most fundamental flaws of Nepad**, which reproduce the central elements of the World Bank's *Can Africa Claim the 21st Century?* and the ECA's *Compact for African Recovery*, include:

–**the neo-liberal economic policy framework at the heart of the plan**, which repeats the structural adjustment policy packages of the preceding two decades and overlooks the disastrous effects of those policies...

–it under-emphasises the **external conditions fundamental to Africa's developmental crisis**, and thereby does not promote any meaningful measure to manage and restrict the effects of this environment on Africa development efforts. On the contrary, the engagement that it seeks with institutions and processes like the World Bank, the IMF, the WTO, the United States Africa Growth and Opportunity Act, the Cotonou Agreement, will **further lock Africa's economies disadvantageously into this environment**

Recent attention to African poverty:

- UN's **Millennium Development Goals** made strong arguments for increased resource flows;
- **British-African Commission for Africa's** ambitious report prefigured G8 initiatives on debt, aid and trade at the Gleneagles summit.
- Civil society campaigns - **Make Poverty History, the Global Call for Action Against Poverty and the Live 8 series of rock concerts** - involved millions and raised consciousness.
- However, the logic underlying high-profile analyses, strategies, tactics and alliances associated with the new-found concern for African underdevelopment, could indeed **exacerbate poverty and dependence.**



'Another world is possible!'

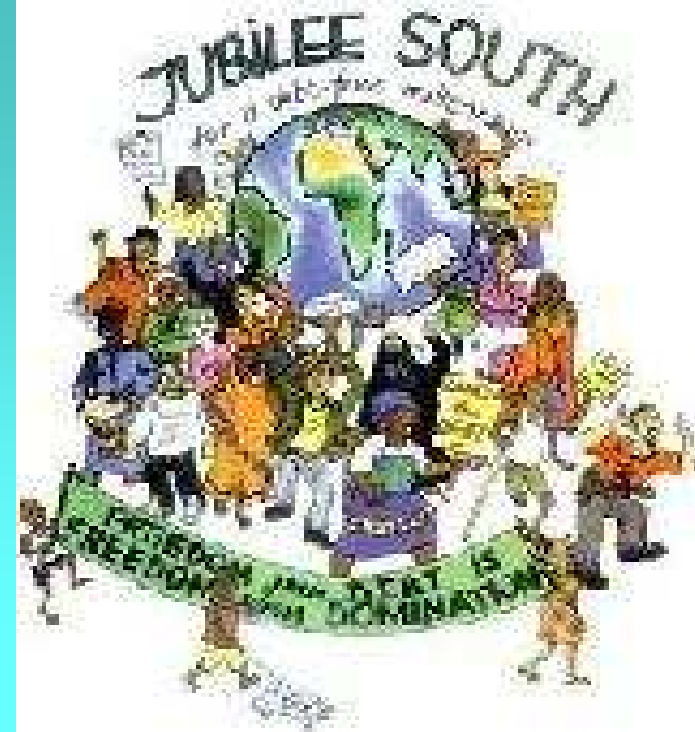
local examples of decommodification

- activists engaged in superb struggles to turn basic needs into *human rights*:
 - *free antiretroviral medicines to fight AIDS*;
 - *free water (50-60 liters/person/day)*;
 - *free electricity (at least 1 kiloWatt hour/person/day)*;
 - *free basic education*;
 - *Renationalisation of Telkom for lifeline phone services*;
 - *prohibition on services disconnections and evictions*;
 - *thorough-going land reform*;
 - *a 'Basic Income Grant'* ; and
 - *the right to a job!*
- All such services should be *universal*, and financed in a redistributive manner partly by *penalizing luxury consumption*.
- Strategy requires *deglobalisation of capital – through globalisation of people*

What about the IMF/WB?: Jubilee South

- We reject... any further role or interference of the World Bank or IMF in our countries.
- We as African civil society organisations need to... mobilise our people to challenge and change the global economic system through campaigns and actions to **shut down the World Bank and IMF.**

Jubilee South's *Pan-African Declaration on PRSPs*,
May 2001, Kampala.



**Voices for IMF/WB closure:
Nobel economics laureate
Joseph Stiglitz**



- I used to say that since we are going to need these institutions it is better to reform them than to start from scratch. I'm beginning to have second thoughts. I'm beginning to ask, has the credibility of the IMF been so eroded that **maybe it's better to start from scratch**? Is the institution so resistant to learning to change, to becoming a more democratic institution, that maybe it is time to think about creating some new institutions that really reflect today's reality, today's greater sense of democracy. It is really time to re-ask the question: should we reform or should we build from start?

Financial Times, 21 August 2002

Voices for IMF/World Bank closure:

Susan George

renowned author and a leader of ATTAC, France

- *These institutions have had their chance. Anytime anyone asks, 'And what would you put in its place?' I am tempted to respond, 'And what would you put in the place of cancer?'*



Voices for IMF/WB closure: Archbishop of Cape Town Njongonkulu Ndungane



- [If] we must release ourselves from debt peonage - by demanding the repudiation and cancellation of debt - we will campaign to that end. And if the World Bank and IMF continue to stand in the way of social progress, movements like Jubilee South Africa will have **no regrets about calling for their abolition.**

To that end, the **World Bank Bonds Boycott** movement is gaining even great momentum. Even a money centre city like San Francisco decided to redirect funds away from Bank bonds into other investments, on the moral grounds that taking profits from World Bank operations contributes to poverty, misery and ecological degradation. More and more investors are realising that **profiting from poverty through World Bank bonds is not only immoral, but will not make good financial sense as the market shrinks.**

Ndungane, N. (2003), *A World with a Human Face: A Voice from Africa*, Cape Town, David Philip, p.31.

WBBB: Churches, foundations, unions, cities and social responsibility funds

PARTIAL LIST

TIAA-CREF (world's largest pension) sold its WB bonds

- Univ. of New Mexico
- Unitarian Church
- Global Greengrants Fund
- Ben and Jerry's Foundation
- Calvert Group
- Progressive Assets Management
- Trillium Assets Management
- PLUS many US cities (e.g., San Francisco, Milwaukee, Oakland)

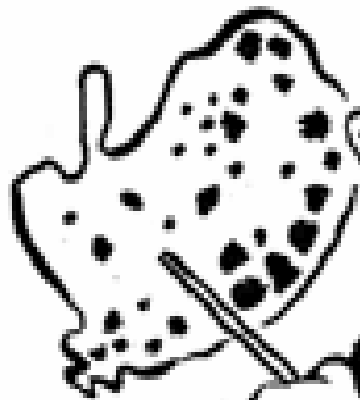
- Major union pension/investment funds (e.g., **Teamsters**, Postal Workers, Service Employees International, American Federation of Government Employees, Longshoremen, Communication Workers of America, United Electrical Workers)

www.worldbankboycott.org

JOIN US!

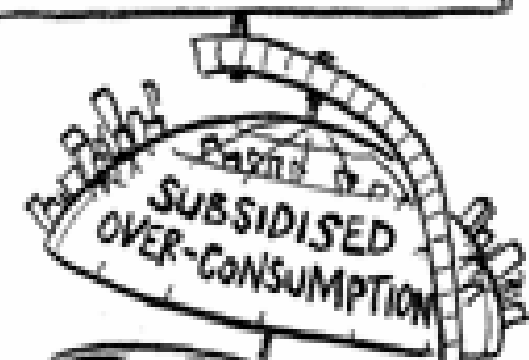


APARTHEID



AMATEUR!

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