

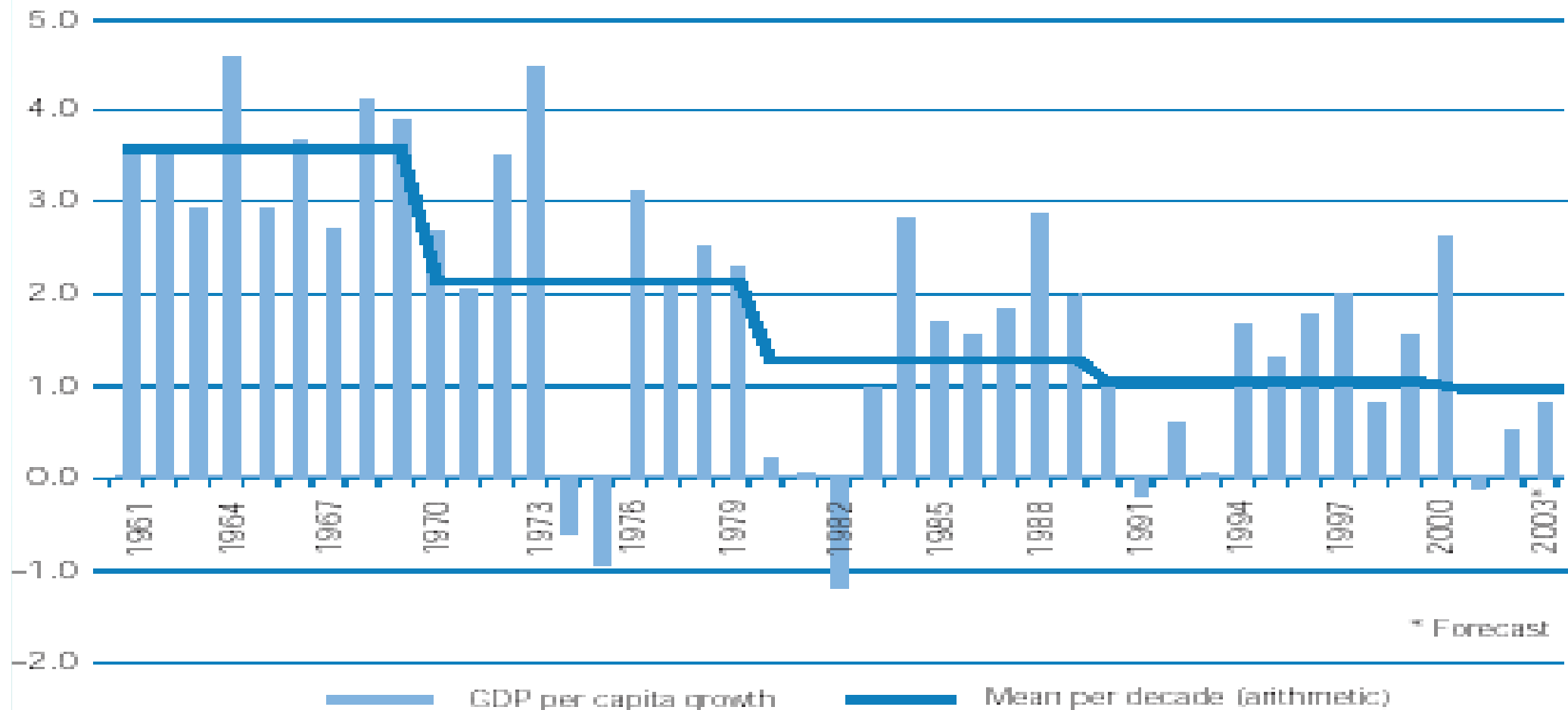
The US financial meltdown
Part 1: What really happened
*Roots of the economic crisis in
overaccumulation, financialisation
and 'global apartheid'*

Patrick Bond

Professor, Centre for Civil Society and
School of Development Studies,
University of KwaZulu-Natal, Durban
3 October 2008

Several decades of **slowdown** in world GDP growth

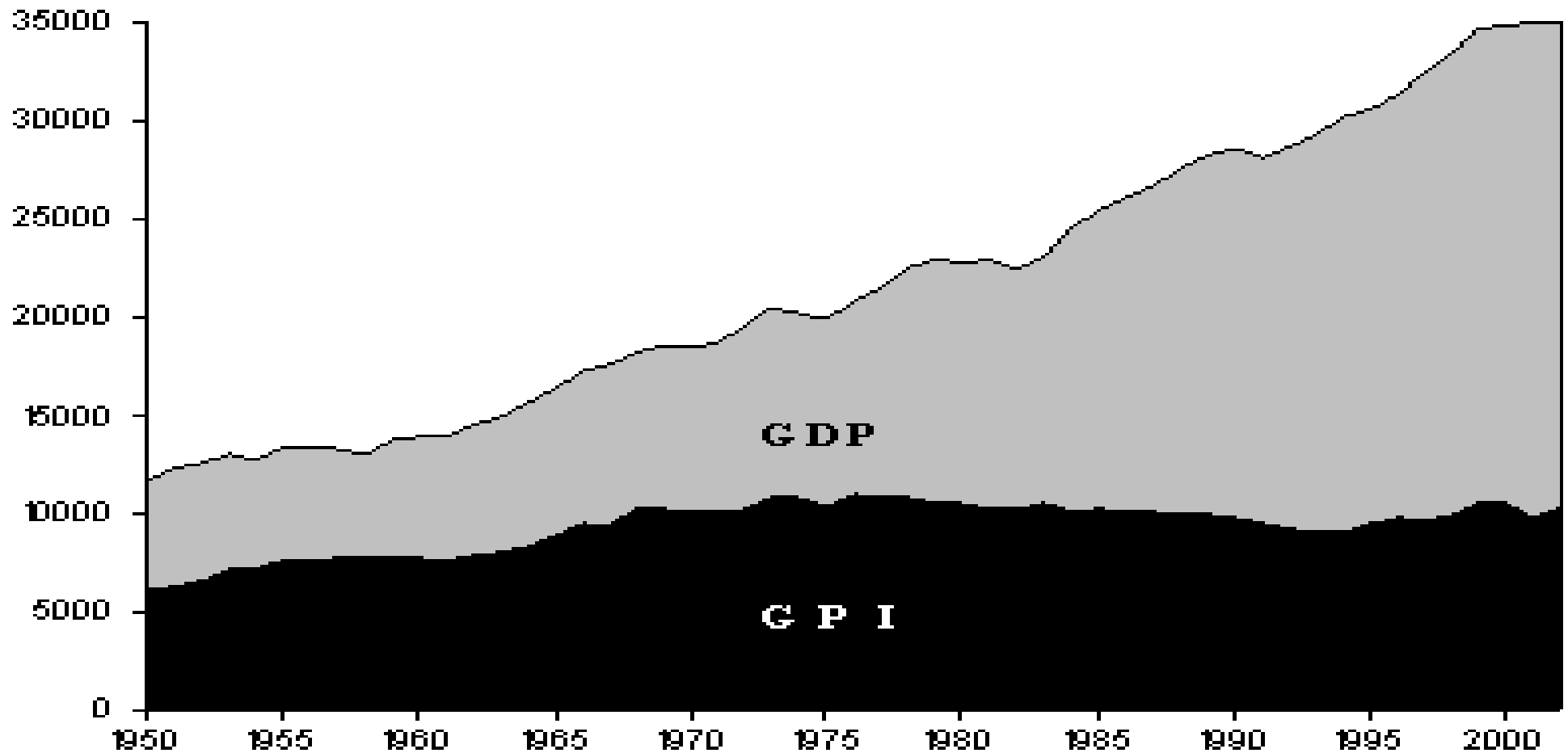
World GDP per capita growth, 1961-2003 (annual change in per cent)



* Forecast

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

Dubious statistics: Correcting the GDP bias (global)



Source: redefiningprogress.org

Preliminary statistical problem: Why the denominator is skewed

- **GDP treats crime, divorce and natural disasters as economic gain;**
- **GDP ignores the non-market economy of household and community (childcare, elder care, other home-based tasks, and volunteer work);**
- **GDP adds the cost of prisons, social work, drug abuse and psychological counseling that arise from the neglect of the non-market realm;**
- **GDP treats the depletion of natural capital as income, instead of depreciation of an asset;**
- **GDP increases with polluting activities and then again with clean-ups; and**
- **GDP takes no account of income distribution.**

Dubious statistics: Adjusting the data

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

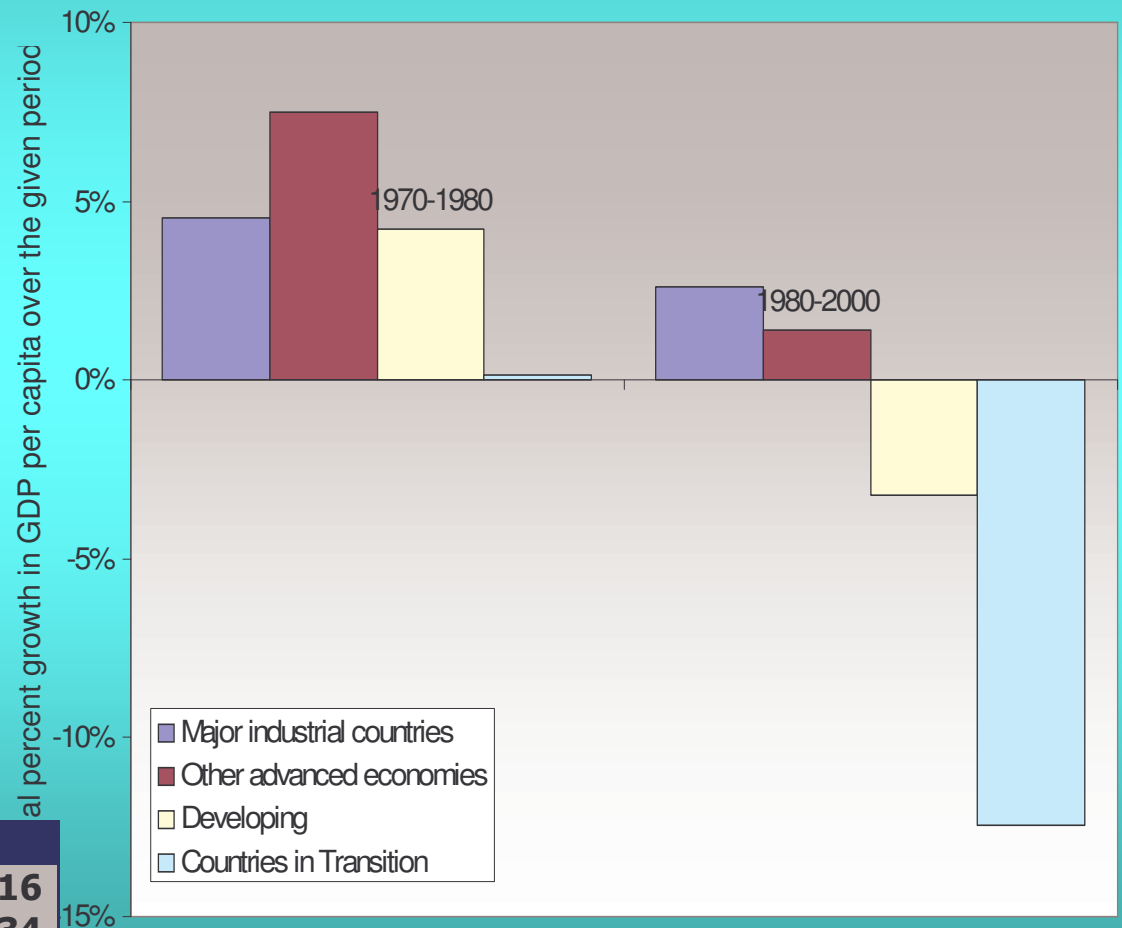
Especially low growth since 1980, and extremely *uneven* development

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

Source: Alan Freeman

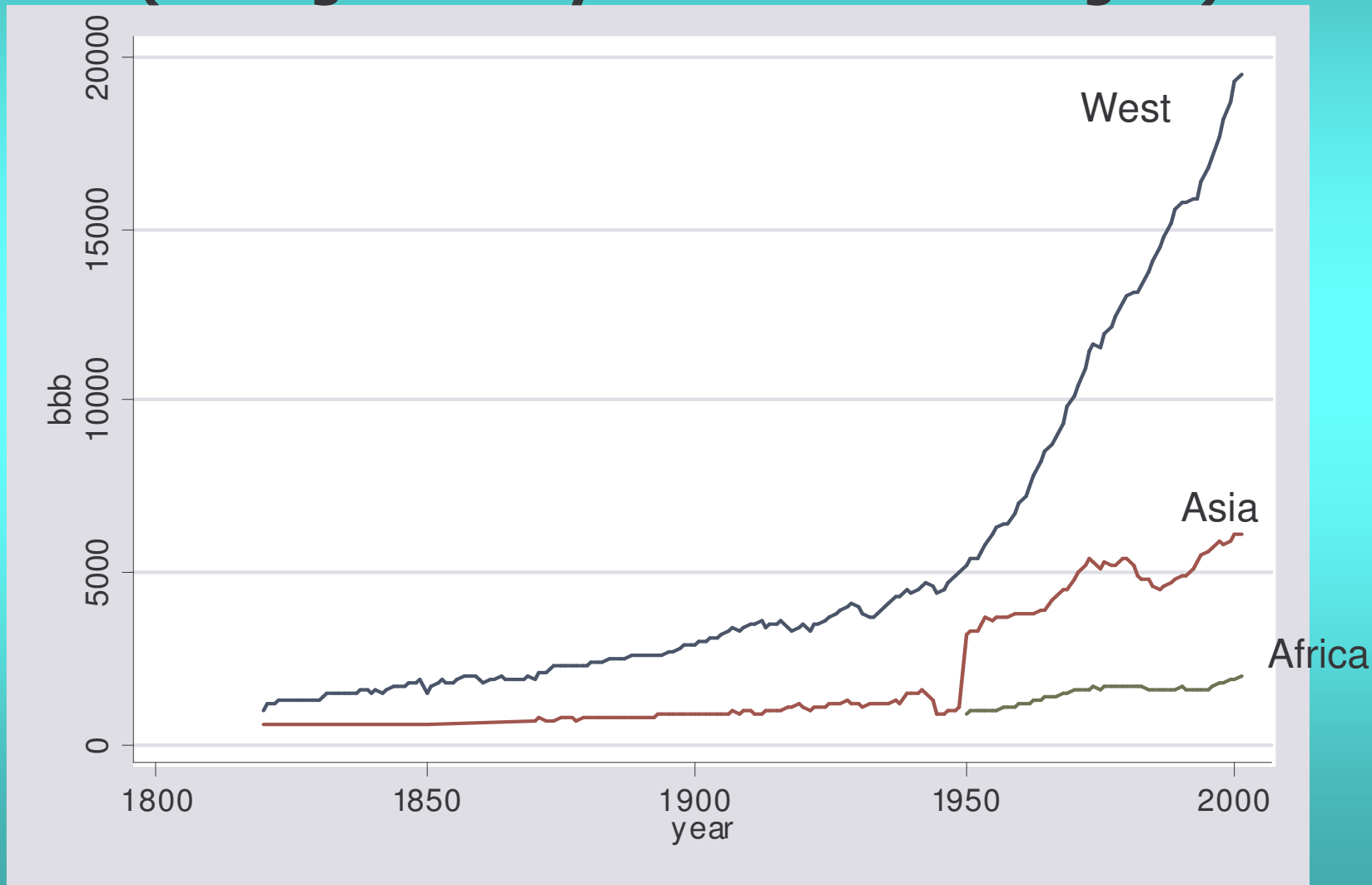
GDP per capita in 1995 dollars, 1982-2000

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



Increased differences between regions

(average country income in each region)



Source: Branko Milanovic

Crisis management and inequality: key moments in neoliberalisation

- **in 1973, the Bretton Woods agreement on Western countries' fixed exchange rates - by which from 1944-71, an ounce of gold was valued at US\$35 and served to anchor other major currencies – disintegrated when the US unilaterally ended its payment obligations, representing a default of approximately \$80 billion, leading the price of gold to rise to \$850/ounce within a decade;**
- **also in 1973, several Arab countries led the formation of the Oil Producing Exporting Countries (OPEC) cartel, which raised the price of petroleum dramatically and in the process transferred and centralized inflows from world oil consumers to their New York bank accounts ('petrodollars');**
- **from 1973, 'los Chicago Boys' of Milton Friedman – the young Chilean bureaucrats with doctorates in economics from the University of Chicago - began to reshape Chile in the wake of Augusto Pinochet's coup against the democratically-elected Salvador Allende, representing the birth pangs of neoliberalism;**

Key moments in neoliberalisation

- in 1976, the International Monetary Fund signalled its growing power by forcing austerity on Britain at a point where the ruling Labour Party was desperate for a loan, even prior to Margaret Thatcher's ascent to power in 1979;
- in 1979 the US Federal Reserve addressed the dollar's decline and US inflation by dramatically raising interest rates, in turn catalyzing a severe recession and the Third World debt crisis, especially in Mexico and Poland in 1982, Argentina in 1984, South Africa in 1985 and Brazil in 1987 (in the latter case leading to a default that lasted only six months due to intense pressure on the Sarney government to repay);
- at the same time, the World Bank shifted from project funding to the imposition of structural adjustment and sectoral adjustment (supported by the IMF and the 'Paris Club' cartel of donors), in order to assure surpluses would be drawn for the purpose of debt repayment, and in the name of making countries more competitive and efficient;

Key moments in neoliberalisation

- the overvaluation of the US dollar associated with the Fed's high real interest rates was addressed by formal agreements between five leading governments that devalued the dollar in 1985 (Louvre Accord), but with a 51 percent fall against the yen, required a revaluation in 1987 (Plaza Accord);
- once the Japanese economy overheated during the late 1980s, a stock market crash of 40 percent and a serious real estate downturn followed from 1990, and indeed not even negative real interest rates could shake Japan from a long-term series of recessions;
- during the late 1980s and early 1990s, Washington adopted a series of financial crisis-management techniques - such as the US Treasury's Baker and Brady Plans – so as to write off (with tax breaks) part of the \$1.3 trillion in potentially dangerous Third World debt due to the New York, London, Frankfurt, Zurich and Tokyo banks which were exposed in Latin America, Asia, Africa and Eastern Europe (although notwithstanding the socialization of the banks' losses, debt relief was denied the borrowers);

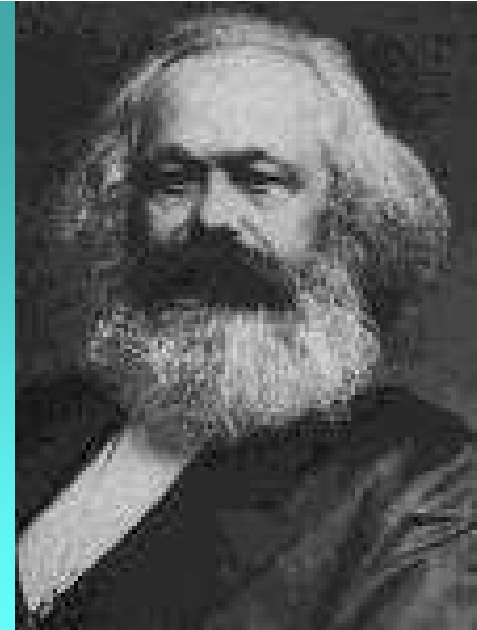
Key moments in neoliberalisation

- in late 1987, crashes in the New York and Chicago financial markets (unprecedented since 1929) were immediately averted with a promise of unlimited liquidity by Alan Greenspan's Federal Reserve, a philosophy which in turn allowed the bailout of the Savings and Loan industry and various large commercial banks (including Citibank) in the late 1980s notwithstanding a recession and serious real estate crash during the early 1990s;
- likewise in 1998, when a New York hedge fund - Long Term Capital Management (founded by Nobel Prize-winning financial economists) – was losing billions in bad investments in Russia, the New York Fed arranged a bailout, on grounds the world's financial system was potentially at high risk;

Key moments in neoliberalisation

- starting with Mexico in late 1994, the US Treasury's management of the mid- and late 1990s 'emerging markets' crises again imposed austerity on the Third World while offering further bailouts for investment bankers exposed in various regions and countries – Eastern Europe (1996), Thailand (1997), Indonesia (1997), Malaysia (1997), Korea (1998), Russia (1998), South Africa (1998, 2001), Brazil (1999), Turkey (2001) and Argentina (2001) - whose hard currency reserves were suddenly emptied by runs; and
- in addition to a vastly overinflated US economy (with record trade, capital and budget deficits) whose various excesses have occasionally unravelled – as with the dot.com stock market (2000), real estate (2007) bubbles and financial institution failures (2008) – the two largest Asian societies, China and India, picked up the slack in global materials and consumer demand during the 2000s, but not without extreme stresses and contradictions within the system that threaten world finances, geopolitical arrangements and environmental sustainability.

An historical materialist, feminist, anti-racist, political-ecological synthesis?



Analysing capitalism, from Marx to:

- 1) Lenin-Bukharin-Hilferding**
(interimperial rivalry, concentration of capital)
- 2) Gramsci-Hardt/Negri-Panitch/Gindin-Henwood**
(capitalist hegemony and cooption)
- 3) Luxemburg-Rodney-Harvey-Klein**
(imperialism, uneven/combined development)

The
Accumulation
of Capital
in Southern
Africa

Key feature of imperialism:
Capitalist/non-capitalist relations

Rosa Luxemburg

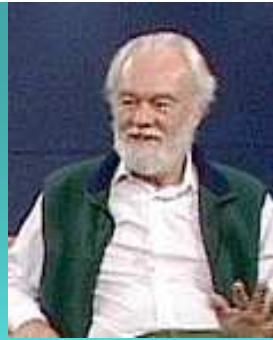


Accumulation of capital periodically bursts out in crises and spurs capital on to a continual extension of the market. Capital cannot accumulate without the aid of non-capitalist organisations, nor ... can it tolerate their continued existence side by side with itself. **Only the continuous and progressive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

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

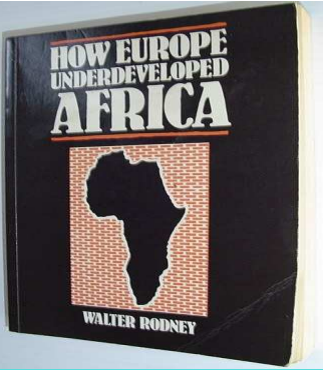


Accumulation by Dispossession: David Harvey



- A closer look at Marx's description of primitive accumulation reveals a wide range of processes. These include
- the commodification and **privatisation of land** and the **forceful expulsion of peasant populations**;
 - conversion of various forms of property rights (common, collective, state, etc.) into **exclusive private property rights**;
 - suppression of **rights to the commons**;
 - **commodification of labour power** and the **suppression of alternative** (indigenous) forms of production and consumption;
 - colonial, neocolonial and imperial processes of **appropriation of assets** (including **natural resources**);
 - **monetisation of exchange** and taxation (particularly of land);
 - **slave trade**; and
 - **usury, the national debt and ultimately the credit system** as radical means of primitive accumulation.

-- David Harvey, *The New Imperialism*, 2003



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**.

African political economists, progressive leaders and social justice strategists

(many of whom focus on resource extraction economics)

Charles Abugre, Adebayo Adedeji, **Jimi Adesina**, Claude Ake, Neville Alexander, **Samir Amin**, Peter Anyang'Nyong'o, A. M. Babu, Ahmed Ben Bella, Steve Biko, Dennis Brutus, Amilcar Cabral, Fantu Cheru, **Jacques Depelchin**, **Demba Dembele**, **Yasmine Fall**, Frantz Fanon, Ruth First, M. P. Giyose, **Yao Graham**, **Gill Hart**, Pauline Hountondji, Eboe Hutchful, Khafra Kambon, Dot Keet, Rene Loewenson, Sara Longwe, Patrice Lumumba, Samora Machel, Archie Mafeje, Ben Magubane, Amina Mama, Mahmood Mamdani, Guy Mhone, Darlene Miller, **Thandika Mkandawire**, Dani Nabudere, **Léonce Ndikumana**, Njoki Njehu, Kwame Nkrumah, Julius Nyerere, Georges Nzongola-Ntalaja, Oginga Odinga, **Ike Okonto**, **Adebayo Olukoshi**, **Oduor Ongwen**, Bade Onimode, Haroub Othman, Kwesi Prah, Eunice Sahle, Thomas Sankara, **Issa Shivji**, Yash Tandon, Riaz Tayob, Aminata Traoré, Dodzi Tsikata, Kwame Ture, Ernest Wamba dia Wamba, Tunde Zack-Williams, **Paul Zeleza**



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

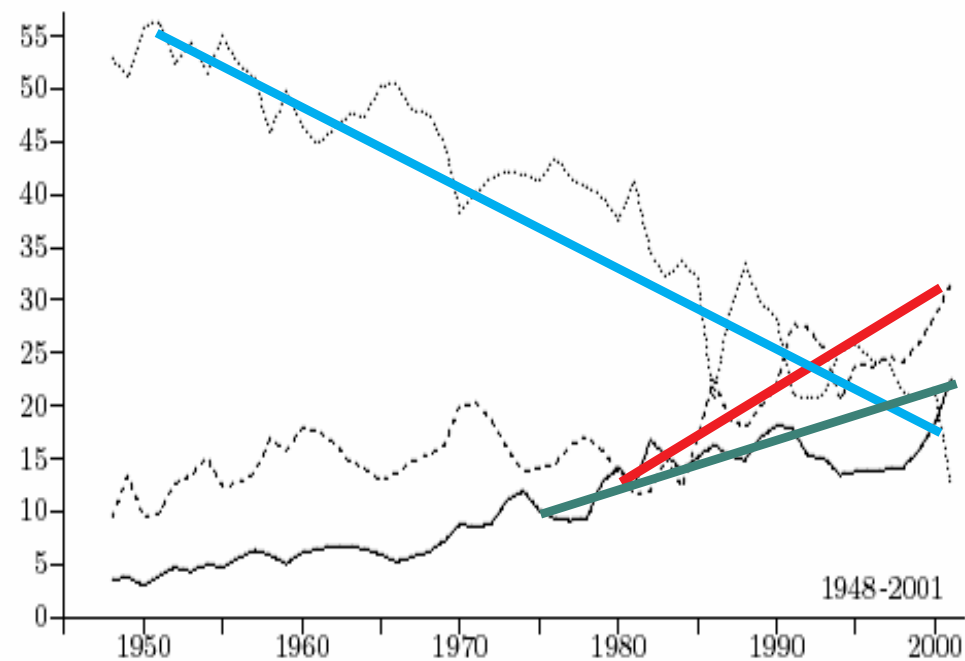
Accumulation by dispossession is *male-biased*

- 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.

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

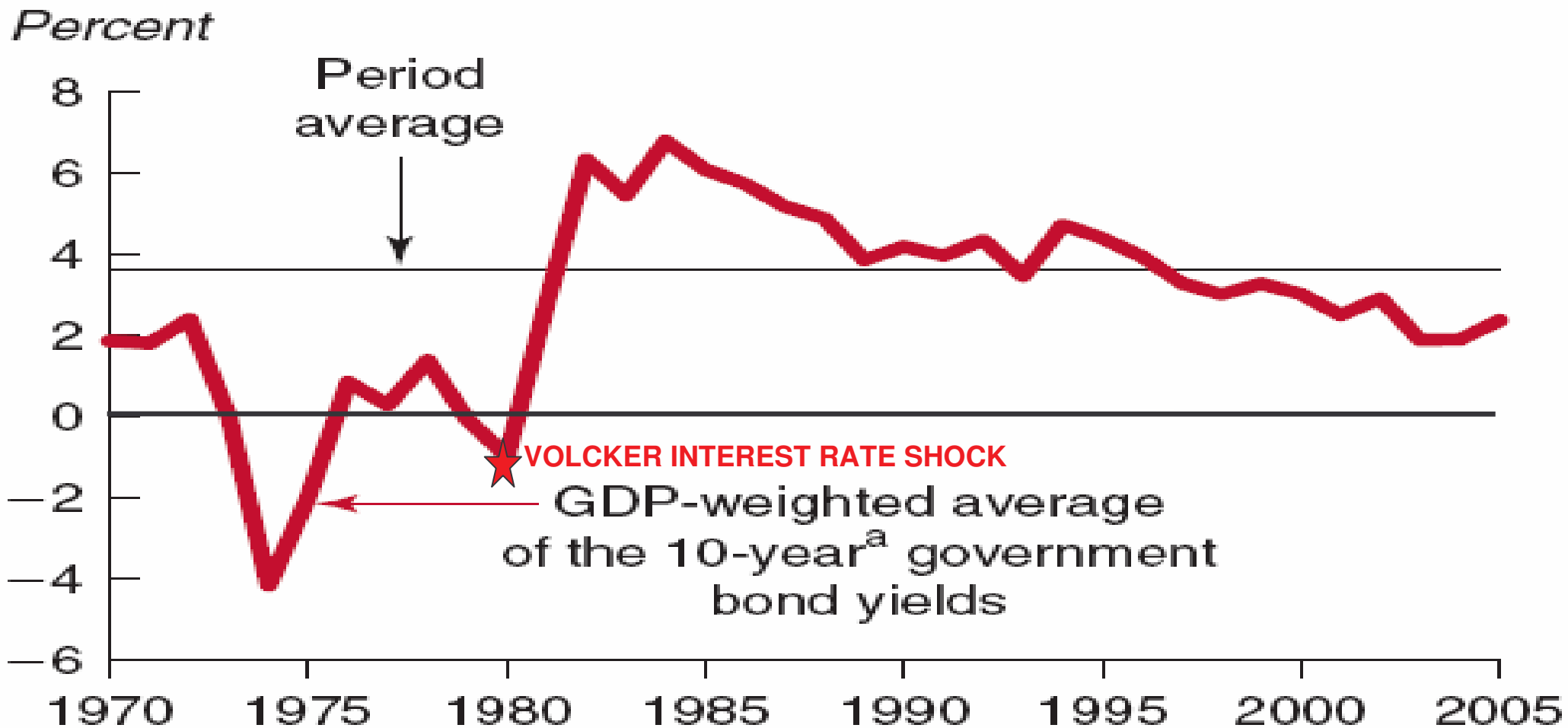


Rest of the world: (—); Financial sector: (-----); Manufacturing: (.....)

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).

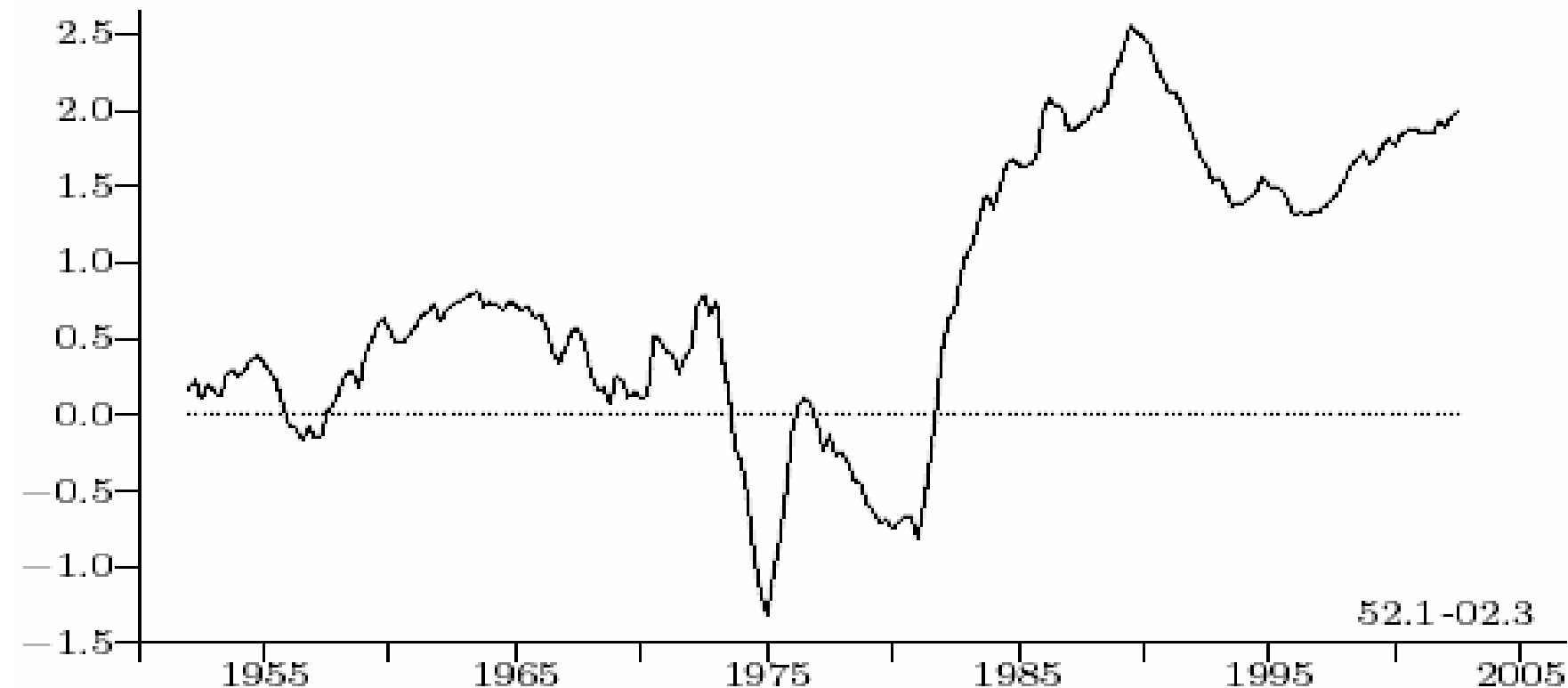
US reversion to **high interest rates** during **1980s-90s**



Source: World Bank.

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

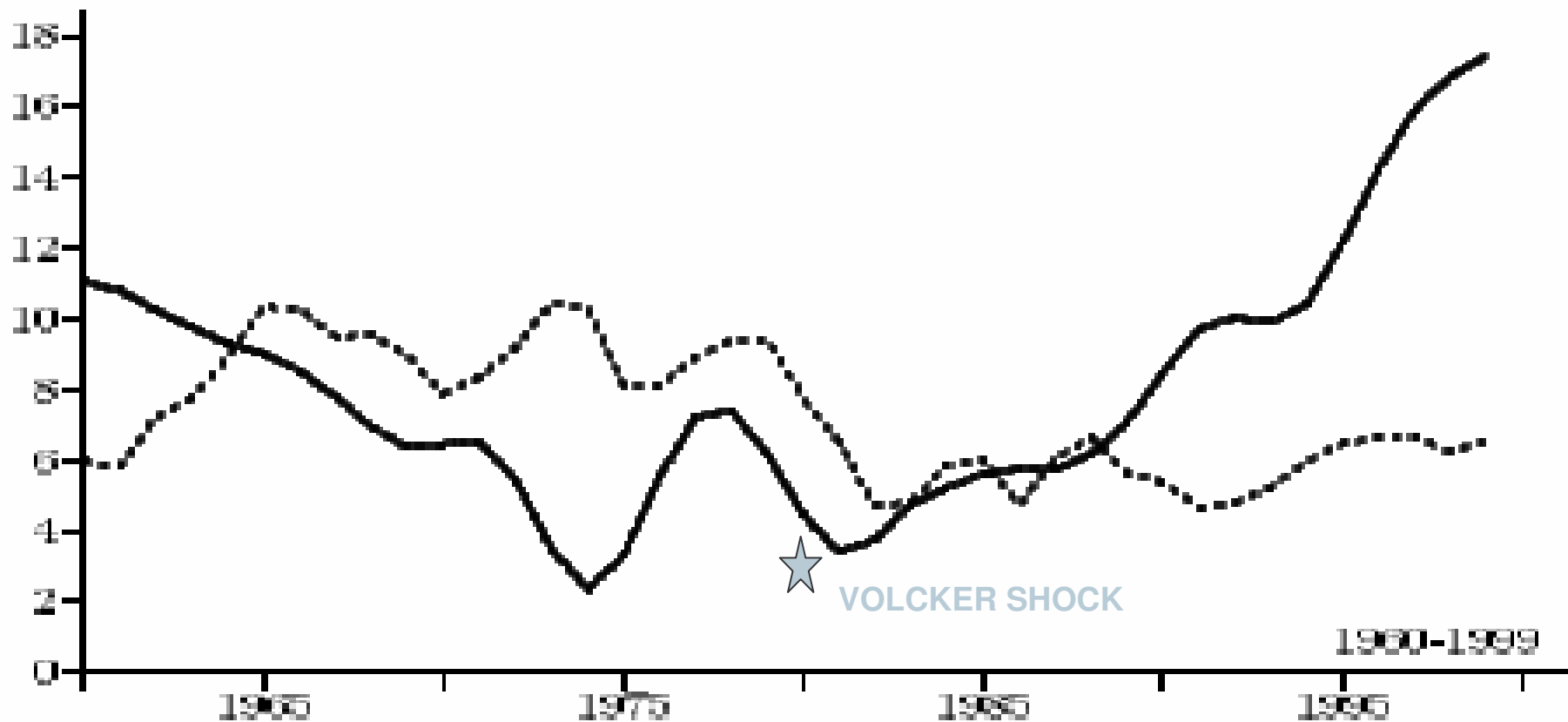
Ratio of the charge of net interest of nonfinancial corporations to their net worth (quarterly data, %)



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

Credit/stock market bubbles: US financial profits

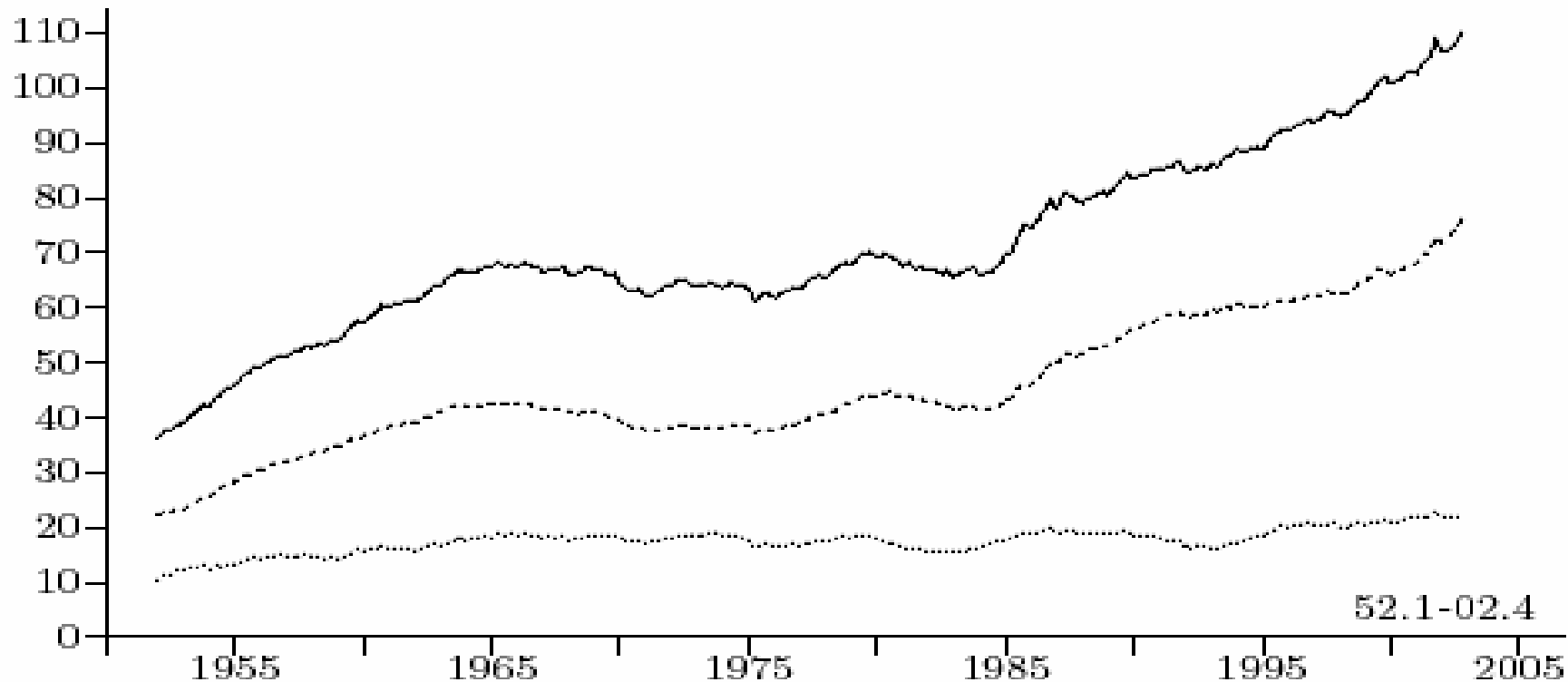
US: Profit rate of nonfinancial (-----) and financial corporations (—), %



Source: Gerard Dumenil and
Dominique Levy

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

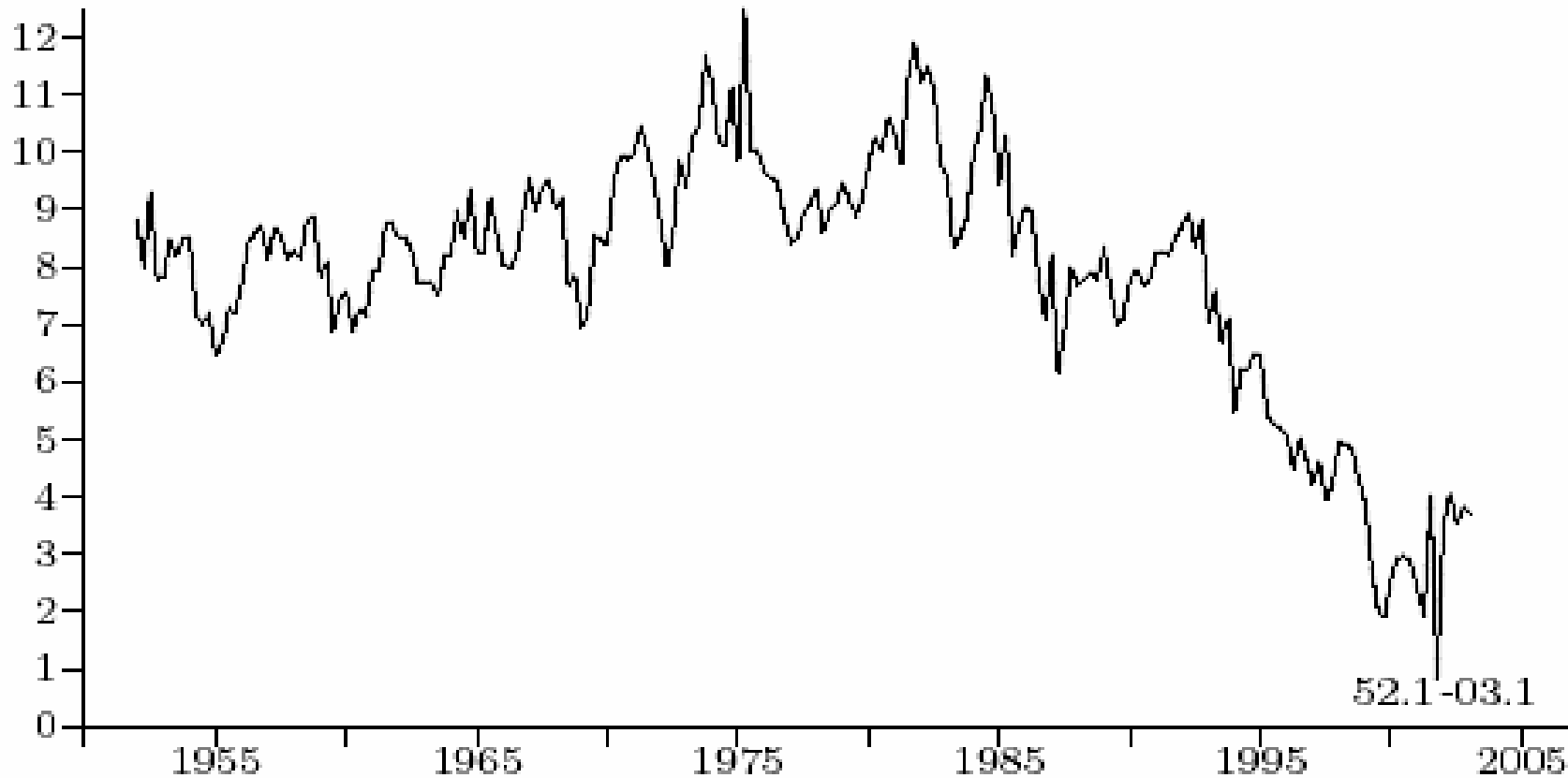
Ratio of the debt (total liabilities and its components) of households to their disposable income (quarterly data, %): US



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

Are US households now so indebted that they cannot save?

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



Source: Gerard Duménil and Dominique Lévy

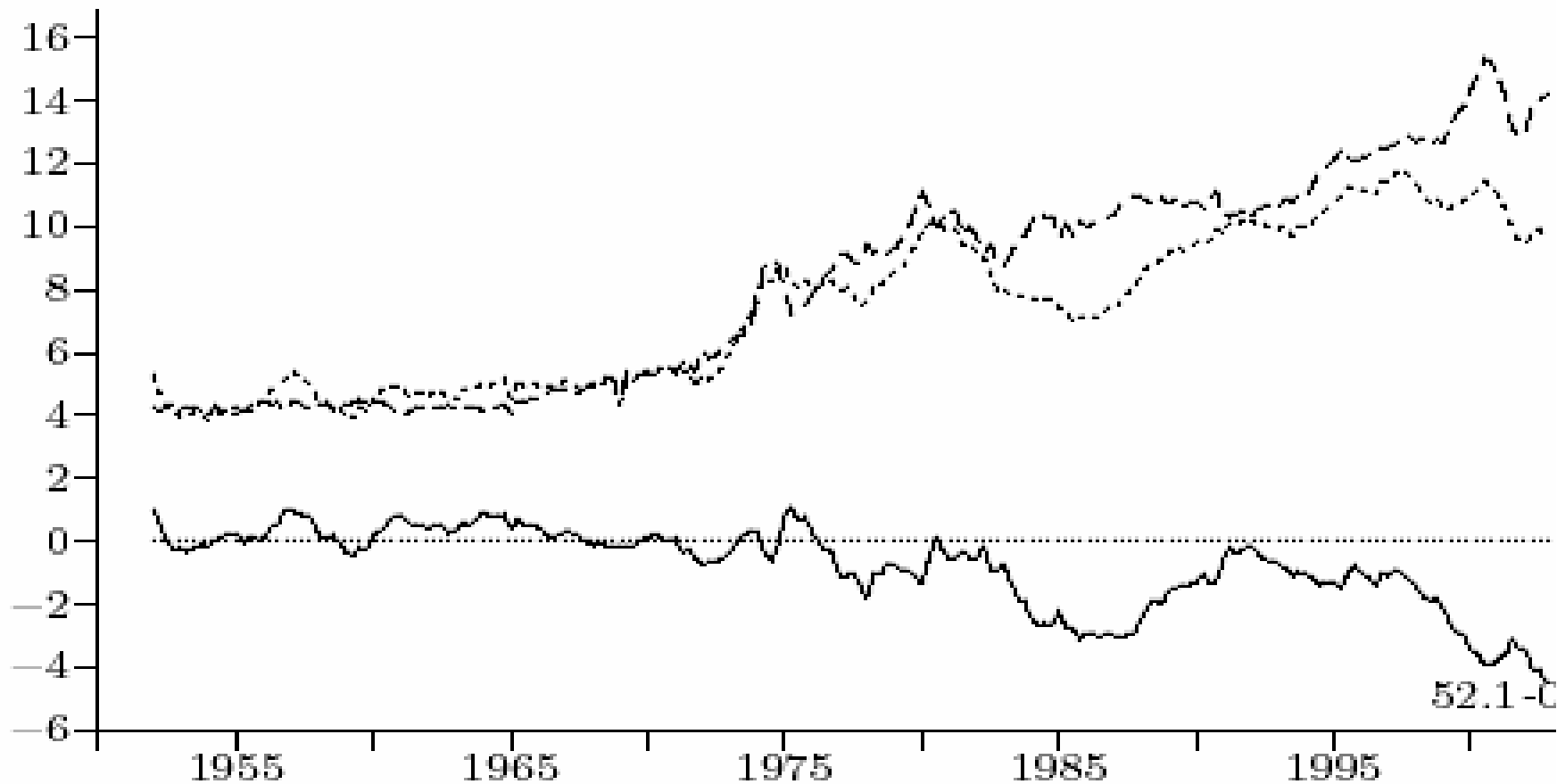
US 'economic calamities'

- **radically overvalued dollar**, still 12% above its 1995 low (was 30% too high in 2002)
- **rapidly rising trade deficit, which in 2006 grew to more than \$760 billion**, or nearly 6 percent of GDP
- **since 2001, loss of 3 million manufacturing jobs**, or more than a sixth of the entire sector
- **unchecked growth of the housing bubble**, with short-term interest rate down to 1.0% in 2001; by 2006, prices were 73% higher than their pre-bubble values: \$8 trillion in unsustainable 'wealth'

(source: Dean Baker, *Harpers*, June 2007)

US trade deficit

Figure 14 Ratios of imports, exports, and balance of trade to the GDP



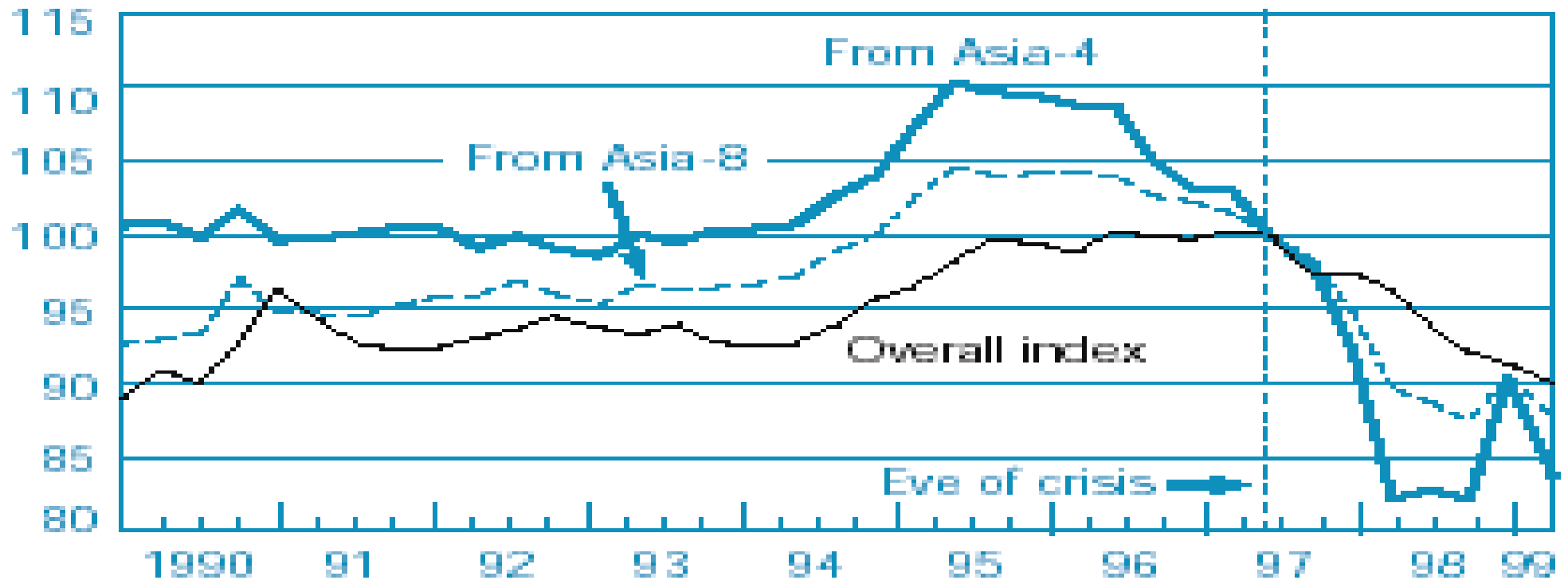
Trade balance: (—); Exports: (.....); Imports: (---)

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

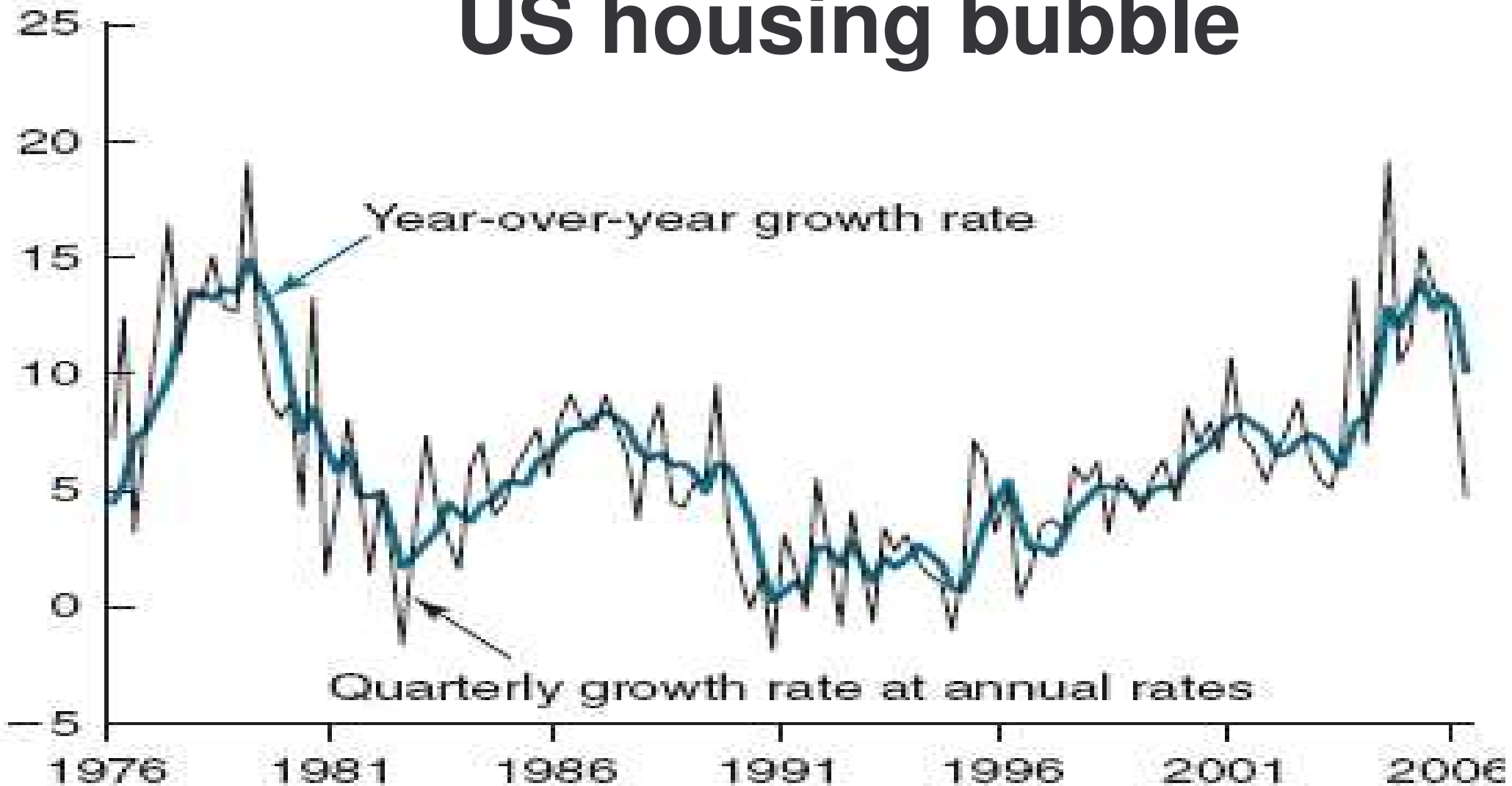


Source: Federal Reserve Bank of NY

Increase in the price of existing U.S. houses

Percent

US housing bubble



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

Stock market crashes



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

Stock market volatility: emerging markets

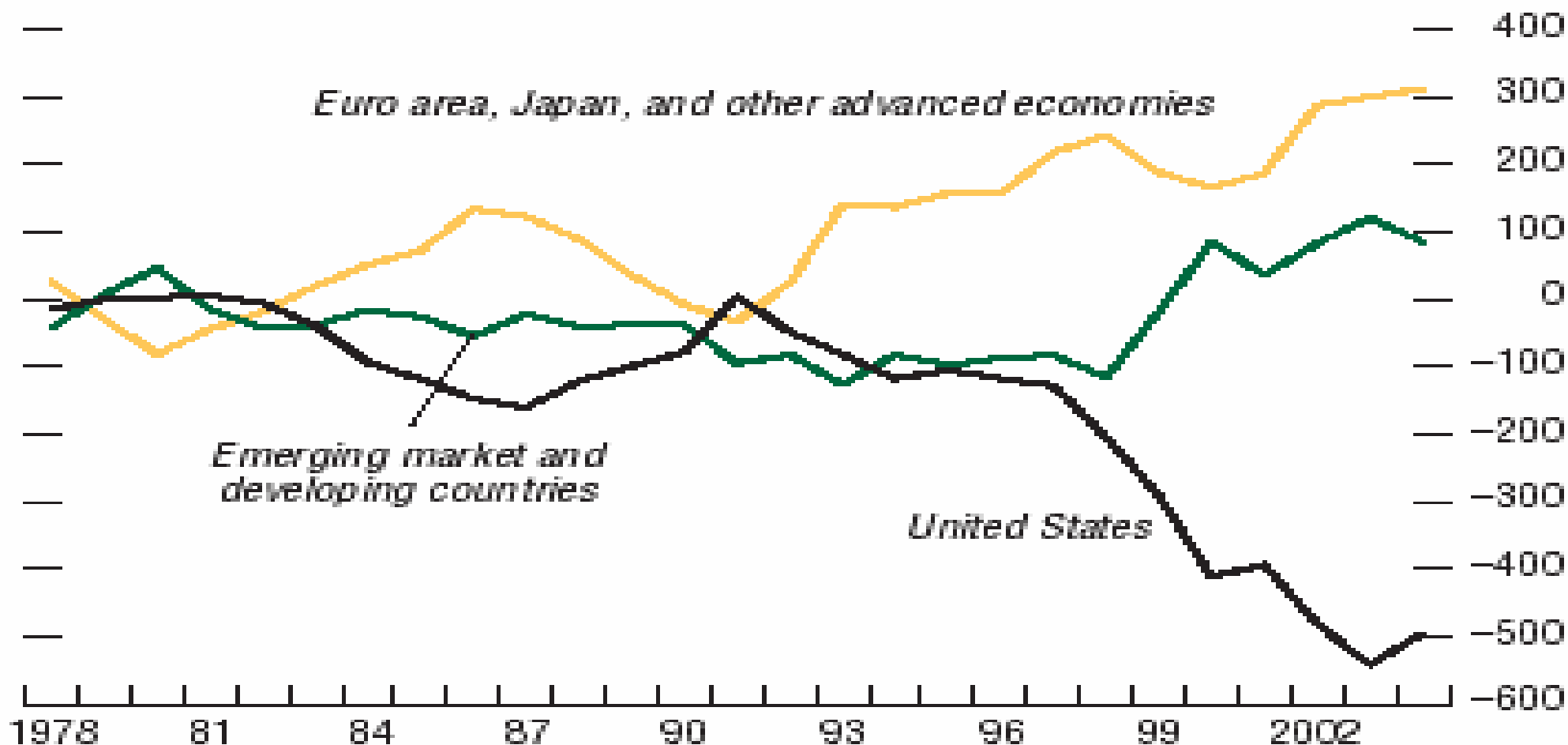
Emerging Market Equity Volatility
(In percent)

MSCI Emerging Markets index²



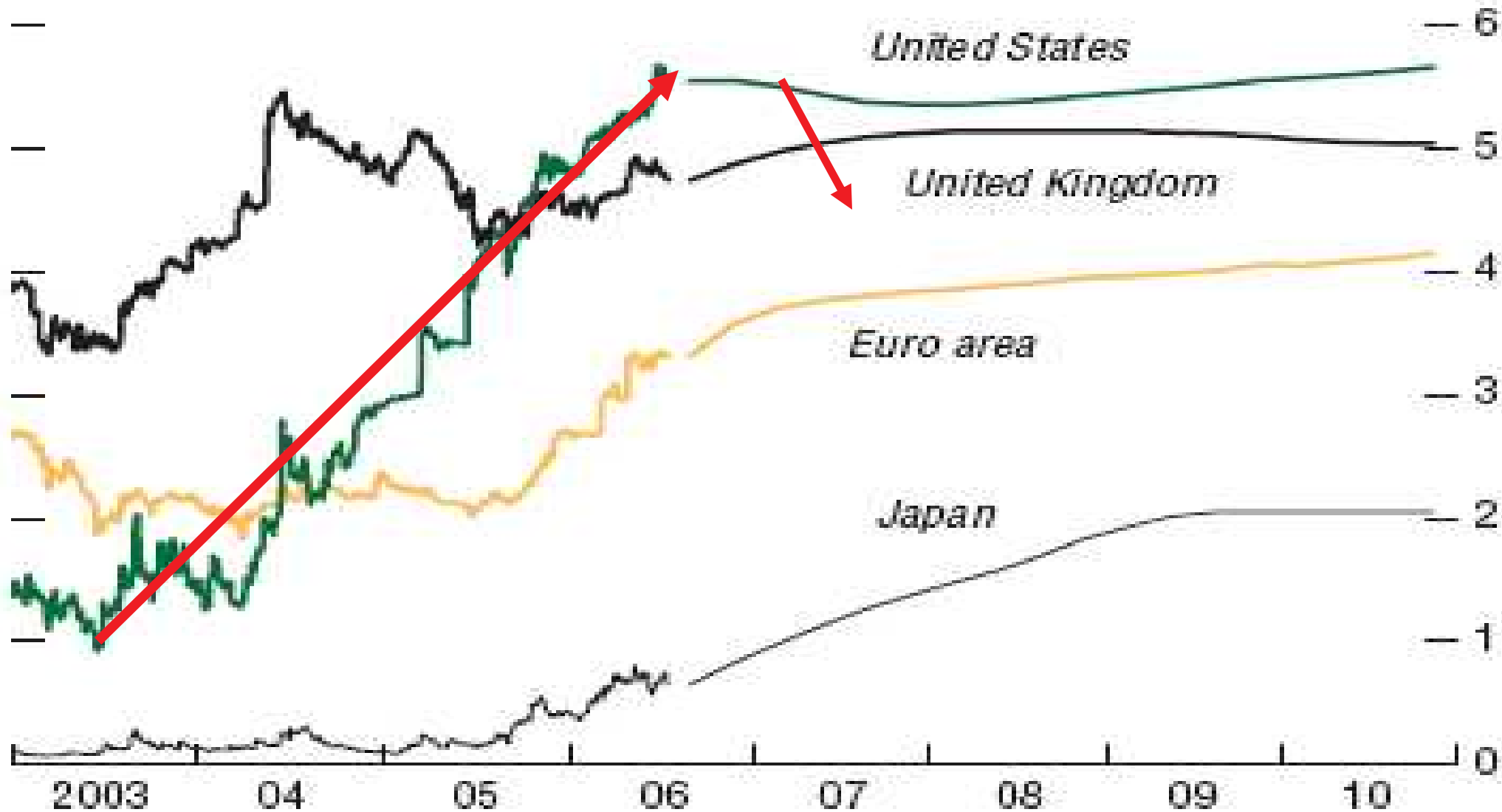
Financing of US capital inflows

(In billions of U.S. dollars)



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

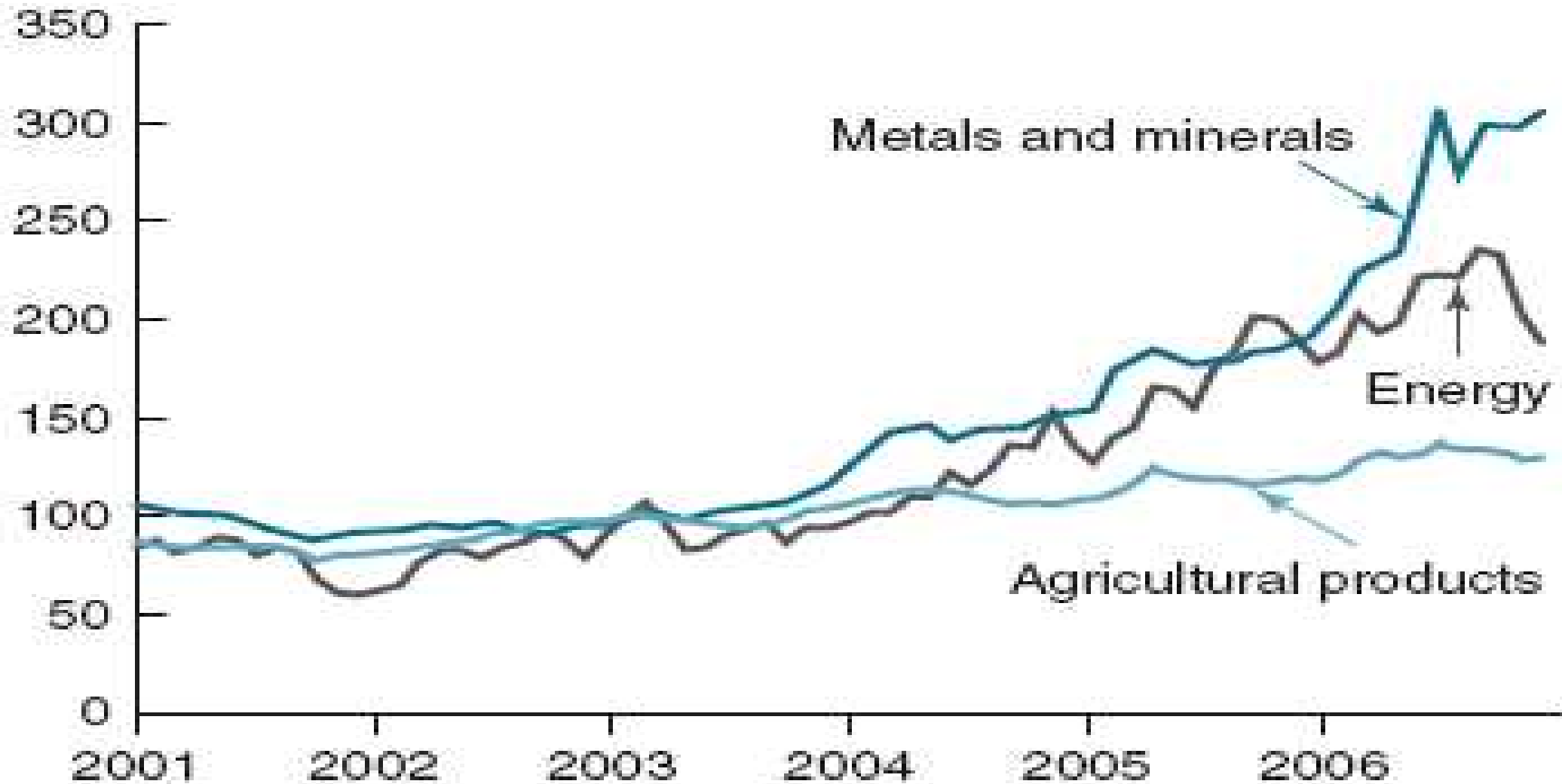
Higher US interest rates to attract funding



Source: IMF

Since 2002, substantial commodity price increases

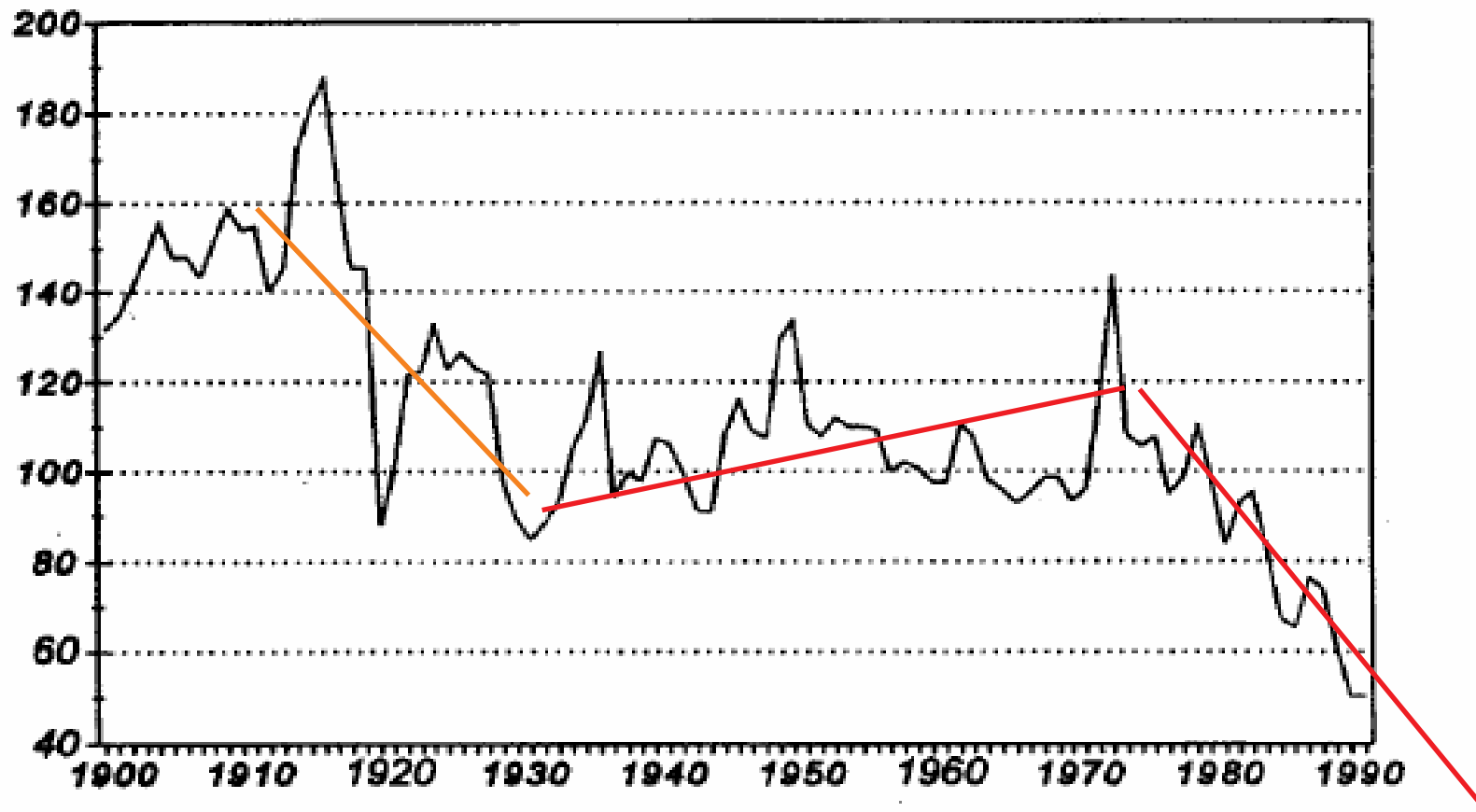
Index, Jan. 2003 = 100



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.

Once problems began, no global governance solution possible

- Since **1996 Montreal Protocol** on phasing out ChloroFluoroCarbons, no international treaties or regulatory regimes have been successful
- **WTO Doha Agenda** failing (TRIPS medicines reform a success because of SA civil society)
- **World Bank/IMF** reform failed, and BWIs become obsolete
- UN General Assembly reform and **Security Council** democratisation impossible, and MDGs are inadequate
- **G8's** 2005 donations to Africa a scam
- **Kyoto Protocol** a dismal failure
- Why? **Adverse balance of forces**

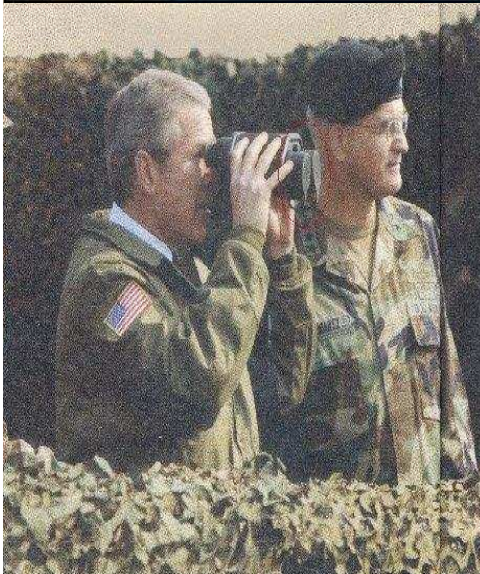
Five core poli-econ ideologies contending in today's world

- **THE RIGHTWING RESURGENCE** is the way to describe Bush/Cheney/Rice agenda & far-right Euro parties;
- **WASHINGTON CONSENSUS** is still the dominant neoliberal approach in the economic field -- e.g., WB/IMF/WTO, most economists, many comprador Third World elites;
- **THE POST-WASHINGTON CONSENSUS** is the (so far unsuccessful) attempt to reform -- e.g., Soros, Stiglitz, Sachs, Krugman, some UN agencies;
- **THIRD WORLD NATIONALISM** includes some authoritarians who oppose the system (Mugabe, Gaddafi) and others who still want to work within its confines while imposing WashCon at home (Mbeki)
- **THE MOVEMENTS FOR GLOBAL JUSTICE** oppose globalisation of capital but support globalisation of people

The global array of forces: categories for the typology

- Five ideological currents categorised:
 - a) their political-economic *agenda*;
 - b) internal *disputes* over strategies/tactics and alliances;
 - c) leading *institutions*; and
 - d) exemplary *proponents*.

1) Resurgent rightwing



- Agenda: **unilateral petro-military imperialism**; crony deals, corporate subsidies, protectionism and tariffs; cultural 'conservatism'; reverse globalisation of people via racism and xenophobia; religious extremism; patriarchy and social control; homophobia
- Disputes: over **extent of imperial reach**, and how to protect **residual national cultures** and **patriarchy**
- *Robert Zoellick, George Bush*

1) Resurgent rightwing

- **Institutions: Republican Party populist and libertarian wings; Project for New American Century; right wing think-tanks (AEI, CSIS, Heritage, Manhattan); the Christian Right; petro-military complex; Pentagon; rightwing media (Fox, *National Interest*, *Weekly Standard*, *Washington Times*); and proto-fascist European parties--but also Israel's Likud and perhaps Islamic extremism**

2) Washington consensus

- Agenda: maintain and perhaps rename **neoliberalism** (PRSPs, HIPC and PPPs) but with some provisions for 'transparency' and self-regulation; more effective bail-out mechanisms; (hypocritical) financial support for US-led Empire
- Disputes: differing reactions to US imperialism, based in part upon **divergent national-capitalist interests** and **internal political dynamics**

Stanley Fischer and James Wolfensohn, Lawrence Summers



2) Washington consensus

- Institutions: US state (Fed, Treasury, USAid); corporate media and big business; World Bank, IMF, WTO; elite clubs (Bilderburger, Trilateral Commission, World Economic Forum); some UN agencies (UNDP, Global Compact); universities and think-tanks (U. of Chicago economics, Cato, Council on Foreign Relations, Adam Smith Inst., Inst. of International Economics, Brookings); and most G8 governments**

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

- EU chose Spanish neocon **Rodrigo Rato** to run IMF 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 in 2005-2006, replaced by US-Iraqi neocon **Zalmay Khalilzad**;

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

- neocon 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**;
- yet SA ambassador **Dumisani Khumalo** still ended up on the right in 2007-08 UN SC debates on Burma, Zimbabwe;
- **Trevor Manuel** still the chosen Third World ally of neoliberal/neocon IFI managers.

3) Post-Washington consensus

- Agenda: fix 'imperfect markets'; add '**sustainable development**' to existing capitalist framework via UN and similar global state-building; promote global Keynesianism (maybe); oppose US unilateralism and militarism
- Disputes: some look **leftward** (for broader alliances) and others look to the Wash.Con. (for **resources and legitimacy**)

Joseph Stiglitz, George Soros



3) Post-Washington consensus

- **Institutions: some UN agencies (e.g., Unicef, Unifem, Unrisd); some int'l NGOs' (e.g., Care, Civicus, IUCN, Oxfam, TI); large enviro. groups (e.g., Sierra and WWF); big labour (e.g., ICFTU and AFL-CIO); liberal foundations (Carnegie, Ford, MacArthur, Mott, Open Society, Rockefeller); Columbia U. economics department; the Socialist International; and some Scandinavian governments**

4) Third World nationalism

- Agenda: increased (but fairer) global integration via **reform of interstate system**, based on debt relief and expanded market access; democratised global governance; regionalism; rhetorical anti-imperialism; and Third World unity
- Disputes: **political alignments**; degree of **militancy** vis-à-vis North; **internecine rivalries and egos**

*Wen Jiabao and John Kufor,
Thabo Mbeki & Robert Mugabe*



4) Third World nationalism

- **Institutions: Non-Aligned Movement, G77 and South Centre; self-selecting regimes (often authoritarian): Argentina, Brazil, China, Egypt, India, Iraq, Libya, Malaysia, Nigeria, Pakistan, Palestine, Russia, South Africa, Turkey, Zimbabwe with very few – Cuba and Venezuela – that lean left; and supportive NGOs (e.g. ActionAid, Third World Network, Seatini)**

**S A W E L C O M E S
PREMIER WEN JIABAO**

**COMPLIMENTS.
VERY TASTY!**

**THANKS.
..ER.. COULD WE
OFFER YOU A
LITTLE LESS?..**



5) Global justice movements

- Agenda: '**deglobalisation**' of *capital* (not *people*); 'globalisation-from-below'; anti-war; anti-racism; indigenous rights; women's liberation; ecology; 'decommodified' state services; radical participatory democracy
- Disputes: the role of the **national state**; **party politics**; fix-it v. nix-it strategies for int'l agencies; and **tactics** (e.g. symbolic property destruction)

*Arundhati Roy, Naomi Klein,
Dennis Brutus & Trevor Ngwane, Hugo Chavez*



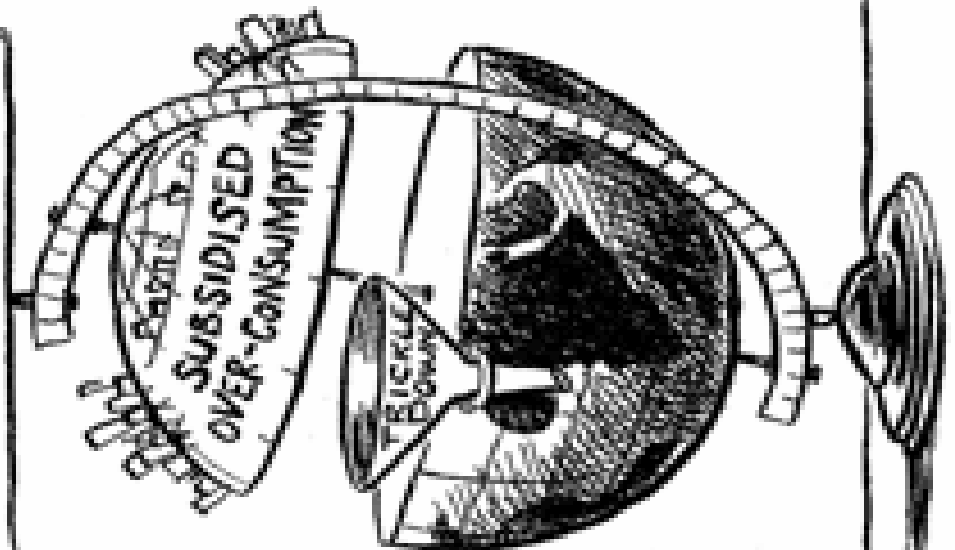
5) Global justice movements

- Institutions: social movements; environmental justice activists; indigenous people's and autonomist groups; radical activist networks; leftist labour movements; leftwing think-tanks (e.g. Focus on the Global South, FoodFirst, GX, IBASE, IFG, IPS, Nader centres, TNI); leftist media and websites (Indymedia, Pacifica, zmag.org); and sectoral or local coalitions allied to World Social Forum**

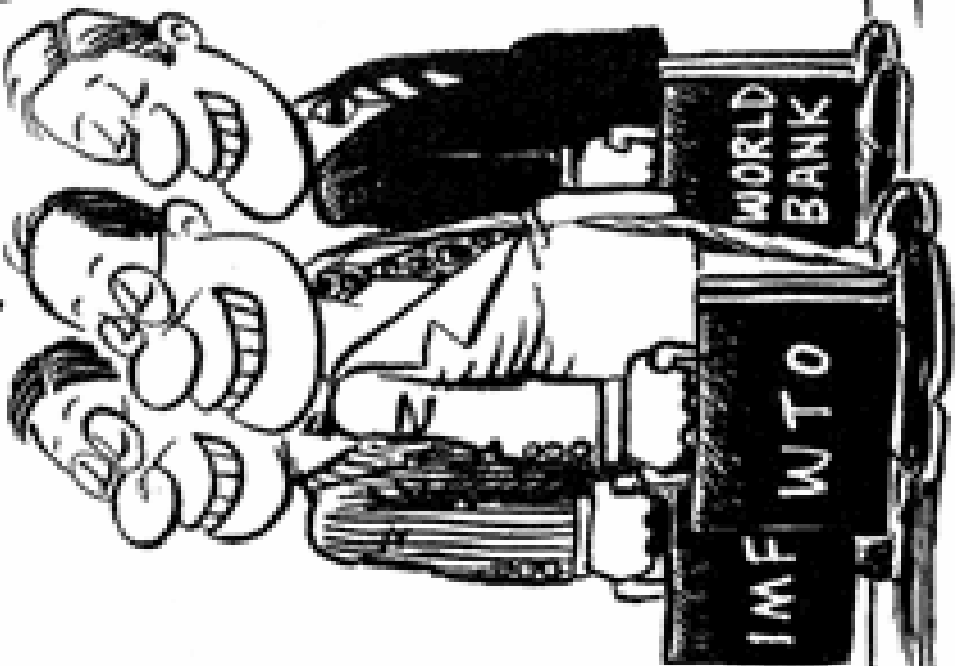
The most obvious near-future re-alignment of the forces:

- It is likely that -- as in the 1930s -- **RIGHTWING RESURGENCE** will continue growing, and that it will increasingly fuse with the interests of the **WASHINGTON CONSENSUS** (and its corporate backers), notwithstanding obvious ideological contradictions;
- It is likely that the **POST-WASHINGTON CONSENSUS** will seek increasing alignment with 'responsible' **THIRD WORLD NATIONALISTS** -- and that both will fight against the more principled, radical forces within the **MOVEMENTS FOR GLOBAL JUSTICE**.

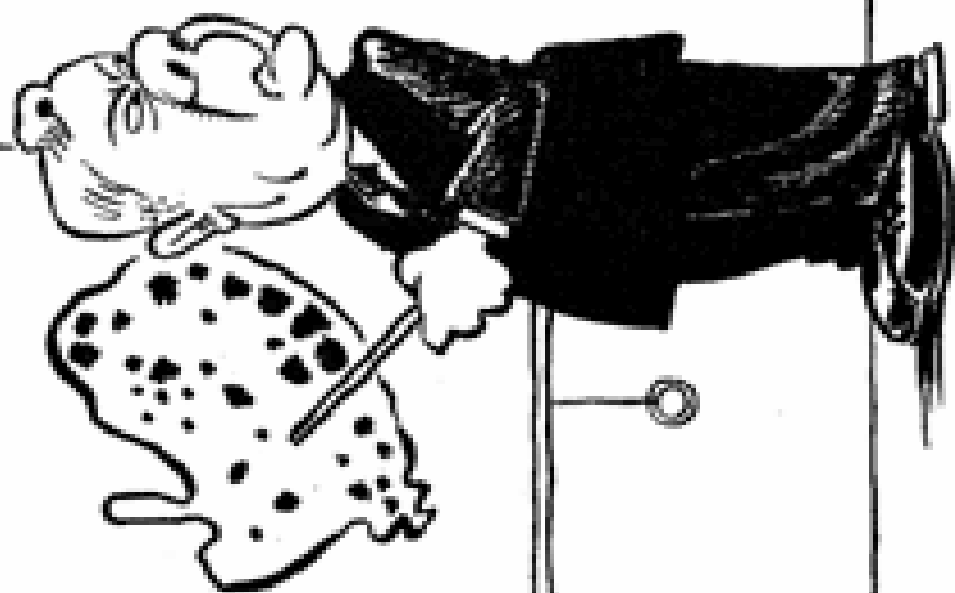
GLOBAL
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