WALDEN BELLO

CAPITALISM'S LAST STAND?

DEGLOBALIZATION IN THE AGE OF AUSTERITY

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NAOMI KLEIN, AUTHOR OF *THE SHOCK DOCTRINE*

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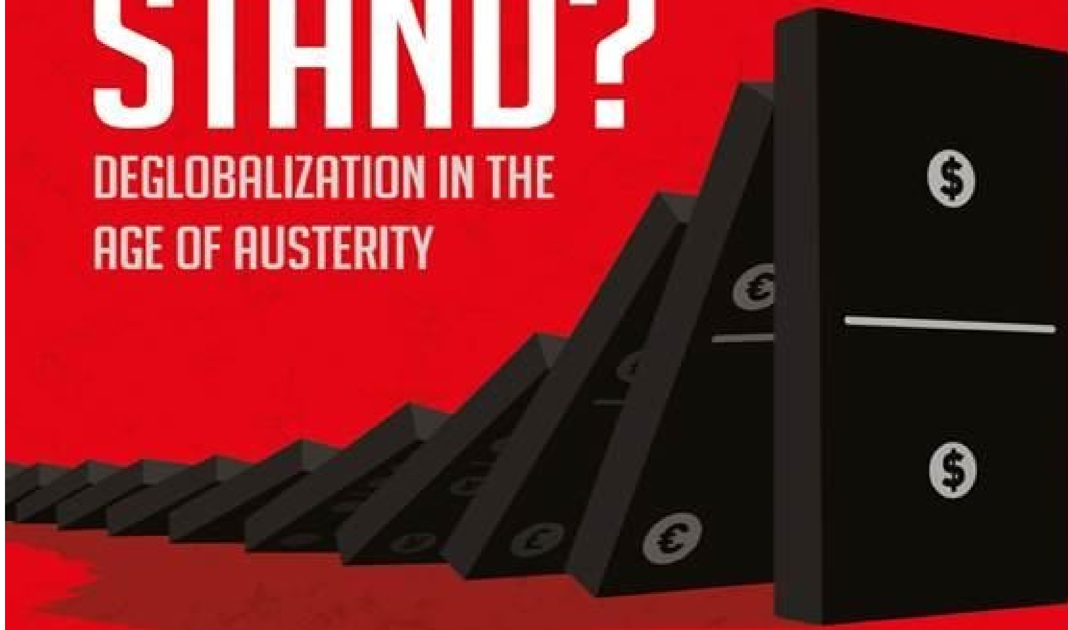

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Deglobalization in the Age of Austerity

WALDEN BELLO

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For my colleagues and dear friends in Akbayan
and Focus on the Global South

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GLOBALIZATION'S DEBACLE: CRISIS AND OPPORTUNITY

The economic freefall of the last few years has brought tremendous economic misery to millions. It has also exposed the failure traditional economic approaches to come up with a solution. Both neoliberalism, which brought on the crisis, and Keynesianis which was the initial response to it, failed to bring Europe and the United States out of the doldrums. Thus the hunger for innovati solutions, along with a demand for alternative explanations for the emergence of the worst economic crisis since the Gr Depression.

People's concerns were not limited to growth and jobs, but to more fundamental questions like what brought about the crisis a how could the economy be better organized to meet the needs of people and the environment. It is in this context that the mainstrea began to show interest in what it once regarded as a fringe idea when we first explored it in the book *Deglobalization: Ideas for New World Economy*, published by Zed a decade ago. Attributing the term 'deglobalization' to the author, *The Economist* noted th contrary to the accepted dictum that globalization was irreversible, 'the integration of the world economy is in retreat on almost eve front.'[1]

Even more interesting, deglobalization became a central part of the presidential debate in France in 2011–12. It became t platform of Arnaud Montebourg of the Socialist Party, who said he got the idea from me. Various political parties, including tho from the right, then tried to claim it as their own approach.[2]

Deglobalization's entering the mainstream of economic and political debate has compelled me to clarify what it means, how I ha employed the paradigm in my efforts to understand various aspects of the contemporary economic crisis, and what it may offer in t way of bringing about a transformation of social and economic relations towards more equality, justice, and sustainabili Deglobalization, in my view, offers a way out of the crisis, though perhaps not the only way.

This volume brings together essays written over the last six years, a period that saw the unraveling of globalization, the financ implosion, and a plunge into deep recession in the United States and Europe. Written in response to fast-moving developments, t articles appear here largely as they were originally published, with a few explanatory comments to place them in context. While so figures may need some adjustment, the analysis in these pieces retain, in the author's view, their validity and urgency.

The purpose of this introductory essay is to guide the reader in navigating this volume. It discusses, sums up, and attempts further clarify the ideas presented in the three parts into which this book is divided. In Part I, the writings focus on the origins a dynamics of the financial and economic crisis that broke out with Wall Street's collapse in 2008. Part II looks at other key dimensio of global capitalism apart from the financial meltdown: the continuing export of industrial facilities and jobs from the North to t South; labor trafficking from the South to the North, which some have called 'the new slave trade'; and the dynamics of the glob food price crisis of 2006–08. In Part III, the essays discuss the different perspectives which analysts have used in their effort understand the crisis of globalization and the alternatives to current social and economic arrangements proposed by these paradigm

The destructive dynamics of finance capital

For those from Southeast Asia, like me, the financial collapse in New York and Europe in 2008 probably came as less of a surpri than to people in these places. I still remember the swift unraveling of economic life in Bangkok, the 'ground zero' of the cris when, taking advantage of the collapse of the real-estate sector owing to overinvestment, speculators hit the baht and forced its val to spiral from 25 to 55 baht to the dollar. In the brief span of a few weeks in the summer of 1997, over $100 billion left the Ea Asian economies in probably the biggest financial panic until then, bringing Thailand, Indonesia, the Philippines, and South Korea an economic standstill and dragging 22 million Indonesians and 1 million Thais under the poverty line.[3]

Just as Asians should have worried that the financial crises that had hit global markets since the liberalization of capital markets the early 1980s might one day engulf them, the Asian financial crisis should have been seen, as in the rest of the world, as a porte of things to come, but apparently the only ones to learn from it were Asian governments, which began to stockpile their dol reserves, largely earned from their exports, to ward off future attacks on their currencies by speculators. In contrast, in the worl leading economy, by the middle of the first decade of the twenty-first century the key reforms to ensure financial stability that h been put in place during the Great Depression, including the landmark Glass–Steagall Act, which built a Chinese wall betwe investment banking and retail banking, had been dismantled, and a new, hyperactive unregulated financial sector dealing with ne financial instruments called derivatives had sprung to life. Surprisingly, among the bearers of warnings that went unheeded w former treasury secretary Robert Rubin, one of the architects of financial deregulation in the administration of President Bill Clinto 'Future financial crises,' he warned cynically, 'are almost surely inevitable and could be even more severe.'[4]

Why had finance become so central in the global economy? Why did credit, in the form of subprime bank loans and credit car become so prominent a feature of global capitalism's leading economy in the last two decades? Why did speculative activity that sa staid investment vehicles like stocks and bonds mutate into all sorts of esoteric financial instruments, like derivatives a

'collateralized debt obligations,' become the driving force of the capitalist economy? One financial corporation chief writing in t *Financial Times* claimed that 'there has been an increasing disconnection between the real and financial economies in the past fe years. The real economy has grown … but nothing like that of the financial economy, which grew even more rapidly — until imploded.'[5]

The rise of the finance-driven economy

But was there really a 'disconnect' between the real economy and the financial economy? Or did the financial economy explode make up for the stagnation of the real economy?

One cannot understand the emergence of the finance-driven economy without going back to the state of the US economy in t 1970s, when the so-called 'golden age of capitalism,' driven by post-war consumer demand, the reconstruction of Europe, U military spending, and rapid economic development in the decolonized world, came to an end in the twin crises of stagnation a inflation, which according to orthodox economic theory were not supposed to occur simultaneously. 'Stagflation,' however, was b a symptom of a deeper problem: the reconstruction of Germany and Japan and the rapid growth of industrializing economies li Brazil, Taiwan, and South Korea had added tremendous new productive capacity and increased global competition, but continui social inequalities within countries and between countries worldwide limited the growth of purchasing power and demand. Th contradiction eroded profitability.

But while economists of the reigning Keynesian school were puzzled by stagflation, to progressive analysts this phenomenon w a symptom of the classic capitalist crisis of overproduction or over-accumulation, which Marx had described thus: 'The real barrier capitalist production is capital itself. … The means — unconditional development of the productive forces — comes continually in conflict with the limited purpose, the self-expansion of existing capital.'[6]

The limits of neoliberal restructuring

Capital tried three escape routes from the conundrum of overproduction: neoliberal restructuring, globalization, and financializatio Neoliberal restructuring was also known as Reaganism and Thatcherism in the North and structural adjustment in the South. Its a was essentially to invigorate capital accumulation, and this was to be done by (1) removing state constraints on the growth, use, a flow of capital and wealth, including geographic barriers; (2) tearing up the 'class compromise' between Big Capital and Big Lab that was the central social feature of the Keynesian state; and (3) revising the tax laws to favor the rich on the theory that the ri would then be motivated to invest and reignite economic growth.

What this amounted to was a redistribution of income from the poor and the middle classes to the rich. The figures are eloque the top 1 percent of the population cornered nearly 30 percent of the national income in 2007, up from 10 percent in 1957.[7] T problem with this solution to overproduction was that it gutted the incomes of the poor and middle classes, thus restricting deman while not necessarily inducing the rich to invest more in production. In fact, what the rich did was to channel a large part of th redistributed wealth into speculation.

The truth is that neoliberal restructuring, which was generalized in the North and South during the 1980s and 1990s, had a po record in terms of growth. Angus Maddison's statistical work — regarded as the most reliable — showed that the annual rate growth of global GDP fell from 4.9 percent in 1950–73 to 3 percent in 1973–99, a drop of 39 percent.[8] The United Natio confirmed this trend, estimating that world GDP grew at an annual rate of 5.4 percent in the 1960s, 4.1 percent in the 1970s, percent in the 1980s, and 2.3 percent in the 1990s.[9] Neoliberal restructuring could not shake off stagnation.

Globalization: exacerbating overproduction

The second escape route global capital took to counter stagnation was 'extensive accumulation' or globalization, or the rap integration of semi-capitalist, non-capitalist, or pre-capitalist areas into the global market economy. Rosa Luxemburg, the famo German Marxist economist, saw this long ago as necessary to shore up the rate of profit in the metropolitan economies. How? I providing capital access to cheap labor; by gaining new, albeit limited, markets; by gaining new sources of cheap agricultural a raw material products; and by bringing into being new areas for investment in infrastructure. Integration is accomplished via tra liberalization, removing barriers to the mobility of global capital, and abolishing barriers to foreign investment.

China is, of course, the most prominent case of a non-capitalist area to be integrated into the global capitalist economy over t past twenty-five years.

To counter their declining profits, a sizable number of the Fortune 500 corporations moved a significant part of their operations China to take advantage of the so-called 'China price' — the cost advantage deriving from China's seemingly inexhaustible che labor. By the middle of the first decade of the twenty-first century, roughly 40–50 percent of the profits of US corporations we derived from their operations and sales abroad, especially in China.[10]

The problem with this escape route from stagnation is that it exacerbated the problem of overproduction because it added productive capacity. A tremendous amount of manufacturing capacity has been added in China over the past twenty-five years, an this has had a depressing effect on prices and profits. Not surprisingly, by around 1997 the profits of US corporations had stopp growing. According to another index, presented by economist Philip O'Hara, the profit rate of the Fortune 500 went from 7.15 1960–69 to 5.30 in 1980–90 to 2.29 in 1990–99 to 1.32 in 2000–02.[11]

Financialization: credit creation and speculation

Given the limited gains in countering the depressive impact of overproduction via neoliberal restructuring and globalization, the th

escape route became critical for maintaining and raising profitability: 'financialization' or the increasing reliance of capital on lendi
and investment in the financial sector to maintain profitability. As Marx put it in one of his more insightful observations:

> To the possessor of money capital, the process of production appears merely as an unavoidable intermediate link, as a necessary evil for the sake of money-making. All nations with a capitalist mode of production are therefore seized periodically by a feveris attempt to make money without the intervention of the process of production.[12]

Financialization had two key activities in the period leading up to the collapse of 2008: credit creation and speculation. Both we responses to the stagnation of the real economy.

Driven by the banks and government policies, the thrust of credit creation was to sustain demand in the face of the stagnation the growth of real income owing to neoliberal policies that had promoted a reconcentration of wealth.

In the three decades prior to the crash of 2008, the wages of the typical American hardly increased, and actually dropped in t 2000s, as a result of neoliberal policies.[13] A big part of the problem was the elimination of high-paying manufacturing jobs throug the export of jobs to cut down on labor costs. It is estimated that 8 million US manufacturing jobs were eliminated between June 19 and December 2009. One report describes the grim process of deindustrialization:

> Long before the banking collapse of 2008, such important U.S. industries as machine tools, consumer electronics, auto parts, appliances, furniture, telecommunications equipment, and many others that had once dominated the global marketplace suffered their own economic collapse. Manufacturing employment dropped to 11.7 million in October 2009, a loss of 5.5 million or 32 percent of all manufacturing jobs since October 2000. The last time fewer than 12 million people worked in the manufacturing sector was in 1941. In October 2009, more people were officially unemployed (15.7 million) than were working in manufacturing.[14]

Elimination of high-paying manufacturing jobs eroded a pillar of the mid-century Keynesian economy: the maintenance of effecti demand.

This stagnation of income posed a threat to both business and the state. To the first, the slow growth of demand would transla into overproduction and, thus, diminished profits in the corporations' key market. To the state, it posed the specter of rising soc conflict and instability.

The threat of a stagnant market was thwarted — temporarily — by the private sector via a massive increase in credit creation banks, which lowered lending standards and hooked millions of consumers into cheap housing loans, student loans, auto loans, a multiple credit cards. Credit kept consumption up and fueled the boom in the 1990s and the middle of the first decade of the twen first century. And where did the American financial institutions derive the wherewithal to create a seemingly inexhaustible stream credit in the go-go years of the 1990s and the last decade? From foreign loans and the purchases of securitized products by forei creditors and investors. Between 40 and 50 percent of the securities packaged from credit-card debt, home equity loans, auto loar student loans, and mortgages by American financial institutions ended up in the investment portfolios of American financ institutions, prompting Nouriel Roubini and Stephen Mihm to remark that by 'making those purchases, foreign creditors help finance the borrowing binge that drove the bubble.'[15]

Washington tried to ward off political resentment by adopting a strategy of 'populist credit expansion'; that is, making easy cre for housing available for low-income groups via Freddie Mac and Fannie Mae, the two quasi-government agencies that made housi loans. Political stability was not the only outcome of this approach; it was accompanied by greater profitability for speculative capit As Raghuram Rajan noted,

> As more money from the government flooded into financing or supporting low income housing, the private sector joined the part After all, they could do the math, and they understood that the political compulsions behind government actions would not disappear quickly. With agency support, subprime mortgages would be liquid, and low-cost housing would increase in price. Lo risk and high return — what more could the private sector desire?[16]

One of the consequences of using credit as a substitute for rising wages in order to shore up living standards and thus defu political resentment was to make the citizenry participants in financialization and thus legitimize the hegemony of finance capital. Colin Crouch pointed out,

> [T]he bases of prosperity shifted from the social democratic formula of working classes supported by government intervention to the neoliberal conservative one of banks, stock exchanges, and financial markets. Ordinary people played their part, not as workers seeking to improve their situation through trade unions, legislation protecting employment rights and publicly funded social insurance schemes but as debt holders, participants in credit markets. This fundamental political shift was more profound than anything that could be produced by alternations between nominally social democratic and neoliberal conservative parties in governments as a result of elections. It has imparted a fundamental rightward shift to the whole political spectrum, as the collecti and individual interests of everyone are tied to financial markets, which in their own operations act highly unequally, producing extreme concentrations of wealth.[17]

Hand in hand with credit creation to keep up demand that could no longer be sustained by rises in real income and real wages w speculative activity to achieve profitability that could no longer be sustained via investment in the real economy. In the ideal world

neoclassical economics, the financial system is the mechanism by which the savers or those with surplus funds are joined with t entrepreneurs who have need of their funds to invest in production. In the real world of late capitalism *circa* 2000, with investment industry and agriculture yielding low profits owing to overcapacity, large amounts of surplus funds were circulating and bei invested and reinvested in the financial sector — that is, the financial sector was turning in on itself.

The problem with investing in financial sector operations was that it was tantamount to squeezing value out of already creat value. It could create profit, yes, but it did not create new value — only industry, agriculture, trade, and services create new value.

Because profit is not based on value that is created, investment operations become very volatile and prices of stocks, bonds, a other forms of investment can depart very radically from their real value — for instance, the stock of Internet start-ups that keep rising, driven mainly by upwardly spiraling financial valuations, and that then crash.

Profits then depend on taking advantage of upward price departures from the value of commodities, and selling before real enforces a 'correction' — that is, a crash back to real values. The radical rise of prices of an asset far beyond real values is what called the formation of a bubble.

Profitability being dependent on speculative coups, it is not surprising that the finance sector lurches from one bubble to anoth or from one speculative mania to another.

Because it is driven by speculative mania, finance-driven capitalism has experienced some fourteen major financial crises sin capital markets were deregulated and liberalized in the 1980s. We have already mentioned the Asian financial crisis. But there we other outbursts that showed the volatility that had been injected into the global economy by unregulated finance capital. Prior to t current Wall Street meltdown, among the most explosive of these were the Third World debt crisis in the early 1980s, the Japane asset/price bubble collapse in the early 1990s, the Mexican financial crisis of 1994–95, the Russian financial crisis of 1996, the W Street stock market collapse of 2001, and the Argentine financial crisis of 2002.

The two dimensions — credit creation to sustain demand and dampen political dissent, and speculation to achieve super-prof that were not available in the real economy — came together in the so-called securitization of subprime and other real-estate loar Looking at the process more closely, the subprime mortgage crisis was not a case of supply outrunning real demand. The 'deman was largely fabricated by speculative mania among developers and financiers who wanted to make great profits from their access foreign money — lots of it from Asia — that flooded the US in the last decade. Big-ticket mortgages or loans were aggressively ma to millions of people who could not normally afford them by offering low 'teaser' interest rates that would later be readjusted to ja up payments from the new homeowners.

These assets were then 'securitized' with other assets into complex derivative products called 'collateralized debt obligation (CDOs), by the mortgage originators working with different layers of middlemen who understated risk so as to offload them quickly as possible to other banks and institutional investors. These institutions in turn offloaded these securities onto other banks a foreign financial institutions. The idea was to make a sale quickly, make a tidy profit, while foisting the risk on the suckers down t line.

When the low teaser rates came to an end and interest rates were raised on the subprime loans, adjustable mortgages, and oth housing loans, the game was up. When the crisis broke in 2007–08, there were about 6 million subprime mortgages outstanding, percent of which were likely to go into default in the next two years.[18]

And 5 million more defaults from adjustable-rate mortgages and other 'flexible loans' were expected to occur in the next seve years. But securities whose values run in the trillions of dollars had already been injected, like a virus, into the global financ system. Global capitalism's gigantic circulatory system was fatally infected.

For investment banks Lehman Brothers, Merrill Lynch, and Bear Stearns, and the quasi-governmental housing credit agenci Fannie Mae and Freddie Mac, the losses represented by these toxic securities simply overwhelmed their reserves and brought the down.

And many others joined them as other speculative operations, such as credit cards and different varieties of risk insurance, seiz up. American International Group (AIG) was felled by its massive exposure in the unregulated area of credit default swap derivatives that make it possible for investors to bet on the possibility that companies would default on repaying loans. Such bets credit defaults made up a $45 trillion market that was entirely unregulated. It amounted to more than five times the total of the U government bond market. The mega-size of the assets that could have gone bad had AIG gone bankrupt was what made Washingto change its mind and salvage it after it let Lehman Brothers collapse.

Lehman's collapse in September 2008 triggered panic on Wall Street and abroad that a whole host of commercial and investme banks that had trillions of dollars' worth of toxic subprime assets on their books would follow suit. Washington, however, stepped i and Congress passed the Troubled Asset Relief Program, which injected massive infusions of capital into US private financ institutions, in effect saving many of them from colossal mismanagement with US taxpayers' money that in the end cost some $1 trillion.[19]

As the financial crisis spread, consumer lending spiraled down and bank lending to enterprises nearly ground to a halt. Consume themselves refrained from more borrowing as they tried to dig themselves out of debt. The outcome was a crash in demand that led a crunch in the real economy. The coming years were of recession, then very weak recovery that elicited from financier Warr Buffett the comment 'This is not a recovery.' Indeed, with unemployment failing to go below 8 percent — a figure that would hav been higher had many not been discouraged and stopped looking for work — the unemployment rate would have been much highe

Banks and the European crisis

In Europe, though there were important differences in the conditions of the different countries relative to the United States, t

similarities were more prominent: property bubbles in Spain, Britain, and Ireland; distressed industries in most European Uni countries owing partly to the export of jobs to China and other developing countries; stagnation in real wages, which w counteracted by rising levels of consumer indebtedness. Essentially, it was the same crisis of overaccumulation, overproduction, a profitability. And, crucially, the financial crisis was a supply-driven crisis, as the big European banks sought high-profit, quick-retu substitutes like real estate for industrial and agricultural investment.

In Ireland — once the darling of global capital as the so-called 'Celtic Tiger' — entry into the eurozone gave access to 'huge su of money inexpensively on international markets with nearly no exchange rate risk, an activity that was barely regulated policymakers. With easy access to these funds, banks … lent huge amounts to prominent Irish developers, leading to a frenzy overdevelopment.'[20]

German and French banks held some 70 percent of Greece's $400 billion debt. German banks were great buyers of the to subprime assets from US financial institutions, and they applied the same lack of discrimination to buying Greek government bon For their part, even as the financial crisis unfolded, French banks, according to the Bank of International Settlements, increased th lending to Greece by 23 percent, to Spain by 11 percent, and to Portugal by 26 percent.[21] Indeed, in their drive to raise more a more profits from lending to governments, Europe's banks poured $2.5 trillion into Ireland, Greece, Portugal, and Spain.

Prior to the Third World debt crisis of the early 1980s, bankers used to compete savagely in lending the money recycled to th coffers by the OPEC countries, motivated by the so-called 'Wriston doctrine' — named after the man who formulated it, form Citibank chairman Walter Wriston — that asserted that 'countries don't go bankrupt.' The equivalent of this in the case of Europe the first decade of the twentieth century was that membership of the eurozone was a guarantee against bankruptcy of any one coun since all the other governments would have a strong interest in maintaining the viability of the common currency. That is, t doctrine provided the much-needed justification for unleashing surplus funds that would create no profits by simply lying in ba vaults.

Invulnerable Asia?

As the fallout from the financial crisis spread over the real economy of Europe and the United States in 2008 and 2009, t development threatened the East Asian countries that had avoided entanglement in the speculative frenzy in the North owing to t hard lessons they had learned during the Asian financial crisis of 1997. But their financial caution was undercut by their gr dependence on exports to Europe and the United States. Late 2008 saw the beginning of downturn in the Asian economies, w recession spreading throughout the region as exports collapsed. In China, for instance, some 20 million of 130 million migra workers were said to have been laid off, a great many in South China's export processing zones.[22]

The response to this throughout the region was deficit spending by governments to stimulate their domestic economies to make for the shortfall in the export sector. China launched the biggest stimulus, which at $585 billion was the largest ever relative to t size of the economy. With their economies in varying degrees of integration into China's economy, many of the region's countri bounced back by late 2009.

Keynesianism's brief moment Stimulus spending was also the watchword in the United States and Europe in 2009. At the G meeting in Pittsburgh in September 2009, the advanced capitalist countries and the so-called new emerging economies endor stimulus spending to make up for the shortfall in demand in the private sector. The newly elected Obama administration embra stimulus spending and was able to push through a $787 billion package in the US Congress, while French president Nicolas Sarko declared that 'laissez-faire capitalism is dead' and created a strategic investment fund of €20 billion to promote technologi innovation, keep advanced industries in French hands, and save jobs. Keynesianism appeared to have made a stunning comeback, impression that was conveyed by the neoliberal University of Chicago Nobel laureate Robert Lucas, who famously observed t every economist was 'a Keynesian in the foxhole.'

Obama got Congress to approve his stimulus in his first year in office in 2009. A few months later, however, his cautio Keynesianism was embattled. On the left, liberal economists like Paul Krugman, who had demanded a bigger package, asserted t the stimulus, 'clocking in at $787 billion, was far too small for the job. It surely mitigated the recession, but it fell far short of w would have been needed to restore full employment, or even to create a sense of progress.'[23] While the stimulus plan was bei drafted early in 2009, Krugman had presciently warned:

> I see the following scenario: a weak stimulus plan, perhaps even weaker than what we're talking about now, is crafted to win thos extra GOP votes. The plan limits the rise in unemployment, but things are still pretty bad, with the rate peaking at something like percent and coming down only slowly. And then Mitch McConnell [the Republican Senate leader] says 'See, government spendi doesn't work.'[24]

But how big a stimulus was needed? Christina Romer, the incoming head of the Council of Economic Advisers, had recommend $1.8 trillion — more than twice what the president eventually proposed to Congress.[25] Krugman did not give a specific figure, said that it had to be big enough to counter the natural dynamics of an economy that gets into trouble owing to too much debt, l the US economy: if too many people and institutions find themselves in debt, their aggregate efforts to get themselves out of de would create a worse situation for themselves collectively. As he explained it,

> If millions of troubled homeowners try to sell their houses to pay off their mortgages — or, for that matter, if their homes are seiz by creditors, who then try to sell the foreclosed properties — the result is plunging home prices. If banks worry about the amoun of Spanish and Italian debt on their books, and decide to reduce their exposure by selling off some of that debt, the prices of

> Spanish and Italian bonds plunge — and that endangers the stability of the banks, forcing them to sell even more assets. If the consumers slash spending in an effort to pay off their credit card debt, the economy slumps, jobs disappear, and the burden of consumer debt gets even worse.[26]

Government therefore had to spend massively to make up for the shortfall in demand owing to consumers' and businesses' natur tendency to save and to allow the economy to grow again, spreading confidence and encouraging consumers and businesses spend again.

Disaffection on the left was further stoked by the failure of serious financial reform, which had been promised after the huge ba bailout 'to save the economy,' as its promoters had put it. The Dodd–Frank reform did not have the minimum conditions for a refo with real teeth: the banning of derivatives; a Glass–Steagall provision preventing commercial banks from doubling as investme banks; the imposition of a financial transactions tax or Tobin tax; and a strong lid on executive pay, bonuses, and stock options. A the *New York Times* saw it, '[N]early four years after the crash, and nearly two years since the passage of the Dodd–Frank law, t multi-trillion-dollar derivatives market is still dominated by a handful of big banks, and regulation is a slow work in progress.'[27]

The Republican recovery

The larger challenge, however, came from the right. Put on the defensive by the swift unraveling of economies brought about by t unregulated financial sector in 2008 and 2009, conservative political forces had recovered by 2010. The rising debt levels and budg deficits brought about by the stimulus programs in Europe and the US, coupled with the failure of these limited programs to bri about significant reductions in the unemployment rate, became the springboard for the conservative counteroffensive.

The deficit came to 9 percent of gross domestic product — large but hardly a runaway deficit. Moreover, as Keynesians like Pa Krugman argued, when depression was the big threat, fear of government spending was misplaced. The idea of burdening futu generations with debt was odd since the best way to benefit tomorrow's citizens was to ensure that they inherited healthy growi economies, and growth depended in the short term on vigorous stimulus spending. Moreover, government default was not a re threat for countries that borrowed in currencies they themselves issued, like the United States, since, as a last option, they cou simply repay their debts by having their central banks print more money.

Keynesians might have had the intellectual edge, but the political momentum belonged to the right. The anti-deficit perspecti gained ascendancy in the United States despite high unemployment for a number of reasons.

First, as many had expected, the limited results of the stimulus provided ammunition for the opponents of fiscal activism. Secor the anti-deficit stand appealed to the anti-Big Government sentiments of the American middle class. Third, Wall Stre opportunistically embraced anti-deficit policies to derail Washington's efforts to regulate it. Big Government is the problem, screamed, not the Big Banks. Fourth — and not to be underestimated — was the reemergence of the ideological influence doctrinaire neoliberals, including those who, as Martin Wolf put it, 'believe a deep slump would purge past excesses, and so lead healthier economies and societies.'[28] In other words, the neoliberals had left the foxhole, unrepentant as ever. Finally, anti-spendi economics had a mass base, the Tea Party movement. In contrast, the pro-stimulus position was advocated by progressi intellectuals without a base or whose potential base has become disillusioned with Obama's weak stimulus and soft approach to W Street.

Towards austerity in Europe

In Europe, the narrative changed even more radically. In the case of Greece, the new narrative went this way: this country piled up unsustainable debt load to build a welfare state that it could not afford. This was a case of a spendthrift that had now to be forced tighten its belt. Germans were presented as the dour Puritans who were well within their rights to exact penance from t Mediterranean hedonists for living beyond their means and committing the sin of pride by hosting the costly 2004 Olympics. Th foreign money had flocked to Greece owing to the illusion that the membership of the eurozone guaranteed repayment, that much the money that came in did not finance government deficits, that Greece did not have a runaway welfare state, and that Gree worked longer hours than 'almost anyone else in Europe, and much longer hours than the Germans in particular'[29] — all this w missing in the new narrative.

Penance came in the form of a European Union–International Monetary Fund program that increased value-added tax to percent, raised the retirement age to 65 for both men and women, made deep cuts in pensions and public-sector wages, a eliminated practices promoting job security. The ostensible aim of the exercise was to slim down radically the welfare state and g the spoiled Greeks to live within their means.

The main beneficiaries of the change in narrative were the big banks, especially the German ones. They were now truly worri about the awful state of their balance sheets, impaired as they were by the toxic subprime assets they had taken on and realizing th they had severely overextended their lending operations. The principal way they sought to rebuild their balance sheets was generate fresh capital by using their debtors as pawns. The centerpiece of this strategy was getting the public authorities to bail them

How would they do this? The threat that Greece and the other highly indebted European countries would default was never tak seriously by the banks since they assumed that the dominant eurozone governments would never allow the collapse of the euro th this would bring about. But by having the markets bet against Greece and raising its cost of borrowing, the banks gambled that t eurozone governments would come out with a bailout package, most of which would go towards servicing the Greek debt to the Promoted as rescuing Greece, the massive €110 billion package that was put together by the dominant eurozone governments and t IMF was expected actually to go largely towards rescuing the banks from their irresponsible unregulated lending frenzy.

As for Ireland, in return for an €85 million loan to repay European banks, it accepted what the *New York Times* characterized the ‘toughest austerity program in Europe,’ involving ‘the loss of about 25,000 public-sector jobs, equivalent to 10 percent of t government work force, as well as a four-year, $20 billion program of tax increases and spending cuts like sharp reductions in sta pensions and minimum wage.’[30] The adjustment was, in many ways, more savage than that imposed on Greece. The program, bei essentially, as in Greece, a draconian effort to rip off resources to pay off the banks, ended up choking off growth. And, n surprisingly, after two years, in 2012, the IMF was warning that significant additional fiscal adjustment in a low-growth environme would risk a ‘pernicious cycle of rising unemployment, higher arrears and loan losses.’[31]

By the middle of 2012, in fact, two years of austerity programs had merely reinforced a downward spiral not only in Greece a Ireland but in Britain, Spain, Italy, and the Netherlands. Only Germany seemed invulnerable, but German leader Angela Merkel cou not seem to bring herself to tell her compatriots, who continued to see the bailout in Greece as a waste of hard-earned Germ taxpayers’ money, that Germany’s prosperity was dependent on the rest of Europe consuming its exports, and that austerity prograr would inevitably destroy its neighbors’ capacity to consume its exports. Greece was simply the cutting edge of a continent-wide dri toward the abyss, followed closely by Spain, Portugal, and Italy.

Crumbling BRICS?

By the middle of 2012, in fact, not only Europe and the United States were mired in crisis. In 2010 and early 2011, East Asia and t big ‘newly emerging economies’ known as the BRICS (Brazil, Russia, India, China, South Africa) were regarded as bright spots the global economy, exhibiting resilience and growth even as the North stagnated. Indeed, to economists like Nobel laureate Mich Spence, ‘With growth returning to pre-2008 levels, the breakout performance of China, India, and Brazil are important engines expansion for today’s global economy.’[32] In a decade, the emerging economies’ share of global GDP would pass the 50 perce mark, he predicted. Much of this growth would stem from ‘endogenous domestic-growth drivers in emerging economies, anchor by an expanding middle class.’[33] Moreover, as trade among the BRICS increased, the future of emerging economies is one of reduc dependence on industrial-country demand.’[34] 2012, however, seemed to be the year the emerging economies would yield to t turbulent waves emanating from the sinking economies of the North. Economies were slowing down, with India’s growth in 20 falling 5 percent relative to 2010. Brazil’s growth was under 3 percent lower, as *The Economist* noted, than sickly Japan’s.[35] Chin first quarter growth in 2012 plunged to 8.1 percent, its slowest pace in three years. The main reason appeared to be the continu great dependence of these economies on Northern markets and their inability to institutionalize domestic demand as the key engine the economy.

Being the world’s second largest economy, China’s downshifting was particularly alarming. In 2008, in response to the cris China launched a $585 billion stimulus program to enable the domestic market to make up for the loss of export demand. Achievi some success at first, China, however, reverted back to export-led growth oriented towards the US and European markets. The reas for the retreat was explained by the respected Chinese technocrat Yu Yongding:

> With China’s trade-to-GDP ratio and exports-to-GDP ratio already respectively exceeding 60 percent and 30 percent, the econom cannot continue to depend on external demand to sustain growth. Unfortunately, with a large export sector that employs scores o millions of workers, this dependence has become structural. That means reducing China’s trade dependency and trade surplus is much more than a matter of adjusting macroeconomic policy.[36]

The retreat back to export-led growth, rather than merely a case of structural dependency, reflected a set of interests from t reform period that, as Yu put it, ‘have morphed into vested interests, which are fighting hard to protect what they have.’[37] The exp lobby, which brings together private entrepreneurs, state enterprise managers, foreign investors, and government technocrats, remai the strongest lobby in Beijing.

Indeed, according to Yu, only crisis beckoned in the future since China’s ‘growth pattern has now almost exhausted its potential The economy that most successfully rode the globalization wave, China ‘has reached a crucial juncture: without painful structu adjustments, the momentum of its economic growth could suddenly be lost. China’s rapid growth has been achieved at an extreme high cost. Only future generations will know the true price.’[39]

Globalization in crisis

The financial collapse and the ensuing deep recession have been the most salient dimensions of the global economy. But there we other dynamics of globalization that were already spawning widespread distress even before the current finance-triggered crisis bro out in 2007. As Susan George has written,

> Although the financial part of the crisis has received the most attention and largely pushed the others off the front pages and the mental landscape, in reality we are in the midst not of a single crisis but of a multifaceted one, which already touches, or will soo touch, nearly every aspect of nearly everyone’s life and the destiny of our earthly habitat.[40]

TNCs and the export of jobs

Globalization, while in crisis, was not yet reversed, and a number of the processes that had been set in motion continued on th destructive course, like the proverbial hand of a dead engineer on the throttle of a speeding train. One of these was the continui transfer of jobs to cheap labor areas by transnational corporations (TNCs), which had been the spearhead of a process of glol

integration of production and markets. The financial implosion led to the widespread portrayal of investment banks as the villains the piece, with iconic status accorded to Matt Taibbi of *Rolling Stone* magazine for his description of Goldman Sachs as ‘a gre vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money.’[41]

TNCs specializing in production, on the other hand, by and large escaped the early negative fallout, despite the fact that the exp of jobs had been one of the key reasons for the stagnation of real wages in the US that had to be counteracted through debt creatio Indeed, information industry leaders like Apple were endowed with the reputation of being unrivaled innovators that creat prosperity and jobs for Americans. The reality was, however, different.

Apple employed relatively few workers in the US, with the bulk of the workforce that assembled iPhones and iPads locat overseas, most of them in South China, where they worked for a pittance for notorious labor-rights violators like the gigan contractor Foxconn. In terms of profit per employee, Apple is more profitable than Goldman Sachs or GM, but the source of th profit is the low wages of Chinese contract workers who labor in facilities with high accident rates and where miserable conditio have driven some of them to suicide.

The Slovenian philosopher Slavoj Žižek has described China, with its tight control of labor and privileges for transnational capit as the ‘ideal capitalist state.’[42] But at the end of the first decade of the twenty-first century, spontaneous strikes in South China a rising wages as the rural migrants that replenished the urban workforce in the coastal areas began to dry up, made China le attractive as an investment site. Indeed, investors began to locate their operations to other sites such as Indonesia and Brazil. O Brazil, *The Economist* noted, ‘Foreign investment is pouring in, attracted by a market boosted by falling poverty and a swelling low middle class. The country has established some strong political institutions. A free and vigorous press uncovers corruption — thoug there is plenty of it, and it mostly goes unpunished.’ It concluded: ‘Its take-off is all the more admirable because it has been achiev through reform and democratic consensus-building. If only China could say the same.’[43]

A major attraction of these areas in the eyes of corporations was apparently not just cheap wages but also more open politic systems that could act as a safety valve for destabilizing labor dissent. This raised several interesting questions about the relationsh of capital and formal democracy in creating conditions for the stable reproduction of the capitalist mode of production. Cheap labor not enough, increasing numbers of investors seemed to be saying. Freer political processes and even limited labor rights provided, their view, some measure of political legitimacy to governing institutions that was a *conditio sine qua non* for economic stability.

The new slave trade

The freer flow of commodities and capital has been one of the features of the contemporary process of globalization. Unlike in t earlier phase of globalization in the nineteenth century, however, the freer flow of commodities and capital has not be accompanied by a freer movement of labor globally. The dynamic centers of the global economy, after all, have imposed ever tight restrictions on migration from the poorer countries. Yet the demand for cheap labor in the richer parts of the world continues to gro even as more and more people in developing countries seek to escape conditions of economic stagnation and poverty that are oft the result of the same dynamics of a system of global capitalism that have created prosperity in the developed world.

The number of migrants worldwide grew from 36 million in 1991 to 191 million in 2005. Labor export is big business, havi spawned a host of parasitic institutions that now have a vested interest in maintaining and expanding it. The transnational labor exp network includes labor recruiters, government agencies and officials, labor smugglers, and big corporate service providers like t US multinational service provider Aramark. Labor trafficking is expanding to become just as big and profitable as sex trafficking a the drug trade. Indeed, since large numbers of women are among those trafficked, rape and sexual abuse have become part a parcel of all phases of the business, from the moment the women are in the hands of the smugglers.

The spread of free wage labor has often been associated with the expansion of capitalism. But what is currently occurring is t expansion and institutionalization of a system of unfree labor under contemporary neoliberal capitalism, a process not unlike t expansion of slave labor and repressed labor in the early phase of global capitalist expansion in the sixteenth century, as elaborated the work of sociologists like Immanuel Wallerstein.[44]

A major destination of labor export, especially from Southeast and South Asia, has been the new centers of global capi accumulation like the Gulf States in the Middle East. The combination of a lightly populated indigenous Arab population, a forei workforce that in many instances constitutes the majority of the population, and a culture still infused with many of the attitudes o slave-owning society has created an extremely repressive labor system, particularly for female domestic workers practically bereft all rights, including freedom of movement, and exposed to both labor and sexual exploitation.

The food price crisis and the peasantry

A major source of labor migration, be this within or across national borders, has been peasants or agricultural workers. The reas has been the restructuring of global food production. Neoliberal reforms have subverted small-scale peasant farming in favor capitalist agriculture, making much peasant labor superfluous. But the erosion of peasant agriculture via structural adjustment a trade liberalization had wider implications. It was a central cause of the food price crisis of 2006–08, which saw the price of ba food commodities skyrocket beyond the reach of ordinary people, in the case of rice by 300 percent in just three months at t beginning of 2008.

More profoundly, the uprooting of the peasantry was part of a broader process whereby food production came to be increasing concentrated in the hands of transnational agribusiness corporations that controlled seed, land, production, and marketing. The foc of production became global markets catering mainly to the elites and middle classes, whose needs could be serviced from dista production sites. This globally integrated system of food production disenfranchised not only farmers but the urban poor as well, a

imposed severe ecological and health costs owing to its dependence on fossil fuels and genetic engineering.

The ecological limits of capitalism

The ecological crisis has worsened over the last decade, especially in the form of climate change. An increasing awareness has grov of the relationship between capitalism and environmental degradation, rooted in capitalism's inherent drive to turn living nature ir dead commodities in order to gain profit. There are, it is now clear, limits to the shrinking of ecological space to accommodate t geometric expansion of the economy. That tipping point is now with us in the form of climate change.

The North–South dimension has added a deadly dynamic to this process, as the so-called emerging capitalist economies of t South make their claims to their share of ecological space to grow while the capitalist economies of the North continue to refuse give up any of the vast ecological space they now occupy and exploit. Overconsumption, which keeps the advanced capital economies afloat, is a central part of the problem, but neither the European Union nor the US see consumption as an issue to negotiated. The EU governments may entertain limits to greenhouse gas (GHG) emissions, but this is to be accomplished large through weak or unrealistic containment measures like carbon trading or technofixes like carbon sequestration and storage, not reducing the economic growth rate or consumption, which remains the principal engine of greenhouse gas emissions.

The defense of high consumption by the North and the effort by the big emerging economies to reproduce the Northe consumption model lie at the root of the deadlock in the climate change negotiations — exemplified in the failure of the Unit Nations-sponsored talks in Copenhagen in 2009 and Durban in 2011 to agree on a successor agreement to the Kyoto Protocol. Chir which is now the biggest contributor to greenhouse gas emissions, refuses to entertain mandatory reductions to its releases, while t United States, which has historically contributed so much more to accumulation of GHGs, also spurns demands for mandato constraints. In this game of climate chicken, the Chinese at least recognize the necessity of mandatory cuts, while Washingtor position is largely determined by a desire to accommodate climate skeptics in the US Congress who continue to believe, against the evidence, that climate change is a figment of the liberal imagination.

With the world population reaching 7 billion in 2011, just twelve years after it reached 6 billion, population and its relation poverty and ecological crisis have returned to the forefront. The issue of population has always been sensitive for progressives, w have traditionally upheld the view that inequality is the cause of human misery and viewed Malthus's 'law of diminishing returns' the midst of a rise of population as leading a demographic crisis as a reactionary thesis. However, in the last few years, w agricultural productivity decreasing, soil quality worsening, food prices escalating, and extreme weather changes becoming mo frequent, the role of global population increase in provoking ecological disequilibrium has become a central concern. This h occurred at the same time that effective population management has been associated with successful development in a number countries, particularly in East Asia. Thus population has become less of a charged issue among progressives, though it has remain a hot button issue with the Catholic Church hierarchy and some religious fundamentalist groups.

The end of multilateralism?

The processes of globalization unfolded under the guidance of transnational institutions that legitimized them and set up rules a conventions that promoted and accelerated their spread. These multilateral institutions, which were sponsored and dominated by t United States, might be said to serve as the political canopy of globalization. Ernesto Zedillo, former president of Mexico and advocate of globalization, has correctly called attention to the centrality of politics in the globalist project:

> Global integration has been driven by technological progress and economic incentives, but it would be inconceivable in its presen form without the host of fundamental political decisions that have been taken at both the national and international levels. The global integration we have today results from political decisions taken by sovereign states — at the national level to liberalize domestic economies and foster the workings of the market — and at the international level — to sign on to agreements to liberali foreign trade and investment. And the WTO, the European Union, and the NAFTA have not just happened, as the inescapable result of technological progress. They are above all the result of political vision and decisions by sovereign states.[45]

Aside from the United Nations system, the central multilateral institutions are the World Bank, the International Monetary Fu (IMF), and the World Trade Organization (WTO).

The WTO, established in 1995, was toasted by its former head Mike Moore as the 'jewel in the crown of multilateralism,'[46] institution that would sweep away the barriers to trade and promote the accelerated integration of the world's economies. As t reality emerged that it was the interests of transnational corporations and the rich countries that were being advanced by the ninete agreements that made up the WTO Agreement, developing-country governments and civil society movements worldwide began resist newer WTO initiatives. This led to the collapse of two ministerial meetings, in Seattle in 1999 and Cancún in 2003.

Moreover, developing countries began to form alliances within the WTO framework, the most important of these being the Gro of 20 and the Group of 33, two developing-country coalitions that resisted the European Union's and the United States' demand f greater access to the agricultural markets of developing countries. Agriculture became the Achilles heel of the WTO, and failure reach agreement over massive subsidies given by the rich countries to their farming sectors and over market access to developin country markets derailed the do-called Doha Round and crippled the WTO as a mechanism for further trade liberalization.

But it was not only the WTO that suffered reverses. The high failure rate of World Bank projects brought it severe criticism fro the right, while the role of the Bank in imposing structural adjustment programs along with the IMF harmed its reputation througho the South. In Africa and other parts of the South, China's loans, which were lacking neoliberal conditionalities, became an attracti

alternative to World Bank loans.

The IMF, for its part, responded to the Asian financial crisis of 1997–98 by pushing governments to undertake austerity progran that worsened the crisis, which severely eroded its credibility, prompting a number of countries, including Thailand, Venezuela, an Argentina, to advance the repayment of rescue funds to the Fund so as to declare their 'independence' from the institution, as th prime minister Thaksin Shinawatra put it in 2003.[47] Another factor that alienated the global South was the continuing refusal of t North to increase significantly the quotas or shares of developing countries, particularly the more dynamic 'middle income' countri like China, Brazil, India, and Korea, which would have led to their having greater decision-making power. Also, the continuin feudal practice of having an American head the World Bank and a European to lead the Fund became increasingly unacceptable to great number of member countries from the global South.

In short, even before the outbreak of the financial crisis in 2007, the multilateral system was already eroding. The WTO was in stalemate while the World Bank was trying to reinvent itself as the 'Climate Bank.' As for the IMF, its leaders, notably managin director Dominique Strauss-Kahn and his successor Christine Lagarde, tried to shore up the Fund's position by rhetorically distanci themselves from the neoliberal approach of the past and putting a Keynesian gloss on the institution. The G20 also brought the Fu in as a mechanism to channel funds to Ireland, Greece, Iceland, and other European economies that were suffering from the financ crisis. However, its influence was very limited, as the European Commission, the European Central Bank, and national governme like Germany and France took the reins directly in dealing with the crisis, unlike during the Asian financial crisis, when the IM played the central role.

The palpable loss of power and influence of the multilateral institutions was not unconnected to the crisis of globalization, whi they had been structured to promote. In the early 1990s, globalization was said to be irreversible. But in the decade from the collap of the Seattle ministerial meeting in 1999 to the outbreak of the financial crisis in 2008, the sense of inevitability disappeared. Th was not only on account of the weak recovery in global economic activity and trade — which, incidentally, in 2009, led to the large drop in the level of greenhouse gas emissions in forty years.[48]

According to *The Economist*, the 'integration of the world economy is in retreat on almost every front.' While the magazine sa that corporations continued to believe in the efficiency of global supply chains, 'like any chain they are only as strong as th weakest link. A danger will come if firms decide that this way of organizing production has had its day.'[49] The fear that haunted ma pro-globalist sectors was what happened after 1914, when the first era of globalization that began in 1815 — a period in which, many ways, the global economy was more integrated than today — came to an end in war, national competition, and depression.

By the beginning of 2012, with indefinite economic stagnation in both the US and Europe a certainty, and with the BRICS slowi down, the retreat from globalization had become more of a certainty in many quarters. As Nader Mousavizadeh and George K wrote in the *International Herald Tribune*, 'we are entering a period of competitive sovereignty, replacing two decades of consens around the universal benefits of globalization — however uneven and unequal its path.'[50]

Competing alternatives

With the deepening of the economic crisis, proposed solutions came from several quarters.

The neoliberal non-solution

After being on the defensive in the immediate aftermath of the crisis, the neoliberals bounced back in 2011 and 2012. The neo-libe solution was no solution, however, inasmuch as it did not address the issue of ending unemployment and restarting growth. From t neoliberal perspective, a deepening of the crisis was, in fact, part of the natural order of things, whereby the 'excesses' and distortio created by government intervention were wrung out of the system. What the neoliberals managed to do was to change the narrati or the discourse, playing on the American middle class's traditional distrust of government, deficit spending, and taxes. Here th were supported by the propaganda machinery of Wall Street, which sought to move the public focus away from financial refor Instead of unemployment and stagnation in the short and medium term, the real problem they pointed to was the debt and the defic Massive deficits financed by debt, they said, would ensure a future of debt slavery for future generations.

The limits of Keynesianism… and Marxism

The Keynesians saw unemployment as the problem, and it was to be banished by massive deficit spending, low interest rates, a loose money policies. Criticism of Keynesianism, however, came not only from the right but also from progressive quarters, whi saw its focus on growth by stimulating consumption as simply a short-term solution bereft of a transformative vision for restructuri the economy along lines of greater equity and democracy. In the view of Marxists, Keynesianism's basic flaw was its adherence the framework of monopoly capitalism, which rested fundamentally on deriving profit from the exploitative extraction of surpl value from labor, was driven from crisis to crisis by inherent tendencies toward overproduction, and tended to push the environme to its limits in its search for profitability.

In both the national and the global arena, the new Keynesianism promoted a new class compromise accompanied by new metho to contain or minimize capitalism's tendency toward crisis. Just as the old Keynesianism and the New Deal stabilized nation capitalism, the historical function of the new Keynesianism was to iron out the contradictions of contemporary global capitalism a to relegitimize it after the crisis and chaos left by neoliberalism. In the view of many progressives, the new Keynesianism was, at ro about social management.

As for Marxists, while the analysis of capitalist crisis they offered was often very insightful, their alternative was often vagu being couched at times as 'post-capitalism,' a defensive paradigm and terminology that was a legacy, no doubt, of the collapse

centralized bureaucratic socialism as an alternative during the latter half of the twentieth century.

The 'end-of-growth school'

Radical environmentalists located the crisis in the much broader context of a growth-oriented, fossil-fuel-addicted mode production. To analysts like Richard Heinberg, the intersection of the financial collapse, economic stagnation, global warming, t steady depletion of fossil fuel reserves, and agriculture reaching its limits was a fatal one. It represented a far more profound cri than a temporary setback on the road to growth. It portended not simply the end of a paradigm of global growth driven by t demand of the center economies. It meant the 'end of growth' as we know it. It was, in short, the Malthusian trap, though Heinbe understandably avoided using the term.

The gyrations of the finance economy, Heinberg said, did not simply stem from the dynamics of capital accumulation but from all-encompassing ecological disequilibrium:

> Perhaps the meteoric rise of the finance economy in the past couple of decades resulted from semi-conscious strategy on the part society's managerial elites to leverage the last possible increments of growth from a physical, resource based economy that was nearing its capacity. In any case, the implications of the current economic crisis cannot be captured by unemployment statistics a real estate prices. Attempts to restart growth will inevitably collide with natural limits that simply don't respond to stimulus packages or bailouts. … Burgeoning environmental problems require rapidly increasing amounts of efforts to fix them. In additic to facing limits on the amount of debt that can be accumulated in order to keep those problems at bay, we also face limits to the amounts of energy and materials we can devote to these purposes. Until now the dynamism of growth has enabled us to stay ahe of accumulating environmental costs. As growth ends, the environmental bills for the last two centuries of manic expansion may come due just as our bank account empties.[51]

The next few decades, Heinberg asserted, would be marked by a transition from expansion to contraction, a process 'characteriz by an overall contraction of society until we are living within Earth's replenishable budget of renewable resources, while continua recycling most of the minerals and metals we continue to use.'[52] The future pointed in the direction of decentralized eco-communit marked by more manageable participatory decision-making, powered by low-energy systems, reliant on co-operatives for producti and other economic functions, dependent on organic farming for food, and using non-debt-based currencies for exchange.

Some of the proposals advanced by the 'End-of-Growth' school have been shared by other perspectives, such as the 'Fo Sovereignty' and 'Deglobalization' schools, though these do not endorse the former's view that radical economic contraction inevitable and desirable. The Deglobalization perspective proposed by the author aims at enhancing ecological equilibriu democracy, and equality while promoting the principle of subsidiarity or locating the locus of production and decision-making at t lowest level, where it can be done with minimal economic cost. A more comprehensive discussion of Deglobalization is provided the concluding chapter.

Resistance and transformation

Articulating a vision and program for change is one thing; building a global mass movement is another. The power of ma movements was demonstrated in Seattle in November 1999, when 50,000 people on the streets opposing the WTO brought about t collapse of the Third Ministerial Meeting — an event which convinced many more people throughout the world about the wro track that globalization was taking the world than a hundred studies documenting its failures. Seattle gave birth to the An Globalization Movement, which introduced innovative organizing methods, as people confronted corporate capital and t multilateral institutions in different sites, in Prague in 2000, Genoa in 2001, and Cancún in 2003. The Anti-Globalization Moveme was marked by non-hierarchical methods of organizing, by a horizontal process of coming together of networks, where strugg drew their strength from the non-centralized character of the movement, where there was no visible leadership structure, and whe decisions were made via methods approximating direct democracy.

A central principle of the organizing approach of the new movement was that getting to the desired objective was not worth it the methods violated democratic process, if democratic goals were reached via authoritarian means. Perhaps Subcomandante Marc of the Zapatistas best expressed this fundamental philosophical bias of the new movements: 'The movement has no future if its futu is military. If the EZLN [Zapatistas] perpetuates itself as an armed military structure, it is headed for failure. Failure as an alternati set of ideas, an alternative attitude to the world. The worst that could happen to it, apart from that, would be for it to come to pow and install itself there as a revolutionary army.'[53]

One of the most important vehicles to emerge from the Anti-Globalization Movement was the World Social Forum (WSF), whi was founded in 2000. The WSF was direct democracy in action. At its height in the mid-2000s, the WSF performed three critic functions for global civil society.

First, it represented a space — both physical and temporal — for a diverse movement to meet, to network, and, quite simply, feel and affirm itself. Second, it was a retreat during which the movement gathered its energies and charted the directions of continuing drive to confront and roll back the processes, institutions, and structures of global capitalism. Naomi Klein, author of *Logo*, underlined this function when she told a Pôrto Alegre audience in January 2002 that the need of the moment was 'less ci society and more civil disobedience.' Third, the WSF provided a site and space for the movement to elaborate, discuss, and deba the vision, values, and institutions of an alternative world order built on a real community of interests.

Yet while the WSF and the Anti-Globalization Movement were significant and successful as resistance movements, they failed

move into the vacuum created by the collapse of the globalization paradigm. One reason was the lack of consensus on a comm alternative vision, a key function that was played by the ideal of socialism from the late nineteenth to the late twentieth century. E the other key reason was just as important. This was articulated by Hugo Chávez during the World Social Forum assembly in Carac in 2006, when he warned delegates in January 2006 about the danger of the WSF becoming simply a forum of ideas with no agen for action. He told participants that they had no choice but to address the question of power: 'We must have a strategy of "counte power." We, the social movements and political movements, must be able to move into spaces of power at the local, national, ar regional level.'[54]

Developing a strategy of counter-power or counter-hegemony need not mean lapsing back into the old hierarchical and centraliz modes of organizing characteristic of the old left. Such a strategy might, in fact, be best advanced through the multilevel a horizontal networking that the movements and organizations represented in the WSF excelled at in advancing their particu struggles. Articulating their struggles in action would mean forging a common strategy while drawing strength from and respecti diversity.

The Anti-Globalization Movement was at a crossroads when the financial collapse occurred in 2008, followed by the tumultuo political events in the Middle East in late 2010. Whether the 'Occupy Movement' and the 'Arab Spring,' two movements th emerged from these twin developments, will be successful where the Anti-Globalization Movement and the World Social Forum f short remains to be seen.

PART I

THE DESTRUCTIVE DYNAMICS OF FINANCE CAPITAL

CHAPTER 1

WHY AND HOW FINANCE BECAME DOMINANT

A primer on Wall Street meltdown

Written shortly after the Wall Street collapse in September 2008, this essay sought to capture the impact of the event on the Americ middle class while providing a primer on the causes and dynamics of the financial crisis. The central concept here ‘overproduction.’ Rooted in the inherent tendency to create productive capacity that outstrips demand, capital’s effort to surmount t crisis of overproduction is one of the central engines of globalization and financialization, which triggered the financial cris Deglobalization is thus, at bottom, a response to the crisis of capitalism.[1]

Flying into New York Tuesday, I had the same feeling I had when I arrived in Beirut two years ago, at the height of the Israe bombing of that city — that of entering a war zone.

The immigration agent, upon learning I taught political economy, commented, ‘Well, I guess you folks will now be revising those textbooks?’

The bus driver welcomed passengers with the words, ‘New York is still here, ladies and gentlemen, but Wall Street h disappeared, like the Twin Towers.’

Even the usually cheerful TV morning shows felt obligated to begin with the bad news, with one host attributing the bleak even to ‘the fat cats of Wall Street who turned into pigs.’

This city is shell-shocked, and most people still have to digest the momentous events of the past two weeks:

- a trillion dollars’ worth of capital going up in smoke in Wall Street’s steep plunge of 778 points on Black Monday II, September 2 as investors reacted in panic to the US House of Representatives’ rejection of President George W. Bush’s gargantuan $700 billio bailout of financial institutions on the verge of bankruptcy;
- the collapse of one of the Street’s most prominent investment banks, Lehman Brothers, followed by the largest bank failure in U history, that of Washington Mutual, the country’s largest savings and loan institution;
- Wall Street’s effective nationalization, with the Federal Reserve and the Department of Treasury making all the major strateg decisions in the financial sector and, with the rescue of the American International Group (AIG), the amazing fact that the U government now runs the world’s biggest insurance company.

Over $5 trillion in total market capitalization has been wiped out since October of last year, with over a trillion of this accounted f by the unraveling of Wall Street’s financial titans.

The usual explanations no longer suffice. Extraordinary events demand extraordinary explanations. But first…

Is the worst over?

No, if anything is clear from the contradictory moves of the last week — allowing Lehman Brothers and Washington Mutual collapse while taking AIG over and engineering Bank of America’s takeover of Merrill Lynch — there is no strategy to deal with th crisis, just tactical responses, like the fire department’s response to a conflagration.

The proposed $700 billion buyout of banks’ bad mortgaged-backed securities is not a strategy but mainly a desperate effort shore up confidence in the system, to prevent the erosion of trust in the banks and other financial institutions and avoid a massi bank run such as the one that triggered the Great Depression of 1929.

Did greed cause the collapse of global capitalism’s nerve center?

Good old-fashioned greed played a part. This is what Klaus Schwab, the organizer of the World Economic Forum, the yearly glob elite jamboree in the Swiss Alps, meant when he told his clientele in Davos earlier this year: ‘We have to pay for the sins of the past

Was this a case of Wall Street outsmarting itself?

Definitely. Financial speculators outsmarted themselves by creating more and more complex financial contracts like derivatives th would securitize and make money from all forms of risk — including exotic futures instruments such as ‘credit default swaps’ th enable investors to bet on the odds that the banks’ own corporate borrowers would not be able to pay their debts! This is t unregulated multi-trillion-dollar trade that brought AIG down.

On December 17, 2005, when International Financing Review (IFR) announced its 2005 Annual Awards — one of the securiti industry’s most prestigious awards — it had this to say:

> [Lehman Brothers] not only maintained its overall market presence, but also led the charge into the preferred space by … developing new products and tailoring transactions to fit borrowers’ needs. … Lehman Brothers is the most innovative in the

preferred space, just doing things you won't see elsewhere.[3]

No comment.

Was it lack of regulation?

Yes — everyone acknowledges by now that Wall Street's capacity to innovate and turn out more and more sophisticated financi instruments had run far ahead of government's regulatory capability, not because government was not capable of regulating b because the dominant neoliberal, laissez-faire attitude prevented government from devising effective mechanisms with which regulate. The massive trading in derivatives helped precipitate this crisis, and the US Congress paved the way when it passed a law 2000 excluding derivatives from being regulated by the Securities Exchange Commission.

But isn't something more happening, something systemic?

Well, George Soros, who saw this coming, says what we are going through is the crisis of the 'gigantic circulatory system' of 'global capitalist system that is … coming apart at the seams.'[4]

To elaborate on the arch-speculator's insight, what we are seeing is the intensification of one of the central crises or contradictio of global capitalism, which is the crisis of overproduction, also known as overaccumulation or overcapacity.

This is the tendency for capitalism to build up tremendous productive capacity that outruns the population's capacity to consum owing to social inequalities that limit popular purchasing power. Profitability is thus eroded.

But what does the crisis of overproduction have to do with recent events?

Plenty. But to understand the connections, we must go back in time to the so-called Golden Age of Contemporary Capitalism, t period from 1945 to 1975.

This was a period of rapid growth both in the center economies and in the underdeveloped economies — one that was par triggered by the massive reconstruction of Europe and East Asia after the devastation of the Second World War, and partly by t new socioeconomic arrangements that were institutionalized under the new Keynesian state. Among the latter, key were strong sta controls over market activity, aggressive use of fiscal and monetary policy to minimize inflation and recession, and a regime relatively high wages to stimulate and maintain demand.

So what went wrong?

Well, this period of high growth came to an end in the mid-1970s, when the center economies were seized by stagflation, meani the coexistence of low growth with high inflation, which was not supposed to happen under neoclassical economics.

Stagflation, however, was but a symptom of a deeper cause: the reconstruction of Germany and Japan and the rapid growth industrializing economies like Brazil, Taiwan, and South Korea added tremendous new productive capacity and increased glob competition, while social inequalities within countries and between countries worldwide limited the growth of purchasing power a demand, thus eroding profitability. This was aggravated by the massive oil price rises of the 1970s.

How did capitalism try to solve the crisis of overproduction?

Capital tried three escape routes from the conundrum of overproduction: neoliberal restructuring, globalization, and financialization

What was neoliberal restructuring all about?

Neoliberal restructuring took the form of Reaganism and Thatcherism in the North and structural adjustment in the South. The a was to invigorate capital accumulation, and this was to be done by (1) removing state constraints on the growth, use, and flow capital and wealth, and (2) redistributing income from the poor and middle classes to the rich on the theory that the rich would th be motivated to invest and reignite economic growth.

The problem with this formula was that in redistributing income to the rich, they were gutting the incomes of the poor and midd classes, thus restricting demand, while not necessarily inducing the rich to invest more in production. In fact, what the rich did was channel a large part of their redistributed wealth to speculation.

The truth is neoliberal restructuring, which was generalized in the North and South during the 1980s and 1990s, had a poor reco in terms of growth: global growth averaged 1.1 percent in the 1990s and 1.4 percent in the 1980s, whereas it averaged 3.5 percent the 1960s and 2.4 percent in the 1970s, when state interventionist policies were dominant. Neoliberal restructuring could not sha off stagnation.

How was globalization a response to the crisis?

The second escape route global capital took to counter stagnation was 'extensive accumulation' or globalization, or the rap integration of semi-capitalist, non-capitalist, or pre-capitalist areas into the global market economy. Rosa Luxemburg, the famo German revolutionary economist, saw this long ago as necessary to shore up the rate of profit in the metropolitan economies. Ho By gaining access to cheap labor; by gaining new, albeit limited, markets; by gaining new sources of cheap agricultural and ra material products; and by bringing into being new areas for investment in infrastructure. Integration is accomplished via tra liberalization, removing barriers to the mobility of global capital, and abolishing barriers to foreign investment.

China is, of course, the most prominent case of a non-capitalist area to be integrated into the global capitalist economy over t
past twenty-five years.

To counter their declining profits, a sizable number of the Fortune 500 corporations have moved a significant part of th
operations to China to take advantage of the so-called 'China Price' — the cost advantage deriving from China's seeming
inexhaustible cheap labor. By the middle of the first decade of the twenty-first century, roughly 40–50 percent of the profits of U
corporations were derived from their operations and sales abroad, especially in China.

Why didn't globalization surmount the crisis?

The problem with this escape route from stagnation is that it exacerbates the problem of overproduction because it adds to producti
capacity. A tremendous amount of manufacturing capacity has been added in China over the past twenty-five years, and this has ha
a depressing effect on prices and profits. Not surprisingly, by around 1997 the profits of US corporations stopped growin
According to another index, devised by economist Philip O'Hara, the profit rate of the Fortune 500 went from 7.15 in 1960–69
5.30 in 1980–90 to 4.02 in 1990–99 to 3.30 in 2000–02.[5]

What about financialization?

Given the limited gains in countering the depressive impact of overproduction via neoliberal restructuring and globalization, the th
escape route became very critical for maintaining and raising profitability: financialization.

In the ideal world of neoclassical economics, the financial system is the mechanism by which the savers or those with surpl
funds are joined with the entrepreneurs who have need of their funds to invest in production. In the real world of late capitalism, w
investment in industry and agriculture yielding low profits owing to overcapacity, large amounts of surplus funds are circulating a
being invested and reinvested in the financial sector — that is, the financial sector is turning in on itself.

The result is an increased bifurcation between a hyperactive financial economy and a stagnant real economy. As one financ
executive notes, 'There has been an increasing disconnection between the real and financial economies in the last few years. The re
economy has grown … but nothing like that of the financial economy — until it imploded.'[6]

What this observer does not tell us is that the disconnect between the real and the financial economy is not accidental — that t
financial economy imploded precisely to make up for the stagnation owing to overproduction of the real economy.

What were the problems with financialization?

The problem with investing in financial sector operations is that it is tantamount to squeezing value out of already created value.
may create profit, yes, but it does not create new value — only industry, agriculture, trade, and services create new value.

Because profit is not based on value that is created, investment operations become very volatile, and prices of stocks, bonds, a
other forms of investment can depart very radically from their real value — for instance, the stock of Internet startups that keep
rising, driven mainly by upwardly spiraling financial valuations, and that then crash.

Profits then depend on taking advantage of upward price departures from the value of commodities, and then selling before real
enforces a 'correction' — that is, a crash back to real values.

The radical rise of prices of an asset far beyond real values is what is called the formation of a bubble.

Why is financialization so volatile?

Profitability being dependent on speculative coups, it is not surprising that the finance sector lurches from one bubble to another,
from one speculative mania to another.

Because it is driven by speculative mania, finance-driven capitalism has experienced about a hundred financial crises since capi
markets were deregulated and liberalized in the 1980s.

Prior to the current Wall Street meltdown, the most explosive of these were the Mexican Financial Crisis of 1994–95, the Asi
Financial Crisis of 1997–98, the Russian Financial Crisis of 1996, the Wall Street Stock Market Collapse of 2001, and the Argenti
Financial Collapse of 2002.

Bill Clinton's treasury secretary, Wall Streeter Robert Rubin, predicted five years ago that 'future financial crises are almost sure
inevitable and could be even more severe.'[7]

How do bubbles form, grow, and burst?

Let's first use the Asian financial crisis of 1997–98 as an example.

- First, capital account and financial liberalization at the urging of the IMF and the US Department of Treasury.
- Then entry of foreign funds seeking quick and high returns, meaning they went to real estate and the stock market.
- Overinvestment, leading to a fall in stock and real estate prices, leading to panicky withdrawal of funds — in 1997, $100 billion l
the East Asian economies in a few weeks.
- Bailout of foreign speculators by the IMF.
- Collapse of the real economy — recession throughout East Asia in 1998.

Despite massive destabilization, efforts to impose both national and global regulation of the financial system were opposed
ideological grounds.

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