The Crisis of Globalisation

Tue, 10/03/2009 - 23:00

Luke Cooper surveys the wreckage of globalisation and the mounting crisis of capitalism

As this issue of Fifth International goes to press, we are at a turning point in history. The Credit Crunch to which we devoted our last, special, issue has, as we anticipated, spread from the USA to the rest of the world economy.1 An ?historic moment?, the biggest financial crisis since 1929, has set the world on a new course, a new phase of development. The period of globalisation, characterised by the rapid internationalisation of production, trade and finance, under the hegemony of the United States, is drawing to a close.

In the last few weeks, the system has received a series of seismic shocks, aptly described by some commentators as a ?financial Armageddon?. The major world economies are now heading into a recessionary phase. Already workers face deteriorating conditions, pay cuts and spiralling inflation, the threats of unemployment and home repossessions loom large, too. Governments and capitalists are demanding working class people pay for a crisis they did nothing to cause.

From the Credit Crunch to the Great Crash of 2008

This year, the Credit Crunch became a full blown financial meltdown. In 2007, there was a crisis of liquidity in the banking system. In 2008, this became a crisis of solvency, a question of the survival of the major western private financial institutions. Some of the titans of American finance, no longer able to balance their books, were forced into bankruptcy, into accepting takeovers from their rivals, or begging humbly for nationalisation. These included AIG, the world?s largest insurance company, Fannie Mae and Freddie Mac, which together account for over 50% of the American mortgage market, all of which have now been nationalised by the US government. Other casualties were Lehman Brothers (bankrupt), Merrill Lynch (sold), Washington Mutual (bankrupt), HBOS (swallowed up), Bradford and Bingley (sold/nationalised), Fortis (nationalised) and Wachovia (sold).

Stock markets in 2008 have seen sharp falls. London?s FTSE 100 has fallen to its lowest level for four years, well below the symbolic 5,000 mark and over 20% down on its January 2008 level. In New York, the Dow Jones Industrial Average has lost a third of its value since October 2007. The Shanghai stock exchange experienced speculative frenzy up to October 2007 but by October 2008 had lost 60% of its value. The stock exchanges in Hong Kong, Sydney, Paris, Frankfurt and Bombay have all suffered sharp falls across the year, too. Tokyo lost 25% of its value in a major stock market crash between 5 ? 10 October.

The sheer volatility of the markets in September and October, when the financial meltdown really took hold, was striking in itself. Sharp falls of between 4 ? 7% were registered across the globe in the week that Lehman Brothers collapsed. The Moscow Stock Exchange was hit hardest, falling by some 17% before being closed by the authorities. On September 29, the Dow registered a 7% fall, its largest ever one day points loss, but rebounded the next day by 4.68%, the third largest one-day gain in history. Other markets also saw the same volatility across the month, with banking stock particularly badly hit.

To put the falls in perspective, between 1929 and 1931, that is, the period of the Wall Street crash, the New York Stock Exchange lost 90% of its value. Today, after one year of the Credit Crunch, New York is approaching a 40% fall in share values. As Manoj Ladwa, senior trader at ETX Capital put it, "another Monday, another banking crisis. Just when the market thinks it has found a base level, there's another jolt to the system". "Black Mondays used to be a once-a-decade event, now they're coming along more regularly than a London bus," he added. David Buik from BGC Partners confirmed that the market was infected by ?blind panic? between 5 ? 10 October.

This comes despite the announcement of unprecedented government attempts to shore up the credit system. In the United States, under the Paulson plan, eventually passed by a Congress cowed by threats of the imminent collapse of world capitalism, gave the government powers to buy $800 billion dollars worth of bad debts from the private financial institutions. In effect, this would nationalise all the ?toxic? debts, taking them off the balance sheets of the banks in the hope that they will then start lending again, to one another and to businesses and consumers.

In Britain, the Brown government announced a huge £400 billion relief package, 1/3 of British GDP, and the equivalent of $800 billion dollars. This included up to £50 billion to ?re-capitalise? banks by buying shares in them. In addition, the package provided new credit lines to the banks, on top of existing commitments to put £100 billion into the system, with £250 billion available at commercial lending rates and a further £100 billion short time loan injection.

Dominique Strauss-Kahn, head of the International Monetary Fund, said on 11 October that the world economy was ?on the brink of systemic meltdown?. Of course, there is an element of scare tactics to compel governments to stop banks collapsing and win public support for them doing so but, nonetheless, such dire warnings are quite extraordinary. One problem that is widely acknowledged is that the banks are still reluctant to lend to one another, as they lack confidence in each other?s credit worthiness. Those banks, like HBOS, which are more dependent on the international markets to raise funding, rather than having a large deposit base, are particularly exposed, hence the big runs on their share price prior to the Lloyds TSB takeover (the shares have been very volatile since, too). The inter-bank lending rate has remained high even after the Paulson and Brown bailouts; the three-month sterling and euro Libor interest rates remained at fourteen-year highs.

Another problem is that the effects of the bankruptcies that have already taken place, like Lehman Brothers, have not yet fully worked their way through the system. For example, in the Credit Default Swap market, firms selling derivatives that were effectively a form of insurance policy in the event of a ?default? or bankruptcy by Lehman Brothers are now liable to pay some $400 billion dollars out.2 A failure by one institution to pay could bankrupt another, creating another domino-like effect in the system, as bank after bank goes under.

The Paulson plan provides a mechanism, and the funds, to enable the state to take ?non-performing assets?, that is, bad debts, off the banks? books. The result would be a ?deleveraging? of the banks, that is, a reduction in the proportion of outstanding loans in relation to the actual capital they hold. This, it is hoped, will then allow them to extend new loans to credit-worthy firms and individuals, thereby, reviving economic activity.

There are two major problems related to this. Firstly, it is not at all clear whether the American banks merely have $800 billion dollars of bad debts; the true figure could be much, much higher and if so the plan is insufficiently ?bold? to solve the existing problems. Even more seriously, the policy treats the crisis as if it existed entirely within the ?financial sector?. This is simply wrong; it was the downturn in the American economy that triggered the crisis in the sub-prime mortgage market, which then mushroomed into a Credit Crunch.

The whole premise of the Paulson plan, that the banks must start lending again to ward off recession, is itself fundamentally flawed. It assumes that there are good, profitable lines of credit ready to be opened if only the banks felt confident enough to lend. This ignores the fact that the world economy is teetering on the brink of a global recession. The IMF now predicts world economic growth will slow to 3% in 2009, a figure that is recessionary once world population growth is taken into account. In the United States, corporate profits have declined over the last four quarters and unemployment has risen by 2.2 million to 9.4 million in the last twelve months. In this situation, why would the banks, as profit making institutions being salvaged from bankruptcy by the state, start extending loans to consumers facing the threat of job losses or businesses facing a crisis in profitability? Of course, they will not.

The same problems confront the British government plan. Although nationalisation and state-guaranteed credit should, technically, restore confidence between banks, they cannot foresee the true scale of bad debts yet to surface or offset the effects of a developing recession.

Nonetheless, more nationalisations are likely to follow. The Bush government has said it will adopt its own ?recapitalisation? programme, exchanging state investment in the banks for equity options, and European leaders also agreed not to let ?any bank? collapse in the period ahead and will use nationalisation to do so. The drive to at least partly nationalise the entire financial system is therefore underway. By effectively eliminating competition between the banks and providing the security of further government funding for their operations indefinitely, these measures may be sufficient to resolve the immediate problem of unfreezing inter-bank lending.

However, they will not stave off a recession in the so-called ?real economy?. The crisis of profitability in the rest of the economy will now be the main driver of the crisis, as jobs are lost, pay is cut and conditions attacked so capital can get through the crisis. A round of capital centralisation in industry has already begun. The collapse in the car market, for example, has pushed General Motors and Ford into merger talks to avoid having to file for Chapter 11 Bankruptcy status. Obviously American capitalism has not yet lost enough of its historic icons. We are, in short, moving from the crisis phase to the crash phase of the cycle.

Rapidly increasing inflation, specifically in terms of food and fuel costs, has been making life increasingly difficult for workers and peasants across the world. Since the start of 2006, the average world price for rice has risen by 217%, wheat by 136%, maize by 125% and soybeans by 107%. A series of food riots, notably in Bangladesh, Pakistan, Egypt, in many west African states, Haiti, Mexico and South Africa, have forced governments to introduce subsidies and controls as they attempt to alleviate the worst effects whilst keeping wages down. On the other hand, the fall in oil prices and in a whole range of industrial inputs is a sign that manufacturing is envisaging a major slow down.

If the Paulson and Brown plans are successful, if the banks do inject a massive amount of credit into their economies, then this could lead to severe inflation if it is not accompanied by an equivalent increase in production. This would see a return to the ?stagflation? (stagnant production, inflated prices) last seen in the crises of the Seventies. We should also note, however, that, as global demand falls, deflationary pressures are also hitting the economy. The world oil price has fallen to $80 dollars a barrel on anticipation of contracting demand; hit in particular by reports of falling growth rates in China and India.

Other indicators also suggest a sharp decline in economic activity. The Baltic Dry Index, which monitors world shipping charges, dropped by 50% in one week in October and is down 75% since May. This is explained by a long term decline in China?s imports of raw materials and exports of goods, as a result of slowing demand in the USA, and the more immediate impact of the credit crunch. Normally, firms supply goods on the basis of a Letter of Credit, from the receiving company?s bank; where banks are withholding virtually all credit, trade has to suffer since nobody can be sure they will be paid for any goods they ship. This is one of the key mechanisms by which the credit crunch impacts on production, making a nonsense of the idea that the ?financial markets? are somehow entirely separate from the ?real economy?.

Should this pattern continue, as seems likely, the reduced growth predictions for the major world economies could prove to be far too optimistic. In this context, it should not be forgotten that the major fast developing economies require high growth rates just to keep up with population growth. In China, for example, it has been calculated that 6.5% growth is necessary just to keep per capita growth from falling. Already, India has had its growth forecasts cut, from 8.5% to 7% or lower by the Asian Development Bank.

The Eurozone is predicted to have stagnant economic output this year, and Ireland is the first Eurozone state to be ?officially? in recession as it has seen two consecutive quarters of contraction in GDP growth. Meanwhile, Japanese and German exports have also been hit. It is the sheer scale and depth of the current contagion in the world economy that make the usual methods of capitalist economic management, raising or lowering interest rates to fight inflation and stimulate growth respectively, increasingly impotent.

The Bush and Brown governments had little choice but to resort to anti-cyclical measures, cutting interest rates and pumping capital into the system, despite the risk of inflation, because the alternative (?pro-cyclical? measures, raising interest rates, starving the system of credit) would have meant the apocalyptic collapse of the international finance system. As Ben Bernanke recently said "there are no atheists in foxholes and no ideologues in financial crises". One former Federal Reserve official added, "The alternative is complete financial Armageddon and a great depression... Where do they go after this? Well, the U.S. government could nationalise the banking system outright."

Globalisation?s contradictions are pulling the whole system apart; the US reliance on ever greater volumes of debt to offset recessions caused by the over-accumulation of capital was only possible as long as there was a powerful anti-inflationary pressure created by, in particular, cheap Chinese goods and an international willingness to buy US treasury bonds, not least by China and the oil states. Now, the very development of Chinese capital has overturned the whole model. Only a major world recession, that is, a wholesale destruction of capital and, in its aftermath, no doubt, a reorganisation of the international finance market itself, can restore the conditions necessary for the capital accumulation process to resume.

Whether such conditions can be achieved and, if so, whether the recovery phase of the next cycle will be strong or not, is entirely contingent on the political and class struggles ahead. Nonetheless, we can say now that it will be impossible to re-establish the conditions that created the longer relative equilibrium of the globalisation phase. China, for example, will no doubt go through a cyclical downturn and that may have convulsive political and social consequences but, whatever happens, the country will not return to its status of twenty or thirty years ago, and neither will the USA.

The pace and scale of the capitalist crisis has tremendous consequences not only for the world economic and political order but also for the class struggle. Already, there has been a wave of resistance to price rises, particularly food prices. Workers? struggles, too, have risen in 2008. There have been one day general strikes in Greece (February), South Africa (August) India (September) Belgium (October) and an attempted general strike in Egypt (April) ? the latter was subjected to brutal repression. A wave of strikes, demonstrations and, whenever the police intervened, several days of rioting, has rocked many countries in Asia, Africa and Latin America.

Globalisation negated: deglobalisation and the weakening of US hegemony

The meltdown of the financial system and the unprecedented scale of state intervention have shaken the very foundations of the post-1980s world order that came to be known as ?globalisation?. After the collapse of the Bretton Woods system in 1972, the deliberately magnified recession 1981-2 (after the Volcker Shock of sky high interest rates), the waves of financial deregulation carried out by Reagan and Thatcher, the collapse of the Soviet Union and the restoration of capitalism in China appeared to have created a new economic order. Globalisation has proved to be a nearly two decade long historical phase marked by:

? Financial deregulation (the Big Bang of 1986) and with it a massively increased role for credit and speculation in maintaining year on year growth, particularly through the diversification of financial instruments into forms such as derivatives.
? Opening up of new markets in the non-imperialist countries, the former workers? states, to the international trade, capital and credit markets.
? Internationalisation of the productive forces, including the relocation of whole industries to cheap labour markets.
? Wholesale privatisation of state industries, public utilities and social services in the imperialist and non-imperialist world.
? Dominance of neoliberal ideology and economic policy in the imperialist countries and the imposition of such policies on the semi-colonial world through international financial institutions, such as the IMF and World Bank, dominated by the US
? Push for ?free trade? and the dismantling of tariff barriers in the semi-colonial world to the advantage of the imperialist exporters, overseen by GATT and then WTO.

In short, globalisation was a distinct period in the history of the imperialist epoch characterised by intensified capital internationalisation, trade and financial liberalisation, all made possible by the hegemony of US imperialism and its status as the single superpower following the end of the Cold War. Necessarily, however, despite an apparent stabilisation of the global economy, reproduction of capital in the period of globalisation inevitably led to the reproduction and intensification of its own economic, social and political contradictions.

Throughout the 1990s and 2000s the United States became more and more dependent on the rest of the world for its domestic wealth, as its industrial productivity declined vis-à-vis the emerging markets and its European and Japanese imperial competitors. Financial parasitism, speculation and a property boom offset stagnant domestic investment in new production, but it was an explosive cocktail building up contradictions that exploded in the 2008 crash.

The globalisation world order also created conditions favourable to the rise of powers like Russia and China, along with a stronger challenge to US hegemony from the G7 countries, too. As US economic power waned, it became more aggressive in asserting its interests and so further undermined its role as the globalisation hegemon. As a result, the United States now finds it harder to impose its will on the world. It is militarily over-stretched and has suffered reversals in Iraq, as Iranian influence on political life has increased, in Afghanistan, where the Taliban remains undefeated, and in Lebanon, where its ally Israel suffered a major military defeat in 2006. The Georgian war also revealed a renewed assertiveness on the part of Russia, leading inevitably to talk of a new Cold War between east and west. China, too, thanks to its ?economic miracle? of the last two decades, its industrial strength, increasing technical strength and military capability, is clearly also looking towards a future in which it will be able to challenge US hegemony.

The contradictions lodged within globalisation?s development thereby created contradictions that pointed to the unravelling of the world order it had created. Its eventual negation, as we are seeing now, was not extraordinary or inexplicable but could be largely anticipated. As we said with some prescience in 2004:

?But while investment remains stagnant the global economy remains utterly dependent for its dynamism on the ability of the US consumer and government to suck in goods from abroad by piling debts and deficits higher and higher. Like the stock market bubble before it, the housing market bubble and a ballooning current account deficit are unsustainable and a major correction is inevitable. A sustained and deep recession in the US would turn deglobalisation from threat to reality.?2

Sure enough, the Great Crash of 2008 is turning deglobalisation into a reality; a new phase of historical development is underway. The features of this new period of historical development are slowly coming into view and they are striking for their reversal of some of the core assumptions that have underpinned bourgeois politics throughout the globalisation phase. Firstly, the unprecedented level of state intervention, from the nationalisations to the $800 billion Paulson Plan bail out, have brought the era of ever greater financial liberalisation to a close. Indeed, as noted above, the nationalisation of a large proportion, if not all, of the banking sector in the imperialist countries cannot be ruled out. Secondly, these events constitute an historic weakening of US financial strength. Indeed, how America will finance the Paulson Plan is far from clear. It could simply print more US treasury bonds and sell these internationally but so long as the dollar is declining in value it is selling a depreciating asset on the market place.

Another possible source is the Sovereign Wealth Funds, holdings, reserves and assets built up by exporting countries such as the oil states and China. These have some $3 trillion at their disposal and have provided emergency funds for Citigroup, Merrill Lynch and Morgan Stanley during the Credit Crunch. But, as funds controlled by states, there are obvious political consequences for the Americans? using them as a source of credit. In short, who funds the American deficit and what they demand in return will be a key question in the immediate period ahead.

Thirdly, the financial meltdown comes after a revival in the use of trade tariffs and protectionism. The Doha trade round suffered irrevocable collapse due to US demands for greater access to Chinese and Indian markets in food stuffs and the dismantling of their agricultural subsidies, while insisting on defending its own tariffs and subsidies. As the price of purchasing food on the world market has sky-rocketed over the last year, a number of food producers in the semi-colonial world imposed restrictions on exports unilaterally, in open violation of trade rules, as they could not afford to buy at world market prices.

Fourthly, on the political-ideological level the Great Crash of 2008 will also have profound consequences. ?Greed works?, the mantra of neoliberal capitalism in the words of the character Gordon Gecko in Wall Street, is now discredited. The superiority of the free market, the hostility to state regulation and even nationalisation, all these central ideological assumptions of globalisation are now shattered. The need for state interference and control of the market will be increasingly accepted. This will give greater credibility to economic policies, such as Keynesianism, which seek to integrate state intervention into the market. But it will also give new legitimacy for socialism and planning and therefore open up opportunities for Marxists, too.

The unwinding of anti-competitive and cartel rules in the banking sector also expresses the crisis in accepted market orthodoxy. This is likely to be reproduced in other sectors as capital centralisation continues through the course of the crisis. By pushing Lloyds TSB into a merger with HBOS the British government, for example, had to waive its own competition rules by encouraging the formation of new private monopoly that would dominate the UK banking deposits and mortgage market. Finally, the crisis has also brought the ?nation state? back to the fore. In the 1990s, much of the mainstream globalisation literature spoke of its decline, even its extinction. While this was always wrong, it was, nonetheless, a mistaken interpretation of a real trend towards multilateralism and international regulation through institutions like the WTO, IMF, EU, et al. In times of crisis, however, ?every bourgeois government turns nationalist?. In the European Union, the powerful states, France, Britain, Germany, and Italy have held emergency bi-lateral summits, outside the EU structures, to the consternation of officials in Brussels. The Irish government also acted unilaterally by guaranteeing all deposits held in Irish banks in the event of a default by an Irish bank, sparking widespread criticism from other EU leaders unwilling to offer the same guarantees. The reason for these moves is quite simple. For imperialist and semi-colonial bourgeoisies alike it is necessary to protect their home economies and, insofar as they are able, their access to foreign markets and raw material sources, if needs be, by excluding or, at least, limiting, the access of their rivals.

In sum, deglobalisation can be understood as an emerging process, heralding a new phase of capitalist imperialism marked by the return of state intervention, protectionism and intensified competition between regional power blocks, made possible and necessary by the decline of US power. The annihilation of the leading US investment banks, the deep crisis of its financial system, the collapse of its housing market, the astronomic financial indebtedness of the US to the other powers, the desperate need to find $800 billion for the Paulson bail-out plan, all this demonstrates that the US has no longer the economic underpinning to play the role of unchallenged hegemon.

Of course, we are not witnessing the total liquidation of any hegemonic role for the US. It remains by far the most powerful single imperialist state, indeed stronger than all the others put together because of its unity and enormous military power. But we are in a period where other powers, notably the European Union, Russia and China, will increasingly be able to check it and carve out their own spheres of economic, political and military influence. This is why the new period we are entering is a period of de-globalisation: the world is becoming less the ?global village? under the dominance of one power, as it has been to a large degree since 1989, and is entering a process of regionalisation and heightened geopolitical competition. If there was a ?unipolar moment? in 1992 with the US the only world superpower following the collapse of the Soviet Union, then we could today be witnessing a ?multi-polar moment? in world history.

The political and economic landscape of the post-globalisation world order will be determined by the political and class struggles ahead. In the short term, the response of the G7 powers is to attempt to save the US from meltdown, knowing that its collapse would have a catastrophic effect on the rest of the world economy. At the same time, they will also jostle to push the worst effects of the crisis onto other states. After the crisis of 1987, America successfully exported its crisis to Japan by devaluing its currency against the Yen and boosting American exports as a result. No such solution appears possible now as the highly inter-connected character of the world trade system developed in the globalisation period binds the fates of all states much closer; hence the global character of the coming recession. Whatever the short-term policy decisions of the G7, we will not see a return of US economic hegemony, but an increasing drive to form economic blocks, spheres of influence, inter-imperialist conflicts and a sharper and more overt struggle for the re-division of the world.

Once the current crisis eventually passes, the other powers will at the very least push for a more regulated system of global finance. American military power cannot be challenged openly in the short term. Its drive to dominate the geo-strategic hot spots of the world will continue. The Middle East and Central Asia are particularly important regions, not only for their natural resources but also because aspiring world hegemonic states, such as China, India, Russia, France-Germany are all located in surrounding geographical areas and also identify its strategic importance.

Rich with revolutionary potential

There can be no doubt that these are times rich with revolutionary potential, times when millions of people will see that the system does not work in their interests. They see that while there is ?socialism? for the super-rich, ?socialism? for Wall Street, where the resources of the whole of society are used to make good billionaires? losses, there is still capitalism for workers, for small farmers and peasants and for the oppressed and destitute. For them, it is ?survival of the fittest?, ?stand on your own two feet? and ?no rewards for failure?. For them, it is ?impossible? to cancel debts, re-finance mortgages or provide a guaranteed minimum wage.

But not only has the crisis created such obvious injustices, it has also massively damaged the prestige of capitalism. The illusory idea, for so long peddled by politicians in the last period that the market, left to its own devices would create prosperity for all has been shattered. In times like these the goal of real socialism for all humanity ? the democratic organisation of production based on need, not greed ? can receive a hearing from millions.

There are, of course, major obstacles to this realisation and great dangers ahead, too. Racist, nationalist, and fascist parties, which grew over the last ten years in Europe, will be encouraged as governments and the millionaire media make ethnic and religious minorities, refugees and immigrants into scapegoats for capitalism?s problems.

The working class, too, will have to change its organisations and its leadership if it is not to suffer heavy defeats in the period ahead. Many of its traditional organisations have become almost indistinguishable from straightforward parties of big business, embracing the eternity of the market economy, handing over social welfare, education, and health to the profiteers. The continued strength of reformist ideas, of political currents that serve capitalist interests, and the stranglehold of bureaucracy, hamper resistance to the crisis and could bring serious defeats in the coming struggles. In short, there remains an acute crisis of working class leadership ? the acute need to develop new, fighting, revolutionary leadership for our struggles.

The biggest defeat would be not to fight, to imagine that quieter times will come when the crisis passes, that only little, limited, local tasks are on the order of the day. In fact, our future for years ahead will be determined by the outcome of the political and economic struggles that face us today. The task of revolutionaries in this deep crisis is to pose sharply the need for an anti-capitalist, revolutionary strategy and new, revolutionary workers? parties. Indeed, in times of such deep crisis, where the fate of capitalism is at stake, nothing but the posing of such big questions will do.

This editorial was based on a resolution passed by the International Secretariat of the League for the Fifth International in October. The document can be read at www.fifthinternational.org [1].

Endnotes

1 See Richard Brenner, The Credit Crunch ? A Marxist Analysis, London 2008
2 See Luke Cooper, Credit Crunch 2 ? Three Days that Shook the World, fifthinternational.org
3 Keith Harvey, 2004, ?Globalisation?, From Summit Sieges to Social Forums ? A Rough Guide to the Anticapitalist Movement, pp. 6 ? 10, also on www.fifthinternational.org [1] (Unfortunately Keith Harvey has since abandoned this analysis. Instead he developed a theory of globalisation as a new "long upward wave" of capitalist expansion. For a critique see ?Globalisation and the Myth of the Long Wave?, Richard Brenner, Credit Crunch ? A Marxist Analysis, 2008)
