Background Tensions within Volatile Global Capitalism

Patrick Bond

Some argue that the capitalist crisis that exploded into a financial meltdown in September-October 2008 can be traced back only a short time (to 2007), when the extreme state of banking deregulation, greed and financial trickery peaked, culminating in the burst of the U.S. real estate bubble. In contrast, I believe it is important to go much deeper into the core processes that have made capitalism as volatile as it is. If we do not, we run the risk of allowing contemporary power structures to limit our analysis and political response.

After all, the two major ideological blocs in Washington that support economic neoliberalism (i.e., the World Bank, International Monetary Fund, U.S. Treasury, U.S. Federal Reserve and associated think tanks) and political neoconservatism (i.e., the Bush regime's White House, Pentagon, State Department and think tanks) have both suffered major challenges to their legitimacy. Since corporate interests still determine a great deal of the political process in the U.S. and since Barack Obama chose to draw on both neoliberal and militarist elements of prior regimes to staff his administration, his presidency has no hope of resolving the problems. These problems, after all, have built up not only in the economic sphere, as is now so obvious, but also over a three-decade-long geopolitical process.

Aside from momentous political changes since the 1970s—the 1975 U.S. defeat by the Vietnamese guerrilla army and hence its (pre-2001) turn mainly to aerial bombing instead of occupations, the demise of the Soviet bloc in the early 1990s, Middle East wars throughout the period (including the apparent stalemate in Iraq), and the rise of China as a potent economic and political competitor to the West—the crucial prerequisite for the 2008 financial crash was the existence of a sole superpower whose ruling elite have behaved utterly irresponsibly. Yet the U.S. has also suffered much lower levels of legitimacy, dubious military and cultural dominance, slower economic growth, higher poverty and inequality, and vastly reduced financial stability over the past third of a century.

However, with the waning of the Third World nationalist project and a dramatic shift in class power away from working-class movements that had peaked during the late 1960s, it has been impossible for potential ecosocialist forces to fuse South-North and bottom-up class agendas with environmentalism. Even the early-mid 2000s rise of left political parties in Latin America—with major swings in Venezuela, Bolivia, Ecuador and Paraguay, as well as turns away from pure neoliberal economic policies in Brazil, Argentina, Uruguay and Chile—were not sufficiently powerful to alter the trajectory, or to inject ecological consciousness. The major global environmental problems—including climate change, natural disasters, depletion of fisheries and worsening water scarcity—has continued, joined by micro-environmental and public health epidemics, such as AIDS, Bovine Spongiform Encephalopathy, anthrax, drug-resistant tuberculosis and malaria, severe acute respiratory syndrome, and avian flu.

In the realm of ideology, the importance of these polarizing events and processes cannot be overstated. With the rise of neoliberal and neoconservative philosophies (formerly "modernization" and colonialism), there have been sometimes spectacular counterreactions ranging from Islamic fundamentalism and resurgent Third World Nationalism (especially in Latin America), to ineffective post-Washington Consensus and "global governance" reform proposals, to global justice movement protests.

Meanwhile, in the sphere of economics, a variety of key moments mark the rise and then decline of neoliberal policy influences across the world:

- In 1973, the Bretton Woods agreement on Western countries' fixed exchange rates disintegrated when the U.S. unilaterally ended its payment obligations.
- Also in 1973, several Arab countries led the formation of the Oil Producing Exporting Countries (OPEC) cartel, which transferred and centralized inflows from world oil consumers to their New York bank accounts ("petrodollars").
- From 1973, "los Chicago Boys" of Milton Friedman began to reshape Chile in the wake of Augusto Pinochet's coup against the democratically elected Salvador Allende, representing the birth pangs of neoliberalism.
- In 1976, the International Monetary Fund signalled its growing power by forcing austerity on Britain, even prior to Margaret Thatcher's ascent to power in 1979.
- In 1979 the U.S. Federal Reserve addressed the dollar's decline and U.S. inflation by dramatically raising interest rates, in turn catalyzing a severe recession and the Third World debt crisis.
- At the same time, the World Bank shifted from project funding to the imposition of structural adjustment and sectoral adjustment (supported by the IMF and the "Paris Club" cartel of donors), in order to assure surpluses would be drawn for the purpose of debt repayment.
- The overvaluation of the U.S. dollar associated with the Fed's high real interest rates was addressed by formal agreements between five leading governments that devalued and revalued the dollar in 1985 (Louvre Accord) and 1987 (Plaza Accord).
- Once the Japanese economy overheated during the late 1980s, a stock market crash of 40 percent and a serious real estate downturn followed from 1990, and indeed not even negative real interest rates could shake Japan from a long-term series of recessions.
- During the late 1980s and early 1990s, Washington adopted a series of financial crisis-management techniques to write off (with tax breaks) part of the $1.3 trillion in potentially dangerous Third World debt owed to money center banks.
- In late 1987, crashes in the New York and Chicago financial markets were immediately averted with a promise of unlimited liquidity by Alan Greenspan's Federal Reserve, a philosophy which in turn allowed the bailout of the savings and

loan industry and various large commercial banks in the late 1980s, followed by a recession and serious real estate downturn during the early 1990s.

- Likewise in 1998, when the New York hedge fund, Long Term Capital Management, was losing billions in bad investments in Russia, the New York Fed arranged a bailout on the grounds that the world's financial system was potentially at high risk.

- Starting with Mexico in late 1994, the U.S. Treasury's management of the mid- and late-1990s "emerging markets" crises again imposed austerity on the Third World while offering further bailouts for investment bankers exposed in various regions and countries—Eastern Europe (1996), Thailand (1997), Indonesia (1997), Malaysia (1997), Korea (1998), Russia (1998), South Africa (1998, 2001), Brazil (1999), Turkey (2001), and Argentina (2001)—whose hard currency reserves were suddenly emptied by runs.

- In addition to a vastly overinflated U.S. economy (with record trade, capital and budget deficits) whose various excesses have occasionally unravelled—as with the dot com stock market (2000) and real estate (2007) bubbles—the two largest Asian societies, China and India, picked up the slack in global materials and consumer demand during the 2000s, but not without extreme stresses and contradictions that now threaten world finances, geopolitical arrangements, and environmental sustainability.

These major events reflected deep-seated economic crisis tensions and occasional eruptions. But instead of being met with genuine resolutions, *they were merely displaced* into new geographical sites and temporal routes (paying now with credit that can be repaid later) via hyperactive financial markets. These techniques of crisis displacement worked up until September-October 2008—the "Great Crash of 2008," as it will be known. But this time, the deepening crisis may not lead to another new round of accumulation in the U.S. comparable to the post-War boom. This is because not only is there too much economic deadwood to be rapidly devalorized (as occurred with industry in Japan and Europe during World War II), but also because conditions do not exist to impose the necessary restructured social relations. In the 1940s and 50s, generalized Fordist (mass production/mass consumption) and McCarthyite politics combined with U.S. hegemony in the West. In contrast, the combination of public works promises and tax breaks on offer from Obama's supposedly Keynesian economists today will not lead to such restructured relations, and no major new source of accumulation appears to be on the immediate horizon.

Before charting a political course, it is important to get greater consensus among political economists. From our standpoint, it is crucial to not only list the political-economic problems that emerged over time (as above), but to explain why and how they occurred. Several useful approaches shed light on this history, which we can view as a function of "overaccumulation crisis" (Karl Marx); imperialism (in the sense Rosa Luxemburg used it, with capitalism undermining the noncapitalist spheres); "accumulation by dispossession" (David Harvey); and even the political "Shock Doctrine" (Naomi Klein).

In all these political economic theories, the political ecological should now be foregrounded, otherwise the capacity we have for locating these problems in the capitalist mode of production over decades of crisis-formation are only partial. Those community movements rejecting increased exploitation of natural assets—especially minerals, petroleum and agricultural commodities suffering fast-falling prices—can be linked, in the process, to social activists resisting a new wave of public-sector austerity and a new attack on labor's employment and living conditions. But we can proceed much further if we strive to improve at least one interlinked political theory, *uneven and combined development*, that can unite crisis insights from economics and ecology—and point the way to more vigorous anti-capitalist organizing strategies.