Global economic crisis

Some questions and alternatives

In the previous volume of *Labour Bulletin* **Ben Fine** explored concepts that allowed readers to understand the global economic crisis. In this issue he continues to look at some economic models which may point to a way forward from the deep recession with its drastic decline in employment levels.

In my previous article in *SALB* 33.5 I examined various concepts as a means of understanding the global recession. In this article I look at some questions that the crisis has raised and begin to examine theoretical responses.

QUESTIONS RAISED BY CRISIS

We have looked at terms that help us to understand better the global economic crisis such as globalisation, financialisation, neo-liberalism, and the Washington and post-Washington consensus. So let's turn to the economic crisis and the important questions it raises.

Each crisis has novel characteristics but the current crisis is remarkable in a number of separate respects as well as in their combination.

First, the crisis has not derived from a South Sea Island or dot.com bubble, or even stock market or commodity crashes, although there has been considerable speculative turmoil in the period leading up to the crisis. By many historical measures the current financial crisis is without precedent.

It originated from neither an industrial crisis nor an equity market crash. It was caused by the simple fact that increasing numbers of black, Latino and working-class white families in the United States were defaulting on their mortgages.

Second, no one is blaming the poor for the crash and its aftermath. Far from it, unlike previous instances of economic malfunction, excessive wages have not been targeted as causes.

Instead, finance and its excesses are blamed but must still be rescued in order to prevent an even worse impact upon the rest of us. This legitimises the rescue. Not your fault but the milk is spilt, so we have to work together to fix it with less to go around in the meantime.

Third, despite the severity, the current crisis marks the closing phase of a longer 30-year period of slowdown in capital accumulation. The crash is not the simple result of some manic, overstretched phase of accumulation whose contradictions, tensions and conflicts have induced a reaction.

Fourth, the crisis has overwhelmed even an unprecedented degree of state intervention seeking to control and temper its worst effects. That failure of policy and cooperation, reflects the complexity of asset structures and an inability to target what to rescue, by what criteria, and to what end and how.

Fifth, these economic considerations are embedded in rapidly evolving patterns of imperialism and globalisation in the wake of the Cold War. Both the strengths and the weaknesses of the US as a major power have been exposed.

The collapse of Soviet-style socialism and the weakness of progressive movements, despite some green shoots in Latin America, are striking. So is the rise of China, its conversion to capitalism and its provision of wage labourers to world capitalism that number in the millions.

Equally significant is China's peculiar relationship with the United States in terms of the major support it offers to US trade deficits. Germany and Japan have also been important in sustaining the dollar and the US deficit. The result is that the dollar has strengthened in the crisis. This is despite the extreme weakness of the US economy, and low interest rates, that would together signal collapse for any other currency in the world.

Not surprisingly, Marxist and related commentary have taken a more prominent role as capitalism commentary has been left floundering.

Armoks News

Kawasaki, the industrial bay area west of Tokyo – the concept of a developmental state came to prominence in response to Japan's success.

The issue, then, is to locate these developments within a theoretical framework. In particular, three issues need to be confronted.

First is to examine the reason for the slowdown of the past 30 years. This has happened in the face of such things as the weakness of labour and progressive movements and the expansion, flexibility and increasing female participation in the workforce, accompanied by neo-liberal dominance in policy, politics and ideology.

Without an explanation for the slowdown, it is impossible to explain why this financial crisis has been so severe, and what is the nature of the crisis beyond its immediate causes.

Second is how to locate the role of class struggle in the crisis when it seems removed from the point of production. Of course, one of the mantras of neo-liberalism is 'flexibility' in labour markets, and that flexibility is in reality imposed through state intervention on behalf of capital through legislation and where necessary, authoritarianism.

This flexibility in labour markets has gone hand-in-hand with the declining strength of working-class organisation and activism. Also the presence of organised labour has been considerably weakened through de-politicisation and privatisation.

This poses an analytic and a strategic challenge. Before the crisis, these weaknesses in working-class organisation were at times addressed in terms of the emergence of new social movements and the end of the working class and capitalism as we know them.

Third we need to unravel the significance of financialisation and its relationship to real, productive accumulation of capital.

ALTERNATIVES: DEVELOPMENTAL STATE

Are South Africa, Botswana and Mauritius developmental states? Is South Korea still a developmental state, and indeed was it ever one? The development state paradigm (DSP) sheds some light on these economies but it is a flawed approach.

What content do we put into the idea of the developmental state? The DSP has a long tradition but the concept achieved prominence in response to the success of Japan and especially East Asians such as South Korea, Taiwan, Hong Kong as a critique of the Washington consensus in the 1980s.

The DSP places an emphasis on high levels of state intervention to achieve economic development. It draws on states that achieved high growth such as Japan where the state actively intervened.

There are two schools of thought in the DSP. The economic school is antagonistic to neo-liberalism but has a more woolly position in relation to the post-Washington consensus. The post-Washington consensus seeks to limit state involvement in the economy to supporting the functioning of the market alone, while the developmental state model believes in more systemic state intervention to bring about development together with developmental institutions and policies.

The political school, however, questions whether the state has the capacity to intervene successfully. To do so, the state it believes needs to be autonomous from certain economic interests that may oppose development. This approach seeks to understand what makes a state developmental and for example what kind of civil service is needed to serve this goal.

In the DSP it is not sufficient to combine a market economy with developmental aims. There must be wholly different economic and ideological underpinnings.

My view is that there needs to be a clear understanding of the economic and political interests at play and how these are represented through the state and the market. The DSP is self limiting as it only focuses on industrial development and does not encompass such areas as agriculture, the environment and welfare needs.

The DSP also does not look at the early stages of economic development and how agrarian societies became industrial. This shows a theoretical weakness which omits examining the evolving nature of class.

Yet despite these observations the developmental state paradigm is critical in that it demonstrates that development and industrialisation have only been achieved through

extensive state intervention (although this is not a guarantee for success). The issue is, though, in whose interests will developmental policies be adopted and through what forms of democratic participation.

ALTERNATIVES: MACRO-POLICY

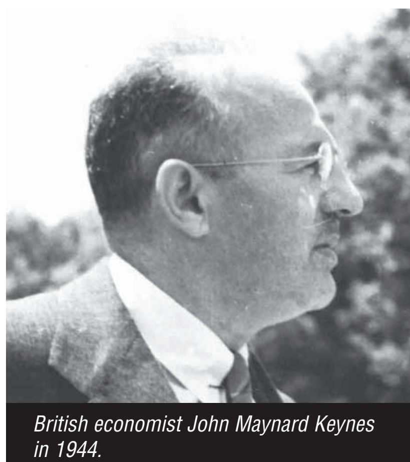
Macro-economic policy has been organised around inflation targeting, freedom of capital markets and the flow of capital, and the independence of the central bank. These all supported financialisation whose damaging effects are now plain.

Such policies have now been abandoned in the interest of rescuing finance.

Now we need alternative policies on each of the above. We need to challenge the separation in thought and policy between micro-and macro-economic visions. The prevailing idea is that if you get the macro-economics right the micro will follow. In fact the two should be pursued inextricably together.

In South Africa, as in many parts of the world, the macro-economy has been driven by financialisation and has not take account of developmental goals. This needs to change.

How macro-policy is redesigned will differ from country to country.


Bretton Woods

British economist John Maynard Keynes in 1944.

In the present economic crisis redesigning macro-policy has seen a return to a debate around Keynesian economics. Keynesian theory was popular in post-second World War and it argued that active intervention by governments in the market was the best method to ensure economic growth and stability.

After the collapse of the post-war boom in the 1970s, Keynesianism gave way to monetarism as the economics underpinning neo-liberalism. The idea was that markets work perfectly and the primary responsibility of governments is to get the money supply right to take care of inflation. Monetarist policies emphasise that government intervention in the economy is only useful through such mechanisms as the central bank to determine the size and rate of growth of the money supply, which in turn dictates interest rates. As a result, monetarism is associated with high rates of unemployment and sees this as inevitable.

By contrast, Keynesians were much more concerned with eradicating unemployment believing that government expenditure should create higher levels of employment. This was accompanied by support for a welfare state within the capitalist system, with welfare expenditure serving as a useful economic tool, or regulator, to help balance the economy in times of recession.

The current renewal of interest in Keynesian theories opposes the form of monetarism that dominates neo-liberal practices which downgrades the role of the state in the economy.

But, this new interest in Keynesian ideas is more diluted than in the past, with monetarist influences remaining strong. Much more emphasis has been placed on rescuing the economy through monetary measures than more extensive state intervention to generate economic activity and employment directly. So vast sums have been poured into the financial system rather than into job creation and service provision.

So there is a re-emergence of elements of Keynesianism which includes rising government deficits. However we need to ensure that increased state intervention leads to an expansion of real output and a substantial growth in employment as opposed to a few super wealthy individuals hoarding profits and the increasing risk of more financial instability.

We also have to recognise that there were other factors besides Keynesianism which underpinned the post-war economic boom. These included activist promotion in health, education, welfare and industrial policies, which included public ownership in expanding industrial production

So any return to a Keynesian model will be too little and will also be under the threat of financial interests wishing to return to business as usual. We need policies to deploy finance in a direct way on such things as welfare and the production of real goods rather than basing the economy on speculative financial institutions. The question is: If banks won't cooperate in this, why support them? LB

Ben Fine is professor of Economics at the School of Oriental and African Studies at the University of London. This is the second of a three-part series which examines the global economic crisis and looks at alternatives. In the next SALB, Fine will explore industrial and social policy and raise questions that need clarifying before we can move out of the current economic mess. These articles are based on lectures given to a Global Labour University workshop in Johannesburg in October 2009.