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The Capitalist Conjuncture: over-accumulation, financial crises, and the retreat from globalisation

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ABSTRACT *This article argues that the key crisis that has overtaken today's global economy is the classical capitalist crisis of over-accumulation. Reaganism and structural adjustment were efforts to overcome this crisis in the 1980s, with little success, followed by globalisation in the 1990s. The Clinton administration embraced globalisation as the 'Grand Strategy' of the USA, its two key prongs being the accelerated integration of markets and production by transnational corporations and the creation of a multilateral system of global governance, the pillars of which were the World Trade Organization, the International Monetary Fund and the World Bank. The goal of creating a functionally integrated global economy, however, stalled, and the multilateral system began to unravel, thanks among other things to the multiple crises created by the globalisation of finance, which was the main trend of the period. In response partly to these crises, partly to increasing competition with traditionally subservient centre economies, and partly to political resistance in the South, Washington under the Bush administration has retreated from the globalist project, adopting a nationalist strategy consisting of disciplining the South through unilateralist military adventures, reverting to methods of primitive accumulation in exploiting the developing world, and making other centre economies bear the brunt of global adjustments necessitated by the crisis of over-accumulation.*

During the annual spring meetings of the World Bank and the International Monetary Fund in April 2006 Sebastian Mallaby, the influential economic columnist of the *Washington Post*, made this observation:

> A few years ago, anti-globalization rioters were clogging the streets, disrupting meetings of the world's multilateral organizations. Today, something more serious is afoot. The protesters have mercifully vanished, but international institutions are in disarray. Anti-globalization may have lost its voice, but so has globalization.[1]

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Noting that 'trade liberalization has stalled, aid is less coherent than it should be, and the next financial conflagration will be managed by an injured fireman', he concluded that 'the great powers of today are simply not interested in creating a resilient multilateral system'.[2]

In fact, globalisation has not only 'stalled', as Mallaby puts it; it is going into reverse. And it is not just the key institutions of global economic governance such as the World Bank, the World Trade Organization (WTO) and the IMF that are in crisis but the deeper structures and processes of what was formerly seen as an inevitable phenomenon. What was seen, by many people on both the left and the right, as the wave of the future—that is, a functionally integrated global economy marked by massive flows of commodities, capital and labour across the borders of weakened nation-states and presided over by a 'transnational capitalist class'—has retreated in a chain reaction of economic crises, growing inter-capitalist rivalries and wars. Only by a stretch of the imagination can the USA under the George W Bush administration be said to be promoting a 'globalist agenda'.

Globalisation was no mirage. But in retrospect, rather than being a new, higher phase of capitalism, it was in fact a reaction to the underlying structural crisis of capitalism, something that was masked in the early 1990s by the collapse of the centralised socialist regimes in Central and Eastern Europe. Fifteen years on, globalisation seems to have been a desperate effort by global capital to escape the stagnation and disequilibria overtaking the global economy in the 1970s and 1980s rather than the Brave New Phase in the capitalist adventure promised by Margaret Thatcher when she coined her famous slogan TINA—that is, 'There is no alternative' to capitalism. The promise of globalisation, like the promise of the New Economy with which it was associated, was largely stillborn.

The crisis of globalisation and over-accumulation is one of the three central crises that are currently eroding US hegemony. The other two are the over-extension of US military power and the crisis of legitimacy of liberal democracy. All three have been discussed in *Dilemmas of Domination: the Unmaking of the American Empire*.[3] This article is an effort to extend and deepen the analysis one of these crises: that of over-accumulation.

End of the long boom

The period from 1945 to 1975 was marked by relatively high growth rates as Keynesian policies institutionalised the reinvigoration of capitalism that had been brought on by the state-led war economies during the second world war. Also known as the Fordist model of production, the postwar capitalist economy involved significant state intervention and regulation and rested on a class compromise between Big Capital and Big Labour—a compromise that was expressed in relatively high wages that translated into expanding demand that fuelled growth. Most of the newly independent countries also adopted varieties of state-assisted capitalism. The result was what is now seen in retrospect as the 'long boom' of the international economy.

To some analysts this boom was a manifestation of the 'A Phase' of the so-called Kondratieff Wave, where growth was triggered partly from the civilian application of technologies developed during the second world war in key industries such as aviation, metals and information technology.

The long boom came to an end in the 1970s; one of its main manifestations was the 'stagflation' or stagnation-cum-inflation—a phenomenon that was not supposed to occur in Keynesian economic theory—that overtook the Northern economies, in particular the US economy. The period of state-supported 'import substitution industrialisation' also ran into trouble in the South, with stagnation, inflation and massive indebtedness combining to reverse trends on the reduction of poverty and inequality.

From the early 1980s on competition rather than synergy or complementarity became the principal aspect of the relations among the key Northern economies. The key cause of this development was capitalism's classic crisis of overproduction, over-investment, and over-capacity, meaning the emergence of too much productive capacity globally relative to global demand, resulting in a decline in the rate of profit. Also contributing to stagnation was the end of the profitable exploitation of the new technologies of the post-second world war era, leading the international economy to the so-called 'B phase' of the Kondratieff Wave, the main features of which were, as Wallerstein pointed out:

> the slowdown of growth in production, and probably a decline in per capita world production; a rise in rates of active waged work unemployment; a relative shift of loci in profits, from productive activity to gains from financial manipulations; a rise of state indebtedness; relocation of 'older' industries to lower-wage zones; a rise in military expenditures, whose justification is not really military in nature but rather that of countercyclical demand creation; falling real wages in the formal economy; expansion of the informal economy; a decline in low-cost food production; increased 'illegalization' of interzonal migration.[4]

Growth in one centre economy became dependent on recession in another, and with the generalised adoption of floating exchange rates after the Nixon administration abandoned the gold–dollar peg in 1971, currency manipulation became a key instrument of competition, with the USA, for instance, seeking to reflate its economy by pushing the revaluation of the Japanese yen. This made Japanese imports to the USA more expensive in dollar terms and made production in high-wage Japan increasingly non-competitive, forcing the Japanese to shift a significant part of their manufacturing operations to Southeast Asia and China.

Monetary manipulation, via the high interest rate regime initiated by Federal Reserve Chief Paul Volcker in the late 1980s, while directed at fighting inflation, was also geared strategically at channelling global savings to the USA to fuel economic expansion. One key consequence of this momentous move was the Third World debt crisis of the early 1980s, which ended the boom of the economies of the South and led to their

resubordination to the Northern capitalist centres. As Carlos Diaz Alejandro put it:

> What could have been a serious but manageable recession has turned into a major development crisis unprecedented since the early 1930s mainly because of the breakdown of international financial markets and an abrupt change in the conditions and rules for international lending.[5]

Latin America, for instance, changed from being a net capital importer, enjoying positive net resource transfers of 2%–3% of GDP, into a net capital exporter, haemorrhaging net negative transfers of 4%–5% of GDP.[6]

In an effort to regain 'international competitiveness', the USA and UK, under Ronald Reagan and Margaret Thatcher, respectively, adopted neoliberal, free-market policies aimed at ending the Keynesian class compromise, rolling back state participation in and regulation of production, reducing protectionism in trade policies, and ending capital controls. The result was an increase in inequality in the key Northern economies, but without their regaining the high growth rates of the first two decades after the war that neoliberal economists had hoped for.

The search for profitability amid stagnation pushed the USA and the other centre economies, via the World Bank and the IMF, to resubordinate the economies of the South through pro-market structural adjustment policies. The dismantling of developmental states in much of the South deepened and consolidated the comprehensive crisis of the developing world that was ushered in by Volcker's high interest rate regime.

The trend towards global stagnation was striking. Angus Maddison's statistical work—regarded as the most reliable—shows that the annual rate of growth of global GDP fell from 4.9% in 1950–73 to 3% in 1973–89, a drop of 39%.[7] The United Nations confirmed this trend, estimating that world GDP grew at an annual rate of 5.4% in the 1960s, 4.1% in the 1970s, 3% in the 1980s, and 2.3% in the 1990s.[8]

The decline in corporate profitability that accompanied this trend was equally striking, with the profit rate of the largest 500 US transnational corporations falling drastically from +4.70 in 1954–59 to +2.04 in 1960–69 to −5.30 in 1980–89, −2.64 in 1990–99 and −1.92 in 2000–02.[9] Behind these figures, notes Philip O'Hara, is the spectre of overproduction: 'Oversupply of commodities and inadequate demand are the principal corporate anomalies inhibiting performance in the global economy'.[10]

Clinton and the globalist project

The reign of the Democratic Party led by Bill Clinton appeared to portend a break with this pattern of low and erratic growth. The US economy moved into an eight-year boom that many interpreted as a sign that it had become a 'New Economy' impermeable to the cycle of boom-and-bust. The administration embraced globalisation as its 'Grand Strategy'—that is, its fundamental foreign policy posture towards the world. The accelerated integration

of production and markets, based on a faith in the efficacy of minimally regulated markets, was felt to play to the strengths of US corporations. As the director of intelligence of the National Security Council saw it:

> The United States can benefit immensely from this shift because we are well placed to thrive in a globalized political economy. Indeed, a globalized society of market states plays into and enhances American strengths to such a degree that it worries some states that the United States will become so dominant that no other state will be able to catch up to it.[11]

The dominant position of the USA allowed the liberal faction of the US capitalist class to act as a leading edge of a transnational ruling elite in the process of formation—a transnational elite alliance that could act to promote the comprehensive interest of the international capitalist class. It appeared to demonstrate this capacity when it pursued the strong dollar policy, one that was meant to revive the economies of Japan and Germany, even if this was not in the short-term interest of many US corporations that had to compete against cheaper Japanese and German products. Thriving markets in Japan and Europe, however, were ultimately beneficial for US capital in terms of providing healthy, expanding export markets, and this is what the Clintonites had as a strategic aim.[12]

The Clinton conjuncture was captured by Stephen Gill when he called attention to the emergence of a 'neoliberal historical bloc that practices a politics of supremacy within and across nations'.[13] Gill called this a politics of supremacy instead of hegemony because this historical bloc was able to gain only a fragile legitimacy for the globalist project. Thus, while neoliberal globalisation brought about 'a growth in the structural power of capital, its contradictory consequences mean that neoliberalism has failed to gain more than temporary dominance in our societies'.[14]

Achieving hegemony and not simply supremacy was nevertheless a major concern, and a major thrust of the Clinton administration was geared towards institutionalising the emerging neoliberal global order, that is, to make its functioning independent of the coercive power of the hegemon. Its crowning achievement in this area was the founding of the WTO in 1995. A product of eight years of negotiations, but negotiations conducted principally between the USA and the EU, the WTO was the most ambitious effort to codify trade rules in order to consolidate a free trade regime globally that responded to corporate profitability. The WTO was the key project of what Gill called the 'New Constitutionalism', that is, the 'legalization' of neoliberal principles in order to make a relapse into the old protectionism very difficult, if not impossible.[15]

Meanwhile, the IMF sought the dismantling of capital controls world-wide by making capital account liberalisation one of its articles of association. The IMF and the WTO, along with the World Bank, were seen by the transnational class alliance as the key pillars of the system of global governance of the neoliberal global order. At the Singapore Ministerial of the WTO in 1996 the challenge of the future was defined by the three agencies as the achievement

of 'coherence—the technocratic integration of their policies and their co-management of the global economy in the direction of freer and freer capital and commodity markets.

Finance capital and its contradictions

The transnationalisation of production via the outsourcing of different phases of the production process was expected to be the central dynamic of the era of globalisation. But, in fact, the dominant dynamic of global capitalism during the Clinton period—one that was the source of its strength as well as its Achilles' Heel—was not the movement of productive capital but the gyrations of finance capital.

The centrality of finance capital was a result of the declining profitability of industry brought about by the crisis of overproduction. By 1997 profits in US industry had stopped growing. Financial speculation, or what one might conceptualise as the squeezing of value from already created value, became the most dynamic source of profitability. The 'financialisation' of global capital that drove the Clinton period's eight-year boom had several key dimensions:

- Elimination of restrictions dating back to the 1930s that had created a Chinese Wall between investment banking and commercial banking in the USA opened up a new era of rapid consolidation in the US financial sector.
- The creation of a whole host of new financial instruments, such as derivatives, which monetised and traded risk in the exchange of a whole range of commodities. The 1990s ushered in a 'world where practically anything can be traded, from weather predictions to broadband Internet connections to forecasts involving the housing market'.[16] Enron exemplified the firm that detached itself from producing and trading on any one commodity to trading and profiting on risk in a large number of unrelated commodities.
- The creation of massive consumer credit to fuel consumption, with much of the source of this capital coming from foreign investors. While stimulating the economy in the short run, this created a dangerous gap between the consumers' debt and their income, opening up the possibility of consumer collapse or default that would carry away both consumers and their creditors—a possibility that was a constant preoccupation of the IMF.[17]
- The salient role of the stock market in driving growth, a phenomenon labelled by Robert Brenner as 'stock market Keynesianism'. Stock market activity drove, in particular, the so-called technology sector, creating a condition of 'virtual capitalism' whose dynamics were based on the expectation of future profitability rather than on current performance, which was the iron rule in the 'real economy'. The workings of virtual capitalism were exemplified by the rapid rise in the stock values of internet firms such as Amazon.com, which by 2001 had not yet turned a

profit. Once future profitability rather than actual performance became the driving force of investment decisions, Wall Street operations became indistinguishable from high-stakes gambling in Las Vegas, leading some observers to coin the term 'casino capitalism'.
- The elimination of capital controls among economies, to enable speculative capital to move quickly to take advantage of differentials in value of currencies, stocks and other financial instruments. This resulted in the emergence of a truly unified global capital market, whose operations were, thanks to the advances in information technology, carried out in 'real time'. Special targets of capital account liberalisation in the 1990s by the IMF and the US Treasury Department were the Asian economies, which Northern finance capital was eager to enter in order to get its share of their seemingly endless growth.

Yet, even before the decade was over, the contradictions of global financial capital had caught up with it.

Perhaps most dramatic was the bursting of the Wall Street bubble in 2000–01, which ended speculation that the USA had developed a recession-proof 'New Economy'. The dizzying rise in market capitalisation of non-financial corporations, from $4.8 trillion in 1994 to $15.6 trillion in the first months of 2000, represented what Robert Brenner called an 'absurd disconnect between the rise of paper wealth and the growth of actual output, and particularly of profits, in the underlying economy'.[18] But the law of gravity was not to be defied. With the profitability of the financial sector dependent on the actual profitability of the manufacturing and industrial sector, stock prices had to fall back to their real values. An astounding $7 trillion in investor wealth was wiped out in the collapse of 2001–02. This massive loss of paper wealth represented the rude reassertion of the reality of a global economy crippled by over-capacity, overproduction and lack of profitability. With the mechanism of 'stock market Keynesianism'—that is, reliance on speculative activity in the financial sector to drive growth—'broken and perhaps beyond repair',[19] the economy plunged into recession in 2001 and 2002, and crawled into an era of weak and jobless growth.

Speculative crises marked the deregulation of finance capital in different parts of the world, and one crisis in one market touched off another in another market in an increasingly unified global market. The rush of speculative investors into Mexico forced a real appreciation of the Mexican currency, provoking a massive current account deficit as Mexican exports got more expensive in foreign markets and foreign imports cheaper in Mexico. This triggered a speculative attack on the peso that had investors in panic cashing their pesos for dollars, leading to the devaluation and collapse of the Mexican economy in 1994.

Essentially the same dynamics unfolded in East Asia in 1997. One hundred billion dollars in speculative capital flooded into the region between 1994 and 1997 as countries liberalised their capital accounts. Seeking a quick and high return, most of this money went into choice sectors such as real estate and the stock market, resulting in over-investment and a chain reaction of economic

dislocations. Smelling crisis in the air, hedge funds and other speculators targeted the Thai baht, Korean won and other currencies, triggering a massive financial panic that led to the drastic devaluation of these currencies and laid low Asia's tiger economies. In a few short weeks in the summer of 1997 some $100 billion rushed out of the Asian economies, leading to a drastic reversal of the sizzling growth that had marked those economies in the preceding decade. In less than a month, some 21 million Indonesians and one million Thais found themselves thrust under the poverty line.[20]

The Asian financial crisis helped precipitate the Russian financial crisis in 1998, as well as financial troubles in Brazil and Argentina that contributed to the spectacular unravelling of Argentina's economy in 2001 and 2002, when the economy that had distinguished itself as the most faithful follower of the IMF's prescriptions of trade and financial liberalisation found itself forced to declare a default on $100 billion of its $140 billion external debt.

Financial volatility promised to continue in a world where, despite a chain reaction of speculative crises, there was no serious move to re-regulate finance capital's central role in the new global economy. As Robert Rubin, Clinton's Secretary of the Treasury, asserted in 2003, 'Future financial crises are almost surely inevitable, and could be even more severe. The markets are getting bigger, information is moving faster, flows are larger, and trade and capital markets have continued to integrate . . . It's also important to point out that no one can predict in what area—real estate, emerging markets, or whatever else—the next crises will occur.'[21]

Globalisation stalls and multilateralism unravels

Paradoxically, while financial integration advanced, the integration of production that would create one borderless world economy marked by weakened states and under the direction of one dominant transnational faction of the international capitalist class stalled. As Hirst and Thompson demonstrated in their classic work *Globalization in Question*, truly global TNCs are relatively few, with most continuing to have the bulk of their production and sales in national or regional markets rather than spread out globally.[22]

While states in the South were weakened by structural adjustment programmes, states in the North, particularly the USA and those in Europe, remained significant economic actors tied to advancing the interests not of an increasingly fragile alliance of transnational capitalist fractions but of the more nationalistic or more regionally oriented sections of their national capitalist classes. This was also the case in China, where the power and influence of the Chinese state over economic activities grew rather than diminished with China's integration into the international economy.

Despite much speculation about the consequences of outsourcing, what was taking place was not so much the emergence of one functionally integrated global economy but a process that was pretty much along the lines of what David Held and Anthony McGrew described as the 'sceptical' position: while relocation of industrial facilities and outsourcing of services

escalated, what was occurring was not the advent of a qualitatively new stage of capitalism but 'an intensification of linkages between discrete national economies . . . [wherein] internationalization complements rather than displaces the predominantly national organization and regulation of contemporary economic and financial activity, conducted by national or local public and private entities'.[23]

The stalling of the structural processes of globalisation at the level of production was accompanied by a deep crisis of legitimacy of the much vaunted multilateral system that was supposed to govern global production, trade, finance and development.

The IMF, the agency that was supposed to be the lynchpin of the global financial system in the new global order, was undergoing a severe crisis of legitimacy. The Fund never recovered from the Asian financial crisis, when it 'lost its legitimacy and never recovered it', as one former IMF staff member put it.[24] The Fund suffered three devastating hits during the crisis. First, it was seen as being responsible for the policy of eliminating capital controls that many of the governments of East Asia followed in the years preceding the crisis.

The second hit was the widespread perception that the multibillion rescue packages assembled by the IMF for the afflicted countries did not actually go to rescuing the economies but to paying off foreign creditors and speculative investors. Citibank, for instance, though heavily overexposed in Asia, did not lose a cent in the crisis. These scandalous developments led to strong criticism of the IMF, even from free-market partisans such as George Shultz, Secretary of State under Richard Nixon, who said that the Fund was encouraging 'moral hazard', or risk-free investment and lending, and should therefore be abolished.

The third blow to the Fund sprang from the results of the stabilisation programmes it pushed on the crisis economies. With their wrongheaded emphasis on cutting back on government spending in order to fight the wrong enemy—inflation—these programmes actually accelerated the descent of these economies into recession. In a manner similar to the way Volcker's high interest rate regime impacted on the indebted Latin American countries in the early 1980s, the IMF turned what should have been a manageable crisis into an economic catastrophe. The Asian governments were all the more bitter since the Fund, colluding with the USA, had, at the height of the crisis, vetoed the creation of an 'Asian Monetary Fund' that would have provided loans with relatively loose conditions that would have allowed them to surmount the crisis.

The Fund went from one institutional disaster to another. The Russian financial crisis in 1998 was attributed partly to its policies, as was Argentina's economic collapse in 2002. By 2006 the IMF, according to the Governor of the Bank of England, had 'lost its way'.[25]

The World Bank, the second pillar of the global multilateral order, was also under assault after a decade of failed reform under Clinton appointee James Wolfensohn, who sought to make the Bank the spearhead of the neoliberal transformation of developing countries. Structural adjustment

programmes that it had imposed on over 90 developing countries and post-socialist economies and co-managed with the IMF resulted most often in more poverty, more inequality and stagnation. A commission appointed by the US Congress called for devolving the Bank's lending operations to other organisations after finding out that, by the Bank's own assessments, the failure rate for its projects in the poorest countries was 65%–70% and 55%–60% in all developing societies.[26] The Bank was also accused of abetting corruption in Indonesia and Kenya. And when George Bush appointed Paul Wolfowitz head of the Bank to replace Wolfensohn in 2005, the move led to further erosion of the Bank's multilateral image, since Wolfowitz, former US deputy secretary of defence, was widely seen as one of the key architects of the war in Iraq and his appointment was regarded as a move to tie the Bank more closely to the USA's strategic policies.

Perhaps the most serious threat to the multilateral order was that to posed to the WTO, which had been described by one former director general as the 'jewel in the crown of multilateralism'.[27] The outlook for the WTO a decade after its founding was much less rosy. A *de facto* alliance between developing countries resistant to further trade liberalisation and civil society networks critical of the subordination of social and environmental concerns to corporate trade, plus increasing competition between the USA and the EU, triggered the dramatic collapse of the third ministerial of the WTO in Seattle in 1999 and the fifth ministerial in Cancun in 2003. A third collapse in Hong Kong was barely averted in December 2005, but the unravelling of a desperate effort to arrive at a deal that would conclude the Doha Round of negotiations among the so-called G6 in July 2006 practically ensured this outcome. With its authority fading, the future of the WTO as the main engine of corporate-driven free trade was in doubt, as was the future of neoliberal globalisation.

Reflecting the worries of the establishment, *Washington Post* commentator Sebastian Mallaby laid out a bleak picture for the future of the multilateral system after the spring 2006 meetings of the World Bank and the IMF:

> The troubles at the IMF, World Bank, and World Trade Organization are paradoxical. It's not that the underlying forces of globalization have gone limp; it's that nobody wants to invest political capital in global institutions. Trade is expanding, and bilateral trade deals sprout like weeds; but governments don't find the multilateral Doha talks to be a congenial setting in which to reduce tariffs. Equally, aid is expanding; but too much of the new money is flowing through uncoordinated bilateral channels rather than through the World Bank. International financial flows continue on a massive scale; but countries don't seem interested in sustaining the IMF in its historical role as the insurer against crises.[28]

Persistence of overproduction

The chain of crises since the last years of the Clinton era have been, in the view of many analysts, a reassertion of the underlying crisis of over-accumulation and under-consumption that was papered over by the superficial boom in the USA, Asia, and Europe in the first part of the

1990s. On this, there is an interesting convergence between Marxists and the IMF, a point noted by analyst Ho-fung Hung.[29] As Raghuram Rajan, the director of the IMF's research centre, put it recently: 'I see the problem as the world investing too little. The current situation has its roots in a series of crises over the last decade that were caused by excessive investment, such as the Japanese asset bubble, the crises in Emerging Asia and Latin America, and most recently, the IT bubble. Investment has fallen off sharply since, with only very cautious recovery.'[30]

Over-capacity was in fact a constant feature of the New Economy, even at its height. The crisis was particularly severe in the core industries. In the USA the computer industry's capacity was rising at 40% annually, far above projected increases in demand. The world auto industry was selling just 74% of the 70.1 million cars it made each year, creating a profitability crunch for the weakest players, like former giant General Motors, which lost $10.6 billion in 2005.[31] In steel excess capacity neared 20%.[32] It was estimated, in volume terms, to be an astounding 200 million tons, so that plans by steel producing countries to reduce capacity by 100 million tons by 2005 would still leave 'a sizeable amount of capacity which . . . would not be viable'.[33] And, according to the former General Electric Chairman Jack Welch, 'there was excess capacity in almost every industry'.[34] By the turn of the century, the gap between global capacity and sales was, said *The Economist*, the largest since the Great Depression.[35]

Globalisation and financialisation were mechanisms designed to escape the inexorable pressures of over-accumulation and overproduction. In fact they worsened it.

The spur to over-capacity provided by hothouse finance was strikingly evident in the telecommunications industry, where aggressive Wall Street financial intermediaries linked capital-flush investors with capital-hungry techno-entrepreneurs, all three interests united by a naïve faith in a high-tech boom that they expected would go on and on. The supply of capital rather than real demand was driving investment decisions, and the telecom firms 'were soon laying tens of millions of fiber-optic cable across the [USA] and under the oceans'.[36] By spring 2000 the market capitalisation of telecom firms had reached $2.7 trillion, close to 15% of the total for non-financial corporations. The result of this over-capitalisation was a 'mountainous glut: the utilization rate of telecom networks hovers today at a disastrously low 2.5–3 per cent, that of undersea cable at just 13 per cent'.[37]

Not surprisingly, profits plunged drastically from a peak of $35.2 billion in 1996, the year the industry was deregulated, to $6.1 billion in 1999, and then to -$5.5 billion in 2000. Once the darlings of Wall Street deal makers like Salomon Barney Smith and Merrill Lynch, the telecom firms led the way to high-profile bankruptcy: Global Crossing, Qwest, and Worldcom.

Overaccumulation and the China problem

But probably the most serious single factor worsening the global over-capacity and over-accumulation crisis was a development that was one of the

main achievements of the globalist project: the integration of China into the international economy.

On the one hand, China's 8%–10% growth rate per annum has probably been the principal stimulus of growth in the world economy in the past decade. In the case of Japan, for instance, a decade-long stagnation was broken in 2003 by the country's first sustained recovery, fuelled by exports to slake China's thirst for capital and technology-intensive goods; exports shot up by a record 44%, or $60 billion.[38] Indeed, China became the main destination for Asia's exports, accounting for 31% while Japan's share dropped from 20% to 10%. As one account pointed out, 'In country-by-country profiles, China is now the overwhelming driver of export growth in Taiwan and the Philippines, and the majority buyer of products from Japan, South Korea, Malaysia, and Australia'.[39]

On the other hand, China became a central contributor to the crisis of global over-capacity. Even as investment declined sharply in many economies, particularly in Japan and other East Asian countries, in response to the crisis of excess capacity,[40] it increased at a breakneck pace in China. Investment in China was not just the obverse of disinvestment elsewhere, although the shutting down of facilities and sloughing off of labour was significant not only in Japan and the USA but in the countries on China's periphery like the Philippines, Thailand, and Malaysia. *China was significantly beefing up its industrial capacity and was not simply absorbing capacity eliminated elsewhere. At the same time, the ability of the Chinese market to absorb its industrial output was limited.*

A major actor in over-investment was transnational capital. Originally, when TNCs moved to China in the late 1980s and 1990s, they saw it as the last frontier, the unlimited market that could endlessly absorb investment and endlessly throw off profitable returns. However, investment in many cases turned into excess investment because of China's restrictive rules on trade and investment, which forced transnationals to locate most of their production processes in the country instead of outsourcing only a selected number of them. This is what analysts termed the 'excessive internalisation' of production activities by transnationals.[41]

By the turn of the millennium the dream of exploiting a limitless market had vanished. Foreign companies headed for China not so much to sell to millions of newly prosperous Chinese customers as to make China a manufacturing base for global markets, taking advantage of its inexhaustible supply of cheap labour. Typical of companies that found themselves in this quandary was Philips, the Dutch electronics manufacturer. Philips operates 23 factories in China and produces about $5 billion-worth of goods, but two-thirds of their production is not consumed in China but exported to other countries.[42]

The other set of actors promoting over-capacity was local governments which invested in and built up key industries. While these efforts are often 'well planned and executed at the local level', notes analyst Ho-fung Hung, 'the totality of these efforts combined . . . entail anarchic competition among localities, resulting in uncoordinated construction of redundant production capacity and infrastructure'.[43]

The result is that idle capacity in such key sectors as steel, automobile, cement, aluminium and real estate has been soaring since the mid-1990s, with estimates that over 75% of China's industries are currently plagued by overcapacity and that fixed asset investments in industries already experiencing over-investment accounts for 40%–50% of China's GDP growth in 2005.[44] The State Development and Reform Commission projects that automobile production will more than double what the market can absorb by 2010.[45] The impact on profitability is not to be underestimated if we are to believe government statistics: at the end of 2005 the average annual profit growth rate of all major enterprises had plunged by half and the total deficit of losing enterprises had increased sharply by 57.6%.[46]

Excess capacity could have been overcome had the Chinese government focused on expanding people's purchasing power via a policy of income and asset redistribution. Doing so would have meant a slower process of growth but a more stable one. China's authorities, however, chose a strategy of dominating world markets by exploiting the country's cheap labour. Although China's population is 1.3 billion, 700 million people—or over half—live in the countryside, earning an average of just $285 a year, serving as an almost inexhaustible source of cheap labour. Because of this reserve army of rural poor, manufacturers, both foreign and local, have been able to keep wages down. The negative social and economic impacts of this strategy are well described by Ho-fung Hung:

> Under the post-Tiananmen consensus among the ruling elite, the Communist Party single-mindedly pursues rapid economic growth without directing much attention to the alleviation of social polarization. Class, urban–rural, and inter-regional inequalities expanded hand in hand with the economic miracle. Poverty spreads and intensifies in the rural inland area and the old bastions of state industry are besieged by extensive unemployment. The peasants-turned-workers in the coastal boom towns are not doing much better. Owing to the colossal size of the pool of surplus labor and the 'despotic factory regime' under the auspices of the party-state, industrial wage growth amid China's economic miracle is dismal in comparison with the growth of manufacturing wages in other East Asian NICs during their miraculous moment. During the most explosive phase of takeoff, South Korea and Taiwan remained modestly equalitarian societies... In contrast, China's gini-coefficient has ascended from 0.33 in 1980 to more than 0.45 today. The pattern of income distribution in China's development is more reminiscent of the Latin American experiences than the East Asian ones, so much so that some begin to forewarn of the 'Latin Americanization of China'.[47]

Aside from being potentially destabilising politically, this wealth concentration in a few and the relative immiseration of the vast majority 'impedes the growth of consumption relative to the phenomenal economic expansion and great leap of investment'.[48] This has meant, among other things, an exacerbation of the crisis of overproduction in that a significant amount of China's industrial production has been dumped on global markets constrained by slow growth.

The global macroeconomic picture today

The accumulation of crises rooted in persistent overproduction culminated in the stock market collapse, recession and weak recovery-cum-jobless-growth of the US economy in the first term of the GW Bush administration.

In the past few years the global economy has been marked by under-investment in most key economic regions apart from China and by persistent tendencies towards stagnation. Weak growth has marked most other regions, notably Europe, which grew annually by 1.45% in the past few years. It is increasingly marked by a circular relationship. On the one hand, its growth has increasingly depended on the ability of American consumers to continue their debt-financed spending spree to absorb much of the output of China's production brought about by excessive investment. On the other hand, this relationship in turn depends on a massive financial reality: the dependence of US consumption on China's lending the US private and public sectors billions of dollars from the reserves it accumulated from its yawning trade surplus with the USA. Parenthetically, this relationship is ironic since, notwithstanding its opportunistic alliance with China in the 'war on terror', the Bush administration identified China as a 'strategic competitor' in its 2002 National Strategy Paper.

Reflecting the worries of the IMF about global overproduction, a Fund official called attention to the 'excessive dependence of global growth on unsustainable processes in the United States and to a lesser extent in China'.[49] He noted: 'Perhaps the central concern has to be about consumption growth in the United States, which has been holding up the world economy'.[50] Consumption-led growth, which entailed a current account deficit of 6.25% of the USA's GDP and 1.5% of world GDP, was sustained mainly by the USA's ability to pull in 70% of all global capital flows, much of them from China, as noted above.[51] It was helped along by tax cuts for the rich and massive deficit spending that led to the evaporation of the federal budget surplus accumulated during the Clinton years. Much of the deficit spending went on defence expenditures, resulting in defence-related production accounting for 14% of GDP growth in 2003, although it represented only about 4% of the gross domestic product of the USA.

'Growing global imbalances' was the IMF's euphemism for the chain reaction of overproduction, under-investment, and reliance of global growth on volatile financial flows sustaining consumer expenditure in the USA. The disruption of these flows, coupled with higher energy prices, it warned, posed the possibility that they would 'slow abruptly, taking away a major support from world growth before other supports are in place'.[52]

End of the long wave?

Consumption-driven growth—the volatile driver of the tepid growth of the so-called 'Goldilocks' economy—was, in the view of the Fund, unsustainable. So was over-investment in China. These two factors were conditioned by a third: to many observers, the resumption of stagnation and listless growth

not were not only manifestations of a medium-term structural crisis but underlined the broader, degenerative long-term trend referred to earlier that had begun in the late 1970s—the B or downward trend of the Kondratieff Wave. The crisis of overproduction was both a cause and an effect of the exhaustion of the profitable exploitation of technologies that had been the driver of growth in the immediate postwar era.

Contrary to forecasts by analysts who saw information technology as the core of a long-wave upswing in the first decade of the 21st century, the productivity gains from information and communications technology have been disappointing and certainly are insufficient to propel an upswing. Following David Gordon, Philip O'Hara has argued that the much vaunted information revolution of the 1980s and 1990s—the so-called driver of the New Economy—was actually a 'pale imitation of a major technological revolution compared with the applications of electricity, the automobile, the airplane, chemicals, telephone, radio, television, sanitation, and plumbing in previous phases of capitalist development'.[53]

The jobless growth of the recent 'recovery' under Bush, in which productivity gains have come not from new applications of information and communications technology but from the shedding of labour, would seem to support this claim. The contradictory trends of the past few years may be the prelude to deflation, a deeper recession, and perhaps even a depression, as the world enters the tail end of the current long wave of capitalist expansion.

Bush and the retreat from globalisation

The Bush administration's foreign economic policies must be seen partly as a response to the inability of globalisation to surmount the crisis of over-accumulation and long wave-related exhaustion plaguing the US and global economies. Indeed, it is a retreat from globalisation conceived as a project of functional integration of the global economy across national borders, led by a transnational capitalist elite, and governed by multilateral institutions that 'constitutionalise' neoliberal, pro-corporate economic principles.

But this retreat from globalisation takes place within a broader, momentous shift in Washington's Grand Strategy, thanks to a reconfiguration of the ruling bloc brought about by the Bush II ascendancy. The key elements of the Bush II paradigm appear to be the following:

- Unlike the Clinton administration and even the Bush senior administration, the Bush II people aggressively put the interests of US corporations ahead of the common interest of the global capitalist class, even if severe disharmony is the outcome. Their project is the unilateral assertion of power of the US elite rather than the construction of a system of shared power within a US-led global elite that was the thrust of the Clinton globalist project.
- Bush's political economy is very wary of a process of globalisation that is not managed by the US government to ensure that the process does not

dilute the economic power of the USA. After all, a truly free market might victimise key US corporations, compromising US economic interests. Thus, despite its free market rhetoric, this is a group that is very protectionist when it comes to trade, investment and the management of government contracts. It seems that the motto of the Bushites is protectionism for the USA and free trade for the rest of the world.

- The Bush approach towards the developing world is marked by the increasing resort to naked force to impose radical structural adjustment or free-market policies, not content to leave the task to financial coercion by the IMF, World Bank and the private banks. Iraq and Afghanistan are experiments in this enterprise of militarised economic adjustment. Moreover, although this ominous trend began before Bush, there is under his administration an intensification of 'accumulation by dispossession', as David Harvey calls the latest stage in the privatisation of the commons.[54] Through mechanisms like the imposition of 'patent rights' via the WTO's Trade Related Intellectual Property Rights Agreement (TRIPs), US corporations seek to privatise the fund of commonly shared knowledge and technology passed down through the generations of farming communities in the South by restricting the use of genetically modified seeds developed at the end point of this communal process. TRIPs also allows corporations to restrict the natural processes of the communal diffusion of knowledge via patents, thus making industrialisation by imitation—the traditional route to industrialisation—all but impossible.
- The Bush inner circle is strongly sceptical about multilateralism. They fear it since, although multilateralism may promote the interests of the global capitalist class in general, it may, in many instances, contradict particular US corporate interests. The administration's growing ambivalence towards the WTO stems from the fact that the USA has lost a number of rulings there—rulings that hurt US capital—while not bringing about the expected openings for US exports in both northern and developing country markets.
- For the Bush people, politics is key, not only in the sense of using state power to repay political favours to corporate interests but, even more importantly, in the sense that for them, *strategic power is the ultimate modality of power*. The neoconservatives and nationalists who command enormous power in the administration see economic power as a means to achieve strategic power. Economic arrangements, like trade deals and the WTO, are judged less by their adherence to free trade than by the extent to which they contribute to the strategic power of the USA. Given their emphasis on strategic power, the Bush elite has put the emphasis on disciplining the South via military force instead of relying only or mainly on IMF- and World Bank-imposed structural adjustment programmes. While economic and related factors, such as control of oil are certainly important in accounting for the US invasion of Iraq, they are not primary: the US expedition was meant mainly as an 'exemplary war' whose purposes reached far into the future—to teach countries of the

South the costs of defying the USA and to warn potential rivals like China not to even think of challenging Washington militarily.[55]

- While the Bush administration is dedicated to advancing the interests of US capital as a whole, it is especially tied to the interests of what might be called the 'Hard Economy'. This is in sharp contrast to the Clinton administration, which was closely tied, via Treasury Secretary Robert Rubin, to Wall Street, the most internationalist section of the US capitalist class. The interests closest to Bush are either tied to government leaders by direct business links, as is the case with the oil industry (Bush and Cheney count as its special sons), or consist of those that can only subsist with massive subsidies from the government, like the steel industry and agribusiness, or those which often operate outside the free market and depend instead on secure government contracts that run on 'cost-plus' arrangements. These latter kinds of firm make up the powerful 'military industrial complex' that is really the most powerful bloc among corporate lobbyists in Washington today.[56] Not surprisingly, since many of the interests supporting Bush are not subject to the market, they regard the free market and free trade as no more than rhetorical weapons to be deployed against external competitors and not taken seriously as an operating principle.

Key economic policy thrusts

If the foregoing form the fundamental perspective of the Bush administration, then the following prominent elements of recent US economic policy make sense.

Achieving control over Middle Eastern and Central Asian energy resources

While this did not exhaust the war aims of the administration in invading Iraq, it was certainly high on the list. Partly this is aimed at potential European competitors. But perhaps the more strategic goal was to pre-empt control of the region's resources in order to limit access to them by energy-poor China, which, as noted earlier, is identified as a strategic competitor in the 2002 National Security Strategy paper, notwithstanding its serving as an ally in the 'war on terror'.[57]

Aggressive protectionism in trade and investment matters

The Bush administration has, in fact, not hesitated to destabilise the multilateral trading order in order to protect US corporate interests. In addition to pushing for massive farm subsidies and raising steel tariffs, it defied the Doha Declaration that health should take priority over intellectual property claims. Responding to its powerful pharmaceutical lobby, the administration sought to limit the easing of patent controls to just three diseases. Since the Doha ministerial, in fact, Washington has put less energy into making the WTO a success. It prefers to pour its efforts into bilateral or

multilateral trade deals, such as the Free Trade of the Americas (FTAA) or the Central America Free Trade Agreement (CAFTA). Indeed, the term 'free trade agreements' is a misnomer, since these are actually preferential trade deals designed to severely disadvantage parties outside the agreement, like the EU.

Incorporating strategic considerations into trade agreements

Former US Trade Representative Robert Zoellick has stated explicitly that 'countries that seek free-trade agreements with the United States must pass muster on more than trade and economic criteria in order to be eligible. At a minimum, these countries must cooperate with the United States on its foreign policy and national security goals, as part of 13 criteria that will guide the US selection of potential FTA partners'. New Zealand, a government committed to free trade, has nevertheless not been offered a free trade deal because it has a policy that prevents visits of nuclear weapons-carrying ships.[58]

Manipulation of the dollar's value to shift the costs of economic crisis to rivals among the centre economies and regain competitiveness for the US economy

The 25% fall in the value of the dollar relative to the euro within a relatively short period of time in 2002–03 was not the result of market forces but of conscious policy. While the Bush administration issued denials that this was a beggar-thy-neighbour policy, the US business press saw it for what it was: an effort to revive the US economy at the expense of the EU and other centre economies, in order to counter the stagnationist pressures of the crisis of over-accumulation. With a falling dollar, US products could be competitively priced *vis à vis* foreign products in the US market as well as in foreign markets. The Bush policy was a reversal of the Clinton administration's strong dollar policy and a return to the weak dollar policy of another nationalistic administration, the Reagan presidency.

Aggressive manipulation of multilateral agencies to promote the interests of US capital coupled with a renewed reliance on bilateral aid as a means of forcing change on poor countries

While instrumental employment of a multilateral agency may not be too easy to achieve in the WTO because of the strength of the EU, it can be more readily done at the World Bank and the IMF, where US dominance is more effectively institutionalised. Despite support for the proposal from many European governments, the US Treasury recently torpedoed the IMF management's proposal for a Sovereign Debt Restructuring Mechanism (SDRM) to enable developing countries to restructure their debt while giving them a measure of protection from creditors. Already a very weak mechanism from the point of view of developing countries, the SDRM was vetoed by the US Treasury in the interest of US banks.[59]

In another example of intensifying conflict between the EU and Washington over the use of the IMF, the USA prevented the Fund from exerting significant pressure on Argentina when the latter threatened to unilaterally devalue its $100 billion private debt, owed mainly to European bondholders, on grounds that it opposed a bailout of the latter.

Even before Paul Wolfowitz was appointed head of the World Bank in 2005 the Bush administration was already moving to make it a more pliable instrument of its bilateral aid and development initiatives, including the radical privatisation effort known as the Private Sector Development (PSD). Nancy Alexander's account of how this came about is instructive:

> Initially, most of the Bank's Board of Directors opposed the PSD Strategy's proposal to launch a third generation of adjustment focused on investment and to privatize services, especially health, education, and water. Gradually, outright opposition dissipated as Board members described the hard, uncompromising, 'you're with us or against us' attitude of US officials. The PSD Strategy, which was finally approved by the Board on February 26, 2002, calls for a radical transformation of the form and functions of the World Bank group in order to promote the private sector. The Bank is now promoting investor rights while, at the same time, liberalizing and privatizing services, especially in low-income countries where regulatory regimes are generally weak to non-existent.[60]

Perhaps even more important, the US lassoed the World Bank and the IMF to provide public finance for its so-called reconstruction efforts in both Afghanistan and Iraq. This is using international taxpayers' money to stabilise economies devastated by US wars. The World Bank, in particular, is not only being harnessed to provide money but to implement a blueprint of radical privatisation in close cooperation with consultants and agencies of the US government. This trend is likely to intensify with Paul Wolfowitz heading up the World Bank.

Instead of multilateral aid, bilateral aid in the form of grants has become the main conduit of US aid policy. Bilateral grant aid, Bush's foreign policy people argue, is more effectively controlled and thus tailored for one's purposes. 'Grants can be tied more effectively to performance in a way that longer-term loans simply cannot. You have to keep delivering the service or you don't get the grant', said John Taylor, undersecretary of the Treasury.[61]

The most ambitious new bilateral aid programme unveiled by the administration was the Millenium Challenge Account (MCA), which called for a $5 billion increase in US aid, in addition to the average of $10 billion now regularly appropriated. To qualify for aid under the new programme and for aid to continue flowing once a country had qualified, it had to get passing grades on 16 criteria that included trade policy, 'days needed to start a business', inflation, budget deficit, control of corruption, rule of law, civil liberties, and immunisation rate.[62] The World Bank would provide assessments of the eligibility of countries for aid, as would conservative private NGOs like Freedom House and the Heritage Foundation. The aid

process itself would be conducted like a business venture, as the State Department makes clear:

> The MCA will use time-limited, business-like contracts that represent a commitment between the US and the developing country to meet agreed performance benchmarks. Developing countries will set their own priorities and identify their own greatest hurdles to development. They will do so by engaging their citizens, businesses, and governments in an open debate, which will result in a proposal for MCA funding. This proposal will include objectives, a plan and timetable for achieving them, benchmarks for assessing progress and how results will be sustained at the end of the contract, delineation of the responsibilities of the MCA and the MCA country, the role of civil society, business and other donors, and a plan for ensuring financial accountability for funds used. The MCA will review the proposal, consulting with the MCA country. The Board will approve all contracts.[63]

The aim of this radical right-wing transformation of the aid policy is not just to accelerate market reform but, equally, to push political reform along narrow US-preferred lines.[64]

Making the other centre economies as well as developing countries bear the burden of adjusting to the environmental crisis

While some of the Bush people do not believe there is an environmental crisis, others know that the current rate of global greenhouse emissions is unsustainable. However, they want others—specifically the EU and Japan—to bear the brunt of adjustment since not signing the Kyoto Protocol on Climate Change would mean not only exempting environmentally inefficient US industry from the costs of adjustment, but hobbling other economies with even greater costs. Raw economic *Realpolitik*, not fundamentalist blindness, lies at the root of Washington's decision not to sign.

Conclusion

Over-accumulation or overproduction has been the spectre that has hovered over the global economy since the 1970s. Neoliberal adjustment via structural adjustment and other contractionary programmes merely worsened the crisis in the 1980s. Globalisation and financialisation during the Clinton period appeared to be a successful response in the 1990s as the central capitalist economy, the USA, embarked on an eight-year-long boom. However, they merely added to contradictory pressures that broke out in a chain reaction of financial crises from the mid-1990s onwards that culminated in the recession that inaugurated the Bush administration in 2001.

A major casualty of these developments has been the phenomenon of globalisation. At the structural level the much-vaunted relocation of industrial facilities, outsourcing of services and decline in trade barriers have not resulted in a functionally integrated global economy where nation-states and

their institutions are ceasing to be central determinants of economic affairs. At the 'superstructural' level the system of multilateral institutions that was supposed to govern and manage the system has been unravelling.

Over the past few years, as a reaction to the over-investment of the 1980s and 1990s, under-investment has been the trend in most key economies. Growth has depended mainly on sustained consumer spending in the USA to absorb China's massive production, with US demand being sustained by the flow of global savings from China and other key capitalist countries. This circular relationship is unfolding amid a momentous change in the paradigm of the US elite that can only, in the long run, worsen the crisis of over-accumulation.

Washington is currently dominated by a faction of the US ruling class that is intent on increasing the strategic power and hegemony of the USA. The exercise of force, particularly against dissident forces in the South, is the main currency of this administration. In terms of meeting the global crisis of over-accumulation, the strategy of this faction has not been the Clintonite one of co-ordinated transnational response among allied capitalist elites but of forcing the burden of adjustment onto other centre economies, while competing with them to exploit the developing word more intensely via new innovations in 'primitive accumulation' such as TRIPs. The conflicts between the EU and the USA over agriculture in the WTO, over adherence to the Kyoto Protocol, over the debt problem of developing countries, over the value of the US dollar and over the policies of the IMF are manifestations of growing inter-capitalist and inter-imperialist competition. Added to policy conflicts such as differences over Iraq, Palestine and Israel, these conflicts have spelled an end to the politico-economic Transatlantic Alliance which had sustained the hegemony of the Western capitalist bloc since the end of the second world war.

A question of profound importance is how the US – China relationship will develop. Washington today has a grudging détente with China thanks to the necessity of enlisting it as an ally in the war against terror. But probably less compelling as a rationale for alliance to an elite that values the strategic supremacy of the USA above all is the current economic dependence of the US on China's lending and its turning out of commodities to meet US consumer demand. With strong pressures from within its ranks and from the Pentagon to act towards China as a strategic enemy, the future of the grand economic bargain of the two key pillars of the capitalist global economy hangs in the balance.

The global economy being held hostage to geopolitics on the part of two political leaderships that value the accumulation of strategic power above all is not the future that corporate-driven globalisation was supposed to deliver.

Notes

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