Framing the Debate on the Great Recession

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Abstract

The essay sets the scene by discussing the nature and evolution of global capitalism, especially in the last three decades. The link between the changes that have taken place and increasing inequality within and between countries are also discussed. The essay also touches on two critical issues that have relevance when examining implications for the Great Recession on Africa's development: (1) land and agriculture and (2) gender transformation. The conclusion reached is that, indeed, the global economy has undergone dramatic changes over the past three decades. In particular, globalised financialisation has led to the growing delinking of the real economy from financial markets. In addition, there have been contradictory political trends worth analysing. The essay also confronts the question whether there is a way out of the current crisis; and whether social relations can be configured differently to serve the collective interest of humanity. It is argued that the debate over how to achieve a just and humane society can be located in the discourses on the limitations of the current form of capitalism both in theory and praxis and the alternative socio-economic and political arrangements required to ensure the utilitarian goals of the greatest good for the greatest number of people – that there is need for new economic thought that can serve the interests of society. The intersection between the experiences of developmental states and China on the one hand and the best attributes of social democracy on the other – appropriately adapted to concrete conditions in various parts of the globe and the African continent in particular – could create real possibilities to transform 'Africa Rising' into a truly people-centred and people-driven phenomenon.

Introduction

The essays in this volume cover much ground and deal with many pertinent issues on the Great Recession. This essay summarises the various perspectives in this volume by locating the contributions within the nature and evolution of global capitalism, especially in the last three decades; its structural transformation that includes new financial products with high returns on investment; revolution in information and communications technology and how this facilitates the change in the structure of the global economy; and the boom in the services sector. The link between these changes and increasing inequality within and between countries is also discussed. This essay also touches on two

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critical issues that have relevance when examining implications for the Great Recession on Africa's development: (1) land and agriculture and (2) gender transformation.

Pertinent to all this are the challenges of weak regulation of capital and the economy in general, both at the national and global levels. But on a broader canvass, the fundamental question is about how to construct an equitable and humane system of social relations, within and possibly outside the purview of the capitalist system. Considerations in this regard include models of capitalism in the Nordic countries, the firm-based German variant, the Anglo-American stock-exchange-based system as well as the state-led Asian model which includes the Chinese system in which the state enjoys overall dominance. Historically, the deepest critique of the socio-economic impact of capitalism was offered by socialists. However, attempts at building an ideal society of full social equality have floundered as practical experiments in this regard collapsed in Europe and have become unrecognisable in countries such as Vietnam and China.

The profundity of the global economic crisis that started towards the end of the 2000s has been deep, far-reaching and profound. It is only natural that, arising out of this experience is the growing currency of the question whether there is an appropriate form of a socio-economic system and arrangement that can help in delivering public good to the greatest numbers of people both at the 'core and periphery' of the global economy.

By employing different theoretical, methodological and analytical perspectives the authors of essays in this volume interrogate the remote and long-term causes, the immediate triggers, as well as the dimensions, implications and responses to the Recession. A common thread that runs through the arguments of the contributors pertains to the following: the distortions and contradictions that characterise the current capitalist system in terms of the prevailing hegemony of neoliberal and market fundamentalist ideas, the resultant lack of effective regulation over capital, the shift in the structure of the global economy towards financialisation, growing inequality, policy influence of the super-rich, and the lack of will on the part of those who wield the levers of political power to effect a fundamental change to the current order.

It is critical that reflection on these issues should proceed from the premise that activities in the real economy are at the centre of social relations. The fundamental purpose of economic activity is to produce and exchange goods with use-value, and to ensure that all manner of services are rendered to society, individually and collectively. As the system becomes more complex and laissez faire ideology trumps all else, the original purpose is turned on its head: humanity is meant to serve the economy, rather than the other way round.

Philosophy aside, the global economy has undergone dramatic changes over the past three decades. These changes have been fuelled by economic globalisation, broadly defined as the growing interconnectedness of different regions of the world. As Ajulu (2010: 15) notes, globalisation is the process of opening up the world market, a project inevitably driven by the most powerful, namely the so-called core states and the big multinational corporations. Globalisation has facilitated the march of capital all over the world. Combined with the emergence of information and communications technologies, the system of production has evolved into a global economy 'whose core components have the institutional, organizational, and technological capacity to work as a unit in real time, or in chosen time, on a planetary scale' (Castells, 2011).

Gilpin (2001: 5), reflecting on the changes in the global economy over the past three decades, notes that,

> *Economic globalisation has entailed a few key developments in trade, finance, and foreign direct investment by national corporations. International trade has grown more rapidly than global economic output. In addition to the great expansion of merchandise trade (goods), trade in services (banking, information, etc.) has also significantly increased. With the decreasing cost of transportation, more and more goods are becoming tradeable. With the immense expansion of world trade, international competition has greatly increased.*

While the so-called advanced countries of the Triad (US, Europe and Japan) and a few countries in Asia and Latin America with requisite technology and human resources have been able to promote their companies to the extent of winning larger market share, many developing countries, especially in Africa, have remained on the margins with less than 2 per cent of world trade (See Stigltiz, 2002 and Khor, 2000). The search for higher profits and reduction in the cost of operations has led to further changes in the global economic system in recent years. One of the key changes in the 1980s and 1990s was the wave of mergers and acquisitions, in which corporations pool resources, streamline operations and reduce the work force.

The last three decades also witnessed a massive shift in economic policy direction, especially in trade, finance and investment. On trade, for instance, policy of most governments shifted from Import Substitution Industrialisation (ISI) of the 1960s and 1970s, especially in developing countries, to export led industrialisation. The advances made in East Asia in terms of economic growth and improvement in living standards provided a form of justification to the apparent promise that an open international trade regime holds for economic development, even in developing countries (Sachs and Warner, 1997). Indeed, as if in a relay-race, a number of countries in East Asia evolved from low-end mass manufacturing to sophisticated goods and services. From Japan to South Korea to China and now Vietnam and Bangladesh, as each of the original centres moved up the manufacturing sophistication ladder, companies 'off-shored' their production to the next centre. !In reality, there was no miracle in East Asia. In the main, the centres of the global economy (particularly the United States of America, Europe and Japan) ensured that East Asia succeeds, initially through cheap labour, at the same time as it provided cheap goods to the consumers in the Triad.

It is estimated that, in the context of off-shoring as they reconfigured their economies, Japan exported some 9.7 million manufacturing jobs, while about 2.3 million relocated from South Korea during the 1980s. The number from China may in the coming years approach an estimated 85 million. As Helen Hai (2016) puts it, 'China upgrading to higher industries will leave a huge space for many low-income developing countries to enter a labor-intensive industrialization development phase.' Contained in this experience is a fundamental question that Africa will need to interrogate going forward. Low-end manufacturing is going to continue for many years to come. The relay-race referred to above has already started touching Africa's shores, with some of the major companies (including Chinese manufacturers) migrating to African countries. Should Africa embrace this as an opportunity which, combined with other economic activities, can serve as a basis for the development of its productive forces; or is the continent capable of embarking on a different path of growth and development?

Apart from the rapid development of technology, as well as migration of production sites and trade, the global economic system has witnessed significant change in the manner in which the Triad has transformed from manufacturing-led to finance-led growth. With the rare exception of Germany (and to some extent, Japan), which still place premium on manufacturing, the Anglo-American corporate system is now dominated by a financial oligarchy, whose strong appetite for high and quick super-profits makes them impatient with the long gestation period of manufacturing establishments. In place of low-end manufacturing and in addition to more sophisticated patent-based high-end production, was the innovation pertaining to financial products such as derivatives, spots, options and shares, with high return on investment over very short periods. The super-high profits from such short-time investments leads to higher levels of surpluses which are partly directed to granting credit to consumers, or packaged for incestuous buying and selling among financial institutions, with speculative activity that runs into trillions of dollars. In other words, money seeks to beget money, as its role as a means of exchange for goods and services assumes a secondary role. The growth and expansion of the financial sector, excessive risk taking, poor monitoring and regulation, and cooking of the books have generally led to what Stiglitz (2010) calls the 'free fall'. The high leverage that the oligarchy at the centre of global finance has on policy formulation limits the effectiveness of regulatory agencies to rein in their excesses. At the same time, a mind-set of short-termism has infected the system as a whole, imposing even on actual producers the obligation to deliver ever-increasing quarterly returns. Mergers and acquisitions, inversion takeovers and other tax avoidance schemes, cynical deployment of technology as a cost-cutting measure, share buybacks and other such subterfuges are used to present the false sense of constantly increasing shareholder value. As many essays in this volume explain, all these factors have led to cyclical (and more frequent) crises of global capitalism, with the Great Recession throwing all these systemic issues in even bolder relief.

Financialisation has led to the growing delinking of the real economy from financial markets. Rather than lending to the real sector of the economy such as manufacturing, trading in financial products has become fashionable to the extent that the volume of trading in financial products has reached trillions of dollars per second. In this regard, Gilpin (2001: 6) argues thus,

> *Since the mid-1970s, financial deregulation and the creation of new financial instruments, such as derivatives, and technological advances in communications have contributed to a much more highly integrated international financial system. The volume of foreign exchange trading (buying and selling national currencies) in the late 1990s reached approximately $1.5 trillion per day, an eightyfold increase since 1986; by contrast, the global volume of exports (goods and services) for all of 1997 was $6.6 trillion, or $2.5 billion per day. In addition, the amount of investment capital seeking higher returns has grown enormously; by the mid-1990s, mutual funds, pension funds and the like totalled $20 trillion, ten times the 1980 figure.*

Since then, these figures have grown in leaps and bounds. It is worth emphasising that financialisation has also accentuated unemployment in most parts of the world as operators in the real sector struggle to get long-term credit on a good rate to finance their operations.

Good (2001) shows how the capitalist system in the United States has disproportionately benefited company executives at the expense of workers. Further, in its Global Wage Report, the International Labour Organisation (2013:45-46) identifies the following trend:

> *During much of the past century, a stable labour income share was accepted as a natural corollary or 'stylized fact' of economic growth. As industrialised countries became more prosperous, the total incomes both of workers and of capital owners grew at almost exactly the same rate, and the division of national income between labour and capital therefore remained constant over a long period of time, with only minor fluctuations… An outpouring of*

literature has provided consistent new empirical evidence indicating that recent decades have seen a downward trend for the labour share in a majority of countries for which data are available.

This 'trickle-up effect' is manifest in the worsening Gini coefficient (a measure of income inequality) in the developed economies and most of the developing countries, with Latin America for a period in the 2000s standing out as a rare exception. In spite of the fact that labour productivity has been improving, median incomes in the developed economies have been declining; and the trend has continued – and in many instances intensified – since the onset of the global economic crisis in 2007. Intersecting with these trends is marginalisation defined by race, gender, age and geographic location in terms of the core and the periphery within and among countries of the globe.

It is paradoxical that in the context of the recent global economic recession, a large chunk of managers who ran the various companies aground, especially in the financial sector were paid huge bonuses, while workers and citizens who lost their jobs, pensions and savings in the various investment schemes were made to lick their wounds! Oxfam (2016) notes that sixty two individuals control more than half of the global commonwealth. While several factors ranging from history, nature of politics, level of human capital development, presence or absence of technology and innovation, autonomous capacity for capital formation and so on can be considered to contribute to inequalities, both within and between countries, it is important to emphasise that this problem has been exacerbated by neoliberal capitalism. In this paradigm, personal accumulation at the expense of societal progress, individual greed and ostentation at the expense of communitarian existence, destruction of the ecosystem as a necessary condition for extraction as against environmental preservation, racial and class interest preservation at the expense promotion of a global humanity, have all become the primary pursuit of the privileged individuals, both in the global north and south.

Beyond the discourse on geographical inequality, with the global north more prosperous than the global south is the reality that inequality and the growing gap between the rich and the poor cuts across the economic geography. In his expatiation on the theory of global capitalism, Robinson (2004) decribes the formation of a Transnational Capital Class, whose members straddle both the advanced, emerging and even least developed countries. This class is made up of the capitalist elites both at the business and political levels. Despite the differences in their nationalities, they are united within the common ideology of accumulation on a large scale and accumulation by dispossession (Harvey, 2005, Amin, 1997).

It is in the context of this alliance that these elites have always resorted to using tax-payers' monies to bail out financial and other companies which are seen as too big to fail. It is precisely this alliance between the business and political elites that has more or less limited the capacity of the state to regulate capital (See Stiglitz, 2010).

As Mbeki (in this volume) argues, even though the leaders of the G-8 countries agreed that lack of effective regulation contributed largely to the Great Recession, the commitment of the leaders to a fundamental restructuring of the global capitalist system both in terms of governance architecture and the structure of the global economy is at best tepid, ambivalent and rhetorical. While it is politically correct to chant the slogan of change, there was no genuine intention to effect any serious change in the system. In what Wade (2013) calls the 'Art of Power Maintenance', the United States of America continues to use its massive control of international governance institutions such as the World Bank, IMF and WTO to perpetuate the same logic that precipitated the crisis in the very first place.

Along with all these economic developments, have been contradictory political trends. Over the past ten years, this has found expression in the assertion of civil society against inequality, the emergence of insurgent left political parties and platforms in countries such as Greece, Spain, Britain and the United States. On the other hand, right-wing trends have also gained ground in some of these and other countries such as Japan, France and Germany. Along with this, there has been growing militarism in geo-politics, with proxy wars and growing regional tensions becoming the order of the day. Further, a decline in ethical conduct seems to be part of the cause and effect of the global economic crisis. Besides the generic issues raised above, unethical practices in critical institutions such as auditing firms, rating agencies, financial institutions and law firms are coming out into the open. Not least among these are tax avoidance and tax evasion schemes as well as other illicit financial flows that have deprived states of much-needed income.

In its history, the capitalist system has gone through crises of varying intensity within and across borders. Politico-economic crises of a generalised nature have included the meltdown that presaged both the First and Second World Wars, as well as the upheavals of the late 1960s and early 1970s. In the period of neo-liberal triumphalism, the current global economic crisis with its systemic effects does stand out. It was preceded by the 1998 crisis, which had started to foreground many of the causal factors now more acutely exposed. In other words, what makes the current crisis similar and yet different from previous ones is the depth of its impact, the extensiveness of its reach, the length of its persistence, the generalised socio-political questions it brings to the fore, and the seeming incapacity of societal leadership to deal with the challenges.

Given the systemic nature of the current crisis, the question does arise whether globalisation, as such, is the problem! Evans (2008) opines that we need to differentiate between the techno-economic elements of globalisation and how these are appropriated for specific ideological ends As Evans (2008: 275) puts it:

> *Neo-liberalism has indeed used the tools provided by generic globalization to construct a global system of domination. But generic globalization and the specific system of domination that made use of it in the late-twentieth century are not symbiotic in the long run. Generic globalization can also be seen as a repertoire of tools and resources potentially available to a range of political projects, including progressive ones. Seeing this new repertoire of tools and resources as something that can be appropriated by alternative projects is fundamental to the idea of counter-hegemonic globalization.*

With each socio-economic crisis of a generalised nature, there have been attempts to reconfigure social relations within and outside the purview of capitalist ideology. Socialist experiments in Eastern Europe which have petered out, the American New Deal and Western European welfare states, post-colonial reconstruction efforts in the developing world, the developmental paths followed by East Asia including the unique undertakings in China and Vietnam, and the rapacious licence of free markets of the past 30 years in the Anglo-Saxon world – all these reflect attempts at particular moments of capitalism's evolution to address its weaknesses. Each of these has had its theorists and praise-singers. As history has shown, some of the interventions ameliorated the negative effects of the system; some collapsed under the weight of inflexible ideological determinism; others sought syntheses whose long-term sustainability has still to be tested, while yet other interventions worsened the situation. The existential danger of business-as-usual against the current backdrop of a stubborn crisis and growing social anomie is not lost even to the high priests of capitalism. Lynn Forester de Rothschild (in a Financial Times article, 21 May 2014) captures this concern thus:

> *[F]aith in market institutions has rarely been lower. This is not without reason. Markets mostly encourage a near maniacal focus on short-term financial results, tolerance of disparities of opportunity, and an apparent disregard for the common good. If these tendencies are left unchecked, the public cannot be expected to show faith in capitalism*

Given all these experiences, is there a way out of the current crisis; and can social relations be configured differently to serve the collective interest of humanity?

Before responding to this question, it is necessary to recapitulate on the impact of the Great Recession in various parts of the globe.

Firstly, while South and East Asia was adversely affected by the slump in global demand, it was able to cushion its economies from the financial disruptions. Secondly, developing Europe and Central Asia, with large current account deficits and reliance on capital flows to finance domestic consumption, bore the brunt of the crisis. Thirdly, while Latin America was initially able to withstand the external shocks, its growth correlation with a reconfiguring and slowing Chinese economy has started to bite. The same largely applies to Africa, with its experience also worsened by the sclerotic growth environment in Europe, though as Vietnam and Bangladesh, off-shoring and infrastructure projects may have a positive impact. Fourthly, most of Europe seems to have entered secular stagnation, not dissimilar to challenges facing Japan. Lastly, while there is much celebration of the seeming recovery in the United States and Britain, there is scepticism about the depth and sustainability of the uptick.

This also points to the growing inter-dependence among economies across the globe, with China – which is seeking to reconfigure its economy towards greater domestic consumption – becoming a systemically important player.

More fundamentally, these experiences speak to the fact that, despite its global reach and penetration, capitalism is not homogenous. There are variants of the system in different parts of the world. For instance, in the Scandinavian countries such as Norway, Finland, Denmark and Sweden the state exercises some form of control over capital (See Mkandawire 2001 and Hobson 2012). In order to ensure redistribution of income, higher taxes are imposed on income earners over and above certain thresholds. Unlike the Anglo-Saxon variant of capitalism, wage increases in these countries have been adjusted for inflation on a regular basis. The governments also ensure that access to education is effectively guaranteed, regardless of family background, thus creating a veritable avenue for social mobility across the board. This contrasts sharply with the policies in Britain and the United States of America. Stliglitz (2012) argues that exclusion of poor families from educational opportunities through high fees in tertiary education and inadequate loan facilities fosters inter-generational reproduction of inequality. Most of Europe had strong welfare policies for most of the post-Second World War period. These however have been reversed in the past twenty years of neo-liberal triumphalism. Besides issues to do with social policies, the Anglo-Saxon capitalist model is essentially based on the vagaries of the Stock Exchange, rendering it more susceptible to the dominance of finance capital. In contradistinction, the German model places greater emphasis on closer co-operation and even joint operations between the banks and players in the real economy, ensuring that the financial sector serves the real economy rather than the other way round. Of course, with the march of neo-liberalism, these cross-country distinctions are becoming more and more blurred.

Capitalism in Asia also presents a different trajectory from what obtains in the Anglo-Saxon world. Although the World Bank and other advocates of market fundamentalism have at one time or the other attributed the South-Asian miracle narrowly to export-led industrialisation, historical and empirical evidence shows that the state was very involved in mediating between the market and society. Scholars of the so-called economic miracle in South East Asia such as Alice Amsden, Chalmer Johnson, Meredith Woo Cummings and Peter Evans, among others, show how the state adopted various incentives to boost the productive capacity of the private sector – see Amsden (2001) for instance. In doing that, the states at the same time exercise some control which ensures that the welfare of the citizens is not unduly sacrificed on the altar of private accumulation and corporate profiteering. In the case of China, Ravallion (2009) argues that the unparalleled record of the country in lifting hundreds of millions of people out of poverty within half of a century did not follow the orthodox market prescription of rolling back the state. Rather, the state has been actively involved in formulating and executing policies that that promote the general welfare of the majority of the people as against merely satisfying the interests of a few privileged individuals. However, the point also needs to be made that, in the case of China particularly, reduction in poverty on a grand scale has also been accompanied by growing social inequality, with the emergence of a business elite sections of which are closely linked to the political establishment.

It is in the context of the leverage that the state has on capital that the effects of different global crises, particularly the current one, have not been as dire in Scandanavia, Germany and East Asia as in the Anglo-Saxon countries. Writing on the Asian crisis of 1997/1998, Soros (1998) argues that it was only countries like Malaysia which adopted capital controls as against capital account liberalisation that were able to withstand the shock and the crisis that followed. Countries like Thailand, Indonesia and South Korea, which adopted IMF-inspired capital account liberalisation, were severely affected as they saw massive contraction in their capital market within the space of a few days. This happened due to panic withdrawal of speculative and foreign portfolio investments. In the absence of any control or legal restrictions, the foreign investors wasted no time in taking their money elsewhere. In the context of the Great Recession, Gallagher (2014) shows how emerging economies like Brazil, India and China were able to reregulate capital through appropriate legal instruments which were not just declared but enforced. It was through these mechanisms that the effects of the crisis on these countries was minimised, at least at the initial stage.

With regard to the important issue of food security, it is becoming increasingly clear that agriculture has been affected by the current model of financial capitalism. There have been wide-scale land grabs by multinationals and some countries, within the African continent, as the works of the late Sam Moyo have demonstrated. In addition, finance capital has also intensified or brought back what Luxemburg termed *primitive accumulation*. Small scale farmers are effectively in the employ of large-scale farmers in their own pieces of land and using their own labour. Forced removals and destruction of traditional knowledge systems are on the rise, as domestic and global elites gang up against ordinary people. For Africa, therefore, the implications of globalisation and the Great Recession for land and agriculture are yet to be fully explored.

What emerges from the above is that politics and not just markets matters greatly for inclusive development. Left on its own, capital will not obey any societal law, neither will it consider the interest of the vulnerable segments of society. The state as the Leviathan, to whom the commonwealth willingly surrenders sovereignty, has a role to play not just in bailing out capital when it is in crisis, but in ensuring redistribution, and promoting the welfare of the greatest number of people through the delivery of public goods.

It is in this context that gender transformation becomes critical. It is obvious that the Great Recession – as with the social relations that spawned it – has affected women more than men. We also know that because of patriarchy as a system of oppression, just like capitalism is a system of exploitation, women are always at the receiving end. Therefore, in the context of the Great Recession, policies and programmes should also be alive to the unfortunate reality that women bear the harshest brunt of economic crises. As such, gender transformation should be more concrete than what would appear to be window-dressing in many instances. Similar challenges face young people. Having identified the extent of youth marginalisation in countries as far afield as Tunisia, Egypt, Britain, Japan, Spain and the US, Peter Coy (in Bloomberg Businessweek, 2 February 2011) argues that:

> *In each of these nations, an economy that can't generate enough jobs to absorb its young people has created a lost generation of the disaffected, unemployed, or underemployed – including growing numbers of recent college graduates for whom the post-crash economy has little to offer…*
>
> *While the details differ from one nation to the next, the common element is failure – not just of young people to find a place in society, but of society itself to harness the energy, intelligence, and enthusiasm of the next generation.*

The debate over how to achieve a just and humane society can be located in the discourses on the limitations of the current form of capitalism both in theory and praxis and the alternative socio-economic and political arrangements required to ensure the utilitarian goals of the greatest good for the greatest number of people. Since the start of the Great Recession, there have been tons of publications on how to prevent another crisis and search for a possible new socio-economic model. The starting point should be the recognition that the current paradigm of economics premised on neoliberal capitalism has served its course. There is need for new economic thought that can serve the interests of society, as some have argued. Institutes and Associations[i] have been formed, which seek to redirect economics from its current disciplinary arrogance and abstraction (see Fine, 2009) to one that recognises the transdisciplinarity of social sciences, the salience of politics in the organisation of society, the role of the state, the importance of culture and other parts of human sciences, including psychology. The works of Yash Tandon, Samir Amin and a few others such as Fantu Cheru to some extent have also opened the canvass with critiques, from Africa, of the current socio-economic model that the world and Africa follow.

It could as well be that, somewhere in the intersection between the experiences of developmental states and China on the one hand and the best attributes of social democracy on the other – appropriately adapted to concrete conditions in various parts of the globe and the African continent in particular – lies the trail along which humanity can blaze. For the continent, this may create real possibilities to transform Africa Rising (in the context of Agenda 2063) into a truly people-centred and people-driven phenomenon.

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[i] For instance, the Washington DC based Institute of New Economic Thinking, founded by the billionaire, George Soros, World Economic Associations promoted by Economic Historian, Ha-Joon Chang among others.