Chapter 12

CRISIS, AUSTERITY, AND STAGNATION

Article 12.1

GLOBAL ECONOMY VULNERABLE A DECADE AFTER

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Ten years ago, deteriorating confidence in the value of U.S. sub-prime mortgages threatened a liquidity crisis. The U.S. Federal Reserve injected considerable capital into the market, but could not prevent the 2008-2009 global financial crisis (GFC).

The 2008 meltdown exposed the extent of finance-led international economic integration, with countries more vulnerable to financial contagion and related policy "spillovers" exacerbating real economic volatility. It also revealed some vulnerabilities of the post-Second World War U.S.-centered international financial "architecture"—the Bretton Woods system—modified after its breakdown in the early 1970s.

Robert Triffin, the leading international monetary economist of his generation, had long expressed concerns about the use of a national currency as the major reserve currency. International liquidity provision using the greenback required the United States to run balance-of-payments deficits, ensuring U.S. monetary policy spillovers to the world economy while eroding confidence in the greenback.

The Bretton Woods system was under increasing strain from the late 1960s, as U.S. President Lyndon Johnson funded the increasingly unpopular Vietnam War by issuing debt, rather than through higher taxes. The system finally broke down when the Nixon administration unilaterally cancelled the U.S. commitment to dollar (gold) convertibility in August 1971.

What emerged was a "non-system" for Triffin. Since then, the U.S. dollar, issued by fiat, has relied on the greenback's own credibility and legitimacy to continue as de facto world currency.

Current "Non-System"

In 1985, Triffin identified three systemic problems of the international financial "non-system." First, "its fantastic inflationary proclivities, leading to world reserve increases eight times as large over a brief span of fifteen years" since the breakdown of the Bretton Woods system.

Second, "skewed investment pattern of world reserves, making the poorer and less capitalized countries of the Third World the main reserve lenders, and the richer and more capitalized industrial countries the main reserve borrowers of the system."

Third, "crisis-prone propensities reflected in the amplitude" and frequency of financial crises such as the 1980s' debt crisis causing developing countries' "lost decades." Other critics have identified further flaws.

First is the "recessionary bias," due to the asymmetric burden of adjustment to payments imbalances. While deficit countries are under great pressure to adjust, especially when financing dries out during crises, surplus countries do not face corresponding pressures to correct their own imbalances.

Second is the cost of the perceived need of emerging and developing countries to "self-insure" against the strong boom-bust cycles of global finance by building up large foreign exchange reserves and fiscal resources, especially after the 1997-1998 Asian financial crisis.

Such precautionary measures enabled emerging market economies to undertake strong counter-cyclical measures during the GFC. But they have huge opportunity costs as such reserves are generally held as presumably safe, liquid, low-yielding assets, such as U.S. Treasury bonds.

Hence, Triffin complained that "the richest, most developed, and most heavily capitalized country in the world should not import, but export, capital, in order to increase productive investment in poorer, less developed, and less capitalized countries… [The] international monetary system is at the root of this absurdity."

Reform appeals

There were renewed calls for reform of global economic governance in the wake of the GFC, especially by the 2009 UN Conference on the World Financial and Economic Crisis and Its Impact on Development.

Governance reform of the IMF and World Bank should ensure fairer, more equitable representation of developing countries. This should improve the accountability and credibility of the Bretton Woods institutions, enabling them to better address current financial and economic challenges in the world.

The UN also called for a "multilateral legal framework for sovereign debt restructuring." Without a fair, legally binding, multilateral sovereign debt work-out mechanism, developing countries remain vulnerable to private creditors, including vulture funds.

There were renewed hopes for trade multilateralism and early successful completion of the Doha Development Round of the World Trade Organisation (WTO), giving developing countries better access to external markets, seen as vital for balanced global recovery and development. The promise to keep international trade open echoed G20 leaders' unfulfilled commitment to eschew protectionism.

However, only a few of the modest promised reforms have been implemented, with limited changes in international financial governance, still dominated by G7 economies. After all, every financial crisis is followed by appeals for reforms, with complacency setting in with hints of recovery.

Less Coping Capability

Most developed country governments are now more heavily indebted than in 2008, when they bailed out large financial institutions, but failed to sustainably revive the world economy. Major monetary authorities do not have much policy space left after long pursuing unconventional expansionary policies.

Meanwhile, developing countries have been subject to increasing international integration, e.g., through global value chains, foreign financial institutional investments and increased short-term capital flows induced by the unconventional monetary policies of the U.S. Federal Reserve, the European Central Bank, and the Bank of Japan, while debt-sustainability concerns for some are growing again.

These vulnerabilities have been compounded by growing trade protectionism, and dwindling precautionary reserve holdings of many developing economies as global trade has slowed. Even before President Trump's election, developed countries had effectively killed the Doha Development Round, not least by opting for bilateral and plurilateral, instead of multilateral free trade deals.

Trump's more explicit rejection of multilateralism in his efforts to eliminate major U.S. bilateral trade deficits are now expected to further set back prospects for world economic recovery. Despite pious declarations to the contrary, most national policymakers typically turn from rhetoric about international cooperation to focus on domestic issues.

It has not been different this last time. A decade after the worst economic downturn since the 1930s' Great Depression, the world economy remains vulnerable. ❑

RESISTANCE AND ALTERNATIVES

Article 13.1

EQUALITY, SOLIDARITY, SUSTAINABILITY

AN INTERVIEW WITH JAYATI GHOSH

January/February 2015

Jayati Ghosh is a professor of economics at the Centre for Economic Studies and Planning, Jawaharlal Nehru University, in New Delhi, India. She is a member of the Executive Committee of International Development Economics Associates (IDEAs), a global network of economists devoted to developing "alternatives to the current mainstream economic paradigm as formulated by the neoliberal orthodoxy." In this wide-ranging interview, Professor Ghosh addresses major challenges of global economic development, environmental sustainability, and global solidarity: the transfiguration of the world capitalist economy today (along with the reproduction of structures like the division between the wealthy "core" and exploited "periphery"), the prospects for the transformation and revival of socialist movements, the difficulties and possibility of overcoming divisions within the working class at the national and global levels, and the way forward towards egalitarian and sustainable societies. —Eds.

***D&S*:** We are scarcely two decades removed from the supposed global triumph of capitalism, the death of socialism, and (maximum hubris) proclamations of the "end of history." And yet we're seeing a revival of socialist movements—what you have called the "emerging left in the emerging world." What are the key factors explaining this revival?

JG: I think it is now becoming more evident to most people across the world that global capitalism—especially in its current neoliberal manifestation—is not likely

to deliver genuinely better material conditions, security, and justice. This is generally still a largely inchoate and diffuse sense of unhappiness with the state of things in many parts of the world. It is true that in some regions, like Latin America, there is a more developed sense of how neoliberal policies pushed the advance of aggressive and extremely unequal capitalist forces.

This emerging left has many features that distinguish it from the earlier, more centralizing and in some ways less socially sensitive left that characterized the second half of the 20th century in particular. For example, there is some rejection of top-down models of party organization which often distorted the idea of the Leninist vanguard, and greater respect for a plurality of opinions, even as many of these movements are more actively engaged in processes of electoral democracy. The language of human rights is explicitly used in these political formations, which in turn demands the recognition of a greater variety of identities that go beyond the class identities that were the standard form of division. So the rights of women, of indigenous communities, of marginalized groups within society in general, are more explicitly recognized. A specific concern regarding human interaction with nature is also an important element, tempering the earlier somewhat simplistic celebration of technology and human ingenuity, which was seen as trumping the requirements and rights of nature.

It is interesting that these features are to be found in new social and political movements in many parts of the world. They are found not just in Latin America, where they also were associated with some amount of political transformation and shifts in economic strategies, but also among movements in countries as far apart as Thailand, Spain, and South Africa.

D&S: The same does not seem to be true to nearly the same extent in the so-called "core" countries of Western Europe or North America. Why is that? And if the current crisis can't spark a profound questioning of capitalism, and discussion of alternatives to it, what can?

JG: It seems to me that in the core capitalist countries the left in every shape or form has taken a long time to recover from the existential blows delivered by the collapse of "socialism" in the Soviet Union and Eastern Europe, and the very market-oriented moves of Communist regimes in East Asia, including China and Vietnam. Interestingly, this blow has affected even those leftists who had rejected these models as not reflecting true socialism at all.

The social and political ascendancy of capitalism, despite its major recent crises and continuing inability to deliver either inclusive growth or social justice, is largely because of this sense that the alternative proved to be so apparently unpleasant and so different from original expectation. So there is some questioning of capitalism, but no real belief in a viable socialist alternative. This may be why the anger and resistance to the effects of the way capitalism functions is now finding expression in more right-wing responses, which are superficially anti-capitalist but essentially focused on symptoms of the problem and on blaming perceived "others," like immigrants.

D&S: A half century ago, the most influential radical view of economic "underdevelopment" focused on the dominance of industrial-manufacturing "core" economies over raw-materials-producing "periphery." Has that story changed in the current era of neoliberal globalization, with many developing countries moving out of mineral and agricultural exports and into export-oriented manufacturing (often "offshored")?

JG: Geographical and locational changes in productive structures do not negate the idea of "core" and "periphery" operating within capitalism. Global capitalism has, throughout its history, experienced such shifts.

First, despite the so-called shift in economic power between developed and "emerging" nations, the material differences between these countries remain very large. Second, the big engine of global manufacturing growth in the developing world, China, has emerged on the basis of a very different economic system, in which market forces have been shaped by the prevailing political and institutional relations, the control of a central party and the advantages of a broadly egalitarian system bequeathed by the Communist revolution. China's engagement with global markets therefore was on very different terms, unlike those of most primary product exporters. This has certainly enabled some productive relocation—but the idea that all other developing countries can follow a similar trajectory is misplaced. Even insertion into global value chains at lower levels can have the effects of perpetuating the unequal relations that propelled such insertion in the first place. Third, the production of underdevelopment is unfortunately not a process that has ended—it still persists, though sometimes in unlikely and unexpected ways. The core and periphery within the eurozone provides a striking example.

D&S: Another major aspect of radical economists' thinking about development in the "Third World" centered on the problem of the unequal distribution of wealth—especially the unequal ownership of agricultural land. Does the distribution of land remain a central issue in the global South? Has it declined in importance in more urbanized and non-agricultural regions?

JG: The idea that the distribution of wealth (including land) has become less important in contemporary capitalism is completely wrong. The talk of capitalism generating a new kind of productive system that relies on "knowledge" to transform material reality is similarly misleading. The rapacious exploitation of nature remains a central requirement of the capitalist system, and that in turn means that the need to control nature, to privatize it and make its ownership concentrated. This is actually true in all parts of the world, but in developing countries it is most directly evident.

Unequal control over land, water, and other resources is a huge impediment to real development for many reasons. Of course it has an adverse impact on agricultural productivity and the expansion of the home market, thereby impeding industrialization—but that is only one problem. It is significant that all the

developing countries that have progressed in terms of industrial transformation, South Korea and China, for example, are those that experienced far-reaching land reforms including land redistribution at the start of the development project. Otherwise, landlordism creates not just economic obstacles but also socio-political impediments to industrialization and modernization, and allows the persistence of reactionary social features. India is a good example of this.

D&S: The ways that capitalism has linked together economies all over the world—trade in goods, international investment, international migration—directly pose the need for labor internationalism. Is it possible to develop the necessary kinds of labor solidarity when that means reaching across divides, say, between native and immigrant, or the workers of one country and with those of another country half a world away?

JG: It is obviously necessary for such bonds to be forged—it is even essential, because global forces cannot be fought only within nation states. But clearly such bonds are getting harder to forge. However, that is not only because of the material reality of physical differences and geographical distances. It is also—and possibly more crucially—because of changing perceptions of community, identity, oneness, and difference among various social groups. So workers from different countries see themselves as competing against one another in the struggle to keep their jobs and prevent their wages from falling.

A major role in this division across workers is unfortunately played by media, which wittingly (and sometimes unwittingly) transmits and disseminates a discourse in which workers of one country, region, or type are pitted against other workers, and in which they are then seen as the enemy that must be fought. This obfuscatory role played by the corporatized media is of course extremely useful for capitalism, for the agents of global finance and other large capital, because it succeeds in diverting and distracting from the real problems. Obviously, the left in different parts of the world has not just to express clearly the fallacies associated with such a position, but to think creatively about how to give that critique the widest possible traction and publicity.

D&S: How can we square development objectives—including a dramatic increase in standards of living in lower-income countries—with environmental sustainability? Is there a way to sustainably bring the entire world up to rich-country levels? Or should we also be imagining a massive global redistribution of income and wealth, equalizing per capita incomes of global North and South somewhere in the middle?

JG: In developing countries, the most important goals are to help people adapt to climate changes that we already see and to find ways of mitigation without burdening the poor or preventing their access to essential goods and services. This is important because, even in "emerging" economies, the development project is far from complete, with many millions—the majority of the people—excluded from the minimum conditions for a decent and secure life that ensures dignity and allows

creativity. Bringing the vast majority of the developing world's population to anything resembling a minimally acceptable standard of living will involve extensive use of global resources. It will necessarily imply more natural resource use and more carbon emissions. So we have to reduce resource use and emissions elsewhere and in other activities, and re-orient growth in cleaner and greener directions.

In terms of economic strategy, this probably requires policies at several different levels. To start with, the orientation of economic policies and public perception must shift away from the single-minded obsession with GDP growth. For this to happen, it is necessary to develop a set of quantifiable measures of genuine human progress, based as far as possible on objective criteria describing conditions of life (not GDP), which can be regularly estimated and monitored to hold governments and other agents accountable.

Ways of production must change. In agriculture it would be necessary to promote actively the viability of sustainable food production with small holder cultivation that can cope with the greater incidence of climate variability. It is also necessary to reduce and regulate corporate power in food and other productive industries, as well as in finance, so that undesirable forms of consumption and production are not promoted or perpetuated. For all production, the shift from carbon-based production to renewable energy-based activities needs to be encouraged.

The ways in which we organise our physical conditions of life and work also need to change. This can include focussing on urban planning and management that reduces resource use and deals better with waste of all kinds; and emphasising clean, efficient and affordable public transport systems rather than allow polluting and congesting private transport systems. Clearly, protecting and nurturing dwindling water resources and preventing privatized over-exploitation of this and other key gifts of nature is essential.

This is not possible without a simultaneous attack on the growing inequality evident in most societies. Income and asset inequalities generate unsustainable consumption patterns among the privileged and create the desire for them among others. This has to be reduced by using explicitly redistributive measures, fiscal incentives such taxes and subsidies, patterns of public spending more directed to improving conditions of worse-off groups, and improvement of the conditions of work through better regulation and protection of wage workers and the small self-employed.

At the global level, this also requires fighting the monopoly of knowledge and control over technology created by the regime of intellectual property rights and ensuring greater access to relevant "green" technologies to developing countries. And this in turn is part of a broader need to resist and control international trade and investment patterns that create incentives for over-exploiting people and nature.

D&S: The problems we face are not going to be solved overnight, and certainly the world is not going to be transformed overnight. What do you think are the most important changes that we need to start making now, though, to see a world more like the one we want—more egalitarian, democratic, cooperative, and sustainable—forty or fifty years from now?

JG: For me, the desired goal for an ideal society would be one in which some things that you cannot control—where you are born, what you are born as, the family into which you are born—do not affect your basic conditions of life—having a secure home; peace and security; access to nutritious food and other basic requirements for good health; access to education; opportunities for work, leisure, self-expression, and social participation.

This would not mean putting an end to all social and cultural differences, because after all, that is what makes life interesting. But it would mean that your life chances are not fundamentally different because of accidents of birth. So if you are born as a girl of a minority ethnic group in a rural area of a poor region, you would still have access to minimum conditions of life and opportunities for developing your capabilities that are not too different from a boy born in a well-off household of a dominant social group in an affluent society. This would obviously require a certain organization of both economy and society.

To begin with, it would mean that economic arrangements would not be oriented around the simple expansion of aggregate incomes and profits as the most significant goals. It is actually irrational to be obsessed with GDP growth. Consider just one example: a chaotic, polluting, congested, and frustrating system of privatized urban transport generates much more GDP than a clean, efficient, affordable, and "green" system of public transport. This in turn means that other goals would matter: reasonable living conditions for all, development of people's capabilities and space for their creativity, decent employment opportunities, safe and clean environments.

Access to the essentials of life—food, water, basic housing, and so on—would not be determined by the ability to pay but treated as human rights, made available to all in an affordable way. Ensuring this does not mean eliminating market forces altogether. Rather, market forces that help in achieving these goals would be encouraged, while those that operate to reduce standards of living and quality of life of ordinary people would be regulated, restricted, or even abolished.

Extreme inequalities would not be tolerated. Systems of taxation and distribution, as well as methods of monitoring and regulating pay and other returns, would ensure that material differences between people did not grow too large. Social discrimination and exclusion of all kinds would be actively discouraged and sought to be done away with. In addition, in these economic and social arrangements there would be much greater social respect for nature. Economic activities would be monitored and assessed for the damage they do to nature, with a focus on reducing this as much as possible.

All this means that governments would obviously be much more important. So they would have to be more genuinely democratic, transparent, and accountable, and adjust policies to changing conditions. There would be more people's voice and participation in the decisions that affect their lives. Governments would respect both the collective rights and concerns of groups and communities as well as the individual rights of all citizens. For these to be possible within one country, it would be necessary for international political and economic arrangements to support the

possibility of such societies emerging and being sustained, without the threat of destabilizing trade and capital flows or military aggression.

At least some of these goals are not so hard to achieve, after all. And for the more ambitious goals, it only requires more people everywhere to share them and strive to achieve them. ❑

Article 13.2

UNDERSTANDING FRANCE'S *GILETS JAUNES*

Macron's centrist party collides with the yellow vest protests.

BY AARTH SARAPH

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France—a country where taking to the streets and demanding change is part of a broad political culture—is no stranger to protest, and citizens have a deep understanding that democracy isn't a singular event confined to a rendezvous at the ballot box every few years.

French protests have historically been organized and led by unions, student groups, or political movements. But beginning in mid-November, a different kind of protester began taking to the streets. The *gilets jaunes*, named for the bright yellow vests carried by motorists as a safety measure, are in many ways unique—a horizontal movement driven by the rural grassroots of the country, rather than by any centralized leadership or organized political force.

The initial rallying cry of ellow vest protesters was a hike in fuel taxes, announced by the French government as one of their measures towards a long-term ecological transition and greening of the transportation sector. However, the symbolism of this fuel tax hike, in the wake of both lowered corporate taxes and the elimination of a tax on wealth by the Macron administration, was not lost on the French public, already sharply divided between the urban Paris and rural *la province*.

Many of these protesters come from a diverse range of political opinions and had never taken to the streets or participated in any form of direct action. However, every Saturday since November 17, the yellow vests have flooded the streets of France, calling for social and economic justice—at a time when France's unemployment rate stands at 9.2% and youth unemployment is even higher at 21.8%. At a recent demonstration, most protesters spoke about their declining purchasing power and their inability to make ends meet under a heavy tax burden. Many expressed their frustration at a perceived loss of power and the impotency of political leaders that had come and gone over the years, from the center-right President Nicolas Sarkozy to center-left President François Hollande, without any change in the system.

The yellow vest protesters also highlighted how members of the ruling class are disconnected from the lives and concerns of ordinary people, and how they view politicians as both aloof and arrogant. President Emmanuel Macron didn't ameliorate this perception last September when he responded to a plea for help by an unemployed gardener by telling him he could easily find work if he applied for a restaurant or construction job. In a statement reminiscent of the ruling aristocracy during the French Revolution, French Budget Minister Gérald Darmanin reflected

Nonetheless, even these few measures from Macron elicited an immediate response from the European Commission's Economic Affairs Commissioner Pierre Moscovici, worried about the impact of increased spending on France's budget deficit. Under the terms of the Stability and Growth Pact, France, and other member states of the European Union, are expected to keep their budget deficits to under 3% of the gross domestic product, an agenda that has hitherto been championed by Macron as part of his political program.

Given the yellow vest's frustration with electoral politics, it is unclear whether the movement will become a political coalition, similar to the Five Star Movement in Italy, or coalesce into one of the existing political parties, either on the populist left or right. What is clear, however, is that the protesters are fed up—and past the tipping point. While their anger is now directed towards Macron, the yellow vests are aware that their fight is not with an individual, but with a system that has let them down for decades and a technocratic establishment that has replaced the political institutions of the past. While participation in the protests dipped during the holiday season, the first protests staged in 2019 have seen growing involvement. The demand for a constitutional amendment enabling citizen-proposed referendums has increasingly taken center stage. The yellow vests insist that greater direct democracy is the only counterbalance to the actions of their political representatives, whom they see as representing the rich, powerful, and predominantly Parisian elite.

In February 2015, during the Greek debt crisis negotiations, Wolfgang Schäuble, now president of the Bundestag, and then the finance minister of Germany, responded firmly to his Greek counterpart, Yanis Varoufakis—"Elections cannot be allowed to change an economic program of a member state!" In 2018, as the effects of prolonged austerity and growing inequality are increasingly felt across Europe, it is no wonder that movements like the yellow vests are growing in magnitude, as anger with the ruling elites continues to mount.

With European parliamentary elections scheduled for May, progressives would be well served to learn from these lessons and heed the message shared by the yellow vests—the alternative is to surrender this space to right-wing demagogues taking democracies by storm. There can be no ecological transition that isn't linked to economic and social justice; and any measures that subscribe to a top-down approach placing the interests of corporations above people will fail. The uprising of the yellow vests underlines the failure of this segregationist approach. As Europe, and the world, faces unprecedented environmental, social, and economic crises, it is time to turn away once and for all from the politics of austerity and invest in a green-energy economy that creates jobs and better lives for all. ❑