THE US ATTEMPTS TO RETAIN CONTROL OVER THE FINANCIALIZED PLAYGROUND

I'm a big fan of Kevin Phillips' arguments about how increased financialization of their economies lead to the decline of the Spanish, Dutch, and British empires in succession; his latest book warned that Wall Street crash might represent our tipping point. But I've been wondering what happens to a globalized world that is that financialized, as we have now. My impression is that it might be different this time around, partly because the world is so interconnected that most of the world has, for better or worse, been integrated into the same financialized system.

As James Galbraith described in his book *Inequality and Instability*, the the last several decades can be understood as the US first extracting wealth from the rest of the world, and only then turning to the American consumer to do to it what it had already done to developing countries.

> First, the massive rise of inequality in the global economy from 1980 to 2000, with a peak in most countries—including the United States—in the millennial year, is a fundamental reflection of the concentration of income and wealth among the richest of the rich, and the corresponding financial fragility affecting everyone else. Crises, and especially debt crises, are thus not new or sudden; in global perspective we see that they have cascaded across the world for a generation, hitting Latin America and African in the early 1980s, the Soviet Union and its satellites in the late 1980s and through the 1990s, and much of Asia in the late 1990s.

> Through this period inequality rose in the United States, but the prevalence of external crises also meant that the United States benefited throughout from its position as a refuge for capital. In the 1990s capital flowed in, especially to the benefit of investors in the technology sectors, whose investment euphoria produced a general nationwide prosperity right up to the initial crash of the technology sector—and its NASDAQ stock index—in March and April 2000.
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> The problem facing the incoming administration of George W. Bush in January 2001 was thus twofold. Externally, there was little scope remaining for extracting capital from the rest of the world. Every region that was open to crisis, with the possible exceptions of China and India, had already had one. Internally, the appeal of the major American leadership sector had worn out.

Galbraith describes how Bush tried first war and then American consumers to sustain growth, which brought about the financial crisis.

> The financial crisis (and the world economic crisis it engendered) thus represented not so much the natural outgrowth of rising inequality as a further phase; it was the consequence of a deliberate effort to sustain a model of economic growth based on inequality that had, in the year 2000, already ended. By pressing this model past all legal and ethical limits, the United States succeeded in prolonging an "era of good feeling," and in ensuring that when the collapse came, it would utterly destroy the financial sector.

In short, you can't separate the current global system from the US efforts to sustain its financialized empire.

But the big players in the developing world are getting cranky with US efforts to sustain its hegemony over that financialized system.

The view was expressed by Wang Jisi, a high level Chinese insider, in this Brookings report documenting the roots of Chinese-American distrust (see also this NYT article on the report).

> Since 2008, several developments have reshaped China's views of the international structure and global trends, and therefore of its attitude toward the United States. First, many Chinese officials believe that their nation has ascended to be a firstclass power in the world and should be treated as such. China has successfully weathered not only the 1997-98 Asian financial crisis but also the 2008-09 global financial crisis; the latter, in Chinese eyes, was caused by deep deficiencies in the U.S. economy and politics.
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> [snip]
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> Second, the United States is seen in China generally as a declining power over the long run. America's financial disorder, alarming deficit and unemployment rate, slow economic recovery, and domestic political polarization are viewed as but a few indications that the United States is headed for decline. To be sure, China's top leadership has been sober-minded enough to observe the resilience of U.S. power and not to have reached the conclusion that America's superpower status is seriously challenged as of now.
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> [snip]
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> Third, from the perspective of China's

> leaders, the shifting power balance between China and the United States is part of an emerging new structure in today's world. While the Western world at large is faced with economic setbacks, emerging powers like India, Brazil, Russia, and South Africa join China in challenging Western dominance. These countries are referred to collectively as the BRICS and BASIC, with their leaders meeting regularly.7 Their coordination of economic and foreign policies serves as a counterweight to Western predominance. The G20 is replacing the G8 as a more effective and probably more viable international mechanism. The IMF, the World Bank, and other international organizations and regimes now have to take the aspirations and interests of the emerging powers more seriously.
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> Fourth, it is a popular notion among Chinese political elites, including some national leaders, that China's development model provides an alternative to Western democracy and experiences for other developing countries to learn from, while many developing countries that have introduced Western values and political systems are experiencing disorder and chaos. The China Model, or Beijing Consensus, features an all-powerful political leadership that effectively manages social and economic affairs, in sharp contrast to some countries where "color revolutions" typically have led to national disunity and Western infringement on their sovereign rights.
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> [snip]
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> It is strongly believed in China that the ultimate goal of the United States in world affairs is to maintain its hegemony and dominance and, as a result,

> Washington will attempt to prevent the emerging powers, in particular China, from achieving their goals and enhancing their stature. According to typical Chinese understanding of world history, American politicians are true believers of “the law of the jungle,” and their promotion of democracy and human rights are in reality policy tools to achieve goals of power politics. This cynicism is so widespread that no one would openly affirm that the Americans truly believe in what they say about human rights concerns.

And it was evident in the tensions underlyng last week’s visit by Brazil’s President Dilma Rousseff to the White House.

> But the friendliness belied a sense that the United States, whose once-dominant sway in Latin America is ebbing, and Brazil, the hemisphere’s rising power, still do not see eye to eye on a range of important issues, from Middle East diplomacy to trade with Cuba and Brazil’s ambitions of obtaining a permanent seat on the United Nations Security Council.
> [snip]
> The strength of Brazil’s currency, the real, has been a blessing for Brazilians snapping up properties in Miami and New York. At the same time, the real’s vigor has limited the competitiveness of Brazilian exporters by making their products costlier in foreign markets.
> [snip]
> Yet the leaders’ eyes rarely met, and Ms. Rousseff rarely looked at Mr. Obama as he spoke. He looked intently at her during her remarks, nodding in agreement at times. But he seemed to bristle when she expressed concern that America’s “monetary expansion policy” could impair growth in emerging economies like

> Brazil’s. Monetary policy is the responsibility of the Federal Reserve; the White House and Congress deal with fiscal policy.

Rousseff repeated her complaints today about US policies inflating the value of the real today at the Summit of the Americas; she was seconded by Colombia’s President Juan Manuel Santos.

Which is why I’m so intrigued by the development Nicholas Shaxson reports–an effort to prevent the UN Conference on Trade and Development from engaging in research on finance so as to reserve such tasks exclusively to the World Bank and IMF. As a letter signed by a bunch of former senior UNCTAD officials explains, the developed countries will reportedly attempt this week to changed UNCTAD’s mandate to prevent it from doing macroeconomic research.

> Since its establishment almost 50 years ago at the instigation of developing countries UNCTAD has always been a thorn in the flesh of economic orthodoxy. Its analyses of global macro-economic issues from a development perspective have regularly provided an alternative view to that offered by the World Bank and the IMF controlled by the west.
> Now efforts are afoot to silence that voice.
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> [snip]
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> As otherwise unfavourable commentators have occasionally admitted, UNCTAD was ahead of the curve in its warnings of how global finance was trumping the real economy, both nationally and internationally. It forecast the Mexican tequila crisis of 1994/5. It warned of the East Asian crisis of 1997 and the Argentinian crisis of 2001. It has consistently sounded the alarm of the dangers of excessive deregulation of financial markets. It has stressed the

> perils of rapid, nonreciprocal trade liberalization by developing countries. UNCTAD economists have not had to suffer the psychology of denial so prevalent in other organisations.
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> [snip]
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> No organisation correctly foresaw the current crisis, and no organisation has a magic wand to deal with present difficulties. But it is unquestionable that the crisis originated in and is widespread among the countries that now wish to stifle debate about global economic policies, despite their own manifest failings in this area.
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> Because of the crisis, we do now have a better explanation of the inter-relationships between the real economy and the world of finance. Those explanations are now a good deal closer to what UNCTAD has been saying for nigh on three decades about the dangers of finance-driven globalization. And it is precisely in its analysis of interdependence that UNCTAD brings added value to an understanding of how the functioning of the global economy impacts on the majority of the world's population who live in developing countries.

The Group of 77 plus China has also issued a response, calling for stark change in response to the crash.

> It is therefore of no comfort that we have seen strong opposition from our partners for one of the central themes running through the work and engagement of our Group: that the global economic and financial crisis marks for once and for all the end of the bad old days, and perhaps the dawn of an international regime of global economic governance

> based on the highest principles and ideals of the United Nations, including sovereignty, equality, and mutual respect. Instead, we see behaviour that seems to indicate a desire for the dawn of a new neocolonialism. We cannot, we will not, accept this.
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> We firmly believe that UNCTAD XIII can be a contribution to a new beginning. We firmly believe that the theme of development-centered globalization presents an opportunity to articulate a vision of development based on equality, based on a differentiated approach to development, and based on equal respect for all. We still believe this is possible.
> Unfortunately, despite being the beneficiaries and the demandeurs, we feel increasingly marginalized by our partners especially when they seem to deny us our own priorities. Perhaps this is partly our own fault. Perhaps, in our desire for consensus, we have accommodated too much and this good faith was misunderstood, and abused. Perhaps this should end now.

One of the key issues is efforts on the part of the Fed to drive down our currency, which in turn has been part of the impetus behind resurgent manufacturing in this country.

But I also wonder whether the dollar reserve isn't coming to a head more quickly than we imagine (indeed, I've wondered whether we're pursuing such an idiotic policy in the Middle East to keep the Saudis firmly committed to the dollar). With the collapse of the Euro, there's no ready substitute. But China especially could accelerate our decline by shifting away from the dollar.

Whatever happens, things may start to get far more interesting in the immediate future.