Sharon Beder, 'Globalisation: Before and After the Crisis', in Zukunft der transkulturellen Bildung – Zukunft der Migration, edited by Asit Datta, Brandes & Apsel, Frankfurt, 2010, pp. 18-29.

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Globalisation: Before and After the Crisis

Rise of Globalisation

So-called »free« markets are becoming the new organising principle for the global order. The idea that governments should protect citizens against the excesses of free enterprise has been replaced with the idea that government should protect business activities against the excesses of democratic regulation. What business leaders seek, and to a large extent have achieved, are »business-managed democracies«, that is, democracies where the politics and cultural life of nations are managed in the interests of business.

Corporations have always had a certain amount of power through their ability to make decisions concerning production and employment. And as they have grown in size and number that economic power has become significant and has been used to exert political influence. However, corporations have not been content with the degree of economic power and political influence they can wield individually. Since the mid-20th Century they have sought to increase their collective power, consolidating their political influence to pressure governments to make decisions in favour of business interests. And since the 1970s corporate coalitions have moved from defending their economic freedom from the demands and interventions of labour unions and governments, to being far more aggressive in their goals, extending them from just determining economic policy to social policy as well. Their takeover of key areas of government policy making and service provision has meant that as time goes by democratic power is undermined and thwarted (Beder 2006a).

The political mobilization of business interests since the 1970s meant that corporations began to act as a class with a shared ideology rather than a collection of competing companies with some common business interests. The class consciousness of top corporate executives was facilitated by the growth of inter-corporate networks of ownership and interlocking directorates of large corporations, which gave rise to a growing number of corporate executives who occupied positions on the boards of several companies. These corporate executives became politically active on behalf of business in general. They provided the leadership for business coalitions and associations and were employed at the top levels of the largest corporations (Useem 1984, 5).

Many of these coalitions are now global in their reach reflecting the transnational nature of the modern corporation. The corporate class has evolved into a transnational capitalist class (Sklair 2000).

A great number of business coalitions have been formed for this purpose of presenting a combined and powerful voice for business. These coalitions are tightly networked and closely interrelated through their common corporate membership. This multiplicity of coalitions with heavily overlapping membership and leadership enables corporations to multiply their power and influence.

The »unprecedented levels of strategic alliances and global networks« created by transnational corporations (TNCs) have been referred to as a new form of capitalism: »alliance capitalism«. In this new form of capitalism, TNCs have more in common with, and show more loyalty to, TNCs from around the world than with the countries where they are headquartered (Sklair 2002, 65). Despite this shift in allegiance, national governments still go out of their way to facilitate the business activities of these TNCs and to ensure government social policies do not unduly impede those activities.

The rise of corporate power since the 1980s and the increasing importance accorded to markets mean that transnational corporations are eclipsing the nation state as the driving force behind policy-making. The corporate goal of free trade and investment has been given precedence over other citizen goals such as environmental protection, improved working conditions, affordable and accessible electricity and water, universal health care and schooling. Each of these areas of social policy has been subject to commodifiation, marketisation, privatisation and deregulation in the name of free markets.

Business coalitions have sought to expand markets through the exercise of business-managed democracy. They have mobilised and lobbied to get governments to sign up to trade agreements. These agreements are portrayed as being about economic trade but are really about ensuring that the social and environmental policy and regulation of nation states does not interfere with the ability of TNCs to invest, trade and sell their services anywhere in the world.

The World Trade Organization (WTO) is the organization that ensures that trade rules prioritise business interests over national and public interests. It has greater powers than any other international institution including powers to punish non-complying nations that are not even available to the United Nations. Over 130 nations are now members of the WTO. It has become a form of global government in its own right with judicial, legislative and executive powers. (Braithwaite/Drahos 2000, 177; Clarke c. 1999, 4-5)

The enlistment of regulators, bureaucrats and politicians in their cause has been a key achievement of those lobbying for various agreements within the WTO. This is made easier by the phenomenon of the revolving door. Large corporations are able to offer lucrative positions, including directorships, to those who are supportive of their aims.

Neoliberalism

From the second world war until the 1980s most OECD governments had a mixed economy whereby essential services remained in government control and governments sought to provide social welfare for the disadvantaged. They subscribed to Keynesian economic theory which promoted government spending as a way of keeping market demand high enough to ensure high levels of employment, and therefore high levels of income and spending. In this way they sought to avoid the downward spiral into depression that had occurred in the 1930s. Budget deficits and surpluses were used to regulate economic activity and manage the economy. Governments therefore had a strong social and economic role which they sometimes used to achieve greater equity through progressive taxation and the free provision of welfare and social services, such as health and education.

Keynesian economics suffered a pronounced decline in popularity during the 1970s when economic growth in affluent countries slowed as oil prices escalated following the oil crisis. Stagflation, the combination of low economic growth and inflation, contradicted Keynesian theories, which seemed to offer no solution to the problem. Opponents argued that the welfare state was the problem because social security, and the high taxation it required, degraded the incentives to work hard and take business risks. Businesspeople feared that the rising government deficits would cause interest rates to go up, making private investment more expensive and adding to inflation. At the same time free market advocates disparaged the benefits of government intervention and planning through spurious reference to the failures of the planned economies of the Soviet Union and other communist nations (Carroll 1992, 8; Easton/Gerritsen 1996, 28; Jackson/Price 1994, 3).

It was at this time that a fundamentalist combination of neoclassical theories and economic liberalism, which came to be referred to as neoliberalism, came to the fore, particularly in English speaking nations. Neoliberalism advocated the replacement of government functions and services with those

provided by private profit-seeking firms operating in the market (privatization); deregulation of labour and financial markets; deregulation of business activities; free trade; and smaller government through reduced taxes, spending and regulation. These policies were promoted in the name of free markets, economic growth and the public interest (Beder 2006b, ch. 4).

For many years neoliberal economic theories had been considered marginal and obsolete. They moved from the margins of economic thought to the centre of orthodoxy because they became useful to business interests seeking to minimize government interference in their activities and expand markets. Neoliberal theories were embraced by big business because they provided a legitimation for their pursuit of self-interest and avenues for business expansion (Beder 2006a, 151). They supported the argument that government regulation interfered with business and undermined »enterprise culture« (Self 1993, 72). In this view government intervention in the management of the economy is unnecessary and unwise because the market is a self-correcting mechanism. There was also some appeal in free market ideology for governments in that it absolved them of responsibility for economic performance (Beder 2006a, 8).

In English speaking nations an array of corporate-funded think tanks proliferated during the 1980s and 90s, which successfully promoted neoliberal policies. For example the rise of Thatcherism in Britain can be attributed in large part to the endeavours of two think tanks: the Institute of Economic Affairs (IEA) and the Centre for Policy Studies (CPS). In the US too, conservative corporate-funded think tanks have been responsible for the transmission and promotion of free market ideas and policies since the rise of Reagan in the 1980s (Beder 2006a, ch. 1).

Neoliberal policies were also the basis for the Washington Consensus which was forced on developing nations at an international level by the World Bank and the IMF through the use of loan conditions and structural adjustment packages. The Consensus gave economic goals priority over social goals, destroying socially beneficial traditions and desirable aspects of cultures in the process (Stilwell 1993, 36). Progressive taxation systems were dismantled and government social services decimated.

Whilst the IMF and the World Bank enforced the Washington Consensus on poorer countries in desperate need of capital, other more affluent countries were forced into adopting the same formula by the world's financial markets. Their vulnerability to these markets was facilitated by financial deregulation.

Financial deregulation involved three actions: the opening up of a nation

to the free flow of capital in and out of it; the removal of regulations on financial institutions operating within a country; and the removal of political controls from the central bank (Patnaik 1999). In this way the financial sector of many nations became part of the international financial sector serving the interests of global financial institutions rather than the interests of the local people or national governments (Beder 2006b, 47-52).

Financial deregulation was demanded by business interests, particularly large financial firms and transnational corporations that wanted to be free to move their money around. As a result of financial deregulation governments become accountable to international financial markets and »the markets have become the police, judge and jury of the world economy (Financial Times 1994).

However, the judgement of financial markets is neither wise nor well thought out. Rather it is greed/panic-driven and herd-like. Decisions to buy and sell are not made on the basis of what is good for a nation's economy but rather on the basis of trying to second guess other investors. This merely serves to create economic instability and does little to foster productive long-term investment. Investment capital that could otherwise be used in production is used for gambling on the economies of various countries (Bello 2008).

Financial deregulation exposes »the economy to the vortex of speculative capital movements, that is, to the flows of short-term finance in search of quick profits.« For example, only ten percent of transactions in currency markets represent actual trade. The rest is largely speculative (Patnaik 1999; Toussaint, 1998, 52). The rapid inflow and outflow of speculative finance can cause crises in national economies (Patnaik 1999).

Countries can still retain a veneer of democracy with choice between major parties, but because of the constraints imposed by the need to please international financial markets, the policy differences between the major parties is minimal. They all adopt the same free market policies (Patnaik 1999). Governments that try to deviate are punished by the markets, in particular, »the major international banks, large transnational corporations with major financial dealing, fund managers within key private financial institutions, and the key credit-ratings agencies (such as Moody's)« (Bell 1997, 105).

Inequality and Debt

As neoliberal policies were implemented around the world disparities in wealth and income increased and poverty increased, contradicting neoliberal theories that by increasing the wealth at the top everyone would be better off.

The Washington Consensus benefited transnational corporations and large companies, often at the expense of small local businesses, and always at the expense of the poor (Beder 2006b, 46). Between 1980 and 2000 incomes in Africa declined by 23 percent and the Latin American economies only grew by 6 percent (Palast 2002, 48). Forty four percent of people in developing nations live in poverty and unemployment doubled in the last decade of the 20th Century (Financial Times 2002, 1; New York Times 2002, A-1; Washington Post, 2002, E01). Even the IMF admits that »in recent decades, nearly one-fifth of the world population have regressed« (Quoted in Palast 2002, 50).

In the US, »[t]hree decades of neoliberal economic policy has led to the widest gap between rich and poor in America as compared to other industrialized nations…Currently the top 20% of population in America receive about 50% of income, while the lowest 20% get merely 3.4% of the income, and the top 1% own 40% of the wealth.« (Torbat 2008) Although average wages increased by 2.5 percent between 2000 and 2007 this increase actually occurred at the top of the wage hierarchy with Wall Street traders and executives earning many billions of dollars each year between 2003 and 2007 (Muzaffar 2008; Time 2008), while the real wage of the median household fell over that time (Sapir 2008). Such disparities in income have been accepted because greed has been institutionalised and legitimised as a driver of free market economies: »The rapacious acquisition and accumulation of wealth by an elite is sanctified as a vital pre-requisite for the progress and prosperity of the people. The poor, it is argued, will eventually benefit from the wealth created by the elite.« (Muzaffar 2008)

Inequities in income in many countries, resulting from neoliberal policies, meant that consumer demand could not keep up with production capacity. Consequently profits from investing in production declined and economic growth slowed. Once governments would have fed demand through government spending, but neoliberalism precluded this. Instead consumer demand was increased through bank credit to consumers (Torbat 2008). This temporarily ensured continued economic growth in many countries. In the US, cuts in interest rates ensured more borrowing in order to sustain economic growth (Gupta 2008).

Consumer credit was augmented by mortgage debt. The middle-classes in the US, for example, borrowed money through home mortgages, to pay for consumer items and to be able to invest in the booming stockmarket (Sapir 2008). More and more people were given these loans despite declining wages, because rising house prices seemed to guarantee that the loan institutions could not lose. If people defaulted on their mortgages the repossession of their homes would cover their debt. »By 2004, Americans were using home equity to finance as much $310 billion a year in personal consumption.« (Gupta 2008) By 2008 household debt was up to 93 per cent of US GDP (Sapir 2008), and was a key driver of economic growth in the US (Gupta 2008).

Low interest rates meant more home buyers could afford to buy homes and more of them could afford more expensive homes so that house prices went up. »Big ticket mortgages were aggressively sold to millions who could not normally afford them by offering low »teaser« interest rates that would later be readjusted to jack up payments from the new homeowners.« (Bello 2008)

The demand for housing as an investment, caused house prices to increase even more. This demand increased after the stock market declines in 2000 and 2001 when nervous investors moved from the stock market to property as a safer investment (Gupta 2008).

Causes of the Financial Crisis

As a result of neoliberal policies, wealth accumulated in the hands of the few who searched for ways to invest it that were more profitable than investment in production. The financial sector offered lucrative investment opportunities, exacerbating the volatility of markets that accompanies »massive speculation« (Muzaffar 2008).

The neoliberal opposition to government intervention in business and markets, and in particular the deregulation of financial institutions, allowed financial markets to become more and more complex as traders worked out more and more ways to make money from both rising and falling markets, using derivatives, credit default swaps, and other mechanisms that were often beyond the understanding of the layperson and many politicians (Bello 2008).

One investment mechanism was »collateralized debt obligations« (CDO's), which turned home mortgages into a tradeable commodity. Banks could earn fees from setting up mortgages and then sell on the mortgage so as to free up their money to establish more mortgages. Once the mortgage was sold on,

the bank did not have to worry about whether the mortgage would be paid off and so it was less concerned about ability to pay when it approved loans. »Banks began using call centers and high-pressure tactics to mass-produce mortgages because the profit was in volume – how many loans could be approved how fast.« (Gupta 2008)

To make these mortgages attractive to investors, the banks had them assured by Fannie Mae or Freddie Mac, which to investors was as good as a government guarantee for the mortgages since they were sure the US government would not allow these institutions to go bankrupt. Fannie Mae, Freddie Mac, banks and hedge funds bundled mortgages together as mortgage-backed securities (MBS) to sell them to investors who would then own the right to receive mortgage payments (Gupta 2008).

MBSs were further bundled with other investment products into CDO's. The various middle-people who were involved in selling them on had an interest in understating the risks associated with these CDOs and because financial markets had been deregulated they were free to do so. Banks and foreign financial institutions were ready to believe assurances of low risk because they assumed house prices would continue to rise indefinitely (Bello 2008; Gupta 2008).

However, rising house prices led to a building boom and an oversupply of housing, contributing to the bursting of the housing price bubble. Oversupply was exacerbated when interest rates were increased and hundreds of thousands of people could no longer afford their mortgage payments and their houses came back onto the market (Gupta 2008). When this happened the owners of the MBSs and CDOs found that the houses were now worth much less than the mortgages they had bought and for companies like Lehman Brothers, Merrill Lynch, Fannie Mae, Freddie Mac and Bear Stearns, their consequent losses were more than they could afford and they were threatened with bankruptcy (Bello 2008).

Other companies such as the American International Group (AIG) lost money on credit default swaps – »derivatives that make it possible for investors to bet on the possibility that companies will default on repaying loans. Such bets on credit defaults now make up a $45 trillion market that is entirely unregulated.« (Bello 2008)

Financial institutions around the world were exposed to these CDOs and suffered major losses; some having to be bailed out by governments. The collapse and near collapse of major financial institutions led to a series of panics in stock markets around the world, wiping trillions of dollars off the value of stock. Falling share prices, combined with the unavailability of credit as banks

became more cautious, caused a decline in business and consumer confidence as well as a slump in consumer demand and lowered economic growth, which have in turn fed rising levels of unemployment and recession.

Response to the Crisis

The response of governments to this financial crisis – bailing out banks and large financial institutions and spending huge amounts to stimulate the economy – seemed to herald the end of neoliberalism and a return to Keynsian policies. There was talk of the end of global capitalism and widespread criticism of corporate greed. However, the only ideology that corporate leaders are consistently loyal to is corporate self-interest and neoliberalism is only useful as a tool for business-managing society when the economy is expanding and corporate profits are increasing. In times of economic downturn, as the recent global financial crisis has demonstrated, business leaders manage governments into supplying bailouts for companies and government spending for economic stimulus. Even so, the push for privatisation, deregulation and free trade and investment has not abated.

The business community continues to press for a successful conclusion of the Doha Round. In April 2009 the G8 Business Leaders, a group representing business coalitions in G8 nations, declared the need for G8 governments to »strengthen and publicly renew their full commitment to an open global economy… The successful conclusion of the Doha Round lies at the very heart« of this commitment and would provide »the strongest possible stimulus for the recovery of the global economy« (G8 Business Leaders 2009). G8 government leaders have obediently confirmed their commitment to open global trade.[1]

The UN Conference on the Financial and Economic Crisis, whilst recognising the »critical need for expanding the scope of regulation and supervision and making it more effective« nevertheless called for the »conclusion to the Doha Round that increases market access« (Quoted in vander Stichele 2009). The aim of the Doha Round is to further deregulate financial services and re-

[1] See for example, Joint Press Statement on ASEAN+3 Cooperation in Response to the Global Economic and Financial Crisis Bangkok, 3 June 2009, http://www.aseansec.org/JPS-ASEAN+3-Cooperation-Financial-Crisis.pdf; Meeting of APEC Ministers responsible for Trade, Singapore, 21-22 July, 2009, http://www.apec.org/media/2009_mrt_statement.html.

move limits on the size and activities of foreign financial companies under General Agreement on Trade in Services (GATS) rules (vander Stichele 2009).

In his condemnation of »extreme capitalism«, Australian prime minister Kevin Rudd was careful to avoid criticism of free trade and globalisation (The Monthly 2009). And, despite the rhetoric about the need for tighter financial regulation, the US and EU are still pushing for bilateral free trade agreements with developing nations that preclude regulation of foreign banks and the financial sector. The UN Commission of Experts on the financial crisis has admitted that:

> Many bilateral and multilateral trade agreements contain commitments that circumscribe the ability of countries to respond to the current crisis with appropriate regulatory, structural, and macro-economic reforms and rescue packages, and may have exposed them unnecessarily to the contagion from the failures elsewhere in the global economic system. (Quoted in vander Stichele 2009)

The banking industry has fought against all efforts to impose controls on their business (Financial Times 2010). In Australia, the government has even created a government department to reduce regulation of business, The Department of Finance and Deregulation. Cahill (Cahill 2009, 14) notes: »In most cases, states have acted to protect the viability of the system of capital accumulation rather than to shield ordinary citizens directly from the sometimes violent fluctuations of the market.«

Even before the global financial crisis Latin American nations were trying to break free from the Washington Consensus. Voters in Venezuela, Brazil, Argentina, Bolivia, Ecuador, Nicaragua and El Salvador elected leaders who opposed neoliberal policies imposed by the World Bank and the IMF and some sought loans from China and Venezuela. However breaking free of the Washington Consensus has not been easy and the global financial crisis will ironically force more nations to take up conditional loans with the World Bank and the IMF. Despite some rhetoric to the contrary, these organizations have done little to change the neoliberal policy conditions accompanying their loans (Cavanagh/Broad 2009).

The apparent retreat from some neoliberal policies doesn't signal a retreat of business from managing democracies in the interests of global capital. After all the business embrace of neoliberalism was one of convenience. Business leaders have no ideological commitment to neoliberalism and are willing to jettison those policies that do not currently suit the interests of global capitalism so that governments can intervene to shore up business con-

fidence, rescue large financial institutions and stimulate economic growth. Nonetheless, business-friendly neoliberal policies, such as free global trade and investment, privatisation of public services, less progressive taxes and deregulation of most business activities, are being maintained in business-managed democracies around the world.

However, despite the unwillingness of global capital to loosen its grip on the policies of nations around the world, change may be forced in time because of a number of intractable problems that have not been solved. Firstly the need for capital to expand is still faced with the problem of falling consumer demand resulting from growing inequality. This could feasibly be fixed with higher wages and more progressive taxation systems but further expansion of production is constrained by global warming and other environmental problems and the solutions to this are less likely to be solvable in a business-managed democracy.

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