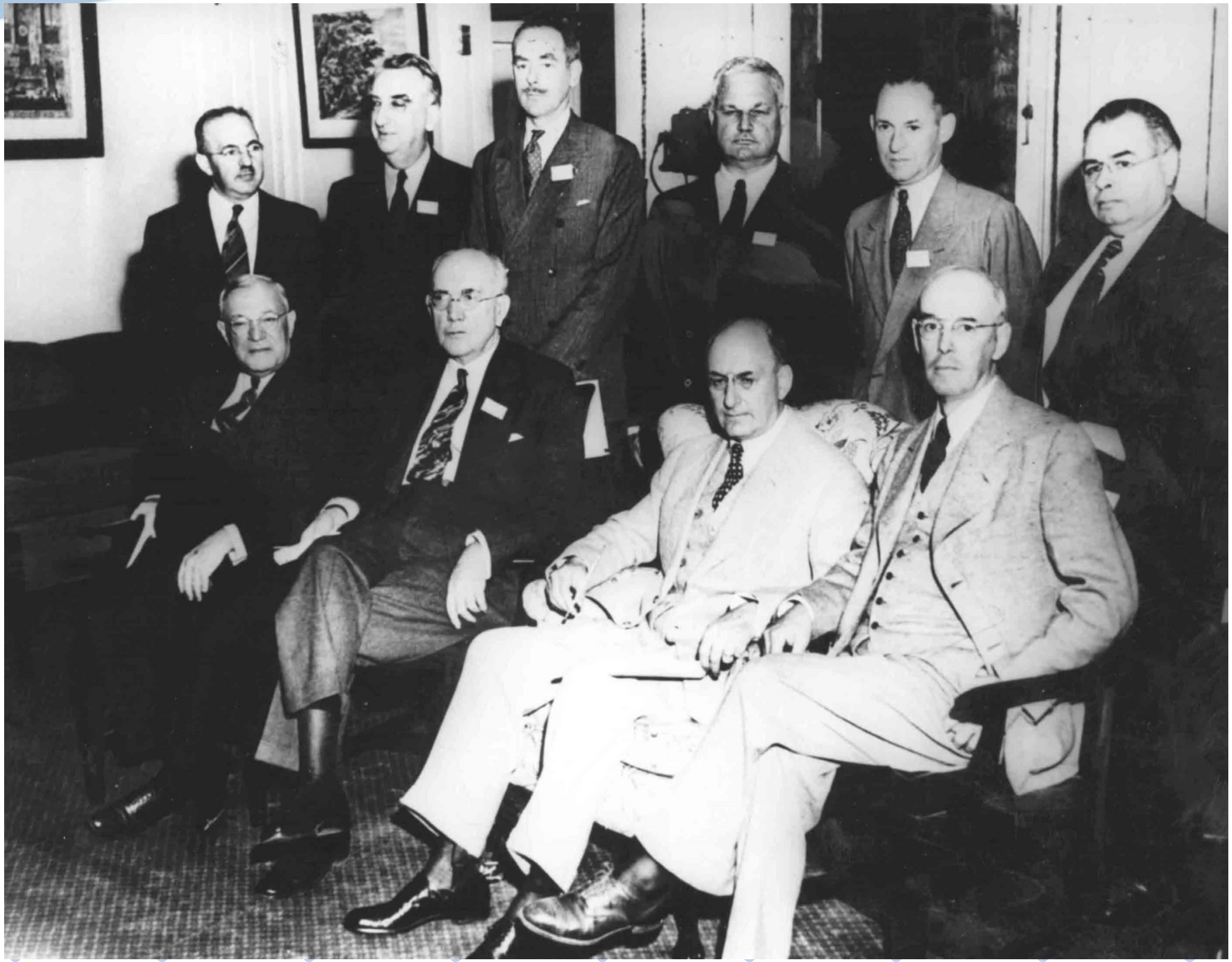
Unholy Trinity Rethinking Global Finance



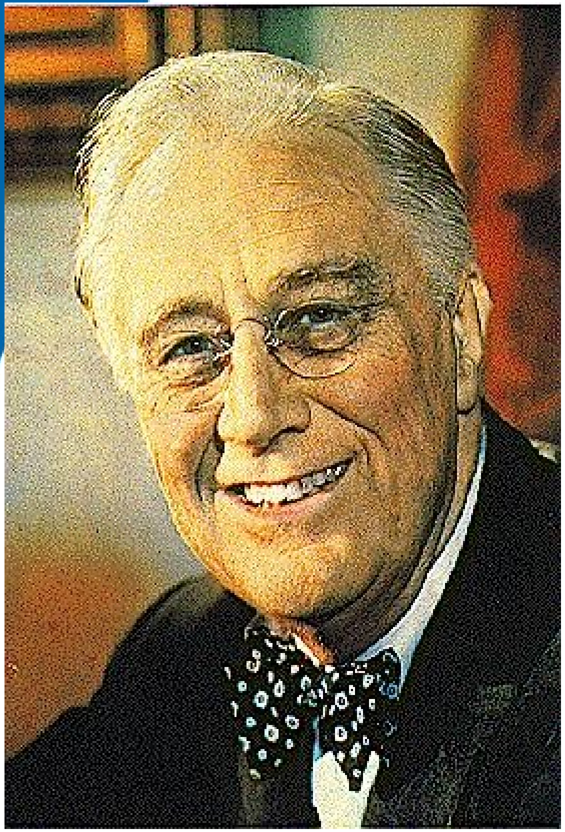
- ‘global finance capitalism is a new social formation replacing corporate industrial capitalism in the late twentieth century. It results from a massive redirection of income flows toward the rich that occurs under the presently prevailing neoliberal policy regime.’

- Richard Peet, *Unholy Trinity*, p. 35

Globalization

- Arose during Pax Britannica, 1875-1914
- Included: faith in rationality, the rule of law and racial superiority
- Imperialism, trade, investment flows and technology
- In the 50 years leading up to WWI
  - global exports rose from $550m. to $19.8bn.
  - World trade rose by 34% per decade by value
  - World trade rose by 36% per decade in volume

Democracy vs. the power of money

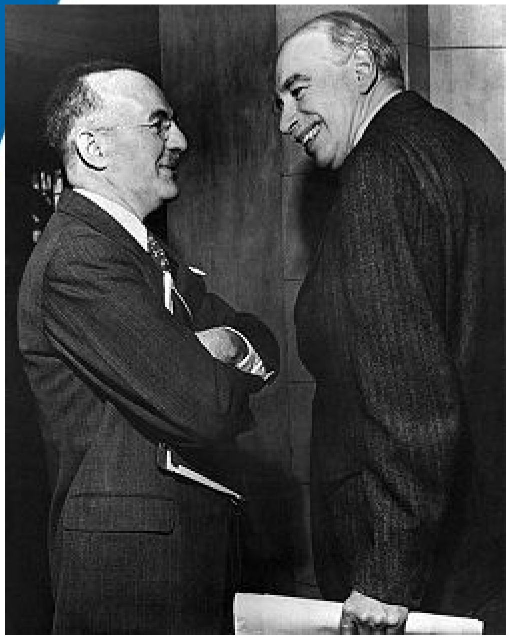


- Dawes Plan for German reparations, 1924, negotiated by US and UK bank chairmen
- FDR rejected ‘the festishes of so-called international bankers’ when rejecting calls for the gold standard in 1933
- The war brought politics and economics back together

Bretton Woods

- Its aim was to avoid another war
- It was based on an imperialist world-view of the 'great powers' with approximately equal economic strength
- 'there would be balance between national and international stability without subordinating one to the other, with institutions devised to manage and resolve international economic conflicts, and hence assume regulatory force in the international market. These institutions would assume the role of the state in a global market economy'

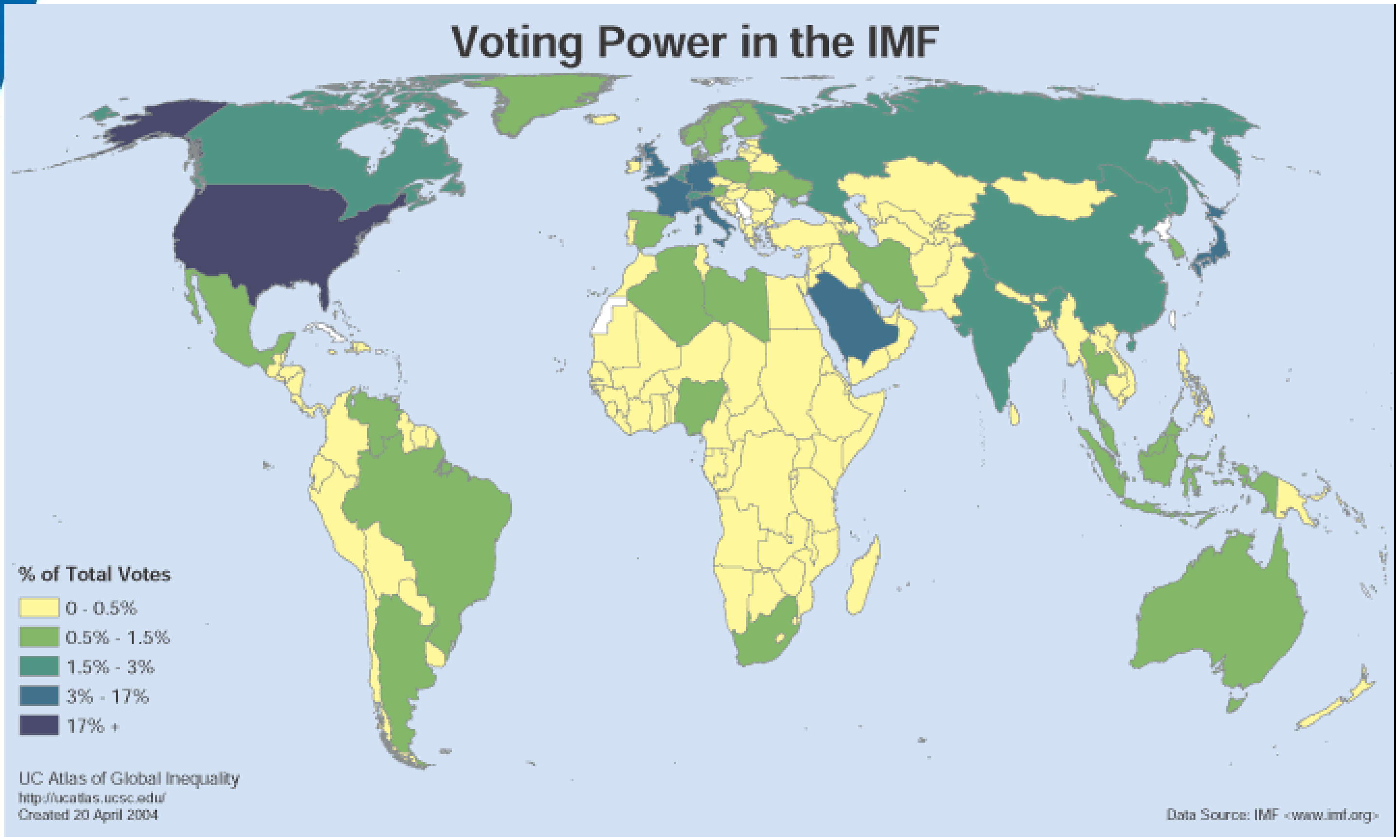
Conditions that made agreement possible



- Only a small number of states were involved—no Eastern Europe, few countries of the South, and a weakened Japan
- A common economic ideology: liberal capitalism, tempered by Keynesianism
- The willingness and ability of the US to assume leadership

- ‘While exchange rates were fixed under the Bretton Woods Agreement, in the early years after the second world war the United States avoided amassing surplus international reserves by providing grants to the war torn nations, initially via the Marshall Plan and then via other foreign aid programs. In essence, the United States accepted the Keynes Plan suggestion that it is in the best interest of all nations if the major creditor nation bear the major burden of reducing trade imbalances and international payments adjustments.’ (Davidson, 2008: 3)

Country	Quota (m. SDRs)	Votes (%)
China	8,090	3.65
Czech Republic	8,443	0.38
France	10,738	4.85
Germany	13,008	5.87
India	4,158	1.88
Italy	7,055	3.19
Japan	13,312	6.01
Russia	5,945	2.69
Saudia Arabia	6,985	3.16
United Kingdom	10,738	4.85
United States	37,149	16.74
Rest of world		33.79



Voting Power in the IMF
% of Total Votes
0 - 0.5%
0.5% - 1.5%
1.5% - 3%
3% - 17%
17% +
UC Atlas of Global Inequality
http://ucatlas.ucsc.edu/
Created 20 April 2004
Data Source: IMF <www.imf.org>

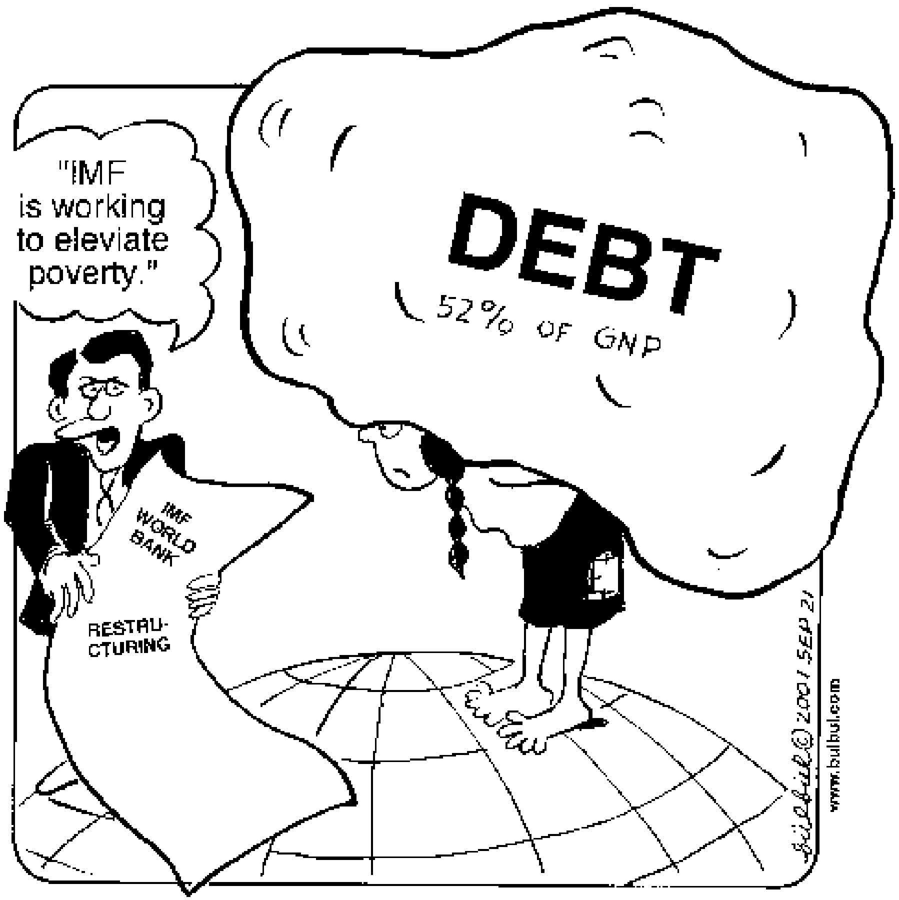
- ‘I suggest that the Bretton Woods regime was constructed through the intersection of two economic discourses: the discourse of classical, liberal economics, modernized by mathematical economics, and geopolitically extended in an age of world wars through a connection between trade and peace; and the discourse of twentieth-century, New Deal liberal or social democratic, Keynsian economics, responding to ‘market failure’ by advocating state intervention.’
  - Peet, *Unholy Trinity*, p.64

What is the IMF for?

- To respond to balance-of-payments crises
- Makes loans to countries in ‘hard’ money in exchange for their deposits of ‘soft’ money
- Condition is the requirement for programme to restore confidence

From the IMF website

- ‘The International Monetary Fund (IMF) is an organization of 186 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world’



- Trade requires an exchange of currency
- A corporation would rather be paid in a reserve currency
- So the importer country wants to have dollars or euros in its banks to pay for imported goods and services
- The IMF was set up to lend countries these reserves so that they could continue to trade
- It also collects information about member countries and publishes reports
- It also offers technical advice

What is the World Bank?

- 'Our mission is to fight poverty with passion and professionalism'
- 'help people help themselves and their environment by providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sectors'
- 'financial and technical assistance'
- low-interest loans, interest-free credits and grants to developing countries

The theory

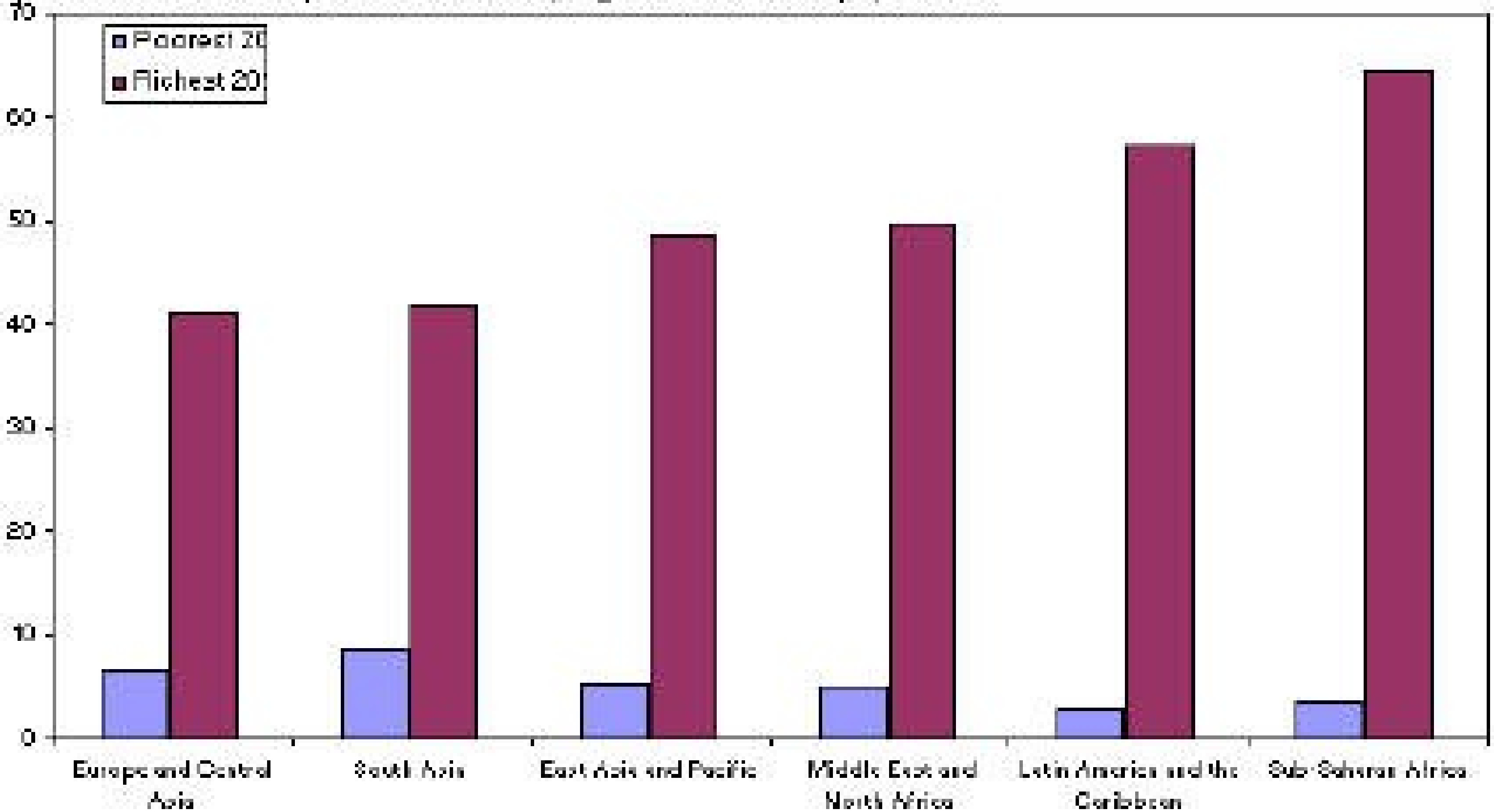
- 'Trickle-down economics'
- No barrier to the accumulation of wealth by the rich
- If the rich become wealthy enough, some of this will trickle down to the less well-off
- Applies within and between countries

'TRICKLE DOWN'

The practice

Share of Poorest and Richest Quintiles in National Consumption

Individual Countries' income distribution data are aggregated to create regional income distribution data, so both inter- and intra-country inequality are assessed. The data use purchasing power parities based on 2005 prices and cover 93 percent of developing countries' total population.



Source: World Bank

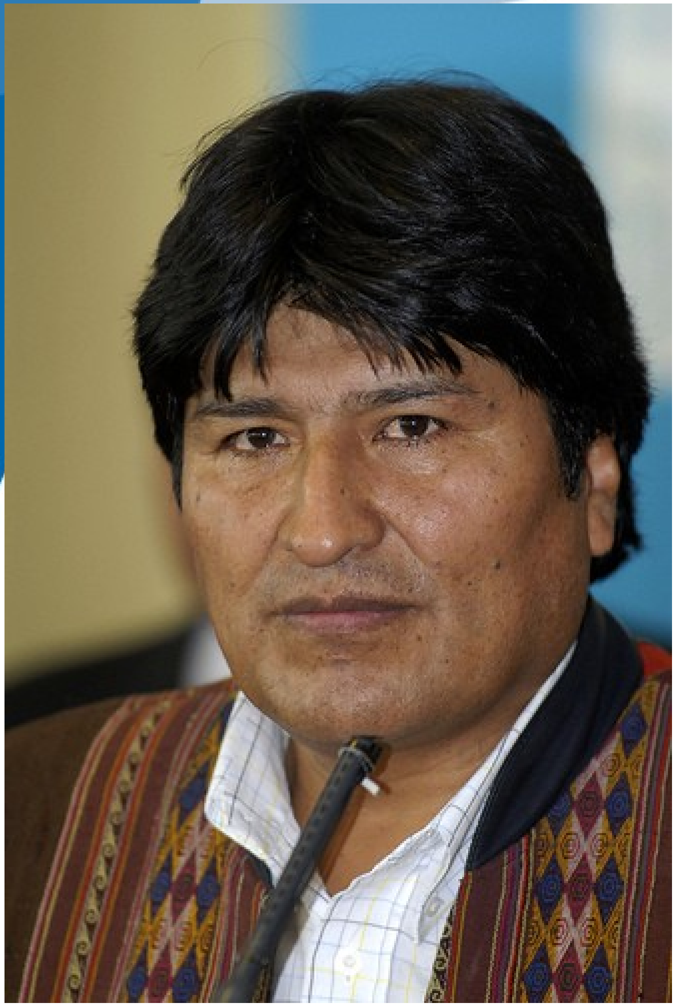
The message from the IMF

- Privatise—get the state out of the economy
- Liberalise—open the economy up to global markets in goods and capital
- Stabilise—balance the budget by cutting public spending and increasing taxation: Structural Adjustment Program

Privatisation

- Cochabamba is Bolivia's third largest city
- To meet the conditions imposed by the world bank Bolivia privatised its railways, telephone system, airlines

- In 2000 the World Bank refused to renew a $25m. loan unless the water system was also privatised
- A 40-year contract for $2.5 billion was signed



- In a country where the minimum wage was less than US$70 per month, many citizens were hit with monthly water bills of $20 or more
- Law 2029 privatised all water in the country – even rainwater
- This led to widespread protests joined by coca growers
- Radicalisation led to the election of Evo Morales in 2005
- Not a very secure investment for Bechtel et al.

Financial liberalisation

- Peso pegged to the dollar: Argentina's exports became more expensive than those of competitor countries
- Pesos exchanged for foreign reserve currencies or sent overseas
- The financial crisis in Mexico in 1994. followed by those of the Asian Tigers. Russia and Brazil from 1997 to 1999 undermined confidence in Argentina's ability to pay her sizeable external debt.
- Europeans banned the free flow of capital until the 1970s

Stabilise?

- William Browder. co-founder of Hermitage Capital in 1996
- Shareholder of Russian gas company Gazprom
- In 2006 blacklisted as 'threat to national security'
- This year his lawyer died in custody

Expanding the reach of the market

- Former communist countries making a ‘transition’ to a market economy
- China making a transition towards state capitalism
- Subsistence economies moving into the global marketplace

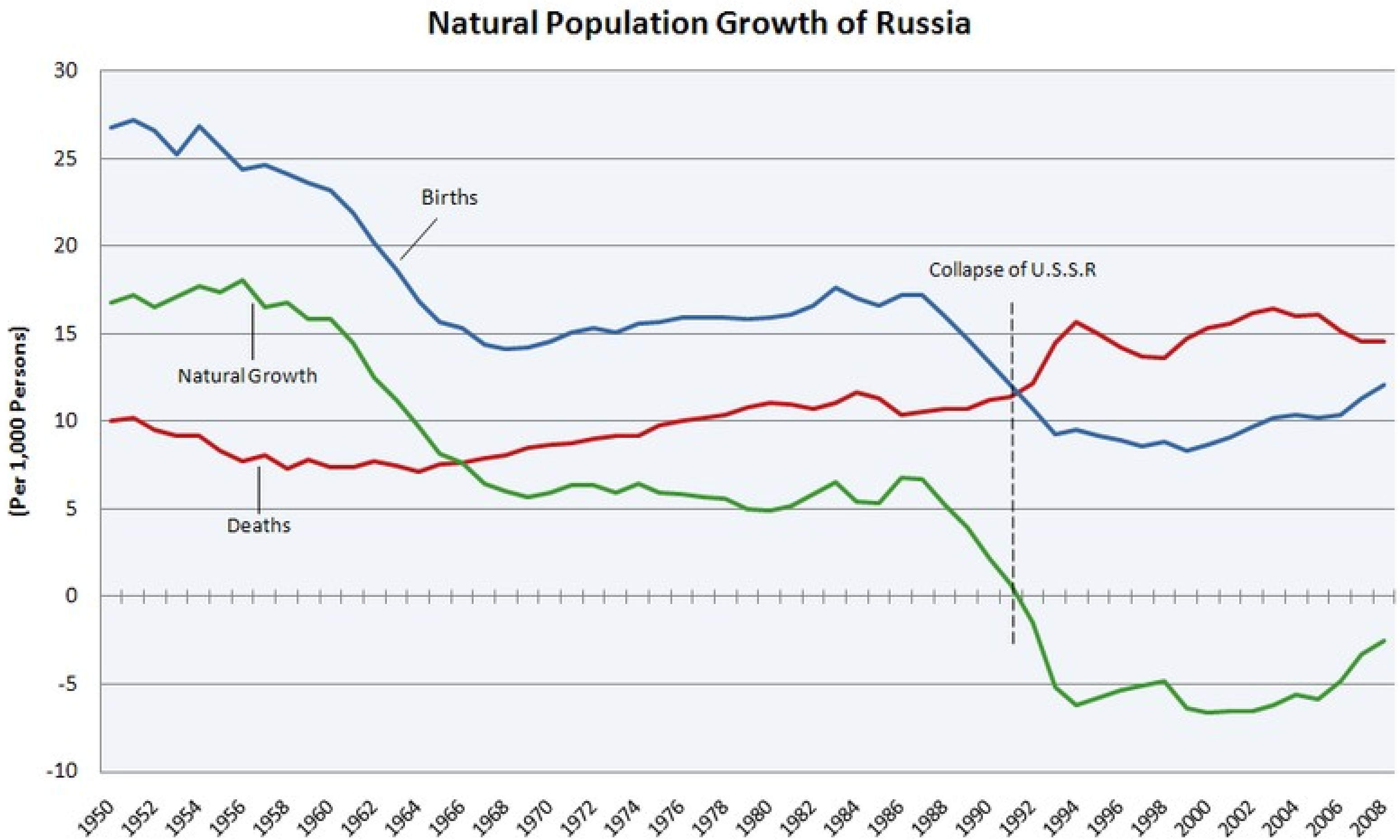
The business angle

- The rules suit international business. which is free to move from country to country.
- Advantages are:
  - Consistent global legal framework
  - Loss of domestic control over capital
  - End of protection of domestic production
  - Speculative investment flows

Economic 'shock therapy'

- 'These countries were told by the West that the new economic system would bring them unprecedented prosperity. Instead it brought them unprecedented poverty. . . In 1990 China's GDP was 60 per cent less than that of Russia; by 2000 the numbers had been reversed.' p. 6
- 'Rapid mass privatisation as an economic transition strategy was a crucial determinant of differences in adult mortality trends in post-communist countries; the effect of privatisation was reduced if social capital was high.'
- *The Lancet*, 2009

The results of gangster capitalism



Increases in poverty and inequality

- Shrinkage of GDP
- In 1989 2% of the population were in poverty; by 1998 it was 23.8%
- More than 40% had less than $4 per day
- Similar rates in other post-Communist societies

China's path to the market

- Began with agriculture—a move away from collective agriculture to 'individual responsibility system'
- Competition more important than privatisation
- A gradual approach
- Once the basis was secure foreign firms were invited in
- 'China put creating competition, new enterprises and jobs before privatization and restructuring existing enterprises.'

Structural Adjustment Programs

- High levels of interest rates—makes indigenous entrepreneurship impossible
- Requirement to pay off external debt—no money for domestic investment in job creation
- Cutting of government spending – no possibility to develop the workforce. i.e. human capital

Who does the global system work for?

- IMF and world bank not democratic and work for those countries who control reserve currencies
- Global institutions have exerted power over the poorer and weaker nations to extract their resources and use their labour-power
- Works in tandem with the trade system
- China and India are reacting against this system: calls for a new international currency