US POWER AND TRANSNATIONAL GOVERNANCE

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I. INTRODUCTION

A number of commentators have followed Levi-Faur and Jordana, in identifying recent years as a 'golden era of regulation' , with the 'proliferation of regulatory activities, actions, networks or constellations' leading to 'an explosion of rules and to the profound re-ordering of our world.' [1] Beyond the territories of particular nation states 'an increasing share of this intense governance activity takes place between and across nations'. [2] And much of this developing 'culture' of transnational governance relies upon 'voluntary' rules, 'to which formal legal sanctions are not attached.' [3]

The implication is that of a significant expansion of the rule of law or of quasi-legal self-regulatory practices, built upon democratic participation and consensus in transnational affairs, replacing an earlier rule of force or no rule at all.

This paper argues that this is a misleading picture of transnational governance in the contemporary world, insofar as much that it identifies as 'voluntary', 'democratically decided' and/or 'self-regulatory' principles and practises are really built upon the use of force, threat and coercion, including both the economic and military force of the United States ('US'). At the same time, it is as true to see recent decades as a time of deregulation, as much as of regulation, including the winding back of regulations which really were built upon a foundation of democratic and ethical legitimacy to leave the field free for the exercise of the raw economic power of big transnational corporations.

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[1] Marie-Laure Djelic and Kerstin Sahlin-Andersson, 'Introduction: A World of Governance: The Rise of Transnational Regulation', Marie-Laure Djelic and Kerstin Sahlin-Andersson (eds), *Transnational Governance: Institutional Dynamics of Regulation* (Cambridge University Press, 2006) 1.

[2] Ibid 2.

[3] Ibid 23-24.

Part of the problem of the Levi-Faur and Jordana analysis, I believe, lies in focusing upon specific microstructures of transnational governance, and losing sight of the bigger picture of the exercise of political and economic power on a global scale. This paper aims to provide a counter-balance to such smaller scale analysis by focusing upon the underlying power relations upon which all such specific governance developments actually rest. In particular, the focus is upon the centrality of the US economic and military power in shaping governance in the contemporary globalised world, and the challenge to US power and US dominated regulation by the rise of China as major world power.

II. POWER HOLDERS

As John Rees points out, since the early nineteenth century there have been three major institutional centres of exercise of such social power.[4] First of all, a system of competing nation states, with their own systems of executive authority, commanding a monopoly of force within their geographical boundaries and using this to enforce a particular system of law. Such states have also been directly involved, to a lesser or greater extent, in direct control of production and distribution of material goods and of information.

Secondly, a system of different interlocking and interdependent world markets within which private business organisations – particularly large public corporations - and nation states compete for commercial domination. Such corporations produce and/or trade in and distribute raw materials, manufactured goods, financial and other services, including health services, along with information and ideas.

Thirdly, within each competing nation state, a more or less organised labour force of workers and/or peasants. Insofar as these are the actual producers of social wealth, they have huge potential economic power – to disrupt production and capital accumulation in strikes and go slows and to take over such production through occupation of land, factories and other productive facilities. Insofar as they are the majority of the population so do they have huge political power – to form and vote into power their own political parties – in liberal democratic states; to seize power through force of arms in other political situations.

[4] John Rees, *Imperialism and Resistance* (Routledge, 2006) 3.

Control of political and economic structures by the capitalist class obstructs the realisation or effective application of such working class power. Workers are prevented from taking effective action in their own interests through legal threats of punitive responses to economic and political actions and economic threats of unemployment and destitution. Control of education and communication by private business organisations or by state apparatuses dominated by such private businesses, generally functions to undermine working class solidarity.

III. Politics of Capitalism

Particular nation states and capitalist corporations have increased in strength over the last 200 years, with the growth of a number of centralised bureaucratic state organisations, with highly developed infrastructures and huge military capacities, and a number of massive corporate structures, seeking markets, raw materials and labour on a world scale. Such state apparatuses have generally worked closely together with nationally based corporations, competing for commercial dominance around the globe.

Insofar as individual capitalist corporations compete amongst themselves, they are subject to intrinsic pressure to expand their operations, reducing their costs through increased scale of production and technological innovation. But this means that there is a need for more resources, more investment opportunities, more consumers in order to avoid the system running into crisis. The fact that investment depends, to a significant extent, upon bank credit, creates further pressure for such ongoing expansion, to allow for sufficient profit for debt service as well as accumulation in the service of competition.

Insofar as the goal of capitalist investment and production is profit, and profit involves the production and sale of goods of greater value than the cost of producing such goods, it is clear that the working population – and replacement demand for technology and raw material, cannot provide sufficient effective demand for the profitable sale of total output. And insofar as state authorities assist big business in keeping wages low – at home and abroad – to increase profitability, so is there increased threat of crises of under-consumption. Increase in the extension of credit to workers can temporarily address this problem, but only at the expense of increased likelihood of ever greater default and inflation of good and asset prices. [5]

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[5] David Harvey, *The Enigma of Capital and the Crises of Capitalism* (Profile Books, 2010) 107.

There are physical limits upon the power of private consumption of capitalists themselves – subsistence plus luxury goods and services – to absorb the surplus. And these problems are exacerbated by the increasing concentration of capitalist wealth and power in fewer and fewer hands. So the system crucially depends upon accumulation itself; upon reinvestment of surplus to expand the scale of production, to absorb the expanding surplus produced by such accumulation, and maintain profitability.[6]

But there are also limits to such compounding growth. There are tendencies for interruption to the availability of initial money capital – when banks run into problems of default (and stop lending) and investors lose confidence, to the availability of – sufficiently cheap and pliable - labour supply, of necessary raw materials and of monetarily effective demand for the increasing pool of goods on the market. The more capital is accumulated and profit generated, the more problems in finding sufficiently profitable investment opportunities.[7] As Keynes pointed out, entrepreneurs who fear that they cannot sell goods in the future cut back upon their investment, thereby fulfilling their own prophecy.

The ups and downs of the business cycle reflect such problems; with the rush to invest in an expanding (low interest) market, with new more productive technology and/or lower wage costs, initially producing a boom through increased employment, borrowing, wages, purchases of investment goods. But with supply of such resources reduced and prices increased (higher wages, higher interest rates, higher raw material costs), with the new technology generally available and no longer a source of surplus profit, and consumption failing to absorb the increased output, typically smaller, higher cost businesses start to fail, with loan defaults, workers laid off and accelerated decline in consumption, leading to further reduced investment and so on.

There are powerful pressures upon individual corporations to escape the rigors of competition through the creation of monopoly or oligopoly power, keeping the prices for their goods as high as possible through restricting supply. Downturns of the business cycle accelerate this process with surviving larger scale, lower cost operations absorbing the devalued labour, productive resources and market share of their fallen competitors.

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[6] Ibid 110.
[7] Ibid 111.

Increasing monopolisation can lead to economic stagnation and inflation, with wasted resources, and increasing problems of lack of effective demand. The monopoly sector initially benefits at the expense of higher costs and lower profits for the non-monopoly sector. But increasing monopolisation means that individual monopolies themselves pay monopoly prices for necessary inputs or absorb such suppliers themselves, with reduced output, increased cost, wastage and stagnation for the whole national economy.

Strong governments can protect national monopolies with tariff barriers and capital controls and/or pressure them to serve social interests in various ways (through high taxes for example). Alternatively, governments can act to reduce any such protections, and/or break up big concentrations of monopoly power within their territories in the service of increased competition, innovation and reduced costs for national producers. But this can merely hand over their economies to bigger transnational monopolies and oligopolies, over which they have little or no control.

Two hundred years of increasing concentration and centralisation of capital have produced a situation where world markets have come to be dominated by around 300 vast transnational corporations, sometimes competing, sometimes co-operating in price-fixing oligarchies, dividing world markets amongst themselves. In many industries 50% or more of output comes from ten or less big corporations. In the US, just five conglomerates own most of the newspapers, magazines, book publishers, television and radio stations. The majority of what is called world trade now consists of planned exchanges within such corporations, undermining government powers to tax corporate profits.

National governments have historically worked closely with bigger business operations because nation states are crucially dependent upon bigger businesses to provide employment and tax revenues within their territories, and the financial power of such businesses allows them to control the selection of key government personnel. In addition to providing or ensuring necessary infrastructure, an appropriately skilled, healthy and docile work force, a stable money supply and ongoing access to credit to ensure uninterrupted investment, more powerful state apparatuses have also become increasingly involved in assisting big home based capital to gain access to raw materials, investment opportunities and markets overseas.

On the one hand this has involved industry policy with subsidies and tax breaks for favoured industries. On the other, this has led to the use of state military power by bigger, wealthier states to protect their home markets and create formal overseas empires or protected spheres of control, with others denied access to relevant investment opportunities, markets, (cheap) labour and raw materials. And this, in turn, has led to imperial conflicts and wars, as nations newly developing sufficient economic and military power to challenge established empires and trade and investment barriers, have set out to build or extend their own empires through force of arms.

IV. Colonalism and Imperialism

Industrial capitalism was originally created through the accumulation of wealth pillaged by militarily advanced Europeans from the rest of the world, and the creation of an expanding population dispossessed of direct access to the means of production – driven off the land – and forced to sell their labour as a commodity in the market. Via the banking system, such pillaged wealth financed the employment of such ex-agrarian populations in the developing factory system.

Such 'primitive accumulation' by dispossession continues today, with peasants and tribal peoples expelled from their traditional homelands, through failure to compete with cheap agricultural imports, or through violent appropriation of their land to make way for cash cropping, industry, mining or urban development. In contemporary Australia farmers are being disposed by the coal seam gas mining industry.

The consolidation of industrial capitalism in Europe and North America went along with accelerated plundering of the wealth of India, China and other 'already developed non-capitalist social formations' [8] This provided great amounts of new money to sustain further expansion, but ultimately exacerbated the problem of finding new investment opportunities to absorb this pillaged wealth. So that imperialism 'has to shift from robbing values and stripping assets from the rest of the world to using the rest of the world as a site for opening up new forms of capitalist production.'[9] This led to new forms of conflict, with the developed capitalist powers competing for such investment opportunities. As Rees says:

[8] Ibid 109.
[9] Ibid 113.

> [T]he nineteenth century colonial system of the European powers faced its global crisis when the first industrialised total war began in 1914. The redrawing of power relations between the major powers lasted from the First World War to the end of the Second World War.[10]

The crisis of the 1930s showed how increased availability of credit could give the appearance of overcoming the problems of under-consumption and surplus absorption, while hugely increasing the power of the bankers and financiers operating the credit system, and ultimately creating a massive meltdown of world capitalism. With declining profits from expansion of the real economy, investors turned to – increasingly debt-financed – acquisition of existing assets, stocks and shares and other financial instruments, property and art objects. Demand driven inflation of asset prices provided the collateral for further borrowing in the positive feedback of a bubble– before the inevitable collapse in values.

When the collapse came, in 1929, with plunging share values, bankruptcies and bank failures, the original – orthodox – response was for governments to reduce their taxing and spending and step back to allow free market forces to operate – generating new growth through reduced costs of labour and productive resources. But, governments found that there were no inbuilt market mechanisms to ensure any such renewed growth. Instead, further falls in consumption motivated further reduced investment and so on, with ever dwindling government tax revenues

The upturn came only through recognition of the need for substantial fiscal, as well as monetary state intervention to reverse the decline, with extensive regulation of financial markets, and ultimately through complete state takeover of key components of leading national economies. Originally, in the US this meant government deficit spending to mobilise idle resources in infrastructure expansion. But increasingly, such deficit spending moved towards militarisation, seen as necessary to protect against overseas imperial expansion by Japan and Germany and as providing the power to recoup such investment through overseas intimidation and conquest.

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[10] Rees, above n 4, 7.

V. THE POST WAR WORLD

The settlement that concluded the Second World War depended upon the economic power of the victors. Russia and the US emerged as dominant powers, with the US very much the stronger. Whereas in Europe the war had severely damaged civilian economies, in the US the economy had hugely expanded on the basis of deficit funded military investment, putting the US into a position to benefit from world-wide free trade. The Russian economy, by contrast, had suffered from the war, and the leadership sought tight political control of Eastern Europe to allow for a planned redistribution of resources, rather than free market relations.[11]

At the United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire, in 1944, attended by delegates from 44 allied and associated nations, the US ruling class set out to establish the rules of the post-war game for the rest of the – non Communist – world, in such a way as try to maintain stable US domination without further resort to warfare, while maintaining high levels of military spending to stimulate the rest of the US economy and keep the Soviet Union at bay. This primarily meant freedom for US companies to trade and invest in the rest of the world. Currency exchange rates fixed in relation to gold meant that the dollar became the international means of payment, insofar as the US held 80% of world gold reserves. So 'every dollar held abroad [as reserve] meant that a similar amount of imports need not be met by exports – the rest of the world would finance the US trade gap.'[12]

The US ensured that it effectively controlled the IMF and World Bank (through voting power according to capital subscription), and the General Agreement on Trade and Tariffs ('GATT'), and used these to wind back the restriction of US (goods and capital) exports by other nations trade and monetary laws. Marshall Aid was made available for the reconstruction of Europe only on condition of devaluation of European currencies, takeover of their markets by the US and restriction upon socialist and communist political parties.

As Keynes pointed out in the 1930s, in conditions of intrinsic uncertainty, there is a tendency for people – and banks - to hold onto money rather than re-invest or lend it. But this means unsold goods, cut backs in employment and wages, collapsing effective demand,

[11] Ibid 39.
[12] Ibid 41.

further reduced investment and so on. Hence the need for governments to maintain a climate of optimism, not just – or not necessarily - through reduced interest and tax rates but through increased direct – deficit funded - government spending to stimulate the national economy in times of downturn. This, in turn, required trade and capital controls to prevent stimulus money flowing overseas rather than regenerating the home economy.

Keynes was very much aware of the importance of under-consumption at the level of the world economy. He proposed that the IMF should preside over a new system of international trade, specifically designed to encourage maximum national self-sufficiency and avoid significant trade imbalances – penalising nations running up big trade surpluses. This was seen as a way to prevent a feedback of increasing deflation of world markets, with debtors cutting back their imports, leading to loss of jobs and consumption amongst exporters and so on. So too did it allow nation states the capacity to plan their own economies around full-employment.

As the major trade surplus nation then and in the foreseeable future, the US rejected this idea in favour of a system of financial support for those states with balance of payments difficulties, conditional upon their taking steps to improve their competitive position and ensure the means to repay such loans within a set period. Fixed – but flexible – exchange rates would prevent trade imbalances through currency devaluations. To a significant extent, the current global economic and ecological crisis can be attributed to US failure to support Keynes' plan. The US also ensured that the World Bank originally loaned money to developing countries for infrastructure projects that were seen to be viable in terms of interest and principle repayments through encouraging and facilitating increased exports.

Greater democracy in the United Nations General Assembly (with one-country –one vote) – with representation of the Soviet Bloc and increasing involvement of ex-colonial developing countries and Russian veto power in the Security Council saw ongoing struggles over UN policies and reforms, generally leading to stalemate and inaction on serious issues.

In the period from 1945 to 1970 state apparatuses were active in leading economic development, not just in the planned economies of the eastern bloc, but also in the 'welfare-state/nationalisation economies of the West and in the developmental models of the Third World'[13].

In the US, such intervention continued to centre upon state purchases of military hardware from big private corporations, with 12.2% of GNP spent directly on warfare and preparation for warfare in 1947 and 11.1% in 1971. Hunt refers to research suggesting that the multiplier effect of further aggregate demand created by these military expenditures was actually 30.5% of total aggregate demand in 1947 and 27.8% in 1971.[14]

As Hunt points out, militarism stimulates aggregate demand without redistributing income from the rich to the poor; government financed research constantly renders military hardware obsolete, allowing and demanding further investment; the capital goods industry as the most volatile and unstable segment of capitalist economy is kept operating at full capacity; it gives big corporations a stable core of demand not subject to the vagaries of the market; it increases the influence and power of the nation state in question, to blackmail and ultimately take over other nations; and patriotism and militarism are very effective means of keeping workers docile and under control. [15]

At one time 400 US military bases worldwide ringed the communist world. And a number of military alliances and treaties were aimed at both the external threat of Soviet power and the threat of workers revolution within such allied nations. Arms could be exported to such allies. The arms race put huge pressure on the weaker Soviet economy to maintain military parity, thereby preventing the eastern bloc from offering consumption goods to workers sufficient to pose a real threat to western capitalism.

Elsewhere in the developed world, particularly Europe, the welfare state consensus included nationalisation of key productive, infrastructural and financial operations, capital controls and deficit spending upon productive investment, health and welfare to avoid downturns and maintain full employment. Progressive income taxation and ceilings upon executive remuneration, high taxation of profits, capital gains and inheritance, along with strong trade unions and productivity based wage-increases kept working class

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[13] Rees, above n 4, 38.
[14] EK Hunt, *History of Economic Thought: A Critical Persoective* (ME Sharpe, 2nd ed, 2002) 419.
[15] Ibid 421.

consumption in line with increased output and contributed to social stability and productivity through reduced inequality.

In the developing world, many nations pursued import substitution policies aimed at protecting local industry and agriculture, with restrictions and tariffs on imports and state subsidies on basic necessities for poor workers and peasants.

VI. From Boom To Crisis

On this foundation, capitalism enjoyed the greatest boom in its history, with a threefold increase in world manufactured output from 1945 to 1970. As Skidelsky points out, the growth of global real GDP during the Bretton Wood years [1950- 1973] was 4.8% 'as compared to the 3.2% growth rate after 1980.' [16] By the IMF standard of recession as less than 3% growth, 'there were no global recessions in the Bretton Woods age.'[17] There were downturns in 1958 and 1966, but fixed currency values led to few financial crises.

These decades were characterised by record low unemployment, with an average of 1.6% in the UK, 1.2% in France, 3.1% in Germany (the latter absorbing 12 million east European immigrants after the war) and 4.8% in the US, compared to 7.4% in the UK, 7.5% in Germany and 6.1% in the USA after 1980. [18]

It is frequently said that the post-war boom period was a time of high inflation compared to the later neoliberal period. But in fact, as Skidelsky shows, 'there was no significant difference in the inflation rates of the two periods – the 1950-73 average being 3.9%, the 1980-2008 average 3.2%'.[19] And while inequality within nations was stable during the Bretton Woods age, it rose very sharply in the subsequent Washington Consensus years after 1982 - everywhere except South America. [20]

But it is important to highlight the special conditions prevailing during this brief boom period, in addition to ongoing Keynesian interventions of deficit funded finance and the expansion of state financed employment. In the first instance, unprecedented amounts of US aid played a central role in reconstructing the massively damaged

[16] Robert Skidelsky, *Keynes; The Return of the Master* (Penguin, 2010) 116.
[17] Ibid.
[18] Ibid 118.
[19] Ibid 121.
[20] Ibid 122-123.

European and Japanese economies, while also driving the growth of the US economy. In the second, ongoing productivity growth through the spread of new technology allowed for profitability to be maintained while increasing workers wages and consumption to maintain demand for both consumer and producer goods.

There was a term to all of these things, with European reconstruction completed, with the technology generally available, with full employment empowering workers to fight for better wages and conditions, and corporations seeking to protect themselves through oligopoly pricing and restricted production, growth inevitably slowed. And further government spending generated increasing inflation and debt.

Nor was growth uniform throughout the post-war boom. In particular, after 1967, growth of the US economy fell behind that of other developed world nations, particularly West Germany and Japan, with the former's industrial output growing fivefold and the latter' thirteen-fold between 1949 and 1970.[21] Protection and oligopoly power in the US car industry, in particular, obstructed the deployment of new labour-saving technologies, while on the other hand restricted wages and executive salaries, with government directed industrial development, contributed to the growth of the Japanese economy. [22]

Because so much of US investment went into military technology, this created an opening for exports of consumer goods to the US from Germany and Japan – including cars and electronics. As Rees says, 'the deficit spending by the US during the Vietnam war sucked in German and Japanese imports to the further competitive disadvantage of the US economy.'[23]

The rise of nationalism and communism in the developing world increasingly threatened US access to cheap overseas resources, markets and investment opportunities, in particular the loss of China from western influence in 1949. The later Algerian revolution (1954-1962) encouraged Arab nationalism and threatened US oil supplies. The loss of Cuba to communism in 1959 encouraged revolutions throughout Latin America. In Europe, Labour and Communist movements pushed for increasing workers power and expanded social welfare provision. At a time when increasing monopolisation was undermining economic

[21] Rees, above n 4, 43.
[22] Paul Mattick, *Business as Usual* (Reaktion Books, 2011) 53.
[23] Ibid 49.

growth in the US, contributing to inflation, stagnation and wastage of resources, so was the US becoming increasingly bogged down in the costly, losing, war in Vietnam.

In the US increased output of dollars and outflow of gold stimulated by the high cost of the Vietnam war, by a weakening US trade balance and substantial anti-poverty spending generated a deepening crisis after 1968, with the fixed exchange rate of the dollar against gold undermined.[24] Falling oil revenues due to the decline in the value of the dollar were a major motivation for the oil producers to increase the price of their oil, and the OPEC price rises of 1974-5 exacerbated tendencies towards monopoly driven inflation and stagnation.

VII. US Responses

With US creditor nations trying to exchange their dollars for gold and US reserves running low, President Nixon declared in 1971 that the US would only pay its debts in dollars and US Treasury bonds. In terms of the old system this was a default on promised gold payments and a requirement that low cost loans to the US become the basis for international reserves.[25] Central banks around the world now held US government IOU's rather than gold. As Pettifor points out, the US could now increase or lower the value of its foreign debts by revaluing or devaluing the currencies it printed (printing and circulating more or less). And it could run up huge trade deficits without needing to balance its trade budget, as the US insisted other trade deficit should do. [26]

The US forced a worldwide shift to floating exchange rates, with an increasing outflow of US investment to low wage, low cost areas overseas. Concerted efforts to undermine, defeat and subvert developing world reform and revolution were increasingly successful in the later 1970s, following the US engineered Pinochet coup in Chile in 1973. On the US home front, Reagan's neo-liberal revolution (from 1980) aimed to shift power further away from the working class through cuts in employment, wages, welfare and worker's rights. Workers wages and powers, public services and environmental protections were successfully wound back, contributing to increased US exports at the expense of Germany and Japan.

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[24] Harvey, above n 5, 32.
[25] Ann Pettifor, *The Coming First World Debt Crisis* (Palgrave, 2006) 41.
[26] Ibid.

The neoliberalism of Ronald Reagan in the US and Margaret Thatcher in the UK marked the definitive destruction of the welfare state consensus of previous decades (while weakening but not actually destroying welfare services), with the move to the deregulated world of globalisation, with extensive privatisation of nationalised industries, corporatisation of the public service and centralisation of state power. Such centralised state power was increasingly aligned with the interests of big business, with parliaments 'passing decisions prepared beforehand in the businessmen's organisation.' [27]

Neoliberal ideas and requirements increasingly permeated the IMF and World Bank, and US involvement in the UN and other institutions of transnational governance, with the former moving from debtor nations balance of payments as object of adjustment to 'the entirety of a country's macroeconomic structure' as subject to change. [28] Debtor nations were to be completely taken over and run by US economists in such a way as to ensure appropriately high returns on US investments. Import restrictions were to be wound back and currencies devalued to facilitate trade and investment, public expenditures were to be cut back to reduce fiscal deficits, increase savings and efficiency. Price controls, investment regulations and labour market regulations were to removed in order to 'improve resource allocation.' [29]

As Patomaki and Teivainen point out, a US 'assault on UNESCO' paved the way for further pressure on the UN system .[30] Just at a time when the UN democracy could have provided a forum for poor countries to contest their increasing takeover by the IMF and World Bank, the US launched a systematic assault upon such democracy; negotiating with every country bilaterally, mobilising promises and threats, prior to votes in the General Assembly, refusing to pay for parts of the UN without weighted voting on budgetary matters, and insisting upon over-representation of US and UK citizens in top UN jobs under threat of with-holding all US financial support. While countries remain 'formally equal' in the General Assembly, 'agenda-setting powers and decision-making criteria have been, in practice, changed towards the one dollar/one vote principle.' [31]

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[27] Rees, above n 4, 99.

[28] Richard Peet, *Unholy Trinity; the IMF, World Bank and WTO* (Zed Books, 2nd ed, 2009) 139.

[29] Ibid.

[30] Heikki Patomaki and Teivo Teivainen, *A Possible World; Democratic Transformation of Global Institutions* (Zed Books, 2004) 18.

[31] Ibid 19.

The creation of the WTO in 1995, marked the culmination of the GATT round of multilateral trade negotiations from 1947-1994, aiming to steadily reduce tariff barriers. By the time of the final Uruguay round of talks, the US was pushing an agenda of comprehensive trade liberalisation, freeing the international movement of commodities, services and investment from governmental control and restriction. Supposedly, this would allow markets to operate more freely, competitively and efficiently at the international level, leading to more rapid economic growth for all concerned.

In contrast to earlier negotiations, the WTO introduced an institutionalised leadership, the General Council, and Dispute Settlement Body, along with various committees and working groups, to preside over the creation and enforcement of laws of international trade and development.

As with the UN General Assembly, the principle is supposed to be one country, one vote, with two thirds of the WTO membership being developing countries, theoretically able to direct policy in their own interests. But the US has played a key role in establishing the ground rules for all WTO discussions and dispute resolutions, 'limiting discussion to an approved set of topics using the language of neoliberal optimism,' and ensuring 'acceptable' appointments to the key leadership roles, including that of Director-General. [32]

Such ground rules include passionate opposition to protectionism and support for trade and investment liberalisation. [33] As Peet says, until recently, the US was able to ensure that the WTO acted 'in the interests of multinational corporations in creating a global space freed from governmental regulations that might otherwise restrict the movement of capital.'[34] At the same time it:

> promoted the extension of its own powers of regulation into vast new areas, such as intellectual property rights, which are governed in the most undemocratic of ways, within closed rooms, where an already committed expertise rationalises foregone conclusions.[35]

As with the UN General Assembly, the US has mobilised promises and threats – and personal attacks - to secure the support of weaker, developing nations, with such nations leaders saying that they have

[32] Peet, above n 28, 242.
[33] Ibid 193.
[34] Ibid 242.
[35] Ibid.

been pressured to accept the US position under the threat that not to do so would destroy the WTO and seriously damage the world economy.[36]

VIII. THE DEVELOPING WORLD

OPEC oil price rises in the 1970s had added huge amounts of funds to the international financial system leading to falling interest rates. The IMF encouraged low income countries to borrow this money from commercial banks to speed up their development in order to protect the western economies from further inflation. Much of this money was spent on western – particularly US – arms; much more went into large scale development projects – particularly big dams and hydro-power projects – that went nowhere, or into the private bank accounts of corrupt leaders. Developing world debt mounted up, with more borrowing to finance debts and imports.

The IMF and World Bank increasingly enforced structural adjustment programmes, requiring the debtors to generate foreign currency for repayment through increased exports and sale of government controlled infrastructures, mines, and communication systems. Increased exports of developing world raw materials forced down the prices of such commodities as coffee, copper, sugar etc. Farmers and miners incomes fell and developing world debts further increased.

In the later 1970s and early 1980s the central banks of western nations responded to the inflation produced in part by the circulation of inflated oil profits with big interest rate rises. These rises, along with a rising US dollar in the early 1980s hugely increased the costs of debt service in the developing world. Poorer countries became insolvent and vulnerable to ever more draconian structural adjustment programmes.

The Baker Plan of 1985 allowed moderate new loans to major debtors in exchange for such intensified adjustment. Western banks were protected from default while western investors and purchasers of developing world goods benefited from increased access and further reduced costs, at the expense of escalating inequality and desperate poverty for increasing numbers of developing world citizens, leading, as shown below, to increased misery and violence.

Where previously poor urban populations and farmers had continued to support state structures which offered them some protection

[36] Ibid 227.

through import substitution, tariffs and subsidies on basic necessities, the removal of such protections led to the threat of starvation, and sparked austerity riots attacking state treasuries and legislatures, presidential palaces, national banks, luxury hotels and foreign businesses.[37]

As Peet says, tens of thousands of protestors have been killed during IMF austerity protests:

> The number of people who die as a result of the social and economic effects of IMF austerity programs, from the increased incidence of starvation and the concomitant reductions in health programs has never been reliably estimated, although by one account 6 million African, Asian and Latin American children are said to die each year from the effects of structural adjustment.[38]

IX. THE NEW IMPERIALISM

A huge increase in US arms spending by the neo-liberal Reagan regime put renewed pressure on the Soviet economy. The Soviet attempt to match the arms spending contributed to the collapse of the soviet economy in 1989. At the same time, the US arms spending contributed to burgeoning US government debt. This opened up the US to Japanese exports which rose in the early 1980s financed by Japanese lending in the form of bond purchases. In response the US, in 1985, forced a rise in the value of the yen through threats of increased protectionism. A huge rise in the value of the yen led to a crisis in Japan's manufactured exports. Cheap credit provided by the Japanese state produced a brief boom but also led to huge asset inflation and debt. The Japanese government responded with interest rate rises in 1989 and 1990, leading to prolonged recession. As Rees says, the Japanese competitive threat to the US 'receded during the long stagnation of the Japanese economy in the 1990's'[39] which continues today.

Partly as a result of its huge arms spending the US was at this stage economically weaker relative to its rivals than in previous decades but militarily much stronger. The end of the Cold War saw reduced arms expenditure from 1985 to 1995. But key US leaders, closely associated with arms and oil, aimed both to continue to justify large scale US arms spending and to maintain control of key strategic regions of Eurasia, particularly regions involved the production and transport of oil,

[37] Ibid 104.
[38] Ibid.
[39] Rees, above n 4, 58.

through identifying any significant overseas challenge as the action of a 'rogue' or criminal state, and being prepared to use military force against such designated rogue states.

With oil as the foundation of the US economy – particularly of its military industries – and the US importing more than half of its oil by 1988, control of the Middle East oil supplies was a major focus of foreign policy. The expulsion of overseas oil companies from Iran following the Islamic fundamentalist revolution of 1979 had created a major crisis for the US, only partially offset by increased production in Saudi Arabia. And President Carter had declared that any further threat to US access to Middle East oil would be taken as a direct threat to the US.[40]

With the rate of discovery of new oil deposits around the world peaking in the mid 1980's, and thereby signalling the advent of peak oil production in the not too distant future, with output decreasing and prices increasing thereafter, control of world oil supplies became an ever more urgent objective of US foreign policy.[41]

The first attack on Iraq was a response to the first significant post Cold War challenge to US power and access to Middle East oil. [42] But as Rees points out, the US leadership saw it as achieving little in terms of 'wider domination of the Eurasian land mass.'[43] The Kosovo war, while prosecuted by NATO and justified by humanitarian considerations, was seen by the US leadership as 'opening pathways to the former Russian republics...and the energy sources they control' for the big US oil companies.[44] The aim was to exclude Russia from control of the oil rich Caspian states and from the transportation of such oil to the west via the Balkans.

Saudi Arabia had long been the major US base in the Middle East, ensuring oil output and price levels acceptable to the US and handing its oil revenues back to the US in exchange for armaments. But increasing local opposition to such US domination in the 1990s provided added incentives for US takeover of Iraq as strategic centre for continued control of the region. The attack on the World Trade Centre in 2001 became a convenient justification, first for the attack on the Taliban regime in Afghanistan, then for the invasion of Iraq in 2003.

[40] Ibid 81.
[41] Harvey, above n 5, 79-80.
[42] Ibid 77.
[43]Rees, above n 4, 19.
[44] Ibid 20.

But, as Rees points out, these developments proved much more difficult and costly than anticipated and failed to secure the support of other nations. In particular, the economically stronger nations of Europe, Germany, France and Russia were hostile to the use of US military power in the service of US based corporations.[45]

X. GLOBALISATION AND MELTDOWN

In some ways the growth of the Chinese economy in the years after 1980 paralleled that of Japan in earlier decades, with significant central state intervention to direct investment into key export industries, particularly focused upon the gaps or weaknesses in the US home market created, in part, by the US arms economy.

Japan still accounts for 12% of global GDP, but has not emerged from the crisis of the 1990s. Successive Japanese governments have failed to generate growth through big stimulus packages, including a one-trillion dollar budget in 2010, which have, instead, left Japan with increasing poverty and 'a public debt twice the size of its GDP, the worst ratio amongst industrialised nations and an interest bill amounting in 2008 to 20% of the budget.'[46]

As Rees points out, the scale of the threat posed by China to US economic and political power is altogether greater, with China traditionally controlling 'about one quarter of global production' [47] and now rapidly expanding its trade, investment and influence around the world. It is now 'the world's leading exporter' overtaking Germany in 2010 [48] and 'the greatest recipient of global investment after the US, but its wage levels are one fiftieth of those of the US and Japan.'[49]

Fifteen years of 'negotiations, disputes and stand-offs' prior to approval for China to join the WTO show the extent of US ambivalence towards Chinese involvement.[50] On the one hand wary of the vulnerability of the US economy in face of Chinese manufactured exports, on the other seeking to gain some control over Chinese trade law (including intellectual property law) and greater access to Chinese markets for US goods and services.

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[45] Ibid 88.
[46] Mattick, above n 22, 75-76.
[47] Rees, above n 4, 58.
[48] Mattick, above n 22, 87.
[49] Rees, above n 4, 60.
[50] Peet, above n 22, 226.

But once inside the WTO, China has played an increasingly active part in discussions and policy formation. As Peet says, 'the WTO finds itself having to change radically, or be dismissed as a serious global governance institution.' [51] The growth of the Chinese economy can also be seen to have played a central role in the financial meltdown and subsequent recession of 2008-2009.

Neoliberal policies encouraged capital export from the developed world to take advantage of the huge pools of cheap – and desperate – labour created both by IMF and World Bank structural adjustment (leading to large scale dispossession and displacement of peasant populations). Such globalisation of production was facilitated by innovations in transport and communications technology (including container ships and satellites), as well as reduced political and economic barriers (with removal of tariffs, quotas and capital controls). Developed countries' access to cheap labour in developing countries put huge pressure upon workers' wages and conditions in the developed countries themselves, particularly the US, where workers are largely without wage protection or welfare.

The neoliberal policies resulted in a greater output of surplus in the hands of the owners and controllers of production, relative to production costs. But so too did it pose increasing problems of disposing of such surplus (which retains its value only through the prospect of continued profitable investment). As Harvey points out,

> disempowered labour means low wages, and impoverished workers do not constitute a vibrant market. Persistent wage repression therefore poses the problem of lack of demand for the expanding output of capitalist corporations.[52]

As in the 1920s, where declining profits from real material production encouraged increasing resort to speculative acquisition of assets to absorb the surplus, so too did this occur in the 1990s. But by then, neoliberal deregulation had increased the possibilities for speculative spending, leading to ongoing inflation in the prices of property, shares, currencies and an expanding range of other financial assets. Attempts by the Federal Reserve to try to stabilise increasingly unstable financial markets through reduced interest rates and ready provision of credit only made things worse, with cheap borrowed money pouring into

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[51] Ibid 243.

[52] Harvey, above n 5, 16.

speculation and encouraging leveraged buyouts of viable productive operations, with their resources then sold to finance such borrowing.

China's willingness to continue to lend money to the US through its accumulation of (low interest) Treasury bond reserves facilitated low interest rates, massive borrowing and spending in the US. As Niall Ferguson said, 'the more China was willing to lend to the US, the more Americans were willing to borrow.'[53]

In the early post World War Two years US monetary gifts and loans to Europe benefitted both sides, with Marshall Aid and US imports used to reconstruct the productive base of European society. But Chinese money has gone into speculation, consumption and capital destruction, rather than productive investment.

Access to cheap money encouraged banks to lend to workers, with credit card debt increasingly bridging the gap between frozen wages and increased output resulting in household debt shooting up. Relaxation of rules separating the activities of retail and investment banks offered lenders new ways to insure their debts or offload them onto others (such as investment funds) through sale of new sorts of financial derivatives in unregulated, over the counter markets. 'Securitisation' of debt was supposedly a way to reduce risk through spreading it far and wide. Such derivatives themselves became a major source of profits for the banks that produced them, spreading around the financial world, with turnover in such 'shadow' markets massively overtaking trade in real material things.

The US government brought pressure to bear to encourage financial institutions to extend credit – particularly housing credit – to those on lower and lower incomes. Such institutions increasingly debt financed both property developers and buyers to keep the asset spiral going, more houses, more buyers, bigger prices etc. Increasingly, mortgages were sold to those without employment or collateral by brokers who then swiftly unloaded them onto investment banks who in turn on sold them as debt based securities.

With some big financial corporations selling billions of dollars of unregulated financial instruments/derivatives to act as financial insurance to others – far beyond anything they could actually honour in the event of massive bankruptcy, while others were betting billions on collapsing asset values, and taking actions which made such

[53] Niall Ferguson, *The Ascent of Money* (Allen Lane, 2008) 335

collapse increasingly likely, the effects of the collapse in value of such securitised debts were hugely amplified throughout the world financial system.

The upshot of this process is now known to all, with Federal Reserve interest rate rises from 2005 being the straw that broke the camel's back, leading to increasing mortgage defaults, and falling house prices. 'By August 2007, 16% of sub-prime mortgages with adjustable rates had defaulted' [54] and the banks were 'fatally wounded'.[55]

Subsequent government bank bailouts and the deficit financed 'stimulus packages' put together to try to head off the resulting recession have massively increased government debt in the worst effected nations, including the US and UK, with increasing cuts in government spending now kicking in to begin to repay such government borrowings. Poorer working people are already bearing the brunt of such payback through cuts in government employment and welfare spending, and the deflationary multiplier effect of such cuts, with, as yet, no sign of any significant reform of the practices or institutions actually responsible.

Increasing and chronic unemployment coupled with increasing welfare reductions at the bottom, while those at the top continue to live in luxury, will lead to increasing social unrest and protest and increasingly violent state repression in response. What has started as street protests and mass strikes in Greece and France could spread to the US itself in the future.

XI. CONDTRADICTIONS

On the one hand, the urbanisation and industrialisation of China has played a major role in stabilising world capitalism, through maintaining profitable investment opportunities for massive pools of surplus capital , for foreign direct investment in industry and urban development , for sale of technology from Germany and Japan and raw materials from Australia, Chile, Brazil and Argentina, and though maintaining effective demand for the products of such investment, mainly in the form US consumerism funded by Chinese lending.

While US and European stimulus packages were of limited extent and duration, the Chinese government responded to the meltdown by

[54] Skidelsky, above n 16, 6.
[55] Ibid.

putting hundreds of billions of dollars into infrastructural projects, expanded credit to local state and private initiatives, allowed some independent working class organisation and significant wage increases to expand their internal markets, and expanded public health and welfare provision.

On the other hand, the continued growth of the Chinese economy is the source of major future instability. A strongly authoritarian government is already using its economic and political power to shape the policies of other governments around the world, taking control of strategic raw materials, buying oil and gas from America's enemies in Iran and Sudan. With the US economy in chronic depression and its trade deficit and government debt continuing to increase, and the Chinese leadership failing to respond to calls for big upward revaluation of the yuan and massive opening up of Chinese markets to US imports, along with increasing conflict over access to strategic raw materials, there is huge potential for political and ultimately military conflict between the US and China.

Inside China itself, there are signs of significant overcapacity, with factories and towns idle and unoccupied, of stimulus funding driving increasing inflation in the prices of consumption goods and flowing into speculative asset price inflation, particularly in property markets.[56]

Despite recent concessions to working class organisation and wages, such wages and conditions remain grossly inadequate by developed world standards (long hours, not much more than US$2 per hour on purchasing power parity in manufacturing industry, unhealthy living and working conditions and draconian labour discipline). This will inevitably lead to increasing working class militancy in the future.

China is also particularly vulnerable to the effects of accelerated climate change, as a result, in increasing part, of its own rapid industrialisation, principally its output of CO2 from coal generated electricity production. Loss of fertile land due to urban expansion, pollution and increasingly, also sea level rise and the disappearance of Himalayan glaciers threaten the internal food supply at the basis of China's industrialisation.[57]

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[56] Leith 'China's Empty Cities', *The Unconventional Economist* (online) 15 December 2010 <http://www.unconventionaleconomist.com/2010/12/chinas-empty-cities.html>.

[57] Roger Harrabin, 'China's March to Green Revolution', *BBC News* (online) 19 October 2009 <http://news.bbc.co.uk/2/hi/8311223.stm>.

It is possible to see how these issues could begin to be addressed, with the Chinese leadership developing its own internal markets with improved wages and conditions for workers, while also taking a lead in shifting to sustainable industrial and agricultural techniques. But, as Harvey points out,[58] this would undercut the country's 'competitive advantage in the global economy. With less of its surplus available to lend to the US, this would further reduce global demand for its output.'[59] There are already signs that recent very modest wage increases in some industries are already leading investors to move to other lower-wage regions of south-east Asia.[60]

The continued growth of the Chinese economy which is currently moderating the crisis of the capitalist world is also threatening increasing tension and conflict in the future, as industrial expansion requires ever more inputs of scarce raw materials, including food stuffs from overseas, as it exacerbates ecological damage (forests torn down to make way for soya beans), and promotes chronic unemployment and debt in other countries. And with China and the US continuing down the current path it is easy to see how increasing internal destabilisation of the Chinese economy could intensify external destabilisation of the world political and economic system.

The US leadership has shown its willingness to resort to military force to try to secure oil supplies from central Asia and Iraq. The not too distant future could see increasingly desperate and militarised leaders in both China and the US attempting to solve their economic problems through the use of military power to secure resources and markets, leading to increased likelihood of global conflict.

XII. INEQUALITY

The neoliberal phase of capitalist development has had a host of pernicious consequences, including the weakening of democracy and political accountability, increasing inequality within and between nation states and accelerated environmental damage – in addition to the intensified threat of large scale conflict. As Rees points out,

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[58]Harvey, above n 5, 109.

[59] Ibid.

[60]Jonathan Wright, 'The Current and Potential Impact of Wage Increases in China', *Supply Chain Asia* (online) 6 April 2011 <http://www.supplychainknowledge.asia/articles/20110406_4>.

> in the US the ratio of the median workers income to salaries of chief executives was one to 30 in 1970. It was one to 500 by the year 2000. The top 0.1% of income earners had increased their share of national income from 2% in 1978 to 6% in 1999. Over the same period the share of the top 1% had risen to nearly 15% of the national income, close to the share in the 1930's.[61]

At a global level, the gap between poorer and richer countries continues to increase with the wealthiest 20% of nations controlling 84% of global GNP,[62] and half of the world population languishing in desperate poverty, including a billion suffering the consequences of grossly inadequate access to food and clean water. As Mattick points out, 'in 46 countries people are poorer today than in 1990. In 25 countries more people are hungry today than a decade ago.'[63]

With executive remuneration increasing and very limited taxation of high incomes and private wealth, the experience of an increasing number of working people in the developed world involves stagnating wages, postponed retirement, intensification of work and increasing insecurity, with more short term contracts, casualisation, supervision and disempowerment. For many it means chronic unemployment, very limited welfare and poverty.

In the developing world there is typically no state welfare provision at all for the millions displaced from, sustainable, subsistence agriculture every year to make way for cash-cropping, mining, urban expansion and tourist resorts. They are forced into dirty and dangerous slums and shanty towns, many trying to survive through begging, stealing, prostitution and reliance on relatives support. For those who do find employment there is no state protection for working and living conditions in the plantations, mines, factories, building sites and workers dormitories and camps, with frequently appalling working and living conditions.

It is the poor working population of the developing world that is most vulnerable to the effects of climate change, with major agricultural regions and populations close to sea level or reliant upon glacial melt waters, and very limited resources available for adaptation or defence.

The subversion of liberal democracy by corporate interests in the US and elsewhere in the developing world has long deprived the working

[61] Rees, above n 4, 101.
[62] Ibid 107-108.
[63] Mattick, above n 22, 85.

population of the west of any meaningful representation at the national or transnational levels of governance. The radically disempowered majority in the developing world are typically even further removed from meaningful participation or representation. And the increasing power of the Chinese leadership in shaping such transnational governance is the power of a totalitarian central administration presiding over ruthless exploitation of their working population, determined to keep down the wages and conditions of the majority while allowing the accumulation of vast wealth in a developing capitalist class.

Some agencies of the UN and some NGO's like Amnesty International and Greenpeace International have sought to assist and empower some of the most obvious victims of neoliberal inequality and repression. Various 'civil society' movements contest capitalist globalisation in various ways, pursuing 'localisation of both economic production and social and political life'[64] and/or destruction of the Bretton Woods institutions to try to escape control by big corporations. They seek to regain the national powers of regulation of the Bretton Woods era, or to create new democratic regional and global governance structures.[65]

There have been some limited successes of citizen action in slowing the progress of such destructive globalisation, including multinational gatherings of organised workers to oppose NAFTA in the early 1990s, the 50,000 strong protests at the Third WTO Ministerial meeting in Seattle in 1999, the FTAA negotiations in Quebec City in 2001, and the defeat of water privatisation in Bolivia.[66] Developing world workers and farmers have been active in all of these cases. It is amongst the workers and peasants of the developing world that major organised challenges to capitalism can be expected to increase in the future. There are already signs of increasing organisation and increasing militancy amongst the rapidly developing industrial working class of China and other newly industrialising regions. Around the world, peasants have been mobilising to fight against the seizure of land and resources by or for capitalist corporations. In Latin America such peasant movements have increasingly influenced mainstream politics, with the worker's party in Brazil, the Bolivarian movement in Venezuela and similar movements elsewhere challenging US imperialism and neoliberalism.

[64] Patomaki and Teivainen, above n 30, 115-116.
[65] Ibid.
[66] Kristin Dawkins, *Global Governance* (Seven Stories Press, 2003) 97-101.

XIII. THE DEVELOPED WORLD

In the developed world, Keynesians put their faith in further government borrowing and money creation to drive a renewal of growth sufficient to allow repayment of the borrowings without generating further crises in the future. They correctly criticise the stimulus packages in the US and Europe as inadequate to drive new growth, through failing to produce a sustained expansion of workers' consumption demand.

Big capital sees improved conditions for labour leading to increasing workers confidence and power, eating into its future profits and threatening its domination of the political process. The accumulation of government debt is seen as a threat of tax increases in the future, further eating into their profits. Money creation by governments threatens to produce accelerating inflation.

Hard line neoliberals bemoan the failure of 30 years of neoliberal reforms to cut back social welfare spending, taxation and government debt in the developed world sufficiently to drive genuine new profitability and new growth. They correctly highlight the increasing threat of default on developed world government debt whose servicing has become an ever greater component of government spending, and the problems of further borrowing in face of such a threat and such increased debt service.

The US leadership can continue to prop up its own economy and devalue Chinese bond holdings through money creation, thereby also increasing the cost of Chinese imports. But it is much more difficult for them to enforce a big upward revaluation of the Chinese currency as they did earlier with Japan, through threats of trade and investment protection. The running down of manufacturing industry in the US and the very high cost of trying to re-establish it, leaves US businesses dependent upon cheap Chinese imports.

Collaboration between East and West in the imposition of intensified structural adjustment in Europe and America, whether or not supervised by the IMF and World Bank, would indeed mark a substantial extension of transnational governance. But further moves in this direction would not be so much a 'golden era' as the continuation of an era of deepening darkness.

It currently takes around 8 hectares of productive land to provide food, water, energy and settlement area for an average US citizen. But the world only has enough productive land to allow for around 1 billion people to live at this level, rather than the projected world population of 9 billion by 2060. With increasing numbers of Chinese aspiring to western living standards, with strategic mineral resources running out, all biological systems in decline and climate change threatening food and water supplies, it is difficult to see how future military conflict can be avoided.