

Next Lap in the Rat Race? From Sub-Prime Crisis to the “Impasse” of Global Capital¹

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Why is it that fuel prices are increasing, home values are falling, credit is squeezed and job insecurity increasing? Why is it that more and more of U.S. working class families are suffering the pinch of this crisis?

My answer might sound very cynical: It's so the system that links their working lives to those of billions of others around the world can continue, in new ways, to divide working people here and around the world; to devalue their work and reward those who bet on the “right” asset; pit one livelihood against another in condition of endless competition; and thus reproduce scarcity in the midst of plenty. The many current crises that are hitting the world are interlinked, and what started in the U.S. as a sub-prime and foreclosure crisis, is now appearing in other parts of the world as a food and energy crisis which is now, in turn, rebounding in the U.S. To put it bluntly, the current crises create the conditions for a planetary restructuring to allow the planetary rat race to continue, and continue producing scarcity in the midst of plenty. Unless, of course, people from around the world set limits on this madness, and together restructure from below the way they produce the world's wealth. Let us explore some of these linkages.

Financial crisis

The U.S. is in the midst of two interrelated crises, an economic slowdown and a financial crisis. Recessions and slowdowns are means to devalue wages and put pressures on the working class and lay the basis for a profitable new upturn in the business cycle. This financial crisis has even deeper implications, because of its international ramifications, its links to other global crises such as food and energy, and the fact that faith in future growth, accumulation and repayment of past and current debt has been deeply shaken.

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One of the top priorities of the U.S. government and of other major players in the global economy, is to restore faith in the system and the promises it makes, because that faith keeps the system of capitalist production going. However, the problem for the working class in the U.S. and across the world is that this faith can be re-established only to the extent the major players are convinced that a future of profitability and accumulation lies ahead. In other words, politicians will have to create the conditions of profitability *today* in order to give any hope of future profit to financial and industrial capitalists around the world. The current crisis therefore, can be viewed as an opportunity for capital to restructure global capitalism and squeeze more out of workers and communities everywhere.

This crisis of global proportion became manifest in the U.S. last summer, when the sub-prime crisis hit the headlines behind rising foreclosures and family bankruptcies. It followed a series of burst bubbles and Federal Reserve interventions on interest rates which kept inflating the economy with debt. In the late 1990s the dotcom bubble burst and high tech stocks crashed, opening a recession. After the 9/11 attacks there were widespread fears of financial collapse, as employment keep dropping through July 2003 (in spite of the recession being "officially over" in November 2001). Between January and December 2001, the Fed cuts its benchmark interest rate 11 times, dropping the key lending rate from 6.5 percent to 1.75 percent. This led to negative real interest rates (when inflation was factored in) which meant that banks borrowed money to make loans and, in real dollars, repaid less than they had borrowed. Cheap credit was a strategy to avoid and delay financial collapse and consequent global meltdown, but it is also how the Fed created the next bubble.

The Housing Bubble

After the dotcom crash, the era of easy credit led to speculation on the housing market. Home mortgage debt begun to show double digit growth, settling at around 16.6 percent a year in the period between 2000-2005, compared to about 9.2 percent a year in the 1990s. This added to other working class indebtedness (such as credit card debt) which grew through the last three decades. Loans were made available to working class people who would not have qualified previously because of low incomes or inadequate assets, and lenders did not seem interested in checking borrowers' statements. This was not only due to cheap credit, but also to the way mortgages were packaged into more complex debt instruments (which also led to the

international ramifications of the crisis.)

The main difference between the traditional mortgage system and the new one that emerged with recent “financial innovations” in the U.S. is the complicated web of linkages away from the mortgage-issuing banks. In the “old days”, mortgages were a simple affair between home buyers and banks. Banks had an incentive to minimize the risk of default and, to some degree, to re-negotiate mortgage terms if there was a risk of default. The mortgage deal was confined in the relation between issuing bank and the borrower.

The novel aspect of the “new” mortgage market is the banks' offloading of risk to the market through *securitization*, i.e. repackaging of these mortgages (home buyers' *promises* to pay back the loan with interest) into securities that combine a wide range of risks and promises of repayment by a variety of agents; investments that were sold off to hedge funds, pension funds, and back to commercial banks themselves.

What is interesting is the system of incentives for different agents in their efforts to maximize profit. First, mortgage lenders – or at least their agents – were interested in maximizing the number of mortgage deals, as they received a fee for each deal closed. Therefore they weren't very careful about minimizing the risk of default. The rating agencies, such as Goldman Sachs, who were supposed to rate these mixed securities of bundled mortgages, on a scale of risky to safe, had an interest in overrating them. Why? Because rating agencies have competitors, and if they fail too often to please their clients with good ratings, these would turn to their competitors.

All these factors caused drastic increases in home prices, which almost doubled in the 2000-2005 period (according to the Case-Shiller Home Price Index). Ultimately however, this bubble burst. They always do, sooner or later. And the main, obvious reason is that debt must be paid back, with interest. And this is not always possible, if the cost of repayment increases above what the borrower can afford. Thus, one factor contributing to the wave of defaults was the Fed's seventeen interest rates hikes between June 2004 and June 2006. The higher rates affected a variety of borrowers, but especially the more vulnerable ones with adjustable rate mortgages.

In July 2007, according to some estimates, a month before the official opening of the sub-prime crisis, home foreclosures were almost 100 percent above the previous year. The increase in foreclosures in turn

contributed to a fall in further lending and a drop in home prices. By March 2008 average home prices measured by the Case-Shiller Index had fallen by almost 18 percent from their peak in June 2006. A fall in house prices in turn prevents many homeowners from playing the speculator's game (borrowing against the rising value of their houses) for the purpose of maintaining their livelihoods.

Livelihoods and speculation

The sub-prime story revealed some key changes in the way middle to low income U.S. working class people secure a place to live. These changes are better understood if we consider them in the context of shrinking social entitlement to common wealth (which at the federal level is seen in the last three decades of tax cuts for the rich and social services cuts for the poor), and increasing "labor market flexibility" – job and wage insecurity – which increase the risk of default. The mandarins of finance have thought it out well: how to provide homes for the needy while at the same time reducing the investors' risk? The answer is the same as to every capitalist conundrum: turn "risk" into a commodity and pass it along.

The mortgage crash and the current crisis reveal that this "risk" was distributed to global markets, and appeared in investment portfolios ranging from American pension funds, to local governments in Europe, to international banks. According to some estimates, non-U.S. investors hold about 60 percent of the mortgage-related debt that has defaulted or that it is likely to do so. There is a good chance that the mortgage on your home has been chopped up into small pieces and scattered around the world. The fact that nobody knows where "it" actually went, then caused banks to freeze their lending to each other, threatening to paralyze the international credit system and its huge need for *liquidity* (assets that can be easily bought and sold) to lubricate its daily operations.

This practice allowed increased exposure, but also increased expected profit. The push to sell mortgages was also met by eager home buyers who, in condition of declining real wages and the prospect of house price increases, saw the possibility to capitalize on a booming house markets. For millions of workers this meant their first opportunity to own their home; but the financiers also turned large sections of the working class into speculators, dividing them from workers with lower pay and no access to credit. Some workers supplemented declining wages by playing the markets, or by buying and "flipping" houses. In this way, their aspirations for social wealth in the form of health,

education and housing were tied to the ups and down of financial markets.

Take for example, the case of employers offering to pay workers partially in company stock, often as a bonus. The old “productivity deals” in the post-war period linked wages increases to absolute increases in productivity. But tying wages to the increases in share prices means tying them to *differentials* between these productivity increases and those of workers in competing companies. It makes the stock market the judge of whether workers are “sufficiently” productive, not in absolute terms, but relative to competitors, by rewarding (or not) the stock with an increase (or not) in its price. If competing firms use this technique to pay workers, the stock market decides which workers get wage increases. It is as if managers are saying to workers: Work harder, but how much you need to intensify your working life to get an increase in wages, neither you nor I will decide. The Market decides. And since nobody knows whether other workers in other companies will work more efficiently than you, uncertainty will push you to work even harder.

It must be clear that tying the conditions of reproduction (at both family and societal levels) to the ups and down of financial assets – whether these are shares of the employer’s stock or the investment instruments that now drive housing prices – is to tie them to the dynamic of markets which fuel insecurity and further polarize wealth. This is an ingenious trick, because it undermines organized social struggle over wages and social entitlements like housing, health and education, in at least two ways:

- a) By making working class people in debt more vulnerable and therefore less willing to join in social struggles, since they’re compelled to avoid default and the loss of future credit (increasingly the only source of higher living standards.)
- b) By pressuring them to work harder and accept worse conditions, which in turn stimulate cutthroat competitive struggle among workers.

Non-union workers heavily in debt are often too scared to join a union; union workers heavily in debt are more fearful of going on strike. The massive increase in all types of working class debt makes workers less able to resist the dictates of capital. The word *mortgage* derives from Latin meaning “the grip of death.” It evokes a condition in which debtor loses freedom over their own lives, precisely because to reproduce their livelihoods they are compelled to get more cash to

repay debt (what in standard economic language translates into “forcing cash flows.”)

End of the neoliberal era?

The recent sub-prime crisis and its international ramification could well indicate the end of the neoliberal era as we know it since it emerged in the late 1970s. *Neoliberalism* arose as a response by U.S. capital to a threefold problem resulting from planetary struggles of the previous two decades:

- 1) How to cut the social wage (wages plus social benefits) received by U.S. working class, but at the same time
- 2) Allow in some way the reproduction of U.S. working class and
- 3) Intensify their working lives (make people work harder.)

The recent sub-prime experiment was the last of many attempts to deal with this threefold problem. It must be understood within the framework of neoliberal changes and of the processes of global restructuring which followed them. (The term “neoliberalism” means a return to the “free-market” ideology from the “Gilded Age” of capitalist robber barons, not some new era of generosity.) To understand the possible implication of this crisis therefore we must briefly trace the development of the conditions that made it possible.

1979 is the year in which Paul Volker – then chairman of the Federal Reserve – “officially” launched the neoliberal era with a sudden 1 percent increase in the interest rate, precipitating a global recession. The latter, in turn, created the conditions for neoliberal reforms such as financial market deregulation, union busting, cuts in social entitlements, tax cuts for the rich, and intensified free trade. The massive explosion in debt and financial markets (of which the sub-prime crisis is the latest expression) were a major consequence of this. “Excessive” public spending was identified as the major source of inflation and unemployment, together with “excessive” wage demands. With the election of Margaret Thatcher in the United Kingdom in 1979 and Ronald Reagan in the U.S. in 1981, a new “consensus” started to consolidate among world rulers according to whom national assets had to be privatized, public spending curbed and capital markets had to be liberalized. Until then, the post- World War II governments could implement Keynesian policies of full employment – whether these were successful or not – through the manipulation of tools such as the interest rate, the exchange rate, taxes and government spending (Keynesian policies, based in the economic theories of John Maynard

Keynes, began to be applied by governments during the 1930s, and became orthodoxy across the West after WWII.)

With the opening up of capital's markets, governments decreed the abandonment of their commitments to full employment and any form of welfare state or social safety net. Economic and social policies must please the financial capital markets. If governments granted popular concessions that redistributed resources from capital to the working class, financial capital would fly away, thus inducing a fall in exchange rates and an increase in interest rates and provoking a downturn in business and an increase in unemployment. In the view of neoliberals, a "stable economy" meant accommodation to the desires of international financial capital. Financial markets thus started to exert heavy pressure on conditions of work – whether waged work in factories or offices or unwaged work of raising children and reproducing lives in the home – through capital's increased ability to migrate from place to place, pitting conditions of working class reproduction against one another. Governments now competed against one another to cut the public spending that was part of the social wage: education, health, housing, to mention just a few.

In the global South, which did not have "advanced" capital markets through which to impose the discipline of global capital, the same effects were obtained through the management of what became known as the *Third World debt crisis*, precipitated by Chairman Volker's interest rate increase. In the event of a liquidity crisis in a debtor country, the first response is a phone call to the International Monetary Fund (IMF) in Washington. The response to such a phone call by a national government is well known: IMF officials offer their help and will consider extending a loan in order so country in question meet its debt payments to the big global bankers. This would allow it to continue to "benefit" from existing trade agreements, aid flows, and all the perks that go with being a member of the world "economic community."

However, the proviso for the loan would be a series of conditions, also known as a Structural Adjustment Program (SAP), which the IMF forced all countries in crisis to adopt with little variation: devalue the currency, thus making imports more expensive and enforcing a cut in real wages; privatize water, education, healthcare and other national resources, thus opening them up to restructuring, hence unemployment; cut social spending; cut subsidies on necessities like food and fuel; open up markets to foreign investors; promote competitive exports, which will help to repay the debt. In the case of

basic resources like water, their privatization results in attempts to make poor people pay for them at prices they often cannot afford. Millions of people across the world have struggled against these *enclosures* (dispossession or privatization of resources essential to subsistence), thus slowing them down, sometimes even stopping them for the time being.

But as in the case of financial liberalization in the global North, in the South too the management of debt crises became an opportunity to enclose common resources, and make people more dependent on the markets. In both the North and the South, through financial deregulation and free trade, neoliberal capital thus aimed to turn the “class war” of the 1960s and 1970s – when capital’s power faced challenges in communities, factories, offices, streets and fields around the world – into a planetary “civil war”. A civil war fought through competition, a way of life that pits each community of workers against every other.

It has done this by mechanisms of competition that have come to pervade every sphere of life. It has done this by demands for “efficiency” – lowering the costs of production – which in fact means *shifting* its costs away from capitalists and onto the environment, communities and human bodies (where they don’t count as economic costs). It has done it through the management of borders with detention camps, deportation, and the criminalization of migration by xenophobic and racist laws and practices.

In this context, the development of information and communication technologies, together with the drastic reduction in the monetized (but not the environmental) cost of global transport, has offered capital a major opportunity to restructure global production and construct a system that facilitate its *escape* from zones of organized working class strength.

Through the late 1970s and 1980s, *export processing zones* (EPZs) began to mushroom around the world. These are areas set up by governments in the global South in which extremely favorable tax regimes for business, slack environmental regulations, and anti-union laws, in a context of widespread poverty and increased dependence on the market, all helping industries that want to escape the higher wages and stronger regulations of the Northern countries. The *maquiladora* zone along the U.S.-Mexican border is the best-known example in North America. With the generalization of EPZs to whole countries (such as Mexico since NAFTA), *multinational corporations*

increasingly turned into *transnational corporations*. While the former, which grew in the 1950s and 1960s, replicated production processes in different countries so as to access national and regional markets, the latter slice up the production that once took place in one area, and displace it through large *global production networks* according to cost and efficiency criteria. The productive nodes within these networks might belong to a major transnational corporation, or they might be subcontracted to minor players.

Devaluing and dividing workers

This global restructuring developed in the last few decades, along with the development of financial speculation and the use of debt, has allowed the reduction in the value that the mental, physical and affective capacities of U.S. workers have *for* capital. This value, which we call the *value of labor power*, does not correspond directly to the wage received by workers, although it is linked to it. It also depends on the prices of the goods and services that are typically consumed by workers, and the latter depend both on their condition of production and the general level of inflation.

The global restructuring made possible by the enclosure of resources and entitlements created the conditions for widening the wage hierarchies (both global and local) — the latter reproduced culturally through xenophobia and racism, and economically, through pervasive competition and forced dispossession. These wage gaps, in turn, made it possible to reduce the value of labor power in countries like the U.S. without a proportional decline in living standards, by lowering the price of commodities that enter in the wage basket of these workers. So for example, the planetary expansion of sweatshops in global commodity chains means that U.S. workers can buy pants or digital radios at Wal-Mart at low prices. Because of cheap service labor from the South and East — the result of massive poverty caused by Structural Adjustment — many Americans now hire Filipina or Mexican women to take care of children and aged grandparents.

In the South, meanwhile, this process has made it possible to discipline new masses of workers into factories and assembly lines, fields and offices, thus extending enormously capital's reach in defining the terms—the what, the how, the how much — of social production.

In both North and South, the enclosure of resources that formerly belonged to all in common, means an increased dependence of the

working class on markets to reproduce livelihoods, less power to resist the violence and arrogance of those whose priority is only to seek profit, less power to prevent the market from running their lives. It makes working class people more prone to fratricidal wars against other workers who are trapped in the same competitive race, but with different levels of rights and different access to wages. All this has meant a generalized state of *precarity*, where life is precarious and nothing can be taken for granted.

Global circuits

From the point of view of global finance, what allows the *dynamics* described above is what generally is described as Bretton Woods II and which is expressed by the enormous U.S. trade deficit and correspondent surplus in China and other exporting countries. It is the interlink between surplus and deficit countries that allows to generate always new debt instruments like the one that has recently resulted in the sub-prime crisis. The ongoing recycling of accumulated surplus of countries exporting to the USA such as China and oil producing countries is what has allowed financiers to create new credit instruments in the USA.

Hence, the “deal” offered by the elites in the United States to its working people has been this: ‘you, give us a relative social peace and accept capitalist markets as the main means through which you reproduce your own livelihoods, and we will give you access to cheaper consumption goods, access to credit and the illusion that gains in terms education, health, pensions and social security could be made through the speculative means of stock markets and housing prices.’

In turn, to allow the reproduction of labour power of 250 millions of unemployed, under-employed and dispossessed Chinese, the “communist” leaders need double digits rate of growth, and therefore they need both Western markets and their capital, know-how and technologies. It is for this reason that they have been willing to recycle back to the US their enormous trade surpluses, thus contributing to the liquidity for the expansion of the many forms of debt in the US. This is a vicious cycle that locks everybody into an endless rat race.

At the same time in China and other developing zones in the Global South, people are being offered a different sort of deal: industrial employment at wages that, while very low by international standards, are still substantially higher than anything obtainable in the

impoverished countryside. But attached to this there is also the promise that, through their link to global markets, their conditions of living will be gradually improved. While over the last few years wages in many such areas seem to be growing thanks to the intensification of popular struggles (particularly in China), such gains are impossible to generalize. What's being offered to the South is the promise to expand the existing urban middle classes, who already model their lifestyle and consumption patterns on Northern ones. Although an understandable longing for "betterment" is at the basis of what has been sold as the "American dream", what makes it a dream is precisely the fact that, even in the US, it has never meant eliminating wage hierarchies, just reshaping them. This is a game in which there must, necessarily, be losers.

At the global level, this is impossible to generalize for two reasons. First, no matter how much we recycle or how many energy efficient light bulbs we use, it would still require several planets to accommodate a "American dream" way of life modeled on high energy and individualized consumption patterns for six billion people. Second, precisely because this way of life requires the further expansion of competition of all against all, of borders and property regimes, of enclosures and dispossession, it must always necessarily be dependent on hierarchy and exclusion. In other words, middle class "betterment" is an illusion constructed in between the Scylla of ecological disaster and the Charybdis of poverty. The only think that this model of development can create is gated communities of whatever is left of middle class families accessing privatized social services within the borders of their patrolled walls, surrounded by hordes of poor with little access to public services and whose entrance through the gates of those enclaves is managed for the purpose of serving those communities.

Many crises: what restructuring lies ahead?

The turn of the millennium saw a vast and sudden flowering of planetary popular uprising against neoliberalism in Latin and Central America, Africa, Asia and ultimately, within the cities of the former colonial powers themselves and in the US. The global uprising had occurred at the end of the cold war era, when the massive global security apparatus was beginning to look like it lacked a reason of being, when the world threatened to return to a state of peace and claims were made for a "peace dividend" to be channeled into social entitlements.

The immediate reaction to this wave of struggles was a textbook case, helped by US former allies Al Qaeda. The response was further tax cuts for capital and a return to global warfare with the funding of the 1 trillion dollar war in Iraq. However, this attempt to use US military power as the ultimate enforcer of the neoliberal model failed as well in the face of almost universal popular resistance.

Now, the very financial architecture that tied together the global circuits of capitalist production is in deep crisis. As a result, the neoliberal project lies shattered.

This is the nature of the current neoliberal "impasse": how to further the reach of production for profit globally in the face of global growing resistance to enclosures and dispossession, and in the wake of military and financial strategies that have reached their limit?

The fundamental question for capital today seem therefore these: how to use the economic financial crisis triggered by the sub-prime crisis to push for new forms of governance and global restructuring aimed at promoting a new cycle of planetary accumulation? How can this restructuring be shown to address those strategic questions that are posed by growing social conflict worldwide such as the question of energy, poverty, and environment?

In this the elites might be helped by the emergence of new crises that are directly linked to the sub-prime one: the food and oil price hikes, which are devastating communities livelihoods across the world, and are at the basis of current massive waves of struggles. Both oil and food prices have been rising as a combination of "fundamental" and "speculative" factors. Oil demand has been surging from the need posed by the growth in industrial production in many countries of the South described before, against the background of relatively sticky oil supply. Food prices in turn have been rising as a result of the expansion of agri-industrial models of land use, the concern of which is to feed global market demand (that is *paying* demand) not hungry people around the world. In recent years, land use has shifted first into animal feed production (due to the increase in meat consumption brought about rapid urbanization in the South but also in the North) and, more recently, to biofuel, as oil prices makes it profitable to use land for this purpose. On the speculation side, just as the bursting of the stock market bubble in the late 1990s shifted speculation into housing, so as now the burst in the housing bubble and stalling of world stock markets triggered by the sub-prime crisis, has shifted the

interest of speculators away from these assets and onto commodities, which in turn fuel the price increase and create the condition for a new wave of global restructuring by the creation of massive poverty, both in the North and in the South.

They will try to use these crisis to attempt to reverse the gains of past social movements: to deal with the energy crisis and global warming they will put nuclear energy back on the table, they will further commodify "guilt" by extending the reach of carbon trading, and they will focus on capital intensive alternative energy sources, in such a way as to ensure that whatever energy resources do become important in this millennium, it will be difficult to democratize them. To deal with the food crisis they will try to further the role of biotechnology and genetically modified foods that further impoverish poor world farmers and reduce food security. The World Bank is already suggesting that Sovereign Wealth Funds put aside a small proportion of their money for food aid, but only as tied to a larger project of global restructuring.

They will also try to reshape the configuration of global production networks. A new class deal in China for example could be thought to go in this direction. From the perspective of global capital, the increasingly rioting workers in China could be allowed higher standards of living if new low wage zones are created elsewhere to help maintaining a low value of labour power in the US and in Europe. In certain regions of Africa, for example, the continent where struggles defending common access to land, water and social entitlements have been most intense in current decades, and where enclosures of these commons, in cases in which they succeeded, have left trails of social, community and ecological devastation.

There are forces at work to create the global infrastructures necessary for this reconfiguration of global production and wage hierarchy. For example, the World Bank — deprived of its role of funding controversial dams and pipe-lines projects across the world by the many poors' struggles whose livelihoods was threatened by those projects — has been funding development in China's poorer provinces. In turn, this allows the Chinese government to carry out similar projects in Southeast Asia, Africa, and even Latin America, and to bypass the international mobilization that coagulated against the mega-projects funded by the World Bank.

Finally, the collapse of the value of the dollar, if maintained and managed, will reduce further the value of labour power of the US

working class, cutting their access to goods and services. This will open the possibility of a partial reversal of foreign investment into manufacturing in the US, and the growth of outsourcing of global production networks back into the US, as it is discussed in some financial blogs. This job creation of course will depend of course on conditions of further impoverishment of already large sections of US working class: the American dream turned into nightmare.

It goes without saying that it will be up to the waged and unwaged working class everywhere to push back what really lies behind the promises of development and prosperity: further enclosures of entitlements and commons, a way of life dominated by the race to out compete others, and therefore destined to reproduce wage hierarchies, exclusions, poverty, ecological disaster and scarcity in the midst of plenty. The reclaiming of commons for our own times — as demonstrated by so many struggles around the world — is the minimum condition for reverting precariousness in the condition of work and living. But it is also the condition upon which new forms of local and trans-local communities of producers can be constituted, communities who reproduce livelihoods while set their own measures and value of things, without submitting to the measures and value of things imposed upon them by disciplinary capitalist markets or authoritarian hierarchies.