

# **“The current global crisis – what are the fundamental questions?”**

**NMMU Public Lecture  
by  
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Many in this audience will have experienced the current crisis directly or indirectly. Many in this city would have been on ‘forced leave’ last month either because your companies are on short time or there have been lay offs. Many of those in the manufacturing sector – whether as factory workers, in administration or in laboratories – will not have worked last month. They will not have earned any money as the factories felt it was too expensive to start up their machinery, just to close down a few days later for public holidays. So bond payments, rents, school fees, car payments, etc will have gone unpaid at the end of the month in the hope of catching up later in the year. Or the school fees or bond payments may have been paid by pawning valuable family assets. In fact there has been a 15.4% increase in civil summons for debt over the past three months. There is a growing sense of insecurity amongst working people across the skill and class divide in this city and across our land. People feel compelled to adapt to forces they do not understand and are beyond their control.

Strangely these issues did not emerge in last month's successful general election. Initially many commentators argued that the crisis would not be global. Today we know that it is global in reach and working people world-wide, including South Africa, are paying the price for the failures of neo-liberal capitalism. Instead of raising these fundamental questions during the elections we were exposed to a song and dance routine – the Helen Zille shuffle and the Jacob Zuma jive with its ominous ‘Give me my machine gun’ theme. As parties move to capture the middle ground they avoid the tough socio-economic questions we all face. Our elections have become an American style personality contest!!

But the ‘party’ is now over and we are left with the fundamental questions raised by the current global crisis unanswered:

Is this crisis temporary or is it long term?

Is there an alternative to the booms and busts of capitalism?

What would a feasible alternative policy for decent work look like?

To answer these questions we need to examine, firstly, the roots of the crisis. Secondly, the implications of the crisis for working people, and finally, what kind of alternatives for working people are there in this age of insecurity.

## **ROOTS OF THE CRISIS**

In his enthusiastic account of the way in which globalisation is ‘flattening the world’, Thomas Friedman introduces, half way through his book *The Earth is Flat*, a note of caution. He mentions a conversation with his two daughters in which he bluntly advises them: ‘Girls, when I was growing up, my parents used to say to me, ‘Tom, finish your dinner- people in India and China are starving’. My advise to you is: ‘Girls, finish your homework – people in China and India are starving for your jobs’

Of course, the world is not flat; it is highly uneven. For around 100 years = 1870-1970 – the US witnessed an unprecedented trend of rising productivity and rising real wages for working people. This lies at the heart of the American Dream and the American way of life – two cars, a suburban home and a TV set in every room. But since the seventies US economic domination began to be challenged as the world's centre of production shifted to the Asian Tigers and China in particular. With the collapse of communism and the opening up of the previously protected markets of Russia, Eastern Europe, India and China, capitalism became truly global for the first time in history. In fact the

world labour market doubled – from one and half billion to three billion. But the significance of this doubling of the labour market was not simply an increase in the number of workers ; the significance lies in the fact that these workers came into the market at a much lower wage rate and without the protection that workers in the North had won after a century of struggle.

## Global Work Force

Country	Size of labour force (million)	Cost of labour per worker (US \$ pa)	Value added per work (US \$ pa)
China	760	729	2885
USA	145	28907	81353
Germany	41	33226	79616
United Kingdom	30	23843	55060
France	27	No Data	61019
Italy	26	34859	50760
South Africa	17	12705	•16612

•Data for SA 1984  
Source : World Bank 2002

**Table One . Global Work Force .**

## Price make up of a \$100 sports shoe made in Indonesia

- Paid to the factory:12%
- Material : 8%
- Factory profit: 2%
- Production costs: 2%
- Wages: 0.4%
- Transport and Tax: 5%
- Brand name: 33%
- Profit: 13.5%
- Research : 11%
- Publicity:8.5%
- Store : 50%

**Table Two . Price make up of a \$100 sports shoe made in Indonesia**

Notice the percentage cost devoted to wages – 0, 4%. It is estimated that 72% of the capital value in the Dow Jones is in intangible assets such as brand value. ( The Brand Bubble, Johan Gezano)

This is the first global change . The second is the fact that these export led Asian countries depend on the US to provide a boundless consumer market. This is the irony of the global economy : US consumerism is being kept afloat through increasing credit , credit increasingly derived from communist China! In other words, China is playing a crucial role in financing US debt , and therefore , US consumption. China has developed the worlds' largest foreign exchange reserves - \$2 trillion , at least \$650 billion of which is in US treasury bonds . In fact China held over \$300 billion –

10% of their GDP- in Fannie Mae and Freddie Mac. In theory, China could pull the plug on the US economy , although a move to sell their assets would further damage China's export industries . Is 2009 the year that China saves US capitalism ?

But the third and fundamental change in the global economy is the widespread deregulation of finance since the seventies . This allowed people to operate in the financial sector to increase their leverage, i.e. , their levels of debt to the assets they own. It allows investors greater leverage to increase speculative activities and risk taking.

The catalyst that brought about the current global crisis was the collapse of the sub-prime market in the US. Americans had been responding to the booming markets by borrowing against their houses at a sub-prime rate . That is they were receiving housing loans they could not afford because the interest was sub-prime . The assumption was that , as the interest escalated over the duration of the mortgage, the borrower would have an increased capacity to pay the instalments as their career progressed. This is similar to the assumptions behind BEE ; as your stock market shares rise , you are able to progressively pay back the loan !!! Others also shifted their pensions to defined contributions – rather than defined benefits – in order to profit from the booming stock markets ( Lee, P. 2008. `Retirement Undefined, Financial Mail, February 8, 2008)

The result of this irresponsible lending by finance houses was the creation of unsustainable debt-laden households. Indeed the average US household has lost over a quarter of their assets over the last six months!!

This growth in the power and influence of finance over the rest of the economy is best described as the financialization of capital. . Financialisation is not the same as finance capital –finance is necessary to support the development of the real economy. Financialisation is the term used to describe the current era because it encourages investors to focus on speculation and not long-term industrialization and job creation . Instead financiers aim to maximize their short-term returns rather building long term sustainable businesses . In a nutshell the real economy and the financial system are out of line with each other .( Mohamed, 2009)

## **IMPLICATIONS OF THE CRISIS**

There are three broad implications I draw from the current global crisis:

The first is that a development strategy based exclusively on exports is unsustainable . Development , if it is to meet basic needs , must be grounded in local realities . We need to pay more attention to sectors that can generate employment on a larger scale while meeting domestic and regional needs. The need to expand domestic markets comes across most sharply when we look at the impact of the global crisis on China's export led growth model

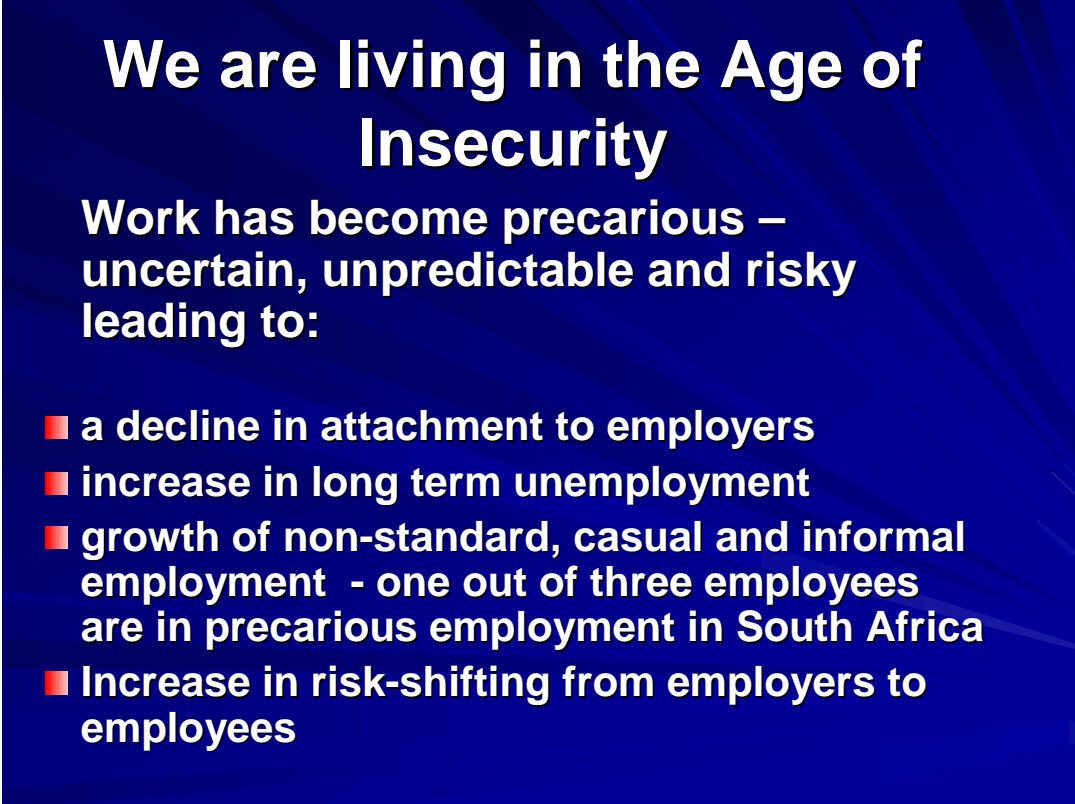
Let me explain why . Last December a riot broke out in the Pearl Delta, the manufacturing hub of southern China and the worlds workshop producing 5% of the worlds manufactured goods. The riot started in the wake of a simple pay dispute at a small Chinese factory that manufactured cheap suitcases. Orders had been dropping , and the factory closed down without warning leaving wages unpaid. The workers started to smash up the factory , and looked for managers to attack. The police arrived on the scene , and attempted to restrain the workers by locking them up inside the factory compound while the managers offered them a deal – part of their back wages would be paid if they left town . The workers refused and fought with the police shouting `There are no human rights here". Indeed it has been estimated that there are 50 000 protests per annum in China!

These protests may not seem surprising to those of you who know that China is an authoritarian state but it is a signal of wider unrest in China. China 's economic model rests on migrant labour with a system of household registration that is very similar to the pass laws under apartheid in South Africa. The current recession could prove the first real threat to the regime since the 1989 Tiananmen protests . These protests challenge the wisdom of Beijing's economic model which rests on an implicit bargain between working people in China and the Chinese Communist party , whereby the regime delivers high growth rates , and in return society tolerates authoritarian rule.

But let us not underestimate its success. For nearly three decades , the policy worked. China averaged 10% growth rates and 150 million people were lifted out of poverty. But it made the country far too dependent on exports , without a back up if foreign companies stopped investing and foreign consumers stopped buying. The government failed to create conditions for robust domestic consumer spending ; it did not ensure that there were banks ready to grant home or car loans, or rural credit organisations capable of helping farmers modernize. Consumers stuck their money in the bank , or under the mattress, giving China one of the highest rates of household savings in the world. This strategy was part of the implicit bargain with the US , in which China would essentially subsidise American consumption. ( Joshua Kurlantzick, ` Taking the bosses hostage' , LRB. 31.6 26 March 2009.

The second implication of the current global crisis is that we are living in the age of insecurity ( Webster, Lambert, and Bezuidenhout, 2008)

Table 3 – We are living in the Age of Insecurity.



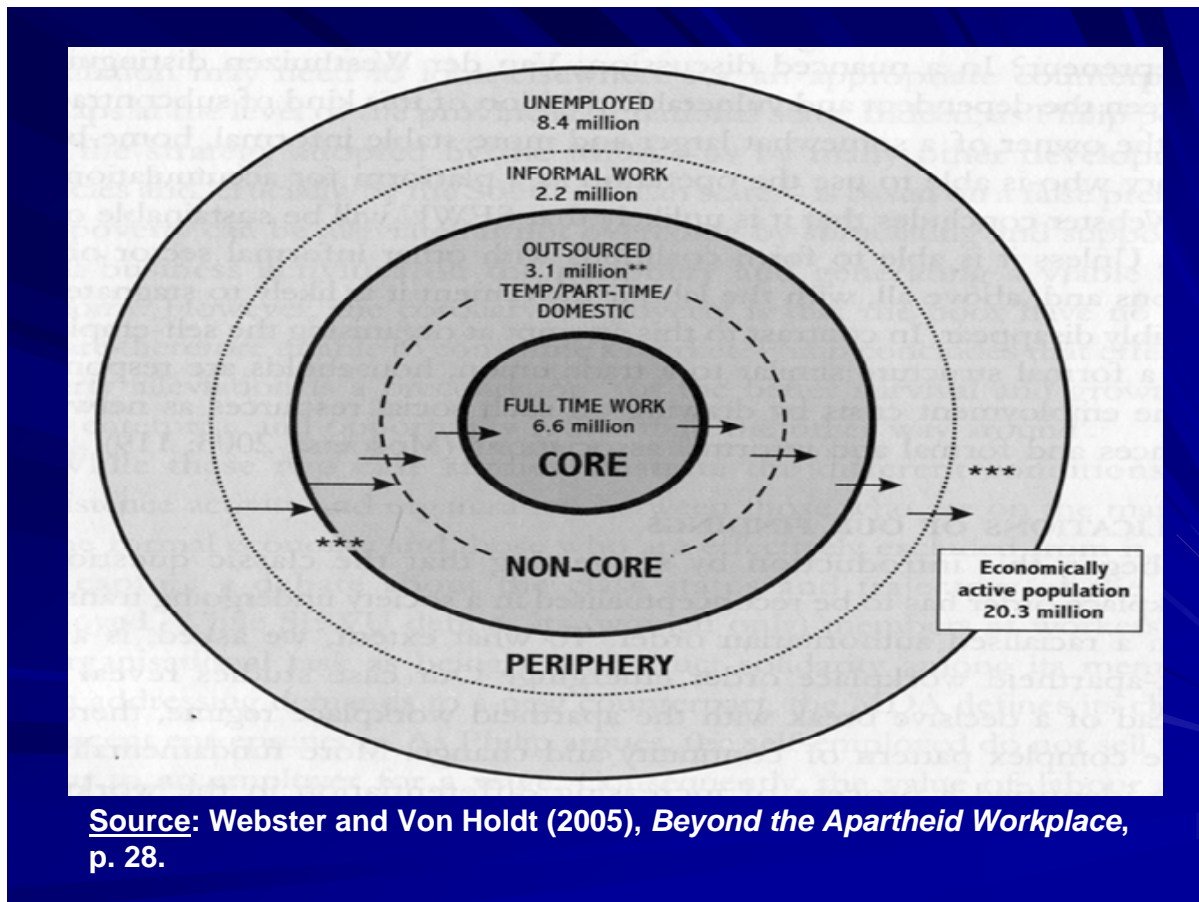
**We are living in the Age of Insecurity**

**Work has become precarious – uncertain, unpredictable and risky leading to:**

- **a decline in attachment to employers**
- **increase in long term unemployment**
- **growth of non-standard, casual and informal employment - one out of three employees are in precarious employment in South Africa**
- **Increase in risk-shifting from employers to employees**

The pressure ofcourse is not only amongst the poor. It was reported in April that the CFO of Freddie Mac , David Kellerman, had committed suicide. Both Freddie Mac and Fannie Mae, were taken over by the US treasury because the government feared that the housing market would go into freefall if these two companies were allowed to collapse.

Table 4 – Onion



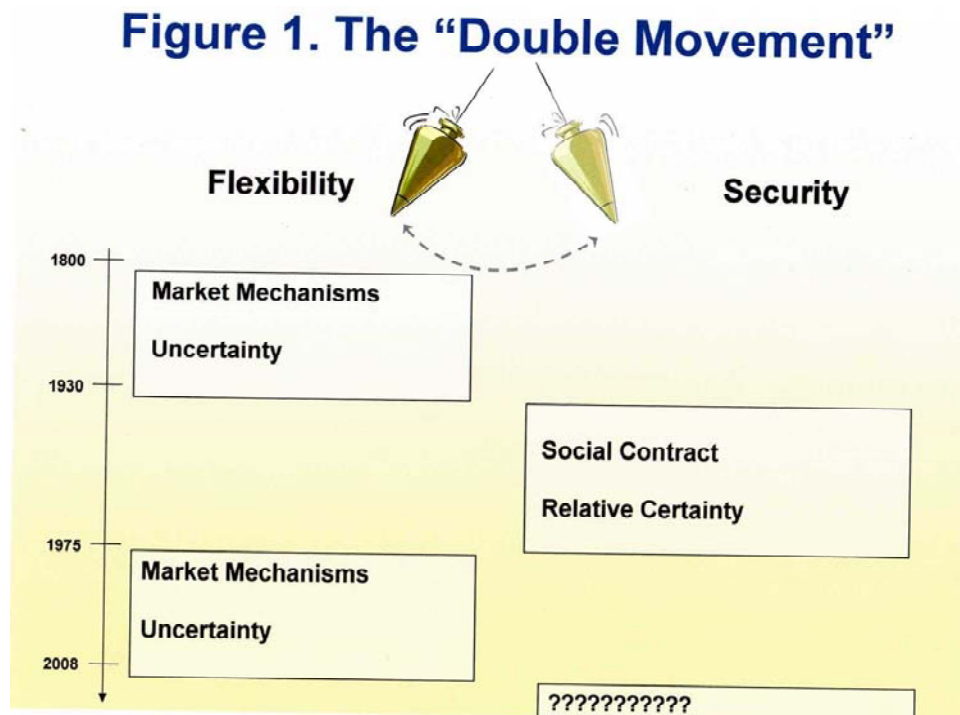
The third implication is that the current global crisis challenges directly economic liberalism, the idea of a fully self-regulating market economy. This idea rests on the assumption that the economy automatically adjusts supply and demand through the price mechanism. But as Karl Polanyi argued some fifty years ago, the idea of a fully self-regulating market economy is a utopian project. In the opening page of his celebrated book *The Great Transformation* he writes:

“Our thesis is that the idea of a self-regulating market implied a stark utopia, Such an institution could not exist for any length of time without annihilating the human and natural substance of society”

This is the Polanyi problem: creating a fully self-regulated market economy requires that human beings, nature and money be turned into pure commodities. But, he argues, land, labour and money are fictitious commodities, because they are not originally produced to be sold on a market. Labour cannot be reduced simply to a commodity, since it is a human activity. Life is not sustained by market forces, but is reproduced socially; in households, in communities, in society. Land is not simply a commodity, because it is part of nature. So, too, is money not simply a commodity, because it symbolically represents the value of goods and services. For this reason, Polanyi concludes, modern economic theory is based on a fiction, an unrealizable utopia.

In his classic study of the industrial revolution, Polanyi showed how society took measures to protect itself against the disruptive impact of unregulated commoditization. He conceptualized this as the ‘double movement’ whereby ever-wider extensions of free market principles generated counter-movements to protect society.

Figure One The Double Movement



As can be seen from Figure One the unregulated market led to the Great Crash of 1929. Security became a vital concern and politics centred on “ protection from the terrible uncertainties of employment, sickness or accident and the terrible certainties of old age without earnings. That is why working people dreamed of seeing their children in modestly paid, but secure and pensionable jobs” ( Hobsbawn, 1996:93).

Security was eventually won in Western Europe through the Keynesian welfare state that provided universal access to social welfare. It is important to note that the strength of labour did not only result in better trade union rights and a regulated labour market. Much more important was the general taming of the market. Capital control was introduced and financial control became strictly regulated . through a strong expansion of the public sector . Importantly a significant part of the economy was taken out of the market altogether and made subject to political decisions. This general taming of market forces was a precondition for the development of the welfare state , and the resulting comprehensive regulatory framework became more important than labour legislation in improving better working conditions.

The crucial point is that security was restored in the thirties and forties in Europe and North America because capital was forced into a compromise – a class compromise - with labour . This was not only because of the power of labour; it was also because of the fear of a communist revolution. This fear no longer exists and , as we have argued , the balance of power has shifted decisively from labour to capital in the era of globalisation. What then are the alternatives?

## ALTERNATIVES

Discussion on democratic alternatives to the current neoliberal global order often flounder because people believe they are not possible . As Richard Turner wrote in 1972 at the highpoint of apartheid South Africa’s repressive regime:

‘There are two kinds of ‘impossibility’; the absolute impossibility , and the ‘other things being equal’ impossibility. It is absolutely impossible to teach a lion to become a vegetarian . ‘Other things being equal ‘ it is impossible for a black person to become president in South Africa’

Indeed, in 1972 in apartheid South Africa, it was not only thought to be impossible, it was treasonous to think along these lines, as Turner sadly discovered when he was banned under the Suppression of Communism Act in 1973. He was later assassinated by the Durban security police on 8<sup>th</sup> January, 1978.

The crucial point Turner was making is that alternatives are not given. They have to be imagined and constructed, often in painful ways as Turner's life illustrates.

This, then, is the fundamental question raised by the current global crisis: is a feasible alternative to neo-liberal capitalism possible?

The stabilization of the financial markets after the subprime debacle was imperative and the right thing to do, but it has been unable to prevent a sharp recession. The International Monetary Fund believes that the recession will be longer than expected and there will be a slower recovery than usual. Both China and the US have proposals for long run growth paths but China's attempt to stimulate domestic consumption will take several years.

In South Africa renewed capital inflows have strengthened the rand but the decline in output and job losses is continuing and we are not likely to see a recovery in the 'real' economy, that is employment, until 2010 at the earliest.

But none of these measures address the central challenge we face of high unemployment. Unemployment not only harms individuals, but also households and communities; employment brings benefits not only for the employed but also for their community as a whole. In addition to income, employment also provides useful production, as well as recognition for doing something worthwhile. While economists usually focus on the economic multipliers, there are also social multipliers associated with job creation – decreased crime; enhanced family and community cohesion; strengthened security, better education, health care and child care.

However market economies do not provide jobs for all those who want to work. Indeed, public policy since at least 1960 has often been biased against full employment on the belief that it is not consistent with price and currency stability. Previous to Keynes' General Theory, unemployment at the aggregate level was seen by many neo-classical economists as a temporary deviation from equilibrium – perhaps due to labour market 'rigidities' such as labour laws. Keynes changed the discourse to one that blamed aggregate unemployment on insufficient aggregate demand.

Following the logic of Keynesian demand management policy, I want to suggest that we see the goal of establishing Decent Work For All as the cornerstone of a sustainable long term development strategy. This must involve a central role for the development finance institutions we have inherited from the apartheid state; the DBSA, the land bank, the Industrial Development Corporation. These institutions must become the engine of our public infrastructure developmental strategy and must include re-introducing forms of capital control. Such a strategy must involve reviving the credit system and providing targeted support to sustainable enterprises, especially micro, small and medium sized enterprises. Experience from previous financial crises suggests that adopting stimulus packages without reviving the credit system may end up raising public debt without stimulating the economy and creating jobs. There is also a need for sensible protection for labour intensive sectors.

But the central way in which to boost the economy is through employment-oriented interventions. One of the lessons drawn from research is that the greater the employment creation orientation of policies, the stronger the stimulus for the real economy. Indeed there are economists who argue that, by making government the employer of last resort, it would be possible to offer anyone willing to work a job – in other words full employment – in developing countries (L. Randall Way, The Employer of Last Resort Programme: Could it work for developing countries. Employment Analysis and Research Unit, ILO. August 2007).

This is the fundamental question I pose tonight; is it possible to create decent work for all in a developing country such as South Africa? To answer this question will require a lot more research, both here and elsewhere, but it is a challenge I put to our new government. The National Rural Employment Guarantee (NREG) of India has a scheme which entitles every rural household 100 days of work per year. The budget for this imaginative guarantee of employment in 2006/2007 was

0.33 per cent of GDP. ( P. Chakraborty: Implementation of the National Rural Employment Guarantee Act in India: Spatial Dimensions and Fiscal Implications. The Levy Economics Institute of Bard College, Working Paper No. 505, 2007.

My hunch is that we could also afford to guarantee employment for all . Unfortunately , many policy makers and most economists do not appear to be swayed by Keynes passionate plea:

` The conservative belief that there is some law of nature which prevents men(sic) from being employed , that it is `rash' to employ men, and that it is financially sound to maintain a tenth of the population in idleness for an indefinite period , is crazily improbable – the sort of thing which no man could believe who had not had his head fuddled with nonsense for years and years .. Our main task, therefore, will be to confirm the readers instinct that what seems sensible is sensible, and what seems nonsense is nonsense' ( Keynes, 1972)

He went on to conclude that `if new forms of employment are offered more men will be employed , is as obvious as it sounds and contains no hidden snags". Of course the really difficult question is how , and over what period of time, will it take us to make these forms of employment decent jobs? These are the fundamental questions that face us , and above all our newly elected government , in the face of the current global crisis!

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