Worldwide Depression: Regional Impacts of the Global Crisis

Part II of "World Depression: Regional Wars and the Decline of the US Empire"

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The worldwide depression has both common and different causes, affected by the interconnections between economies and specific socio-economic structures. At the most general-global level the rising rate of profits and the over-accumulation of capital leading to the financial-real estate-speculative frenzy and crash affected most countries either directly or indirectly. At the same time, while all regional economies suffered the consequences of the onset of the depression, regions were situated in the world economy differently and subsequently the effects varied substantially.

Latin America

Brazil with its free market policies in disarray and huge class divisions undermining any domestic recovery, its high velocity fall in exports and industrial production is heading toward a deep recession despite the boasts and claims of Wall Street and the White House favorite, President Lula da Silva.

In January 2009, industrial production fell 17.2% year to year. Gross domestic product contracted 3.6% in the last quarter of 2008 (Financial Times, March 11, 2009). All indications are that negative growth will persist and deepen during the rest of 2009. Foreign direct investment and export markets, the driving forces of past growth are in sharp retrenchment. Lula's privatization policies have led to extensive foreign takeover of the financial sector, which has transmitted the crises from the US and EU. His 'globalization' policies increase Brazil's vulnerability to the collapse of foreign trade. Capital flows are strongly negative. Hundreds of thousands of workers lost their jobs between December 2008 and April 2009. The 5 million impoverished landless rural workers and the 10 million families living on a one dollar a day food-basket handout from the government are excluded from effective domestic demand as are the tens of millions of minimum wage workers living on $250 dollars a month. The purchasing power of highly indebted family farmers is no substitute for shrinking external demand. All sectors, rural and urban, of the capitalist class are freezing new investments as private credit evaporates, overseas investors flee and local consumer spending declines in the face of the deepening recession. Lula's claims of 'decoupling' and his growth projections of 4% are seen as 'seeding illusions' to cover up the onset of a severe economic recession. Lula's blind support for globalization and the 'free market' is a central determinant of Brazil's deepening recession.

Brazil descent into negative GDP is the pattern throughout the region. Argentina is headed for minus 2% growth, Mexico –minus 3% and Chile 0% or less. Central America and the Caribbean, which are highly 'integrated' with the US and world economy are experiencing the full force of the world depression in skyrocketing unemployment resulting from the collapse of tourism, declining demand for primary commodities and a serious drop in remittances from overseas workers. There will be a sharp rise in extreme poverty, crime and a potential for popular social upheavals against the incumbent right and center-left governments.

The spread of imperial capital throughout the world, dubbed 'globalization' by its defenders (and imperialism by its critics), led to the rapid spread of the financial crisis and breakdown among those countries most closely linked to the US and European financial circuits. Globalization tied Latin American economies to world markets, at the expense of domestic markets, and increased their vulnerability to the vertical fall in demand, prices and credit witnessed today. Globalization, which earlier promoted the inflow of capital, now, with the onset of the depression, facilitates massive capital outflow. US, which is absorbing 70% of the world's savings in its desperate effort to borrow and finance its monstrous trade and budget deficits, has squeezed out its Latin American trading partners from the global credit market. The depression demonstrates with crystal clarity the pitfalls of imperial-centered globalization and the stark absence of any remedies for its collaborators in Latin America. The disintegration of the imperial-centered global economy is evident amidst rising protectionism and billions of dollars in state subsidies to prop up the imperial states' own capitalists in the banking, insurance, real estate and manufacturing sectors. The world depression not only reveals the intrinsic fault lines of the globalized economy, but ensures its ultimate demise into a multiplicity of competing units: nations, each depending on their own treasuries and state sectors to pull them out of the deepening depression at the expense of their former partners. The world depression is spurring the return of the nation-state, as 'de-globalization' accelerates.

Parallel and intimately related to the demise of the world market is the rise of the capitalist state as the center-piece for salvaging the national treasury and exacting an exorbitant tribute from the pension, health and wage funds of billions of workers, pensioners and tax-payers. Growing 'state capitalism' in times of capitalist collapse only emerges to '*save the capitalist system from capitalist failures*' as its promoters argue. In order to do so it exploits the collective wealth of the entire people. '*Nationalization*' or '*statification*' of insolvent banks and industries is the culmination of predator capitalism. Instead of individual enterprises or even sectoral exploitation of wage and salaried workers, it is the capitalist state that preys on the entire class of the producers of wealth.

Latin America's options revolve around recognizing and accepting that globalization is dead, that only under popular democratic control can nationalization serve to generate wealth and create employment, instead of serving to channel and redistribute resources upward and outward to the failed, bankrupt capitalist class.

Eastern Europe and the ex-communist countries

The conversion from communism to capitalism in Eastern Europe followed a process of privatization, in many cases based on widespread pillage, the illegal seizures of public resources and the precipitous fall in domestic living standards and production during the first half of the 1990's. Taking advantage of cheap labor, easy access to lucrative opportunities in all economic sectors, Western European and US capitalists took control of the manufacturing, mining, financial and communication sectors. At the same time as the barriers between East and West fell, there was a massive flow of skilled workers to Western Europe. The economic recovery and subsequent growth in Eastern Europe and the ex-communist countries was based on its dependency on the expansion of investment and credit from Western capitalism: The relocation of manufacturing, the influx of speculative capital in finance and real estate, the access to expanding Western markets and especially debt financing of consumer expenditures spurred Eastern growth. As a consequence, the region has been hit from two sides during the economic crisis: A collapse engendered by unsustainable internal speculation and the impact of its dependency on a depressed Western Europe for capital, credit and markets. The capitalist economies of the Baltic States, Eastern Europe and Russia collapsed rapidly. As Western European credit markets shriveled and large-scale multi-national disinvestment set in, the local currencies were devalued and overseas markets disappeared. The entire pattern of 'dependent development' rooted in the disarticulation of local markets and inflows of capital undermined local efforts to counter the collapse. Their only choice was to seek massive infusions of financial aid from the IMF and banks on onerous terms, which limited options for any national fiscal stimulus plans.

The regions linkages with world markets, based on subordinate-dependent relations with Western capitalists, meant that first they lacked the internal markets and capital to cushion the fall and, secondly, that the drying up of external flows would deepen and extend the depression. From the Baltic to the Balkan states, from Eastern Europe to Russia the full force of the depression has led to large-scale, long-term unemployment, widespread bankruptcies of local satellite and subsidiary industries, services and banks. Popular movements have emerged calling into question the free market policies of governments, and, in some cases, rejecting the export-dependent capitalist model.

Asia: The End of the Illusions of De-coupling and Autonomous Growth

The Great Depression of 2009 has adversely affected every economy in Asia, dependent on the international, financial and commodity markets. Even the most dynamic countries, like Japan, China, India, South Korea, Taiwan and Vietnam have not escaped the consequences of drastic declines in trade, employment, investment and living standards. Two decades of dynamic expansion, high growth and rising profit margins, based on export markets and intense exploitation of labor, led to the over-accumulation of capital. Many Asian and Western pundits argued for a 'new world order', led and directed by the emerging Asian economic powers, especially China, where power would be increasingly based on their 'regional autonomy'. In reality, China's dynamic industrial growth was deeply embedded in a world commodity chain in which advanced industrial countries, like Germany, Japan, Taiwan and South Korea, provided precision tools, machinery and parts to China for assembly and subsequent export to US, European and Asian markets. 'Decoupling' was a myth.

Export-driven growth was fueled by savage exploitation of labor, the dismantling of vast areas of social services (namely free health care, pensions, subsidized food and lodging and education) and the vast concentration of wealth in a tiny elite of newly rich billionaires (Economic and Political Weekly – Mumbai, December 27, 2008 page 27-102). China and the rest of Asia's growth was based on the contradiction between the dynamic expansion of the forces of production and the increasing polarization of the class relations of production. The high rates of profit led to the over-accumulation of capital – high rates of investment – leading into huge budget and trade surpluses, which spilled over into the financial sectors, overseas expansion (or money-laundering) and real estate speculation.

Asia's economic edifice was precariously situated on the backs of hundreds of millions of laborers with virtually no consumer power and an increasing dependence on overseas export markets. The world crisis especially deflated the export markets, exposing the Asian economies' vulnerabilities and causing a massive fall in trade, production and massive growth in unemployment. China and the other Asian countries' efforts to counteract the collapse of the export markets by massive injections of public capital to stimulate financial liquidity and infrastructure development has been insufficient to stem the growth of unemployment and the bankruptcy of millions of export-linked enterprises.

The Asian capitalist class and its government elite are entirely incapable of 'restructuring' the economy and social structure toward substituting domestic demand as the external market collapses. To do so would mean several profound transformations in the class structure. These include the shift from investments based on high profitability toward low margin productive and social services for the hundreds of millions of low-income workers and peasants. It would require the transfer of capital from private real estate, stock markets and overseas bond purchases (like US Treasury Notes) to finance universal health care, education and pensions and the restoration of land to productive use rather than to dispossession and real estate speculation.

The entire dynamic growth of Asia, built around capital concentration, high profits and low wages, is trying to survive based on deepening the impoverishment of labor via massive firing of workers, huge reverse flows of migrant labor back to the devastated countryside and the growth of the surplus labor force. The expulsion of labor, the usual capitalist solution, merely re-located and intensifies the contradiction – heightening the conflict between urban-based industrial/finance capital and hundreds of millions of impoverished, unemployed and underemployed workers and peasants. The state's injections of capital to stimulate the economy passes through the 'filter' of regional state elites and the capitalist class, which absorbs and uses the bulk of this capital to buttress faltering enterprises – with negligible impact on the mass of unemployed workers.

Private ownership and capitalist control over the state precludes the kind of social transformation, which can restart growth by expanding the domestic economy.

China's 'engine of growth-in-reverse' has, by necessity, undermined its trading partners who depend on industrial and raw material exports to China. The collapse of demand from its Euro-American markets undermines the entire architecture of China's export industries. The savage exploitation of labor and the power of China's new bourgeoisie ensure that there are limited possibilities for any revival of domestic demand from the 'interior'.

China's economic recovery is dependent on a new socialist transformation, which makes mass domestic demand the real engine of growth.

The Middle East: Depression and Regional Wars

The key to the crisis and breakdown of the Middle East is rooted in the imperial-Zionist regional wars and the collapse of commodity prices.

The oil producing countries accumulated vast 'rents', which they re-cycled into large-scale finance, real estate and military purchases in and out of the region. Profits concentrated in the hands of billionaire absolutist rulers led to highly polarized class relationships: super-wealthy rentiers and low-paid immigrant laborers limited the size and scope of the domestic markets. To break out of the crisis of over-accumulation and falling profits, the ruling elites adopted two strategies that temporarily avoided the crisis: Dependence on large-scale export of capital to rent, interest and dividend-yielding sites throughout the world – first to the US and Europe and later to Asia and Africa. The second strategy was to recycle profits into pharaonic real estate, tourist and banking centers in the Gulf States…leading to an enormous real estate bubble.

The collapse of the Middle East 'rentier (or non-productive) oligarchies' was detonated by the frenzied commodity oil boom, between 2004-2008, which heightened the process of over-accumulation – and the over-extension of debt and labor importation. The result was the onset of a regional economic crisis, in which budget and trade surpluses are replaced by mounting deficits. At no point did the Middle East economies diversify from their foundation based on 'rents' and create a diversified economy centered on production and the creation of a dynamic mass-based regional market. The rentier ruling classes face a growing mass of unemployed immigrant and domestic workers, the massive flight of thousands of expatriate European financiers, real estate professionals and other non-productive hangers-on.

No longer the beneficiaries of the petro-dollar boom – as prices, profits and rents collapsed – and no longer the powerful bankers and holders of debt, the Gulf Arab ruling class has few external and internal resources and outlets to project a 'recovery program.'

Worse still, in the midst of this emerging economic collapse, the militarist state of Israel serves as a regional destabilizing force projecting its power and colonial ambitions throughout the region. Through one of world history's most unique configuration of power, the economically insignificant state of Israel, operating through the activity of several tens of thousands of strategically-placed, highly organized, disciplined and ideologically committed loyalists in the Diaspora, control key levels of political power in the US government.