Forum

Debt and Disorder in the World Economy: Introduction

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Evidence of the economic disorder of advanced capitalism, in the form of rising rates of unemployment and a fiscal crisis of the state, first manifested itself in the mid-1970s. The persistence of these into the present decade signals what many see as an underlying economic crisis in the world economy. The ILO and the OECD have recently acknowledged that the world is now confronted with unprecedented levels of global unemployment *in spite* of a long period of adjustment policies designed to make labour markets more flexible. In Canada the remorseless climb in the unemployment rate is accompanied by falling rates of participation in the labour market. The postwar golden age of full employment capitalism has become a leaden age of falling working class living standards, declining public services and social polarization.

If increasing global unemployment leaves little room for complacency, neither does the persistence of the debt crises affecting both advanced and developing nations.[1] After 1974, as the rate of economic growth declined, government revenues in the advanced capitalist zone were increasingly insufficient to meet the expenditure demands placed on the state. Budgetary deficits became cumulative. With neither the initial debt or repayments invested in production that could be validated on the world market, interest on a growing government debt burden began to absorb an ever larger portion of state budgets, threatening the social programs of the post-war social contract.

The internationalization of production helped set the economic conditions that triggered this crisis. Internationalization of production and growing trade strongly encouraged the development of international currency and credit markets. In direct repudiation of the monetarist view that flexible exchange rates would bring international stability and greater national autonomy in economic policy, the end of the Bretton Woods fixed exchange-rate system added to international instability, stimulating competitive deflations and enhancing the power of global money markets over national economies. Unregulated international credit markets, where varied government bonds could be let and traded, boomed; but this trend was increasingly at odds with developments in the real economy. A chain of events starting with the 1970s oil shocks and running through to the Volcker monetary shock and the Mexican debt crisis of 1981-82 led to a further cumulation of debts and an explosive growth in world financial flows. The Mexican currency crisis and Japanese financial asset meltdown of 1994-95 underscore the grim reality that old debt problems are not being resolved while new ones are being added, even in the economies at the centre of global capitalism. Relatively weak economies like Canada's have confronted for some time now falling industrial output, a depreciating currency and austerity; the hope of finding enough foreign markets to generate the revenue for debt repayment seems increasingly vain. In the course of the crisis, financial capital has again, as in the disastrous years leading up to the Great Depression, become detached from the productive economy; not even a minimal semblance of democratic controls and priorities hamper its activity. That is where things stand today.

This "new" globalized financial economy — which has its historical antecedent in the early twentieth century "age of imperialism" when similar levels of economic openness, trade and financial flows were witnessed — has been met by two strategic responses. The right wing, neoliberal strategists maintain that competitiveness and stability will be re-established by laissez-faire policies that can break the rigidities built into the postwar production system and allow the free trade of goods internationally. The progressive competitiveness approach of the social democrats, in contrast, argues for an industrial and training strategy that will support high value-added production for export markets. It is conceded by both, in theory and actual practice when in government, that the objective is to become "globally competitive" through policies of wage restraint and domestic austerity, and through the adoption of new technologies. It is expected that the export-led growth that results will generate the revenues to pay off accumulated debt. Yet, these strategies are conspicuously at odds with the international conjuncture: with all countries seeking export surpluses to pay off their debts, or (in the case of the so-called Asian miracle economies) to continue their export-led growth, all that can result is a downward spiral of competitive austerity. This is the compositional fallacy at the heart of the "new mercantilism." The crisis of production that sparked the debt crisis at the beginning of the 1970s is now spilling over into a Keynesian crisis of realisation at the end of the 1990s.

It is becoming increasingly evident, then, that debtor nations can no longer service loans in an orderly manner *without* a mounting toll of declining living conditions and over-exploitation of natural resources. The traditional left response — a Keynesian stimulative package of lower interest rates and currency devaluation to speed the pace of accumulation — is unlikely to meet with success in such an environment. There is no evidence that a new dynamic regime of accumulation is forming that would allow the credit-money advanced by either national or international money markets to be fully validated. The game can only continue as long as the distributional struggle results in gains for financial and speculative capital and losses for working people and the poor. It is apparent on both theoretical and practical grounds that debts plus interest can never be paid in full. Thus, the real strategic question is this: Is there a way out of the crisis that is both egalitarian and ecologically sustainable?

In the winter and spring of this year, a series of discussions on the Canadian debt crisis, held in the Department of Political Science at York University, addressed just this issue. The consensus at these meetings, that economic turbulence would continue as would sharp reductions in spending by the federal and provincial governments, has been dismayingly fulfilled. The existing burden of government debt and the dominance of global financial markets over national economic policy have created a climate where harsh fiscal austerity is the rule. Yet, as Peter Damaskopoulos, Colin Leys, and Steven Gill all pointed out at these sessions, austerity would likely reproduce the "Keynes effect" — leaving higher rates of unemployment, lower working class incomes, stronger credit markets and a hardly-touched debt burden. As others with international development experience observed, this has certainly been the case for the vast majority of countries of the South undergoing "structural adjustment" since the debt crisis of the early 1980s. It is also the historical problem posed by capitalist development after a bout of material expansion, as both Arrighi and Altvater have recently argued. Debts contracted over the boom cycle can no longer be paid under existing interest rates through renewed accumulation.[2] This is the dilemma that confronts the Keynesian strategy put forward in the recent CHO!CES-Canadian Centre for Policy Alternatives, *Alternative Budget*.[3] The political challenge confronting the Left is far more daunting than simply stemming the erosion of the public sector brought about by the marketization and fiscal cuts strategy of the neoliberals.

The contributions to the forum on "Debt and Disorder in the World Economy" that follow, and to which *SPE* invites further submissions, emerged from these meetings. Although disparate in approach, with evident theoretical and political differences among the authors, they all raise the centrality of the distribution of the burden of debt and the efficacy of capital controls. These are both themes far removed from the "realist" discourses of international political economy and neoclassical economics that dominate the thinking of international agencies and governments on the debt question. These essays are tentative and preliminary in their efforts to construct a program for the Left to constrain rentier capital and to establish the basis for an "alternate way out of the crisis" that is egalitarian, ecologically-sustainable and democratic. They are reflective, however, of the same kinds of issues being discussed on the Left in Europe, Mexico and elsewhere.[4] They are also indicative of the kind of coordinated international effort, anchored in local and national struggles, that will be necessary to bring financial capital under control. Commitment to such an effort will have to emerge to make any socialist project not just viable, but also feasible.

Notes

1. The problems posed by debt and world financial markets have been covered in the pages of *SPE* before. In particular, see D. Cameron, "Order and Disorder in the World Economy: International Finance in Evolution," *Studies in Political Economy* 11 (Summer 1983); M. Bienefeld, "Financial Deregulation: Disarming the Nation State," *idem* 37 (Spring 1993) [also appears in J. Jenson, R. Mahon and M. Bienefeld, eds., *Production, Space, Identity: Political Economy Faces the 21st Century* (Toronto: Canadian Scholar's Press, 1993)]; and M. Seccareccia, "Keynesianism and Public Investment: A Left-Keynesian Perspective on the Role of Government Expenditures and Debt," *idem* 46 (Spring 1995).
2. G. Arrighi, *The Long Twentieth Century* (London: Verso, 1994); and E. Altvater, *The Future of the Market* (London: Verso, 1993).
3. CHO!CES-Canadian Centre for Policy Alternatives, *Alternative Federal Budget 1995* (Ottawa: CCPA, 1995).
4. See, for example, L. Panitch, "Globalisation and the State," *Socialist Register 1994: Between Globalism and Nationalism* (London: Merlin, 1994); G. Albo, "Competitive Austerity and the Impasse of Capitalist Employment Policy," *idem*; and G. Epstein, J. Graham and J. Nembhard, (eds.), *Creating a New World Economy* (Philadelphia: Temple University Press, 1993).