GEOGRAPHY N20
week 4 - 7/30/15

PART 1

Anatomy of a Crash: 2008 Financial Crisis
Current Events: China Update

- **Yesterday (today)’s stock market movement**
  - Recovered somewhat; measures seemed to be working
  - Sudden change in last hour of trading (video: [http://bloomberg.com/1grHE80](http://bloomberg.com/1grHE80))
    - Market pattern ‘very smooth, regular’ - could indicate a state buy-back?
    - State media reports that banks investigating exposure to stock market via financial products, loans collateralised with stocks
    - Continued weakness in commodity prices despite some recovery
      - Especially oil – RD Shell may cut 6,500 jobs

- **International Commentary: China & Federal Reserve policy**
  - IMF’s Christine Lagarde: Chinese economy ‘resilient’ but ‘fragile’
    - Commodity prices likely to hurt emerging economies
    - Federal reserve should NOT raise interest rates until at least 2016
    - Video: [http://bloomberg.com/1IbMZXO](http://bloomberg.com/1IbMZXO)
    - Will not see a traditional banking/debt crisis, but a massive slowdown
    - Need to watch out for falling commodity prices (including & especially oil)

- **Chinese press** (thanks to Xinmei!) - interesting points:
  - Priorities of government are market stability/order over stock index
  - 2 ‘phases’: 1st due to hi leverage & short-selling; 2nd reflects weak external demand
### Anatomy of the Global Financial Crisis:
plan of inquiry – thurs 7/30 & thurs 8/5 (possibly tues 8/10?)

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Chinese Financial Crash: Partial Bibliography
(please post your suggestions to the bcourse website!)

1. Uneven Geographical Development: Framework for Understanding Capitalist Crises
2. The Wal-Mart Effect: US Dollar Hegemony and the ‘special relationship’ with China
3. The Long Downturn, ‘Asset-price Keynesianism’ and the Bubble Economy
Uneven Geographical Development:
the historical production of world inequality (7/28 review)

**Major Premise: Economics never separate from politics or history**

- **Colonial division of labor = uneven integration into world econ (wk 2)**
  - Historical disadvantages: tied to political subjugation, colonial economy
    - Vulnerability to external shocks, crises (*In reader: Davis, week 2)
    - Uneven power relations (various classes/groups, varied relations w/ colonizer nation)
    - Histories of traumatic disruption: colonization, violent revolts, civil wars, coups

  - Contemporary ‘White Man’s Burden’ = assumption that Western institutions always know what is best for developing/postcolonial nations
  - IMF assistance → debt, structural adjustment; neoliberal priorities
    - Buildup of unpayable debts → subject to IMF surveillance = erosion of sovereignty (Greece?)

- **Underdevelopment / Dependency Theory (*In reader: Galeano)**
  - Latin American intellectual tradition tied to Marxism, revolutionary movements
  - Main idea: Imperial nations (‘West’) developed at the expense of the Third World (‘Rest’)
    - No ‘convergence’ possible because First World development is dependent on historically organized relations of power that allow them to exploit Third World resources & labor
    - Developed nations do not follow their own rules of ‘free trade’; only for Third World
  - Mutual ‘dependency’ keeps Third World nations in an economic “straitjacket”
Uneven Geographical Development: material embedding of capital accumulation in space & time

David Harvey: *Spaces of Global Capitalism* (2005)

- Four theoretical premises:
  1. The material ‘embedding’ of capital accumulation processes in the web of life
  2. Accumulation by Dispossession (privatization/commodification)
  3. Law-like character of capitalist accumulation in space & time
  4. Political, social, & class struggle at a variety of geographical scales

- The ‘spatial fix’: Overaccumulation crisis $\rightarrow$ new areas of investment
  - ‘Creative destruction’
  - Argued in 2011: 2008 crashed not really ‘global’; varied regional effects, displaced crisis
    - UK/USA (2008), Eurozone (2010-present), now China/BRICS?

*The Spatial Fix & ‘displacement’ of crisis*
Uneven Geographical Development:
late-entry industrialization, the ‘long boom’ & ‘long downturn’


- **Key theoretical assumptions/premises:**
  - The anarchic & competitive nature of capitalism
  - The enduring importance of manufacturing (the *real* economy or ‘fundamentals’)
    - Rate of profit in manufacturing (real economy) *never recovered* from 1970s crisis
    - Persistent underlying weakness in global economy (1970-present)
  - Post-WWII period (‘The Long Boom’): emergence of US market hegemony
    - Marshall Plan - rebuilt economies of Germany, Europe, Japan (out of Bretton Woods)
    - Dollar (as reserve currency) allows for unprecedented borrowing by US govt, consumers
      - Special position of US $ → Special role of US as *buyer of last resort* for commodities
      - US reliance on debt helped aggregate demand – but *undermined economic dynamism*
  - Differential timing of national producers’ entry into global market
    - Later entry = advantage of better technology + relatively low wages
      - Can export goods at lower price; temporarily captures greater market share
    - Germany/Japan (1960s-70s), East/SE Asia (1970s-1990s), China (1990s-2000s)
  - 1970s-Present (‘The Long Downturn’): Crisis of *overcapacity* in global mfg
    - Competitive advantage for late entrants - for stuff that is *already* on global market;
      production “tends to be *redundant*, not *complementary*, for world division of labor”
      - Redundancy → reduced prices → *secular decline in rate of profit*
Uneven Geographical Development: the ‘long downturn’, financialization & the rise of ‘bubble-nomics’

- Robert Brenner: *What’s Good for Goldman Sachs is Good for America* (in reader)

- **Declining economic dynamism: from 1960s/70s until today**
  - “Profound weakness” in rate of profit, aggregate demand
  - World *real* GDP growth, rate of profit (compared to 1950-1970) has never recovered
    - *No increase at all* in private sector employment (measured in hours)
  - Keynesianism helped economy keep turning over, but prevented *sufficient shakeout* of uncompetitive firms & redundant commodities
    - Economy kept turning over, but is less responsive to conventional stimulus
    - ‘Trade-off’ between greater stability & greater dynamism

- **Responses to the Long Downturn**
  - Decline in profitability forced companies to *downsize* (shed plant & equipment, labor)
    - Reduced labor demand + aggressive anti-unionism of TNCs = layoffs, wage pressure
    - In US: long-term weakness of *aggregate demand* = more decline in consumption, profits
  - Clinton in 1990s renewed focus on fiscal balance: cuts to govt spending, reduced Fed rate
    - Shift from *government* borrowing (Keynesian stimulus) to *private* borrowing
    - Economy driven by wealth from production/trade → wealth from *fictitious capital* (debt)
  - ‘Asset-price Keynesianism’ and the ‘Bubble Economy’
    - Demand-side stimulus/econ expansion based on *fictitious* (financial/‘on-paper’) wealth
    - Made possible thru ‘inflating’ *asset prices* thru speculation (1990s-equities/2000s-housing)
Uneven Geographical Development: the ‘long downturn’ in advanced economies - in graphs

(also in hard-copy handout from class)

- Fall in rates of profit (mfg)
- ‘Real’ GDP (production)
- Mfg vs. non-mfg profits (in US)
- Growth of US national debt
- The ‘de-linking’ of finance from the ‘real’ economy
- Growth of household debt - % of GDP (note dramatic post-2008 drop)
Low-Wage America: 1970s-Present

Since 1970s: Gap between productivity & real wages in US

US role in global division of labor = Consumer Nation;
How to avoid a classic underconsumption crisis?
Low-Wage America: Consumer Nation?
two strategies to address underconsumption

- Strategy #1 (supply-side): Lower the price of goods
  - Lowering prices = lowering costs
  - Easiest cost to adjust = labor (variable capital)
  - Emerging global supply chain + rise of transnational corporations
    - Abundant source of cheap labor
- What force would be capable of lowering prices on a global scale?
Always Low Prices: The Wal-Mart Model
a template for twenty-first century capitalism

- **Economy of Scale**
  - Sheer size of Wal-Mart’s operations exerts transformative effect

- **Monopsony power**
  - Major buyer = Pressure on supplier costs
  - Plus One Policy → indirect outsourcing
  - ‘Race to the bottom’

- **Cheap labor**
  - low-wage producers → low-wage buyers

- **Advanced logistics tech**
  - Bar-code SKU, RFID tagging; containerization; distribution centers

- **Flexible Production Model**
  - From captive-supplier → decentralized globally distributed supplier chains

- **Government subsidies (!)**
  - Retail locations: municipal subsidies (TIF financing, infrastructure funding)
  - Worker wages/benefits: indirect thru welfare/state assistance

- **Very aggressive anti-unionism**
  - Routine retail worker abuses: wage theft, forced overtime, etc.

- **Profit thru Real Estate/Stocks**
  - Store footprint; investments in land
  - New Store openings = higher earnings per share (EPS) on stock mkt
  - Overseas markets (post-2005?)

- **Brand loyalty/mythology**
  - Company rituals / ‘corporate culture’
  - Legend of Sam Walton
Low-Wage America: Consumer Nation?

two strategies to address underconsumption

- Strategy #2 (demand-side): Put $ in hands of consumers
  - Keynesian model – Raise Wages?

“LOLZ.”
How to Stimulate Demand *and* Keep Wages Low:
cheap & easy *credit* (debt) to the rescue

**Strategy #2 (demand-side): Credit & Borrowing!**
- US Dollar = world reserve currency (tied to oil)
  - Stream of investment in bonds = Allows US to run nearly unlimited deficits
- Rise of *Financialization*
  - Federal Reserve – dropped interest rates (near zero)
  - Increasing reliance on financial economy, firms; % of income in financial assets
    - Invention of more complex financial instruments (derivatives, CDS, CDOs)
  - Manipulation & speculation = Increasing *mismatch* between financial vs. ‘real’ economy
The Dollar-Wall Street Regime: how the geopolitics of oil fueled a nation’s addiction to debt


- **Fundamental premises**
  - Model of globalized economy as *interconnected, interlocking mechanisms*
  - *Politically* organized under U.S. hegemony (state-dependent; historically specific)
  - Role of Investment & ‘Capital Markets’ as political tool – ‘Centralisation of Capital’
  - Credit created by banks = claims on future value creation; ‘Fictitious Capital’
    - Shift in nature/basis of credit: from re-investment of past profits → ‘Shadow Banking System’
    - Take-off/expansion of financial system: signals *weakness*, not *strength*, of global economy

- **US political/military hegemony over oil = power of US $ as fiat currency**
  - Three moves made by Nixon in 1971 – effectively scrapped Bretton Woods agreements
    1. Ended $ anchor to gold → US govt can set exchange rates by ‘fiat’ (‘because we say so’)
    2. Ended fixed exchange rates between national currencies → ‘peg’ to value of US $
    3. Sets US dollar as the *sole currency* for buying/selling oil anywhere in the world
       - Enforced by U.S. military hegemony over oil-producing regions (esp. Middle East)
       - Guarantees that $ will have value in perpetuity = gives US unlimited ‘credit line’
       - Managed thru bond & currency markets = hands control of global finance to private US banks

- **Gave US historically unique ability to expand debt without consequences**
  - (that is, until 2008...)

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The DWSR & US-China’s ‘special relationship’: how petrodollars, debt, & US consumerism fed China’s economic miracle