Panic Capitalism:

The impasse of U.S.-led Neo-Liberalism, and the Return of the Global South

By Paul Kellogg, Trent University

paulkellogg@trentu.ca

May 16, 2009

Paper presented to

Congress 2009, Canadian Federation for the Humanities and Social Sciences

Canadian Political Science Association (Political Economy)

Carleton University

May 28, 2009[*]

DRAFT ONLY

NOT FOR QUOTATION

.

[*] This paper is part of a larger study of the dynamics of the world economy. Thanks to those who have commented on earlier versions of the analysis, including the organizers and participants of the panel "The Global Economic Crisis: Challenges and Change in the Third World," organized for International Development Week 2009, "Crises of Development," Studies in National and International Development, Queen's University, Kingston: the organizers and participants at the panel "The Political Economy and Cultures of Neo-liberalism," Historical Materialism, North American Conference 2008, York University, Toronto: the organizers and participants of the panel "Crisis and the Global South," Centre for Social Justice, Toronto: and in particular to my fourth year students in both sections of IDST 424 "Canada, Globalization and International Development," Department of International Development Studies, Trent University, Peterborough.

This paper revolves around three axes: 1) U.S.-led neo-liberalism is at an impasse; 2) there have been important developments outside the core zone of advanced capitalism, best put under the rubric "return of the Global South," developments which are intimately linked to the current impasse of neo-liberalism;[1] 3) all of this sheds light on agency in modern capitalism, an agency that is too often mistakenly placed in the conscious actions of the capitalist class in the Global North, missing the pragmatic, ad hoc and often panicky nature of those actions. The paper will look at each of these in turn, and then draw some preliminary conclusions, centred on the limitations of a Global North political economy which – through a kind of "OECD-centrism" – often fails to incorporate the dynamics of the Global South into its analyses.

The impasse of U.S.-led neo-liberalism[2]

It was September 11, 1973, that the neo-liberal experiment began. The brutal U.S.-backed coup against Salvador Allende's government opened the door for the "Chicago Boys" – a group of Chilean economists who had studied under Milton Friedman at the University of Chicago[3] – to "reconstruct the Chilean economy … along free-market lines, privatizing public assets, opening up natural resources to private exploitation and facilitating foreign direct investment and free trade."[4] From the very beginning, neo-liberalism was tightly associated with developments in the United States, in many ways an expression of U.S. hegemony in the world system, hence the name "U.S.-led neo-liberalism." September 7, 2008 – thirty-five years later – that experiment came to an end, not with a whimper, but a bang. The neo-liberal regime of George Bush – more closely identified than any other world figure with the politics of keeping government out of the market – began the process, now being continued by Barack Obama, of presiding over a state intervention into the so-called "free" market, a state intervention that is without parallel. When the dust settles: a) hundreds of billions of dollars will have been spent to try and fix a broken financial system; b) a generation of free-market arrogance and ideology will lie in ruins, its ideological clarion call "neo-liberalism" completely discredited; and c) the U.S. empire will be exposed as being in a state of serious decline. The events of September 2008 mark a watershed in the history of capitalism.

Fannie and Freddie

At the centre of the neo-liberal universe, are the twin beliefs of the “intelligence” of the markets, and the need to shift from a citizenship based on entitlement to a citizenship based on private property and capital. The former puts primacy on the stock market – a primacy whose weak foundations were exposed in the last slump, the “dot-com” crash at the turn of the century. The latter puts primacy on, among other things, “universal” home ownership, based on the explicit attempt to give an ownership stake in the system to ordinary workers. It was this neo-liberal pillar whose weaknesses have been revealed in the last two years.

The first act in this story is in many ways still the most significant if not the most dramatic. September 7, 2008, the United States Treasury announced it would seize control of two institutions called Fannie Mae and Freddie Mac. At the time, this represented “the world’s biggest financial bailout” (a record it would only claim for a few dozen hours). What are these peculiarly named institutions? Fannie Mae stands for “Federal National Mortgage Association” and Freddie Mac stands for “Federal Loan Mortgage Corporation.” Both are GSEs – “government-sponsored enterprises,” creations of the U.S. government, but which operate as shareholder run companies. Fannie Mae’s roots go back to the depression-era. It was created in 1938 to “provide funding to the housing market ... Freddie Mac was created in 1970 to provide competition to Fannie Mae.”[5]

Their role in the housing market is indirect. Homeowners in the United States borrow money from lenders (banks and other financial institutions) just as in other countries. What Fannie and Freddy do is to buy these mortgages from the lenders. This gives the “mortgage initiators” instant cash, and a little bit of profit, allowing them to go back and quickly offer new mortgages. Fannie and Freddy then turn around and repackage the various mortgages they have purchased as “mortgage-backed securities.” They sell these securities on the secondary mortgage market – in effect borrowing money, but using these “securities” as collateral – counting on the income from the payment of mortgage principle and interest to give them cash to repay these loans.[6]

This “provides liquidity” to the housing market. It also has the effect of creating a huge incentive to get more and more people to buy houses, as at every level of this structure, incomes and profits are dependent on a constantly expanding base of home ownership. In the scheme above, there are considerable fortunes to be made – by the banks and other mortgage issuers, by Fannie and Freddy and their hangers-on, and by the investors who buy up the Fannie and Freddy debt. Former Fannie CEO Daniel Mudd was in line to receive up to $8.4 million in compensation. Freddie Mac's former CEO was in line for $15.5 million.[7] And John McCain's campaign for the U.S. presidency, suffered a setback when it was revealed that Freddy Mac had been paying $15,000 a month from the end of 2005 until September 2008 to a firm owned by McCain's campaign manager.[8] All had an incentive in "priming the pump" – creating incentives for working people to pony-up and enter the world of home ownership. The whole scheme works fine as long as homeowners can pay their mortgages. But if they can't ...

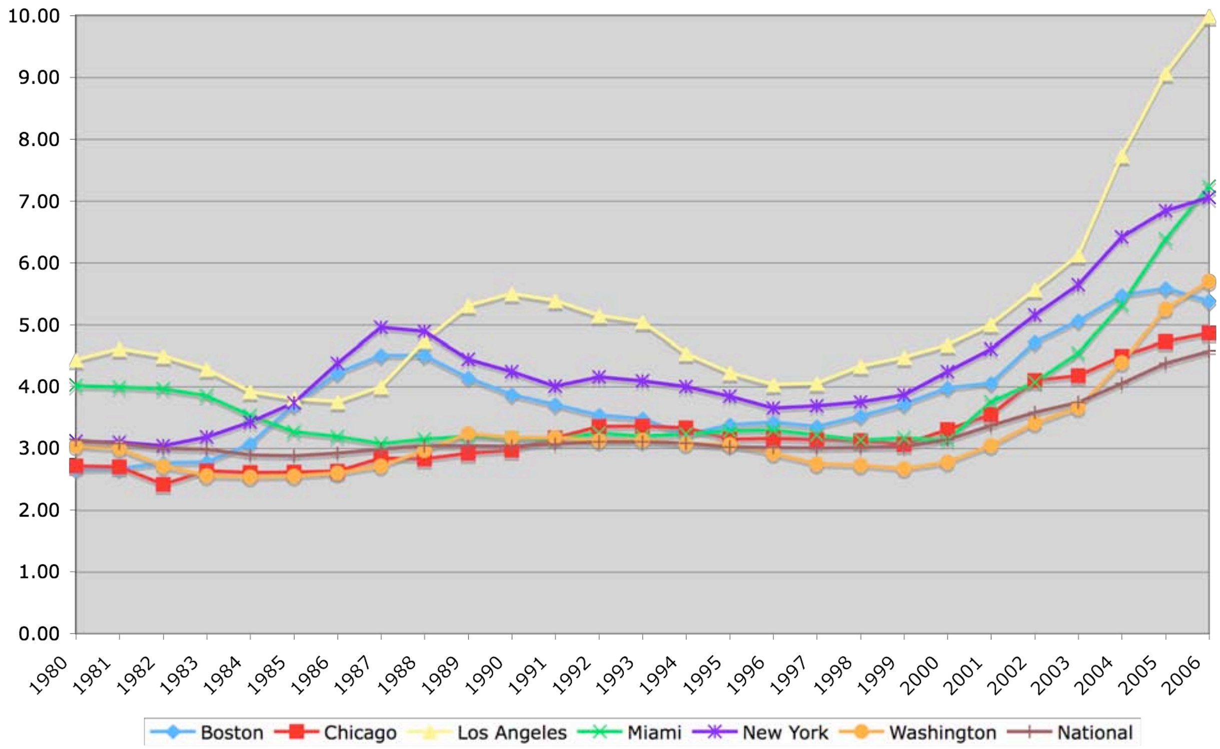
So base greed is an element that fed this bonfire. But that wasn't the only, or even the biggest issue – the problems were structural. In the stock market crash at the turn of the century, fortunes were lost when the dot-com bubble burst. With investors burned from their experience in the stock market, U.S. interest rates were reduced to unprecedentedly low levels, as the U.S. federal reserve essentially "printed money" to stave off a deeper crisis. One key measure of interest rates, the U.S. federal funds rate, dropped below two percent in November 2001, and stayed below two percent for three years, bottoming out at just below one percent in December 2003.[9] Mortgage rates don't track Federal Funds Rates exactly, but mortgage rates did come down, so that at their lowest point in 2003 and 2004, it was possible to get Adjustable Rate Mortgages ARMs (mortgages which increase or decrease with the rise and fall of interest rates) for between 3 and 4 percent.[10] In fact, people often were able to get mortgages below that rate – with incentives of very low interest rates in the first few years of the mortgage to encourage the plunge into home ownership. With millions moving into home ownership, the mortgage-backed securities market prospered. The effect was to create an environment where billions of dollars could flee an insecure stock market, and find a "safe haven" in the housing market, by investors moving from speculating in stocks to speculating in "mortgage-backed securities."

This structure was riven with problems. The rush into home buying which this created, pushed house prices very high very fast. This has been a visible problem for some time. In 2006, one analyst wrote: "Cheap money turned the real estate boom into a frenzy ... prices in most hot markets ... soared by 55 per cent to 100 per cent (on top of inflation). Trying to keep pace, buyers increasingly resorted to riskier loans to lower monthly payments. Two types became the rage: adjustable rate mortgages and exotics." We have already looked at the ARMs. The Exotics bear a little examination, the most extreme of which was "the negative-amortization loan, which allows borrowers to pay less than the interest due. The unpaid interest is tacked onto the principal, so the size of the loan grows every month. In 2004 and 2005, no less than 75 per cent of all mortgages were either ARMs or exotic loans, compared to 20 per cent in the late 1990s."[11]

This outline is important. Some are blaming poor home buying decisions by ordinary working people for the way in which this crisis has unfolded. But it was not "reckless spending" by the poor. It was a structure, driven by greed, which created enormous pressures and incentives to abandon renting and jump into the home-buying game – simply because massive fortunes were being made. Suddenly, working people were being pressured to take on debt far in excess of their capacity to pay. The best way of measuring this is looking at the ratio of house prices to household income. Figure 1 shows a steady upward climb in that ratio for the United States as a whole, from the late 1990s to the mid-point of this decade – in some cities, an extremely steep rise. Nationally, in 1980, the ratio stood at roughly 3:1, that is the median house price was roughly three times median household income. By 2006, that had almost doubled to a ratio close to 6:1. In Los Angeles, the ratio soared to 10:1.

Figure 1[12]

Median House Price as a ratio of Median Household Income – U.S., 1980-2006



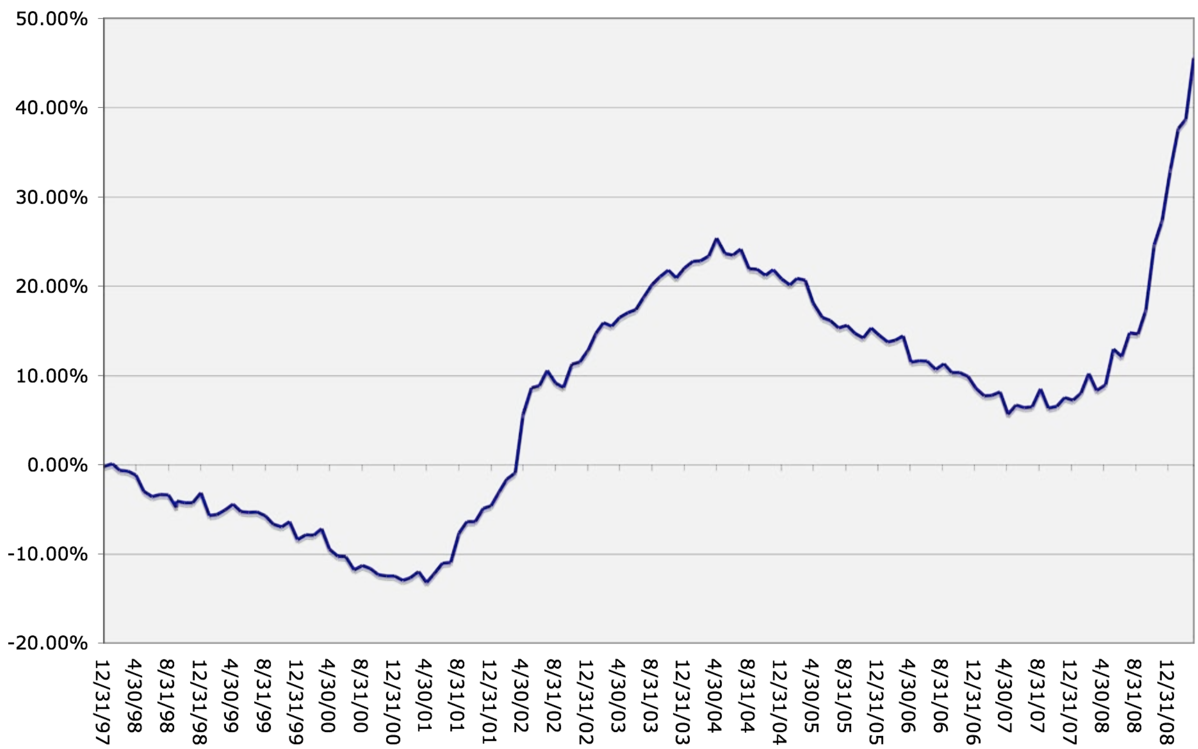
Underlying weaknesses of U.S. capitalism

Perhaps this is just a symptom of a conjunctural problem, one that can be absorbed by the United States without threatening its place in the world system. It is the contention of this paper that it is not – that it is a reflection of deep underlying weaknesses that are now coming to the surface. This is not a position with which all theorists are comfortable. There has been a sharp divide in political economy over the position of the U.S. in the world system.

For instance – it is widely known that the U.S. runs an enormous trade and current account deficit, that its government runs very high deficits. Figure 2 documents the latter, showing both the enormous size of the deficits being generated by Barack Obama, and the structurally high deficits created by his predecessor, George W. Bush. The chart tracks the deficit as a "percent of receipts" on a monthly basis. The Bush years saw deficits usually fluctuate at between 10% and 20% of government income. The Obama stimulus package has taken this to a whole new level, approaching 50% of government receipts. This is a picture that, in any economy, tells us that a period of inflation and downward pressure on the currency is around the corner. It is also a picture of a government trying very hard to compensate, through deficit spending, for weaknesses in the private sector.

Figure 2[13]

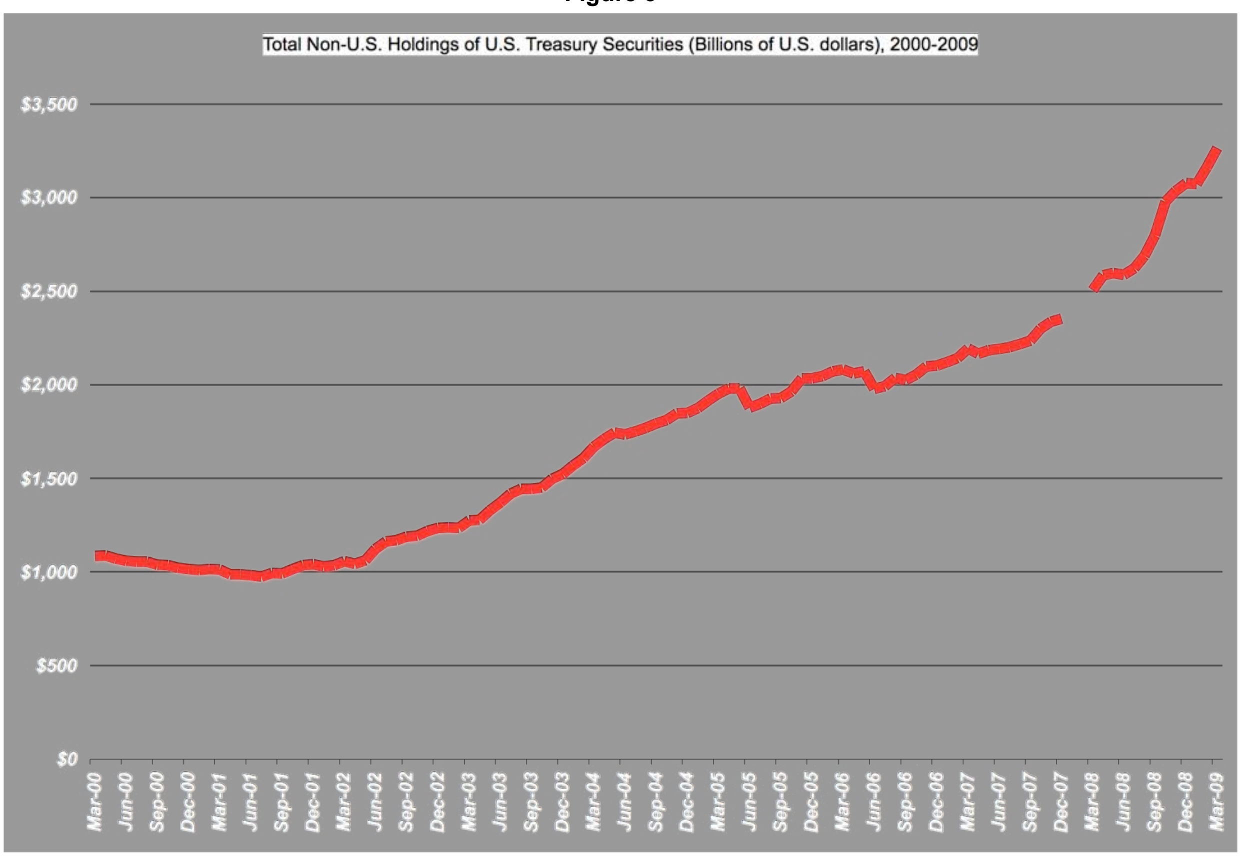
U.S. Monthly Federal Deficit as a percent of receipts (annualized)



This picture of the U.S. government deficit cycle also reveals another, very important fact – the Iraq war has had a crucial impact on the health of U.S. government finances. Until the autumn of 2001, the U.S. government was actually in surplus. The hard turn back towards deficit spending coincides precisely with the war in Iraq. It is necessary, then, to locate current U.S. government financial weakness precisely in the overseas military adventures of the previous administration.[14]

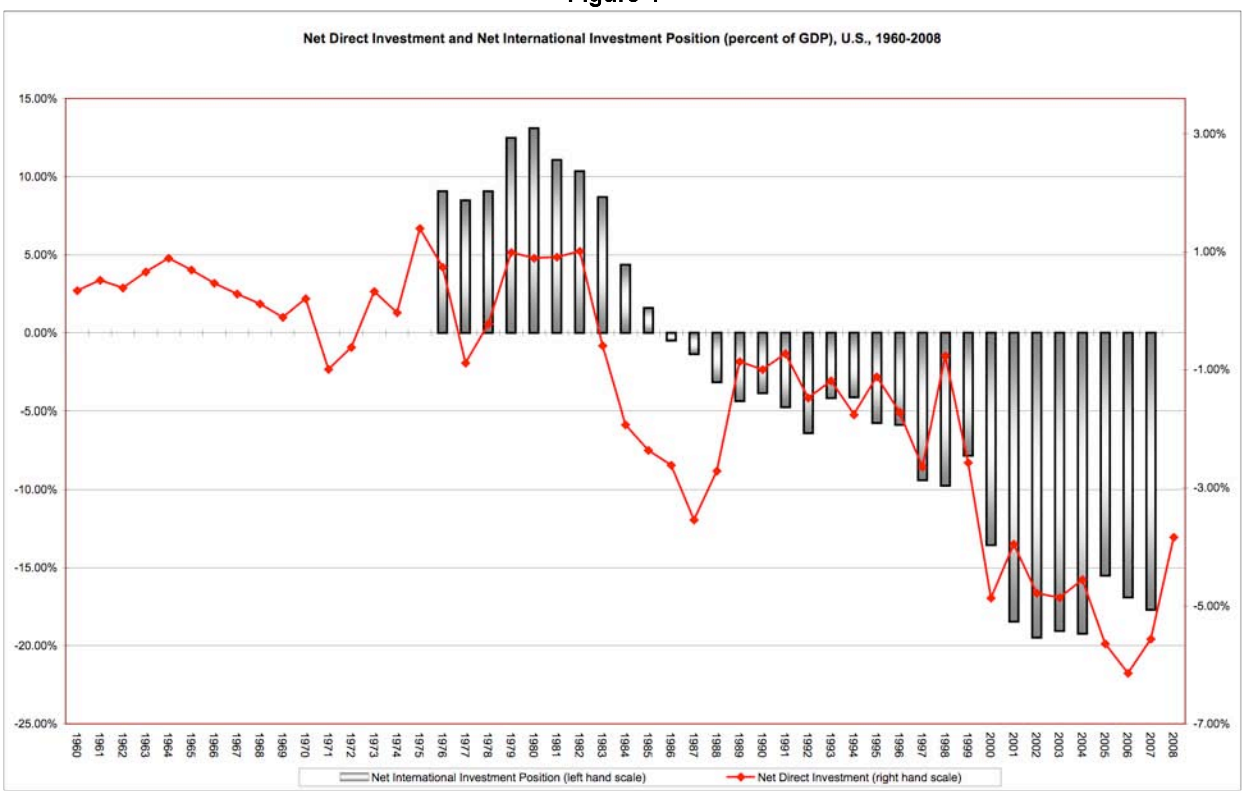
The long-term deficits run by most U.S. administrations (the Clinton one being the only recent exception) need to be financed. And this hard turn to deficit spending – deficits deeply rooted in the costly military expansion of the Bush years – was only partially financed from within the United States. The key mechanism for doing this – financing government deficit spending – is selling U.S. Treasury Securities. Historically, most of these securities were sold internally. In other words, the U.S. financed its own deficits. But in the last 30 years, there has been a growing reliance on financial institutions and governments outside the U.S. as consumers of this paper. Figure 3 shows the steady, relentless appetite of the U.S. government for non-U.S. purchasers of its debt since the beginning of the war in Iraq. Until the war, the U.S. need for offshore purchasers of its debt was actually declining, total non-U.S. holdings of Treasury Securities slipping below $1 trillion in the summer of 2001. But since the start of the war, the appetite for offshore debt consumption has grown steadily, crossing the $2 trillion mark in 2006, the $3 trillion mark in 2008, on track to top $4 trillion by 2010. This is an expression of growing weakness of the U.S. in the world system – the extent to which its government deficits need increasingly to be financed by non-U.S. states and financial institutions.

Figure 3[15]



If that is the picture of increasing U.S. dependency and weakness from the standpoint of government deficit spending, the private sector pictures of flows and stocks of direct investment are in many ways more profound. We are used to the big, dominant economies of the world economy, being economies which "export capital" – making increasingly greater investments abroad than they do at home, as a partial compensation for what is variously called over-accumulation or over-production. This was characteristic of Britain in the 19th century, and of the United States for much of the 20th century. What Figure 4 shows, however, is the dramatic way this has reversed when it comes to the United States.

Figure 4[16]

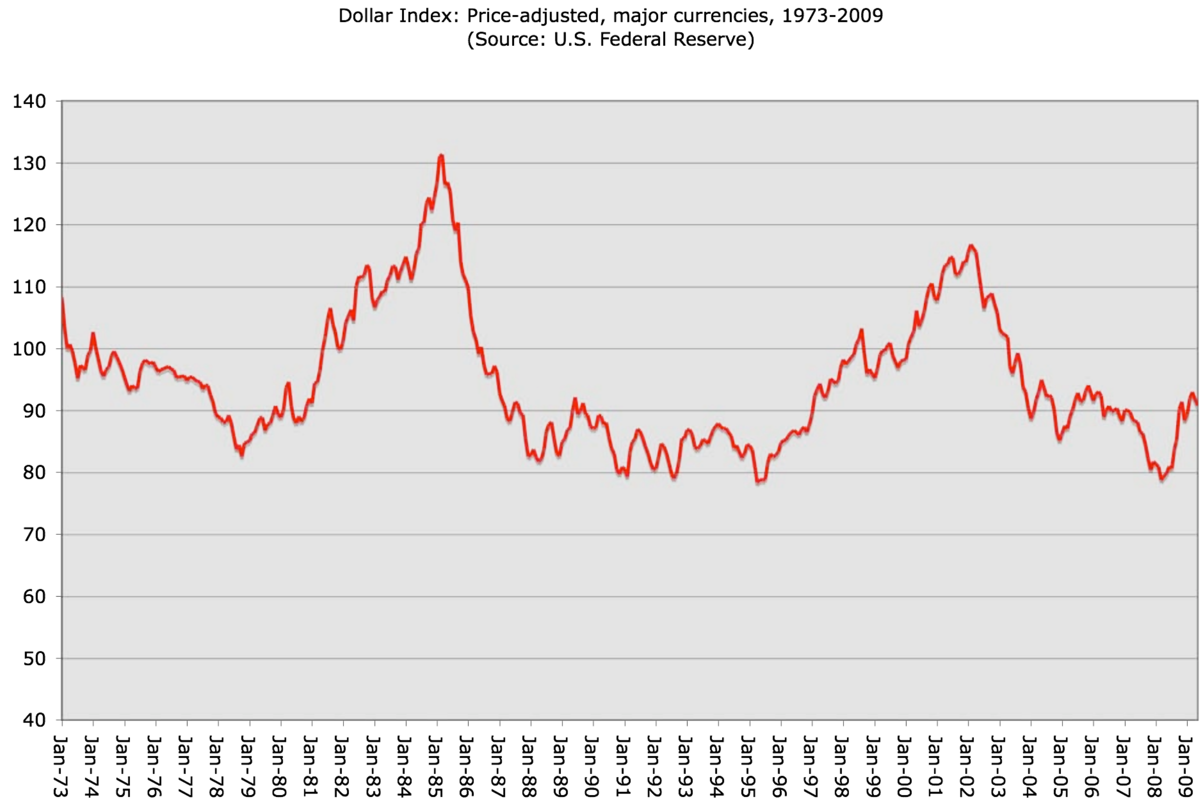


The red line indicates "Net Direct Investment" measured as a percent of GDP. When positive, it indicates that more direct investment is made by U.S. firms abroad than are made by non-U.S. firms into the U.S. When negative, it indicates the reverse. From the early years of the first Reagan presidency, it has been the latter which has predominated – more Foreign Direct

Investment into the U.S. than U.S. direct investment abroad. This over time has affected the grey bars, which represent "net international investment position" as a percent of GDP. When positive, it means that the value of holdings by U.S. firms abroad is greater than the value of non-U.S. firms in the U.S. When negative, it indicates the reverse. From the mid-1980s, the figure has been decidedly negative, approaching 20% of GDP. These are the statistical representation of the journalistic stories about the forlorn attempt to rescue Chrysler through the good offices of the Italian company Fiat. They represent an economy that is more and more reliant on direct investment from abroad, just as it is more and more reliant on U.S. purchasers of debt generated by its central government.

We know that in any other economy of the world, such imbalances always lead to upward pressure on interest rates, and downward pressure on the value of the national currency. But the entire post-war period has been defined by the domination of the international economy by the U.S. dollar. Its "unique" place in the world economy is often seen as making it relatively immune to the downward pressure that other currencies experience when their economies become increasingly indebted. There will not, by this argument, be a reckoning in the U.S. for these imbalances, a reckoning that takes the form of inflation, downward pressure on the currency, and upward pressure on interest rates. A commonly used proof of this is a comparison of the U.S. dollar to major currencies. The resulting graph (Figure 5) does not show overwhelming U.S. dollar weakness, but rather a generations-long fluctuation with no clear trend either up or down, in spite of the long-standing, deep and growing imbalances in the relation of both the U.S. state and the U.S. economy to other states and economies in the world system.

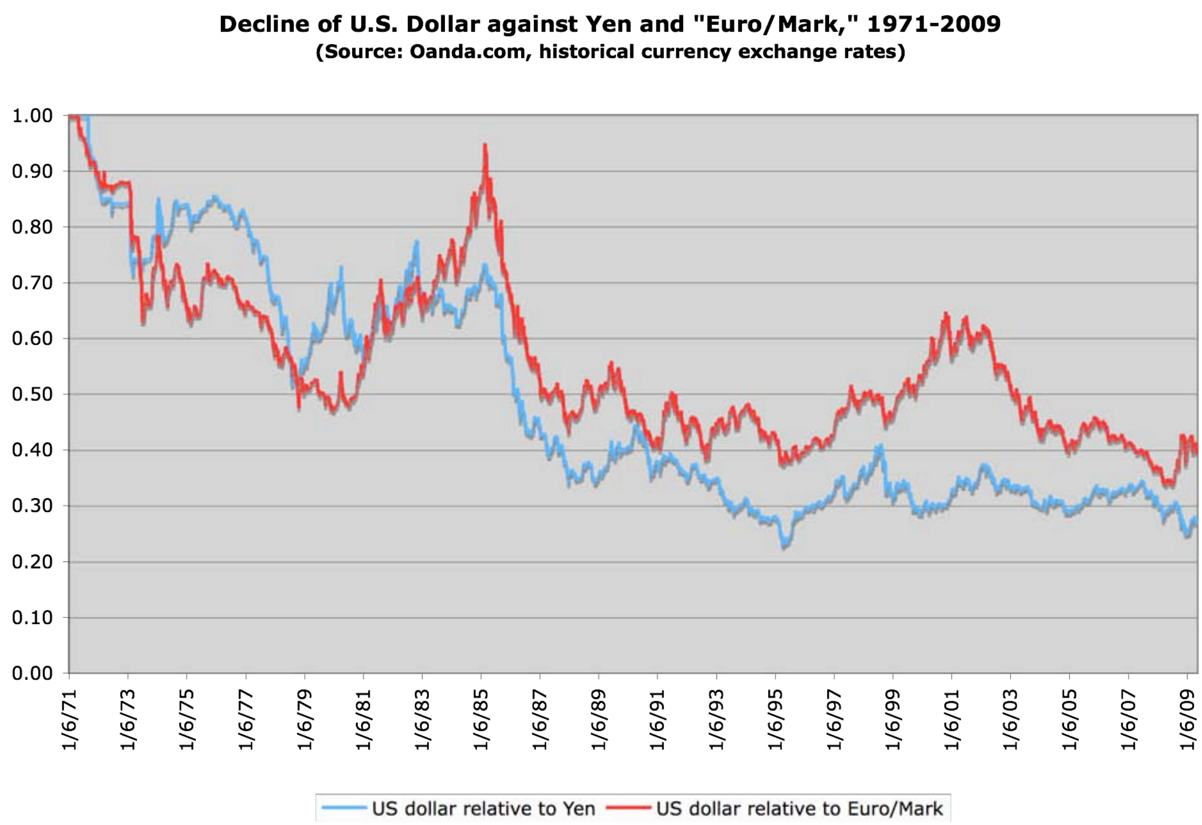
Figure 5[17]



But there is a problem with this way of representing the health of the U.S. Dollar. The figures in this comparison go back only until 1973. This leaves out of the picture the biggest story in the history of the U.S. dollar, the effect of it "freeing itself" from the gold standard. This was the decision Richard Nixon took in 1971, allowing the U.S. to "print dollars" unencumbered by maintaining an equivalent stock in gold. The most readily accessible international comparative figures, because they begin in 1973, do not factor into their picture this epochal event. But even without readily accessible data that take us back to 1971, it is possible to improvise a comparison. There are three centres of advanced capitalism – North America, Asia and Europe. The U.S. is, of course, the centre of North American capitalism. Japan, until the quite recent re-emergence of China, was the centre of Asian capitalism. So for the U.S. and Japan, a comparison of the histories of the dollar and the yen is of obvious interest. But Europe poses some difficulties when it comes to comparison of currencies across time. Until this century, such a comparison could be done using the Mark, the currency of first West Germany and then a united Germany. Germany has for some time been the biggest economy on the European sub-continent.

But the Mark has, of course, been superseded by the Euro. For the purposes of comparison, then, I have created something which I call the "EuroMark" – a statistical composite of the Mark and the Euro, allowing a chart to be created which combines the trajectory of the dollar against the Mark in the pre-Euro era with the trajectory of the dollar against the Euro in the post-Mark era. The result is very clear. The U.S. dollar is approximately 1/3 of what it was in 1971, compared to the Yen and the "EuroMark".

Figure 6[18]



The U.S. is not immune from the laws of gravity which govern every other capitalist economy in the world. The U.S. Dollar has been steadily declining against its major competitors for years. The devaluation that happened after the abandonment of the gold standard was immediate and quick, becoming precipitous in the late 1970s. This was reversed in the early 1980s by a policy of very high interest rates, then fell steadily until the 1990s, recovering somewhat in the Clinton years, but returning to decline under Bush. Because the U.S. economy is the largest economy in the world, it can delay the effects of these laws. There is something called the "Safe Haven

Effect" which means that in times of global economic turbulence, there is a "flight to safety" meaning a flight away from Europe, Asia, Africa and Latin America and towards the U.S., giving the U.S. access to investment funds denied to the rest of the world. This safe haven effect exists even when a crisis, like the current one, is centred in the U.S. – in the short-term, money pours into the U.S. and out of the rest of the world, on the calculation not about the relative health of the U.S., but about the relative longevity of the world's largest economy and biggest military (imperialist) power. This is making it possible for Barack Obama to finance the enormous budget deficits documented above. But this effect is temporary. When a recovery begins in Europe and Asia – and when, by extension, alternatives to investment in the U.S. open up – there will be a gravitational pull away from the U.S. which will put upward pressure on interest rates and downward pressure on the value of the U.S. dollar, making the big deficits being created now (and the ones created under Bush) more and more expensive to finance. As the dollar declines, it inevitably leads to a day when interest rates have to go up, or the dollar's fall could accelerate dangerously. This was becoming apparent in Bush's second term. As the dollar weakened, interest rates inched upwards, and this in turn became part of an environment pushing higher and higher the interest rates on millions of peoples' mortgages, ultimately triggering the crisis through which we are now living.

The effects of these pressures became visible in the summer of 2007. With interest rates rising, some homebuyers could not make the payments, and the number of defaults began to rise. Rising interest rates and rising unemployment, started to decrease demand for houses, so prices began to fall. And with house prices falling, many saw the value of their house fall far below the principal remaining on their mortgage – creating an incentive to simply walk away from the debt – default on the mortgage, and go back to renting. The result has been the highest rates of foreclosures in the modern era. A report from the Mortgage Bankers' Association indicated that: "about 2.75 percent of all home loans, or about 1.75 million mortgages, were in foreclosure at the end of June [2008], up from 2.47 percent in March. That was the highest foreclosure rate since 1979, when the Mortgage Bankers first collected the data."[19]

As these millions of foreclosures rippled through the system, the whole flimsy structure started to shake. Between them, Fannie and Freddy had issued $3.7 trillion worth of mortgage-backed securities.[20] But suddenly, as mortgage payments started to fall because of defaults, as the assets backing these mortgages started to lose value with the falling prices of houses in the United States, these securities looked a whole lot less secure.

Given the imbalances outlined above, this – the U.S. economy – was clearly an unstable structure, and in retrospect, its return to crisis is not surprising. What is surprising is the response of the U.S. government. It was not pre-ordained that it would respond through a massive turn towards state intervention. That it did so was a product of developments in the Global South, particularly in China.

Bankers' Strike, and the Turn from Neo-liberalism

Neo-liberalism is a modern restatement of an old "free-market" orthodoxy. Markets know best. Let the "hidden hand" of the market do its magic, and a million individual decisions based on individual self-interest, will end up with a virtuous direction for the economy and society as a whole. Sometimes there are barriers to the operation of this hidden hand – too much government intervention, too much regulation being two of the most often cited. Get rid of them. The state's role is to do away with regulation, to unfetter the markets from the hands of government, to let the markets do their work.

So – from the standpoint of neo-liberal orthodoxy, it is a matter of some indifference that Fannie and Freddy were under stress. Joseph Schumpeter argued last century that capitalism worked through processes of "creative destruction" where periodically whole sections of capital are destroyed in economic slump. This process, while painful, was central to the working of capitalism, clearing the ground for a new round of investment, the way in which a forest fire burns away the underbrush, allowing new saplings to reach for the sky. In Schumpeter's words the "creative destruction" of competition, bankruptcy and consolidation "revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist has got to live with."[21]

But the capitalists who made the decisions leading to the impasse of the U.S. financial system are *not* going to live with the consequence of their actions. Something pushed the neo-liberals into acting against neo-liberal orthodoxy and saving those capitalists from the consequences of their actions. What the neo-liberals discovered was that the U.S. economy was not all-powerful, that had they let the process go too far, the consequences of a full-blown cycle of "creative destruction" would have been disastrous. The issue was not simply one of mortgages – it was about the structural problems of the international, not just the U.S., capitalist system.

So far only one part of the story has been told, the story of mortgages, Fannie and Freddy, and their selling of "mortgage-backed securities". The next question that has to be asked is, who buys these securities? The economists' answer is that they are bought by "risk-averse investors such as banks, pension funds and central banks around the world,"[22] investors in other words who want a guaranteed return on their investments, and little or no risk of these investments turning into worthless paper. Fannie and Freddy's total liabilities are mostly debt, most of it from the sale of mortgage-backed securities, and in 2008 it totaled in excess of $1.7 trillion dollars.[23] Significantly, increasing portions of that debt have been sold to non-U.S. banks and investors. The top five in reverse order, as of June 2007 were Taiwan ($55 billion), South Korea ($63 billion), Russia ($75 billion), Japan ($228 billion) and China ($376 billion).[24] The entire structure then was increasingly dependent on the willingness of banks and other institutions in these countries, to continue giving Fanny and Freddy billions of dollars, a reflection of the same dynamics, documented above, which saw an increasing role for non-U.S. purchasers of U.S. government debt, and an increasing role for non-U.S. sources of investment inside the U.S. economy.

The summer of 2008, this aspect of the mortgage system came to an end. Under pressure from their eroding mortgage business, Fannie stocks fell from $67.30 a share October 5 2007, to just $7 a share, September 4, 2008.[25] Freddy stocks followed the same downward slide, from $63.43 to $4.95.[26] Suddenly, non-U.S. investors, particularly in Asia, began to worry. The slide in share value of Fannie and Freddy raised the possibility that the two companies could go bankrupt. That would leave banks and investors in Asia and elsewhere holding pieces of paper worth billions of dollars less than their face value. "Chinese banks 'were probably facing significant losses,' says Logan Wright, an analyst with Stone & McCarthy Research."[27]

Bankers from outside the United States began to apply leverage. In the first half of 2007, central bank holdings of Fannie and Freddie securities increased on average by $22 billion a month. But in 2008, those holdings fell by $27 billion from mid-July through early September.[28] And the *Financial Times* reported in August, 2008 under the headline "Bank of China flees Fannie-Freddie," that "Bank of China has cut its portfolio of securities issued or guaranteed by troubled US mortgage financiers Fannie Mae and Freddie Mac by a quarter since the end of June. The sale by China's fourth largest commercial bank, which reduced its holdings of so-called agency debt by $4.6bn, is a sign of nervousness among foreign buyers of Fannie and Freddie's bonds and guaranteed securities."[29] "The threat of a central bank buyers' strike was real," accord to Brad Setser, a former Treasury Dept. official and now a fellow at the Council on Foreign Relations.[30]

Neo-liberal orthodoxy dictated "let the market rule," let the processes of creative destruction work themselves out. But bankers outside the U.S. who stood to lose billions from this market failure said; "Creative Destruction be damned. If you don't act, we will start withdrawing our money. We are already doing it. We will not let you 'cleanse' your economy by leaving us holding worthless pieces of paper." So facing an enormous catastrophe, Bush and the U.S. administration suddenly switched from the world's biggest neo-liberals, to the world's biggest state-capitalists, intervening to guarantee the debt held by Fannie and Freddy. Many of their neo-liberal ideologues were left wondering what had hit them. This whole thing might, said one commentator become a "nightmare scenario, the descent into quasi-socialism" which "balloons the national debt and wrecks foreign investors' faith in the economy."[31]

The state and capital

But of course this has nothing to do with "socialism" – unless it is a kind of Frankenstein's Monster socialism, where the state robs from the poor to give to the rich – because that is exactly what is happening: tax dollars from U.S. workers being used to pour into the balance sheet of two failed corporations. It is a myth of the neo-liberals that the state is separate from the market.

There is of course the central role of state militarism. The British Navy ruled the waves so that British business could penetrate every corner of the globe in the 19th century. The U.S. military has time and again been implicated in the overthrow of governments in Latin America to keep the hemisphere open for business. But there are also the directly economic ways in which the state is intimately tied to the development of capitalism. British imperialism jealously protected its industries behind the walls of empire. India did not build its rail network with British steel and rolling stock because of the market, but because of imperialism.[32] Japanese capitalism burst into the 20th century after the Meiji Restoration used the Japanese state to mobilize resources in order to industrialize.[33] Canadian capitalism had at its core the construction of a continental rail network, which bankrupted the private capitalists, and was only finished because of the state-capitalist "National Policy."[34] In South Korea, the industrial revolution in the post-war era was inconceivable without the "chaebols", very much creatures of the South Korean state.[35]

It is worth remembering that one of the modern architects of neo-liberalism, Margaret Thatcher, was very clear on this point, the importance of the state to the furtherance of capital accumulation. Thatcher is associated with the phrase "there is no alternative" or "TINA" – usually seen as justifying the unbridled rule of competition. Susan George writes that Thatcher:

> ... was well known for justifying her programme with the single word TINA, short for There Is No Alternative. The central value of Thatcher's doctrine and of neo-liberalism itself is the notion of competition – competition between nations, regions, firms and of course between individuals. Competition is central because it separates the sheep from the goats, the men from the boys, the fit from the unfit. It is supposed to allocate all resources, whether physical, natural, human or financial with the greatest possible efficiency.[36]

But in Thatcher's classic and most often cited use of the term, this was not quite what she said and this was not quite her point. At a speech to the Conservative Women's Conference, May 21, 1980, Thatcher's theme was the way in which wages were increasing too quickly.

> Wages in the public sector are still higher than the country can afford ... earnings will have to rise much more slowly if we are to avoid still more unemployment and if we are to get inflation down. It is too often forgotten that during the last two years there has been considerable increase in average living standards. What we produce has been growing much more slowly. We have to get our production and our earnings into balance. There's no easy popularity in what we are proposing but it is fundamentally sound. Yet I believe people accept there's no real alternative.[37]

The point is, Thatcher was not in the first instance driven by an abstract commitment to the market, but by a class commitment to transferring wealth from workers to employers. In this, the role of the state is a tactic, not a principle. The Thatcherite state showed its capacity to intervene against workers' wages with real brutality during the bitter miners' strike of 1984-1985.[38] This is an important part of the conceptual armour needed to assist us in navigating today's impasse of neo-liberalism. Neo-liberal orthodoxy may lie exposed as nonsensical, but the class which brought us neo-liberalism remains in power, motivated by the same project – capturing the wealth produced by "Main Street" and making sure it ends up in the pockets of "Wall Street."

That capitalist state in the U.S. in 2008, having got the taste of government intervention to save capitalism from itself, has now become ravenous for more. Fannie and Freddy were only two of the institutions under stress because of economic problems in the United States. September 16, the U.S. Federal Reserve took over American Insurance Group for $85 billion. House Speaker Nancy Pelosi criticized the rescue, calling the $85 billion a "staggering sum." Ms. Pelosi said the bailout was "just too enormous for the American people to guarantee."[39] But that staggering sum has now been dwarfed by another even larger sum. Then United States' Treasury Secretary Henry Paulson asked Congress to come up with $700-billion to clean "toxic assets" out of the U.S. financial system. What he envisaged was having enough money on hand so that any bank or financial institution which has a piece of paper that is looking pretty worthless, Paulson would have the money to say “no problem, we’ll take it off your hands,” enough of it to deal with even multiple financial institution crises in a “worst-case scenario.”

How do you come up with this “worst-case scenario” figure? Federal Reserve Chairman Ben Bernanke said in testimony that “ ‘various metrics’ could be used to arrive at that $700 billion number. It is 5% of $14 trillion in outstanding mortgage debt and roughly the same percentage of the $10 trillion to $12 trillion of commercial bank assets. ‘So it seems like an appropriate amount relative to the size of the problem.’”[40]

Seems like an appropriate amount. You would have thought he would have hired someone to get figures so that he could be a little more definitive given the “size of the problem.” What we are looking at is a trillion-dollar intervention by the U.S. government into the financial system of the world’s biggest economy – the biggest ever economic intervention by a state into any economy anywhere – that is going to change the shape of economics and politics for a generation.

The return of the Global South

So we have a dual phenomenon – the long-term relative decline of the U.S. inside the world economy, dovetailing with a sudden and sharp reversal of neo-liberal orthodoxy on the state-capital relationship, a reversal precipitated largely by actions taken by investors in the Global South, largely in China. It is probably the case that we – analysts in 2009 – do not appreciate the weight of the simple fact outlined above. It has become a commonplace to talk about China’s central role in the world economy. But this is an extremely recent historical phenomenon. In 1970, the dynamics of the world economy could be roughly sketched out, ignoring China. In 1980 and 1990 the same could perhaps be done. But to do so in 2009 would be ludicrous.

The best prism with which to examine China’s role in the world economy, is one that keeps one eye on the U.S. at the same time. Above this paper documented some aspects of growing U.S. dependence on non-U.S. sources of investment. An extremely basic aspect of this growing dependency has to do with the financing of U.S. government debt, which, as was documented in Figure 3, is done with increasing reliance on non-U.S. consumers of its Treasury Securities. Through the late 20th century, it was Japan which was the principal consumer. In 2000, for instance, Japan was by far the largest non-U.S. holder of U.S. Treasury securities, with more than $300 billion. China was barely a factor, holding less than one-fifth the total of Japan. Japan maintained this position as chief non-U.S. consumer of U.S. government debt, its holdings rising to the half trillion mark by mid-2008. But in the fall of 2008, for the first time, Japan was pushed into second place, as debt consumption by the Chinese state and financial institutions galloped ahead. Today, China is firmly in first place as principal lender to the U.S. government, holding in excess of three quarters of a trillion of U.S. Treasury Securities.

Figure 7 chart tracks the growth of U.S. government debt consumption by China. It is only in the last five years that China has emerged as a really big consumer of U.S. debt. That appetite is, if anything, accelerating during the present crisis. Figure 8 shows the China consumption of U.S. government debt as a percent of all such non-U.S. consumption. Again, the trend is clear. From barely accounting for five percent of such consumption in 2000, today China consumes close to $1 of every $4 in U.S. government debt consumed abroad.

Figure 7[41]

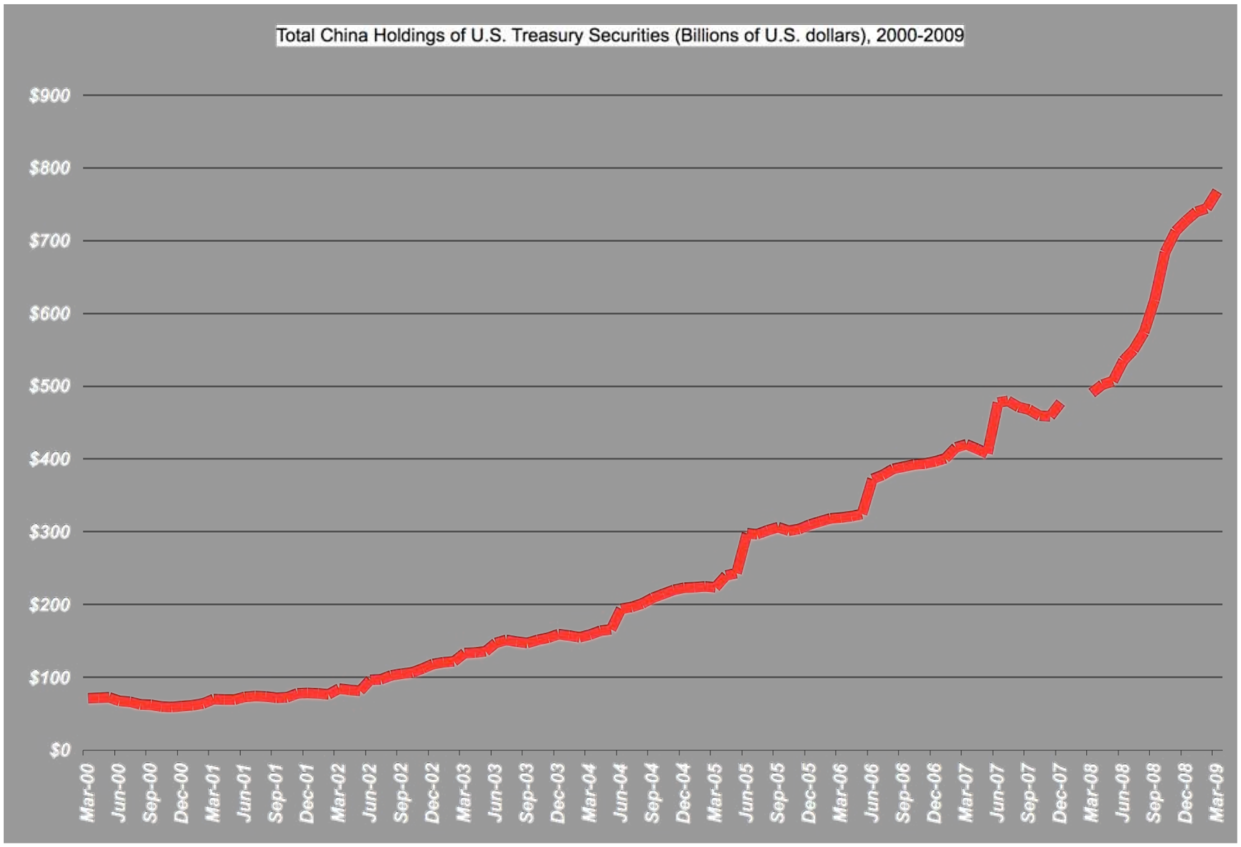
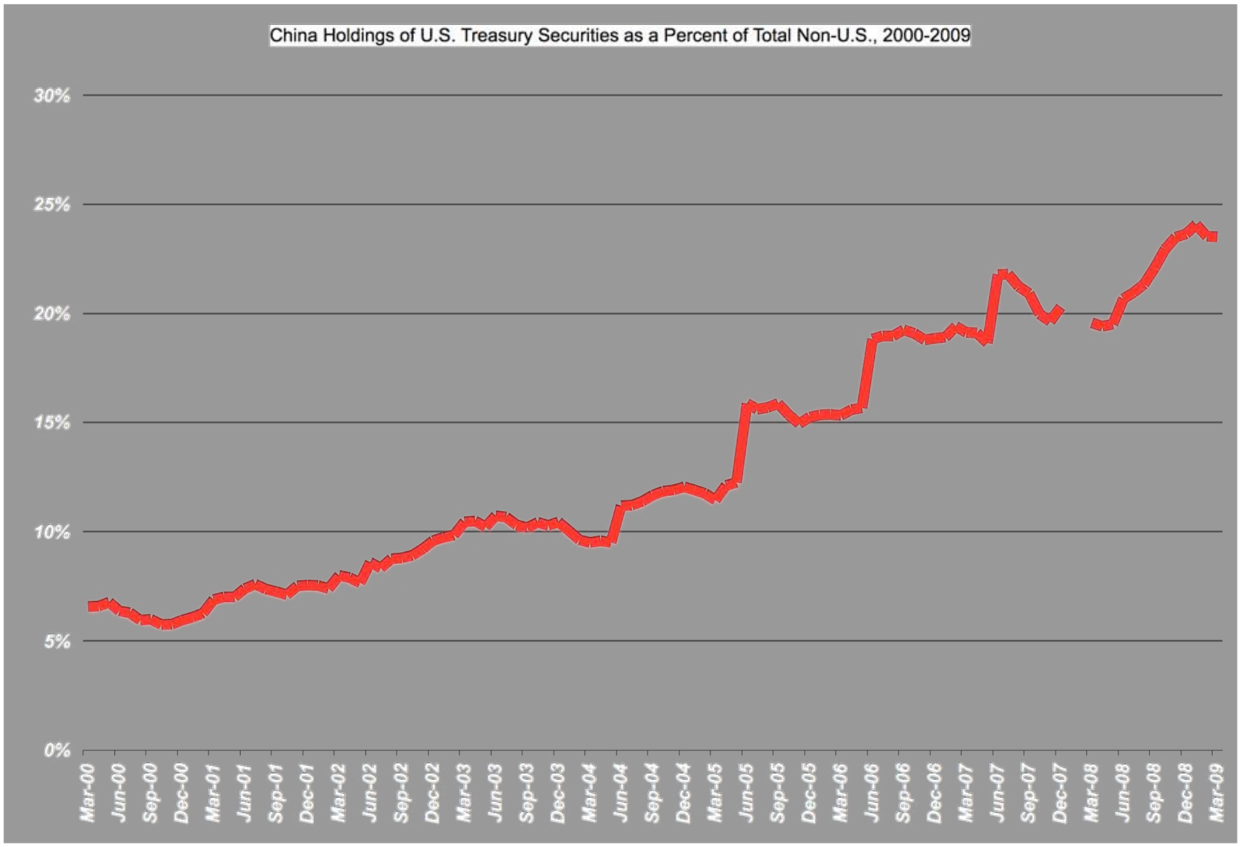

Total China Holdings of U.S. Treasury Securities (Billions of U.S. dollars), 2000-2009
$900
$800
$700
$600
$500
$400
$300
$200
$100
$0
Mar-00
Jun-00
Sep-00
Dec-00
Mar-01
Jun-01
Sep-01
Dec-01
Mar-02
Jun-02
Sep-02
Dec-02
Mar-03
Jun-03
Sep-03
Dec-03
Mar-04
Jun-04
Sep-04
Dec-04
Mar-05
Jun-05
Sep-05
Dec-05
Mar-06
Jun-06
Sep-06
Dec-06
Mar-07
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09

Figure 8[42]



'There will be no economy on Monday' – The outlines of Panic capitalism

We can now turn to the final area of this paper, the conceptual notion of "panic capitalism." From the standpoint of the current crisis, this panic is all too clear. There was absolutely no intentionality involved in the turn towards state capitalism and away from neo-liberalism inside the U.S. It was a turn made under extreme duress. On September 18, 2008, at a meeting in Washington that included Barney Frank, Chairman of the House Financial Services Committee, Ben Bernanke chairman of the U.S. Federal Reserve was famously quoted as saying, that if he did not get approval to access $700 billion to rescue the financial system, "there will be no economy on Monday."[43] Neo-liberal orthodoxy had ruled on September 15, when the U.S. government stood by and did nothing while Lehman Brothers declared bankruptcy. Three days later, this orthodoxy had been abandoned with the panicky call for $700 billion or "there will be no economy." The transition towards state intervention could not have been more desperate.

Bernanke, Bush and the other neo-liberals were being forced to abandon their neo-liberal orthodoxy because of the growing weakness of the U.S. and the growth of new competitors in the world system, particularly China, as this paper has documented. The U.S. state began with a series of desperate, ad-hoc and pragmatic measures to try and prevent a credit crisis from becoming a steep economic slump. Pressured by non-U.S. holders of Fanny and Freddy debt, they had embarked on a course of bailing out the crisis-ridden financial system, and increasingly accelerated the path down the road from neo-liberalism toward state capitalism. Timothy Geithner is Barack Obama's Secretary of the Treasury, the man who had inherited the mess created under Bush, and who has chosen to accelerate the pace towards state capitalism. He is acutely aware of the influence that China holds in an increasingly multi-polar economic world. When asked directly about what leverage the U.S. could use in the unwinding of its imbalances with China – imbalances documented in this paper, Geithner replied bluntly: "We have no leverage."[44]

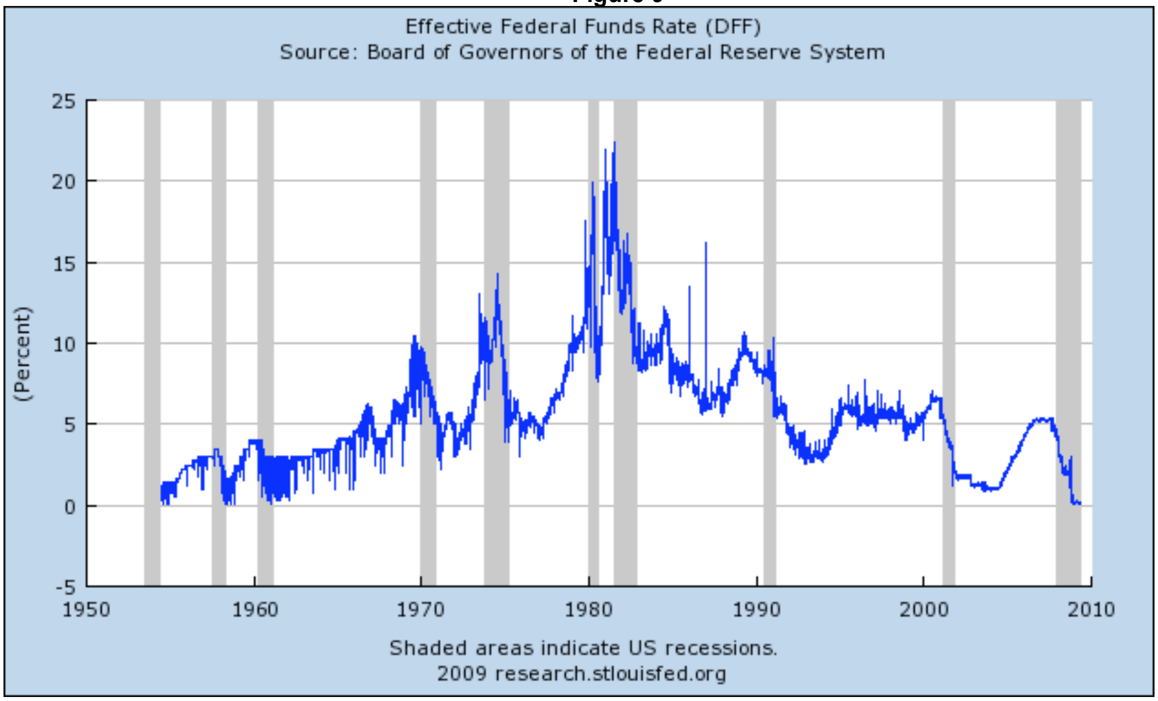
This is an important insight into the nature of rule in the capitalist system. Too often, we attribute too much agency, too much intentionality to the decisions taken by the leaders of the state and the economy, when in reality much of what is done is done exactly as has been demonstrated here – panicky responses to crisis, which over-time congeal into a system, a system which only has form and shape retrospectively. Importantly, if this was true at the end of neo-liberalism, it was also true at its birth.

The dominant accounts of the birth of neo-liberalism in the Global North (its history in the Global South is considerably different, and the subject for another paper), attributes it to conscious actions on the part of the U.S. Federal Reserve – the leaders of the financial wing of the U.S. capitalist class. Leo Panitch and Sam Gindin characterize this as the "Volker shock" – a conscious application of high interest rates with the intention of disciplining the working class and extending the power of the financial wing of the capitalist class.[45] The most developed analysis of the origins of neo-liberalism based on this kind of "ruling class voluntarism," is that penned in by Gérard Duménil and Dominique Levy in their influential *Capital Resurgent*.

> It is true that the dynamics of capitalism generally escape the control of the protagonists involved, but collective political wills should not be underestimated, whatever form they may take. A central thesis of this book is that neoliberalism is the expression of the desire of a class of capitalist owners and the institutions in which their power is concentrated, which we call collectively call "finance," to restore – in the context of a general decline in popular struggles – the class's revenues and power, which had diminished since the Great Depression and world War II. Far from being inevitable, this was a political action.[46]

But were the high interest rate policies of the late 1970s and early 1980s really an expression of political will? It is beyond the scope of this paper to do more than sketch a response, but a quick examination would suggest that panic, not purpose, was at the core of the events which unfolded at the beginning of the neoliberal era. Figure 9 shows the history of U.S. interest rate policy going back to the mid-1950s, and an examination of its dynamics, in conjunction with an examination of the downward trajectory of the U.S. dollar, documented above, can provide some insight into the material basis of this panic.

Figure 9[47]



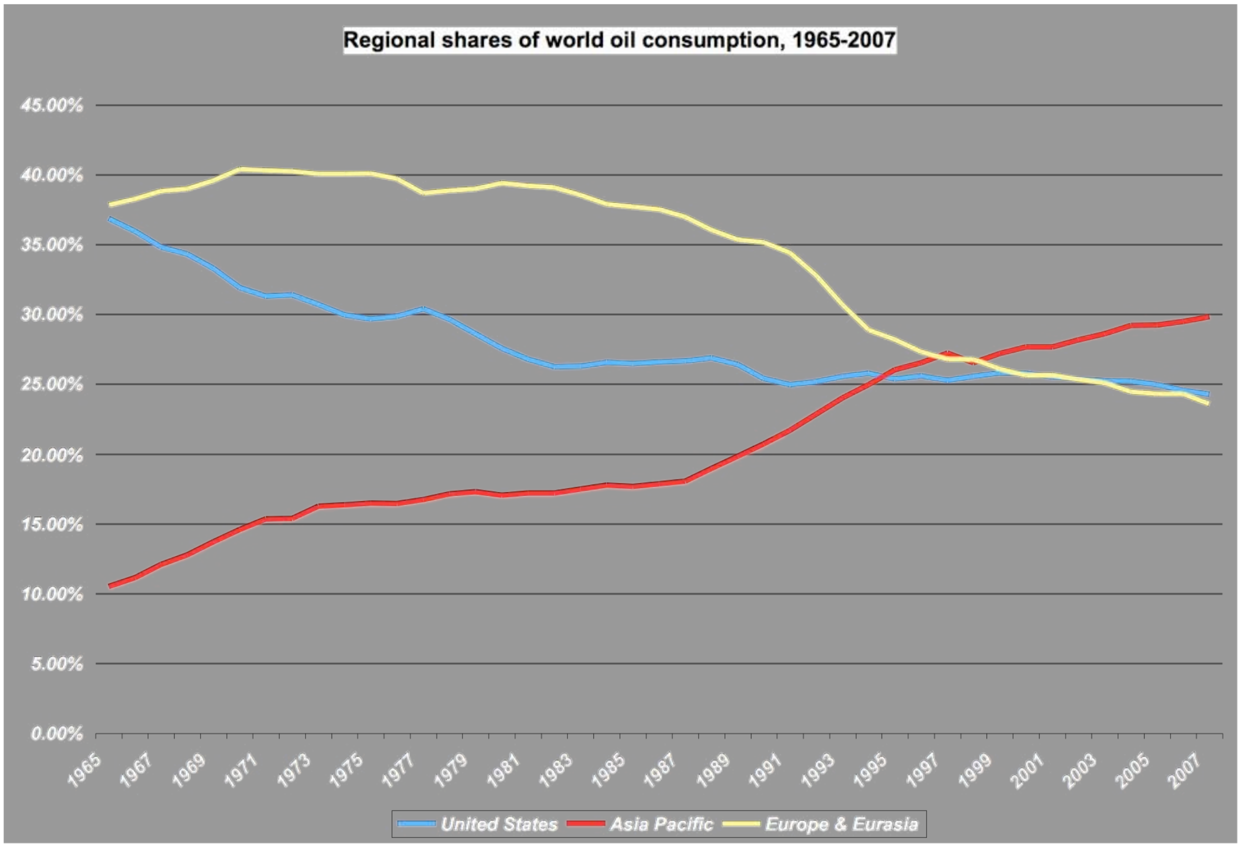
Interest rate policies in most countries are closely tied to the strength of the currency, which in turn is related to the international economic relations being conducted with the rest of the world. As documented above, the U.S. is not the great exception to this pattern that most believe it to be. When properly understood, the data on the U.S. dollar indicate a steady decline from the breaking of the gold standard in 1971. When the figure tracing that history (figure 6 in this paper) is juxtaposed to Figure 9, which traces the ups and downs of interest rate policy in the U.S., what is revealed is an unsurprising relationship between the two. Figure 6 showed a very sharp decline of the U.S. dollar in the first years after the gold standard was abandoned. This corresponds very nicely to the first sharp spike in interest rates in the early 1970s – years before the Volker "shock" is supposed to have taken place. This corresponds to a partial recovery in the value of the dollar, and an easing of interest rates in the mid-1970s. But when the dollar's fall begins again in the late 1970s – a fall which threatens to become precipitous – interest rates spike very high. This is the "Volker shock" – not an intentional act to recoup class power, but an ad hoc and pragmatic – and panicky response – to worsening economic conditions in the world's largest economy.

Conclusion: Making visible the Global South – the example of China[48]

The impasse of neo-liberalism in the Global North cannot be understood without bringing into focus the enormous developments taking place in the Global South. This will be a challenge for political economists in the Global North, some of whom have for too long become overly comfortable in a kind of OECD-centrism, where developments in the advanced capitalist world are taken as a proxy for developments in the world as a whole. The narrative here should show that in terms of the present conjuncture, this is no longer a tenable position. China's role in the changing architecture of the world economy today is one that cannot be ignored.

Making visible these processes in the regions of the world where most of humanity lives, is an important task in itself. There was a generation of hubris where neo-liberals took credit for the long expansion of the world system through the 1990s and into the 21st century. What is clear now, is that this expansion was not really a function of neo-liberalism in the Global North, but of economic developments in the Global South, particularly in China. Something happened between 1970s and the present which allowed China to hold three quarters of a trillion in U.S. government debt. Something happened between the 1970s and the present to allow China to dictate the bailout of Fannie Mae and Freddy Mac. Something happened between the 1970s and the present to allow the Asia-Pacific region to surpass the United States as a consumer of oil (Figure 10) and China to become an increasingly important consumer for all the major commodities in the world economy.

Figure 10[49]

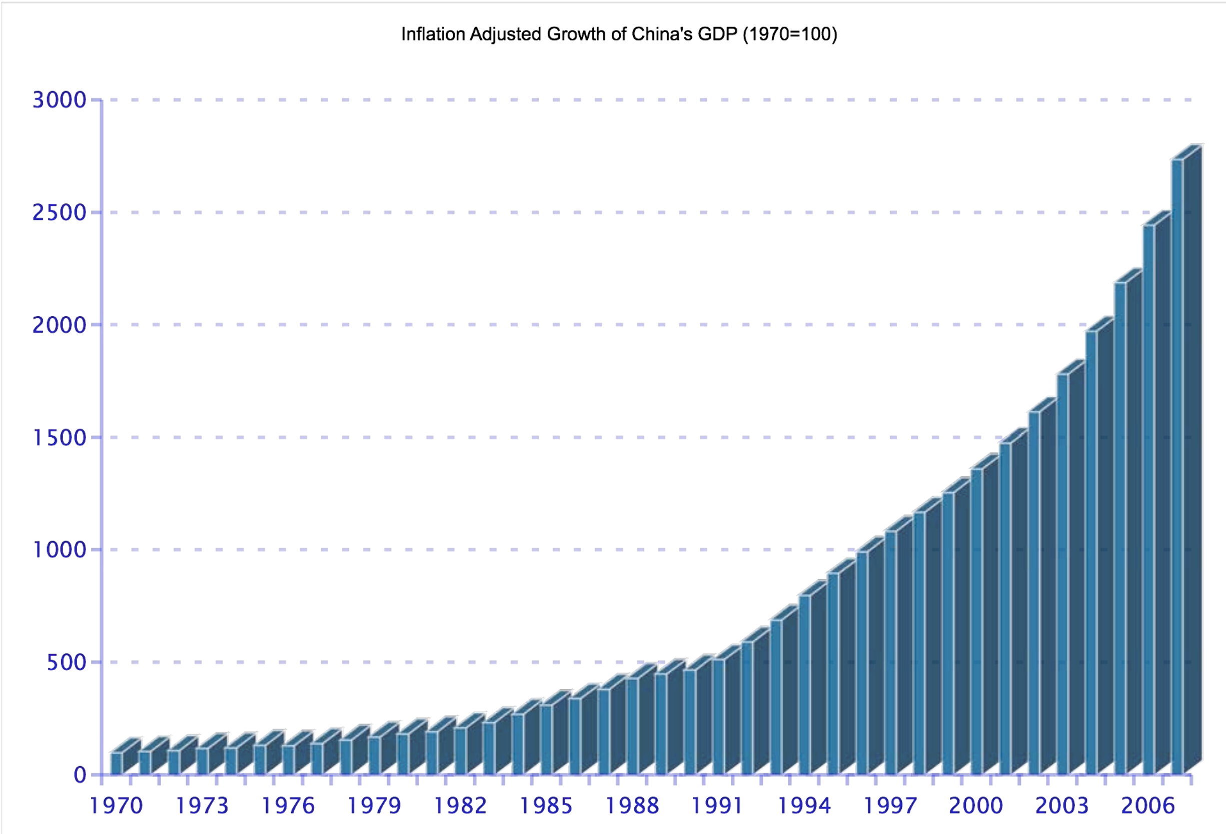


What happened, of course, is that the Chinese economy has grown and grown massively (Figure 11), returning to a position that it had occupied before Europe's industrial revolution, before China's degradation at the hands of the Great Powers in the 19th and 20th centuries – a position as one of the chief centres of the world economy.

This return of China to the centre of the world economy has been central to the long expansion of the world economy in the 20 years preceding the Crash of 2008, an expansion which had very little to do with neo-liberal policies in the Global North. Its economic resurgence has been deeply rooted in policies endogenous to China. Central to the change were the agrarian reforms instituted by the regime led by Deng Xiaoping, upon coming into office in July, 1977. David Zweig has summarized these reforms as "decollectivizing and commercializing agriculture."[50] Zweig sees the reforms as a product of pressures from below and above. From below, there had been constant resistance from the peasantry to the collectivization of agriculture carried out under Mao. An extraordinary 46.6 million hectares of farmland were taken over from the old feudal landlords[51] after the victory of Mao's movement. This smashing of the semi-feudal land ownership structure, which was the great achievement of the 1949 revolution, was enormously popular among the terribly oppressed peasantry. But the recurring attempts to "collectivize" agriculture were not. This collectivization was being attempted where the productivity of labour in agriculture was incredibly low. With only a tiny surplus to redistribute, it was impossible for accumulation to take place in such a way as to encourage and sustain investment, necessary to raise the productivity of labour. Deng felt the pressure from below – the sullen resentment of millions of peasants who longed for family-control of at least some of the product of their labour – and also felt the pressure from above – an imperious world economy with an inexorable logic felt by all economies, to capitalize production and increase the productivity of labour. The result was a series of reforms, between 1977 and 1979 in particular, which allowed Chinese peasants to keep a portion of the products of their labour, bring it to sale on the market, and so begin the process of accumulating capital.[52]

The effects were spectacular. A huge and steady increase in labour productivity in the countryside ensued, raising incomes, and creating the conditions for more accumulation. This revolution in the countryside began a cycle not different in kind to that which happened, for instance, in Upper Canada (today Ontario) when the canal systems built under Lord Simcoe allowed the province's peasants to bring their wheat to market. In both Ontario in the early 19th century and China in the 1980s, the conditions were laid for a classic "home-market" development of industry. But Upper Canada under Lord Simcoe was not a country of one billion people. Because of the very size of China's economy, its evolution into an industrializing power, with a self-expanding home-market economy, has an impact on the world economy far greater than any other such development in history. Figure 11 captures the impact of this revolution in the countryside, on overall growth in the Chinese economy.

Figure 11[53]



Between 1970 and 1978, the Chinese economy doubled in size. By 1987 it had doubled in size again. By 1994 it had doubled again. By 2002 it had doubled again. Even with the reduced growth rates which have resulted from the Crash of 2008, it is probable that the economy will have doubled in size again by 2010. Growth rates like this are reminiscent of Japan in the 1950s and 1960s, the era of the post-war boom.

So small was the Chinese economy in the 1960s and 1970s, that the country made it onto no lists of the leading economies of the world. We were used to talking about the "G7" – the US, Japan, Germany, Britain, France, Italy and Canada – as the seven biggest economies in the world. We were used to an approach where analyzing dynamics in these seven economies was seen as adequate for an understanding of the central dynamics in the world economy as a whole. But by 2005, China had leapfrogged past Canada, Italy, France and Britain to sit officially as the world's fourth largest economy – in spite of the terribly low wages earned by its working class.[54]

The revolution in the Chinese countryside is not visible from the streets of North America. But a related aspect of the Chinese boom is known to every consumer in North America – the vast outpouring of "Made in China goods" that dominate the shelves of Wal-Mart, Future Shop, and Best Buy, the computer you use, the television you watch, the DVD burner you purchase – all are likely to be a product of China's new, giant manufacturing industries. Between 1971 and 2005, new value added from manufacturing in China grew at an astounding average of 11 per cent per year.[55] This, the world's most populous country, is increasingly deserving of a title once held by Great Britain and later by the United States – the workshop of the world.

Tracking the growth of this new manufacturing giant is not simple. The official statistics coming out of China are far from perfect. The surprising announcement, for instance, that China was suddenly the fourth largest economy in the world, was the result of a "statistical revision". China's National Bureau of Statistics, after completing the country's first ever nationwide economic census, concluded that they had been understating China's GDP by about $300 billion. In other words, an economy equivalent to one-third of Canada's had been "overlooked".[56]

Other things are overlooked in the official statistics. The explosion of manufacturing in China, according to official statistics, has been accompanied by a *decline* in the number of manufacturing workers. In 1987, just under 84 million Chinese workers were employed in the manufacturing sector. That number increased to 98 million in 1995. But ostensibly, there was a one year 13 million loss of manufacturing jobs in 1998, so that by 2002, there were just 83 million workers employed in that sector.[57]

This is a puzzle. Either Chinese manufacturing is automating at an unprecedented rate, or something very peculiar is happening with the statistics. I think it is the latter. China's industrialization is being accompanied by the dramatic privatization of its industrial sector – the old bankrupt state-run enterprises being shut down, laying off thousands, and the slack being picked up by private investment. The statistics machine was designed to count the state-run economy, and is very poorly equipped to handle the new anarchy of Chinese privatization.

One of the biggest components of the new private sector is driven by Foreign Direct Investment. "China is now the world's largest developing country FDI recipient and the world's 2nd largest FDI recipient overall after the US."[58] This FDI has led to the establishment of half a million Foreign Invested Enterprises (FIEs). As of 2006, just under half, 242,000, were still functioning – and 160,000 of these were industrial enterprises. However, "only 43,000 FIEs with annual sales income of over 5 million Yuan (0.61 US$ million equivalent) are tracked by statistical agencies in China for data purposes."[59]

This might help to account for the seeming "disappearance" of millions of manufacturing workers, just as manufacturing production is going through the roof. There is one category of the statistics that is growing at an out of control pace. In 1987 there were 37 million workers in China in the category "activities not adequately Defined". By 2001, this figure had grown to 181 million, declining slightly to 163 million in 2002.[60] This truly is unbridled capitalism – a workforce the size of the entire US workforce unaccounted for in the statistics. These "not adequately defined" workers are probably, in their large majority, members of the vast army of low-wage workers who have poured into the new industries after being made surplus in the countryside.

This conclusion has gone into some detail about events in the "far-away land of China." This is a necessary corrective to the bias of political economy from which we are emerging. Political economy in the Global North has an overdeveloped view of the Global North in general, and the capitalist class of the Global North in particular. We know intimate details about the "Volker shock," about Thatcherism and TINA, about all sorts of aspects of neo-liberal ideology and rule. However, the forces reshaping the world economy are not coming from the ideology of the neo-liberals, nor from the history of their policies and administrations. The forces reshaping the world economy, in large measure, are coming from the impoverished countryside and new teeming cities of the long-neglected Global South – exemplified by the return of China to the centre of world politics and economics. A deep understanding of these developments is now indispensable if we want to understand our own present and future in the countries of the Global North.

Notes

[1] The abstract for this paper captured this as the "rise" of the Global South. I have decided that "return" is the more accurate adjective. The word should be understood in two senses. First, the Global South was forced into a steep, catastrophic economic, social and political decline under the domination of European, North American and Japanese imperialism. "Return" signals an actual, physical, material, re-appearance. Second, the Global South has been relatively absent from the centre of political economy in the Global North, and – in large measure because of its "physical" return – its "return" into the centre of Global North political economy analysis is now unavoidable.

[2] The ideas for this section were first developed in Paul Kellogg, "The Septembers of Neo-liberalism," *PolEconAnalysis*, www.poleconanalysis.org <http://www.poleconanalysis.org/2008/09/septembers-of-neo-liberalism.html>

[3] Gilberto Villarroel, "La herencia de los 'Chicago boys'," BBCMUNDO.com, December 10, 2006, <http://news.bbc.co.uk/hi/spanish/latin_america/newsid_3192000/3192145.stm>

[4] David Harvey, *Spaces of Global Capital: Towards a Theory of Uneven Geographical Development* (New York: Verso, 2006), p. 12

[5] "US rescues giant mortgage lenders," BBC News, September 7, 2008 <http://news.bbc.co.uk/2/hi/business/7502310.stm>

[6] Alana Semuels, "Q&A about mortgage giants Fannie Mae, Freddie Mac," *Los Angeles Times*, September 8, 2008, www.latimes.com <http://www.latimes.com/business/la-fi-qanda8-2008sep08,0,3030600.story>

[7] The Associated Press, "Answers to your Fannie Mae, Freddie Mac takeover questions," *Daily News*, September 11, 2008, www.nydailynews.com <http://www.nydailynews.com/money/2008/09/11/2008-09-11_answers_to_your_fannie_mae_freddie_mac_t.html>

[8] Jackie Calmes, David D. Kirkpatrick, "McCain Aide's Firm Was Paid by Freddie Mac," *The New York Times*, September 23, 2008, www.nytimes.com <http://www.nytimes.com/2008/09/24/us/politics/24davis.html>

[9] Bank of Canada, "Monthly Series: V122150: Federal Funds Rate", www.bankofcanada.ca <http://www.bankofcanada.ca/en/rates/us-interest-look.html>, accessed May 16, 2009

[10] HSH Associates Financial Publishers, "HSH's National Monthly Mortgage Statistics," www.hsh.com <http://www.hsh.com/mtghst.html>, accessed May 16, 2009

[11] Shawn Tully, "Real Estate Survival Guide," *Fortune*, Vol. 153 Issue 9, May 11, 2006, pp. 94-102

[12] Derived from Joint Centre for Housing Studies, *The State of the Nation's Housing 2007*, "Additional Table: Metropolitan Area House Price-Income Ratio, 1980-2006, www.jchs.harvard.edu <http://www.jchs.harvard.edu/publications/markets/son2007/index.htm>, accessed May 16, 2009. Figures are not yet readily available for 2007 and 2008. However, an update has been released to one analyst, which shows the same general trend, with the addition that from 2007 on, house prices have started to fall – the graphical representation of the bursting of the housing bubble. See CalculatedRisk, "Update: Raio Median House Price to Median Income

(2008 Report), June 24, 2008, http://calculatedrisk.blogspot.com <http://calculatedrisk.blogspot.com/2008/06/update-ratio-median-house-price-to.html>

[13] Derived from Financial Management Service, A Bureau of the United States Department of the Treasury, "Monthly Receipts, Outlays, and Deficit or Surplus, Fiscal Years 1981-2009," *MTS Monthly Treasury Statement*, www.fms.treas.gov <http://www.fms.treas.gov/mts/>, accessed May 16, 2009

[14] The relationship between militarism, arms spending and the long-term decline of the United States is a crucially important factor, one which can only be mentioned in a short paper such as this, but which will figure prominently in the larger study to come.

[15] Derived from United States Department of the Treasury, Office of International Affairs, "Major Foreign Holders of U.S. Treasury Securities" and "Additional historical data," *Treasury International Capital System: Securities (Page 1) Special Data Series*, www.treas.gov/tic/ticsec2.shtml <www.treas.gov/tic/ticsec2.shtml>, accessed May 16, 2009

[16] GDP figures from Bureau of Economic Analysis, "Table 1.1.5. Gross Domestic product (Billions of Dollars)," *National Income and Product Accounts Table*, www.bea.gov/national/nipaweb <http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=5&FirstYear=2008&LastYear=2009&Freq=Qtr>/; Net International Investment Position calculated from Bureau of Economic Analysis, "Table 2, International Investment Position of the United States at Yearend, 1976-2007," *International Economic Accounts*, www.bea.gov/international/index.htm <www.bea.gov/international/xls/intinv07_t2.xls>; Net Direct Investment calculated from Bureau of Economic Analysis, "Table 1. U.S. International Transactions [Millions of dollars]," *International Economic Accounts*, www.bea.gov/international/index.htm <www.bea.gov/international/xls/table1.xls>, all accessed May 16, 2009

[17] Derived from U.S. Federal Reserve Board, *Federal Reserve Statistical Release*, H.10 "Foreign Exchange Rates," "Price-adjusted Major Currencies Dollar Index," www.federalreserve.gov <http://www.federalreserve.gov/releases/h10/summary/indexnc_m.txt>, accessed May 16, 2009

[18] Derived from "FXHistory®: historical currency exchange rates" <http://www.oanda.com/convert/fxhistory>, accessed May 16, 2009

[19] Vikas Bajaj, "Foreclosures Rose as Delinquencies Eased in Quarter," *New York Times*, September 5, 2008 <http://www.nytimes.com/2008/09/06/business/06lend.html?ref=business>

[20] According to Peter Coy, "Back on Track – Or Off The Rails?" *Businessweek*, September 22, 2008, p. 24

[21] Joseph Schumpeter, *Capitalism, Socialism and Democracy* (New York: Routledge, 1994), p. 83

[22] Coy, "Back on Track," p. 24

[23] MarketWatch, *The Wall Street Journal Digital Network*, www.marketwatch.com <http://www.marketwatch.com/tools/quotes/financials.asp?symb=fnm&sid=1899&report=2&freq=1> and Forbes.com <http://finapps.forbes.com/finapps/jsp/finance/compinfo/FinancialIndustrial.jsp?tkr=fre&period=qtr>, accessed October 16, 2008

[24] U.S. Treasury Dept., as reported by Bruce Einhorn and Theo Francis, “Asia Breathes a Sigh of Relief,” *Businessweek*, September 22, 2008, p. 32.

[25] Yahoo Finance, http://yahoo.finance.com <http://finance.yahoo.com/echarts?s=FNM#chart1:symbol=fnm;range=1y;indicator=volume;charttype=line;crosshair=on;ohlcvalues=0;logscale=on;source=undefined>, accessed October 16, 2008

[26] Yahoo Finance, http://yahoo.finance.com <http://finance.yahoo.com/echarts?s=FRE#chart1:symbol=fre;range=1y;indicator=volume;charttype=line;crosshair=on;ohlcvalues=0;logscale=on;source=undefined>, accessed October 16, 2008

[27] Einhorn and Francis, “Asia Breathes A Sigh of Relief,” p. 32

[28] Einhorn and Francis, “Asia Breathes A Sigh of Relief,” p. 32

[29] Saskia Scholtes and James Politi, “Bank of China flees Fannie-Freddie,” *Financial Times*, August 28, 2008 <http://www.ft.com/cms/s/0/74c5cf58-7535-11dd-ab30-0000779fd18c.html>

[30] Einhorn and Francis, “Asia Breathes A Sigh of Relief,” p. 32

[31] Coy, “Back on Track – Or Off the Rails,” p. 25

[32] Clarence Baldwin Davis, Kenneth E. Wilburn, Ronadl Edward Robinson, *Railway Imperialism* (Westport: Greenwood Press, 1991)

[33] Colin Barker, “Origins and Significance of the Meiji Restoration,” 1982, www.marxists.de <http://www.marxists.de/fareast/barker/index.htm>

[34] Stanley Ryerson, *Unequal Union* (New York: International Publishers, 1968).

[35] Yeon-ho Lee, *The State, Society, and Big Business in South Korea* (New York: Routledge, 1987)

[36] Susan George, “A Short History of Neoliberalism: Twenty Years of Elite Economics and Emerging Opportunities for Structural Change,” *Transnational Institute,*, March 24, 1999, www.tni.org <http://www.tni.org/detail_page.phtml?&lang=en&page=archives_george_bangkok&lang_help=en&print_format=Y>

[37] Margaret Thatcher, “Speech to Conservative Women’s Conference,” Margaret Thatcher Foundation, May 21, 1980, www.margaretthathcer.org <http://www.margaretthatcher.org/speeches/displaydocument.asp?docid=104368>

[38] See, among other accounts, Alex Callinicos and Mike Simons, *The Great Strike: The Miners’ Strike of 1984-5 And Its Lessons* (London: Socialist Worker, 1985)

[39] Edmund L. Andrews, “Fed’s $85 Billion Loan Rescues Insurer,” *The New York Times*, September 16, 2008 <http://www.nytimes.com/2008/09/17/business/17insure.html?bl&ex=1221710400&en=30ab0d67aa5b8c74&ei=5087%0A>

[40] Joshua Zumbrun and Liz Moyer, “Your Guide To The Bailout Debate,” September 24, 2008, Forbes.com <http://www.forbes.com/2008/09/24/bailout-paulson-congress-biz-beltway-cx_lm_jz_0924bailout.html?feed=rss_news>

[41] For sources, see endnote for Figure 3.

[42] For sources, see endnote for Figure 3.

[43] PBS, “Interview Barney Frank,” *Inside the Meltdown*, *Frontline,* December 3, 2008, www.pgs.org <http://www.pbs.org/wgbh/pages/frontline/meltdown/interviews/frank.html>

[44] Cited in David Leonhardt, “The China Puzzle,” *New York Times Magazine*, May 17, 2009, p. MM52 <http://www.nytimes.com/2009/05/17/magazine/17china-t.html?ref=magazine>

[45] Leo Panitch and Sam Gindin, “Finance and American Empire,” *Socialist Register 2005,* pp. 46-81

[46] Gérard Duménil and Dominique Levy, *Capital Resurgent: Roots of the Neoliberal Revolution*, (Cambridge: Harvard University Press, 2004), pp. 1-2

[47] Board of Governors of the Federal Reserve System, *Economic Research, Federal Reserve Bank of St. Louis*, <http://research.stlouisfed.org/fred2/graph/?s[1][id]=DFF#>, accessed May 16, 2009

[48] The ideas for this section were first developed in Paul Kellogg, “Contours of the World Economy Today,” *Solidarity, Resistance, Liberation: Marxism 5*, 2007, pp. 12-22

[49] Derived from *BP Statistical Review of World Energy*, June 2008 <http://www.bp.com/statisticalreview>, accessed May 16, 2009

[50] David Zweig, *Agrarian Radicalism in China, 1968-1981*, Cambridge, Massachusetts, Harvard University Press, 1989, p. 174

[51] Yan Rui-zhen, “Changes in the System of Ownership in Rural China,” in John W. Longworth, ed., *China’s Rural Development Miracle*, Queensland, Australia, 1989, p. 11

[52] See Zweig, pp. 169-189

[53] Derived from United Nations, Department of Economic and Social Affairs <http://unstats.un.org/unsd/snaama/selectionbasicFast.asp>, accessed May 16, 2009

[54] Robert J. Saiget, “China to become 4th biggest economy with expected revision to 2004 GDP,” *The Globe and Mail*, December 19, 2005

[55] Derived from United Nations Statistics Division, National Accounts Main Aggregates Database, “Estimates of Value Added and Selected Components at constant 1990 prices in Million national currency,” <http://unstats.un.org/>, accessed May 16, 2007

[56] Robert J. Saiget, “China to become 4th biggest economy with expected revision to 2004 GDP,” *The Globe and Mail*, December 19, 2005

[57] Derived from International labour Organization, LABORSTA Labour Statistics Database, “Total employment, by economic activity,” <http://laborsta.ilo.org/>, accessed May 16, 2007

[58] John Whalley and Xian Xin, “China’s FDI and Non-FDI Economies and the Sustainability of Future High Chinese Growth,” National Bureau of Economic Research, Working Paper 12249, May 2006, p. 3.

[59] Whalley and Xin, p. 4.

[60] Derived from International labour Organization, LABORSTA Labour Statistics Database, “Total employment, by economic activity,” <http://laborsta.ilo.org/>, accessed May 16, 2007