

Summer Sessions 2015
UC Berkeley Dept. of Geography
Lecturer: Meleiza Figueroa



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://bloom.bg/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
 - Nouriel Roubini (guru of 2008 crisis): 'Bumpy Landing' for Chinese Economy
 - Video: <http://bloom.bg/1lbMZXO>
 - 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?)

Understanding Crisis: History & Theory Behind the 2008 Crash

- Uneven Development: A Framework for Understanding Capitalist Crises
- The Wal-Mart Effect: Dollar Hegemony & the 'special relationship' w/ China
- The Long Downturn, 'Asset-price Keynesianism' and the Bubble Economy

Financial Crashes: Discourses, Agents, & 'Animal Spirits'

- Inside Job: The Undignified Rise & Fall of the Shadow Banking System
- Keynes in Vegas: The Imperfect Science of Financial Markets
- The Minsky Moment: Illusions of Stability in an Unstable Economy

Moment of Truth: The Chinese Crash & Possible Future Scenarios

- Waning Hegemony, US Markets & Rise of BRICS: Challenges of a 'multi-polar' world
- Financialization with Chinese Characteristics: Confounding the models
- Whatever You Do, Don't Listen to Western Economists: What next for China?

Chinese Financial Crash: Partial Bibliography

(please post your suggestions to the bcourse website!)

- ★ Arrighi, Giovanni. 2007. *Adam Smith in Beijing: Lineages of the 21st Century*. London: Verso.
- ★ Brenner, Robert. 2006. *The Economics of Global Turbulence*. London, New York: Verso.
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- ★ Curran, Enda and Ting Shi. "Xi Hones China's Economic Blueprint After Stock Turmoil." *Bloomberg Business*, 7/22/2015.
- ★ Dongxiao, Chen. "China Aims to Set the Regional Cooperation Agenda." *East Asia Forum*, 7/28/2015.
- ★ Evans-Pritchard, Ambrose. "Capital exodus from China reaches \$800bn as crisis deepens." *The Telegraph UK*, 7/22/2015.
- ★ Geng, Xiao, and Andrew Sheng. "China's Live Stress Test." *Project Syndicate*, 7/21/2015.
- ★ Gowan, Peter. 1999. *The Global Gamble: Washington's Faustian Bid for World Dominance*. London: Verso.
- ★ Harvey, David. 2005. *Spaces of Global Capitalism: Towards a Theory of Uneven Development*. London, New York: Verso.
- ★ Hung, Ho-Fung. "China Steps Back." *New York Times*, 4/6/2015.
 - ★ 2013. "China: Challenger or Saviour of Dollar Hegemony?" *Development and Change* 44(6): pp. 1341-1361.
 - ★ 2008. "Rise of China and the global overaccumulation crisis." *Review of International Political Economy* 15(2); pp. 149-179.
- ★ Loong-Yu, Au. 2009. "China: End of a Model...Or the Birth of a New One?" *New Politics* 12(3).
- ★ Pettis, Michael. 2013. *The Great Rebalancing: Trade, Conflict, and the Perilous Road Ahead for the World Economy*. Princeton, NJ: Princeton University Press.
- ★ Roach, Stephen. "Market Manipulation Goes Global." *Project Syndicate*, 7/27/2015.
- ★ Steinbock, Dan. "China's \$10 Trillion Market Explosion." *Roubini EconoMonitor*, 6/24/2015.
- ★ Zhao, Minghao. "China's BRICS Balancing Act." *Project Syndicate*, 7/17/2015.



Understanding the Crisis: History & Theory

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)

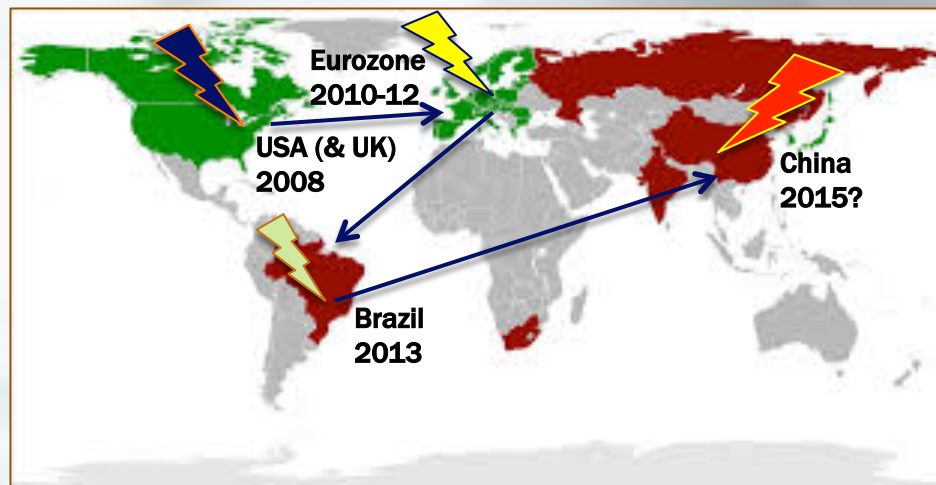
****Major Premise: Economics never separate from politics or history****

- **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
- **Legacies of Colonialism in 'Development' ideology & practice (**reader: Stiglitz*)**
 - 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 → 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'

- Robert Brenner: *The Economics of Global Turbulence* (2006)
 - **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*
 - ▣ US 2000-2007: slowest GDP growth, real wages flat
 - ▣ *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)

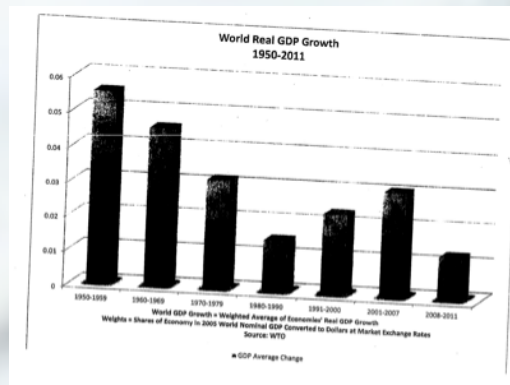
Uneven Geographical Development:

the 'long downturn' in advanced economies - in graphs

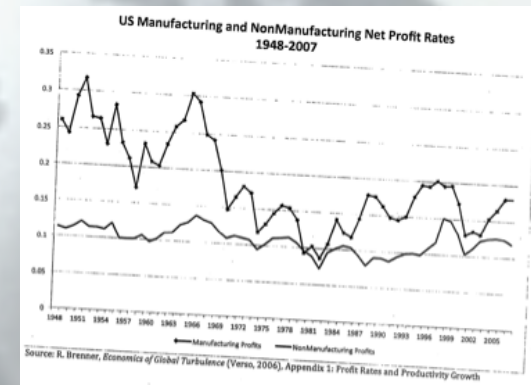
(also in hard-copy handout from class)



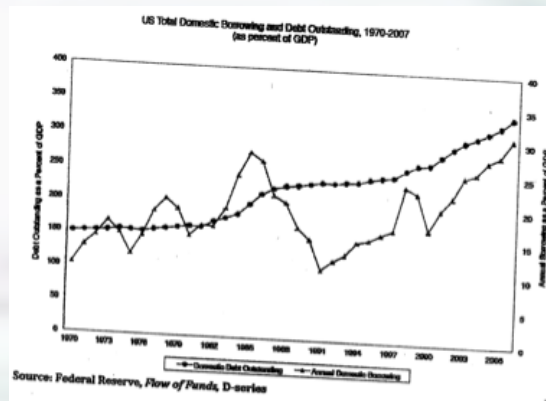
Fall in rates of profit (mfg)



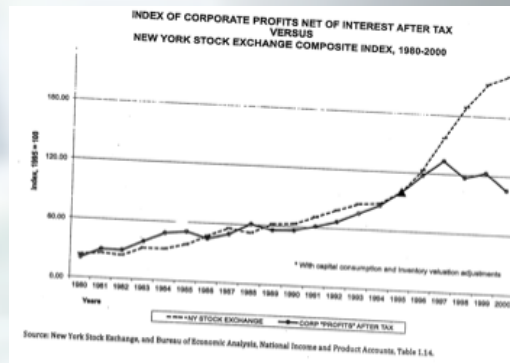
'Real' GDP (production)



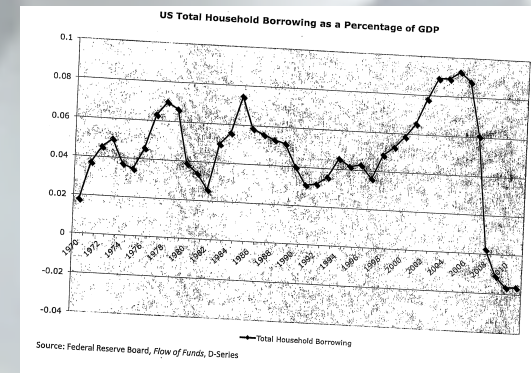
Mfg vs. non-mfg profits (in US)



Growth of US national debt



The 'de-linking' of finance from the 'real' economy



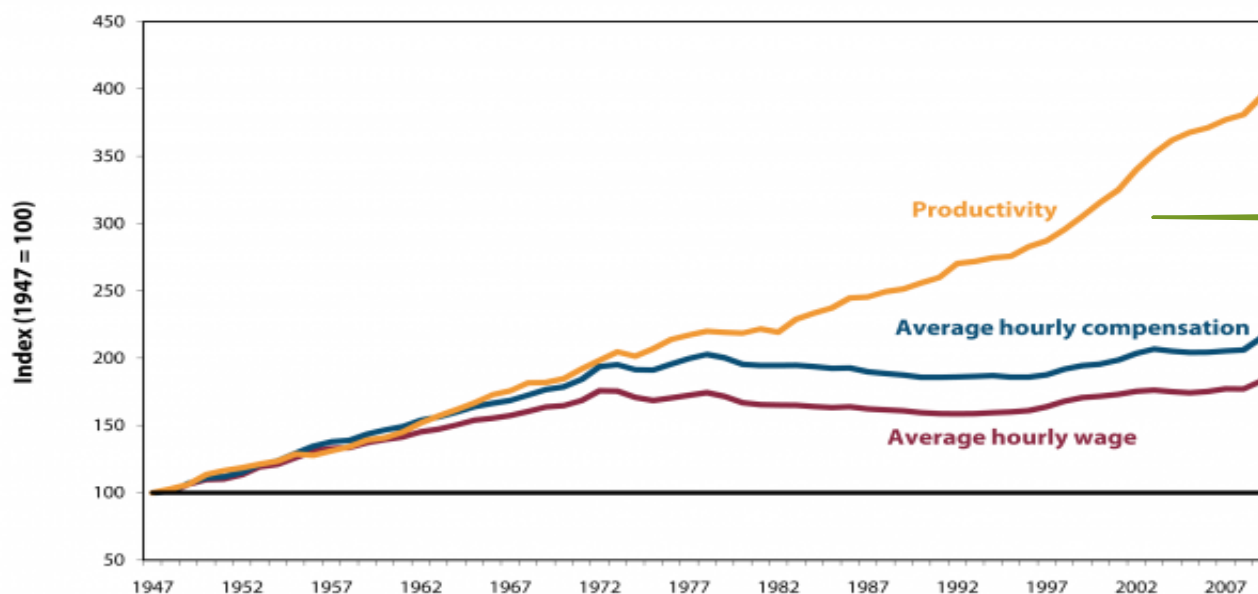
Growth of household debt - % of GDP (note dramatic post-2008 drop)

Low-Wage America: 1970s-Present

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

■ Wages and compensation stagnating:

Hourly wage and compensation growth for production/non-supervisory workers and productivity, 1947-2009



Source: EPI analysis of Bureau of Economic Analysis and Bureau of Labor Statistics data.

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?**



WAL★MART®
ALWAYS LOW PRICES.

Always.

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

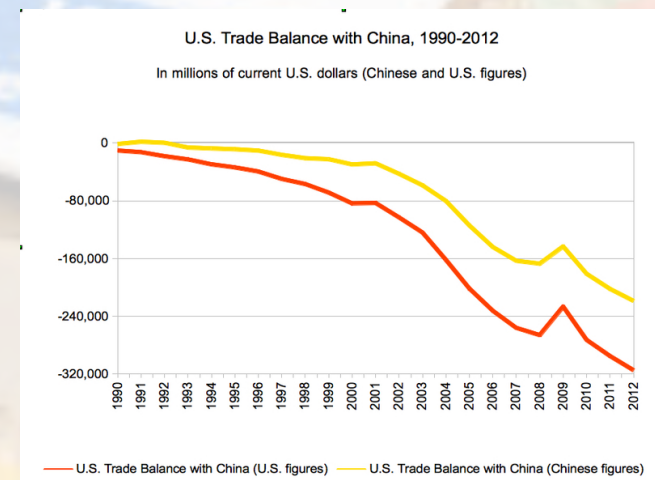
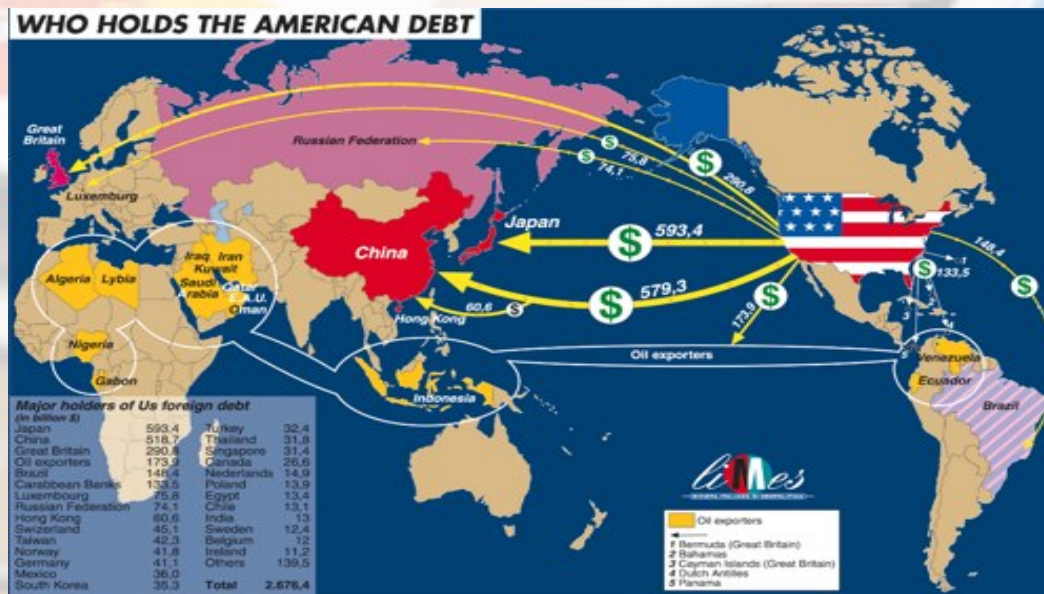
- **Strategy #2 (demand-side): Put \$ in hands of consumers**
 - ▣ **Keynesian model – Raise Wages?**



“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

Peter Gowan, *The Global Gamble: Washington's Faustian Bid for Global Dominance* (1999)

□ 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...)

The DWSR & US-China's 'special relationship': how petrodollars, debt, & us consumerism fed china's economic miracle

