

## ISSUES

# Global financial meltdown: The West and the rest

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**T**he debt-financed US-led global economy is crumbling. What lessons can the leaders of the South learn from the present meltdown of the Western capitalist system?

The first lesson, surely, is that contrary to mainstream thinking, the market does not have a self-corrective mechanism. In the present crisis the "market makers" are watching nervously from the sideline as the Congress and the politicians huddle together to see how to bail out the banks.

The leaders of the South have been instructed in innumerable reports and policy recommendations by "experts" from the International Monetary Fund (IMF), the World Bank, and the World Trade Organisation (WTO) as well as Northern politicians that they should let their economies be ruled by the market.

As recently as 9 February 2008, the EU Trade Commissioner Peter Mandelson spoke at Cambridge arguing, essentially, that if the South does not liberalise its markets, it must be forced to do so through applying the WTO rules of reciprocity. This is part of the neoliberal rhetoric.

If businesses fail, let them. All state intervention or cushioning is like nursing dying patients. In the course of time, the countries will find their "niche" comparative advantage in the global chain of production and trade. In the meantime, if people suffer they must be made to understand that this is the necessary pain of adjustment.

If millions of small holder food and cotton producing farmers in the South perish because "free trade" demands further liberalisation of the global market, then it is just bad luck for them and their families. Paradoxically, this logic is now stood on its head when it comes to bailing out the monolithic financial institutions in the North, and protecting the jobs and house mortgages of those who, through no fault of theirs, have become victims of the sub-prime mortgage crisis.

The second lesson of the present financial crisis is that people matter. It is election time in the US, and the people, who have been ignored for so long, suddenly matter.

However, there is a difference between the North and the South. In the North the people wait for elections, in the South they go instantly to the streets. In the North people are on the sideline passively waiting for the politicians and bankers to decide their fate.

In the South people take matters in their own hands and bring abrupt changes in government (including military coups), or they vote with their feet and migrate to neighbouring countries or to the North. These are generalisations, but generalisations have a germ of truth. People in the North and South have different



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circumstances, and they act as their circumstances and institutions allow. For the North to argue that the South must copy Northern systems of governance and democracy is to ignore the reality of history.

A third lesson is that crisis is endemic to the capitalist system. In explaining the present financial crisis, Walden Bello, senior analyst of the Focus on Global South, has argued that its roots lie in the overproduction of capital and under-consumption by the masses. This is indeed so.

On the one hand capital is overcapitalizing through the creation of mountains of fictitious capital such as, for example, Collateralised Debt Obligations (CDOs are clever instruments that mix AAA-rated securities with "junk bonds" – or "toxic paper" – and packaged as collateralized securities; these are at the crux of the sub-prime crisis).

On the other hand, even as the corporate elite earn millions of dollars (Goldman Sach's 30,000 employees each earned an average of \$600,000 per year; and its CEO \$68 million), millions of people throughout the United States are in deep personal debt and cannot put two meals

together or meet their health bills or mortgage commitments.

Besides overproduction of capital and underconsumption by masses, the fundamental cause of the financial crisis is that capitalism, in essence, is an anarchical system. Adam Smith's invisible hand in which everybody's greed is the basis for social good is a veritable formula for anarchy.

Schumpeter idealised capitalism as a process of "constructive destruction". History, however, has seen appalling destruction of people's lives, cultures and the environment (whose end we have not yet seen) as the daily destruction caused by neoliberal policies. It is a questionable complement to Adam Smith that his theories have lasted so long in various forms and guises, the latest in its neoliberal phase. But time has come now, finally, to put the ghost of Adam Smith to rest.

From sub-prime rate crisis to direct state intervention and nationalisation of banks and their global assets, there is now no turning back to neoliberalism. Neo liberalism, too, is dead or dying a slow death.

A fourth lesson to learn is to

recognise that the leaders of the North and of finance capital do not pretend any more that they fully comprehend the nature of this crisis. They admit that they do not know what the nature of "true value" is behind the inflated and debt-ridden commercial paper (like CDOs).

They talk of removing "toxic" or cancerous paper from the system, but nobody knows how. Nobody knows how to save the body from the cancerous cells. The whole body is metastasized. There is, in other words, a crisis of cognitive paradigmatic failure. They simply do not know. It is a collapse of the paradigm that informed their understanding of themselves.

They might put back humpty-dumpty together again (although nobody knows how), but the cancerous growth will surely continue. The system is heading towards a cataclysmic demise.

And here is the fifth lesson for the leaders of the South. For too long they have also accepted neoliberalism as the cure-all for the ills of poverty and deprivation in their countries. Some have found vindication in wealth creation that has put

them in league with Fortune magazine's world's richest one hundred. But the people in their countries are suffering, and are now resisting. In the people's rejection of Tata's attempt to locate the new car industry in Bengal in India lies a symbolic expression of where the future is heading, and the leaders of the South had best heed this signal.

The leaders of the South who thought there was no option but to integrate in a globalised world, and even those who talked about "fair globalisation", must step back and review their positions.

The captains of industry and the holders of sovereign wealth funds in the South might be tempted to pick up assets and banks in the North on the cheap, although it is unlikely that having nationalised these, the governments of the North will allow these to be "denationalised" to the extent that their ownership and control pass over to the financial and industrial giants and national governments of the South.

China may be the world's workshop, India its communications centre, and Brazil its farm. But to allow China, India and Brazil to control the commanding heights of the economy of the North would, for the North, be suicidal. Southern capital could instead be better and more profitably used by investing in the development of the South and so improve the South's collective ability to shape its own destiny.

Over the next decades what we shall be witnessing between especially the older industrialised countries of the North and newly industrialising countries of the South is an intensified competition for global resources of oil, fuel, land, forests, water, minerals, etc.

Capitalism has been a predatory system of over 400 years duration, with dire ecological consequences of global warming, drought, water scarcity, soil degradation, death of forests, the melting of the glaciers, destabilization of the Asian monsoon, etc.

These have already caused eco-induced migration (so we now have environmental refugees as well as economic and political refugees), and land-use conflicts. What we are witnessing is not just the melting of the global financial market. What we are witnessing is the meltdown of the capitalist and ecological systems.

So the final lesson to learn from the present conjunctural crisis of the financial system is that the leaders of the South must now take the lead, in discussion with their peoples, to try and build a different world based on a different paradigm in contrast to the 400 years old capitalist paradigm that is now meeting its dénouement in the North.

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