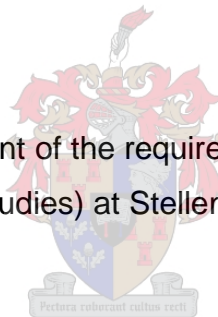


**The Global Financial Crisis: A Crisis of Legitimacy for the Hegemonic World  
Order and the Implications for South Africa**

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## Declaration

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## **Abstract**

This study attempts to analyse the global economic system in light of the ongoing financial crisis, which is seen as a symptom of a larger crisis of the legitimacy of the capitalist system. It takes a critical approach based, first and foremost, on the theories of Karl Marx. To broaden this application, it also adopts the perspective of the World Systems and neo-Gramscian schools of thought. The study analyses, and synthesises, the theoretical contributions of these approaches, allowing for the conceptualisation of a World System, based upon the tenets of capitalism, with a hegemon, the United States of America, at its apex. Using the historical materialist method, it traces the genesis and progress of the capitalist model. It analyses the particular style of accumulation which precipitated the current crisis. From there it examines the situation in the semi-periphery, the locus of past socialist revolutions.

To this end, it regards the case of South Africa, an intermediary, between the industrialised core and the underdeveloped periphery. It uses Robert Cox's assessment of the importance of social forces in maintaining or supplanting a hegemonic project. Although the study finds South African society fraught with contradictions, alternative social movements currently remain unable to produce a coherent emancipatory programme. While the crisis, and other recent events, have illuminated the contradictions inherent to capitalism, despite widespread popular mobilisation, coherent responses from the Left remain deficient. The hegemonic structures and institutions are bereft of the necessary prescriptions for a resolution to the situation, yet in this moment of opportunity, the Left appears unable to articulate and mobilise sufficiently to bring about an emancipatory, counter-hegemonic, movement.

## Opsomming

Hierdie studie probeer om die globale ekonomiese stelsel binne die konteks van die voortslepende finansiële krisis Hierdie krisies word beskou as 'n simptoom van 'n meer omvattende krisies onderliggend aan die legitimititeit van die kapitalistiese stelsel.. Dit volg in die eerste plek 'n kritiese benadering gebaseer op die teorieë van Karl Marx. . Om hierdie toepassing te verbreed, word daar ook gebruik gemaak van die Wêreldstelsel- en neo-Gramscian denkskole. Die studie analiseer en sintetiseer, die teoretiese bydraes van hierdie benaderings, met inagneming van die konseptualisering van 'n Wêreldstelsel, gebaseer op die beginsels van kapitalisme, met 'n hegemoon, die Verenigde State van Amerika, aan sy spits. Met behulp van die historiese materialistiese metode gaan dit die wordingsgeskiedenis en verloop van die kapitalistiese model na. Dit analiseer die besondere vorm van akkumulاسie wat grondliggend is aan die huidige krisis. Daarna ondersoek dit die situasie in die semi-periferie, die lokus van vorige sosialistiese revolusies.

Met daardie doel voor oë fokus die tesis op die geval van Suid-Afrika, 'n tussenganger, tussen die geïndustrialiseerde kern en die onderontwikkelde periferie. Daar word bevind dat die die Suid-Afrikaanse samelewing vol teenstrydighede is, maar, nietemin, alternatiewe sosiale bewegings tans nie daartoe in staat is om 'n koherente emansipatoriese program tot stand te bring nie. Terwyl die krisies en ander gebeure, lig gewerp het op die teenstrydighede inherent aan kapitalisme, ontbreek, desondanks wydverspreide algemene mobilisering, koherente reaksies vanuit die Linksgesinde kamp. . Die hegemoniese strukture en instellings ly gebrek aan lewensvatbare voorskrifte vir 'n oplossing en Linksgesindes, nieteenstaande die opportunistiese oomblik, is nie daartoe in staat is om te 'n emansipatoriese, teen-hegemoniese beweging te artikuleer en te mobiliseer nie.

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## Chapter 1 - Introduction

“I believe that banking institutions are more dangerous to our liberties than standing armies. If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks and corporations that will grow up around the banks will deprive the people of all property until their children wake-up homeless on the continent their fathers conquered”

3rd US President Thomas Jefferson 1802; cited in Hoogvelt, (2010; 52).

“Neither a borrower nor a lender be, for loan oft loses both itself and friend “  
Shakespeare, W. (1.3.75-76)

The contradictions and systemic problems in the global economic order have come to the fore since the current financial crisis began in 2007. From its origin in the United States of America (US), it has spread throughout the world, rapidly eroding faith in the financial system and the ideology which underpins it. The crisis has been responsible for widespread impoverishment in both the developed and developing world. Remedies and solutions have been implemented and, as of yet, none can be said to have succeeded as a universal cure. Rather, leaders stumble from one seemingly *ad hoc* decision to the next with policies and implementations characterised by their reactionary nature. However, the crisis requires a broader perspective than simply that of the demise of the sub-prime mortgage market and onwards. The organisational structure which supported the system must be queried, with a critical view towards how such a construct, which drove deepening inequality and engendered crises, came to be. It also must be understood as more than simply a crisis in the financial system, but rather a crisis of legitimacy for the capitalist system itself.

This research attempts to obtain the necessary holistic outlook. It will examine the evolution of the global economic structures from a historical materialist perspective. It



will regard events of the present as the greatest crisis in organisational legitimacy since the Great Depression of the 1930s, a time which saw terrible conflict and dislocation, but also resulted in a transformation of world order and organisation. It will posit that these events provide a similar opportunity for systemic change through an examination of the possibility for a successful transformation emanating from movements counter to the hegemonic model, both in the core and the periphery. South Africa will be examined as a case study to understand the effects of the crisis in the semi-periphery.

This chapter will begin with a brief conceptualisation of the contemporary setting and how it has evolved. It will then discuss the purpose of the study, the research questions, the methodology employed, and the motivations for the research. It will outline a preliminary theoretical framework. Lastly, it will elaborate upon the structure of the thesis. Through this framework, the malaise from which the current global economic system suffers and the need for a transformational change will be demonstrated. It will find that the financial crisis has been accompanied by a crisis in legitimacy for the hegemonic order. However, the weakness and incoherence of possible counter-movements make it unlikely that, despite the opportune moment, the crisis will result in an emancipatory transformation.

## **1.1 Background**

The global economic system is in an ongoing period of crisis. The financial crisis began in 2007, when bad home-owners debts were packaged and sold throughout the financial system, which has had significant ramifications throughout the global economic system (McNally, 2009). It included a lack of liquidity and confidence between banks, as no one was certain of what was contained on others', or even their own, balance sheets. The threat of the banking and financial system's collapse caused widespread distress. In effect, the financial institutions were holding a gun to their own heads, threatening to bring about chaos through their demise (Schaffler and Tofall, 2012). The threat worked; elected public representatives blinked first. In an attempt to solve the problems, massive funds were appropriated from the public purse, through government bailouts and other mechanisms, and distributed to the malignant institutions.

The events could be viewed as stemming from simple problems. Prospective homeowners lacked foresight and took out mortgages when they simply should not have. Banks and bankers also suffered from this “irrational exuberance” (Greenspan, 1996). The ability to have a piece of land to call one’s own is something to which many aspire. In the US, land ownership is a core tenet of ‘the American Dream’. With a minimal payment and using one’s future as collateral, this could be possessed. That many borrowers would be unable to repay their loans should have been clear to actors in the banking and loans industry. Yet, despite this insight, these financial actors, as well as their managers, and other individuals who traded in arcane financial instruments, would reap material rewards for subjecting individuals to these agreements.

A simple problem requires a simple solution. A lack of liquidity and confidence in the financial system could be solved through a recapitalisation of the banks, through mechanisms such as the Troubled Assets Relief Package, an initiative targeted to support the banks and financial institutions rather than the struggling individual (Nesvetailova and Palan, 2008: 171; Ghosh and Mohamed, 2010). The managers of the investment vehicles which had behaved most egregiously would be sent on their way with a ‘golden handshake’. Everyone could breathe a collective sigh of relief and the world could go back to normal.

However appealing this vision, it unfortunately did not come to pass. The US has not recovered. The government suffers from partisan bickering while the debt rises by trillions, notably with \$700 billion going to bailout the banks in 2008 (Nguyen and Enomoto, 2009). Unemployment is high and industry seems to be continuing its steady decline, if not death spiral. Both sides of the political spectrum are angry; the Tea Party and Occupy Wall Street movement are both manifestations of this discontent. Individuals who have lost their homes sleep in tents. If this is the product of the American Dream, it is a cruel and mocking dystopia.

In the European Union (EU), the situation also appears grim (Filipovic, 2012). Billions were spent on their side of the Atlantic to recapitalise banks as well (Fратиanni and

Marchionne, 2010). Yet, it still appears as if it was not enough, as these institutions continue to require assistance. As public funds move to the private sector, states and governments are left with their own creditworthiness in a dubious position (Arellano, Conesa and Kehoe, 2012). The end of the Euro, at least in its current form, is the source of endless pages of speculation in journals and newspapers. High level summits come and go, characterised by discord and resolutions insufficient to address the dire situation. Unemployment is problematic, especially in the most affected countries. Public servants go unpaid. Riots occur on the streets of Greece and London. The individuals protesting have legitimate grievances; they were deceived by the leaders in whom they put their trust.

The global North faces the most extreme economic crisis since the Great Depression. The 1930s experienced high unemployment, growing inequality and a crisis in the financial system. The period also saw a conflict which subsumed much of the world, leaving millions dead, with countries destroyed physically, economically, and politically. It led to the use of a doomsday technology in the atom bomb, which killed hundreds of thousands and crippled many more.

The aftermath of this conflict brought about a relative stability. The world was balanced by two great powers. Europeans, traumatized by the devastation of the war, vowed 'never again', and began creating a regional infrastructure to preclude the recurrence of such horrors. The United Nations came into being which, along with the Bretton Woods institutions, was hoped would provide a forum for discussion and decision-making to support the stability of the world order (Rodrik, 2009). In many areas, decolonisation afforded previously marginalised peoples choices and chances which had been nonexistent since the advent of the dark colonial ages.

Economic crises, in the last century or over a longer time period, have in the past had morbid ramifications. Yet, the nature of a crisis prompts a reorientation and redefinition of systems and societies. This can be to society's benefit, as in the aftermath of World War II. It can also have negative results. The recession of the 1870s led to renewed colonialism and imperialism, perhaps best exemplified by the 1884 Berlin Conference,

where the decisions made by a handful of elite statesmen shattered the independence of millions (Arendt, 1967). The 1970s recession ended the postwar stability and gave preference to capital and those who controlled it. There is a growing cleavage “between the beneficiaries of globalization, on the one hand, and the marginalized, the excluded and those who would refuse globalization, on the other” (Cox and Schechter, 2002: xix). Past successful socialist revolutions, notably the USSR and Communist China, occurred not in the core but in areas more weakly attached to the major industrial area. This provides an impetus to examine the current situation from the perspective of a semi-peripheral area, which, in keeping with previous historical developments, should offer a greater possibility of a radical economic transformation than states and societies in the core. South African society is riddled with inequality and contradictions. Their governing coalition of interests does not constitute a hegemonic project. However, despite the lack of legitimacy, and a widespread dissatisfaction amongst the populace, the possibility of a transformative change remains unlikely. This is mainly due to the weakness of the possible counter-movements, whether through general disorganisation or, as is often the case, co-option by the ruling interests. This will be discussed further in Chapter 4. Keeping in mind the aforementioned facts, as well as the magnitude of the current crisis, the future of global economic organisation must be questioned.

## **1.2 Research Questions**

The purpose of this thesis is to explore the evolution of the global financial system and its means of accumulation. This will be done with the intent of understanding the current financial crisis and to understand whether this is simply a crisis, albeit a significant one, in the face of which capitalism will prove resilient as it has in the past, or whether the magnitude of this crisis could cause a transformative change in the global economic, capitalist, organisation. A number of subsidiary questions can be listed: What historical processes led to this current crisis? Is the crisis to result in a restructuring of the global economic system? If so, do the balance of social forces permit this restructuring to be of an emancipatory nature?

### 1.3 Methodology

The methodology will establish a theoretical framework through which the global economic system will be analysed. Drawing on secondary literature, it will use a historical materialist perspective to understand how this system evolved over time and how it culminated in the current crisis. It will also regard factors which would suggest that the crisis is not yet over, and, rather than improving, is likely to deepen. A case study of South Africa, to be explained later in this Chapter, will be examined to gain greater insight into the experience in the semi-periphery and if there exists the possibility of an emancipatory change in that area.

This short examination will begin with an explanation of the value of a South African case study followed by an understanding of the South African situation in regards to the financial crisis. The purpose of a case study is to “construct representations based on in-depth, detailed knowledge of cases” (Neumann, 2011: 42; cf. Ragin, 1994: 92). They provide the opportunity to “link abstract ideas in specific ways with the concrete specifics of cases we observe in detail” (Neumann, 2011: 42). In this example, the abstraction will be the global economic organisation and the specific case to demonstrate the implications of this system will be South Africa. Through this, the theories of historical materialism, and the effects of the global economic system, which in itself is far from a substantive construct, will be extrapolated to a more micro-level, which permits the ability to “develop richer, more comprehensive explanations that can capture the complexity of social life” (Neumann, 2011: 42). The examination of South Africa meets Johansson’s criteria for a case study in that it is a complex functioning unit, contemporary and investigated in its natural context (Johansson, 2003: 2). This study takes a “qualitative and interpretive” approach to the case, and attempts to gain a holistic perspective (Johansson, 2003: 3). An explanatory model, rather than an experimental one will be followed to understand the case. An experimental process would focus on a testable hypothesis and follow “experimental logic to draw causal inferences” (George and Bennett, 2004: 151). The explanatory approach that will be used in the study gives the opportunity to obtain “rich explanations of particular cases”, with the trade-off of being unable to provide a universal conclusion. (George and

Bennett, 2004: 31). However, given the complexity and dynamics of the case involved, it is believed that the parsimony which must be sacrificed to appropriately examine the case at hand is worthwhile. Thus, it focuses on the contemporary situation, but also places this within a historical context. South Africa is selected as it is “information-rich, critical, revelatory [and] unique” (Johansson, 2003: 8). The conclusions drawn from this will pertain to South Africa alone, however, but could “be useful for those who wish to generalise and draw comparisons with similar state-society complexes” (Leysens, 2012: 3).

#### **1.4 Motivations**

There are several motivations for undertaking this study. The researcher is confronted by the contradictions and widespread problems engendered by the current manifestation of the global economic system which follows the logic of hyper-capitalism, an ideology which flourishes on the development of ever-faster moving technology and is characterised by the illusory rather than the concrete. (Graham, 2000) This logic applies to capital and the speculative nature of many of its modern manifestations. Alongside this is the fact that deep inequalities exist between areas of the world, and also within societies, which is deeply perplexing. This is exemplified by the fact that “the richest 1 percent of the world’s adult population, individuals worth at least \$514,512, own[n] 39.9 percent of the world’s household wealth, a total greater than the wealth of the world’s poorest 95 percent” (Inequality.org, n.d.; cf. United Nations, 2006). This cleavage is staggering and also has ramifications on health and other aspects of social well-being (Inequality.org, n.d.). Global inequality is not the only issue. Inequality within states is also problematic. South Africa, for example, was found to have a Gini coefficient, a measure of inequality within a state, of 0.64 in 2010, one of the highest rates in the world (World Bank, n.d.). When this is compared to a country in the global North, such as Canada, which reported a measure of 0.324 in the late 2000s, it shows that there are large disparities both between and within societies. (OECD.statsextracts, n.d.) These measurements clearly suggest that, with the exception of those in privileged positions, for the vast majority of individuals in the world, the global economic system is not functioning properly. Poverty is widespread, natural environments are destroyed,

and for many the future is bleak (Altvater, 2009: 77). There is “a passive, soft leadership, with no experience in a world unchained in its anger. In classic social analysis this is often described as degeneracy” (Saul, 2009: 288).

The ongoing economic crisis could provide a bookend for this era. At the very least, it prompts a deeper study and further understanding of economic systems, as the ramifications of these current events are both broad and deep. It also begs an understanding of how this came to pass, whether due to simple errors which have been compounded on a global scale, or through a perversion of systems purported to protect and uplift individuals. With one foot rooted in historical process, and the other planted in an analysis of the present times, it is then possible to regard alternatives for the future. The study will analyse how the current instability could lead to emancipatory change in the, hopefully near, future.

### **1.5 Theory and Conceptualisation**

The theoretical framework will be discussed at length in Chapter Two. The study, in general, will use a historical materialist perspective. This will synthesise a number of different strands of the theory. Marx’s writings and beliefs will be the foundation upon which the theoretical framework is built. The theories which followed in this tradition have many similarities but also significant are their differences. Following Marx, for the purpose of this research, the next group of theories which will be explored will be grouped under the label of ‘World Systems Theory’. These writings examined Marx’s theories regarding class conflict within Europe and extrapolated it to relations on a global scale. They focus on a very structural interpretation of the functioning of the world system in its totality, with each region and society having a role to play defined by where they exist in the global hierarchy. One of the schools of thought in this group is the notion of *dependencia*, which began in Latin America. Another is Immanuel Wallerstein’s formal World Systems Theory. Between these two approaches, there are many commonalities and even scholars who subscribe to aspects of both theories. (see Prebisch, 1959; Wallerstein, 1974; Arrighi, 2005) The next school of thought which will be focused on is based upon the contributions of Antonio Gramsci and neo-Gramscians. Gramsci wrote at length of the notion of hegemony to understand why



Marx's class struggles had not yet produced a revolution in Western Europe. From this one can conceptualise a capitalist World System with the US as a hegemonic power. Existing within this structure, and the subject Chapter 4, is South Africa. For this, Robert Cox's (1987) World Order Approach provides useful analytical tools to understand how the conflict and balancing of social forces can produce or preclude change. The major commonality between all of these theoretical approaches is that they analyse inequalities and the struggle toward emancipation. They are therefore useful as explanatory frameworks for understanding how the global economic order is organised and to comprehend the present crisis.

### **1.5.1 Formation of the Global Economic Order**

Marx and Engels view history as being comprised of the struggle between capital and labour. (Marx and Engels, 2010: 6) This conflict is what produces change. Victories are achieved on both sides. In the case of capital, the ever-increasing growth of the market, from its inception to its current global iteration had stark effects on individuals. For the newly initiated, "the contractual organizations of kinship, neighbourhood, profession, and creed were to be liquidated since they claimed the allegiance of the individual," (Polanyi, 1944: 163) and would thereby impede his ability to participate fully in the free market. Despite the increased personal freedom such a system can engender, the results of commodifying and surrendering oneself to the objective, asocial market are mixed at best.

Alternatively, social protection systems were designed, this constituting a victory of sorts by labour over capital. Their purpose was opposed to the free market and intended "to destroy such an institution and make its existence impossible" (Polanyi, 1944: 177). In a historical perspective, the labour market and individuals were allowed to continue to work within the market system as long as the institutional protections ensured that work conditions and wages remained at a level which did not degrade the individual and permitted dignity and a certain standard of living and working. The argument posited by free market adherents that such legislation and regulations, minimum wages, unemployment insurance, and the ability to organize trade unions, distort the labour market is seen by many as correct. Yet if they have not impacted "the mobility of labor



and flexibility of wages [...] those institutions have entirely failed in their purpose, which was exactly that of interfering with the laws of supply and demand in respect to human labor, and removing it from the orbit of the market” (Polanyi, 1944: 177).

Polanyi wrote of a ‘disembedded market’, which he referred to as a “Satanic Mill” (Polanyi, 1944: 32) – a phrase used in William Blake’s poetry to describe London during the Industrial Revolution, a reflection which is similar to Marx, the latter being discussed in Section 2.2 (Blake, 1907). This market would later push “labour into misery, nature into environmental destruction, and the monetary system into a bad running order” (Altvater, 2009: 77). One can extrapolate from the system which Polanyi examined at the time to the current global financial market, where “the horizon is not the national economy with its institutional settings and social and political regulations but the unfettered world market – that is, the poorly regulated economy on a global scale” (Altvater, 2009: 77). Today’s markets have an almost insatiable appetite for information and function on a twenty-four hour cycle around the world. The speed and magnitude of this system breeds short-sightedness among the financial actors who ply their trade amongst its waters. In this extraordinarily fast-paced system the horizon is always near. There exists a method of function based upon the “higher the interest rate and the financial yield, the shorter the perspective of actors within the financial markets”, which simultaneously devours the world through a slow, long term process (Altvater, 2009: 77). Thus ‘counter-movements’ protecting labour, money, nature and the individual, must also develop or be prepared for rapid action, while maintaining a “global and long term perspective” (Altvater, 2009: 77).

### **1.5.2 Present opportunities for counter-hegemonic movements**

The economic crisis in the North, and the likelihood that its impact will worsen in the South, provides “a moment to highlight the systemic failings of capitalism and the need for a radical alternative” (McNally, 2008: 79). Mainstream alternatives are simply a failure of imagination. The global economic organisation, through its development over the last centuries, has brought about the current crisis which affects individuals around the world. As there has not, yet, been a marked departure or transformation from the broad economic policies of the recent past, it is likely that the crisis will worsen,

furthering “a legitimization crisis affecting both states and the institutions of global governance,” (Cox and Schechter, 2002: xix), whether economic or political. The disparities of distribution of wealth and associated living standards across the world continue to deepen (Altvater, 2009: 75). This situation demonstrates that the current global organisation is on the cusp of a transformation once again. The power and values which sustain and are promoted by the system are now, more than ever, under examination. They are “a paradigm of social reality, which does not spring from human volition” (Polanyi, 1944: 254). The illusion of freedom, central to the thought of a ‘free’ market, was maintained “only at the price of blindness to the wider consequences of individual action” (Polanyi, 1944: 254). The complex and integrated society, in which we live, is failing; and with this failure the illusion of freedom fades. The liberal capitalist ideology which has been the foundation of the dominant Western societies has driven the global economy into a crisis. To find true freedom one must begin to consider alternatives.

The crisis has produced a number of physical manifestations of movements counter to the hegemonic project. They are occurring in disparate areas of the world as an expression of the dissatisfaction with the current world order. However, a few of these demonstrations have garnered global attention of late. The Arab Spring was another expression of this, albeit in a different political and economic climate. The European Union has also been affected. As their sovereign debt crisis mounts, alongside imposed austerity measures, individuals react on the streets. Greece, one of the countries which has experienced the most severe effects of this situation, has seen over 900 protests in the course of a year (McNally, 2012: 50; cf. Regully, 2011). Though there is a growing frustration with the world order, the counter movements are generally characterised as not being “guided by any particular political philosophy or leanings but by the pragmatic need to resist displacement and dispossession” (Harvey, 2010: 258) This most often occurs to local issues and problems rather than global dynamics, which fosters a lack of international cohesion amongst these movements. The critical academic discourse which the crisis has precipitated, which will be discussed in Chapter 2, also lacks coherence. (See Homer-Dixon 2011; Wallerstein, 2011; McNally, 2012; Burnham, 2009)

Though ample motivation for a challenge to the capitalist world order exists, the left has yet to articulate and mobilise a serious unified attempt. Yet, as the crisis deepens and dissatisfaction grows, the opportunities for such do not disappear. These movements could, perhaps, constitute a challenge to the hegemonic project of capitalist liberal democracy. At the very least, they represent the dissatisfaction, especially in light of the financial crisis, which has marginalised many individuals. A number of the movements, such as Occupy Wall Street, the Indignados in Spain, or the popular uprisings surrounding the Arab Spring, have garnered much attention, academic and otherwise. While they are an indicator of global discontent, and therefore must be acknowledged, they will not be the object of analysis for this study. Rather, South Africa will be used as a case study. The reason for this is threefold. Firstly, the cases occurring in the global North, or their immediate proximity, such as the Arab Spring, have been studied and discussed at length in various media. Academically, the majority of literature is produced in Europe and North America and it is natural that it would regard internal matters or ones which influence, or possibly threaten, society in the North, for example stemming from refugee flows or ungoverned/radical states across the Mediterranean. South Africa, and its contradictions, receives significantly less attention. This provides the opportunity to address a topic which, while not entirely novel, can be said to be neglected in many mainstream considerations.

The second reason for the focus on South Africa's is its position in the semi-periphery. Cox finds that in our current system, "hegemony is more intense and consistent in the core and more laden with contradictions in the periphery" (Cox, 1996: 137). While the mobilisation in the North, such as Occupy Wall Street or the Indignados prove interesting reading, they do not capture the systemic contradictions to the same degree as occurrences in states more towards the periphery of the World System. The final reason, also inseparable from the second, is the nature, or lack thereof, of hegemony in South Africa. Indeed, the contradictions in this society are stark.

Following the transition from *Apartheid*, the coalition of interests which governed the country did so in accordance with the hegemonic, neoliberal, model. In the West, at least to a relative extent, this model has penetrated deeply into individual's daily lives,

including corporate and labour structure, and even civil society. Hegemonic consensus has not been established in South Africa. This makes the project for a counter hegemonic movement in the West more difficult, as it appears that there are few, or no, alternatives to the existing structures. This is not the case in peripheral states, as they “have not undergone the same thorough social revolution, nor have their economies developed in the same way, but they try to incorporate elements from the hegemonic model without disturbing old power structures” (Cox, 1996: 137). South Africa is no exception to this assessment. While some hegemonic elements were adopted, they never achieved legitimacy and the support of the bulk of the population. Thus, the governing elites must rely less on consent and more on coercion to achieve their objectives. This leaves their position in society weaker than their counterparts in the West, and therefore it may be easier for an organised oppositional force to realise a transformative success.

In the past, many writers, including Marx and Lenin (Marx, 2010: Lenin, 1927), advocated for a revolution occurring in the core, as the proletariat would no longer accept the order and obligations to which they were subjected. (Amin and Luckin, 1996: 243) Within the core of Europe and North America, capitalism remained steadfast and would become modified and more deeply entrenched. (Amin and Luckin, 1996: 243) However, this model was called into question by the revolution of the Russian semi-periphery and the (victorious) liberation struggles in Asia and Africa (Amin, 2010: 262) These constituted “the first wave of struggles in favour of the emancipation of the workers and the peoples” (Amin, 2010: 262). It would be unwise to claim that South Africa carries the same geopolitical significance as Russia in the first half of the 1900s, or in the current world organisation. Yet, the value comes from their role in the semi-periphery, with many linkages to the global North, which struggles through the crisis. Past emancipatory movements have occurred in the semi-periphery, rather than the developed core or the underdeveloped periphery. As a regional hegemon (in a non-Gramesian sense) (Alden and Le Pere, 2004), South Africa has influence on states and movements throughout southern Africa. It is also worthwhile to note that the country is a member of the BRICS, a constellation of, arguably, semi-peripheral states who have

formed a loose alliance to promote their interests on the world stage. South Africa's position in the global hierarchy, and the severe contradictions engendered by the neoliberal capitalist model followed since the end of *apartheid*, make it an ideal case study for understanding the effects of global capitalism on the semi-periphery and the possibilities of a revolutionary counter-movement emanating from this area. As a "second stage of 'the South's awakening' [...] is now on the agenda", South Africa is in a position to harness this possibility to effect change (Amin, 2010: 271).

Through a spatial reorganisation of capital, it can be expected that the North will try to displace their struggles stemming from the crisis onto the global South. South Africa is especially vulnerable to this process as it has experienced a growth in debt load and its economy is built upon foreign direct investment (Marais, 2009; Cramer et al, 2009). South Africa's status in the semi-periphery and its dependence on the core economic centres for capital is a key factor in its historical and economic development. Furthermore, continuing dependence on the core leaves it in a difficult position as the North struggles along, and cracks in the façade of the Rainbow Nation appear domestically, alongside troubling economic trends. There exist a number of complex social and economic problems, not the least of which is a decline in the legitimacy of the governing coalition and a rise in coherence of social forces outside these structures. These will be examined in an in-depth in Chapter 4.

## **1.6 Structure of thesis**

The thesis begins with a general introduction to the topic, methodology, and a basic introduction to the theoretical framework of the research. Chapter 2 will elaborate upon this and construct a comprehensive theoretical foundation. Chapter 3 will use a historical materialist perspective to look at the evolution of the global financial structure and how this contributed to and caused the current crisis. It will also take into account the current academic discourse which has sprung from these events. Chapter 4 will conceptualise the crisis as an opportunity and analyse it using South Africa as a case study. Chapter 5 will summarize the research and results.

## Chapter 2 - Theoretical Framework and Conceptualisation

[T]he old is dying, and the new cannot be born; in this interregnum a great variety of morbid symptoms appear”

Antonio Gramsci (1971: 276).

“This is the way the world ends

Not with a bang but a whimper”

Eliot T.S. (n.d)

### 2.1 Introduction

Following the collapse of the Soviet Union and the apparent demise of communism at the hands of the capitalists, the long history of ideas which stemmed from those articulated by Karl Marx could have been seen as discredited. The Soviet state which had, for a time, embodied these ideals was no more. Their opponents were victorious. Although Communist parties held power in China, North Korea, Vietnam and Cuba, they were isolated and “did not constitute a threat to the hegemony of the global capitalist system” (Hobden and Wyn Jones, 2001: 201). The Chinese economy had already begun its transformation towards capitalism in 1978, (Qian, 1999) and the other nominally Communist states, in order to maintain their grip on power after the Soviet demise, were forced to pivot towards a capitalist economy. A new century was about to dawn and the mainstream practical consensus was that it would be liberal and capitalist.

Yet, Marx’s theories and his concept of historical materialism have proven to be more resilient than the Communist regimes which, ostensibly, were based on his work. Inequalities are apparent around the world. The global economic system lurches from crisis to crisis. The current disorder prompts a re-examination of the theories which follow in the historical materialist tradition. This chapter will begin with the writings and theories of Marx, as any proper examination of the subject must do. It will then compare and contrast later interpretations and iterations of his work. Next explored will be the theoretical strands which I shall subsume under the label of World System Theory. It will then regard the contributions of Antonio Gramsci. These approaches will be used to understand the formation and structure of a hegemonic and capitalist World System.

From there it will examine the theoretical contributions of Robert Cox, which initialised a loose 'school' of neo-Gramscian approaches to World Order. His approach will heavily contribute to the analysis in Chapter 4. Subsequently, this Chapter will regard some contemporary critical analyses which have emerged since the start of the financial crisis. In its entirety, this will demonstrate that the ideas of historical materialism, in different variants, are not obsolete. The financial crisis has shown that they remain relevant, if not now more than ever.

## **2.2 The Origins of Historical Materialism – Marxist Theory**

An analysis of Historical Materialism should not begin with anyone but Marx. Through his prolific writings he developed a theoretical framework which engendered strong responses – from anger to confusion to inspiration – in his readers for years. His analyses and critiques of the economic order are still pertinent at this time. The critical aspects of his writings are incisive and extensive. No less impressive are those which describe the capitalist system and its processes of accumulation. These will both be explored in the coming section, along with the theoretical basis from which Marx wrote. In the *Communist Manifesto*, co-authored by Friedrich Engels, he advocated the advantages of these approaches and of socialist thought in general. This articulation of his ideas was intended to refute the assertions of economists and prove the terrible effects of capital and land being controlled by the few, while many laboured. “[I]t pointed out the inevitable ruin of the petty bourgeoisie and peasant, the misery of the proletariat, the anarchy in production, the crying inequalities in the distribution of wealth” (Marx and Engels, 2010: 29). It also demonstrated the large- and small-scale effects of this disparity, most notably war between nations, and the destruction of moral bonds and family relations (Marx and Engels, 2010: 29). These claims may seem ambitious, but Marx was nothing if not meticulous in his research and writing.

Marx believed that the world should be viewed in its entirety. With regard to his most significant literary achievement, *Das Kapital*, he stated that “regarding my work, I will tell you the plain truth about it, [...] Whatever shortcomings they may have, the advantage of my writings is that they are an artistic whole” (Wheen, 2007: 5). Marx would argue that reducing the analysis of a subject to different fields of study, by applying the lenses



of economics, politics, history, or philosophy separately, provides an imperfect understanding of the subject. None can be considered without the other. Marx's work was both thorough and complex but also left much room for interpretation and re-interpretation, hence the legacy of thinkers who have followed in his footsteps.

One of the reasons for the varied understandings of Marxist thought is that he often used the method of dialectics in his writing to explore and explain contradictions in the world. He adapted this method from Hegel, but it is a method frequently used by scholars to comprehend events and structures. Robert Cox would later explain dialectic as "a dialogue seeking truth through the explorations of contradictions" (Cox, 1986: 215). This allows the analyst to understand structure and the possibility of changes "by understanding the contradictions and sources of conflict within existing structures; and this may be aided by an understanding of how structural transformations have come about in the past" (Cox, 1986: 244). In the end, Marx's extensive research and carefully-considered writing produced a theoretical framework which would be debated, and remain relevant, for hundreds of years. His "work is as open-ended – and thus as resilient – as the capitalist system itself" (Wheen, 2007: 6).

Marx's materialist conception suggests that economic development drives historical change. Any changes in society can be seen as a reflection of economics. In his opinion, the interaction between the means of production and the relations of production constitute the basis of society. A change in the means of production would result in a change in the structures which constitute the relations of production. One way the means of production can change is through the implementation of new technologies. Marx did a great deal of his writing in London during the Industrial Revolution, where this entire process of change would have been evident. As the means of production change, the previous relations of production, or the ways in which society and labour are organised, become outdated and obsolete. Without the destruction of the previous relations of production, productive capacity cannot be fully utilised. Those controlling capital, also called the bourgeoisie, "cannot exist without constantly revolutionising the instruments of production, and thereby the relations of production, and with them the whole relations of society" (Marx and Engels, 2010: 16). Their dependence on the



labour of the proletariat, the group consisting of the labourers, demands continued enhancements to the means of production. The “revolutionising of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation” has a decided impact on labour (Marx and Engels, 2010: 16). Social relations, and everything with which they are associated, “are swept away, all new-formed ones become antiquated before they can ossify” (Marx and Engels, 2010: 16).

Another key notion which Marx explored was that of surplus value. This is directly related to the commodification of labour. In his estimation, transactions were originally based upon commodities themselves. Either they were traded directly through a barter system, or a commodity, produced by an individual, was sold for money, which was then exchanged for another commodity. This type of interaction provides little or no opportunity to accumulate capital. However, the process changed with the capitalist system. Under this new system, an individual with capital could, with his money, buy both a commodity and labour power. Using that labour power, he would produce another commodity, for example paying someone to fashion wood into a table. The final commodity would then be sold at a profit. This profit would come from the difference in wages paid to the labourer. Thus, in a capitalist system, those at the top of the hierarchy profit from simply possessing and spending capital, while those at the bottom find they have become a commodity like any other (Wheen, 2007: 47). This brief explanation of surplus value is extremely truncated as Marx used more than 600 pages to explain it in *Capital Volume 2* (Burnham, 2010: 30).

One of Marx’s constructs, which later scholars would adopt, is the framework of the base and superstructure. The base consists of the means of production and the relations of production, and their underlying economic considerations. The superstructure consists of the “culture, institutions, language” and the role which they play in the political process (Wheen, 2007: 104). Changes in the base result in changes in the superstructure. The two are in a cyclical and mutually reinforcing relationship. The notion of structure is central to World System Theory, Gramscian theory and later iterations of the Marxist tradition prior to, and apart from, the advent of post-structuralism.

Marx believed that “[t]he history of all hitherto existing society is the history of class struggles” (Marx and Engels, 2010: 14). The capitalist organisation of society breeds conflict between the proletariat and the bourgeoisie. Marx was clear on how this conflict was organized and in whose favour. “[W]ages are determined by the fierce struggle between capitalist and worker. The capitalist inevitably wins. The capitalist can live longer without the worker than the worker can without them” (Wheen, 2007: 14). Capital accumulates as labour is further alienated from the products which they create. Rather than creating a product, workers instead complete a compartmentalised task which, in conjunction with the tasks of other labourers, contributes to a final product, albeit one which is disconnected from the task of each individual worker. Further mechanisation would increase this process. For the worker, this would result in “the means of his existence and of his activity [being] increasingly concentrated in the hands of the capitalists” (Wheen, 2007: 14; cf. Marx, 1976). As the power and accumulation of the capitalists increase, the workers are left with a grim fate: “overwork and early death, reduction to a machine, enslavement to capital” (Wheen, 2007: 14). The workers’ labour and the fruits of it exist “outside him, independently of him, and alien to him, and begins to confront him, as an autonomous power; the life which he has bestowed on the object confronts him as hostile and alien” (Wheen, 2007: 14). Capital, eventually, will

“distort the worker into a fragment of a man, [the bourgeoisie] degrade him to the level of a machine, they destroy the actual content of his labour by turning into a torment; they alienate him from the intellectual potentialities of the labour process; they transform his lifetime into working time, and drag his wife and child beneath the juggernaut of capital” (Wheen, 2007: 14).

This portrait of the conflict between labour and capital is bleak. However, despite this, Marx believed that this very conflict, coupled with the inequality and immiseration it generated, would precipitate the process of emancipation.

The bourgeoisie relied upon the proletariat for their very existence. Without the ability to extract surplus value from the commodity of labour, “the formation and augmentation of capital” would not be possible, and the capitalist class would vanish (Marx and Engels, 2010: 21). Technological innovation has reduced the role of labour, removing, to a certain extent the need to create surplus value from the difference between

commodities and wages. Instead, capital is used to acquire technologies which reduce dependence on labour, through rapid technological change which throws people out of work, (Harvey, 2009), in the form of machines or computerisation which replaces the need for a labourer. This, however, is also problematic as it renders labour more precarious and decreases the size of the market which would otherwise consume the goods produced by capital. “[W]hen labor is disempowered it gets low wages, and if you engage in wage repression this limits markets” (Harvey, 2009). The entire process is contradictory, because as it occurs the capitalists also seek to earn higher profits as labour conditions deteriorate. Thus, the labour class becomes more disenchanting, while the capitalist class still requires its existence. This, “therefore, cuts from under its feet the very foundation on which the bourgeoisie produces and appropriates products” (Marx and Engels, 2010: 21). In this situation, “the bourgeoisie therefore produces, above all [...] its own grave-diggers. Its fall and the victory of the proletariat are equally inevitable” (Marx and Engels, 2010: 21). However, Marx was not entirely contemptuous of the bourgeoisie. He believed that the bourgeoisie “has been the first to show what man’s activity can bring about. It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals” (Marx and Engels, 2010: 16). Yet, despite these triumphs, “capitalism remains a disaster since it turns people into commodities. Until humans can assert themselves as the subjects of history rather than its objects, there is no escape from this tyranny” (Wheen, 2007: 13).

It must be noted that, while the contributions of Marx and Engels are relevant, the notion of worker has changed dramatically since the time of their writing. Generally, in the current organisation of the world economy, “workers are increasingly expected to cultivate an unprecedented repertoire of abilities in an immaterial world of work” (Moore, 2006: 453). Presently, workers are viewed “less as cogs in the wheel or less as rational and predictable entities than as dynamic individuals with the capacity for symbolic reasoning, intelligence, independently generated ideas, and even the desire to work for self-fulfillment” (Moore, 2006: 453). However, this has not resulted in the working class losing their chains, so to speak. Rather, workers face a “contemporary form of coercion that substitutes political representation with a set of expectations and limitations intended [...] to reduce government responsibility for employment welfare” (Moore,

2006: 453). In fact, production has shifted “from economies of scale to economies of flexibility” (Cox and Schechter, 2002: 81). This is based upon “a core-periphery structure of production, with a relatively small core of relatively permanent employees handling finance, research and innovation; and a periphery consisting of dependent components in the production process” (Cox and Schechter, 2002: 81). This has resulted in “a more precariously employed labour force segmented by ethnicity, gender, nationality, religion, or geographical location”, a weakening of the power of trade unions, and a strengthening of the power of capital (Cox and Schechter, 2002: 81).

Marx did not remain detached from the ongoing conflict. Rather, he believed that, as he wrote in his *Theses on Fierbach*, “[t]he philosophers have only interpreted the world. The point is to change it” (Wheen, 2007: 23; cf. Marx, 1969). The emancipation of the proletariat was the change for which he worked and, in his analysis, the contradictions of capitalism would make this outcome inevitable. They would also prove fertile ground for the inspiration of many future generations of writers and thinkers.

### **2.3 V. I. Lenin – Marxist-Leninism**

An appropriate starting point for the evolution of Marxist thought is the theories of Lenin whose adaptations heralded a school of Marxist-Leninism which was embodied in the Soviet state. In his text, *Imperialism: The Last Stage of Capitalism*, he focuses, naturally, on the relationship between the coloniser and the colonised. The “propertied classes” of the imperial nation would show a “[g]eneral enthusiasm over the prospects of imperialism, furious defence of it and painting it in the brightest colours” (Lenin, 1927: 121). The elite competition between the European powers would result in the “free grabbing of territories”, (Lenin, 1927: 138) which, as available land for colonies became more scarce, would result in a “particularly intense struggle for the division and the redivision of the world” (Lenin, 1927: 104). He found this mode of capitalism to be fraught with contradictions and prone to decay (Lenin, 1927: 106).

Lenin built on the foundations of Marxist thought and also developed them further. He did not deviate from the notion that the economic mode of production “ultimately determines broader social and political relations” (Hobden and Wyn Jones, 2001: 206).

This, in keeping with Marx, was understood as the base-superstructure model. Differences arose because the type of world which existed when Marx wrote had changed by Lenin's time. He termed imperialism as 'monopoly capitalism', which he saw as capitalism's highest and final stage (Lenin, 1927: 3). The exploitation of the periphery complicates the divergence between the interests of the proletariat and the bourgeoisie upon which Marx remarks. The profits returned from the colonies to the core allows the bourgeoisie to buy off the proletariat, at least enough to keep them satisfied. In this manner there is a convergence of interests in the two classes. Lenin's addition was insightful and useful in its time. It began to conceptualise the global system, rather than the Eurocentric and other forms of historical materialism, based solely upon class and economics. However, just as the world changed between the time of Marx and Lenin, leaving theory not invalidated but subject to a reinterpretation, it continued to do so, producing new interpretations of Marx's theories.

#### **2.4 Raul Prebisch - *Dependencia***

Raul Prebisch was a Latin American economist who brought the notion of *dependencia* to the fore. The main tenet of this theory was that "the spread of technical progress has been uneven, and this has contributed to the division of the world economy into industrial centres and peripheral countries engaged in primary production, with consequent differences in income growth" (Prebisch, 1959: 251). Essentially, this means that the price of manufactured goods rises more quickly than that of raw materials. As the core is the primary producer of manufactured items, and the periphery is used as a repository of natural resources, those in the periphery remain constantly behind in terms of development. Instead, the *dependencia* school of thought suggested that "it was possible for the countries of the South to 'develop' *themselves*, as opposed to "being developed" by the North." (Wallerstein, 2004: 1; original emphasis) This notion could be seen as a precursor to the more formalised and articulated World System Theory of Wallerstein, among others. Prebisch's development economics recommends import substitution, meaning the building of domestic industry rather than using imports. To achieve this, protection, such as tariffs or other barriers, are needed to defend domestic markets from more developed ones. Import substitution could have the effect

of creating a domestic industrial base, and along with it the jobs which would lift many out of poverty (Prebisch, 1959: 253). As the head of the Economic Commission for Latin America, he also advocated for inward-development and stronger regional integration as solutions to the problems facing the area (*The Economist*, 2009a). The theories of development through import substitution lost much of their credibility in the decades surrounding the 1970s. The price increase by OPEC had the effect of a “rise in the cost of imports for countries in the South combined with a sharp decline in the value of their exports because of the stagnation in the world economy” (Wallerstein, 2004: 2) Import substitution could not work under these circumstances, unless the state produced oil, and thus there were balance of payments deficits leading to loans from the International Financial Institutions in order to keep the states functioning. These loans often went unpaid as the situation did not radically improve. The balance of payments deficits worsened, and this effectively marked the end of the import substitution strategy in Latin America. (Wallerstein, 2004: 2) East Asia has, arguably, shown a degree of success in implementing similar policies, which will be discussed towards the end of the subsequent section.

## **2.5 Immanuel Wallerstein – World System Theory**

Wallerstein analysed the development of the capitalist system by using a historical perspective. As capitalism became dominant, it transformed the structures of economic and social organisations. No longer did one labour for king and country; rather, there now existed a system which magnified and legitimized the “ability of some groups within the system to exploit the labour of others, that is, to receive a larger share of the surplus” (Wallerstein, 1974: 230). This process occurred first in Europe, and was later exported to the periphery through colonialism. In the global North, or the core, labour movements were broken by forces controlled by capital, and individuals found themselves more subservient to the market. The shift from world empire to world system changed the patterns and directions of capital. Instead of a state receiving the benefits of world domination, the distribution of capital now flowed in a new direction; the economic loss was absorbed by political entities, with the economic gain being distributed into private hands (Wallerstein, 1974: 229). This system depends upon “creative self-destruction, of rise and demise” (Goldfrank, 2000: 175).

With the dominance of capitalism came a new ordering, which Wallerstein termed the “core and the periphery” (Wallerstein, 1974: 231). The core is comprised of strong states with an integrated national culture, which “serves as both a mechanism to protect disparities which have arisen...and as an ideological mask for the maintenance of these disparities” (Wallerstein, 1974: 231). The peripheral area comprises states which range from non-existent, as seen in a colonial situation, to weak and with a low degree of autonomy, as occurs in the present, neo-colonial condition. In these weak states, the authorities cannot, or do not, play a role in coordinating “a complex industrial-commercial- agricultural mechanism” Instead they are simply a set of landlords, “contending with other landlords, and hold little claim to legitimate authority of the entire state” (Wallerstein, 1974: 231). However, as opposed to core regions with relatively strong central leadership, the traditional rulers’ authority tends to be *de jure*, rather than *de facto*.

Within this hierarchy, Wallerstein purports there exists another classification of states, one which conforms to the characteristics of neither the core nor the periphery. These entities comprise the “semi-periphery”, which exist between the two opposite ends of the spectrum, when judged by the “complexity of their economic activities, strength of the state machinery, cultural integrity” (Wallerstein, 1974: 231). These states are a natural intercessor between the two extremes, consisting of states which had previously been members of the core who had declined, or members of the periphery which had risen in status and ability. They are a “necessary structural element in the world economy” and serve as a middle area which can “partially deflect the political pressures which groups primarily located in the periphery might otherwise direct against core-states and the groups which operate within and through their state machinery” (Wallerstein, 1974: 231). The semi-peripheral areas are intermediaries between the elites of the core and the inexpensive production of the periphery. They absorb some of the capital flowing through them due to their better position in the hierarchy, but still do not accumulate to the same proportion as those at the top of the structure. In fact, there is a reification which keeps the structure in place. The world economy regulates itself by expanding the economic and social gaps between different areas as the system



develops further and the “tasks requiring higher levels of skill and capitalization are reserved for higher ranking areas” (Wallerstein, 1974: 231). This bolsters the existing structures and “the forces of the marketplace reinforce rather than undermine them” (Wallerstein, 1974: 231). There is in place a tipping point, where the strength of a state creates more strength; alternatively, the opposite is also true, where the weakness of a state leads to more weakness.

Wallerstein’s articulation of World System Theory has been challenged for being unable to explain contemporary changes. (see Agnew, 1982; Germain and Kenney, 1998) However, he has updated and re-interpreted his earlier notions. The more current writings abandon some of the orthodoxy of the earlier iterations, but they do not entirely deviate from the original model. The notion of the World System has not been consigned to history, rather, it remains relevant today as, “the world-system is not only polarized but polarizing, and [...] this reality is both morally and politically intolerable” (Wallerstein, 2004: 2). His methodology remains, viewing development in that system through a historical perspective, where, in the world system “over five hundred years of its existence, the gap between the top and the bottom, the core and the periphery, has never gotten smaller, always larger.” (Wallerstein, 2004: 4) This does not blunt his advocacy or conviction that that system is dysfunctional and bound to fail, much in the same way that Marx did not waver in this determination.

Wallerstein allows that the World System is not static, and that “there is no question that some countries have improved their relative standing in the distribution of wealth in the world-system.” (Wallerstein, 2004: 4) This can account for the so-called ‘Asian Miracle’ which consisted of “[t]he rise of Japan in the 1960s followed by South Korea, Taiwan, Singapore and Hong Kong in the 1970s and then the rapid growth of China after 1980 later accompanied by industrialization spurts in Indonesia, India, Vietnam, Thailand and Malaysia during the 1990s” (Harvey, 2009a). This “altered the center of gravity of capitalist development”, even though much of these gains were reduced during the East Asian financial crisis of 1997 through 1998 which briefly, but significantly, reversed the flow of wealth towards the core (Harvey, 2009). These events do not deviate from his admission that it is possible for “a few countries mov[e] from one category to another”



(Wallerstein, 2004: 4). Wallerstein also makes a salient observation about the Asian success and that given the present dysfunction of Western organisation, it provides an opportunity to challenge the hegemon. Additionally, he mentions the fact that Japan has created the fastest computer in the world, surpassing the speed of the best US computer by twenty times. (Wallerstein, 2002: 60) The significance of this is twofold. One reason is that it clearly demonstrates that the US does not have a stranglehold on technological completion on the global scene. Rather, it is far from it. The second importance is the purpose of the machine. While the best US computers are reserved for weapons simulations, the Japanese computer is intended to simulate climate change. “This contrast embodies the oldest story in the history of hegemonic powers. The dominant power concentrates (to its detriment) on the military; the candidate for successor concentrates on the economy. The latter has always paid off, handsomely” (Wallerstein, 2002: 67). He goes on to posit that if the US falters, then perhaps a Chinese-Japanese nexus could supplant it as global hegemon. The acknowledgement of the ability to transition from different parts of the global hierarchy reduces the rigidity of Wallerstein’s original theories and can account for events such as the ‘Asian miracle’.

## **2.6 Antonio Gramsci – *The Prison Notebooks***

Gramsci, while languishing in a prison in fascist Italy, also made significant contributions to the field of historical materialism. He attributed the socialist revolution’s failure in Western Europe, despite success in Russia, to hegemony. (Hobden and Wyn Jones, 2001: 2010). Hegemony is a more subtle way of preserving power than many realist notions, in which the strong maintain their positions in an anarchic world through their material capabilities (see Waltz, 1986). In Gramsci’s estimation, maintenance of power depends upon a more nuanced approach. A hegemon uses both coercion and consent to influence individuals and society. This harks back to earlier writings by another Italian, Niccolo Machiavelli. He believed that a prince could learn from the centaur, a creature which is half man and half beast, and that “it is necessary for a prince to know how to make use of both natures, and that one without the other is not durable” (Machiavelli, 1988: 61). Like the centaur, a hegemon makes use of two different tactics, coercion, through force, and consent. The latter exercise of power “does not need a barking voice, [it] strangles you with silk ribbons, charm and intelligence (Zizek, 2009,

50). This analysis differs from the ideas of Marx and Engels, who focused on the coercion and fear “that kept the alienated majority from rising up and overthrowing the system that was the cause of their suffering” (Hobden and Wyn Jones, 2001: 210). This explains why the revolution was able to succeed in Russia, a state with a more primitive organisation of rule, and therefore relying more heavily on coercion than consent. In Western Europe, on the other hand, the exercise of power balanced force with consent, undermining attempts at revolution. Hegemony adds a valuable dimension to the class- and economically-based analysis of historical materialism.

The creation of this consent is an ongoing process which is perpetuated and constantly recast by the hegemon, or those who rule a society (Hobden and Wyn Jones, 2001: 210). This is accomplished by aligning the interests and values of the subordinate classes with those of the hegemon, until they are seen as unquestionable or ‘common sense’. Examples would be religion and the aristocracy’s similar interests in pre-revolutionary France or the questionable logic of consumerism which is pervasive today. Through the establishment of a historic bloc, a hegemon manages the “mutually reinforcing and reciprocal relationships between the socioeconomic relations (base) and political and cultural practices (superstructure) that *together* underpin a given order” (Hobden and Wyn Jones, 2001: 211). This broadened interpretation of original Marxist thought again suggests that evaluating society based solely on material capabilities of the exercise of power or economic factors is too narrow a focus. It is the interaction between politics, economics and ideas which is most crucial. Gramsci also speaks to the notion of *transformismo*, whereby the leadership of a society co-opt and recruit the leadership of potential counter-movements into their programme, thereby neutralising, or at least weakening, the strength and coherence of potential opposition. (Gramsci, 1971: 580) The “rule of dominant classes is legitimised through the acquisition of the consent of subordinate classes” (Leysens, 2012: 10). This is done through the extension of concessions to subordinate classes and ensuring that the interests of the same classes are, to an extent, accommodated (Leysens, 2012: 10).

The last contribution of Gramsci to be discussed is the notion of how a hegemonic authority can be challenged. Such a challenge could result in a transformation or the

supplanting of one hegemon by another. If a hegemon loses legitimacy, if it fails to control society by manufacturing consent and must rely more on naked force, this allows the opportunity for a counter-hegemonic movement to arise. If this counter-movement can gather enough strength, it can construct a historic bloc of its own, and thus change the order and become the hegemon and create society in the manner which it desires.

## **2.7 Robert W. Cox – World Order Approach**

Robert Cox's analysis followed the Gramscian tradition, while also relying on a structuralist framework akin to World System Theory. He wrote of the power and role of a hegemon, which constrain actions which are possible in society and those which are not. Using a reference from Marx, he states that, "[m]en make history [...] but not in conditions of their own choosing" (Cox, 1987: 241; cf. Marx, 1919). Therefore, to be able to "have any influence over events, or at least to forestall the worst eventualities", one must understand the structures within which one is situated and understand which actions they permit" (Cox, 1987: 241). His goal "is to find the connections between the mental schema through which people conceive action and the material world which constrains both what people can do and how they can think about doing it." (Cox, 1996: 95) Along with this, he includes an important note on theories and ideas. "Theory is always *for* someone and *for* some purpose" (Cox, 1986: 128; author's emphasis). Thus, when analysing a theory, one must be cognizant of the structures within which it is created. Theory cannot be value free; it is always a product of a certain set of conditions. "Perspectives derive from a position in time and space, specifically social time and space" (Cox, 1987: 207). This can be easily seen through a few salient examples. Clearly, the writings which Antonio Gramsci produced were influenced by his incarceration. Another notable, and not dissimilar, example is Sayyid Qutb, whose writing from Nasser's prison in Egypt would inspire the Muslim Brotherhood. If any political theory purports to be immutable and universal, it is blatantly false. In this manner, theory cannot be ahistorical nor based solely upon "theory but rather on changing practice and empirical-historical study, which are a proving ground for concepts and hypotheses" (Cox, 1987: 206-207).

Cox applies Gramsci's idea of hegemony, which in *The Prison Notebooks* focusses on a domestic or state level, to the international level. A hegemon also exists across the world and the way in which it shapes, and in turn is shaped by actors, is just as important. Echoing the World System theorists, he finds that historical materialism includes "a vertical dimension of power [which] is the dominance and subordination of metropole over hinterland, center over periphery, in a world political economy" (Cox, 1987: 215-216). Within this, the world must be regarded "from a standpoint definable in terms of nation or social class, of dominance or subordination, of rising or declining power, of a sense of immobility or of present crisis, of past experience, *and of hopes and expectations for the future*" (Cox, 1987: 207; author's emphasis). Similar to Gramsci and Marx, Cox believes that this order is neither natural nor eternal. Rather, with a proper understanding of the structure of the world order and appropriate action, change can be enacted. "To change the world we have to begin with an understanding of the world as it is, which means the structures of reality that surround us" (Cox, 1987: 242). One must be aware of these structures. They can be accepted or resisted; however, they cannot be ignored. "To the extent that they do successfully resist a prevailing historical structure, they buttress their actions with an alternative, emerging configuration of forces" (Cox, 1987: 217-218). An understanding of these systems "may be aided by an understanding of how structural transformations have come about in the past" (Cox, 1987: 244). Through the conflict between the hegemon and the emerging configuration of forces, there is "a continual remaking of human nature and the creation of new patterns of social relations which change the rules of the game (Cox, 1987: 215). A historical materialist will see this "conflict as a possible cause of structural change" (Cox, 1987: 215). Cox also writes of movements, which he termed civil society, which constitute "a mobilized participant citizenry juxtaposed to dominant economic and state power" Cox and Schechter, 2002: 99). These voluntary associations provide a challenge to the existing power relations. It is "the realm in which cultural change takes place, in which the counter-hegemony of emancipatory forces can be constituted" (Cox and Schechter, 2002: 102). These movements have attracted much attention in the wake of the financial crisis.

Cox views “social relations as the foundations of political authorities and the origins of conflicts” (Cox and Schechter, 2002: 80). These relations are organised around production, which “creates the material basis for all forms of social existence, and the ways in which human efforts are combined in productive processes affect all other aspects of social life, including the polity” (Cox, 1987: 1). Through the production process, historical structures are formed, meaning “persistent social practices, made by collective human activity and transformed through collective human activity” (Cox, 1987: 4). Yet, within this organisation, there are dominant and subordinate groups, where [t]he dominant group controls production; the subordinate works under its control” (Cox, 1987: 17). He makes a particular distinction to the situation in the African context, which will become relevant in Chapter 4 of this study. He finds that, in the African context, there exist “extreme cases of state breakdown and of alienation of people from the state” (Cox, 2002: 113). In sum, “political struggle for control of the state [is] thus a struggle for a share of the economic product of the country, a product divided between foreign investors and the power holders in a state” (Cox, 2002: 113). The links between the state and foreign capital have resulted in a widespread distrust of state institutions and a reliance on self-help communities; this constitutes “a form of incipient civil society which has turned its back on the state” (Cox, 2002: 114). Yet, Cox is uncertain as to the potential of these movements to catalyse a transformational change. Indeed, “developing states are inclined to reflect the dynamics associated with passive revolution although they do attempt to follow the hegemonic ‘model’ exported by dominant states” (Leysens, 2008: 83).

Cox also refers to Gramsci’s notions of consciousness, the lowest form of which would be corporative consciousness, which pertained to “the collective self-interest of a particular group” (Cox, 1999:15). He also spoke of class consciousness, which incorporates and unifies elements of corporative consciousness. Lastly was hegemonic consciousness, which transcends class consciousness “by incorporating interests of the ‘non-fundamental’ social groups into a vision of society based on one of the ‘fundamental’ classes; and it would make this vision appear as the ‘natural order’ of society” (Cox, 1999: 16). Cox highlights two other Gramscian contributions, both of

which will be revisited in Chapter 4; namely, the notion of a war of position, and a passive revolution. The war of position, “a strategy for the long-term construction of self-conscious groups into a concerted emancipatory bloc” (Cox, 1999: 16), is contrasted with a war of manoeuvre, where seizing power may be done prior to the construction of a coherent organisation. The war of manoeuvre is more precarious than a war of position, as the latter has unified enough social forces in order to challenge and replace the existing authority. The second term is a passive revolution, which “represents an abortive or incomplete transformation of society” (Cox, 1999: 16). *Transformismo*, which is “a strategy on the part of the dominant power gradually to coopt elements of the opposition forces”, represents one form of a passive revolution. (Cox, 1999: 16) Another is the revolution/restoration where a group cannot overcome the entrenched dominant forces, leading to a stalemate of sorts (Cox, 1999: 16). These concepts prove relevant when analysing the case in Chapter 4.

Cox is not without his detractors (see Schechter, 2002: Chapter 1). One reason for this is that his approach does not “understand social interaction and political change as challenging and redefining the limits of the ‘possible’.” (Germain and Kenney, 1998: 10) “Cox’s reductionist, objectivist historical materialism [...] has no place for a dynamic, necessitarian, antithetical route to emancipation.” (Spegele, 1997: 222) Spegele searches for the evidence of the emergence of a counter hegemonic order advanced by Cox’s writings and cannot find one; “reflection alone suffices to generate dialectical, antagonistic movement in the world order.” (Spegele, 1997: 224) His advocacy of “an awareness of the present social divisions generated in the production process, of the conditions of existence of these various groups and their modes of perceiving the world, and of their potential directions of movement” also garners criticism (Cox, 1987: 403). Spegele believes that “[i]dentifying economic and social contradictions is of dubious benefit if it does not at the same time create motivational energies to change them” and that Cox, simply wishes to make people “‘aware’ of what the world is like, providing them with reasons and ‘hoping’ they will act upon them rather than, for example, transforming their self-understandings so that they will act to eradicate their suffering.” (Spegele, 1997: 224) The criticisms are not unwarranted; however, the framework used

by Cox proves useful for understanding the dynamics of the modern world, and, many continued to employ aspects of it, whether knowingly or not, in later analyses.

## **2.8 Contemporary Theoretical Responses to the Crisis**

The economic crisis has inspired a plethora of writing from critical academic circles. They are characterised by their diversity in addressing the challenges and opportunities which arise from the ongoing events. Some follow the orthodox tradition of Marx. They claim that economics is the key driver of the situation and this is ultimately what will lead to a resolution or transformation. Others address the crisis as a matter of world order and follow the structuralist argument of World Systems Theory. This is often combined with the notion that the crisis signals an end to hegemony, which incorporates the traditions of Gramsci. Another group looks toward the widespread protest and social movements as the key to emancipation. Most critical attempts to understand and solve the crisis cannot be so clearly delineated into one of these categories. Also, of course, the different theoretical approaches are characterised more by their dissonance rather than their coherence. The inability to form a unified alternative is a weakness, perhaps a fatal one. Yet, within these approaches, there could exist a possible avenue forward, toward a future reconciliation. They are thus worthy of an examination in order to understand the possible theoretical approaches towards emancipation, which will be explored in the following paragraphs.

Burnham advocates a return to an earlier interpretation of Marx. He rejects “modern [International Political Economy]’s unsatisfactory eclectic mixture of analytic methods and theoretical perspectives.” (Burnham, 1994: 222) The tendency to frame the analysis of the global economic order through the approaches must be reversed as “[t]he most powerful alternative is not to be found in extrapolating from the work of Polanyi, Schumpeter, Gramsci or Lenin” (Burnham, 1994: 222). His “Open Marxism” is based upon three core principles, the centrality of class struggle, a use of form-analysis instead of determinism, and an absolute rejection of fetishism (Burnham, 1994: 224-226). Commodity fetishism can be seen to exist “in the social activity of human beings taking the form of relations between things (McNally, 1981: 46). Burnham sees the crisis, and indeed all economic crises, as “an aspect of the constitution of capital (a



social relation based on class exploitation) and the process of the accumulation of capital itself that produce the characteristic expressions of crisis in terms of overproduction, under-consumption and disproportionality” (Burnham, 2010: 28) The key to understanding the current global crisis lies in the “growing and chronic separation between money capital and productive capital (or between financial and productive accumulation)” (Burnham, 2010: 34) Credit, a major driver of the crisis, “is also the principal lever of overproduction and excessive speculation in commerce and, as such, accelerates violent outbreaks of crisis” (Burnham, 2010; 35; cf. Marx, 1981) This credit serves to mask the contradictions of capital accumulation as it can, for a time, sustain consumption when the market has moved from equilibrium. The economic system and class relations which caused the crisis show little sign of any major adjustment, yet they remain transitory. (Burnham, 2010: 37)

Samir Amin also puts forth an argument which is similar to Marx’s original tradition. Contemporary capitalism is characterised by oligopolies. These oligopolies consist of those who have access to financial and capital markets. Thus they are not terribly different from the bourgeoisie depicted in Marx’s writings. In fact, they represent “a transformation of the ruling bourgeois class which has become a rent-capturing plutocracy.” (Amin, 2010: 264) Many contemporary voices portrayed as critical are anything but. Amin launches a particular attack towards Joseph Stiglitz, who “remains convinced that the system as it stands – globalised and financialised liberalism – can be fixed by means of some corrections” and Amartya Sen, who “preaches morality without daring to think of ‘really existing’ capitalism as it necessarily is. (Amin, 2010: 267) Amin is joined by David Harvey, who finds that governments have “protected the banks and destroyed the people” (Harvey, 2009) He sees the money transferred through the government bailouts as being incorrectly spent. Instead of supporting domestic constituencies, resources are directed towards the capitalist class and the banks, which in turn use “the money not to lend to anybody but to buy other banks. They are consolidating their class power” (Harvey, 2009). Therefore, the question must be whether the survival of banking institutions is more important than the survival of individuals and societies.



Other writers focus on the global divide between the rich and the poor. As the top strata, the billionaires of the world, increase their capture of capital, they distance themselves from the middle class. The middle class, typically educated or trained workers, is also distant from the global agrarian class. These are the individuals who grow, produce, and harvest resources for the benefits of the higher classes. This analysis does not mention the legions of unemployed throughout the world. But the disparities between these groups grow, and they become more rigidly enforced and defined. Unless a more equitable world is formed, with a decrease in the worth of the capitalist class and an increase in the redistribution to lower classes, “injustice, dangers and instability” will abide in the world. (Pope, 2011) These writers focus their critique towards the dynamics of class and economic struggle. The ideas of Marx are not far from this method, even though they have been reinterpreted in current times.

The crisis has also prompted a re-evaluation of the World Systems Theory. Wallerstein has contributed to this approach since the advent of the crisis. His main assertion is that the system “has moved too far from equilibrium, such that it is today in structural crisis.” (Wallerstein, 2011) Costs of production have risen so far that they have constrained the ability for profit accumulation. (Wallerstein, 2011) Rather than struggling to save a system which is in decline, he believes that the focus should be towards the future and whether what comes next will be “a new system that replicates some of the present system’s essential features of hierarchy and polarization [...] one that is relatively democratic and egalitarian” (Wallerstein, 2011) Amin has also regarded the ramifications of the crisis through the perspective of the World System. The contrast between accumulation at the core and the periphery is what drives the crisis and the opportunity for change. This has the result of enriching certain privileged groups while dispossessing those residing in the peripheries. (Amin, 2010: 262) He agrees that the capitalist centres in the North will try to hold power and transform the system to their advantage. The only way to successfully challenge this system and to transform it to a more exclusive one would be through an alliance between disenfranchised groups in the North with those in the South. Such an alliance is uncertain to occur, but, if it did, it could result in “an exit from capitalism” (Amin, 2010: 271).

Intimately linked to the transformation of the World System are the notions that the crisis will cause the end of US hegemony, which would result in a dramatic transformation of the global economic order. This perspective is based upon the observation that “[t]he US economy appears to be in terminal decline” (Todhunter, 2012) There is a “drift of wealth from West to East in the global economy [which] rapidly alter[s] the balance of hegemonic economic power” (Harvey, 2009a) This change provides opportunities for the global South, who should take the opportunity to argue for “a negotiated globalisation without hegemonies” (Amin, 2010: 272). However, the end of hegemony is not so simple. There still exists the “unpredictable political and economic ramifications in a world where the United States will no longer be in a dominant position even as it possesses significant power” (Harvey, 2009a). There is little as dangerous as “an empire in decline armed to the teeth with both conventional and nuclear weapons” (Todhunter, 2012). Increasing confrontation, and decreasing success, leaves the hegemon “trapped in a cycle of endless war in what must surely be a futile attempt to stave off ruin” (Todhunter, 2012). While the crisis may result in the end of the US hegemony, it is likely that if this occurs it will be characterised by desperation on the part of the hegemon as it violently attempts to cling to its empire.

Other writers situate the most important locus of the current events with the emerging protest movements. This is similar to Cox’s notion of a “real opposition [which] seemed to be outside of the political system”, as well as Gill’s description of the movements containing “innovative conceptions of social justice and solidarity, of social possibility, of knowledge, emancipation, and freedom” (Gill, 2000: 140). Protests are currently occurring throughout the world, and their physical manifestations will be revisited in Chapter 4. They are generally locally driven and “each of the local movements finds itself locked into the fight of its life with its own national governments” (Jones, 2012) The international, yet disconnected, nature of these movements means “the tempo of struggle in each country is different: the defeats and victories, retreats and advances cannot be measured on an international terrain so easily – though it is certainly the case that a victory or defeat in any one country will be keenly felt by those involved overseas” (Jones, 2012). One common characteristic of many of these protests is the feature of disenfranchised youth (Callenicos, 2012: 4; Harvey, 2009). For the movements to be

successful, a necessity for their anarchic elements is to connect with better organised movements, such as labour. (Harvey, 2009) “Only where they have fused with mass protest by organized workers’ movements have youth uprisings been capable of overturning governments and transforming the political terrain” (McNally, 2012: 51). This can give them a serious advantage; the “economic clout of workers’ struggles, which can shut off the flow of business profits” (McNally, 2012: 51). Despite perhaps some incremental and local success, without a coherent organisation they remain doomed to irrelevancy on a global, systematic, level.

Some approaches have interpreted the current moment as a conflict of ideas. Consciousness is “not a direct derivative of class; it [is] a historical construction, not an automatically determined condition” (Cox and Schechter, 2002: 104). Broadly disseminating this consciousness is instrumental to a hegemon. (Gramsci, 1971) Recently, the prevalent consensus has been, for many, driven by western ideals of liberalism and consumption. The modern hegemon encourages “a systematic depoliticisation, [which] has given rise to a new political culture of ‘consensus’ (modelled on the example of the USA) which substitutes the consumer and the political spectator for the active citizen” (Amin, 2010: 270). It “has sought to eliminate the very category of value in the ethical sense. Over the past 30 years, capitalist realism has successfully installed a “business ontology” in which it is simply obvious that everything in society, including healthcare and education, should be run as a business.” (Jones, 2012: 7) Capitalism “does not require disenchantment and revolutionary murmurs, but acquiescence and passivity from a population that is distracted by infotainment and the advertising industry and its products and looks to its leaders to save it from their fears and confusions” (Todhunter, 2012).

However, the crisis has done much to dispel, or at least tarnish, these ideals propagated by the hegemon. In the North, it has demonstrated that the concepts underlying liberal democracy are hollow. “This regression is masked by the pretensions of the so-called ‘post-modern’ discourse, according to which nations and classes have already left the scene and ceded the political space to the ‘individual’ which is now the active subject of social transformation” (Amin, 2010: 270). The illusions spread in the

South are of a different nature. They constitute “a capitalist, national and autonomous development that is part of globalisation, which is powerful among the dominant and the middle classes in ‘emergent markets’, fuelled by the immediate success of the last few decades” (Amin, 2010: 270). Yet, even though some of the myths have been discredited, alternatives, “despite their visible growth, remain as a whole unable to question the social order linked to the capitalism” (Amin, 2010: 270).

The contemporary responses to the crisis provide useful analytical tools. However, they are not without their flaws. Burnham’s Open Marxism conceptualises the economic elements of the contradictions associated with capital. However, his work is silent with regard to the ways in which the propagation of this system occurs and how, beyond the sheer economic impact, they are undermined by the crisis as well. This criticism can be levelled at others who approach the events from a primarily structuralist perspective as well. This fault has been addressed, in a sense, by the writers who have taken a perspective of the financial crisis leading to a concomitant crisis in hegemonic legitimacy, and who see various counter movements exemplifying this. The contemporary theoretical approaches could indeed be classified as such themselves as the financial crisis has provided the space for an articulation of alternative perspectives. Broadly, they can be criticised on two fronts. The first, and most important, if a real counter hegemonic alternative is to be presented, is the ideological disarray which is characteristic of the modern Left. These examples prove no exception to this. They offer useful insights but do not contribute to coherent holistic movement which can challenge the hegemonic order. A scattered outburst of indignant voices will not achieve an emancipatory change. The second general flaw is inherent to much critical academic reflection. It has been mentioned earlier when discussing Spegele’s criticisms of Robert Cox, namely, that critical reflections on world order are insufficient and must be grounded in practical mobilisation. Until a more coherent approach can be constituted, as well as connected with physical manifestations of dissatisfaction outside academia, it would seem unlikely that the hegemonic order, despite its weakness, can be challenged by an emancipatory project.

## 2.9 Conclusion

The ongoing economic crisis has brought the need for a critical review of the assumptions which underpin the global order. The exposure of the doctrine underpinning capitalism for what it truly is - large scale accumulation for a small class, and dispossession of the rest - has brought about a crisis in the legitimacy of the system. The deviation from the underlying principles of the system effectively “mean the end of liberal capitalism” (Habermas, 1973; 645). Liberal capitalism can be seen as the ideology which has driven the hegemonic project, with the free market as an effective synonym. The financial crisis, and the policy responses which followed it, have demonstrated the weakness of these doctrines. The practical implications of the financial crisis will be discussed in the following chapters. Many theoretical approaches can be taken to understand the causes, ramifications and opportunities surrounding the crisis. However, the most effective is through a combination of Marxist analyses, which can articulate the contradictions of the system and the recurrence of crises. Therefore, a synthesis of these approaches provides the framework of a World System, with, at its apex, a hegemon, whose constituent, global, managerial class shapes the structures of the contemporary world order. Within this, in Chapter 4, Cox’s notion that social forces as the basis of political authority and the locus of conflict will be used to understand the decreasing legitimacy of the hegemonic project by its subordinate constituents and the likelihood of this producing a transformative change in the examined society. This will be done in light of the financial crisis, a moment which precipitated the ongoing global economic malaise, and is situated in a broader crisis of capitalism, where the principles underlying the global capitalist system have failed to bring peace, prosperity, and stability for many throughout the world.

To understand the economic and class based aspects of the crisis, Marx is the proper place to commence. The structuralist approach of World Systems Theory provides an opportunity to understand the global economic order and the hierarchy within that, especially if one uses the notion as a conceptual framework, rather than a rigid dogmatic methodology. Gramsci and the neo-Gramscian theories also provide the notion of hegemony which adapts well to the World Systems approach. Marxist theory has also given rise to a countless variety of interpretations. Following the financial crisis,

these ideas proliferated. They are thematically diverse. Many, however, echo the arguments of traditional Marxism, World Systems Theory, and the Gramscian approach. This is a testament to the value of the original theoretical contributions - seeing the economic crisis as a challenge to the legitimacy of the hegemonic World System. With the theoretical understanding of the structures which characterise a hegemon, and the methods through which their influence is exerted, namely through the balance of coercion and consent, it may be possible to see how a hegemonic order can be challenged. The financial crisis, which was generated largely in the Wall Street – City of London nexus, is merely a symptom of a much broader decline; that of the crisis of the liberal capitalist world model, the latest iteration of which is based, primarily, upon the model of US and UK. Indeed, “[t]he global financial crisis has created a vacuum, a period of uncertainty, where the confidence in an economic idea (presented as the natural state of affairs) has been severely damaged” (Leysens, 2012: 9). The lack of legitimacy of this system, in the face of growing inequality and the financial crisis, erode the foundation upon which it is built. This contributes to a concomitant decline in the manner through which the hegemonic project can exert control through the exercise of consent. Following Gramsci, and recognising that there is no clear counter-movement, this would lead one to suspect that, as consent amongst the populace declines, the coercive nature of control may become ever more prevalent.

## Chapter 3 - Evolution of the Global Economic Order

“Banking was conceived in iniquity and was born in sin. The bankers own the earth. Take it away from them, but leave them the power to create money, and with the flick of the pen they will create enough deposits to buy it back again. However, take it away from them, and all the great fortunes like mine will disappear and they ought to disappear, for this would be a happier and better world to live in. But, if you wish to remain the slaves of bankers and pay the cost of your own slavery, let them continue to create money”

Josiah Stamp, formerly a director of the Bank of England, and reputedly the second richest man in England; cited in Fine (2008; 1).

“Why do we remember the past, and not the future?”

Stephen Hawking, cited in Atwood (1990: 2)

### 3.1 Introduction

The capitalist system is based upon “creative destruction” (Schumpeter, 1942). One element of this destruction is the “smashing up of social structures in order to extract the element of labor from them” (Polanyi, 1944: 164). Once the structures have vanished, capital can reorganise, or disfigure, society through the framework of commodification. This forms a society where “Hobbes’ grotesque vision of the state – a human Leviathan whose vast body [is] made up of an infinite number of human bodies – [is] dwarfed by the Ricardian construct of a labor market: a flow of human lives the supply of which [is] regulated by the amount of food put at their disposal” (Polanyi, 1944: 164). The system has evolved over a long period of time and its current iteration is pervasive global capitalism, led by the international managerial class centred in the United States (US). However, in “all likelihood [their] neo-conservative bid for global supremacy will go down in history as one of the several ‘bubbles’ that punctuated the terminal crisis of US hegemony” (Arrighi, 2005: 1).

To understand the current dynamics of the economic system, one must examine it from a historical perspective, with a particular focus on the processes which shaped the current world order. Although the chapter will focus mainly on economic relations, it will begin by noting the connection between military dominance and hegemony. It will



demonstrate that a hegemonic project cannot dominate the World System, and therefore shape its structures, without the military capabilities to explicitly, and implicitly, guarantee that order. It will next explore the genesis of the current world economy based upon capital. This will be followed by the counter-movement following the Second World War which resulted in the emergence of Keynesianism and the Bretton Woods institutions, and then the neo-liberal shift which occurred during the Thatcher and Reagan administrations. The near-absolute liberalisation of the 1990s will follow. This examination will bring us to the present, where phenomena such as growing inequality and a global economic system in a continuing and worsening crisis, can be attributed to the evolution of the capitalist system.

### **3.2 Historical origins of the capitalist system**

The notion of hegemony will be explored in the following sections. However, before that is done, one point must be acknowledged and briefly examined. “The hidden hand of the market will never work without a hidden fist. McDonald's cannot flourish without McDonnell Douglas.... And the hidden fist that keeps the world safe for Silicon Valley's technologies to flourish is called the US Army, Air Force, Navy, and Marine Corps” (Roy, 2002; cf. Friedman, 2000). The following short section will examine the military dominance of the global hegemon and the ability to control and shape world markets which stems from this. Market enthusiasts may argue that if left to its' own devices humankind would organize itself along the lines of a market based society and it is simply the state and intervention which denies this perfect equilibrium or utopia. (Louw, 2012) The notion is false because the progress towards the market-based society has been neither free nor natural. Rather it has been imposed, frequently through violent coercion. The history of economic progress shows that “the emergence of national markets was in no way the result of the gradual and spontaneous emancipation of the economic sphere from governmental control” (Polanyi, 1944: 250).

The globally integrated market is one of the most pervasive structures in the modern world. Globalisation is generally understood as referring to a spatial expansion of trade, communication, investment and migration. However, there is much more to the process. It also means the globalisation of a hegemonic ideological model; one which takes



precedence in areas “of development, of political concepts and standards of global governance, of rules, norms, and a global language” (Altvater, 2009: 74). Another understanding of globalisation is the “existence of relations between different regions of the world” (Amin and Luckin, 1996: 231). The beginning of this process between previously geographically isolated actors signals the birth of a globalised, rather than a regionalised or localised, world. Amin suggests that this process of interaction and interpretation commenced with the “ancient world system”, from 500 BC to 1500 AD, between China, India, and the Middle East (Amin and Luckin, 1996: 231). The organization was not capitalist and instead based on a tributary structure. This system generally characterised both the core states and their peripheries, the latter group including Europe, Africa, and Southeast Asia (Amin, 1992).

The organisation of this system changed with the advent of capitalism, as Europe replaced the other centres as the singular core (Amin and Luckin, 1996: 231). Europe became the core; however, neither the region, nor any state within it, could be considered a hegemon until a later period. The first leaders were the Italian cities, followed by the United Provinces, and then Great Britain (Wallerstein, 2000: 95). Each of the hegemons controlled the continental banking sector at their prime. Genoa financed Spain’s conquest of the Americas and made a significant profit in return. Amsterdam was important as was Britain, centred on London, for a certain period. In terms of financialisation, Arrighi refers to Braudel’s analysis, that

“in the past-in say Genoa or Amsterdam-following a wave of growth in commercial capitalism and the accumulation of capital on a scale beyond the normal channels for investment, finance capitalism was already in a position to take over and dominate, for a while at least, all the activities of the business world” (Arrighi, 2005: 2 cf. Braudel, 1984).

In every case, perhaps including the current US dominated global system, the end of a hegemonic period is preceded “by reaching the stage of financial expansion” (Arrighi, 2005: 2; cf. Braudel, 1984).

This is a marker of a hegemon’s maturity and it is “a sign of autumn” (Arrighi, 2005: 2; cf. Braudel, 1984).

Rather than simple conflicts or processes, Polanyi takes a broad view of what caused the significant power shifts in the early decades of the 1900s which would lead to a change in hegemon. It was not, as in ancient Rome the “external or internal attack of barbarians; its vitality was not sapped by the devastations of World War I nor by the revolt of a socialist proletariat nor a fascist lower middle class” (Polanyi, 1944: 249). Nor was it adherence to an economic doctrine which engendered a failure due to underconsumption or overproduction. Rather, it was the measures which were enacted to protect individuals from the ruthless self-regulating market. This “conflict between the market and the elementary requirements of an organized social life provided the century with its dynamics and produced the typical strains and stresses which ultimately destroyed that society” (Polanyi, 1944: 249). The wars and conflict which this provoked simply served to hasten its destruction. The conscious and violent government intervention to impose the self-regulating market organisation had resulted in “the congenital weakness of the nineteenth century society” (Polanyi, 1944: 250).

### **3.2.1 Counter-movement – Keynesianism, state-led growth**

The failure of the financial system, represented most clearly by Black Friday in 1929, between the two World Wars, caused a swath of destruction. “The Great Depression of the 1930s was the worst and most politically dangerous in the history of capitalism. It threatened to reverse the historic pattern of capitalist development” (Genovese, 1995). The military conflicts which this crisis precipitated prompted a critical examination of the framework which had allowed such events to occur. This evaluation revealed a strong counter-movement. This movement attempted to alter the system in order to prevent the widespread fallout from occurring again. The critical evaluation culminated in, and the counter-movement was institutionalized at, the Bretton Woods Conference 1944. Here, financial architects rejected the dogma of a purely free market and instead opted for interventionist policies constructed upon “an international economic order that legitimized them within an international framework of rules” (Helleiner, 1995: 151). Central in the new economic order aiming for stability was the Keynesian welfare state.

The results of the conference signalled a dramatic reversal of the norms which had previously prevailed. Under the new Bretton Woods system finance was no longer the

master but became a servant, subordinate in a socially embedded order which promised more stability. Controls introduced on capital would “help to minimize the socially disruptive influence of speculative and ‘disequilibrating’ capital movements on exchange rates and trading patterns” (Helleiner, 1995: 152). The capital controls were also intended to protect and promote the autonomy of the state; the defender of stability against the vagaries of the self-regulated market. Without these, “it would be difficult to pursue the kind of independent macroeconomic programs, tax policies and financial regulatory initiatives that were expected of the postwar Keynesian welfare state” (Helleiner, 1995, 152). The primacy of states, and their legitimacy, was integral to the counter-movement against the unfettered market. The designers of the Bretton Woods system “sought to prevent the policy agenda of democratic governments from being thwarted by capital flight motivated by ‘political reasons’ or a desire to evade the burden of social legislation” (Helleiner, 1995: 152). The lead American negotiator, Harry Dexter White, argued that finance must be prohibited from operating “against what the government deemed to be the interests of any country” (Helleiner, 1995: 152). Despite the best of intentions, and a seemingly strong regime, the Bretton Woods system, while operating successfully for a number of decades, was eventually perverted. It became a construct which Keynes and similar thinkers would likely find abhorrent; finance regained its dominant position; states and governments found themselves powerless at the hands of the market; capital flight occurred for reasons political and otherwise -- in a matter of minutes or seconds -- social, labour and counter-movements were dramatically weakened, and instability returned.

### **3.2.2 1970s – 1990s - Reagan, Thatcher, Friedman, Washington Consensus**

The 1970s also brought about a distinct change in the organisation of the capitalist system. The ideology of the period was characterised by the “reactionary exhumation of the simplistic neoclassical and monetarist economic theory of the 1920’s” embodied in the principles of Freidrich von Hayek and Milton Friedman (Gunder Frank, 1980: 13). It also saw a “new international division of labour [with] the reincorporation of the socialist economies in the world market and the transfer of certain world market industries both to them and to selected parts of the Third World, where wages are lower and labour

discipline is higher” (Gunder Frank, 1980: 15). The period was also characterised by the 1973 oil shock, “when the OPEC countries formed a successful cartel of oil producing countries and increased the price four fold” (Hoogvelt, 2010: 57). The reasons for this shock can be traced back to the United States. By the time the Bretton Woods system met its demise, there existed more American currency outside of the US than domestically. This condition is known as dollar overhang. Repatriation of this money would cause considerable inflation within the US economy. The Nixon administration had been planning for an increase in the oil price for some time (Hoogvelt, 2010: 57). When the increase occurred it solved a number of problems the US faced. It corrected the dollar overhang problem as all oil transactions were completed in US dollars. It harmed the rising economies of Europe and Japan who were far more dependent on imported oil than the US. It gave OPEC countries extra funds to buy military equipment from the US, with the 1973 Yom Kippur war against Israel providing an impetus for these purchases. It also provided American oil companies with additional revenues. Though the US dollar was no longer pegged to the gold standard, it maintained its status as a reserve currency for the world through its linkage to oil (Hoogvelt, 2010: 58). Valéry Giscard d’Estaing, serving in the capacity of Charles de Gaulle’s Minister of Finance, once noted that this status gave the US an “exorbitant privilege” (Boltho, 2011). Indeed, despite the demise of Bretton Woods, the US was able to “maintain their hegemony over world monetary order” (Hoogvelt, 2010: 58).

During this time, achievements of the counter-movement’s policies, existing in the Bretton Woods institutions and the relative strength of the state in relation to capital, which protected labour and the individual from the market, were dramatically scaled back. The leadership in this retaliatory conservative movement was taken by Margaret Thatcher of the United Kingdom (UK) and Ronald Reagan of the US. The change can be described as a revolution occurring from above, steered by the capitalist hegemony (Altvater, 2009: 73). Two critical moments in the respective leaders’ offensive against workers and counter-hegemonic movements were the defeats of striking labour unions, the “crushing of the air traffic controllers’ union in the US (1981) [and] the Thatcher government’s victory over the National Union of Mineworkers in Britain (1984-85)”

(McNally, 2012: 44). The transformation was encouraged and driven by the dominant social and political elite who wished to alter the “social, political and economic forces” (Altvater, 2009: 73). Milton Friedman served as both an acolyte and a mentor to the leaders of the US and the UK. He termed the change a “successful counterrevolution” against Keynesianism (Altvater, 2009: 73). With the advent of policies that weakened the state’s control over finance, the pendulum swung back in favour of the self-regulated market, suppressed since the end of the Second World War. The UK liberalised its markets and with this the control of financial instruments such as interest and exchange rates were removed from the hands of states and entrusted to private actors, namely banks, investment funds, and multinational corporations. With their newfound power, these actors created instruments to entrench their position and generate higher returns. States which resisted were subjected to assaults on their currency and industry, with the purpose of inducing them to move to the neo-liberal model, one which abandoned “exchange controls, fixed interest rates, credit control, prescribed assets, and so forth” (Altvater, 2009: 73). Capital prevailed once again; it had retaken its dominant position and could once more act against a state’s and society’s interests with relative impunity.

Accompanying these arcane changes were new opportunities for some, although they could hardly be classified as representative of the general population. Large-scale deregulation occurred which released “the strategies of large enterprises from the constraints which states’ policies can otherwise represent” (Amin and Luckin, 1996: 231). These organizations would not work to promote social good, but rather to make a profit. Unlike a coherent state-led system, this type of formation begets not order but instead chaos. The financial disorder which led to the Great Depression resulted in stronger regulations on the financial sector. The agencies responsible for overseeing them “were the last line of defense against both excessively risky and unscrupulous behaviour by the banks” (Stiglitz, 2010: 15). However, those active in the finance industry were patient and persistent, and their efforts were eventually rewarded. “[T]he government had not only stripped away existing regulations but also failed to adopt new ones in response to the changing financial landscape” (Stiglitz, 2010: 15). Additionally, individuals “who didn’t understand why regulation was necessary – and accordingly

believed it was unnecessary – became regulators” (Stiglitz, 2010: 15). Adapting to these changes, the wizards of the financial sector expanded their boundaries and accordingly reaped huge rewards, while concurrently dramatically increasing the financialised profits in comparison to those from the real economy (Stiglitz, 2010: 46). While “new credit-instruments were created for both consumers and financiers” the groundwork was also laid for the future cracks and shocks which would shake the system (Stiglitz, 2010: 46).

Many of the changes which were ushered in by this new era were nothing short of drastic. Outside of the core, many states became subservient to international financial institutions through crippling and unmanageable debts (Hoogvelt, 2010). Yet, even within the core, this process entailed a marked move by capital against labour movements by promoting labour mobility or the idea that regulations surrounding labour should be relaxed so the market can be entirely fluid and find its equilibrium. This is hardly a novel argument. Polanyi references Ludwig von Mises’ statement that if workers “did not act as trade unionists, but reduced their demands and changed their locations and occupations according to the requirements of the labor market, they could eventually find work” (Polanyi, 1944: 176). In this manner, labour is regarded as a commodity - one’s individuality, culture, and desires subsumed by the market. The assertion that “unemployment in capitalist countries is due to the fact that the policy both of the government and of the trade unions aims at maintaining a level of wages which is out of harmony with the existing productivity of labor” is arguably correct (Polanyi, 1944: 176). It rests upon the idea that a worker must abandon all trappings of life and become simply an automaton, willing to find employment wherever and however the market would accept him. If the worker were without any demand or expectation of remuneration, and rather proceeding with a simple acceptance that this is the equilibrium that the free market has found for him, then conceivably there would be no unemployment. However it is a rather dismal prospect, and reflects “what the employers’ demand for mobility of labor and flexibility of wages really means: [...] a market in which human labor is a commodity” (Polanyi, 1944: 177).

With the implementation of the neo-liberal model, there came about “major reorganisations of work process and technology.” (McNally, 2009: 47) Indeed, “the

struggle for control over the production process is conditioned by technology” (Cox, 1987: 19). The neo-liberal changes involved “significant destruction of capital, as plants were closed and workers sacked” (McNally, 2009: 47). During this time “Britain lost 25 percent of its manufacturing industry”, whilst in the other European countries, employment in manufacturing industries declined by approximately seven million, or one quarter, between 1973 and the late 1980s (McNally, 2009: 47). Across Europe and North America there was a reduction in union membership while “capital pushed down real wages, shed labour, broke down shop-floor organisations of workers, sped up and intensified work-processes, and introduced robotics and computerised production-systems” (McNally, 2009: 47).

The results of these policies were dramatic and decisive. Labour and counter-movements were crushed; states were weakened; the individual and society were subservient to the market. Financial institutions and corporations reaped dizzying rewards. Problems surrounding employment, which neo-liberalism professed to solve with its prescription of labour mobility, rose due to “the expansion of the informal economy, of precarious labour; distribution in income and wealth became more unequal in most countries and in the world as a whole; the number of millionaires increased as well as the number of poor peoples” (Altvater, 2009: 75). The future expectations of the working class became dire, with many economies in crisis. There were detrimental effects to social systems, the stability of the political system, and the environment. However, this period heralded a new ‘Golden Age’ for financiers and their asset owners.

Neo-liberalism brought about “the biggest upward redistribution in the West in over a century” (Wade, 2009: 12). Beginning in 1980, the share of wealth which was accumulated by top one percent of affluent individuals in the US, “took off like a rocket to reach 22.5 percent by 2006, the same as in 1929” (Wade, 2009: 12). This period also saw a rapid expansion of finance around the world under the aegis of globalisation. In the mid-1980s, “trading in financial and other assets became an increasingly central activity for the investment banks, and for many commercial banks, too” (Gowan, 2009: 8). The end of Bretton Woods and the subsequent volatility of foreign exchange rates, the opportunities resulting from the liberalisation of domestic finance and the reduction,



or elimination, of capital controls made for a fertile environment for these activities (Gowan, 2009: 8). One normative process, which drove these changes, was the so-called Washington Consensus; an idea imposed by powerful financial institutions such as the World Bank and the International Monetary Fund (IMF). Few would come to understand the effects of this consensus better than those in the developing world. Although they had gained a modicum of political independence, they did not receive economic independence. The IMF, the World Bank and the Washington Consensus came to represent the instruments through which economic colonisation continued (Stiglitz, 2010: 220).

The fiscal regimen prescribed by the International Financial Institutions (IFIs) was purported to be “for the benefit of the developing world” (Stiglitz, 2010: 220). The IFIs offered a strict regime of liberalisation which reflected the hegemonic agenda of the international managerial class. Indebted countries were offered conditional loans; the conditions being that they remove any structural resistance in their economies to global finance and production in return for funds to keep their administration and state functioning. The result was a recolonisation under the financial markets, with the wealth of the land plundered, individuals reduced to labourers, a deterioration in working and living standards, dislocation, and conflict. Incomes were stagnant and “where there was growth, the wealth went to those at the top” (Stiglitz, 2010: 220). The Washington Consensus proved to be “one of the most efficient globalising forces after the liberalisation of the financial markets” (Altwater, 2009: 74). The program was worldwide in scale, encompassing and subsuming disparate states throughout the globe. These states had one major characteristic in common which guaranteed the success of the program; “they [were] all highly indebted and they therefore [had] to follow the rules of global financial markets and their regulating institutions” (Altwater, 2009: 74). Those in developing countries began to see that the Washington Consensus “was just a cover for old commercial interests” (Stiglitz, 2010: 220).

### **3.2.3 Crisis in the Contemporary Global Financial System**

The conflict and interplay between the market and counter-movements have brought about a crisis which affects individuals throughout the world. One can trace its genesis



through the often gradual, and at times sudden, resurgence of the market and finance as the preeminent power in the world. Hyman Minsky provided a hypothesis which becomes relevant in light of the financial crisis. He speaks of the foundation of modern capitalist development as being the exchange of present money for future money. The future profit is based on a guarantee that commitments will be met and loans will be repaid. He refers to the 'veil of money' and illustrates the difference between its place in the Quantity Theory and Keynes' view of the concept. The Quantity Theory views the veil of money as similar to Marxian theory, in that a good is exchanged for money which is in turn exchanged for a good. In reality, the process is a good for a good and the money represents a veil between the two. Keynes and Minsky interpret the veil as being "money connected with financing through time (Minsky, 1993: 3). The original financing is for the investment which will, one assumes, return profits in the future. This presents a significant evolution, as "in a capitalist economy the past, the present, and the future are linked not only by capital assets and the labour force but also by financial relations" (Minsky, 1993: 5). The increasing complexity of this system, and the myriad actors involved, mean that the financial system will behave differently than it has in past eras.

Minsky's financial instability hypothesis highlights these differences. It is "a theory of the impact of debt on system behaviour and also incorporates the manner in which debt is validated" (Minsky, 1993: 6). One of the major differences between past theoretical contributions is the evolution of banking and bankers, or other "intermediaries of finance" (Minsky, 1993: 6). These "merchants of debt" seek profit and this fact changes the characteristics of the banking system (Minsky, 1993: 6). Here Minsky enumerates three categories of finance: hedge, speculative and Ponzi. Hedge finance is based on equity and these organisations "can fulfill all of their contractual payment obligations by their cash flows" (Minsky, 1993: 7). Speculative finance can meet its payment commitments but cannot repay the principal loan, leaving investors reliant upon continually transferring their liabilities. The last category, Ponzi finance, is the most dangerous of the three. Investors can repay neither their principle nor interest through the income they generate. This leaves them with the option of selling assets or borrowing further, both of which reduce their likelihood to make payments in the future. An economy which

relies on hedge funding tends to be relatively close to equilibrium. The greater the reliance upon speculative and Ponzi finance, the bedrock of the Wall Street System prior to the crisis, the greater the inherent instability of the system,

The first theorem of the financial instability hypothesis is relatively simple; that an economy contains financing regimes which are stable and unstable. The second theorem is that over periods of prolonged prosperity, the economy transits from financial relations that make for a stable system to financial relations that make for an unstable system (Minsky, 1993: 8). Here the hypothesis can be seen in the US financial system where, in the period following the Second World War, and especially in recent years, the economy transformed into the latter type of regime. This is exacerbated by monetary constraint, such as in the US, where the monetary policy is one of “Constrained discretion” with the intention of curbing inflation (Bernake, 2003). This results in “the speculative units [becoming] Ponzi units and the net worth of Ponzi units” quickly evaporating (Minsky, 1993: 8). The ultimate result is a collapse in asset values. The collapse does not come from an exogenous shock; rather, the “business cycles of history are compounded out of (i) the internal dynamics of capitalism and (ii) the system of interventions and regulations designed to keep the economy operating within reasonable bounds” (Minsky, 1993: 8). Minsky’s hypothesis has been borne out by the 2007 crisis.

This situation in the US, the heartland of the free market, triggered the current crisis with its reverberations felt around the world. The crisis has showcased the flaws of the neo-liberal agenda and demonstrated that it is an utter failure. Banks, funds and financial institutions have reaped “as much as possible of the surplus produced in the real economy; and by doing so they are pushing it into a crisis” (Altvater, 2009: 77). The profits from the real economy currently decline while the returns on financial assets are soaring, leading towards an inevitable outcome; “the financial innovations work as a mechanism of increasing the yields of financial assets of repression of the real economy” (Altvater, 2009: 80). The resulting financial structure is the driving force behind the ongoing crisis. It was spectacularly successful for those fortunate enough to belong to the richest groups in the US. As real industry declined, the financial sector

was easily the most profitable sector in the US and British economies. “In 2006, no less than 40% of American corporate profits accrued to the financial sector” (Gowan, 2009: 6).

The mechanics of the system derived from the neo-liberal model and the increasing power of financial actors and financialisation. The actions which these actors undertook were often disconnected from reality, a symptom of a disembedded market. One assumption under which proponents of the free market laboured was that of the efficient market hypothesis; “that market prices are correct because they reflect fundamentals” (Wade, 2009: 18). While the assumption was made in order to create economic models, its truth did not translate into the real world. It assumed that all actors had a correct knowledge of the risks involved and that any change in the system would be instrumental; this has proven untrue in history, as exemplified by the American Savings and Loan Crisis or hyperinflation in Weimar Germany; nor is it true now, as Dick Fuld and Lehman Brothers have proven to the world (Wade, 2009: 18). The fundamentals upon which the system was based were both incorrect and unrealistic.

The new Wall Street System was the centre of financial globalisation. It was based upon the fiat dollar, where the currency could no longer be converted to any resource, such as gold (Wallace, 1980: 49). Another characteristic was “the privatization of exchange rate risk and the sweeping away of exchange controls” (Gowan, 2009: 7). Asset price bubbles were one of the primary income generators for financiers involved in the Wall Street system. Minsky wrote of the inherent instability of this type of financial phenomenon (Minsky, 1977). Those on Wall Street, along with their supposed regulators, believed they could use his theory strategically by “blowing bubbles, bursting them, and manag[e] the fallout by blowing some more” (Gowan, 2009: 10). Time after time, Wall Street would “enter a particular market, generate a price bubble within it, make big speculative profits, then withdraw, bursting the bubble” (Gowan, 2009: 9). Developing economies were especially prone to this. One might expect a financial system to promote stability, but there existed greater incentives for creating booms and busts. The housing bubble precipitated the 2007 crisis. “But the bursting of these bubbles did not cause the crash; rather it operated as a trigger” (McNally, 2012: 45).

Responsible was the widespread inability to confront the contradictions in the structure of the financial system and the activities which occurred within it. The modern instruments and actors were simply a new generation with new tools. Instruments which packaged debts, including the now notorious sub-prime mortgages, were sold and distributed by investment banks. The packaged debts were revealed to be of questionable value, if not altogether worthless, despite what rating agencies had earlier claimed. When this was exposed, investors panicked and fled (Gowan, 2009: 18). This withdrawal of confidence and funds precipitated the credit crunch and the ensuing crisis. The countries which had closely followed the neo-liberal prescription, the most financially open and globalised, were, unsurprisingly, most affected by the crisis. The ideology which had underpinned this framework now had “a big role in the rapid spread of the crisis around the world” (Stiglitz, 2010: 236).

During the global crisis of the 1930s Keynes wrote of the ‘fetish’ of liquidity; “a false sense of security an investor develops about the liquidity of the market as opposed to the liquidity of his own portfolio” (Nesvetailova and Palan, 2008: 168). In fact, Keynes proved prescient. The current crisis was precipitated by a crash in liquidity. Securitisation and financialisation gave a false sense of liquidity to the market; concentrating profits and power in the hands of the financial sector. The value of US financial stocks grew by 78% between 2000 and 2007 while the general stock market rose only 6%. The bubble was propagated by the banking system, with the support of the US government and the US Federal Reserve, which encouraged the illusory liquidity and allowed the subprime mortgage market to grow beyond the capacity of the banking system (Nesvetailova and Palan, 2008: 174). This resulted in the popping of the bubble. “Liquidity [had] vanished, in particular, from the markets for complex financial derivatives, which had thrived during the securitization boom” (Nesvetailova and Palan, 2008: 167). It also “evaporated from the interbank markets, signalling banks’ reluctance to lend to one another” (Nesvetailova and Palan, 2008: 167). During optimal times liquidity flourishes and optimism allows assets to be traded with ease; yet in difficult times, such as the crisis, it disappears and what remains are immovable assets and bad debts. In the feeding frenzy from 2000 to 2007, safe, traditional styles of banking were

seen as conservative, while the individuals who peddled the new instruments and eventually drove the economy off the precipice, were deemed sophisticated and shrewd. The market system, characterised by “belief in robust economic fundamentals, the undervaluation of risks, especially the liquidity risk, the aggressive expansion of new borrowings and, in many cases, the use of quasi-legal investment techniques and outright swindling, flourished” (Nesvetailova and Palan, 2008: 171). Also complicit was the existence of moral hazard; that no risk was too great because the financial system and institutions were too big to fail. This belief was supported by past events; “the fallout from the Tequila crisis of 1994 to 1995, the Asian crisis of 1997 to 1998, the Long-Term Capital Management fiasco of 1998 and even the dot-com collapse of 2000 to 2001” (McNally, 2009: 54) None of these crises were capable of affecting the financial institutions in the West in a manner significant enough to cause large scale restructuring, at least not before governments and IFIs would become involved. The incentives which drove the financial system were mismatched with promoting social good. The innovations “that were the pride of the financial system, were steps in the wrong direction” (Stiglitz, 2010: 114). Additionally, the sheer size of the financial system and the massive banks made them impossible to comprehend, let alone regulate or manage. Stiglitz references Edward Lilly, who became the manager of the insurance company American International Group (AIG) following its bailout by the American government; “When I answered the call for help and joined AIG in September 2008, one thing quickly became apparent: the company’s overall structure is too complex, too unwieldy, and too opaque for its component business to be managed as one entity” (Stiglitz, 2010: 114).

The financial system, in the years immediately following the dismantling of Bretton Woods System, avoided a systemic crisis. This was not simply due to financial innovation and the availability of easy credit for individual consumers, corporate interests and governments. In that time monetary policy did, in the core economies, create crises in certain sectors. In peripheral economies, it also resulted in many national crises, such as Russia in 1998 and Argentina in 2000 (McNally, 2009: 54). During the neo-liberal period “there was a real increase in profitability that allowed

actual accumulation to occur” (McNally, 2009: 54). Bubbles, through asset inflation, did not begin in the 1970s but rather can be seen to start in 1996. After this time multiple crises occurred due to central bank policy, led by the US Federal Reserve. They began to aim for lower interest rates in an effort to keep the crises at bay following the “East-Asian Crisis (1997), the failure of the Long Term Capital Management hedge-fund (1998), the Russian Crisis (1998) and the dot.com meltdown (2000–1)” (McNally, 2009: 54). After this time a gulf arose between the actual creation of wealth and the value of assets. East Asia’s growth also demonstrates that credit was not the sole cause of economic expansion during this period. In recent times, the “massive FDI flows into East Asia, the new industrial zones with tens of thousands of factories and millions of workers, the huge increases in the size of the world working class,” would not have been possible through the creation of credit alone (McNally, 2009: 54).

Konings and Panitch view the most recent crisis as being of a special type when compared with similar earlier events. Most previous financial crises occurred either in peripheral economies, or, the effects were negligible to the average individual in the US, such as the Long Term Capital Management crisis. However the recent crisis was “shaped so profoundly by specifically American institutions and practices” and thus provides a view of the internal contradictions of their hegemonic model (Konings and Panitch, 2009: 30) These internal contradictions are concerning given “the quotidian ways US power is embedded in and operates through the structures of global finance” (Konings and Panitch, 2009: 31) The links between the Wall Street financiers and government are intimate, so much so that it is difficult to imagine comprehensive and principled oversight by government officials, especially in times of crisis. Then Secretary of the Treasury, Hank Paulson, was central to the coordination of the original infusion of liquidity, that being hundreds of billions of dollars, to the ailing financial institutions on Wall Street, “where until [the year before] he had worked as an executive at Goldman Sachs” (Konings and Panitch, 2009: 31-32). In fact, on a broader level, there was also no firm separation of powers, as “[t]he federal government was both market participant and regulator” (Konings and Panitch, 36).

Konings and Panitch do not see the crisis as undermining the legitimacy of US hegemony. Rather than the crisis heralding an emancipatory change, “financial elites have proved very adept at not only responding to these pressures but using them in such a way as to create new regulatory frameworks that have laid the foundations for the further growth of business” (Konings and Panitch, 2009: 50). US citizens are intimately involved with the hegemonic practices, and through the collusion between the government and the financial sector, there is unlikely to be a transformative change emanating from this area. The system’s “legitimacy is an attribute of mundane, everyday practices and it is constructed through patterns of interactions fraught with unintended consequences and unacknowledged interdependencies” (Konings and Panitch, 2009: 54). A transformative change “would require a far more radical program, informed by a far more penetrating analysis of imperial finance, than has so far appeared on the political agenda” (Konings and Panitch, 2009: 54). Given the penetration of the hegemonic model in the American citizens’ consciousness, it appears unlikely that such a movement will be produced in the US. Thus, as will be done in Chapter 4, it is instructive to regard the possibilities of a transformative movement emerging from areas which are less comfortable with the structures of imperialist finance.

### **3.4 Conclusion**

The globalised economic system has been embroiled in a severe crisis since 2007. Globalisation has brought, and has been ushered in by, advances in transportation and communication. This has been driven by, in many cases, the financial market. In the accelerated world “time is money and the shorter the cycles of financial investment the higher the revenues” (Altvater, 2009: 10). Hardware and software are deployed to “exploit all possible spaces for making money even when laws and moral rules have to be broken” (Altvater, 2009: 81). Events proceed nearly instantaneously; “we operate in a “spaceless and timeless world... The ‘annihilation of time by space and space by time’, which Marx mentions in the Grundrisse, is inscribed in the neo-liberal belief system” (Altvater, 2009: 80). Gone is any consideration of time or space, history or culture, individuals or humanity.



The American world model, and its associated financial structure, seems to have lost its legitimacy. Under the Clinton administration, international institutions such as the UN were disregarded in favour of the narrow NATO alliance. (Arrighi, 2005: 21). The IFIs morphed from their original design at the Bretton Woods Conference to become tools used by the US to modify the market to its benefit. Even domestically the hegemon seems to have lost legitimacy. At the G-8 summit in Washington in 2004, demonstrators were so numerous that the state had to use extreme and repressive security measures. To control protests in the capitol of life, liberty, and the pursuit of happiness, there “was tear-gassing, clubbing and mass arrests – so many the police had to use buses for transport. The message was loud and clear, and the police were used literally to stifle the truth” (Zizek, 2009: 9).

The capitalist world model is facing serious challenges on practical and ideological fronts. The hegemon, the US, seems to be on a path towards an actual economic bankruptcy. Their actions, and how they are perceived around the world, show that, if they were once a “city set on a hill” (2 Kings 10:3), they no longer carry that moral authority. The other partner in the core, the European continent, also appears to be destined for a destruction of sorts; unfortunately with the event lacking the creativity Schumpeter would wish for. Across the world, the seemingly inexorable progress of the capitalist system has led to inequality at best and, at worst, widespread immiseration. The ongoing global economic crisis illuminates the fact that the status quo cannot remain.



## Chapter 4 - South Africa, Transformation and World System Crisis

“All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses his real conditions of life, and his relations with his kind”

Marx and Engels (2010: 16).

“Well it don't seem to me quite so funny what some people are gonna do for money. There's a brand new gimmick everyday just to take somebody's money away”

Dylan, B. (1962)

### 4.1 Introduction

A crisis can be considered from many different perspectives. It is doubtless that, if left unchecked, crises often cause death and disorder for many. Yet, one can also view a crisis as an opportunity for a systemic reorganisation. In the natural world an event such as a forest fire can be catastrophic. However it can also serve many purposes: removing dead and obsolete material, providing the opportunity for seeds to germinate, and essentially giving the resident organisms a chance to start relatively afresh and unburdened. This section will posit that our artificially created structures and organisations do not deviate from this logic. When society becomes encumbered by parasitic and non-productive elements, it may be that challenging times, rather than a harbinger of misery, should be understood as a chance for renewal. It begins with a Marxist understanding of crises as determined by economics and class conflict and how a crisis can lead to an emancipatory change. Following the World Systems approach, it regards a semi-peripheral state, South Africa, to understand the effects and ramification of the current crisis and whether the balance of social forces, between those aligned with the elite non-hegemonic project and those oppose, constitute an opportunity for a transformative change. While there is much ink spilled over what occurs in the global North, the opportunity to view the effects and possibilities from a different perspective

proves illuminative. Finally, it will conclude with the challenges and opportunities which accompany the ongoing crisis as a challenge to the hegemonic project, and, in turn, may transform the World System and its social and economic relations. From this examination it will be found that the global economic system has, in a sense, devoured itself. Capitalism is “a vampire system in arguing that it could only reproduce itself on an expanded scale by absorbing non-capitalist production, thereby infecting the life-blood on which it depended” (Fine, 2008a: 1). The inherent contradictions of capitalism, compounded by the financial crisis, have created a crisis in the legitimation. This allows the possibility of the articulation and mobilisation of an alter-hegemonic project. However, the weakness and incoherence of the possible counter-movements mean that a passive revolution is more likely than an emancipatory transformation of the World System.

## **4.2 Crises**

Economic crises are cyclical, and with each repetition there is a test of capitalism, “each time more threateningly” (Marx and Engels, 2010: 17). These crises result in the destruction of both physical items and productive forces. Marx examines the source of how these crises arise, an “epidemic of overproduction”, resulting from “too much civilisation, too much means of subsistence, too much industry, too much commerce” (Marx and Engels, 2010: 17). The forces of production are no longer a benefit to capital and, thus, must be crippled and at least partially destroyed. Not only the relations of production but societal relations themselves must be redefined. Of course this is simple to realise with practical examples. The 1970s crisis in the United Kingdom provoked the emasculation of labour unions. The events of September 11<sup>th</sup>, 2001 gave the United States (US) license to increase the level of surveillance in their domestic security apparatus (see USA PATRIOT Act, 2008) while lashing out violently across the globe (See War in Afghanistan, War in Iraq, War in Libya, Drone Strikes in Pakistan, Somalia, Yemen, War on Terror, etc.). Marx confines himself to a more economically-grounded argument. As the society and the property of the bourgeois are threatened they must react to their relative weakness when facing the lower classes. Their method of regaining firm control of capital and therefore society is “by enforced destruction of a

mass of productive forces [...] by the conquest of new markets, and by the more thorough exploitation of the old ones. That is to say, by paving the way for more extensive and more destructive crises, and by diminishing the means whereby crises are prevented” (Marx and Engels, 2010: 17). The current situation does differ from the time of Marx and Engels. As discussed in Section 2.2, the increasing sophistication of technologies of production has lessened capital’s reliance on the middle and working class, and even threatens to eliminate the middle class.

Habermas sees a crisis as “the notion of an objective power depriving a subject of part of his sovereignty” (Habermas, 1973: 643). For him, the crisis of capitalism is one of legitimation, and a systemic crisis occurs when “the legitimation system fails to maintain the necessary level of mass loyalty. (Habermas, 1973: 655) This can be seen in the financial crisis, as, “capital violates its own free-market nostrums and uses public resources to bail out the system, thus opening up space for debates about alternative uses of public powers” (McNally, 2009: 72). One can think of the domestic outrage in the US surrounding the ‘socialist’ Troubled Asset Relief Program (Hendrickson, 2012). Yet the primary actors in the financial sector had arrived, ‘hat in hand’, not only asking for, but demanding assistance. It would appear that the dictums of Von Hayek, Friedman and his ‘Chicago Boys’, and other adherents to the Washington Consensus, which had driven the world economy for decades, were conveniently forgotten, at least until the funds had transferred hands. These are the events which highlight the inherent contradictions of the current world economic organisation and open “up space for debates about alternative uses of public powers” (McNally, 2009: 72). Systemic crises are, therefore, “moments of great danger and opportunity for the world’s workers” (McNally, 2009: 72).

One of the important elements of this crisis is that it was precipitated by the debt of the working class. Especially in North America, and to a certain degree Europe, debt has long been a nefarious weapon in the struggle between capital and labour. The repayment of loans, for example to a moneylender, a pawnshop, loan shark, or a bank, is an ideal instrument for keeping workers in line. Seligman’s *The Economics of Installment Selling* provides the perfect example. Written in 1927, the beginning the era

of Fordism and Taylorism, it praised credit based sales, as, among other reasons, “[the family with car payments to make would be forced to work hard to make the payments” (Konings and Panitch, 2009: 36). These debts encourage longer working hours, alienation from family and society, and an unhealthy devotion to capital accumulation, just so one can spare oneself from penury. Debt is a construct, similar, and inextricably linked, to money. Both hold value only if everyone, or a critical mass, agree that they are worthwhile, thereby validating their status as a societal norm. Yet, those who do much of the lending, the financial sector, have done the most to tarnish their own credibility through their egregious behaviour. A debtor should not be asked to repay his loan, when the creditor has not been able to pay his own. The disillusionment which accompanies this process should promote a critical view and a re-evaluation of what is deemed valuable in society. The “politics of massive government-bailouts, in which the debt of major financial institutions is assumed by the state, raises important openings for campaigns to reduce and eliminate working-class debt and debts in the Global South” (McNally, 2009: 74). It also provokes the question: Could these funds, which are available to save banks, instead be directed “to build social housing, repudiate the South’s debts to the North, socialise failing industries, convert them to green production, and preserve jobs” (McNally, 2009: 74).

The current global economic organisation has reduced “economic policies to the status of crisis management policies” (Amin and Luckin, 1996: 250). Rather than reshaping the economic regime, they merely represent “a perfectly coherent set of crisis management policies offering financial placements to capital which would otherwise be massively devalued through the lack of any profitable outlet in the expansion of systems of production” (Amin and Luckin, 2006: 250). Over the last decades this process has been motivated by an either morally defunct, or tragically inept, banking class. Though the “high rewards and single-minded focus on making money might attract more than its fair share of the ethically challenged, [...] the universality of the problem suggests that there are fundamental flaws in the system” (Stiglitz, 2010: xix). These facts alert us that “the cant dished out in the past by the US Treasury and IMF is over” (Gowan, 2009: 26). The US financial system and its banking assumptions have been revealed as a morbid

farce. The EU is no better, as their domestic financial problems are seemingly worsening daily. (Donahue, 2012)

The economic model promoted, exported and imposed by the core over the last years should be consigned to the dustbin of history. This crisis has made this apparent. Traditionally, there have been many individuals, located geographically within the core, who would challenge these norms and preordained orders. However, policymakers in the West have shown themselves to be either unwilling or unable to make structural changes to relieve the effects of the crisis, at least not in any more than a triage manner. Nor have they seemingly made any concrete steps to prevent a recurrence. This may perhaps be due to the fact that they are beholden to capital. As an example of this one might consider the \$6 billion expected to be spent on the 2012 US Presidential elections and the question from whom, and for what purpose, the finances are produced (Hebblethwaite, 2012). Alternatively, the lacking systemic change could be due to a dearth of perspective and creativity. The next section will, rather than regarding the economic crisis from a Western-centric perspective, address the problems and possibilities facing South Africa. The links to both the industrialised North and the developing South place the state and its citizens, in an interesting, if not entirely enviable, position. To contextualise the South African situation the colonial project must first be examined.

### **4.3 Historical**

The situation of South Africa, as with almost every state located in the periphery or semi-periphery, should be placed in the context of the impetus of the colonial conquest. Throughout the 1800s, the most rapid period of colonial expansion, Europe was faced with wars, recessions and depressions, and other forms of stagnation and conflict. European society was still very unequal and therefore the consumer market very small and easily exhausted, especially in times of crisis. Insufficient rewards domestically drove the capitalist class across the globe in search of riches. These were realised through 'discoveries' and conquests of vast, nearly untouched, resources and labour to be exploited. "The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle

everywhere, establish connections everywhere” (Marx and Engels, 2010: 16). The capitalist expansion beyond Europe was relentless and transformative. The imperatives which drove the system were often imposed through extreme measures, with tales of violence and genocide replete amongst the history of colonial expansion (Scheper-Hughes and Bourgois, 2004; Adhikari, 2010). This process for physical and ideational conquest “compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilisation into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image” (Marx and Engels, 2010: 16). It is uncertain as to whether the image of European society would be appealing to the uninitiated, but a man-made cataclysm befalling one’s family, community, and society, can bring about a less defiant, more flexible, perspective.

Polanyi also provides an analysis of how the colonial project was carried out. For conquest to be successful:

“the colonist needs lands as a site for the sake of the wealth buried in it, or whether he merely wishes to constrain the native to produce a surplus of food and raw materials, is often irrelevant; nor does it make much difference whether the native works under the direct supervision of the colonist or only under some form of indirect compulsion, for in every and any case the social and cultural system of the native life must first be shattered” (Polanyi, 1944: 178).

This phenomenon of destroying the ‘social and cultural system’, while reprehensible, is not unique to the process of colonialism and colonisation. Rather it is a procedure which had already occurred centuries before in Western Europe with the development of capitalism and the challenges which arose from the alienation of the individual from his or her land and community. Though “there was little likeness in the responses to these challenges”, they were both “stages in the subordination of the surface of the planet to the needs of an industrial society” (Polanyi, 1944: 178). The early leaders, the Dutch, Spanish and Portuguese, were followed later by the dominance of the British and the French, with the Germans and the Americans following towards the end of the 1800s. During this time, the countries striving to expand their empire, “saw underdeveloped

regions as immense supply depots for the cheap production of raw materials” which could be harvested to the profit of their economies. This process is what turned “Jamaica into a sugar plantation, Sri Lanka into a large scale tea producer, Zambia into a copper mine and the Middle East into an oil field” (De Souza, 1986: 15).

The process affects individuals in the core as well as those located in the periphery. Even if these individuals do not meet, their relationship, through the global market, shapes the relative groups and societies through interactions. Countries around the world are transformed as “[t]he bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country” (Marx and Engels, 2010: 16). In the core, this changes the dynamics of labour and domestic industries, or the means and relations of production. “Old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilised nations” (Marx and Engels, 2010: 16). This aspect of globalisation is not unfamiliar today. Industry “no longer work[s] up indigenous raw material, but raw material drawn from the remotest zones” (Marx and Engels, 2010: 16). The 1980s labour outrage in Britain was centred on the coal mining industry (Marsden and Hyland, 2009). Due, in part, to more fiscally profitable resource extraction in other parts of the world, the British working class found themselves at a comparative disadvantage, and unable to compete. The process continues today, albeit with broader concerns than simply physical resource extraction. Globalisation, and the affordability of transport and communication, has made labour a resource to be extracted from the periphery as well, where the working conditions and benefits to which labour in the core is accustomed, are scarce or unheard of. The change from domestic to globalised industry affects not only the means and relations of production in both the core and the periphery, but also the process of consumption. “[P]roducts are consumed, not only at home, but in every quarter of the globe” (Marx and Engels, 2010: 16). In the core, this changes the orientation of thoughts and desires, even if this is not acknowledged or recognised consciously. “In place of the old wants, satisfied by the production of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes”



(Marx and Engels, 2010: 16). The world becomes open and “[i]n place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal inter-dependence of nations” (Marx and Engels, 2010: 16).

Historically, imperialism expropriated land and societies “by sword and fire” (Bond, 2010: 4; cf. Averbach, 1936). Modern market expansion is more insidious, and, because it is less confrontational and more ideational, perhaps all the more effective. One of the major tools of contemporary economic expansion, or dispossession, is, similar to the process of disciplining labour, that of debt and its repayment. As reviewed in the previous chapter, the exchange of monies between sovereign states, and the change in power relations which accompanies this, is not a novel creation. However, during the heyday of the Washington Consensus, debt in the periphery took on a greater significance. “National debts have been occasions for the transfer of state-assets in the South – electrical utilities, mines, national airlines and the like – to investors from the North” (McNally, 2009: 73). With this in mind, the current global situation must give one pause. The global economic crisis appears unending and “there can be little doubt that capital in the North will attempt to use impending financial and currency-crises in the Global South to similar ends” (McNally, 2009: 73). If global consumption, centred on the sickly European and North American economies, fails to recover, recovery in production will also be weak. As “heavily indebted consumers are retrenching amidst economic uncertainty and high levels of unemployment, there can be little reasonable expectation of large spikes in demand” (McNally, 2012: 42) Many economies in the periphery’s primary economic activities are as “hewers of wood and carriers of water” (Joshua 9:23) and depend upon export earnings as the backbone of national budgets. In a depressed economic climate, which has characterised global trade since the latest crisis, they will find few buyers of natural resources and therefore realise decreased export earnings, leaving tax revenue scarce. “This will inhibit their capacities to import food, medicine and other essentials, as well as to service existing debts” (McNally, 2009: 73). It will make weak “economies even less able to cope with internal vulnerabilities and development needs such as infrastructure investments” (Baker, 2008). South African, and other states, membership in the G20, illustrates “renewed attempts at core-



periphery coercion by inviting these countries into the highly exclusive G7/G8, or, put more bluntly, by co-opting them into the rules and standards of the core-alliance coercion by ensuring official, and thus more tightly integrated relations with the IMF and World Bank” (Satgar, 2008: 64). It is within this uncertain, if not foreboding, context that one must understand the situation of South Africa, wedged in the semi-periphery, and an intermediary between the global North and South.

## **4.4 South Africa**

### **4.4.1 History**

The history of imperial interaction with and within South Africa is a narrative of its own and cannot be adequately explored in this research (see Worden, 2000; Butler, 2009). However, the colonial project took a rather similar trajectory to most other locations. At a certain point, as the wealth beneath the soil became apparent, “[t]he imperialists began to industrialise the country and to employ masses of cheap labour on the Natal plantations, in the diamond mines, the gold mines, in the industries connected with these mines, and at the big ports” (Bond, 2010: 4; cf. Averbach, 1936). The indigenous inhabitants had been driven off their previous land and these spaces were used “as reservoirs of cheap labour...In the cities the bourgeoisie built up an elaborate system of compounds, passes, and regulations to control the migratory labour from the reserves” (Bond, 2010: 4; cf. Averbach, 1936). As Marx had written, class struggles between labour and the bourgeoisie intensify during industrialisation and urbanisation. In order to preclude this, it was necessary to “prevent the formation of a stable, hereditary urban proletariat which would become used to the traditional methods of organisation and struggle – trade union and political – of city working classes all over the world” (Bond, 2010: 4; cf. Averbach, 1936). To accomplish this, and forestall, at least for a time, an organised uprising, “the imperialist bourgeoisie segregated the Africans from each other tribally or otherwise, and from city political life by means of compounds, and allowed a drift back to the reserves after some time of slavery in the towns” (Bond, 2010: 4; cf. Averbach, 1936). Workers, especially in large industrial projects, became “whole populations conjured out of the ground” (Marx and Engels, 2010: 17). These phantasms would appear where there was work and then disappear afterwards. The situation of the

reserve labour force, and even the majority of labour in general, especially the informal sector, perhaps has not changed as dramatically since those times as one might hope.

#### 4.4.2 Transition

The transition from the *apartheid* system was fraught with complexities, due to both internal strife and external pressure. During this time, South Africa went from being an international pariah, beleaguered by economic sanctions, to being fully integrated into the world economy, even though at disadvantageous terms. The timing of this transition, in regards to the prevailing global ideas and norms, could not have been worse. Communism had collapsed and the Washington Consensus was the model by which the states in the developing world were told to organise their economy. The *apartheid* state, though racially exclusive, exploitative, and repugnant in most manners, had, due to its international isolation, cultivated a relatively successful developmental state (Fine and Rustomjee, 1996). As international trading partners were few and far between, and dwindled over time, domestic production and markets were relied upon to maintain a functional economy and South Africa experienced “an inward looking industrialization [...] for the greater part of the 20<sup>th</sup> century” (Satgar, 2008: 6) This situation made *apartheid* South Africa an interesting example of Prebisch’s *dependencia* theory as to how import substitution could build an independent economy and state.

But if there were ever a moment to preclude radical change and implementation of nationalisation and socialism, which constituted much of the African National Congress’ (ANC) rhetoric in the pre-transition period, it was in the years when no credible socialist option, and seemingly no plausible alternative to capitalism, existed. Their “transition to democracy coincided with the second decade of global neoliberal restructuring” (Satgar, 2008: 66). Despite the assertion, in the Freedom Charter, adopted in 1955 at the Congress of the People, that “the wealth of South Africa, above and below her soils, belong to the people” (Freedom Charter, 1955), these pretensions were abandoned during the negotiations to end *apartheid*. The “promises to nationalize the banks, mines and monopoly capital were dropped; Nelson Mandela agreed to repay \$25 billion of inherited apartheid-era foreign debt; the central bank was granted formal independence in an interim constitution” (Bond, 2010: 15). Newly embraced by the international order,

South Africa was assimilated into the global economy “on disadvantageous terms; and the International Monetary Fund provided an \$850 million loan with standard Washington Consensus conditionality” (Bond, 2010: 15). The ANC allowed “the Bretton Woods institutions [...] to set the parameters for post-apartheid South Africa’s accumulation path and hence started indigenizing an Afro-neoliberalism through a South African voice” (Satgar, 2008: 50). Privatisation was widespread, investment rates were raised significantly and “by 1996 a neoliberal macroeconomic policy was formally adopted” (Bond, 2010: 15). Additionally, there was a change which Fine terms ‘financialisation’; South African conglomerates moved their headquarters and were listed primarily in London or Melbourne, and the macroeconomic policy was “designed to manage the capacity of the South African conglomerates to disinvest” (Bond, 2010: 13 cf. Fine 2008a).

The transition of the economy resulted in a restructuring “on the terms of conglomerate capital” (Marais, 2009: 389) It was designed to service capital’s needs and neutralise popular mass organisations. While the Left represented a popular movement, it “would find itself outsmarted, outmanoeuvred and, eventually, muscled out of the navigational centre of the transition” (Marais, 2011: 398) The formation of the Government of National Unity, under the leadership of the ANC, could be considered a “‘moment of hegemony’; that is the strategic, moral and intellectual leadership was in place” (Satgar, 2008: 56) However, every hegemonic situation is inherently unstable; the balance of forces is fluid and the hegemon must adapt. This could lead to a possible unravelling of hegemony, as the divergence between the rulers and the ruled widens. In South Africa, “[t]his increasingly became the reality after 1994 until 1996, when the transition from an instrumentalized to a bureaucratized civil society became more apparent” (Satgar, 2008: 56). The leadership of this system demonstrated its morbidity as control was maintained “through subordinating national liberation forces to the discipline of bureaucratic centralism, cooption of leadership and limiting room for participatory, bottom up practices” (Satgar, 2008: 56).

The political transition represented, arguably, a political emancipation. Legally codified rights and freedoms had vastly improved, and in many instances this was accompanied

by real transformation as well. But the ideals which drove the struggle seem to have been undercut and frustrated nearly twenty years after 'freedom'. As the ANC attempted to consolidate the hegemonic project, their practices changed, from a unity based upon national liberation under the charismatic leadership of Nelson Mandela, and buttressed by the respected Truth and Reconciliation Commission, to an insular model where even internal dissent and discussion were stifled; "[r]eflexes of denigration and dismissal won out, allowing miscalculations and mistakes to become debacles that drained public trust and eroded the confidence of allies" (Marais, 2011: 401). Leftist rhetoric is used by the government but becomes merely "symbols of affinity rather than literal descriptions" (Marais, 2011: 405). The Reconstruction and Development Programme was designed to uplift the poor, and in official discourse reached near mythical status, but again the rhetoric was empty; "massive job losses could not be reconciled with the goal of creating jobs and moving towards full employment. Likewise, the guarantee of a living wage could not be made to fit a reality in which many employed workers live in poverty, nor could a commitment to reduce income disparities square with a reality of widening gaps" (Marais, 2011: 404). The attachment of these deeper meanings to symbols such as the national liberation movement and the RDP can be seen as an "attempt to make the administrative system independent of the formation of legitimating will" (Habermas, 1973: 657). The deployment of these symbols can focus attention on the themes the leadership desires and banish, at least temporarily, uncomfortable facts from the minds of the public.

The revolving door between the upper stratum of the ANC and parastatal organisations, as well as private enterprises, created a culture where patronage thrived. Though the process is, at best, morally ambiguous, the recently acquired, and fabulous, wealth of a few well-connected individuals serves a particular purpose. It "not only kindles the ambitions of the tiny coterie of individuals able to capitalise on the new opportunities, it also decorates the private yearnings of millions more. Publically denigrated but privately envied, African-elite advancement carries strong symbolic meaning" (Marais, 2011: 407). On a broader level, South Africa transformed into an 'internationalized competition state' with the characteristics of being coopted into transnational neoliberal institutions;

it embraces a macroeconomic policy based upon global financial markets, self-sufficient markets have been dismantled in favour of pursuing the policy of comparative advantage, and macroeconomic interventions are carried out with improving the business environment; “[i]n short, this is a state governed by the market, is a product of global capitalism, and is a post-Westphalian imposition by transnational capital” (Satgar, 2008: 59). This broad phenomenon has been observed as creating “a new disjuncture between institutional capacity to provide public goods and the structural characteristics of a much larger-scale, global economy”(Cerny, 1995: 598). This challenges the state with “crises of both organizational efficiency and institutional legitimacy” (Cerny, 1995: 598).

#### **4.4.3 Global and local crises**

South Africa constitutes “a non-hegemonic state in a Gramscian sense” (Leysens, 2012: 2). There exists “a provisional and wavering hegemonic project” (Marais, 2011: 394) consisting of a coalition of interests who must “utilize both [their] structural and direct power to constitute a historical bloc of social forces capable of advancing the Afro-neoliberal project (Satgar, 2009: 62). Cox argues that the nature of the state is defined “by the class structure on which it rests” (Cox, 1987: 6) This means that “state actions are constrained by knowledge on the part of the state’s agents of what the class structure makes possible and what it precludes” (Cox, 1987: 7). Given recent events in South Africa, to be discussed later, it may be, arguably, that the dominant elite have begun to overreach their constraints. However, thus far, the non-hegemonic project seems to be marked not by a radical transformation of society. This is in keeping with the assertion that “[s]ocieties in which a dominant class [...] has not established hegemony are in a condition of ‘stalemate’” (Leysens, 2008: 81). This can also be termed a passive revolution. A passive revolution “refers to the redirection of historical processes in order to reproduce capitalism” (Satgar, 2008: 42). A passive revolution occurs during a period in which the balance of forces allows for a fundamental change in the organisation of power and production. But, “in such moments progressive forces lose the initiative and things change but not in a radical direction [...] In short capitalism succeeds in reproducing itself, even as a new form” (Satgar, 2008: 43). The initiative is

usurped through many means, including a co-option of the leadership of social forces, accommodating the demands of some groups with the intention of sowing division amongst the popular movement, and a discourse of revolutionary rhetoric, but practically used to neutralise the social forces rather than empower them and ensure the reproduction of capital. However, in the South African case, the dominant groups “resemble the cartel arrangements found in states where consensus (of the Gramscian kind) has not been established and the legitimacy of the dominant form of accumulation and the accompanying state, among the excluded or marginalised social forces, is questioned” (Leysens, 2012: 25).

There are a number of factors which indicate South Africa’s economic fragility and the likelihood that the country may be moving toward a period of instability. The ramifications of the global crisis in particular could be quite destructive. This could only be avoided by adopting an insular macroeconomic policy, which, even if implemented now, may be too little too late. The insular policy would isolate the economy from the global market in an attempt to lessen the impact of external factors and shocks (Meyer, Doyle, Gagnon and Henderson, 2002: 14). The effect of the vagaries of the global economic system on South Africa will be explored later. First analysed, however, will be domestic factors which are troublesome and, even without the global complications, could indicate a precipice ahead. Between 1994 and 2009, South Africa was host to “the world’s largest property and financial bubbles” (Bond, 2010: 16). Additionally, there was a racial division in the wealth of households. Between 1995 and 2005, “black households lost 1.8% of their income [...] while white households gained 40.5%” (Bond, 2010: 18; cf. Borat, van der Westhuizen and Jacobs, 2009). Over a similar period, although frequent reassurance was given by the erstwhile Finance Minister, Trevor Manuel, that there was macroeconomic stability, South Africa witnessed more currency volatility than any other emerging market (Bond, 2010: 16).

In 2009, *The Economist* produced an analysis of emerging markets based largely upon data from HSBC. Of the 17 “large economies” shown, South Africa was rated at the highest risk of succumbing to contagion from the European and North American woes (*The Economist*, 2009). The index upon which this was evaluated reflected “expected

current account deficits, short-term debt as a percentage of foreign exchange reserves, and the ratio of banks' loans to deposits" (Cramer, Johnston and Oya 2009: 648). This was largely due to capital outflows to London or Melbourne resulting in a large current account deficit and causing the foreign debt to rise from \$25 billion in 1994 to \$80 billion in 2008 (Bond, 2010: 16). The global crisis has also made "portfolio investors [...] wary of emerging markets, including South Africa" (Parliamentary Monitoring Group, 2009: B3). While South Africa did show a regular 5% growth of GDP during the 2000s, it was mostly due to credit expansion, as household debt to disposable income ratios increased from 50% to 80% between 2005 and 2008 and bank lending rose from 100% of GDP to 135% during the same period (Bond, 2010: 16). It was found that in 2011 South Africa had "3.5-million consumers [who] were three months or more behind with their credit payments, which was 19% of all credit active consumers" (Hedley, 2012). Other analysts concur with the grim forecasts. Over the "18 years since the end of white minority rule, [South Africa] has rarely looked so shaky. Mining, the bedrock of the old economy, is in crisis as costs rise and commodity prices fall. Wildcat strikes are spreading across the industry and into other sectors" (*Business Day*, 2012). The result is that firms "are losing production, and the recognised unions, with which business was able to barter in the past, have lost influence over the labour force" (*Business Day*, 2012).

South Africa's economy is the largest in Africa, and is a relative giant in southern Africa. Much of this comes from the position which the country holds in the semi-periphery and the fact that since the end of *apartheid*, South Africa's economic policy has been grounded in "international openness and the benefits of foreign investment" (Cramer et al, 2009: 648). This linkage with the struggling global North makes for a particular sensitivity to the crisis which affects the North. During the immediate aftermath of the financial crisis, "[s]ome \$5.7 billion in portfolio investment left South Africa during the fourth quarter of 2008, up from \$1 billion outflow in the third quarter... [and] foreign direct investment fell to 3.3 billion Rand in the fourth quarter from 22.4 billion Rand in the third quarter" (Cramer et al, 2009: 648; cf. World Bank). In the first quarter of 2009, exports fell by another 24% as demand dried up and commodity prices fell (Marais, 2009: 3). The early effects of the crisis on resource-based economies were dramatic. In



southern Africa the lack of global demand for diamonds caused “mine closures in Botswana and Namibia, copper mines shut down in Zambia, and in South Africa the mining sector contracted by an annualized 32.8 per cent in the first quarter of 2009. Industrial output fell in 2008 and 2009 in South Africa and Angola” (Cramer et al, 2009: 650). African exporters are dangerously dependent on the health of financial institutions in the countries to which they export their products, while African economies are affected more by financial crises, as they rely less on manufacturing and more on primary exports (Berman and Martin, 2010: 7). The manufacturing sector has contracted by 20% and this decrease has broader ramifications (Parliamentary Monitoring Group, 2009). There has been “a failure to robustly embark on sector-specific industrial strategy innovations, despite much work undertaken in the recent past” (Frye, 2009: 11). Manufacturing faces “steep competition from imports that undercut local production. Limited local demand due to the high levels of poverty acts as a further brake to the expansion and deepening of local production and manufacturing” (Frye, 2009: 11). The disparities between the rich and the poor leave the wealthy reliant upon many imported goods as the domestic demand can support enough production to maintain value added national industries.

In keeping with neo-liberal dogma, the South African Treasury “relaxed exchange controls more than two dozen times since 1994” (Marais, 2009: 3). However, the vestigial remnants of *apartheid*-era controls, “might have cushioned the South African financial sector from the worst of the initial toxic debt-driven crisis in global financial markets” (Marais, 2009: 3). Despite this, the outlook for the South African economy is far from rosy. Factories are idle and mines uncompetitive, “and local private investment is very unlikely to drive a quick recovery. Public investment will have to pick up the slack – but it accounts for a minor share of total investment in South Africa” (Marais, 2009: 3).

Not everyone believes that salvation lies in a repudiation of capital and neoliberalism. In a letter from the Africa Business Forum to the G-8 leaders, it is remarked that “[t]his is, therefore, a time for increased efforts of all partners and sticking to the fundamentals which we know will sustain growth – open markets, good financial management, investment in human and physical infrastructure to improve competitiveness, and good

governance” (Skinner, 2008). Despite such assurances, South Africa has adopted a framework to guide the state’s reaction to the crisis which does deviate from some of the doctrines espoused by those in the West. The Framework for South Africa’s Response to the International Economic Crisis enumerates the priorities of the government’s actions. First, the “collective responsibility is to work together to withstand the crisis and ensure that the poor and the most vulnerable are protected as far as possible from its impact” (Parliamentary Monitoring Group, 2009: C1). Another priority is “to ensure that all of our activities are aimed at strengthening the capacity of the economy to grow and create decent jobs in the future, are protected and supported as far as possible. By decent work we mean the need to increase the level of employment as well as improve the quality of jobs” (Parliamentary Monitoring Group, 2009: C2). Some of the main planks of the response consisted of a construction boom leading up to the 2010 World Cup and the Expanded Public Works Program, the latter being planned since the Mbeki-era and consisting mainly of short-term, unskilled employment for activities such as building pathways and sidewalks (Verick, 2012; Expanded Public Works Programme). “[T]he jobs were short term and had limited positive impact on the lives of the targeted unemployed people” (Parliamentary Monitoring Group, 2009: 4.7).

These responses to the economic downturn are unlikely to drive recovery or provide macroeconomic benefits in the long-term. The domestic factors enumerated above portray an economy which seems reminiscent of the situation in the US prior to their financial crisis. South Africa’s economic performance is “strongly integrated into the world economy and significantly dependent on its good health” (Parliamentary Monitoring Group, 2009: B6). As their global partners are hardly a picture of robust economic health, it would seem that the economic situation will be destined for further difficulties. What remains to be seen is how long the process will take, and how dire the situation will become, before it improves, and if the way forward will provide a radical change, a real ‘second transition’, or leave an economy and society subordinated to the global market, and unable to truly emerge.

One critical factor affecting the South African economy is unemployment. This also creates more pervasive social problems. The official unemployment rate is 24 percent

(Kelto, 2012). This does not compare well with other 'emerging markets', particularly BRICS members Brazil, with a jobless rate of 5.8 percent, and India at 9.8 percent (Kelto, 2012). South Africa's unemployment figure amounts to 4.5 million individuals. It excludes 2.3 million who are 'discouraged work seekers', meaning they have simply stopped trying to find a job (Cohen and Martinez, 2012). The statistics do include, however, some trades which may not be considered adequate for self-sufficiency: hunting wild animals, begging, and growing one's own food among them (Bond, 2009: 16). The informal work sector is 7.1 million individuals. Employment levels and prospects become especially gloomy when regarding the youth demographic. Of those between the ages of 15 and 30, 63% are unemployed and of this group, 66% have never had a job (Frye, 2009: 10). The economic crisis has worsened the situation. During the 2010 State of the Nation address, President Jacob Zuma stated that the result of the recent global credit crunch was that approximately 900 000 jobs were lost in South Africa in 2009 (Zuma, 2010). But it appeared that, in many ways, under his leadership the government was taking a wait-and-see approach, as he counselled that "[e]ven if the economy begins to grow again next year, we will have to wait a little longer for a significant increase in new job creation. It always takes some time, even years, after growth starts, for jobs to be created in significant numbers" (Zuma, 2009). The ANC has committed to "creat[ing] 5 million jobs and slash[ing] the unemployment rate to 14 percent by 2020" (Cohen and Martinez, 2012). However these goals require a sustained economic expansion of 7 percent each year, compared with the current paltry growth of slightly more than 2% (Cohen and Martinez, 2012).

Apart from poverty and unemployment, South Africa has already seen morbid effects arising from the destitution of the lower socioeconomic classes. In many areas there are emphatic reactions to the destabilising effects of globalisation, "claims of authenticity and entitlement are a typical response, with anxiety usually displaced on the victimised, proximate and, oddly, familiar sections of society" (Marais, 2011: 422; cf. Appadurai, 2006) The economic crisis has exacerbated these problems. Occasionally, the protests unfortunately tend to direct their frustrations at:

“local ‘others’ [...] eg the low-paid Zimbabwean migrant worker seen as part of a scab labour force, the Mozambicans who cram into housing, thus driving up rents, and the Somalis and Pakistanis who purchase goods in bulk and under-price local ‘spaza shop’ retailers whose small levels of trade require higher relative mark-ups than the immigrant competitors charge” (Bond, 2012: 261).

South Africa has, in the past, had strong social movements which advocated and achieved positive changes in society. Historically, *apartheid* provided an identifiable adversary to confront. The rules by which it governed were easily understood as unjust. This bred a vibrant challenge from diverse actors. But with liberation, many of these movements were co-opted into the government or faded away as success was seen to have been achieved. However, this relative peace did not last long. The Anti-Privatisation Forum, based in Johannesburg, though now defunct, proved a salient example in its time. Responsibility, and profits, for water services in Johannesburg had been granted to the French company Suez. This led to cutoffs for customers who could not pay and a variety of other ills, even the inability to use water to stop fires (Bond and Dugard, 2008: 1). Through 2005 and 2006 this spurred unrest and legal challenges. The action eventually culminated in the Johannesburg municipality’s resumption of responsibility for water services (Bond, 2009: 12).

The Treatment Action Campaign is another movement which achieved a degree of success. The campaign advocates for “[a] unified quality health care system which provides equal access to HIV prevention and treatment services for all people” (Treatment Action Campaign). The movement came about in reaction to the South African government’s refusal to provide anti-retroviral medication, which has a dramatic effect on the longevity and quality of life of those whose suffer from HIV and AIDs. Eventually, through these campaigns, the treatment was provided (Bond, 2005). Health and water are among the most basic of needs for human life and dignity and it would seem commonsensical that the weakest members of society’s needs would be met in these regards. Yet, many other South African movements also struggle for basic necessities. Abahlali baseMjondolo (Shack Dwellers) began in Durban. Together with Landless People's Movement (Gauteng), the Rural Network (KwaZulu-Natal) and the

Western Cape Anti-Eviction Campaign they form the Poor People's Alliance. Abahlali baseMjondolo defines its goals as "[L]and & Housing in the City [...]" but it has also

successfully politicised and fought for an end to forced removals and for access to education and the provision of water, electricity, sanitation, health care and refuse removal as well as bottom up popular democracy” (Abahlali baseMjondolo).

Recent developments do not present a more heartening portrait. South Africa’s primary education system remains in an abysmal state. It ranks “132<sup>nd</sup> out of 144 countries for its primary education and 143<sup>rd</sup> for the quality of science and maths. In the Department of Basic Education’s national literacy and numeracy tests last year, only 15% of 12 year olds scored at or above the minimum proficiency on the language test” (*The Economist*, 2012). 12% met this level in maths. (*The Economist*, 2012) The mining sector is also facing severe challenges. On 16 August 2012 34 striking miners were killed in a police action at the Lonmin platinum mine in the North West Province. The other workers eventually received a raise in wages. This led, however, to more strikes throughout the country. “75,000 miners, chiefly of gold and platinum, went on strike, mostly illegally” (*The Economist*, 2012). Anglo American Platinum, the largest producer of platinum in the world, fired 12,000 workers, while Gold One has fired 1,400. The labour unrest spread to the transport sector, where 20,000 truck drivers went on strike, prompting shortages of various products. The latter dispute has been resolved for the time being, but it would seem unlikely that the general labour strife has been put to rest. This has spooked foreign investors, as on October 8<sup>th</sup>, \$643 million dollars flowed out of the South African markets. (*The Economist*, 2012)

Protests are currently widespread, often labelled as advocating ‘service delivery’. Their character includes “resistance to the commodification of life, eg commercialisation of municipal services, and to rising poverty and inequality in the country’s slums” (Bond, 2012: 261). The problems are being recognised by leaders in the top tier of South Africa’s government. Zwelenzima Vavi, the general secretary of Congress of South African Trade Unions (COSATU) articulated that “different lifestyles and material realities are creating a leadership which is not fully in tune with what members are facing” (*The Economist*, 2012).

The incident at Marikana seems likely to have ramifications for the relationship between labour, capital and the state in South Africa. It is difficult to say what these may be; however, it is possible to analyse some of the occurrences which have surrounded this contemporary event. One of the definitive consequences following Marikana is the weakening of the legitimacy of the National Union of Mineworkers (NUM), and, by association, COSATU, with whom they are affiliated, which in turn affects the governing tripartite alliance. This has been demonstrated by the emergence of movements outside the structures of organised labour and their agreements with the capitalist ownership of the mines, namely, workers committees unaffiliated to the union movements and the rise, albeit on a small stage and still in its infancy, of a new umbrella coalition of Leftist interests, most prominently in the form of the Democratic Socialist Movement (DSM).

The committees will first be contextualised. Previously, union representation in the Northwest province's mines was generally either affiliated to NUM, or to a smaller offshoot, the Association of Mine Workers and Construction Union (AMCU). However, "[w]orkers at Lonmin, like workers all over the Rustenburg mines, decided to secure maximum unity in action by forming a worker's committee without links to either NUM or AMCU" (Ashley, 2012). They articulated their demands as a R12 500 monthly salary, equal pay for equal work, ending subcontracting, and better safety standards within the mines (Ashley, 2012). From these beginnings, they later formed a Joint Strike Coordinating Committee, "which co-ordinates the strikes of the wider Rustenburg mines, including Anglo Platinum, Samancor and Royal Bafokeng Platinum" (Ashley, 2012). The coordinating committee based in Rustenburg expanded their members and ambit, as "[o]n 13 October, over 120 mineworkers representing strike committees from across the industry met to assess the state of the strike and map a way forward" (Democratic Socialist Movement, 2012). This included, for the first time, representation from outside the North West Province; gold mines from Gauteng and platinum mines in Limpopo, resulting from the shift from the Rustenburg-based committee to a National Strike Coordinating Committee, with further exploratory contact made with coal mines in



Mpumalanga, gold mines in the Free State, and diamond mines in the Northern Cape (Democratic Socialist Movement, 2012). As approximately 100 000 mine workers were on strike across the country, (Ashley, 2012) in what started off as organic, but isolated, movements, the intention, or at least desire, to coordinate this formidable force could, if continued cooperation is achieved, represent a coherent, and strong, grouping of social forces.

The second phenomenon to be briefly discussed is the ascendance of the DSM. They have roundly condemned the violence propagated by the state against the striking workers. Additionally, they have called for a mass workers' movement, irrespective of union affiliation, partly due to the compromised status of these unions by their association with the ANC and mining capital (Democratic Socialist Movement). Their advocacy covers a broad variety of topics, ranging from: jobs, both increased numbers and better quality working environments; a R3500 minimum wage; free universal health care; gender equality, especially pertaining to the most vulnerable members of society, abused women and sex workers; free, and quality public education, including an end to privatised education and a strategy to promote literacy; houses, water, and sanitation for everyone; an efficient and integrated public transport system; transparent democracy within trade unions, and the exit of COSATU from the tripartite alliance; solidarity among workers, including an end to xenophobia and substantive integration with workers' movements in other states; nationalisation of monopoly-owned commercial farms and state price controls to establish domestic food security; nationalisation of Reserve Bank, commercial banks, and top companies on the Johannesburg Stock Exchange; the formation of a mass workers party; and for "a Socialist South Africa, a socialist Africa and a socialist world" (Democratic Socialist Movement). These goals are ambitious. Yet, through their association with the popular movements the DSM has gained some traction, at least in the North West Province, organising "strike committees' in all shafts" to empower labour in the conflict against capital. (Mkentane, 2012) This is in contrast to former ANC Youth League leader, Julius Malema, who has also been involved in condemning the government's response to the strikes; this, the DSM suggests, is simply "aimed at advancing the ambitions of aspirant black capital in the country, rather than creating a more equal society" (Mkentane, 2012).

The success of these movements remains to be seen. They have already earned both bouquets and brickbats. Claims that the events “spreading across the country like a virus [are] not just about wages and living conditions, [they are] about something much bigger. It is the contagious birth struggle of an emerging socialist movement that could deliver a new labour party to South Africa” (De Waal, 2012), may prove to be overly optimistic. However the hyperbole is no less from institutional sources, with COSATU general secretary Zwelinzima Vavi claiming that the workers’ committees, the DSM, and other activities occurring outside of the formal structures of the unions as “extremely divisive” and “not only dangerous, but suicidal” (Merten, 2012). This is hardly an objective assessment as the movement of workers away from COSATU directly affects the legitimacy of the movement which he leads. In the aftermath of the Marikana killings, COSATU remained silent and did not issue a condemnation of international capital nor lead a mobilisation of workers; a glaring failure at a time where, in a Gramscian sense, “many cried out for a shift from the War of Position to a War of Movement” (Bond, 2012a).

The gains which have been made by the organic workers’ movements, and possible successes, are fragile for a number of reasons. There is a preponderance of migrant workers, resulting in a division of attention and resources between the local communities surrounding the mines, and families in far-flung locales, and also the nature of the migrant communities also allows threatening possibilities of xenophobia. In these communities, there exist illicit drugs, sex workers, patriarchy, diverse traditional spiritual beliefs, labour brokerage, and other exploitative relations (Bond, 2012a). Additionally destabilising is the insertion of financialisation and debt into these communities, through micro-finance and short term loans with high interest rates, “from established banks – one (Ubank) even co-owned by NUM and another (Capitec) replete with powerful ANC patrons – down to fly by night ‘mashonisha’ loan sharks” (Bond, 2012a). Thus, although membership is leaving the ANC and COSATU related structures for alternative movements, the positions of the workers are fragile, due to their low socio-economic position, as well as fragmented communities. The situation does begin “to unveil the intrinsic anti-socialist tendencies associated with the ANC-Alliance’s elite transition from revolutionaries to willing partners of some of the world’s most wicked

corporations” (Bond, 2012a). Yet, although South Africa has “amongst the highest protest rates in the world, the lack of connectivity between those with grievances is a crippling problem” (Bond, 2012a). Marikana demonstrated the declining legitimacy of the ANC and that COSATU is no longer representative of their membership. The violent reaction also revealed the darker coercive side which could be used by the elite alliance. It will remain to be seen whether a sustained, coherent, progressive, movement will emerge from the killings in the North West Province.

The ANC, and its allies, remain the dominant actor in South Africa and could continue in this form, though this will require a continuous remaking and adaptation of their project, as there exists no other political or social force which can provide a direct rival. However, “as long as the central terms of the project - the pre-eminence of capital accumulation over the wellbeing of citizens – stays unchanged, hegemony is unlikely to be achieved. The underlying crisis will remain unresolved and will generate increasing instability” (Marais, 2011: 394). South Africa locked into the global economic order and this diminishes the space which there is to manoeuvre. The entire project rests on an elite bargain and a passive revolution. Generally, the ruling coalition of interest consists of transnational South African corporations, both private and parastatal; foreign transnational corporations involved in finance, production and trade; high level government bureaucrats, especially those who interact with the global economy; the Black capitalist class, whether in the private or public sector; some members of the upper echelon of the ANC, especially those who adhere to global capitalism; a portion of the working class who have realised success through union investment vehicles or employment with transnational capital; and finally, much of the corporate media, especially those whose writing concerns finance (Satgar, 2008; 65). Though formerly a relatively unified liberation movement, the ANC no longer represent a coherent leadership structure. Rather, they represent a coalition of interests through which different goals can be furthered. This puts a premium on retaining power, “not for any single goal, but in order to facilitate the pursuit of disparate objectives” (Marais, 2011: 427).

Although the struggle for national liberation was led by the working class, the initiative was lost and “replaced by a top down, technocratic and elitist Afro-neoliberal project” (Satgar, 2008: 52). The public embodiment of this movement is the ANC who have demonstrated unparalleled strength in elections since the advent of democracy, even as their level of support has been steadily declining, as “the party’s (proportional) share of the vote dropped to 65.9% in the 2009 elections (from 69.7% in 2004)” (Leysens, 2012: 25). However, a unified society consists of more than electoral results. It is more comprehensive, including “the relationship between the masses and leaders, rulers and ruled in a dynamic process of articulating a political project that is defining of the authority to lead society” (Satgar, 2008: 53) If this relationship is severed, “[i]nstead of hegemony the logic of dominance prevails” (Satgar, 2008: 53) The ability to reproduce the hegemonic project is weakened by the “continuing reproduction of inequality, difficulties in improving the wellbeing of impoverished South Africans at the pace and on the scale required; the weakening of the ANC as a mobilising and disciplining presence in communities;” as well as dynamics of the ANC, including the threat of a dissolution of the tripartite alliance and a general lack of trustworthy leadership. (Marais, 2011: 394)

The ideological foundations of the non-hegemonic project are diverse, and in some ways contradictory. They include a commitment to liberal democracy, although this commitment appears to be decreasing as partisan interests undermine the independence of the judiciary and media (*The Economist*, 2012), alongside a view that some Constitutional principles are “alien to dominant traditions and values (Marais, 2011: 414). The ideological foundations also include a rejection of *apartheid’s* social and political structures and a belief in growth as the guiding macroeconomic principle, alongside a desire to eradicate poverty. (Marais, 2011: 395) This ideological programme is varied and even conflicting, which reflects the contradictions embodied in South African society. Because of this, mustering consent requires ungainly and unstable balancing acts” (Marais, 2011: 399). Indeed, there has been a turn of late, especially under the Zuma administration, to eschew some of the unifying myths which were incorporated during the first years of ANC governance; most notably in the notion of reverence for the constitution and the rejection of certain socially liberal stances for those which follow a more traditionally conservative path. The secular nature of society

under the Mbeki and Mandela administrations has been challenged under Zuma, who has publically portrayed a much more overt and fundamentalist version of Christianity, a religious group to which 75% of South African's proclaim they belong (De Waal, 2012a). Beyond secularism, there have also been threats towards other personal freedoms, such as homosexuality (Marais, 2011: 416). While this right is enshrined in the constitution, the belief in this policy does not necessarily garner the support of the majority of South African's, thus, the denigration or disenfranchisement of such individuals and choices demonstrates a rejection of personal freedoms in favour of pandering to a conservative, less tolerant, society. Additionally, there is an increase in the severity of the security apparatus, even beyond the conspicuous events at Marikana. Police enforcement is encouraged to be more ruthless, as "one can argue that the 'shoot to kill' approach promoted by top government officials [assigns] to police officers the status of both judge and executioner" (Marais, 2011: 415). It is not possible to say that at this time these constitute a broad trend in society. Yet, the behaviour and statements of some in the upper circles of government reveal a shift from inclusive, socially liberal and constitution ideological mythmaking in the 1990s, to a less tolerant, more conservative, and generally divisive pattern at present.

#### **4.5 What is to be done?**

The current situation is indeed a crisis. It is also perhaps a fork in the road, much as the crisis in the 1920s and 1930s was for the financial and political system. While we currently are not facing the threat of world war, as was experienced twice in the 20<sup>th</sup> century, the world is experiencing an inordinate level of violent conflict; some examples include the ongoing instability in Libya following the dissolution of Muammar Gadhafi's government; Somalia's continuing inability to form a central government and the conflict that this, coupled with foreign intervention, generates; foreign occupation and the indigenous reaction in Afghanistan; unrest throughout the Arab world following the tumultuous Arab Spring; and the seemingly intractable conflict in the eastern Democratic Republic of Congo; to name but a few (Foreign Policy, 2012: 85-99). This, along with the malaise of the financial system and the associated legitimization crisis of the hegemonic project could suggest that the global hegemon is losing or is about to lose its grasp on power. This chapter has focused on the crisis using the theoretical

structure discussed in Chapter 2. It started with a Marxist approach to acquire a holistic historical materialist perspective of the contemporary situation. This was followed by an analysis of South Africa, a state in the semi-periphery of the World System, to understand the consequences of the crisis on the intermediary level of the global hierarchy. Crises provide an opportunity for a critical re-examination of the systems which surround them. This moment is no different. As of yet, no broad, productive, fundamental reforms have been made. When looking at the South African context, the future does not appear to be progressing toward more stable and materially secure times. Instead, unless there is a concerted effort to reshape society and the economic policies by which it is governed, further societal instability is likely to occur. Potential counter-hegemonic movements are characterised by general disarray. Their weakness exists for a variety of reasons, co-optation by the elite, systematic attacks, both overt and covert, with the intention to discredit their positions, and the dissemination of rhetoric and consciousness which bolsters the dominant project, among others.

Thus, despite the economic, social, and ensuing legitimisation crisis, the prevailing coalition of social forces related to production and finance appears likely to continue to cobble together their dominant project. Elements of the project may be unravelling, especially in regards to “increasing dissatisfaction among the economically marginalised” (Leysens, 2012: 2) and the lack of support, if not outright opposition, of organised labour, at least at a grassroots level, while COSATU remains engaged in the tripartite alliance. The killings at the Marikana platinum mine aptly demonstrate that as consent wanes, control may be exercised more often through coercive force. In fact, as protests spread, and worsen, it shows that South Africa has, thus far, been unable to establish “hegemony where coercion is the exception to consensus” (Leysens, 2012: 25). Rhetoric from the governing ANC seems insufficient to reverse this trend, as do policy prescriptions. As the party prepares for an internal elective conference in Mangaung, currently characterised by factional disarray, their legitimacy will, most likely, continue to erode, as many citizens needs remain unmet while their leaders jockey for position within the party structures. The dearth of alternatives, both electorally and in widespread popular movements, mean that, most likely, this descent will continue.

## Chapter 5 - Conclusion

“Things fall apart; the centre cannot hold;  
Mere anarchy is loosed upon the world,  
The blood-dimmed tide is loosed, and everywhere  
The ceremony of innocence is drowned;  
The best lack all conviction, while the worst  
Are full of passionate intensity.”  
Yeats, W.B. (1920)

“The Enlightenment is dead, Marxism is dead, the working class movement is dead ... and the author does not feel very well either”  
Neil Smith; cited in Harvey (1989: 305).

The current economic crisis continues to have negative implications for many throughout the world. It has resulted in the most formidable challenge to the ideology which underlies the capitalist system since the Great Depression. By some measurements, the present situation is markedly worse. This thesis has regarded the economic crisis from a critical perspective. To understand the global structures, and the events occurring within them, a theoretical framework based upon the writings of Marx has been used. To sufficiently broaden and update his perspectives, a World Systems approach, along with contributions from Gramsci, have also been used.. This synthesis allows for the conceptualisation of a World System based upon capital and the associated class struggle which its mode of accumulation engenders. Paramount in this global hierarchy is the hegemon, at present, in the form of the United States of America (US). Along with this, in Chapter 2, the contributions of Robert Cox are integrated into the conceptualisation; whereby social forces are those who legitimate or effectively oppose a hegemonic project. This is examined in the case of South Africa. The study has argued that the economic crisis has caused a legitimisation crisis and thus provided the opportunity for an emancipatory transformation of the global political economy. However, the weakness of potential counter-movements means that the crisis is more likely to result in a passive revolution than a transformative change.

According to Marx and Engels’, “all history has been a history of class struggles” (Marx and Engels, 2010: 6). These struggles are centred on the conflict between the proletariat, who act as labour, and the bourgeoisie, who control capital. Similarly, the



process of historical change is driven by the dynamics of this struggle. Relational structures, from societal to familial, are determined by the manner in which labour is organised and their mode of production. As the means of productions change, so too do the relations of production. This in turn, affects all other aspects of life. The worker, in Marx time - 18<sup>th</sup> century Britain - was disconnected from the fruits of his labours, and realised a small task as part of a complex whole. This alienation from the products one creates is much more pronounced in the present than it was then. (Harvey, 2009; Burnham, 1994) The capitalist class continues to accumulate in higher proportions (See Chapter 3). Labour finds their relative, if not absolute - a conceptual distinction which is imperative to refute claims of modern prosperity – wealth declining. Yet, capital remains dependent upon labour, for production and consumption, although the temporal and spatial reorganisation which has accompanied globalisation has altered the dynamics of this dictum. However, in general, the relative affluence of labour declines and their future prospects become more precarious, leaving capital with a disaffected workforce and a precarious market. This situation breeds instability and, eventually, large-scale crises.

The current economic crisis was not, in a historical sense, unforeseen. In the *Communist Manifesto*, Marx and Engels wrote about the structure of the system which produces these crises. It is cyclical in nature, and poses a more serious threat to the system with each return. Each crisis results in widespread destruction, of means of production, of relations of production, of capital and livelihoods. Every turn results in more extensive exploitation, thus placing the systemic structures on more perilous ground, as they must eventually exhaust themselves. The history of the capitalist system is fraught with crises, as is the history of the current World System (See Chapter 3). It would be presumptuous - as Marx himself was on more than one occasion whilst remarking on contemporary events (See Wheen, 2007) – to say that this crisis represents the moment when the global capitalist system is bound for failure. Rather, it is instructive to consider that the contradictions of capitalism, at least over the last decades, have worsened, as have their accompanying crises. The notion of crisis has not escaped examination by, relatively, modern writers, upon whose thoughts and

actions much of the form of our modern economic system can be credited. John Maynard Keynes and Joseph Schumpeter both had notions about how a crisis affects society. Keynes believed that, while crises were intrinsic to the capitalist system, regulations and interventions could prevent, or at least ameliorate, their effects. Schumpeter also saw crises as natural, and for him they opened space for the creativity of capitalism, which, in the space that the associated destruction opened, could be reinvigorated and flourish (Burnham, 2010: 29). Capitalism does not appear vibrant; it seems contradictory and stale. Marx has been criticised on many fronts, as well as providing a framework for many writers who would either follow in his footsteps, or find his thoughts a coherent construction to oppose. Yet, his contributions to understanding the economic structures and relations which govern society, as well as the crises which accompany them, remain invaluable when examining our global structures today.

The modern World System is characterised by an industrialised core and a less developed periphery. In practical terms, the core consists of Europe and North America, and the periphery of the global South. The core generally produces higher value products while the periphery is most often a repository of cheap labour and natural resources. This distinction is not absolute. Areas of the core can contain similarities to the periphery and the periphery can contain elements of the core. The respective societies themselves are not homogenous. Inequalities exist at both ends of the spectrum. Yet, “hegemony, though firmly established at the centre of the world order, wears thin in its peripheries. Actual revolts provoked by economic penetration ar[ise] in the peripheries, and the use of coercion [is] much more evident in these areas (Cox, 1987: 150). There is also an intermediate level in this organisation; namely, the semi-periphery. This study has examined the contradictions of capitalism at a broad level, but has also looked towards the semi-periphery as an area from which an emancipatory transformation could emerge, as the last socialist transformation occurred in this intermediary area.

In this respect, the case of South Africa was discussed in Chapter 4. Indeed, the state-society complex in South Africa does not constitute a hegemonic project. Rather, the ruling elite represent an unlikely coalition of interests, struggling to preserve their

dominant project. This project aims to serve the interests of an emerging dominant class, namely: the black middle class, black corporate elites who have reached the upper echelon of this area post-*apartheid*, “white majority owned (financial and productive) capital” and organised labour (Leysens, 2012: 26). Given the decline in the legitimacy of this project, with widespread protests, and the state resorting to ever more violent means to quell dissent, it would appear that elements of this project are unravelling. There also appears to be a shift from socially liberal ideals to a more conservative and divisive method of obtaining consensus. Although there has been discussion at the elite level of a partial rejection of the economic structures and policies agreed to during the transition, it is likely to prove mainly rhetorical, as “[t]he South African [...] state, weak in capacity and the transitional phase of the current world order, pose[s] an enormous challenge to transforming the rhetoric into practice” (Leysens, 2012: 27) The possibility of a Leftist challenge also remains unlikely. Mobilisations generally occur around local and isolated issues, rather than presenting a unified front demanding transformative action. It would appear that, given the unravelling of elements of the dominant project, coupled with the incoherence of the Left, for the time being, the situation is likely to continue, and even worsen, as the inequalities and contradictions in society become more pronounced. Recent events, most notably the violence at the Marikana platinum mine in the North West Province, have provided an impetus for some social forces to mobilise in a coherent manner. This mobilisation is marked by a rejection of official structures aligned to the tripartite alliance, in favour of worker’s committees and nascent Leftist movements (see Chapter 4.4.3).

This challenge can also be seen at the global level. The financial crisis of 2009 and the subsequent enduring recession, has demonstrated the legitimisation crisis of the global hegemon, although it can be said that the US has been in decline for years prior to the financial crisis. Gramsci wrote that a hegemon exercises control through a combination of coercion and consent. The crisis has undermined the consensual nature of hegemonic practice. As a policy response, \$21 trillion has been moved from the public to the private purse (McNally, 2012), given to the financial institutions which were ultimately responsible for precipitating the crisis. These policies have illuminated the

nature of accumulation within the US. This has prompted, worldwide, many movements opposing the hegemonic structures. These movements did not arise simply due to the financial crisis and the policy responses of the subsequent years. Many existed in both similar, and different, forms for some time. Yet, the crisis has provided a clear moment and policies against which articulate opposition can be raised. They, at this time, lack a coherent counter-hegemonic strategy.. The same is true for the general ideological position of the Left. Ideas proliferate, yet, as a whole, they lack the coherence and determination of the hegemon. The crisis has illustrated the lack of legitimacy which currently accompanies the hegemonic project; yet, the Left, and other possible counter-movements, remain unable to present a realistic alternative.

The study has attempted to examine the capitalist World System in light of the ongoing economic crisis. It has found that the responses from the hegemonic structures and institutions are insufficient to address the monumental obstacles and contradictions inherent in this system. Nor have populist mobilisation, and leftist ideological perspectives, provided a coherent counter-hegemonic model. This leaves the global economic and social structures in an uncomfortable state of flux, an “interregnum [where] a great variety of morbid symptoms appear” (Gramsci, 1971: 276). The inequalities engendered by the capitalist World System leave the legitimacy of the hegemonic project open to question. The current economic crisis, and the responses which have followed, only exacerbate this fact. This has prompted a crisis of legitimation for the World System, which has been characterised by liberal capitalism and US hegemony. However, without a coherent strategic challenge from the Left, or a radical correction by the hegemon, the contradictions of capital will continue to contribute to the demise of the hegemonic World System, and may result in an anarchic, global (dis)order.

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