Globally Segmented Labor Markets: The Coming of the Greatest Boom & Bust, Without the Boom[1]

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A world Social Structure of Accumulation (SSA) is forming based on global segmentation of labor, financialization, and a neoliberal trade regime. Unlike its Fordist era counterpart, this SSA lacks a corresponding regime for consumption because it has outsourced production to low-wage authoritarian regions. This is resulting in inadequate purchasing power within developed nations for whom global production is intended, raising the potential of global crisis. In fact, these emerging structures may implode before any significant accumulation occurs when the US consumer debt bubble that has been fueling consumption bursts. The paper concludes that the emerging system is intensifying class contradictions embedded in private property relations that will lead to intensified downturns. Therefore, the only structural solution is not reform but fundamental reorganization of socioeconomic relations. However, this requires a new transnational labor-activist movement willing to challenge the legitimacy of capitalism with radical counter-ideology and militant direct action.

KEYWORDS: **S**ocial Structures of Accumulation, Labor Segmentation, Neoliberal Globalization, Social Movements, IMF, WTO.

INTRODUCTION

The emerging production model referred to as globalization is reexamined using the institutional framework of Social Structures of Accumulation (SSA). According to SSA theory, multiple social and historical factors, rather than mechanistic economics, determine economic growth. Specifically, capitalists invest on expectations of return. These expectations are shaped by external economic, as well as political and ideological conditions. This external environment is referred to as the SSA, which not only determines economic expansion, but also the class

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distribution of economic gains. Important features of the institutional environment are the system of money and credit, the pattern of state involvement in the economy, and the structure of class conflict (Gordon et al. 1982).

The structure of class conflict is of particular importance because it determines the shape of institutional arrangements and whether they will be conducive to investment. SSA also holds that expansionary periods eventually end due to institutional relations becoming ossified, relative to the demands of new economic realities (Kotz et al. 1994). This is the Marxist argument of the relations of production (institutional relations) becoming fetters to the forces of production (industrial capacity) (Marx and Engels 1978). Lastly, this approach views the development of each SSA 'as historically contingent, its internal unity as historically contingent, and its disintegration as historically contingent' (McDonough 1994: 78).

Furthermore, historically contingent class conflicts and inter-capitalists rivalries result in an uneven process of growth and accumulation. In addition, there is unevenness built into the system exemplified by the business cycle and Kondratieff long waves. In turn, with each business cycle there results a greater concentration of capital and a reduction in the size of the capitalist class. It is argued that a global SSA is forming based on the solidifying regimes of financialization, neoliberal trade, and a new global segmentation of labor resulting from, and intensifying, the defeat of developed nation working classes. But, as the historical process of capital concentration is intensifying, occurring at the international versus national level, the fundamental mechanics of capitalism remain unchanged. However, this presents a *qualitative* break from the past in that corporations have severed the flow of a national business cycle by outsourcing *production* to nations with preindustrial labor and civil rights conditions for cheap disciplined workers while depending on market based *consumption* in advanced nations. This leads to reductions in purchasing power without a mechanism to restore income flows back to the worker-consumers of developed nations. Consequently, the class contradictions of the new system may result in global economic stagnation, if not collapse, without real new growth-accumulation. The reason is that the new regime of global production lacks a corresponding regime for consumption. Inevitably this will cause stagnation due to the classic contradiction of overproduction-underconsumption emanating from capitalist private property relations. Therefore, a structural solution is not reform but altering property relations toward anarcho-communist forms of societal organization, allowing for the uninterrupted flow of production-consumption (market clearing).

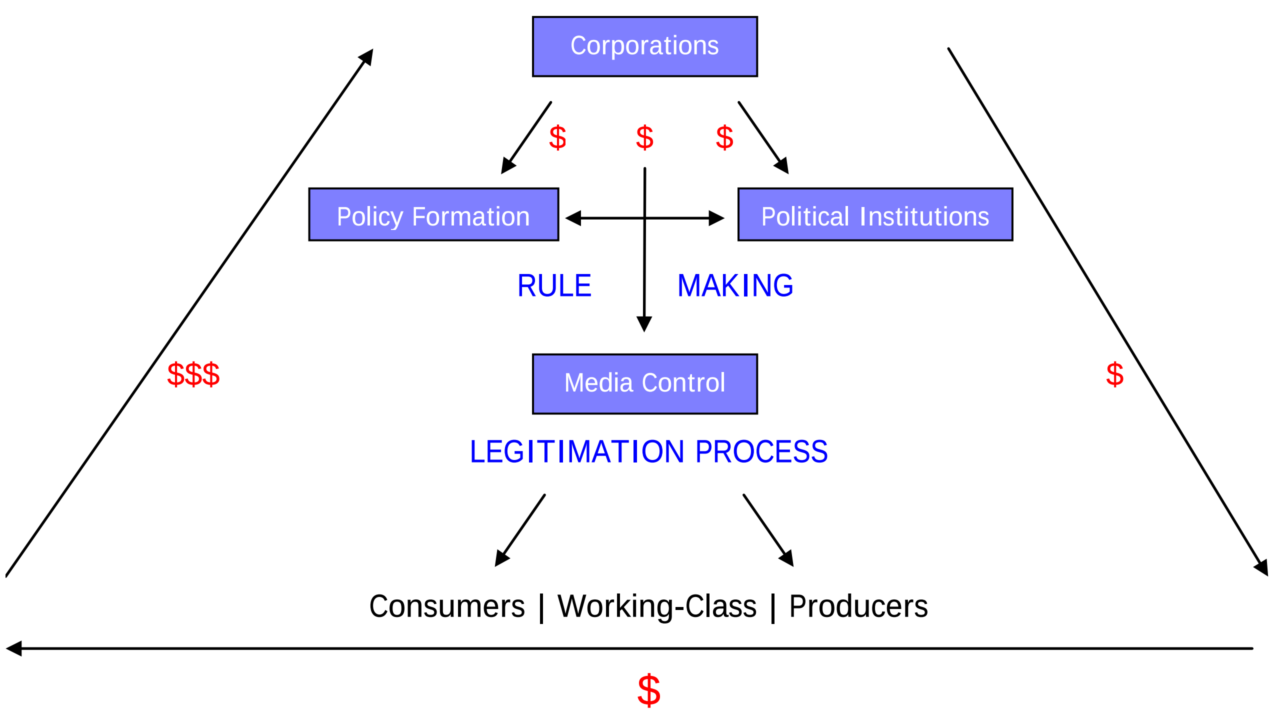
For this paper, the working-class includes any person or household that does not own adequate means of production as to have a relatively high living standard without dependency on paid work. Outsourcing will refer to the transfer of production from developed to developing regions and the strategic decision to make new investments in the latter. It is also assumed that corporations reflect the interests of the upper-class which owns them, thus the two will be used interchangeably. The upper-class controls the state which protects and promotes their interests. Market clearing occurs when purchasing power allows aggregate demand to equal output (there are no market shortages or surpluses). Neoliberalism and globalization refer to free trade/capital flows; outsourcing; anti-labor policies; privatization and deregulation; upper-class tax-cuts; and cuts in social spending. As known, the principle of self-organization refers to a form of direct democracy (people representing themselves), while self-direction refers to worker owned and operated collective production.

INSIDE THE HEGEMONIC STATE

That states represent the interests of their governing elites is not new. What is new, deserving analysis is how this is done today and by whom. Specifically, US corporations have managed to construct neoliberal global regimes through control of domestic political, financial, and ideological institutions. These institutions are then used to develop and promote a dominant ideology (expressed through neoliberal policies) that legitimize capitalist relations in production and consumption domestically and abroad (figure 1). First, the elite are class-conscious of their common interests making them a *class-for-themselves* (Domhoff 1975; Mills 2000). These upper-class interests are reflected in the behavior of America's top financial institutions which form direct and indirect interlocks with the board of directors of major corporations (Mariolis 1975; Mintz and Schwartz 1985; US Senate Committee on Governmental Affairs 1978b). This allows banks to function as coordinators and facilitators of capitalist interests (Domhoff 2002). For example, banks are the major stock voters in over 122 top US corporations (US Senate Committee on Governmental Affairs 1978a). These interlocks reduce competition among companies by creating a common business agenda. Financial institutions also assist in formulating unified political agendas for corporations and the wealthy (Domhoff 2002; Mizruchi 1992). Thus, financial institutions function as ringleaders for forming a unified and highly conscious corporate-capitalist class.

Second, corporations have secured control of public policy formation by their *de facto* influence over major think tanks, foundations, universities, and advisory groups through their deep and historical financial funding and staffing (Domhoff 2002). For example, The Council on Foreign Relations and The Conference Board are major policy formation groups with expansive ties to government and are mostly dominated by corporate executives and members of the upper class. Third, corporations have achieved control over the legislative process (the rule making) through lobbying, political contributions, political office staffing (despite clear conflicts of interest), and corruption (Palast 2004). For example, corporate executives are often put in governmental positions responsible for the policing of the very industries they came from. Treasury Secretary Henry Paulson, while he was the CEO of Goldman Sacks, requested the deregulations from the Securities and Exchange Commission (SEC) which caused the 2008 meltdown. He convinced the SEC to allow major financial institutions to increase their leverage and risk exposure by exempting them from the *net capital rule* that required them to hold higher capital reserves. As Treasury Secretary, he then asked for the epic bailout of 2008 benefiting financial corporations which he has always represented. Fourth, corporations control the free flow of information and influence public perceptions by owning most means of disseminating information—the media (Goodman and Dretzin 2005). Media concentration combined with corporate governance ensure the

Figure 1. The Corporate Control Model



reproduction and reinforcement of the dominant ideology using advanced propaganda models while neutralizing critical dissent as exemplified by Rupert Murdoch's Fox network (Chomsky 1989, 2002; Greenwald 2004) or the wide spread purging of progressive scholars from academia. Having secured control over domestic policy formation and implementation, corporations are expanding neoliberalism globally through the US government, which effectively controls the rule-making of the new regimes (McMichael 2008).

COMPONENTS OF THE EMERGING GLOBAL SSA

Given the declining rate of profit since the 1970s within developed nations, capitalism has pursued surplus value through globalization (Harvey 2006). But, is this the beginning of a new mode of production? The answer is no because these changes are more accurately described as evolutions of a fundamentally capitalist mode of production (Wolfson 2003). Rather, we are witnessing the formation of a new US led global SSA (or hegemonic regime in the language of political scientists) based on three emerging regimes. The first is the financial regime based on the World Bank and International Monetary Fund (IMF) functioning as (de)regulatory institutions for the global economy (O'Hara 2001; Peck 2002). The second is a neoliberal trade regime expressed by the World Trade Organization (WTO) and Free Trade Agreements (FTAs) (McMichael 2008). The third involves globally segmented labor markets made possible by, and intensifying, the defeat of national working classes. The origins of these regimes can be traced back to developed nations, in particular the hegemonic US and to a lesser degree the EU. In fact, we now have the emergence of *global managers* consisting of transnational corporations and banks, the WTO, World Bank and IMF, and the G-7 (McMichael 2008).

The Financial Regime

The formation of the new financial regime centered on the IMF, World Bank, and transnational banks can be traced to the 1980s. Its creation came out of the collapse of Bretton Woods in the 1970s. At that time transnational banks were forming providing offshore tax havens without controls on capital flows for transnational corporations. The banks accumulated massive reserves from corporate accounts which were then lent-out to developing nations creating the foundation for the 1980s debt crises. These developments and corporate behavior were also a major cause for the demise of the Bretton Woods regime (which had institutionalized the old colonial relations) and financial deregulation (e.g. of capital flows and currency exchange rates, causing the Mexican currency crisis in 1994 and Asia in 1997). In the wake of the 1980s debt crises which followed, the role of the World Bank and IMF changed *qualitatively* by adopting neoliberal principles leading to the formation of new financial and trade regimes. The adoption of neoliberal ideology by these institutions was assured given that the US has 16.79 percent of the vote at the IMF and 16.38 percent at the World Bank—shares multiple times more than that of any other single nation; the US and EU have 48.88 percent of the vote at the IMF and 44.94 percent at the World Bank; and traditionally the World Bank is headed by an American and the IMF by a European (IMF 2007; World Bank 2007).

Some scholars such as Panitch and Gindin (2005) argue that the financial regime is not new. Rather, it is a continuation of forces dating to the formation of Bretton Woods when the financial sector was requesting policies that are associated today with neoliberalism such as free capital flows. That financial or any other capital was opposed to regulation that it did not control should not be surprising. What is important is that at the end of the day Bretton Woods did not include these demands. Therefore the liberalization of capital flows is more properly dated to the 1980s although it has its origins in the prior system. Interestingly, Panitch and Gindin seem to acknowledge this qualitative shift 'The impact on American financial institutions of inflation, low real interest rates and stagnant profits in the 1970s accelerated the *qualitative transformations* [italics added] of these years, which increasingly ran up against the old New Deal banking regulations. … This was what prompted the global 'financial services revolution'…' (2005: 57).

Specifically, the first major shift occurred when in its *World Development Report 1980*, the World Bank changed the definition of development from 'nationally managed economic growth' to 'participation in the world market' (McMichael 2008). This was a move away from what in essence were protectionist policies (nationally managed economic growth) utilized by developing nations toward neoliberal global trade (meaning capital mobility) controlled by and privileging transnational corporations. Second, the World Bank and IMF went from providing development assistance/project loans to reorganizing the economies of the poor nations in crisis through policy/structural adjustment loans. For example when poor nations are forced to seek help from the IMF (as a lender of last resort) they must agree to neoliberal reorganization of their economy—especially privatization before obtaining assistance from the World Bank and transnational banks. In addition to privatization of state resources, these measures which reflect the 1980s Thatcher/Reaganite ideology include severe reductions in public spending, currency devaluation, and wage reductions to attract 'foreign investment' as a result of decreased export prices.

Therefore, the emerging financial regime is designed to facilitate global capital mobility in search of profits via cheap labor. The importance of capital mobility and privatization is that it makes possible the financing of production and ownership of national resources in developing regions. This is demonstrated by the record level of net Foreign Direct Investment (FDI) inflows to China which have intensified upon its WTO entry in 2001 (US Census Bureau 2006a). In fact, the implementation of such policies has been followed by intensification in FDI flows to extremely poor nations given no restrictions on profit repatriation. Prior to such liberalization, nations imposed restrictions on the levels of FDI flows and foreign ownership of domestic industries to maintain control over their economy. However, this made it difficult for transnational corporations to engage in their investment strategies. More important than rock-bottom prices for national resources, the regime secures the repatriation of profits from production in developing nations. The threat of capital mobility also makes it possible for corporations to continuously extract concessions from developing host nations and to discipline uncooperative governments. Finally, corporations reap tax benefits with international shell accounting and offshore banking which the financial regime makes possible.

Is this a stable regime and what about inter-state rivalries? In terms of inter-state rivalries, the financial regime is the most stable out of the three which constitute the emerging SSA. This is true because it institutionalizes US global financial interests tying the economies of other nations to it. According to Panitch and Gindin 'the globalization of finance has included the *Americanization* of finance, and the deepening and extension of financial markets has become more than ever fundamental to the reproduction and universalization of American power' (2005: 47). However, this may not be sufficient to stabilize the global system of which financialization is but only a component. More specifically, as argued by Frank:

> … financial instruments have been ever further compounding already compounded interest on the real properties in which their stake and debts are based, which has contributed to the spectacular growth of this financial world. Nonetheless, the financial pyramid that we see in all its splendour and brilliance, especially in its centre at Uncle Sam's home, still sits on top of a real world producer-merchant-consumer base, even if the financial one also provides credit for these real world transactions. … As world consumer of last resort … Uncle Sam

> performs this important function in the present-day global political-economic division of labour. Everybody else produces and needs to export while Uncle Sam consumes and needs to import. … [a significant reduction in US consumption] may involve a wholesale reorganisation of the world political economy presently run by Uncle Sam. (2006: 30-1)

Therefore, the Achilles heel of the system remains consumption. This is true even if nations such as China and Japan have no choice but to participate in the financial regime through purchases of T-Bills to prop-up the value of the dollar and thus US consumption/imports. In other words, even a global financial regime is dependent on a balance between production and consumption leading us back to purchasing power and aggregate demand as will be addressed.

The Neoliberal Trade Regime

Corporations however needed another element present in order to take full advantage of globalized production. While the financial regime secures capital mobility, the global trade regime centered on the WTO and other FTAs is needed to secure mobility of production. The blueprint was the 1994 North American Free Trade Agreement (NAFTA). NAFTA allowed the free flow of goods and investment *but not of people* between an industrialized high-wage region and a developing one with extremely low wages. According to Scott et al.:

> NAFTA … provided investors with a unique set of guarantees designed to stimulate foreign direct investment and the movement of factories within the hemisphere, especially from the United States to Canada and Mexico. Furthermore, no protections were contained in the core of the agreement to maintain labor or environmental standards. As a result, NAFTA tilted the economic playing field in favor of investors, and against workers and the environment, resulting in a hemispheric "race to the bottom" in wages and environmental quality ... (2006: 4)

It was predicted by proponents that NAFTA would lead to a US trade surplus with Mexico. Instead, from 1993 to 2004, it rapidly led to a $107.3 billion trade deficit and a loss of 1,015,291 US jobs (Scott et al. 2006: 5).

The establishment of the WTO in 1995 extended these dynamics to a global scale. For example, the US trade deficit with pre-WTO China averaged $9 billion per year from 1997 to

2001 (Scott 2007). When China entered the WTO in 2001, the deficit began to average $38 billion per year from 2001 to 2006. As a result of these investment flows:

> The rise in the U.S. trade deficit with China between 1997 and 2006 has displaced production that could have supported 2,166,000 U.S. jobs. Most of these jobs (1.8 million) have been lost since China entered the WTO in 2001. Between 1997 and 2001, growing trade deficits displaced an average of 101,000 jobs per year … Since China entered the WTO in 2001, job losses increased to an average of 441,000 per year. (Scott 2007: 1)

Furthermore, between 1948 and 1970 there were only six FTAs, 34 from 1971 to 1991, but after the establishment of the WTO in 1995 the number of FTAs reached 181 by 2002 spreading neoliberal trade far and wide (table 1). The WTO itself is the successor to GATT (1948) which the US created as an alternative to the International Trade Organization because it included the UN's Declaration of Human Rights such as full employment, social security, etc. Consequently, the WTO reflects the interests of its creator and dominant state(s). As with all past global systems of accumulation, the WTO is technically an independent institution (to give it the semblance of legitimacy) which in practice is defined by the hegemonic state (US policy) and to a lesser degree the elites of other developed nations.

This neoliberal trade regime allows corporations to safely move production around the globe in search of low labor costs and financial incentives without fear of tariffs or barriers in order to boost historically declining profits. For example, the Organisation for Economic Co-operation and Development (OECD) estimates that 20 percent of US outward direct investment is protected by FTAs, 43 percent for Canada, and over 60 percent for the UK (2005: 36). Even Japan, which has only recently accelerated its FTA memberships, has 12 percent of its outward FDI protected. In addition to lowering transaction costs for globalized production, FTAs also guarantee that once the goods are produced in low-wage regions they can be exported unhindered into developed nations like the US for market based consumption. Barriers to trade would have made this unprofitable, thus limiting the extent of globalization.

Table 1. Total Number of Regional Trade Agreements 1948 – 2002

YEAR OF ENTRY INTO FORCE	NUMBER OF REGIONAL TRADE AGREEMENTS	YEAR OF ENTRY INTO FORCE	NUMBER OF REGIONAL TRADE AGREEMENTS	YEAR OF ENTRY INTO FORCE	NUMBER OF REGIONAL TRADE AGREEMENTS
1948	0	1968	5	1988	29
1949	0	1969	5	1989	31
1950	0	1970	6	1990	31
1951	0	1971	8	1991	34
1952	0	1972	8	1992	43
1953	0	1973	15	1993	56
1954	0	1974	15	1994	65
1955	0	1975	15	1995	80
1956	0	1976	17	1996	91
1957	0	1977	21	1997	110
1958	2	1978	21	1998	129
1959	2	1979	21	1999	141
1960	3	1980	21	2000	156
1961	4	1981	24	2001	167
1962	4	1982	24	2002	181
1963	4	1983	25		
1964	4	1984	26		
1965	4	1985	27		
1966	4	1986	28		
1967	4	1987	28		

Source: Global Policy Forum http://www.globalpolicy.org/socecon/trade/tables/rta.ht

Moreover, FTA rules are typically designed in secret by corporations and their governments, often with little to no participation of any citizen, environmental, or labor groups. A prime example of this is the WTO proceedings (O’Hara 2001). Not surprisingly, the trading rules disproportionately privilege capitalist interests, which pit high-income workers of developed regions against those of underdeveloped regions through outsourcing and Export Processing

Zones (EPZs) (McMichael 2008; O'Hara 2001). For example, Mexican real wages have remained flat despite NAFTA's promises as employment increased together with declines in US jobs and real wages:

> Mexican employment did increase, but much of it in low-wage "maquiladora" [EPZ] industries, which the promoters of NAFTA promised would disappear. … the share of jobs with no security, no benefits, and no future expanded. The continued willingness every year of hundreds of thousands of Mexican citizens to risk their lives crossing the border to the United States because they cannot make a living at home is in itself testimony to the failure of NAFTA to deliver on the promises of its promoters. (Scott et al. 2006: 2)

Globally Segmented Labor Markets

These policies shift national labor market segmentation, a concept developed by Gordon et al. (1982) to a new artificially-created *global segmentation of labor* without corresponding limitations on capital flows. The origins of the new labor regime can be traced back to the 1980s when the US had to contain inflation to stem capital outflows and balance the international financial system. At the time, taming inflation meant increasing interest rates through the Volcker shock (by reducing the money supply and later increasing Federal rates) and containing wage-led inflation from a US labor and Civil Rights movement on its last gasp. The latter was achieved by crushing what remained of the labor movement exemplified by Reagan's firing of the Air Traffic Controllers. This cleared the way for financial capital to expand its global outreach (by securing international confidence in the value of the dollar) and its merging with production capital. According to Panitch and Gindin:

> … the Volcker shock's contribution to the new priority of 'breaking inflationary expectations' in the early '80s depended on something more fundamental still. … the real issue was not so much finding the right monetary policy, as restructuring class relations. Breaking inflationary expectations could not be achieved without defeating the working class's aspirations and its collective capacity to act … Volcker would later say that 'the most important single action of the administration in helping the anti-inflation fight was defeating the air traffic controllers strike.' It was on this basis that the American state regained the confidence of Wall Street and financial markets more generally. This proved pivotal to the reconstitution of the American empire by unleashing the new form of social rule

> subsequently labelled 'neoliberalism' – promoting the expansion of markets and using their discipline to remove the barriers to accumulation that earlier democratic gains had achieved. (2005: 63-4)

Although the new labor accord had been initiated by Reagan defeating US workers in the 1980s, it could not be fully developed into globally segmented labor markets without first the financial regime to secure capital mobility (1980s) and second the neoliberal free trade regime (1995) to secure mobility of production but not of people. For this reason the emergence of globally segmented labor markets can be dated to 1994-5 with the establishment of NAFTA and the WTO, the final element in the equation. In essence neoliberal globalization, and the emergence of globally segmented labor markets, re-institutionalizes the old Bretton Woods core-periphery relations which it had institutionalized in turn from the pre-world war colonial system. Effectively, the world's poor are trapped in regions of absolute-poverty-wages, creating a modern serfdom. According to Satterfield:

> The Internal 'logic' of the new SSA is that of a *core-periphery* model of accumulation. It can be successfully adopted by a subset of national economies (the core) [i.e. U.S., E.U., and Japan], but these, in turn, require the existence of a periphery of non-participating economies from which they are able to import unemployment as a worker discipline device [which means that] a *credible* threat to re-locate production is necessary. (cited in Peck 2002: 212)

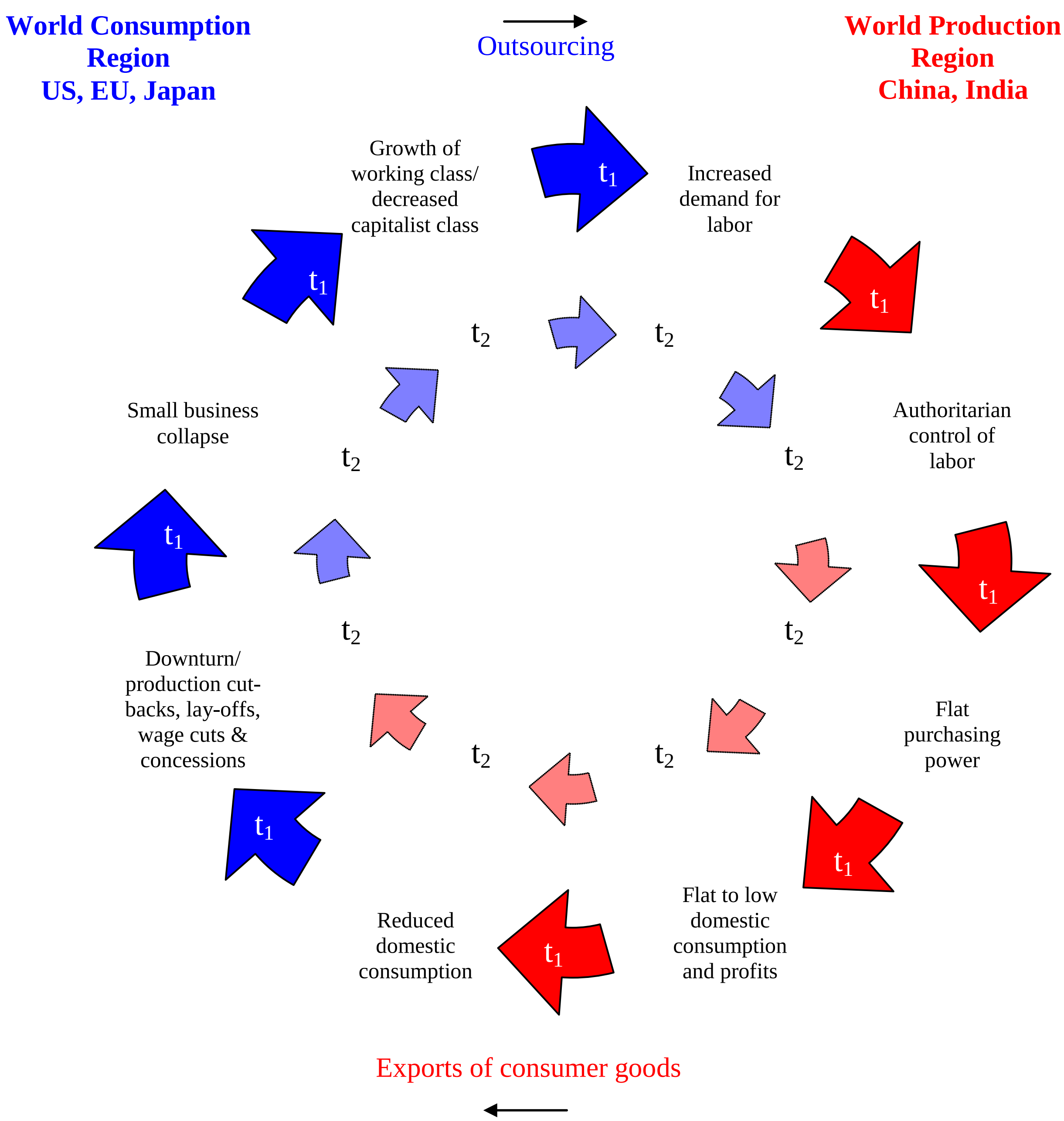
It follows that corporations also use the threat of outsourcing to discipline developed-region workers by arguing their wages and benefits are too high and thus not globally competitive. This in turn accelerates the downward spiral in labor standards. However, one could argue the problem is low wages in poor regions that need to be raised. This is why many scholars and activists have argued in favor of *fair trade* rather than free trade (McMichael 2008).

More importantly, global segmentation of labor markets presents a *qualitative* change in that it institutionalizes and intensifies a 1970s labor accord based on defeated national working-classes by updating the traditional core-periphery divide of colonialism/neo-colonialism. This creates high-income regions (figure 2) of *democratic market based consumption,* where consumers are given greater sovereignty and consumption opportunities. However, as workers, they experience flat real wages, increasing inequality, and the erosion of social safety nets such as pensions, healthcare benefits, and job security (Dorgan 2006; Peck 2002; US Census Bureau 2006b, 2006c). Low-income regions of *authoritarian production* such as China are also created where the great majority of people remain subsistence-wage consumers. For example, 'it has been estimated that wages in China would be 47 to 85 percent higher in the absence of labor repression' (Scott 2007: 1). All too often these workers experience flat and extremely low incomes, violations of basic human and labor rights, and sweatshop conditions while independent monitors and the media are prohibited in such factories and EPZs (Dorgan 2006). The National Labor Committee (NLC) made note of the following:

> The lack of worker rights, especially the core internationally recognized labor rights to freedom of association, to organize independent unions and to bargain collectively, is the single greatest reason that China's factory workers are being left behind. The tens of millions of rural migrants working in China's export factories are certainly one of the pillars – if not the most significant one – supporting China's surging economy, the fastest growing in modern history. Yet the workers' wages have remained largely stagnant over the last decade. (2000-6 nlcnet.org/live/reports)

Furthermore, although the Bureau of Labor Statistics does not track Chinese wages, it estimated the hourly factory compensation in China to be 64 cents including wages, benefits, and social insurance (Banister 2005). By contrast, in 2004 the hourly factory compensation in Mexico and Brazil was $2.50 and $3.03 respectively, compared to $21.90 in Japan, $23.17 in the US, $23.89 in France, $24.71 in the UK, and $32.53 in Germany (US Department of Labor 2006b). In addition, wages for China, Mexico, and Brazil have remained relatively flat since the 1990s as other parts of the world have been able to offer even cheaper labor. For example, the average hourly wage for apparel workers in Guatemala is 37-50 cents, 20-30 cents in India, 10 cents in Indonesia, with Bangladesh coming in at a mere 1 cent (NLC 2000-6). Consequently the promises of NAFTA and other FTA promoters that these agreements would increase real earnings in developing member nations have been shown to be false.

Figure 2. The Global Production-Consumption Model



On the consumption side, the average pair of Puma sneakers retails for $70 in the US, giving Puma a gross profit of $34.09 (NLC 2000-6). However, these shoes are produced in Pou Yuen, China for a total labor cost of $1.16, with the worker getting an average take home pay of 35 cents per hour. Clearly, the cost savings are kept almost entirely by the corporation, rather than being passed on to the US consumer. Moreover, regardless of the purchasing power parities, Chinese and developing world workers cannot afford these consumer goods. The worker mentioned above would have to work 200 hours, or five 40 hour weeks, for one pair of shoes she produced with about three hours of labor! In other words, low-wage regions are simply segregated labor markets for production that is intended for the developed regions as indicated by US-China trade flows.

In general, the macroeconomic picture that the three regimes are painting is very clear. The role of the IMF and World Bank changed to that of facilitators of capital mobility by the 1980s with the collapse of the Bretton Woods accord. In the 1990s, the neoliberal trade regime began to solidify with the transformation of GATT into the WTO (1995) and the formation of NAFTA (1994) a year earlier. Once the basic neoliberal trade structure was established it set the stage for the formation of additional FTAs.

Having secured the mobility of capital and goods through the trade and financial regimes, corporations then began to outsource investment into developing nations for extremely low labor costs while suppressing workers at home. This explains why from 1993 to 1998 the top three recipients of FDI among developing nations were China (25.7%), Brazil (7.6%), and Mexico (6.5%), with India also gaining in recent years (Global Policy Forum 2006). The preceding nations all have very large labor pools in absolute poverty combined with relatively stable political structures. As a result, 2004 net FDI inflows to China reached record levels at $53 billion, while net FDI outflows from the US exceeded $145 billion compared to previous net FDI inflows of $11.3 billion in 1990 (OECD 2005: 12, 17, 46-7).

As FDI inflows to low wage regions reached record levels, so did America's trade deficit as corporations shipped back the output of outsourced production to developed regions for consumption. For example, the US trade deficit with China reached $201 billion in 2005, compared to the pre-WTO levels of $10.4 billion in 1990 and $6 billion in 1985 (US Census Bureau 2006a). The declining growth rates of real GDP per capita in developed nations is the mirror image of these trade deficits as corporations relocate production (and now services) to developing ones, with the most significant drop after the 1990s when the emerging regimes began to solidify (table 2). Panitch and Gindin (2005) argue that theoretically the privileged position of the US in the global system could allow it to experience perpetual trade deficits that nations like China have no choice but to accept. This is possible given that the international reserve and trade currency is the US dollar. Thus, the US can purchase global goods denominated in its own currency by printing money at a cost of a few cents for paper and ink (Frank 2006). Panitch and Gindin though ignore that these deficits have real consequence for US workers. According to Scott:

> Growth in trade deficits with China has reduced demand for goods produced in every region of the United States … Workers displaced by trade from the manufacturing sector have been shown to have particular difficulty in securing comparable employment elsewhere in the economy. More than one-third of workers displaced from manufacturing drop out of the labor force … Average wages of those who secured re-employment fell 11% to 13%. Trade-related job displacement pushes many workers out of good jobs in manufacturing and other trade-related industries, often into lower-paying industries and frequently out of the labor market. (2007: 5)

Such outsourcing has contributed to flat and even reduced real wages for the US working-class as incomes of the upper-class rise leading to growing inequality. For example, the Gini Ratios for Households in America were .397 in 1967, .419 in 1985, .450 in 1995, and .466 in

2004 (US Census Bureau 2006b). Furthermore, these shifts lead to reduced purchasing power and hence, aggregate demand. Consequently, corporate profits have also been declining. According to O'Hara (2004), the profit rate for the 500 largest US transnational corporations was 7.71 and 7.15 percent in the 1950s and 1960s respectively when the Fordist model was operative. Profit rates dropped to 5.3 and 2.29 percent in the 1980s and 1990s, while they were only at 1.32 percent from 2000-02. This trend was found to be identical in fact for the largest transnational corporations, regardless of their national origin. According to Kotz (2006) from 2001 to 2005 profit rates began to rise reaching 4.6 percent in the non-financial sector. Kotz attributes this to corporations keeping productivity growth of 3.1 percent per year resulting in flat real wages for workers that saw compensation rise only 0.6 percent per year. The author argues corporations were able to keep wages flat despite productivity growth due to the workings of the emerging neoliberal model. More so, corporations are extracting ever greater surplus value from workers in low-wage regions. This is fundamentally what underscores increases in corporate profits since 2001 when globalization was solidifying instead of innovations and productive investments.

Table 2. Average Yearly Percent Growth of Real GDP per Capita (using PPP in 2002 dollars)

	1960-9	1970-9	1980-9	1990-9	2000-5
US	2.9	2.14	2.32	2.04	1.55
UK	2.36	2.27	2.71	1.96	1.73
France	4.46	2.75	2.06	1.58	0.84
Germany	3.52*	2.58*	1.98*	1.48**	0.66*
Japan	9.02	3.30	3.39	1.14	1.1

Author's calculations based on data from the US Bureau of Labor Statistics 2006a
*(*figures for W. Germany **data from 1991-99)*

In other words, globalization has constructed a finely-tuned system that focuses on the efficiency of SSAs related to production. But economic activity is based on a production-consumption model and it is consumption that globalization is undermining. In the typical workings of a national business cycle, capitalist accumulation is equivalent to a *siphoning-off* of surplus value and thus purchasing power away from the working-class into the pockets of the capitalists. But, unless the capitalists invest that wealth in activities that generate jobs *and* adequate income, the economy will stagnate due to overproduction-underconsumption. Here, Keynesianism's importance becomes clear in that to end a downturn, government spending is needed to spark consumption and thus market clearing. This is largely why supply-side or trickle-down economics has been proven ineffective as demonstrated by the Reagan and Bush administrations, echoing Marx's critique of Say's Law (1978b). Namely, giving the capitalist class tax breaks, dismantling social safety nets, and creating low-paid flexible workforces add up to capitalist windfalls without guarantees that these savings will be invested in high-income job-generating businesses (Harrison and Bluestone 1990).

As figure 2 demonstrates, globalization is short-circuiting the income flow in the developed regions between production and consumption more so than nationally-based business cycles. Thus, globalization with its combination of an SSA for democratic market based mass consumption (upon which it depends) and the SSA of authoritarian organization of production is siphoning-off purchasing power from producers-consumers in the developed regions at a greater rate. According to Kotz 'the result tends to be a high profit/stagnant wage expansion [for developed nations] that faces a contradiction between the conditions for creation of surplus value and those necessary for its realization' (2006: 2).

TOWARD COLLAPSE: A GLOBAL SSA WITHOUT INCOME?

The question for scholars today is whether globalization can increase productivity, which would raise wages, consumption, and the living standards of society as a whole (as has historically been the case under the Fordist model). However, this new global SSA may not be capable of sustaining an expansionary period (Kotz 2006; O'Hara 2001, 2004). This is supported by the data on declining or flat GDP growth rates for the world's five largest economies (table 2). Although the national working-classes have been defeated since the 1970s, the capitalist global economy still has the normal contradictions found at the national level. Namely, regardless of the global financial and trading systems' stability, the increased rate of exploitation through segmented international labor markets, and control of the means of ideological production and distribution, a sale must be made before any profits are realized. If consumers' purchasing power is insufficient to clear markets, then stagnation is inevitable.

This is true because the mode of capitalist accumulation and thus economic growth depends on market based consumption leading to Marxist critiques of overproduction-underconsumption (Marx 1978a, 1978b). Specifically, 86 percent of global goods and services are consumed by the wealthiest 20 percent of the world's population, generally in developed nations, especially the US (McMichael 2008: 1). This implies that the production of the new global SSA depends on consumption primarily by the US as Frank (2006) argues followed by the EU and Japan. Thus, although the financial system may be stable according to Panitch and Gindin (2005), the overall global SSA, of which it is a component, is not given a severely defeated US working class.

Could high US consumption needed by the global system be derived from shared productivity gains between capital and labor? As noted, the answer is *no*; businesses have kept virtually all of the productivity gains (Kotz 2006; Leicht and Fitzgerald 2007). What is even more troubling is that the gains themselves were derived not by technologically-induced productivity growth, but by corporate savings, compliments of flat wages and a disciplined contingent labor force due to neoliberal restructuring of the economy (Frank 2006; Kotz 2006; Peck 2002). Thus by definition it would be impossible to talk of shared productivity gains between labor and capital when they are derived at the expense of the former. Therefore, the historical trend of shared productivity gains that was expressed in the past Fordist expansionary SSA is no longer operative. Yet, Americans continue to consume at high levels. As Kotz states, 'Here we arrive at the nub of the contradiction of accumulation in a neoliberal institutional structure. How can consumer spending continue to rise rapidly while real wages are repressed?' (2006: 10). For example, from 2000 to 2005 US consumption has been increasing faster than growth in disposable personal income (table 3).

Table 3. Growth Rates of Disposable Personal Income, Consumption, and Saving, 2000-5

	2000	2001	2002	2003	2004	2005
Disposable personal income	4.8	1.9	3.1	2.4	3.4	1.4
Consumption	4.7	2.5	2.7	2.9	3.9	3.5
Gross Domestic Product	3.7	0.8	1.6	2.7	4.2	3.5
Personal saving as a percentage of disposable personal income	2.3	1.8	2.4	2.1	1.8	-0.4

Source: Kotz 2006: 26

The answer is debt. Harrison and Bluestone had argued that the growth of the 1980s and 1990s was fueled in large part by consumer credit/debt and government deficit spending (Peck 2002). Leicht and Fitzgerald (2007) also show how the disappearing US middle class has continued to maintain its high consumption levels through debt. They argue that as real wages started to stagnate from the 1970s, credit became easier to obtain. According to Kotz (2006) growth in the mid-1990s was fueled partially by the wealth effect of the stock market bubble, especially in technologies. Most of the growth though was accounted for by consumer spending due to low interest rates making borrowing more affordable. For example, in 2003 the real average credit card debt per household reached $9,000, up from $4,000 in 1990 (Leicht and

Fitzgerald 2007: 58). Once consumers maxed-out their credit cards at historic levels, new sources of debt continued to emerge such as home equity loans that also reached historic levels.

In 2001 a severe recession was avoided thanks to continued strength in consumer spending. Kotz (2006) explains this was partially due to the temporary effect of the Bush tax cuts which benefited some middle and upper middle income households. He found most of the consumer spending however was accounted for by still growing household debt. From 2003, the US economy has been driven by a continued rise in consumer spending despite flat incomes (table 3). This spending had been financed by historically low interest rates given the glut of liquidity/credit by the Fed's easy monetary policy, contributing to the housing bubble. The illusion of wealth generated by the housing bubble coupled with low interest rates and flat incomes led to an explosion of home equity loans. For example, home equity loans in 1990 amounted to $150 billion versus over $300 billion in 1998 and $439 billion in 2006 while overall household debt (including credit cards and mortgages) as a percentage of after-tax income went from 30 percent in 1950 to over 90 percent in 2000 and 120 percent by 2005 (Conkey 2006; Leicht and Fitzgerald 2007: 59, 93; Kotz 2006: 11). Thus, the middle class has treated debt as income to sustain an unsustainable level of consumption while the working-class depends on debt to get by given stagnant and even declining real income. Therefore, the question remains how goods and services produced under globalization are going to be consumed when US consumer debt is maxed-out, the equity bubble deflates, and interest rates rise during the housing melt-down of 2007-08? Interestingly, Panitch and Gindin, who reflect the argument of Leicht and Fitzgerald (2007), point out that this new domestic debt regime became possible thanks to the deregulation of the financial sector in the 1980s:

> The legislation facilitating competition in the financial services sector was also designed to expand consumer credit markets. The American working and middle classes maintained

> their standards of living by working longer hours and going into debt. They often re-mortgaged their homes to do so… (2005: 66)

This is also the basis of the argument that although some financial data may indicate a good national economy, they do so by excluding large percentages of the population. In other words, when it comes to distribution there are increasingly two separate worlds of the *haves* and *have-nots*. ‘A mode of unequal growth [was established] in the mid-1980s, by which time it had become clear that income polarization and the associated phenomenon of the ‘disappearing middle’ of the employment distribution were structural rather than merely cyclical processes’ (Peck 2002: 180). Ultimately however, the global SSA cannot avoid the problem of inadequate demand since massive global production also requires massive market based consumption. Consequently, globalization is the realization of the classic problem of overproduction-underconsumption.

REFORM VERSUS STRUCTURAL SOLUTIONS TO BOOM AND BUST

The problem is that globalization is developing the forces of production beyond the limits of the existing relations of production (Marx 1978a, 1978b). Therefore the current relations of production are becoming ‘fetters’ to the full realization of the new productive forces. Stated differently, the emerging global SSA (unlike the Fordist model) lacks the necessary mechanism for consumption which can result in severe economic downturns. One solution would be to apply Keynesian stimulus policies on a global scale. Ironically, this does not seem feasible because the neoliberal ideology behind globalization includes privatization, minimal government spending, and tax cuts. These policies result in undermining the fiscal ability of states to engage in large scale Keynesian spending. Even if this were possible, it would not resolve the class contradictions inherent in the capitalist mode of production as it relates to distribution and purchasing power.

Another alternative proposed by theorists is to promote re-regulation of national economies. For example, Harrison and Bluestone (as cited in Peck 2002) argued that ‘red-hot’ growth would be the best way to reduce inequality. They proposed a ‘Main Street’ versus Wall Street model of Keynesian high-wage, pro-union, and anti-poverty programs to stimulate aggregate demand. They also advocated New Growth Theory, favoring supply-side growth through technological innovation to spur productivity growth. This though, is not possible for the same reasons that prohibit a global Keynesian strategy. In addition, technologically-driven productivity growth has not worked either (Frank 2006; Peck 2002; Kotz 2006). As mentioned earlier, growth in the 1990s and early 2000 was driven by savings from a low-paid and disciplined contingency workforce made possible by outsourcing and anti-labor neoliberal policies.

Wolfson (2003), proposed a re-regulation of the economy by government to balance the power between capitol and labor. His suggestion was based on the observation that stagnation was caused when either capital or labor obtained an upper hand. In periods when capital had the advantage, it led to low wages and a flexible workforce, causing stagnation due to inadequate aggregate demand. In periods when labor had the advantage, it led to higher wages, lower profit margins, and stagnation due to a profit squeeze. However, the capitalists’ control of the state would render government as part of the problem. In addition, it must be tacitly acknowledged that capital will always have a built-in advantage in that it owns the means of production. And although not overtly stated by Wolfson, it is implied that private productive property is the problem.

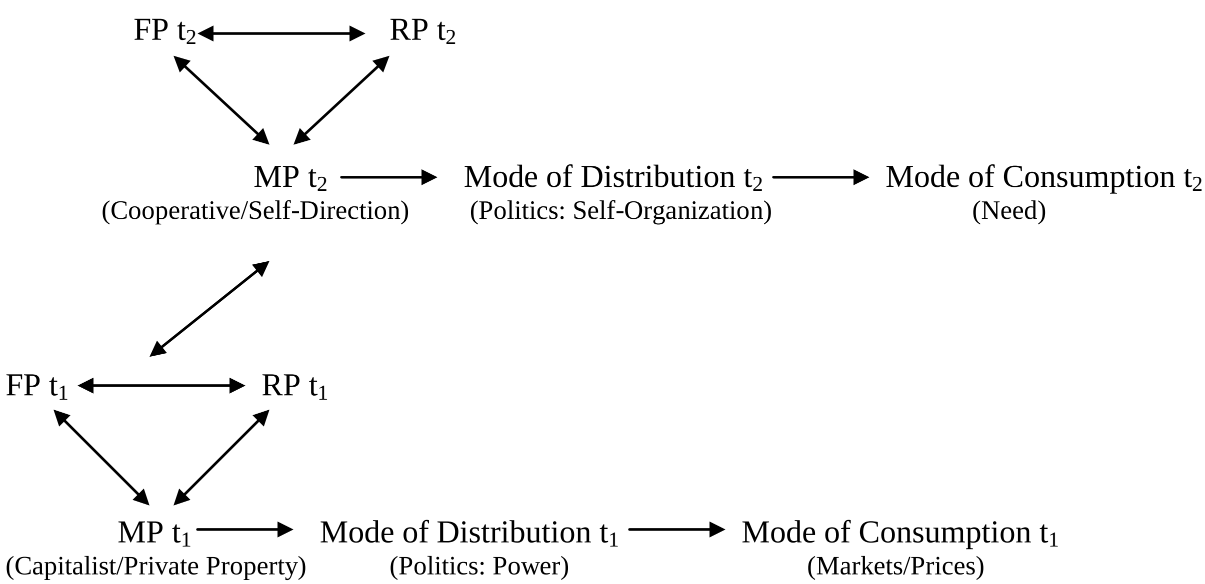
Another important fact is underscored by Wolfson’s argument of a profit squeeze. Even if labor obtains an upper-hand through revitalized movements and pro-labor government policies, it still would not provide a solution. Instead, this would lead to a temporary illusion of prosperity and ephemeral gains. This because it would inevitably result in a profit squeeze thus recession and a realignment of class power anew. Such a seesaw between inadequate aggregate demand and a profit squeeze will continue as long as class conflict takes place within a capitalist framework.

A third possible solution is that corporations voluntarily increase wages while reducing consumer prices. But this is another way of saying that the rate of exploitation be reduced, which hits the problem at its heart: namely, capitalist relations in production and consumption. This in fact would be the natural conclusion of all the policies discussed above. Thus, all of the suggestions by various theorists are ultimately unworkable in that they do not state what is clear: stagnation is caused structurally by private ownership of the means of production. Therefore, their policy suggestions are aimed at softening the natural outcomes of capitalism's class contradictions, while maintaining the capitalist mode of production. This point becomes more so important if this new capitalism includes the normalization of ever deeper crises and growing domestic and global inequalities which Panitch and Gindin (2005) argue should be accepted as here to stay. Either way, all this makes the need for structural change rather than a cycle of crisis-reform-crisis imperative.

A fourth rather dark possibility is that the emerging global elite have the ability and desire to consume at levels leading to market clearing or some sustainable level for a system to function. For example, Brazil and apartheid era South Africa have (had) functioning economies based on an impoverished racial working class. Similarly, we may see a core-periphery divide not based primarily on geography or race but global class apartheid. Such a condition would lead to a revolutionary downgrading of working class living standards in developed nations.

The alternative must be to create new economic models. But to create new models of production, distribution, and consumption, one would have to alter the fundamental relations in both production and consumption so as to allow a mechanism through which global output can be consumed. How can these relations be altered to achieve market clearing? This is where anarcho-communist forms of societal organization have a solution: alter the relations of production in t_1 through direct action to achieve self-organization, self-direction, and private productive property elimination ushering in a new epoch versus a new capitalist stage in t_2 (figure 3).

Figure 3. Dialectical Change



Mode of Production (MP); Relations of Production (RP); Forces of Production (FP)

Such a fundamental restructuring of national and global socioeconomic organization will not occur from impending collapse as Panitch and Gindin (2005) correctly pointed out, although I argue collapse is highly probable. The reason is that brutal oppressive regimes that are better armed than a national citizenry have proven capable of staying in power many years despite running their economies into grinding poverty as demonstrated by many African dictatorships such as Zimbabwe's. Therefore, direct action by a renewed transnational working-class movement will be required for fundamental structural changes.

This is also true given that countries such as China, who's own geopolitical and economic interests would be furthered by breaking-off from the current US global regime, choose not to because in the short-run it would plunge the Chinese and global economy into depression (Frank 2006). In turn, this would jeopardize the legitimacy of the elite's ruling status possibly resulting in a revolt. Thus national elites and corporations in China and other nations may have no choice but to cooperate with the US and invest their export earnings in the latter in order to support the existing system (Panitch and Gindin 2005). Therefore, it is not likely that a global downturn will be caused by power politics. Panitch and Gindin conclude that this is why a renewed labor movement will probably be fuelled by delegitimization of a capitalist system that avoids crisis. This paper has made the case that serious global crisis is still probable but agrees with the argument of delegitimization. In fact, this brings us full circle to the control model of national elites which is based on a legitimation process (figure 1). Rather, it is argued that the impetus for delegitimization will be the classic contradiction of overproduction-underconsumption (Moody 1997). This could lead to the renewed social movements predicted by Clawson (2003) and Silver (2003). However, it is hoped that such movements be built in time to prevent the 'Brazilification' of the developed world which some including Barbara Ehrenreich believe is already occurring in the US. This is a pending new *Great Transformation* on capitalist terms including a major degradation of living standards no less catastrophic than those discussed by Polanyi (2001) and reiterated by Silver (2003). Kotz concluded '…a crisis of overproduction is likely to break out. … the U.S. economy's neoliberal structure may be reaching a limit in its ability to promote economic expansion and avert severe economic crises. … If this occurs, the neoliberal institutional structure may not survive such a crisis' (2006: 14). According to Frank 'The historically necessary transition out from under the Uncle Sam run doughnut world could bring the entire world into the deepest depression ever' (2006: 32). If labor can obtain hegemony and accept the cataclysmic social changes ushered in by the forces of globalization based on human needs considerations instead (figure 3), we could experience not a dystopia but a renewed golden age of social and scientific evolution resulting from a historic epochal change in the mode of production-consumption.

CONCLUSION: STRATEGIES OF RESISTANCE AND STRUCTURAL CHANGE

The labor movement may be weakened but it is never dead (Clawson 2003; Moody 1997; Silver 2003). Today workers in developed nations (particularly the US as the hegemonic power) must demand initial structural changes that can eventually evolve into deeper socioeconomic changes leading to a new global model/epochal change. Examples may include full-employment policies, universal healthcare, guaranteed minimum living standards, fair trade, industrial democracy through work councils, repealing the corporate legal status of 'person' for accountability, prohibiting all corporate involvement in the political process, and independence of the news media from corporate governance. According to Asimakopoulos (2007) such demands can only be met by challenging the dominant ideology with a radical *counter-ideology* (echoing Gramsci and Panitch and Gindin's call for delegitimization of capitalism); creating mass support and solidarity through *societal education* along Gramscian principles disseminated by worker owned and operated media; and engaging in *direct action* with civil disobedience, violent resistance, and even full-scale revolts. Asimakopoulos offers these strategies based on an analysis of US labor history showing that this was how workers obtained most, if not all, their fundamental gains like the eight hour work-day. Such actions though would require a renewed and militant labor movement with an actual blue-print for an alternative form of socioeconomic organization or as Gramsci called it a *counter-hegemony*.

To this end, unions need to continue expanding their focus beyond the shopfloor toward activism and global social justice resisting existing legal, political, and economic structures instead of being co-opted (Clawson 2003; Moody 1997; Park 2007). Globally, workers of developed and developing nations have to further efforts for building a movement possibly based on the emerging strategies of transnational activism and social movement unionism (SMU) inclusive of gender, race, religion, culture, or geography (Clawson 2003). Silver (2003) also echoes the call to a global movement. In fact, she makes the argument that the labor struggle has always been global moving together with capital through global production sites and new product cycles. The importance of SMU is in that it can increase rank-and-file militancy in opposition to co-opted union bureaucracy (Moody 1997). Such renewed militancy will be pivotal in the fight for radical socioeconomic demands (Asimakopoulos 2007).

A classic example of a militant union with a global outlook is the Industrial Workers of the World (IWW) formed by socialists and anarchists. Other examples include transnational labor organizing by the International Trade Union Confederation with over 300 affiliates representing 160 million workers in over 150 nations; Via Campesina, a transnational activist movement by rural women, landless peasants, small- to medium-scale farmers, and indigenous communities operating in the Americas, Europe, Africa, and Asia; The Transnationals Information Exchange (TIE) and the Canadian Auto Workers both of which practice SMU argued for by Moody (1997).

However, SMU alone cannot succeed without the conscious choice to build and be part of broader revolutionary movements demanding fundamental restructuring in the relations of production (Park 2007). This is why counter-ideology and societal education are needed to offer a new model of society to be achieved with militant direct action fueled by global solidarity and independent worker institutions e.g. media, schools/universities, and activist political organizations (Asimakopoulos 2007). In conclusion, things are getting worse for the 'workers of the world.' However, resistance is possible but based on the classic call for 'workers of the world to unite' and challenge the legitimacy of the existing system. We need to reassert ourselves and not be intimidated into accepting an emperor with 'new cloths' every time capitalism goes through a transformation. Once this is all said and done then we may see new direct actions that will usher in a long-overdue epochal change that will benefit mankind rather than the elite alone.

POSTSCRIPT September 10, 2008

Much has occurred in the world since the original draft of this manuscript in 2006. Many of the hypotheses either have been or are in the process of being empirically confirmed. This is alarming. From 2006, the housing bubble burst exposing the pyramid schemes known as "securitized mortgage assets" financed by easy monetary policy and neoliberal deregulation. Consumer spending weakened, the dollar fell, national debt increased, yet experts declared China's economy was withstanding a weak US consumer market. This could not be according to the paper. Now, Nouriel Roubini of NYU warns us on Charlie Rose of a potential "rough landing for the Chinese economy" (PBS Broadcast September 8, 2008). This after the US unemployment rate suddenly jumped to 6.1%, the highest in five years. Keep in mind all this is occurring in a presidential election year during which governments have the political incentive to prop up the economy to influence the election. Current news reports however announce the slowing of all the world's advanced economies.

On September 8, 2008 the US government re-nationalized Fannie Mae and Freddie Mac exposing tax payers to five point four trillion dollars in mortgage securities (debt) with a two hundred billion capital injection upon the nationalization. The reason was to prevent a total meltdown of the housing market and thus indirectly consumption. In earlier months the Federal Reserve purchased $30 billion of securitized mortgage assets to make the acquisition of Bear Stearns by J.P. Morgan Chase possible and prevent a global collapse of financial markets. Many reports are routinely announcing statistics with the comment "*worse than the Great Depression…*". The IMF has lost credibility and is at its lowest levels of financial health in years. This coupled with a global credit crunch and energy geopolitics that are redrawing global relationships. One of which is the slow abandonment of the WTO after the collapse of negotiations in 2008.

The SSAs of financial regulation and neoliberal trade are being challenged within a decade of their implementation not by a resurgence of labor militancy but by the predicted stagnation in consumption which this regime of accumulation had built-in. It could be that we are witnessing the grinding movement of the model from figure 2. If this is all true, then much needs to be done as global boarders will begin to shut down to trade and stagnation in advanced economies will be magnified throughout the global production chain in a self-intensifying feedback cycle. Should nations like China stop supporting the purchase of US treasury bills or begin unloading cheap dollars, things will become interesting indeed. Therefore, as the paper ultimately attempted to show, Marxist analysis is not dead. It is more relevant than ever since the current crisis is ultimately one of inadequate purchasing power, a necessary consequence of any capitalist system of accumulation together with the intensifying busts without the booms for the great majority of the global population. The genie has escaped national boarders and has become global. Putting it back in may not be possible this time.

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