



# BEYOND NEOLIBERALISM

A World to Win

James Petras and  
Henry Veltmeyer

# BEYOND NEOLIBERALISM

# Globalization, Crises, and Change

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# Beyond Neoliberalism

## A World to Win

JAMES PETRAS

*SUNY, Binghamton, USA  
and Saint Mary's University, Canada*

HENRY VELTMEYER

*Saint Mary's University, Canada  
and Universidad Autónoma de Zacatecas, Mexico*

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# Introduction

Winds of change are sweeping across the world. In the Arab world of the Middle East and North Africa these winds were released by pent-up resentments against a very authoritarian form of capitalism, and have taken the form of spontaneous uprisings and resistance against authoritarian class rule and the demand for regime change and democracy. In China, and to a lesser extent in India and elsewhere in South East Asia, the forces of change are generated by a process of rapid capitalist development and the associated forces of productive and social transformation—forces that are converting masses of the rural poor, tied to the land, into a proletariat of wagedworkers, and transforming an agrarian society dominated by precapitalist production relations into a class-divided society based on a capitalist mode of production. The forces of change operating in this part of the world are ‘progressive’ in the sense that they are contributing to an enormous expansion of the forces of production—a rapid rate of economic growth. They are retrogressive in that like capitalism elsewhere and earlier—in the twentieth century in much of the world—this development is highly uneven and is based on exploitation of cheap labor, and the production of a surplus population and the immiseration of the rural proletariat, leading to the growth of class struggles in the countryside and in the burgeoning cities—struggles that will take different forms depending on culture and circumstances.

In Latin America, four cycles of neoliberalism policies, implemented in conditions of a Washington-based consensus on the need to liberate the forces of economic freedom from the regulatory constraints of the welfare-development state, are drawing to a close. Three decades of neoliberal policies have produced conditions that have bred and given rise to forces of resistance against both neoliberalism and US imperialism. In the vortex of these forces and a multi-dimensional crisis—a financial crisis that is threatening to morph into a broader economic crisis—the region is on the threshold of change in the struggle to shape the future. At stake is a world to win. At issue is whether to advance capitalism in some form, and to protect it via the exercise of imperial power? Or whether to turn towards socialism.

The Inter-American Development Bank in July 2010 declared that this would be ‘Latin America’s decade’. A few months later, *The Economist* endorsed this idea, which has since been repeated by countless apologists and experts. There is nothing like a little economic growth to get pundits’ juices flowing. And Latin America is growing, by 6 percent in 2010 and an estimated 4.75 percent in 2011, according to the IMF. Compared with the region’s mostly sluggish performance over the last three decades, this looks like takeoff velocity, giving rise to a bullish

mood and another outburst of cautiously optimistic prognostications. However, the mood regarding Latin America was equally optimistic at the start of the 1980s. At the time bank access to international capital was easy and loans were plentiful, and countries like Argentina, Chile and Uruguay were growing fast. But then Paul Volcker increased interest rates in the United States, the dollars went home, most countries defaulted on their debts, and the 1980s became for Latin America a ‘lost decade’.

The early and mid-1990s saw another wave of optimism, and the IMF and the world business press were euphoric about the ‘bold policies’ that the governments of Chile and Mexico were taking on the path to recovery and growth. Commodity prices were high, external financing plentiful, and many Latin American countries were growing. Having adopted the ‘bold’ liberalizing reforms dictated by the Washington Consensus, Latin America was thought to have turned the corner. But then came Mexico’s Tequila Crisis in 1994, followed by the Asian meltdown, which hit Latin American economies hard. Brazil blew up in 1998, and Argentina went into a meltdown in 2001. But then within two years Argentina had recovered and, together with other countries in the region, rode a wave of booming commodity exports to another spurt of economic growth—before the boom went bust in the ripple effects of a ‘global financial crisis’.

And, what is the situation today, two and a half years later? The region shares two features with the earlier episodes of financial euphoria over Latin America: sky-high commodity prices and cheap international money. In fact, for many countries, the terms of trade are higher and the relevant global interest rates lower than they have ever been. These factors, more than a shift in strategy (‘bringing the state back in’) and policy (beyond neoliberalism), or regime change (a move to the center-left) in recent years, seem to be propelling growth. Indeed, today there are two Latin Americas: natural resource-rich South America and natural resource-poor Central America and Mexico. Not surprisingly, South America is growing much faster than its neighbors to the North—4.4 percent (versus 2.7 percent in 2010–11), according to a recent Inter-American Development Bank report. The report estimates that Argentina’s economy will expand by 6.1 percent, while Costa Rica’s will grow by 3.8 percent and El Salvador’s by just 1.6 percent.

Abundant international capital is also a factor. The financial markets’ new darling is Brazil, which grew at a breakneck 7.5 percent pace in 2010, fueled by almost \$100 billion in capital inflows, and—according to some—long strides taken in the direction of reducing both the rate of extreme poverty and one of the highest rates of social inequality in the world, thereby removing what World Bank economists now believe to be a major structural impediment to economic growth. Does this success herald a new form of post-neoliberal capitalism—the capitalism of the twenty-first century? Or will the capitalism of the twenty-first century take the form that capitalism appears to be taking in Mexico—what we term (and discuss in the Conclusion) as narco-capitalism?

Looking beyond Mexico, Brazil, China and other countries in the different regions of the world it is evident that capitalism has become a world system,

the latest advances in information technology and the policies of the neoliberal world order working to integrate economies across the world into one system, one world. However this development has been and is very uneven, resulting in a new realignment of world economic power.<sup>1</sup> China is taking over from the United States and a new bloc of medium-sized economic powers has been formed to make up for the declining economic dynamism in the United States and Europe. In the context of this realignment, the eclipse of US power and an associated restructuring of international relations, there is a general agreement that the twenty-first century is shaping up to be China's century. What is uncertain is whether China will become a new hegemon and what position the United States will have, and what role it will play, in the emerging world order. Also at issue—which we address in this book—is whether national development in this new context will take a capitalist or a socialist form. And if capitalist, in what form?

In this book we argue that the world is at the crossroads of fundamental change, the conditions of which are unlike but yet comparable to conditions almost precisely 100 years ago when Rosa Luxemburg summed up the world situation in the formula: barbarism or socialism? We advance this argument in the concluding chapter. As we see it, capitalism in its relatively short but advanced neoliberal phase has set the stage for a momentous but as yet indeterminate struggle to organize and mobilize the forces of change in possibly a capitalist or socialist direction. In the current conjuncture of a system in crisis, a major realignment of world economic power, the waning power of the United States to manage events and dictate developments, and the demise of neoliberalism as a mobilizing ideology and economic doctrine, the probable outcome is uncertain. But given the high stakes—a world to win—we need to understand better the forces at play. This book is designed as a contribution to this end, and, it is hoped, to stimulate debate.

## **Capitalism, Imperialism and Socialism at Issue**

Part I of the book is concerned with the contemporary dynamics of capitalism. The chapters in this part examine the workings of the capitalist system in its global and regional operations, with a predominant focus on Latin America. There are four defining features of capitalist development in the current capitalism in conjuncture of a system in crisis, a system that is undergoing a major epoch-defining shift

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1 At this point of time this realignment of world power is primarily economic, but there is growing evidence of developments that will lead also to a realignment of military power. The United States, with its superior military technology, the weaponization of space and its global reach still exercises hegemony at the military level. However, a number of world news reports have documented the growing power of China, in regard to a massive build-up of military technology and a series of alliances, particularly with Russia, in regard to an assault on the unipolar world of US power. This alliance, it has been argued ([www.heritage.org](http://www.heritage.org), September 30, 2005), constitutes a major threat to US military supremacy.

away from neoliberal globalization towards a new post-neoliberal state and a new developmental dynamic.

The first dynamic is associated with what has been termed the ‘inequality predicament’. The predicament is that in the drive to accumulate capital the system leads to an unequal distribution of wealth and income, the conditions of which threaten to undermine stability and the system itself. In the twentieth century the trend towards deepening social inequality was somewhat contained (by the welfare-development state) and the class conflict that it propagated was manageable and was managed. However, in the new world order established in the 1980s, the drive to accumulate capital was released from constraint and the resulting inequality predicament of capitalism gave rise to forces of resistance, which led to the demise of neoliberalism as a serviceable ideology and economic doctrine for guiding economic policy.

Chapter 1 establishes several fundamental laws or dynamics of capitalist development, including a propensity towards crisis, unevenness in the development of the forces of production, the separation of the direct producers from the land and their conversion into a working class, and the polarization of a class-divided society between the rich and the poor. With reference to these dynamics Chapter 2 then explores different dimensions of the ‘inequality predicament’, namely the social structure that generates it, the international and internal dimensions of social inequality and uneven development, the concentration of wealth and the sprouting of a class of super-rich billionaires, and the main perspectives on social inequality that are represented in the Davos Consensus, the post-Washington Consensus and an emerging radical consensus.

In Chapter 3 the focus shifts towards what we have termed the ‘poverty-problematic of capitalist development’. It consists of a fundamental tendency of capitalism towards impoverishing the working class, generating the conditions of global poverty and, in response, a war on poverty (a disguised war on the poor). The chapter describes some of the conditions associated with the problem, as well as the efforts of the development ‘community’ of international organizations to redress or manage it. The development project, via the agency of the state with international cooperation, was invented to ensure that the poor do not deviate from a capitalist path towards improving their social condition and do not attempt to resist the forces of progressive change.

Chapter 4 is concerned with the dynamics of capitalist development that arise from and are associated with the propensity of the capitalism towards crisis. The focus of the chapter is on the latest manifestation of this propensity, namely, the so-called global financial crisis of 2008. The dynamics of this crisis and its ramifications are explored in the Latin American context. In Chapter 5 we analyze the political dynamics of the class struggle associated with the capitalist development process.

Part II of the book contain four chapters on imperialism in the current conjuncture of capitalist development. Chapter 6 criticizes contemporary theorizing about imperialism for its economic reductionism and a lack of class

analysis and institutional specificity regarding the imperial state. In the context of this argument we establish the importance of class analysis for grasping the changing dynamics of imperial power before proceeding to argue how specific alignments of class forces in the world economy, in their interactions with existing imperial power configurations, are leading to a realignment of economic power in the world capitalist system that constitutes a major challenge for US imperialism in its Latin American operations. In the final section of the chapter we point to the discontinuities and continuities in US imperial relations with Latin America, and the potentialities and constraints of these relations on economic growth and development.

In Chapter 7 we address the issue of US imperialism in the context of the new world order of neoliberal globalization. As we construct it the idea of ‘globalization’, and the associated strategies and policies to bring it about, served to pioneer a more advanced form of capitalism and to establish a new form of imperialism, which is to dictate to governments in the developing world—especially in Latin America—the policies and the regime needed to advance the economic interests of the United States.

The chapter is constructed in the form of four short sections. The first is on the ‘networks of empire’ and the realignment of world power associated with the rise and ascendancy of China in the world economy. The second deals with the impact of imperialism, and US intervention in diverse civil wars, on the growth of skyrocketing crime rates—the long-term growth of criminal violence and other manifestations of social disorder that can be attributed to the machinations of imperial power. The third section focuses on the role of imperial globalization in the rise of anti-systemic, anti-neoliberal, social movements. One of the unintended consequences of the ascendancy of global ruling classes was the rise of large-scale and tumultuous social movements, especially in Latin America, which challenged the rulers, ideology and institutions sustaining the global empire. The relations between imperial globalization and social movements are complex, changing and subject to reversals or advances. In this section we formulate several hypotheses regarding the globalization–social movement nexus over a 35-year period. We then test these hypotheses in the Latin American context.

In Chapter 8 we trace out the changing forms taken by US imperialism in the postwar era of capitalist development in Latin America, a region long regarded by US policymakers as its ‘manifest destiny’ to dominate and control in the national interest of the United States.

In Chapter 9 we examine the waves of unrest and regime change that hit a number of regimes in the Arab world over the past months—the Arab Spring. Our aim is to provide a counterpoint to the various myths that have been propagated about this unrest and regime change in the mass media. The purpose of the chapter is not to recount the story of these uprisings or to predict the possible future scenarios of the revolutionary process in the Arab world. Rather, it aims to draw out some of the broader implications for the Middle East as a whole, and to argue that these struggles are best understood through the lens of *class*

*struggle*. The recent uprisings in the Arab world of the Middle East and North Africa show decisively that class remains the key dynamic to understanding any social transformation and, simultaneously, that the ways in which class struggle is expressed will take a variety of forms that disrupts any reductionist economic or political readings of events associated with the uprisings in Egypt, Libya and elsewhere in the region.

Part III deals with the question of socialism in the current context—the socialism of the twenty-first century. Our position on this question is argued in the form of three chapters. Chapter 10 is essentially a review of the form that socialism took in the twentieth century and is taking today in Latin America. The central focus of the chapter is on the project of Hugo Chávez to turn Venezuela in the direction of the ‘socialism of the 21st century’. However, Chávez is by no means the only proponent of socialism in the current context. The chapter assesses and evaluates the various projects for constructing the socialism of the twenty-first century in Latin America.

In Chapter 11 we turn to Cuba, the most important still surviving example of twentieth-century socialism, and for many in the developing world a model. The chapter focuses on the meaning that might be attached to the economic reforms introduced by Raúl Castro since he took power in 2008. The question is: will these reforms help socialism to survive into the twenty-first century? Or will they place Cuba on the road towards capitalism already taken by Russia, China and Vietnam?

In Chapter 12 we address what we see as the central question: capitalism or socialism? Rosa Luxemburg confronted this question 100 years ago in the form of a fundamental choice faced by people at the time: barbarism or socialism? Needless to say, in describing capitalism as barbaric the preferred option of socialism was a no-brainer. However, that was then and this is now. Nevertheless, we argue that notwithstanding the differences between capitalism then and now, and a century of political practice and experimentation with the ideas of socialism, the dilemma facing people today is essentially the same: either the barbarism of capitalism or socialism. The chapter brings into focus and discusses the horns of this particular dilemma.

The book concludes with a short chapter on the contours of what we deem to be a new emerging form of capitalism emerging in various parts of the world but with its prototype in Mexico. As we see it this new socioeconomic formation, narco-capitalism, has been aided and abetted both by Washington and by Wall Street. A major stimulus for the formation of narco-capitalism has been the war on drug traffickers announced and prosecuted by Felipe Calderón, the arch-conservative president of Mexico. That this war, which has devastated Mexican society and further destroyed the country’s forces of production, was promoted, if not designed, by the White House is well known. Less well known is the nefarious role played by Wall Street and the US banks. As we argue in the concluding chapter, if Washington is the driving force of the war, Wall Street banks have been the main instrument for ensuring the profits of the drug cartels. The point is that these profits and associated fortunes are so huge that they are creating conditions for the

productive investment of some of the profits, thereby leading to a potentially new form of capital accumulation.

Every major US bank has been deeply involved for the better part of the past decade in laundering hundreds of billions of dollars in drug profits. Mexico's descent into the inferno has been engineered by the leading US financial and political institutions, each supporting 'one side' in the bloody 'total war' which spares no one, no place, at any time. While the Pentagon arms the Mexican government and the Drug Enforcement Agency enforces the 'military solution', the biggest US banks receive, launder and transfer hundreds of billions of dollars annually to drug lords' accounts, to buy modern arms, pay private armies of assassins and corrupt political and law enforcement officials. This is barbarism, not at its worst, but barbarism nonetheless. It is also capitalism—the capitalism of the twenty-first century.



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PART I  
Capitalism in the  
Twenty-First Century

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# Chapter 1

## The Contradictions of Capitalism

Capitalism is by definition a wage-labor system of commodity production driven by the implacable search for private profit, a system that nowadays operates on a global scale and thus is constituted as a world system. As a system, capitalism is constituted by four fundamental institutions: (1) *private property* in the means of production, a key institution of the capitalist state; (2) the social relation of *wage labor*, a social institution that defines two basic classes—the owners of the means of production, or the *capitalist class* (the ‘bourgeoisie’), and the *proletariat*: workers who own nothing but their capacity to labor, which they are therefore compelled to exchange against capital for a living wage; (3) the *state*, a complex of institutions designed and serving to create the necessary conditions of capital accumulation, including minimally (other institutions can be and have been added as needed) the provision of an economic and social infrastructure for the capital accumulation process and for reproducing the system, i.e. legitimating its basic arrangements; a mechanism for the authoritative allocation of society’s productive resources and determining ‘who gets what’ share of national income; a legislature, or a law-making system; the government of the day, with decision-making and administrative apparatus; and a repressive apparatus, serving to reconcile any conflicts over property and to preserve order; and (4) *the market*, an economic institution that serves as a mechanism of economic exchange among individuals and for an non-authoritative allocation of society’s resources and income distribution (the market in theory can be ‘free’ but more often than not is state-regulated).

As for the dynamics of capitalist development they can be explained by reference to, or in terms of, various ‘laws’ of development that specify patterns or tendencies under specified objectively given conditions. There are various theories of such ‘laws’ available, but none as useful as the theory advanced by Karl Marx. This theory has four key propositions, namely:

1. *The labor theory of value* (LTV): labor is the source of exchange value—that the value of a commodity (reflected in its market price) is equivalent to the socially necessary labor time required to produce it.
2. *The theory of surplus value* (TSV): capitalist development is based on the exploitation of labor—i.e. workers do not receive the full value of their labor; and surplus value (in excess of that required to maintain the worker and his/her family) is the source of the capitalist’s profit.
3. *The theory of the law for a falling rate of profit* (TLFRP): the average rate of profit, system-wide, tends to fall over time (under two conditions: a

tendency for the organic composition of capital, the ratio between constant and variable capital) to rise; and, under conditions of a class struggle, for the rate of surplus value to remain constant).

4. *The General Theory of Capital Accumulation* (GLCA), which specifies a twofold tendency, on the one hand towards the concentration (and centralization) of capital and for it to assume a corporate and monopoly form, and on the other, for the direct producers of society's wealth to be separated from their means of production—the 'original accumulation of capital'—leading to the 'multiplication of the proletariat' (the conversion of the small landholding agricultural producers into a working class) and the formation of an industrial reserve army whose labor is redundant for the purpose of capital accumulation.

Although oft debated, these propositions more or less have withstood the test of time—over a century of capitalist development. Indeed, there is considerable evidence that these 'laws' of capitalist development are operating on a global scale, and so we can now conceive of capitalism as a 'world system'. The evolution of this system and its development dynamics for the sake of analysis have been periodized by a number of scholars (e.g. Delgado-Wise and Foladori, 2011; Desai, 2000;) as follows:

- 1450–1800: a period of primitive accumulation, violent expropriation, enslavement and large-scale theft and colonialism dominated by merchant's capital—European-based crown chartered commercial companies.
- 1800–70: a period characterized by the rise of industrial capitalism in Western Europe, including a 'industrial revolution', the consolidation of the nation-state, a social and political revolution that displaced the landed oligarchy from power and the formation of an economic structure based on the class relation of capital to labor.
- 1870–1914: a period of globalization—the large-scale international movement of both capital and labor—and imperialism in which large areas of what is now termed the global South were dominated and colonized, and subjected to a process of capitalist development (productive and social transformation).
- 1914–44: a 30-year inter-war period that featured a major involution in the capitalist system and a process of state-led social reform—the 'taming of capitalism' in the words of Surendra Patel (2007)—that led to the formation of a welfare state.<sup>1</sup>

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1 The most succinct statement of the principles on the foundation of which the welfare state was constructed is given by President Roosevelt in his 1944 message to the US Congress, January 11, 1944, on the State of the Union, in terms of a 2nd Bill of Rights, which includes the following clauses, many of which were prefigured in Marx and Engels' *Communist Manifesto*: (1) the right to a useful and remunerative job in the

- 1944–70: the ‘golden age of capitalism’ characterized by a system-wide rapid economic growth within the framework of a liberal capitalist world order, the undisputed economic supremacy of the Pax Americana, an East–West cold war between a US-led capitalist system and a USSR-led socialist system, a process of decolonization and nation-building and the launching of a project of international cooperation for (capitalist) development.
- 1970–82: a period of transition from state-led national development to a new world order of neoliberal globalization.
- 1983–99: a ‘brief history of neoliberalism’ (Harvey, 2003) characterized by the installation of a new world order, several cycles of structural or policy reform, increasing integration into a system-wide globalization process, the collapse of the socialist bloc, a second cycle of neoliberal reforms in Latin America, widespread resistance against neoliberalism and its decline as an effective ideology of the global ruling class, and the erosion of US influence and power and the decline of US hegemony.<sup>2</sup>
- 2000 to date: a period of uneven capitalist development characterized by a further realignment of world power and the search for a new post-neoliberal world order and the construction of a post-neoliberal state.

### Dynamics of Uneven Capitalist Development

A fair conclusion that can be derived from Marx’s theory of capitalism is that its development as a system is profoundly uneven and rife with class conflict. The fundamental source of this conflict, substantiated by different generations of scholars, both Marxist and non-Marxist, is an economic structure based on the capitalist mode of production and a social structure based on the capital–labor relation, i.e. the exploitation of workers by capitalists. The dynamics of capitalist development based on this relation are both structural, or objective (economic), and strategic, or subjective (political). The *structural dynamics* of capitalist development are expressed in the development of conditions that are ‘independent of our will’, and thus not as one would choose, and objective in their effects—

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industries or shops or farms or mines of the nation; (2) the right to earn enough to provide adequate food and clothing and recreation; (3) the right of every farmer to raise and sell his products at a return which will give him and his family a decent living; (4) the right of every businessman, large and small, to trade in an atmosphere of freedom from unfair competition and domination by monopolies at home or abroad; (5) the right of every family to a decent home; (6) the right to adequate medical care and the opportunity to achieve and enjoy good health; (7) the right to adequate protection from the economic fears of old age, sickness, accident, and unemployment; (8) the right to a good education.

2 There are diverse permutations of this periodization, each identifying or emphasizing different patterns. As to which patterns are taken to represent or characterize the development process in each period is largely a matter of theoretical perspective. See, for example, Desai (2000).

an objectivity that accords with an individual's class position. The strategic or political dynamics of the capital–labor relation are reflected in the formation of class consciousness—in workers becoming aware of their exploitation.

### *The Fundamental Contradictions of Capitalist Development*

Capitalist development is contradictory and fundamentally unstable. That is, the dynamic forces of capitalist development are impelled by contradictions intrinsic to capitalism. These include:

1. Economic production is based on social cooperation—the contributions of all classes and members of society, but under capitalist relations of production (private property in the means of production) capitalists have the legal right and the political capacity to appropriate the social product for private profit and personal enrichment.
2. Forces of production tend to expand but the corresponding social relations at some point will turn into fetters, inhibiting further expansion and creating thereby the objective and subjective conditions of revolutionary transformation, including class consciousness and forces of resistance to capitalist development.
3. Capitalism is driven not by the satisfaction of human needs but rather by the need to accumulate capital and the search for profit (to extract surplus value from the direct producer); however, the system suffers from a built-in tendency for the rate of profits to fall, requiring capitalists to take countervailing measures and resulting in a propensity towards crisis.
4. Surplus value can only be realized if capitalist firms can clear the social product on the market, but there is a built-in tendency towards overproduction for the market, pushing the system into crisis.
5. Capitalist development of the forces of production is intrinsically uneven in its dynamics and effects, generating conditions that undermine imperial power—the drive for world domination.
6. The basic institutions of capitalist development, including the market and the state, are designed and serve to maintain economic, social and political order, but in their normal functioning they produce conditions of class conflict, social disorganization (and criminal violence) and political disorder.
7. Capitalist development is predicated on the workings of the market and the freedom of capitalists to advance their interests and accumulate, but capitalism can only advance with the active support and agency of the state.
8. Capitalists have a vested interest in masking the workings of the system and securing its legitimacy, but they cannot help but act in ways that will undermine this legitimacy, creating conditions that allow and lead people to see through the ideology designed to induce false consciousness of reality. With this subjective requirement of revolutionary transformation workers

are converted from a ‘class in itself’ (defined by its social relation to production or location within the system) into a ‘class for itself’, conscious of the need to overthrow capitalism and bearers of a socialist ideology as a force for change.

Marxist theorists over the years have traced out the developments associated with these dynamics. These dynamics have unfolded in different contexts, but have tended to take four fundamental forms, namely:

1. *Social inequalities* in the share of the wealth generated in the capitalist development process. These inequalities tend to widen and deepen over time, leading to a social polarization between the rich and the poor in the distribution of national income. The sharp increase in disparities of wealth and income, and in the share of the fruits of economic growth, over the last three decades of capitalist development provides an eloquent testimony to the working of these dynamics of social inequality. Conditions of social inequality are endemic to capitalism, a feature of all capitalist societies, but they can be attenuated with government action as in the case of the welfare states constructed in the post-World War II period of capitalist development. In the context of these states the level of social inequalities in a number of capitalist states were reduced with progressive taxation on wealth and income, and a welfare cushion to protect those vulnerable to poverty. However, with the installation in the 1980s of a ‘new world order’—a system in which the ‘forces of economic freedom’ (profit-seeking capitalists and their enterprises) were liberated from the regulatory constraints of the state—the fundamental dynamic of social inequality once again took hold. The workings and impact of these dynamics will be discussed below.
2. *Class conflict*, which arises from the contradictions of capitalist development and takes different forms with diverse dynamics, including class war. The political dynamics of class conflict have been studied and analyzed in diverse national contexts under changing conditions. It is possible to see World Wars I and II as to some extent the outcome of a class war between labor and capital in the advanced capitalist countries of Europe and North America. In this context for example, it is possible to interpret the class accord between capital and labor reached in the post-war period—an agreement to share the productivity gains of capitalist development—as a way of resolving this conflict. Similarly it is possible to see the role played by the state in this context as an intervention in the class war—to contain the conflict between capital and labor within acceptable limits. As for the project of putative ‘international development’, or foreign aid, constructed as a means of ensuring that the economically backward countries pursue national development along a capitalist path, it can also be seen as a useful weapon in this class war. The first major outbreak of this war in the



post-war capitalist world order was in the early 1970s. In conditions of a systemic production crisis that threatened the accumulation process the capitalist class in Europe and North America launched a major offensive against labor. Subsequent developments in this class war as it unfolded in different theaters on the world stage can be traced out in diverse and changing contexts over the next three decades (Faux, 2005).

2. *Uneven development.* The competitive struggle among different capitals leads to a competitive struggle to advance the forces of production and development at the national level, leading to the dynamics of inter-capitalist competition and a battle for position and competitive advantage in the world marketplace. The dynamics of this struggle are reflected, *inter alia*, in the gradual and growing realignment of world economic power that has occurred over the past two decades, and in the associated political dynamics. These dynamics will be explored in Chapters 5–8 in the context of imperialism, which can be seen as a geopolitical project to dominate other countries in the world system and to establish hegemony over the system
3. *A propensity towards crisis.* Every crisis, as will be elaborated in Chapter 4, releases various forces of change, but these forces can be mobilized in different directions, to the right as well as the left, leading to a struggle of the system to alternatively manage or control the process, or to derail it. The resulting dynamics will be explored further in Chapters 4 and 5.

## Capitalist Development of the Forces of Production

Capitalist development implies the transformation of a traditional agrarian society based on precapitalist relations of production into a system based on the capitalist mode of production—‘changing production patterns’, in the words of José Ocampo (2011), until recently Executive Secretary of ECLAC, and a major architect of the post-Washington Consensus on the need for a more inclusive form of development.<sup>3</sup> In broad terms this means a change in the structure of economic production—the transformation of an agriculture-based economy into one based on modern industry.<sup>4</sup> Marxist scholars, on the other hand, stress the

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3 ‘Economic growth is, above all else, a process of structural change, as this is the only way that countries can successfully tackle external vulnerability’, this according to José A. Ocampo, former Executive Secretary of ECLAC, speaking during the Tenth Raúl Prebisch Memorial Lecture at the ECLAC headquarters in Santiago, Chile.

4 This process has given rise to three metatheories, each used to construct a narrative of social change and structural transformation regarding developments from the nineteenth century up to the 1970s or so in the center of the system: (1) industrialization—productive transformation, conversion of an agrarian society and economy into an industrial system; (2) modernization—conversion of a traditional cultural system into a modern system; and (3)

centrality of social rather than productive transformation: the conversion of a society and economy of direct producers on the land into a proletariat (either on their own land or in conjunction with urban migration); that is, the formation of a class of individuals that is excluded from any proprietary claim on the means of production and are thus forced into selling the only asset they have, their labor, as a commodity whose price is determined by the workings of the market.

This process leads to the concomitant formation of a class of capitalist entrepreneurs who have seized or have been granted a proprietary claim on the means of production, and whose economic success is fundamentally linked to the formation and continued reproduction of an available proletariat. Both the original claims on ownership of the means of production and the derived claims on the ownership of the profits generated there from are all socially protected from any possible counterclaims of dispossession—or exploitation—by the proletariat by the general acceptance of a socially dominant ideology which not only ‘normalizes’ this state of affairs, but which in many instances sees capitalist development as an ‘engine of growth’.

The capitalist development process has been theorized in the mainstream of development thought and by the economists at the World Bank as the working of forces of progressive change promoted by the ‘pro-growth’ policies of structural adjustment and neoliberal globalization. The theory is that these policies help and serve to advance a process of structural transformation (transformation of a backward agriculture-based system into an advanced modern system based on advanced modern productive technologies). In the process a society and economy of small-landholding agricultural producers, who function with an outdated technology and a traditional culture and mindset that inhibits initiative, are compelled by forces beyond their control to abandon agriculture and to migrate

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capitalist development/proletarianization—the social transformation of direct producers, dispossessed from the means of production, into a working class. As of the late 1960s the narrative and the theorization behind it shifted from the projection of a modern industrial capitalist society as the ‘end of history’ (mature development) to a post-modern discourse on the emergence of an information society or a knowledge economy, a system in which industry was displaced by services, and increasingly, information-rich services. However, this discourse made reference to advanced capitalist modern industrial societies at the center of the system. In regards to its periphery, on the south of a global development divide, it was at first assumed that the process of social change and development would unfold in a similar way. But then belatedly (some time in the 1980s and 1990s, and even, in the case of the World Bank in its 2008 *World Development Report*, as recent as a few years ago) it was recognized that the historic process of social change and structural transformation was resulting in a very different form of peripheral development: urbanization without industrialization, leading to a segmented urban economy with a nucleus of capitalist development and an informal sector dominated by non-capitalist relations of production (work on ‘one’s own account’ on the streets under precarious conditions). The developmental and policy implications of these phenomena (an urban proletariat of self-employed workers, and a rural semi-proletariat) have yet to be fully assessed.

to the cities in the search for better opportunities in the modern capitalist labor market and more sustainable livelihoods. These forces of change released by the process of structural transformation also open up various pathways out of rural poverty, namely labor and migration, and, for a few, under some conditions, modernized agriculture (World Bank, 2008). The mission and aim of international cooperation is to pave these pathways, and, in partnership with the governments and civil society, to facilitate the adjustment process—to assist the rural poor in making the economic adjustment needed for them to become more productive and to escape their poverty.

The 1980s saw the advent of a new world order. The proponents of a Washington Consensus on the virtues of free market capitalism argued that the policies of structural adjustment—privatization, deregulation, liberalization and decentralization—would best serve this purpose, generating optimal conditions for economic growth. By 1990, however, it was evident that these policies were economically dysfunctional (did not generate growth) and that the resulting discontent was destabilizing. For one thing, the anticipated industrialization did not materialize. What did materialize was a process of urbanization without industrialization, which meant that the urban labor market could not absorb the masses of the migrating rural poor. For another, the policies of structural adjustment as per the Washington Consensus led to politically dysfunctional social discontent that was mobilized by the emerging forces of resistance, threatening thereby the stability of the democratic governments in the region.

To solve these problems the architects of international development, including the economists at the World Bank, engaged in a strategic rethink to come up with a new policy consensus on the need to ‘bring the state back in’ (they had gone too far in the direction of the market) and for a more socially inclusive form of development—in short, a new paradigm—and a new economic model.

## Chapter 2

# The Inequality Predicament

It would be nice, given the long war on global poverty in the second half of the twentieth century, and the political rhetoric from G-8 leaders in their 2008 summit regarding the need for poverty alleviation, if we could say something unequivocal about poverty and inequality having been reduced at the end of the twentieth century. Many have, in fact, done so. Johan Norberg, for example, in his book *In Defense of Global Capitalism* (2003), claims that the countries of the world are getting more and more equal, and that the claim of growing inequality under global capitalism is ‘just wrong’ (p. 274). Martin Wolf, of the *Financial Times*, states ‘[g]lobalization has not increased inequality. It has reduced it, just as it has reduced the incidence of poverty’ (Wolf 2004: 184). Unfortunately, to use Norberg’s expression, both claims are ‘just wrong’—in fact, based unequivocally on ideology rather than empirical evidence, which, as we show below, contradicts such assertions.

Looking instead at inequality, different studies have concluded that inequality within countries has unequivocally worsened during the heightening of neoliberal globalization, while between countries it depends on whether you take the size of the national population into account. If the numbers are population-weighted, then inequality has marginally decreased. If they are not, then we see an increase (Kaplinsky, 2005: 37–8). And the decrease in population-weighted numbers can be entirely explained as an artifact of the booming economy in China, which has grown at over 10 percent a year for close to two decades—an extraordinary and historically unprecedented development. But if China is taken out, the pattern of economic development is very different. Several studies on this point report a deepening of the development gap along North–South lines, and a worsening of the disparity in per capita incomes in precisely those areas and countries under the sway of neoliberalism.

Using the same data, the World Bank economist Branko Milanovic argues that global income inequality among individuals (as opposed to countries) is both worse than previously thought, and on the upswing (Milanovic, 2009: 11–12). However, a survey of studies on inequality across countries suggests that because of severe deficiencies in the collection of data and its comparability it is difficult to say anything at all about whether inequality is increasing or decreasing. The only point of agreement is that global income distribution is grotesquely unequal.

Within countries, where methodological problems are drastically diminished but by no means absent, a broad cross-national survey of income inequality in 73 nations from the 1960s to the 1990s concluded that 48 of them suffered from rising inequality, while 16 remained constant and nine (France, Norway, Bahamas,

Honduras, Jamaica, South Korea, Malaysia, Philippines and Tunisia) actually showed an improvement in regard to equality.

### Capitalist Development and Income Distribution

One of the most fundamental dynamics of capitalist development is a propensity towards unequal development, manifest in the distribution of wealth in its diverse forms and the income derived from economic activity. These dynamics can be traced out both between and within countries that make up the world capitalist system. Take for example the distribution of world income. When China and India are excluded from the equation, available data point towards a substantive rise in worldwide income inequality as of 1980 at the beginnings of the neoliberal era. In the *Atlas of Social Exclusion* (Pochmann et al., 2004) over the past two decades 28 countries improved their standing on an index of social inequalities. These countries, all found in the developed center of the world capitalist system economy, represent only 14 percent of world population but account for 52 percent of world annual income (and, of course, a much larger percentage of wealth, most of which is neither earned nor measured in available statistics). And 60 countries, representing 36 percent of world population, in 2003 received or disposed of only 11 percent of world income. Of the countries with the highest indices of poverty and income inequality then and now 41 are in Africa; 10 in Asia; and six in the Americas.

The UNDP in 1996 calculated that in 1960 the top 20 percent of the world's people in the richest countries had 30 times the income of the poorest (UNDP, 1996). This ratio increased to 32 in 1970, 45 in 1980 and 59 by 1989. By 1997, after five 'development' decades and 15 years of structural adjustments—a period in which world production grew 600 percent (and trade three times as fast)—the richest 20 percent received 74 times the income of those at the bottom of the income pyramid. In this same context (the neoliberal order of capitalist development and globalization) just 358 individuals disposed of the same income as 45 percent of the world's poorest, which is to say, 2.4 billion people, who had to subsist on less than \$2 a day. According to the UNDP, the world's richest 1 percent disposed of as much income as the poorest 57 percent, and the income of the world's three richest individuals was greater than the combined GDP of all the least developed countries. The UNDP termed these and other such patterns regarding the 'abysmal income gap' as nothing less than 'grotesque'.

Comparing the 1960–80 period under the old model of state-led 'development' to the neoliberal era (1980–2000), the Washington-based Center for Economic and Policy Research in 2001 looked at changes in economic growth, plus health, education and other social indicators for 116 countries (Weisbrot et al., 2001). Sorting countries into five categories based on common starting points they found that economic growth rates for all five groups were much lower in the second period than the first. In fact, the poorest group went from average per capita GDP

growth of 1.9 to -0.5 percent a year. The second poorest group dropped from 3.6 percent a year to less than 1 percent. The study also found that progress in health and education indicators, so marked in the first period, was reduced for most countries, especially for those subjected to neoliberal policy and structural reforms. In this connection poverty is bound to rise—and has done so—as the state retreats from its economic development and social welfare role and social programs are privatized. Significantly, the latest edition of the World Bank's *World Development Indicators* shows that the developing country that surpasses all others in levels of health and education is Cuba, the one developing country that has been excluded from the neoliberal world order and the only country other than North Korea that has received no World Bank loans for the past 40 years. Saxe-Fernandez (2002) shows what happens to countries like Mexico that have come to depend on such loans: a loss of sovereignty regarding national policymaking, the capitalist development and widespread destruction of the forces of production, the denationalization of key productive resources and economic enterprises, an increase in social inequalities and a deterioration of social conditions in the popular sector.

As with the pattern of inequality between countries, within-country inequalities were reduced in many countries during the Golden Age of capitalism from the 1950s to the early 1970s. However, since then these inequalities increased in 49 out of the 73 countries for which high quality data are available. These countries represented 59 percent of the population and 78 percent of the GDP in the 73-country sample. Sixteen countries had constant levels of inequality while nine experienced decreasing inequality over this period, a trend that was dramatically reversed under conditions of the financial crisis that hit Asia in 1997.

The regional distribution of this pattern of growing inequalities reveal the fundamental workings of the dominant model of neoliberal capitalist development: rising inequality is strongly linked to neoliberal policy reforms adopted in industrialized, transitional and developing countries alike (UNDP, 2010). All of the 'low income' countries in sub-Saharan Africa and 'middle income' countries in Latin America that have been structurally adjusted—some like Mexico and Ghana, for close to two decades—experienced deteriorating economic conditions and increased social inequalities. At the same time, those countries (mostly in Asia) that had little experience with, or were not subjected to, IMF reforms and the World Bank's regime of neoliberal reforms experienced higher rates of growth or decreasing inequalities in the distribution of wealth and income. China, with a fifth of the world's population, and on the margins of the global world economic order, has also experienced a dramatic upsurge of inequality since the mid-1980s.

In this context we need hardly mention the drastic deterioration in economic conditions and the rapid rise in social inequalities that have accompanied the process of transition in Russia and the other countries that constituted the socialist bloc of former times. Under these conditions the rate of poverty in many countries, particularly in what the World Bank categorizes as 'least developed' (with 'low per capita income'), has grown both in extent and depth. In Indonesia, for example,

poverty has increased by 50 percent since the onset of the financial crisis in 1997. In South Korea, until the 1990s a paradigmatic case of rapid economic growth and relatively equitable development ('growth with equity'), poverty doubled over the same period. And in Latin America, according to ECLAC (2000), under a generalized policy regime of neoliberal economic ('structural') reforms an additional 20 million 'new poor' were produced in just a few years (from 1998 to 2002)—adding up to 223 million to the ranks of the poor, 43.8 percent of the total population. In Russia, under different conditions (a collapse of its economic model and 'transition' towards a neoliberal form of capitalist development) poverty, from 1986 to 1998, rose from 2.9 to 32.7 percent (Goldsmith, 2002: 32).

As for the rich countries in the OECD rising inequality has been driven by greater disparities in market-generated incomes and a political class struggle in which 'capital', via diverse mechanisms, has managed to bring about the reduction in the share of 'labor' (salaries and wages) in total income. In this connection, in the United States—and the same pattern can be found in the other OECD countries, particularly in the UK and Canada, oriented towards the Anglo-American model of capitalist development—the value (purchasing power) of wages dropped some nine percentage points from 1974 to 1983 and has dropped at least ten points since. In this context, it is estimated that the wealthiest 1 percent of the population in the United States has managed to capture virtually all of the wealth generated over the past two decades.

Data provided by the World Bank (*World Development Indicators* and *World Development Report*, several years; Milanovic, 2009, 2010) indicate that aggregate incomes in all developing regions with the exception of Asia have declined as a share of global income and thus relative to the rich high-income countries grouped within the OECD. For example, between 1980 and 2000, after two decades of neoliberal policies and market-led development sub-Saharan Africa's share of total world income decreased from 2.8 to 1.1 percent while in Latin America it declined from 18 to 12.8 percent. The change in these ratios does not indicate that per capita income in these developing regions decreased in absolute terms but that incomes grew faster in other regions and richer countries, thus widening the inequality gap.

The data in Table 2.1 points to a trend towards divergence and polarization under the neoliberal economic model. Notwithstanding the boom in economic growth in recent years in both South America and sub-Saharan Africa, where the neoliberal model was at play (in most of Asia it was held at bay by an active interventionist state) capitalist development of the forces of production has led to the growth and spread of social inequalities in the distribution of wealth and income. In this connection the UNDP found that in 1960 the countries with the richest quintile of the world's population disposed of aggregate income 30 times that of the countries with the poorest. By 1980, at the outset of the neoliberal era, the ratio had risen to 45 to 1; by 1989, it stood at 59 to 1; and by 1997, a full decade and a half into the neoliberal experience, it had risen to a staggering 70 to 1 (UNDP, 1999, 2001). In this context, the situation of people in the least developed

or poorest countries, especially those that were drawn into the neoliberal mold, worsened relative to those in the middle-income and higher income group. For example, in 1960 per capita income in sub-Saharan Africa was about 13 percent of per capita income in the industrialized countries, but by 2000 it had dropped to 8.2 percent and in 2010, after a decade of relatively ‘robust’ economic growth it was barely 2 percent.

**Table 2.1 Widening income gap among regions, North/South (GDP per capita) (1985 PPP US\$)**

	1960	N/S	2000	N/S	2010	N/S
OECD (21)	6,200	-	17,000	-	43,800	-
LAC (34)	2,000	4,200	4,900	2,100	6,200	38,400
EA (14)	500	5,700	2,500	14,500	4,000	40,600
SA (6)	800	5,400	1,400	15,600	900	43,700
SSA (40)	750	5,450	700	16,300	800	43,800

*Note:* Abbreviations for countries in the Organization of Economic Cooperation and Development (OECD); Latin America and the Caribbean (LAC); East Asia (EA); South Asia (SA); and sub-Saharan Africa (SSA).

*Source:* UNDP, *Human Development Report 2001, 2004*; CIA *World Factbook 2011*.

In the first two decades of the neoliberal era (1980–2000) inequalities between the richest and poorest countries nearly doubled, reviving an earlier debate about the connection between economic growth and social inequality. This issue was at the center of a theoretical and policy debate in the 1970s but in this new context the debate was re-opened and is ongoing, mostly involving economists at or associated with the World Bank (Christiaensen et al., 2002; Dollar and Kraay, 2002; Forbes, 2000; Ravallion, 2001). The key issue in this debate was whether social inequality inhibited or promoted economic growth. However, in this new context of ‘globalization’ the concern of these economists was with unequal access to society’s productive resources and wealth rather than income distribution. And it was understood that a minimal degree of greater equality in this regard was a precondition for growth, and that an excessive inequality inhibits growth in its exclusion of a large number of individuals who are potentially productive.

As for the policy of government interference in the redistribution of market-generated incomes, the issue was viewed differently. At this level, the old dogma was trotted out to the effect that an unequal distribution of income—or, what amounts to the same, increased participation of capital in national income—was a good policy: it functioned as a motivating device, providing an incentive to produce, a catalyst of economic growth. Of course, this was the theory; the



facts are quite otherwise. The theory is that once the seeds of economic growth (by transferring income to the rich, who have a higher propensity to invest their savings) have been sown a part of the enlarged national income will 'trickle down' to the poor, resulting in a sort of inverted income curve. With reference to this theory, World Bank economists have begun to write of their 'pro-growth' policies as 'pro-poor' (Dollar and Kraay, 2002; Kakwani and Pernia, 2000).

The magnitude of the global income divide and associated problems is staggering. The richest 20 percent of the world's population consume 86 percent of global production while the poorest quintile consume only 1.3 percent. Towards the end of the neoliberal era the OECD club of affluent nations, with 19 percent of the world's population, accounted for 80 percent of the world's GNP, 71 percent of world trade, 58 percent of foreign investment (UNDP, 1999: 3). And more recent data suggest that little has changed, except for the relative advance of China and India, admittedly a large part of the total picture (so much so that inclusion of these two most populous countries hides the growing development gap in the rest of the world). Within the structure of this gap, the three richest persons in the world have assets that exceed the combined GDP of the 48 poorest countries. In fact, if the poorest 47 percent of the world (about 2.7 billion persons) were to pool their incomes they could barely purchase the assets of the world's wealthiest 225 individuals (UNDP, 1999: 3). A tax of 4 percent on the wealth of these individuals would be enough to pay for basic and adequate healthcare, food, clean water and safe sewers for every person on earth.

Apart from the question of meeting the basic needs of the world's population—lifting over 2.6 billion people, mostly in the developing countries, out of poverty—these social inequalities, particularly in regard to the condition of extreme deprivation or destitution that affects at least 1.5 billion people, mostly in the global South, have severe damaging effects, including malnutrition and all sorts of illnesses that reduce both the quality and the length of life. The worse the social distribution income and the deeper the poverty the shorter the life expectancy. Thus, the life expectancy of people in Sierra Leone and Namibia, among the most unequal and poorest nations on earth, is barely 50, compared to 79 in the United States and Cuba, and 80 in Canada.

Analysts at the CEPR (Centre for Economic Policy Research) put the neoliberal hypothesis—that if the poor countries were to let their economies be dominated by private capital and the free market they would converge with the rich countries—to the test. They divided countries into five groups, from the poorest to the richest. Then they compared how these countries fared between 1960 and 1980 (before the introduction of neoliberal policies) and 1980 to 2000 (when these policies were widely embraced). Their results are revealing of the impact of neoliberal policies, touted by the World Bank as 'pro-poor', on economic growth and social inequality. They found that the 'performance' of the poorest countries has deteriorated relative to the rich countries. That is, there was no convergence either in regard to wealth or income. On the contrary, the rich got richer and the poor became poorer, a pattern that holds up for intra-country distributions of income. Overall, social inequalities

in the distribution of wealth and income, both within and among countries, and the social divide between the North and South, increased over the period of neoliberal structural reform.

### *Income Disparities Within Countries*

The neoliberal revolution has deepened the global income and wealth divide but, as shown in the UN's Social Development Report—the *Inequality Predicament* (UNDESA, 2005), it has also deepened inequalities within countries both North and South. Table 2.1 reflects a general trend towards increasing income divergence and polarization at the global level. But the UN study also points towards a growth of social inequalities within most countries, both North and South. In addition it shows that income inequality has grown comparably faster in countries such as the United States and the UK that have thoroughly embraced the neoliberal doctrine than in countries that have not (UNDP, 2001: 8). In these countries, particularly in the United States, analysts have documented the growing gap between the very rich and the very poor with a rapidly shrinking middle class (Chang and Grabel, 2004: 21).

This pattern of a growing income gap within countries both North and South, and the connection between this pattern and neoliberalism, also shows up in other studies. For example, data provided by the World Income Inequality Database (WIID) shows that within-country income inequality decreased from the 1950s to the 1970s in most developed, developing and centrally planned economies but that since the installation of the neoliberal world order in the 1980s this trend has leveled off and even reversed; within many countries income inequality has risen and is on the rise, in some cases dramatically so. Under the conditions of this rise in income inequality, and as the direct result of the dismantling of the socialist state, Cornia and Kiiski (2001) discovered that in the countries that once constituted the socialist bloc income inequality from 1989 to 1996 rose by an average of between 10 and 20 Gini points, and the number of people living in poverty jumped from 14 million in 1989 to 147 million.<sup>1</sup>

The Gini index of income inequality is the most commonly used summary measure of national income distribution.<sup>2</sup> In many countries it has increased over

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1 Today, the Gini index, as a measure of income distribution, for the Russian federation stands at around 42.2, sharply up from some 33 in 1989. This is close to the level reached by China in 2007 and not far behind that of the United States, where social inequalities have been steadily increasing since the Reagan years, a development that is reflected in the rise of the United States on the Gini index—from 0.39 in 1970 to 0.47 today.

2 The Gini coefficient measures the degree of statistical dispersion or deviation from the mean distribution. As such it is a measure of income concentration, or conversely, social polarization or the size/weight of the middle class in a society—the higher the index the greater the income concentration and the smaller the middle class. Note that we cannot easily understand the value of the Gini index as the real degree of income inequality. But

the past two decades of neoliberalism and imperialism. In the United States, for example, it is 17 percent higher than it was in 1980. In Latin America, the region showing the greatest disparities, income disparities have increased dramatically over the two decades of neoliberal reform. In the 1950s and 1960s and into the 1970s the inequalities in income distribution were on the decline, the result of a state-led (as opposed to market-led) approach to national development.

In the 1980s, this progress was halted where not reversed. The outcome, marked by a process of privatization, financial liberalization, market deregulation and downsizing, was visible some years later in an extension of structured inequalities in income distribution, with a consequent deepening of the conditions of poverty and wealth at the extremes of this distribution.

According to ECLAC (2002: 83), with the advent of the new millennium 84 percent of Latin Americans live in countries with worsening inequality. Recent studies show a persistence of a pattern of growing social inequalities associated with 'neoliberal' reform. In the not atypical case of Mexico, a recent study by Mexico's national statistics institute (INEGI) showed that from 2000 to 2004 the only part of the population that increased its share of national income (from 35.6 in 2000 to 36.5 in 2004), and improved its situation, was the richest quintile of households (*La Jornada*, June 14, 2005). Today, some 220 million, or 44 percent of the region's total population, are deemed by the World Bank as 'poor' (earning less than \$2.50 per day) while 96 million are 'extremely poor'. As for the richest quintile, their income share (52.7 percent) increased by 1.3 percent in two years of a deepening of neoliberal policies under the presidency of Vicente Fox.

The statistics are an eloquent testimony to the social legacy of neoliberalism: to build the prosperity of the few—such as Mexico's 11 billionaires, whose combined income exceeds that of the country's total poor, some 40 million people—on the misery and shattered dreams of the many. It is about foreign 'investment' (and 'aid') that works like a suction pump, leading to a massive unregulated outflow of financial and productive resources (both financial and 'human'), and, as a result, conditions of super-exploitation and exclusion—and an increase in inequality and impoverishment. It is also about 'freedom', the banner of which is waved about so much by the ideologues of neoliberalism. But how many of the world's poor—over 2.5 billion who cannot meet their basic needs—are free to choose, free to make decisions that might improve the quality of their lives, free from exploitation and oppression, free from the machinations of capital and the greedy capitalists celebrated by *Forbes* for their personal achievements?

The substantive increase in social inequalities in the era of neoliberal globalization is also reflected in the share of the poor in national income. In virtually every country, but especially those that had most strongly embraced

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when the Gini index is  $g$ , and the society can be divided into the rich stratum and the poor stratum by  $r : 1-r$ , the share of the rich income becomes  $r+g$ , allowing us to know the degree of inequality. For example, if the Gini index is 0.3 and the share of rich stratum is 20 percent then the income share of the rich in total income is 50 percent.

neoliberalism, the share of the poor in national income was reduced over the years of the neoliberal era, 1980 to 1999 (ECLAC, 2001). For example, in Argentina the total income share of the poorest 10 percent in the urban sector went down from 2.7 in 1980 to 2.4 (17.2 to 15.3 for the poorest 40 percent). In the case of Brazil, the comparable figures are 1.3 and 1.1 (11.8 and 10.6). Comparable figures for Mexico are 3.2 to 2.8 (20.1 and 17.2) and for Venezuela they are 2.6 and 1.2 (20.2 and 14.6) (ECLAC, 2001: 157). Table 2.2 shows a similar pattern in regard to the share of the poorest 20 percent.

These inequalities in the distribution of income are also reflected in regional disparities, for example in the ratio of average income between the richest and poorest regions of the country. Data presented by ECLAC (2010: 135) in this connection show that in some countries (for example, Argentina and Brazil) the regional income gap, the difference between the poorest and the richest regions, is greater by a factor of eight (up to 12 times in the case of Brazil in 1990) and that the gap increased from 1990 to 2006/7, anywhere from 2.2 to 3.3 (Bolivia) to 6.8 to 8.1 (Argentina).

### *Inequalities in the Post-Neoliberal Era*

The statistics on the relationship between neoliberalism and increased social inequality are incontrovertible (on this see UNDP, 2010). Inequalities to some extent have been arrested and in one case (Brazil) reversed in the context of a policy shift in these countries away from neoliberalism as prescribed by Washington towards a post-Washington Consensus and policy response to this consensus reached at the end of the 1990s. At this point, there emerged a concerted effort to tackle directly the problem of extreme poverty—with an agreement to pursue policies designed to reduce the rate of extreme poverty by half from 2000 to 2015.

Since 2000 there have been a number of official reports on progress towards this goal (MDG #1).<sup>3</sup> Although at issue is the definition of poverty (most studies subscribing to the World Bank's conservative standard of \$1.15 a day, rather than the broader Basic Needs measure), the various studies conducted by diverse UN organizations concur in the fact that the rate of extreme poverty has in many cases been reduced, most notably in Chile and Brazil, on the basis, it would appear (it

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3 In 2005, three major publications focused on issues of global, inter-regional, North–South and intra-country inequalities in the distribution of income. In mid-year the UN Secretariat issued its 2005 Report on the *World Social Situation on The Inequality Predicament*, to critical acclaim. Not long thereafter the UNDP considered the same issues in its annual *2005 Human Development Report* just before the September Summit to consider progress towards achieving the MDGs. And in quick succession the World Bank issued what is considered by some as its best ever *World Development Report on Equity and Development*. The various contributors to K.S. Jomo's 2007 edited publication on the same issues provide a range of incredibly important critical studies into the political economic and policy dynamics of global income distribution.

has been argued), of a poverty-targeted social program based on ‘conditional cash transfers’ to the poor.<sup>4</sup>

But in regard to social inequality the pattern is different. Only in one case (Brazil) do these studies show a pattern of reduced inequalities under a post-neoliberal program. In most other cases, the impact of economic growth and the ‘new developmentalism’ on social inequality (Sunkel and Infante, 2009) has been negligible or positive, i.e. as in India and China, where a pattern of economic growth is associated with a reduction of extreme poverty and an increase in social inequalities. In Latin America Brazil and Chile represent the exception of this rule in that a reduction in the rate of poverty has been accompanied by a reduction in the level of social inequality—a reduction of five Gini points for Brazil and three for Chile (see Table 2.2).

The OECD (2010b: 33–4) interprets these data as follows. In China over 600 million people have been lifted out of poverty since the 1980s. In Brazil, 11 million people were lifted out of poverty over the same period. In India, although the percentage of those in poverty has decreased significantly (and at a slightly higher pace in rural areas than in urban ones) the number of poor has increased by around 40 million.

Economic growth did not mirror poverty reduction during this period. Whereas China had the highest GDP growth and the highest poverty reduction rate, Brazil achieved a higher rate of progress vis-à-vis poverty than did India, despite lower GDP growth. In Brazil, using the national poverty line, 35 percent of Brazilian households were considered poor in 1992, a figure that dropped to 16 percent in 2008, with the greatest poverty reduction observed after 2003 when it introduced its much vaunted *bolsa familia* anti-poverty program. The incidence of extreme poverty or indigence, measured according to a headcount of the number below the official poverty line, went down from 46 percent in 2000 to 30 percent in 2008, an average reduction by one-third, and greater in some countries. Of course, this is according to the World Bank’s controversial poverty measure. By other measures progress has been much less, and in all other countries in the region, even by this conservative measure, progress on the poverty and inequality fronts was marginal or non-existent.

In China, national statistics compute poverty only in rural areas according to an annual poverty line set by the government. Using this national poverty line, the number of rural poor decreased considerably between 1993 and 2008 (from 70 to 15 million). However, the ECLAC Report notes, ‘although not easy to quantify, there is growing agreement that poverty in urban areas [the total number of the poor] has increased since the early 1990s’.

As for India, another populous country in the BRIC group, the estimation of poverty has been the subject of substantial controversy over the years. Although

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4 On this program, pioneered by Brazil but now established in 17 Latin American countries, see, *inter alia*, Valencia Lomeli (2012).

there is good evidence that overall poverty fell in terms of headcount ratios, there is no consensus on what happened to poverty in India in rural areas. Discrepancies between household surveys and national accounts have made it difficult to derive a single picture of the evolution of poverty in India. Using data from official sources the percentage of people below the national poverty line decreased from 30.7 percent in 1993 to 22 percent in 2005, with a sharper decrease in rural areas (OECD, 2010b: 34). This decline was accompanied by a decrease of the poverty depth of 50 percent between 1983 and 2005, from 12.6 percent to 5.7 percent, also with a higher decline in rural areas (Topalova, 2008). However, the OECD Report reluctantly concludes, this progress on the poverty front was not matched in regard to social inequalities. Indeed the inequality gap, as in the case of China, increased, evidently the result of the resort to ‘market-friendly’ or capitalist policies. In Latin America, and especially in Brazil, the government embraced the post-Washington Consensus policy shift away from doctrinaire neoliberalism to a more pragmatic form that we might label ‘social liberalism’.

### *Time for Equality: Closing Gaps, Opening Trails*

The connections between social inequality and poverty, and between poverty and the neoliberal policies that have been shown to increase social inequality, are all too clear. The UNDP in its 2010 report on human development in Latin America argued that there is a direct correlation between structured social inequalities, and the policies responsible for these inequalities, and poverty. In the words of this report ‘there exists a direct correspondence between the advance of globalization, neoliberalism, and the advance of poverty social inequality and social inequity’. The authors of the report add that ‘[t]he most explosive contradictions ... are given because the advance of [neoliberal] globalization marches hand in hand with the advance of poverty and social polarization’ (UNDP, 2010: xv).

A major finding of the academic community is that poverty fundamentally is a structural problem rooted in the social, rather than the institutional, structure of an economic system, and that the problem (structured inequality) has been seriously exacerbated by the policies implemented by virtually all governments over the past three decades under the Washington Consensus. The root causes of poverty can be traced back not to the nature of the poor but to the way that the society and the economy is organized, with an accumulation of wealth at one extreme and poverty at the other. In the context of this social structure, the conditions of which can be analyzed at both the global and national levels, ECLAC (2010) argues that it is ‘time for equality—for closing gaps, opening trails’. In other words, it is time to act collectively, with the agency of government intervention, international cooperation and social participation.

From the perspective of the UNDP, ECLAC and other such international organizations implicated in the project of international cooperation, the policy framework for this action is constituted by measures designed to (1) change the structure of social inequalities in the global and national distributions of

wealth and income, and to improve access of the poor to means of production and productive resources (land, capital, technology); and (2) ensure democratic governance and participatory form of development that is empowering of the poor. This means allowing the poor to take charge of, and to ‘own’, their development effort—to take action for themselves, with the support of their government and the international development community. But for the Left, if not the ‘development community’ of international development organizations, it means being with the poor in their confrontation of the powerful and the rich in their command of economic and political power. Improvement in the social condition of working people and the poor requires not the palliative measures of social inclusion and economic assistance but substantive social change, and the only way of bringing out such change is through people power—people taking power.

### **Dimensions of Class and Income**

The distribution of socioeconomic conditions in society, and their association with different social groups and classes, is never haphazard but the result of economic organization and the social relations of that organization—and the institutionalized practices associated with relations of production and power in society. Notwithstanding significant differences in the social structure of different societies there is nevertheless a surprising consistency in the pattern displayed by these practices—in the limits of variation in the social condition of the people, in what we might well define as the social structure of capitalist societies.

An analysis of this ‘structure’ has been represented by sociologists in three different ways. One is in terms of the dominant social relations of production, which defines two basic classes: the bourgeoisie, or the owners of the means of production; and the working class, those people who, dispossessed from their means of production, are compelled to exchange their labor-power for a living wage. In addition, the class structure of Latin American capitalist societies typically includes the petit-bourgeoisie, a class of small property-owners that might well be conceived of as the traditional ‘middle class’, and a managerial-professional class of service-providers,<sup>5</sup> conceived of by sociologists as the ‘new middle class’. Latin

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5 In the so-called post-industrial or postmodern form of capitalist society that emerged in the 1980s at the center of the system as a result of revolutionary advances in information technologies, these high-level managers, service-providers or functionaries became so large a factor in the economic and social structure as to lead sociologists to describe and typify ‘society’ as an ‘information society’ or ‘knowledge economy’ in which ‘services’ predominate over ‘industry’, and service-providers, many of which are relatively well remunerated, outnumber workers. In the class analysis conducted by sociologists of this society—occupational class, based on an industrial and occupational classification of the labor force; or income class, defined in terms of an individual’s life chances or consumption capacity—society as whole is viewed as predominantly ‘middle class’, with a small number

American societies also include a class of small-scale independent commodity or subsistent producers, whose relations of production are pre-capitalist in form, who do not have an identifiable 'position' vis-à-vis the capital-labor relation, and who are generally viewed, or view themselves, in traditional terms as 'peasants'. With the capitalist development of both agriculture and industry over the past five decades, the forces of which have brought about a structural transformation of rural society, well over one half of the so-called 'peasantry' has been effectively or partially proletarianized, converted into a rural semi-proletariat and a peri-urban proletariat of self-employed street workers. As a result, close to half of the Latin American working class today work for themselves rather than for wages in the so-called 'informal sector' of the burgeoning urban centers and cities (Davis, 2006).

Another way of understanding the social structure of Latin American societies is in terms of the division of labor formed through the capitalist development process. The process, as it has unfolded in different parts of the world over the past century and a half, implies the transformation of an agriculture-based society, characterized by pre-capitalist relations of production and a traditional culture of social solidarity, into a modern urban-centered capitalist system based on industry and a culture of individualism. In these terms, the social structure is generally defined in terms of the major occupational groups, relations among which are understood in functional terms, i.e. in a relation of complementarity, structural interdependence and social solidarity. In contrast, when the social structure is defined in terms of the dominant social relations of production they are typically understood in Marxist terms as relations of economic exploitation and class conflict.

Conceptualized and theorized in these terms, the social structure of occupational groupings is conceived as a status hierarchy in which each class of human functionary, according to its location in the social structure, is allocated a certain 'coefficient of well-being'—income, and other 'rewards for effort,

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of the rich and the poor on the extremes of wealth and income distribution. This image of society as middle class in the United States, fostered by the dominant ideology (and even academic discourse), is so powerful as to resist any reference to the real world in which most people live.

The discrepancy between people's perceptions and reality, between the real world and their ideologized image of it, is striking: the more people slip into poverty, the more their socioeconomic conditions deteriorate, the more they lose their toehold in the American dream and their middle class status, the more they see themselves as 'middle class' (*The Economist*, 22 January, 2011). In the fog of misunderstanding and political stupor induced by the mass media in their myth-producing efforts and mission, the exploitation of labor by capital, and the machinations of the capitalist class in building personal fortunes and castles in the rarified air of fictitious capital, are seen as tenacious and valiant efforts to realize the American dream. The appropriation by this class of an ever-greater share of the social product is thus viewed as the reward for talent and effort. And their own failure to achieve this dream is seen as a personal failure to take advantage of the 'opportunities' available to them.



talent and skills', commensurate with their occupational status. In these terms, the distribution of income and wealth in society is viewed as a function of the importance that society attaches to certain functions within a scale of assigned modern values.

A third way of viewing the social structure is in terms not of an individual's relation to production but his or her relation to consumption, or the market—what Max Weber conceived of as an individual's 'life chances'. In these terms, often combined (by theorists of social stratification) with the notion of occupational class, the categories of social class analysis are: upper, upper middle, middle, lower middle, and lower.

No matter how the social structure is conceptualized—and often enough these three different approaches are haphazardly or even systematically combined (see, for example, Portes and Hoffman, 2003)—Latin American societies are characterized by structured relations and conditions of social inequality—what ECLAC terms 'the structure of social inequality', which underpins and gives form to, if not determines, the social distribution of wealth and income. However, because of the limited form in which statistics are collected and available, the social structure of this distribution is constructed on the basis of a statistical rather than a social grouping of the population. Thus, the methodological procedure is to break the population into deciles or quintiles of income earners, and to determine the share of each in national income; and also, via the Gini index or a ratio of top to bottom groupings, to compare countries according to the deviation from a statistical average and the degree of social inequality.<sup>6</sup> For example, Table 2.2 presents in statistical terms the structure of social income distribution for major countries in the region, with several reference points for international comparison. Statistics in the table point to a structure of social inequality that has exhibited remarkable persistence over time, relatively immune to fluctuations in the rate of growth and also resisting diverse albeit halting efforts over the past five decades of development to change this distribution in the direction of equity.

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6 According to the United Nations (see also Nationmaster.com), Gini index ratings for countries range from 0.25 in Denmark to 0.74 in Namibia. Most post-industrial nations had a Gini coefficient in the high twenties to mid-thirties. The UN places the US Gini index rating at 0.47 (up from 0.37 in 1970 and 0.43 in 2000, a very sharp increase that reflects the deepening of neoliberalism). Over the past two decades the Gini index has risen very quickly among a large number of nations, including the United States and in particular Japan, where it rose from 0.24 in the early 1990s to about 0.39 in 2007, an even faster and larger increase than in the United States. The same has happened in China and much of East Asia, which has seen very fast economic growth over the past two decades. That is, economic growth has been generally accompanied by an increase in social inequality. In China, for example, the Gini index increased from 0.40 in 2000 to 0.42 in 2007, and is undoubtedly higher today. That said, in Wikipedia's review of this 'the reasons behind the increase in the Gini index across many countries from the 1990s through the mid 2000s are still unknown'. A very odd statement, given the obvious and all too clear connection between the increase in social inequality and a shift away from developmentalism to neoliberalism.

**Table 2.2** Income distribution, percentage share; Gini coefficient, 1989–2009

	1989/90 2008/9			1989/90 2008/9			Gini (2008)	
	(poorest 40%)			(richest 10%)				
Argentina	15.0	15.5	+0.5	34.6	32.1	-2.5	0.50	0.51
Bolivia	12.1	11.2	-0.9	38.1	35.4	-2.7	0.54	0.57
Brazil	18.5	20.3	+1.8	43.9	41.0	-2.9	0.63	0.58
Chile	20.8	21.2	+0.4	40.7	38.4	-2.9	0.55	0.52
Ecuador	25.4	24.6	-0.8	30.6	32.7	+2.3	0.46	0.50
Mexico	22.6	24.0	+1.4	36.6	34.4	-1.8	0.54	0.52
Venezuela	25.7	27.9	+2.2	28.7	24.8	-3.9	0.47	0.41

*Note:* Cuba was not included in the 2010 *Human Development Report* due to the refusal of the World Bank to accept the economic data provided by the Cuban government, but it is estimated that the Gini coefficient of income dispersion for Cuba dropped from 57 in 1958 to 28 just four years later, then rose to 38 in 2000, still well below the level everywhere else in Latin America (Espina Prieto, 2004). To interpret and put these statistics in perspective, the Gini index for the United States rose from 39 in 1970 to 43 in 1990 and 46 in 2000 to 47 in 2010. In the most recent Gini index constructed by ECLAC and the CIA in its Factbook shows the following: 25 (Japan), 34 (UK), 23 (Sweden), 25 (Norway), 29 (Denmark) (Sweden), 28 (Germany), 33 (France), 42 (Russia), 31 (South Korea), 33 (Pakistan), 33 (Canada), 33.3 (Pakistan), 58 (South Africa), 70.7 (Namibia). In this comparison, it is evident that Latin American contains the countries with the highest level of social inequality in the world and is the region of greatest inequality, averaging a Gini coefficient well over 50 percent. As for China according to the CIA Factbook, the Gini coefficient for China in 2000 was 40, rising to 42 in 2007, with an increase in the rate of social inequality even greater than the United States, where income inequality has steadily increased from 1980 on, reaching new extremes in recent years reflected in the rapid growth in the number of billionaires and the share of the richest 1 percent and the spread and deepening of poverty.

*Source:* ECLAC (2010: 75–8).

### **The Middle Class Conundrum: What and Where is it?**

The dominant theory of development, advanced in the early decades of post-war capitalist development but reformulated a number of times since, is predicated on the formation and growth of a middle class, able, with its capacity and power of consumption, to drive forth the accumulation process. The problem is that this notion of a middle class is never anywhere clearly defined and, in practice, has resisted the few attempts made by sociologists over the years to analyze its

structure and its dynamics.<sup>7</sup> To bring this problem into focus, we need to raise and briefly address, if not fully answer, four questions: (1) What is the middle class? (2) What are the principal dynamics of class formation? (3) What is the theoretically defined role of the middle class in the development process? (4) What is the actual role of the middle class in the current capitalist development process?

### *Development for Whom?*

Development is a matter of improving the social condition of a people, and bringing about the changes needed to make these improvements. What these changes might be, and how to bring them about, are issues that have been heavily debated over the years, and remain unsettled. As for the social conditions at issue in these debates there is a relative consensus that in the first instance the issue is to meet people's basic needs and thereby reduce, if not eradicate, the scourge of poverty. The problem, as we discuss in Chapter 3, is that the war on poverty, launched by the World Bank in the 1970s, has been fought at cross-purposes, with the Bank insisting on macroeconomic 'pro-growth' policies that research and experience have shown to make and keep people poor. Thus it is that the Bank and other international organizations engaged in the war on poverty have ruled out the possibility of eradicating poverty; it would require the abandonment of policies to which the World Bank at least is committed as a matter of fundamental principle—and ideology.

In any case, development is not just a matter of lifting people out of poverty and alleviating the pain of those who cannot escape it. It is a matter also of improving the social condition of the non-poor population by expanding the forces of national production and ensuring a somewhat equitable distribution of the social product of the wealth and incomes generated by the exploitation of society's productive resources.<sup>8</sup> But what is the best agency for this development? How is this equitable

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7 In recent years, a number of development scholars have begun to argue that the academic and policymaking community have been too focused on the policy dynamics of poverty alleviation to promote the growth of the middle class as a critical catalyst of the development process. They propose to turn the attention of both academics and policymakers back to the middle class, asking the former to provide a better understanding of the middle-class formation dynamics, and the latter to devise policies designed to strengthen the middle class, the backbone of the development process.

8 The 'theory' espoused by proponents of the Davos Consensus (see above) is that (1) the driving force of economic growth is capital accumulation (the productive investment of savings); (2) that the best way to promote growth is to increase the share of national income for that class of individuals (the rich) who have a higher propensity to invest their savings (the poor have no savings and workers have a low propensity to save, spending their earnings); (3) that the free market is the best mechanism for determining 'who gets what'; and (4) that the workings of the market will ensure that some of the growth will 'trickle down to the poor'. This theory has resisted a mountain of evidence ranged against it, a clear indication of its ideological roots. The following quote from *The Economist* (May 14, 2011,

distribution ensured? How to ensure a somewhat equitable distribution that benefits the bulk of the population, reducing the polarization between the rich and the poor at the extremes of this distribution? How do we measure any gains made in this regard?

*What and Where is the Middle Class—a Matter of Definition?*

In practice improvements in the social condition of the people are measured in terms of income distribution—determining the income shares of different social groups and class. It is evident that this distribution is not random, but that it is ‘structured’, i.e. associated with the position that individuals and groups occupy in the social structure. The social structure in capitalist societies assumes a hierarchical form, with each ‘class of human functionary’ (to use Durkheim’s expression) assigned a ‘certain coefficient of well-being’ (a share of the wealth, a quota of income to reward effort and talent). The problem is how to identify the basic elements of this structure, and to connect the pattern of social distribution to these elements.

Above we identified two sociological theories of an analysis of the social structure: a Marxist theory of social class; and a theory of social stratification that combines a Weberian focus on an individual’s ‘life chances’ (relation to the market) with a functionalist focus on the occupational class structure. However, the main way of analyzing the distribution of income both within and among diverse societies and nation-states is in terms of the methodology favored by economists, which is to group people statistically in terms of average income earned or received by people in each group. In these terms, the share of different statistical groups (deciles or quintiles) can be compared and calculated. For example, the share of total income that accrues to the poorest 10–40 percent can be compared to the share received or appropriated by the richest 10 percent. In this analysis, the ‘middle class’ is produced as a statistical artifact: all individuals in the middle range of income distribution—from the 40th to the 90th percentile of income distribution, or 50 percent of the population.

Of course, the pattern of income distribution will vary by country, with a more solid ‘middle class’ of relatively high mass consumption in the advanced capitalist societies characterized by ‘mass consumption’. Societies on the south of the global development divide, on the periphery of the world capitalist system, are assumed and shown to have a smaller middle class, much smaller in many cases, with correspondingly lower levels of consumption, and thus a lower level of

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p. 58) provides clear evidence that this ideology is still very much alive and well. ‘The true test of progress is whether new riches trickle down from the elite to create a group of consumers large enough to sustain broad economic spurts in the services and manufacturing sectors. If so a virtuous circle of yet more jobs, new government revenues and better public services beckons, eventually benefitting the poor.’ Needless to say, capitalism in most places has miserably failed this test.

market-led development. In this regard World Bank economist Branko Milanovic estimates that the world middle class is barely 11 percent (2002: 175).

This methodology is problematic in a number of ways. Firstly, if the middle class is defined as all those who are neither rich or poor, then—depending on the poverty line measure—up to 50 percent of the population in many societies, in the South as well as the North, would automatically fall into the middle class, a dubious or meaningless proposition. It would of necessity include, and lump together, a large category of low-income earners with a very restricted capacity to consume, with individuals in an upper-income bracket and a high level of consumption.

Another problem is to extend the definition of middle class to the poverty line. For example, *The Economist* (May 12, 2011, p. 58) cites a report commissioned and prepared by the African Development Bank in which one-third of all Africans are placed in the ‘middle class’, defined as all those who are in a position to spend from \$2 to \$20 a day. Ten years ago, the Bank notes, only 25 percent of Africans were in this middle-class position, an advance of eight percentage points. But what does this possibly mean? A large swath of low-income earners, and even some of the poor, by statistical fiat materialize as the ‘middle class’—a rather nonsensical procedure that requires no further comment.

A more sensible and useful approach would be to take a Marxist definition of social class, with which the population can be divided into four classes, two formed around the fundamental capital–labor relation and two with a more indirect connection to this relation: (1) *the capitalist class*, in its dominant forms (financial, industrial); (2) *the working class*, in its multitudinous and changing forms; (3) *the petit bourgeoisie*—an old middle class of small proprietors, independent farmers and business-owners, artisans, and a new middle class of professionals and functionaries, providers of diverse ‘business and corporate services’, who like all members of this ‘upper middle class’ trade on their knowledge and other forms of intangible means of production; and, in some contexts, (4) *the peasantry*, a class of small landowning farmers who do not work and live to accumulate capital but respond to a different development logic.

In the context of this class analysis, the middle class can be viewed both in structural terms (namely, its relation to production) and in its capacity to consume, which defines its fundamental role in the capitalist development process: to constitute the market on which capitalism depends for its expansion and normal functioning—‘to create a group of consumers large enough to sustain broad economic spurts in the services and manufacturing sectors’. In the current conjuncture of globalizing capital, the middle class is expanding most rapidly in the ‘emerging markets’ of Asia, particularly China and India. As for the United States, at the epicenter of the system, three decades of capitalist development in its neoliberal mould has not only resulted in a serious deterioration in the condition of the American working class but it has led to a dramatic increase in the level of social inequalities, and also a ‘hollowing out’ of the middle class, reducing the consumption capacity of millions of Americans rather than poverty.

According to the World Bank economist Milanovic (2002: 175), ‘76 percent of the world population lives in poor countries, 8 percent lives in middle income countries and 16 percent lives in rich countries’. However, he adds, ‘if we ... look at “true” distribution of people according to their income (regardless of where they live) we find [that]: 78 percent of world population is poor, 11 percent belong to the middle class, and 11 percent are rich’ (p. 175). Thus, ‘any way we consider it ... the world lacks a middle class ... It looks like a proverbial hourglass: thick on the bottom, and very thin in the middle’. ‘Why’, Milanovic asks, ‘does the world not have a middle class?’. First, he answers, it is because ‘world equality is extremely high’. However, he conjectures, a more ‘substantive cause’ for the absence of a global middle class is ‘because there is no agency whose mandate would be to care about it’. His thinking is not spelt out but the implication, elaborated on by the OECD’s Kharas (2010), is that the development community has been overly focused on poverty reduction, ignoring in the process the fundamental role of the middle class in advancing capitalist development

### *The Rich and the Rest*

The concern for the excessive inequalities generated by free market capitalism was already in the minds of the social liberal critics of the Washington Consensus in the 1980s in the concern that the volume of debt repayments in such a short period (1983–7) might be excessive and premature. Shortly thereafter, a number of development theorists and practitioners went back to the drawing board to design new policies, and create a new institutional framework for a more equitable and socially inclusive form of development—for the Washington Consensus policies were not only generating excessive inequalities in the distribution of wealth and income but the development model was, by all accounts, and evidently, highly exclusive, benefiting but a small segment of the population. By the mid-1990s other voices were raised in concert about the growing development divide based on exceedingly unequal distribution of wealth and incomes. The UNDP noted, with concern, that by the mid-decade a small number of individuals, some 365 to be exact, possessed resources and wealth the equivalent of the wealth and income received by all of the world’s identified poor, some 1.5 billion people, most of whom were found in the global South.

This concern with excessive social inequality was expressed in 1996 by Ethan Kapstein, Senior Fellow at the Centre for a New American Security and Vice President of the Council on Foreign Relations. The concern was that the increase of social inequalities in the distribution of wealth and income, and the poverty generated at one extreme of this distribution, was such as to render a country ungovernable, leading to social discontent that likely enough would be mobilized against the capitalist democracies in the region. And the forces of resistance in the 1990s were indeed so mobilized. In some contexts (South America, for example) the response of the guardians of the new world order, however, was not to regulate profit and wealth in the ‘private sector’ but to compel governments to adopt policies

of ‘good governance’—to engage diverse ‘stakeholders’ and ‘civil society’ in the responsibility for social development and political order—to create a more participatory form of politics and development. Thus ‘good governance’ was added to the conditions attached to ‘foreign aid’ and accessing capital markets.

A full decade into the new millennium, what *The Economist* (January 22, 2011, p. 13) defines as the Davos Consensus—the need to boost growth with free market capitalism (pro-growth policies) and to reduce the incidence of extreme poverty—was given a new impetus as a new development model and poverty reduction strategy: macroeconomic structural reform (to boost growth) combined with obliging governments to write a PRSP with social participation. However, by the end of the first decade, despite a series of positive reports on progress made vis-à-vis MDG #1 (reducing by a half the rate of extreme poverty by 2015), it became clear that economic growth/poverty reduction was not enough—that there was a growing need to address the problem of growing and possibly excessive income disparities, that, as ECLAC would have it, ‘it was time for equality’.

The most often expressed concern by officials in the development community regarding the inequality predicament (excessive disparities in income distribution) is ethical, with reference to equity as a principle of social justice and development. However, the underlying albeit normally unexpressed concern is for political stability or governability. In this connection, a study and report commissioned by the UK Ministry of Defence (2007) is eloquent in pointing out the profound political implications of the global divide in wealth and development that continue to breed ‘forces of resistance’ and will likely lead to a ‘resurgence of not only anti-capitalist ideologies ... but also to populism and the revival of Marxism’ (2007: 3).

This concern has been echoed in voices as diverse as those of China’s president (Hu Jintao), Britain’s prime minister (David Cameron), America’s second richest man (Warren Buffett), and the hapless and now former IMF head and socialist candidate for the presidency in France (Strauss-Kahn).<sup>9</sup> Each has worried loudly and publicly about the dangers of the ‘rising gap between the rich and the rest’, as *The Economist* puts it. For Hu Jintao the reduction of income inequalities, particularly between China’s urban elites and the rural poor, is at the center of his pledge to create a ‘harmonious society’. Cameron, for his part declared—what is now a truism among development theorists and practitioners—that more unequal societies do worse ‘according to almost every quality-of-life indicator’.

As for Buffett he has become a crusader for a higher inheritance tax, arguing that the United States risks an entrenched plutocracy without it. And Strauss-Kahn has begun to push for a new global growth model, arguing that gaping income gaps threaten social and economic stability. In thus he has picked up a concern expressed earlier by Michel Camdessus, one of his predecessors, who in 1996 on a visit to Mexico, declared that the policy of the IMF no longer is neoliberalism

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9 That Strauss-Kahn could be or was the presidential candidate of the socialist party speaks volumes of the bankruptcy and real character of social democracy within a capitalist state.

as such (free market capitalism) but that IMF policy is now based on three pillars: the invisible hand of the market; the visible hand of the state; and ‘solidarity between the rich and the poor’. It would take the IMF many years to come to the conclusion that this ‘solidarity’ would only be possible—and thus social and political stability—by dealing more effectively with the gaping inequalities in wealth and incomes. We conclude that what *The Economist* terms the Davos Consensus (unregulated economic growth plus extreme poverty eradication) is no longer viable. Indeed, a recent survey conducted by the organizers of the WEF in Davos concludes that in addition to failings in global governance (the failure of a strategic response to the global financial crisis) the main global risk over the next decade is widening global economic disparities.<sup>10</sup> The response to this ‘inequality predicament’ by the guardians of the capitalist world order, the architects of the post-Washington Consensus—most of whom have a Keynesian conception of capitalist development—will most likely result in a new form of global governance, and a mixed economy that combines elements of socialism and capitalism with a softer touch of imperialism.

### Three Perspectives on the Inequality Predicament

The debate about inequality is an old one. But in the wake of the global financial crisis that is blamed by some on Wall Street fat cats, or untrammelled greed, and by others on a failure to regulate the global flows and operations of capital (the lack of a global regulatory framework); and from which the richest have rebounded the fastest, and ahead of public spending cuts that have hit the poor the hardest,<sup>11</sup> its tone has changed. For much of the past two decades the prevailing view among the world’s policy elite—call it the Davos Consensus—was that inequality itself was less important than ensuring that those at the bottom were becoming better off. The view is that economic growth is the key to poverty reduction, and thus has to be promoted above all else without government interference in the form of regulatory controls or income redistributive measures. As long as absolute poverty is curtailed in the process, and this would be the likely result of the market dynamics of economic growth, the best policy is to give maximum freedom to the forces of economic growth, namely the market, profit-seeking and competition.

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10 One reason that the global economic and political elite are finally coming to terms with the need to tackle the inequality issue as well as redress extreme poverty is that has been discovered that not only are excessive social inequalities politically destabilizing but that it actually adds to the bottom line to transfer money directly to the poor—that ‘paying people’s way out of poverty can improve all our pocketbooks’ (*Globe & Mail*, May 6, 2011, p. A12). The conclusion: ‘eliminate crushing poverty among the lowest earners, and wealth will trickle up’.

11 On the polarizing dynamics of this process see, *inter alia*, Isaak (2005).



Today, however, in the context of evidence of an expanding and deepening global divide between the rich and the rest, the focus is on inequality itself and its pernicious consequences, not least of which is social conflict and political instability. One strand of thought is epitomized by *The Spirit Level*, a book that caused a major stir in Britain, suggesting that countries with greater disparities of income fare worse on all manner of social indicators, from higher murder rates to lower life expectancy. Within the development community a growing number of economists, many of them at the World Bank, are pointing to evidence that a substantive degree of social equality is a precondition of growth—that a lack of access to productive resources or assets such as land constitute a major barrier to economic growth. A second line of argument revisits the macroeconomic consequences of severe income disparities. Several prominent economists on this point even argue that inequality was the root cause of the financial crisis, in that politicians in the United States tried to counter the growing gap between the poor and the rich by encouraging poorer folk to take on more credit (*The Economist*, January 22, 2011, p. 90) (of course, the suppliers of this credit did so in a spirit of greed). A third argument is that ‘inequality perverts politics, with Wall Street’s influence in Washington cited as exhibit “A” of the unhealthy clout of a plutocratic elite’—or what might be termed ‘the dictatorship of money’. And this influence or power of Wall Street is but a small part of a much larger problem.

If these arguments are right, *The Economist* (January 22, 2011, p. 13) admits, ‘there might be a case for some radical responses, especially a greater focus on redistribution’. Redistribution, of course, was the central concern of development in the 1970s, but then it was in no way a radical policy; rather a social *liberal* reformist response to the growing pressures for revolutionary change at the time.

So, what are the prospects of a radical response to the UN’s ‘inequality predicament’ in the current context of capitalist development in the form of neoliberal globalization? On this point, the editor of *The Economist* is firm and unambiguously clear: ‘the old Davos consensus of boosting growth and combating poverty is still a better guide to good policy’ (p. 13). Rather than a ‘sweeping assault on inequality itself [heaven forbid!]’, *The Economist* adds, ‘policymakers would do better to take on the market distortions that often lie behind the most galling income gaps, and which also impede growth’.

This is the neoliberal view of the inequality predicament. In this view ‘much of the recent hand-wringing about widening inequality is based on sloppy thinking’. *The Economist* invites readers to ‘begin with the facts about inequality’. Globally, the editor contends, ‘the gap between the rich and the poor has actually been narrowing, as poorer countries are growing faster’ (but on this point see the discussion above on the ‘inequality predicament’). ‘Nor’, the editor adds, ‘is there a monolithic trend within countries’—true enough, although the editor fails to note that the trend is for greater or increasing inequalities in countries that take a neoliberal approach to macroeconomic policy. In Latin America, it is pointed out, long home to the most unequal societies (true enough), many countries—including the biggest, Brazil—have become *a bit more equal*, as governments

have boosted the incomes of the poor with fast growth and an overhaul of public spending to improve the social safety net, ‘but’, the editor adds, ‘not by raising tax rates for the rich’ (*The Economist*, January 22, 2011, p. 13).

As for the trend towards rising inequalities in fast-growing ‘emerging economies’ such as China and India, and the persistent trend towards social inequality in ‘many rich countries (especially America)’ that have used neoliberalism as a model to guide national policy over the past two decades, *The Economist* admits that the gap between the rich and the poor has risen. However, it notes, it has also risen ‘in places with a reputation for being more egalitarian, such as Germany’. But, the editor adds, ‘the reasons for this differ’. For example, ‘[i]n America income inequality began to widen in the 1980s’, not because the rich appropriated the lion’s share of the new wealth generated,<sup>12</sup> but ‘because the poor fell behind those in the middle’. However, the editor does acknowledge that ‘[m]ore recently, the shift has been overwhelmingly due to a rise in the share of income going to the very top—the highest 1% of earners and above’. In this situation, ‘[m]any Americans are seeing their living standards stagnate’, but even so, the editor adds, ‘the gap between most of them has not changed all that much’.

In line with others who pursue this line of thought and argument the editor of *The Economist* concludes that ‘[t]he links between inequality and the ills that are attributed to them are often weak’. As for the mooted link to the financial crisis, the editor adds—neatly forgetting that it was Ronald Reagan as president in the early 1980s who liberated the forces that gave rise to a persistent long-term trend towards a growing income and wealth gap—‘the timing is dodgy: America’s poor fell behind in the 1980s, the credit bubble took off two decades later’. In his rather slippery logic and evasion of salient facts regarding the inequality predicament the editor also fails to note that whatever the line of causation the so-called ‘global financial crisis’, and the response to it of the Obama regime, did in fact add fuel to the social inequality process. The rich and their upper-middle-class professional and investment service-providers, for the most part, emerged unscathed, having suffered but a temporary loss in their investment income and hard-earned bonuses. The poor, however, as well as a substantive segment of the middle class in its lower rungs, lost their jobs, their houses and their belief in the ‘American dream’.

The position of *The Economist* (January 22, 2011, pp. 12–14)—and this represents a confirmation of what the editor defines as the ‘Davos Consensus’—is that ‘the right way to combat inequality and increase mobility is clear’. First, ‘governments need to keep their focus on pushing up the bottom and middle rather than dragging down the top’ (p. 14). This requires governments to ‘invest in people’ (education and healthcare), ‘remove barriers to access’, as well as ‘refocusing government spending on those that need it most’. Second—and here *The Economist* implicitly takes on, without the specifics that would add teeth to its policy advice, the inner workings of the system—‘governments should get rid of

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12 In the neoliberal worldview of *The Economist* this wealth was generated under conditions of individual competition rather than social cooperation.

rigged rules and subsidies that favour specific industries or insiders'. In this regard, 'forcing banks to ... pay for their implicit government safety net is the best way to slim Wall Street's chubbier felines'. In the 'emerging world', *The Economist* adds to this enforced diet for the Wall Street fanciers who heed the self-imposed norms of good governance the need for governments to pursue a 'more vigorous assault on monopolies and a renewed commitment to reducing global trade barriers'. This is because 'nothing boosts competition and loosens social barriers better than freer commerce'. This is not to suggest that such 'reforms would ... narrow all income disparities'. But they would 'strike at the most pernicious, unfair sorts of income disparity and allow more people to move upwards'. If 'the Davos elites are worried about the gap between the rich and the rest', the editor concludes, 'this is the route they should follow'. That is, stay the neoliberal course and stick with the consensus forged over the past decades.

### **Billionaires Flourish and Inequalities Deepen as Economies Recover**

The bailouts of banks, speculators and manufacturers served their real purposes: the multi-millionaires became billionaires and later multi-billionaires. According to the annual report of the business magazine *Forbes* there are 1,210 individuals—and in many cases family clans—with a net value of US\$1 billion (or more). Their total net worth is US\$4.5 trillion, greater than the combined worth of four billion people in the world. The current concentration of wealth exceeds any previous period in history; from King Midas, the Maharajahs, and the Robber Barons to the recent Silicon Valley: Wall Street moguls of the present decade.

An analysis of the source of wealth of the super-rich, the distribution in the world economy and the methods of accumulation highlights several important differences with major political consequences. We will proceed to identify these specific features of the super-rich, starting with the United States and follow with an analysis of the rest of the world.

#### *The American Super-Rich: Living Parasites*

The United States has the most billionaires in the world (413), better than one-third of the total, the greatest proportion among the 'big countries in the world'. A closer look also reveals that among the top 200 billionaires (those with \$5.2 billion and more) there are 57 from the United States (29 percent). Over one third made their fortune through speculative activity, predators on the productive economy and exploiters of the property and stock market. This is the highest percentage of any major country in Europe or Asia (with the exception of the UK). The enormous concentration of wealth in the hands of this tiny parasitical ruling class is one reason why the United States has the worst inequalities of any advanced economy and among the worst in the entire world. Speculators do not employ workers, they secure tax loopholes and bailouts and then press for cuts in the social budget, since

they do not require a healthy, educated workforce (except for a tiny elite). In 1976 the top 1 percent held 20 percent of the wealth; in 2007 they commanded 35 percent of total wealth. Eighty percent of Americans own only 15 percent of the wealth. The recent economic crisis, which initially reduced the total wealth of the country, did so in an uneven fashion, hitting the majority of workers and employees worse. The Bush–Obama bailout led to the economic recovery, not of the ‘economy in general’, but was confined to further enhancing the wealth of the billionaires, which explains why the unemployment/underemployment rate has hardly moved, why the fiscal debt and trade deficit grows and the state lowers corporate taxes and slashes federal, state and municipal budgets. The ‘dynamic’ sector composed of parasitical capitalists employs few workers, exports no products, pays lower taxes and imposes greater cuts in social spending for productive workers. In the case of the US billionaires, their wealth is largely accrued via the pillage of the state treasury and productive economy and via speculation in the information technology sector which houses one-fifth of the top billionaires.

### *The New Billionaires in the BRIC Countries: Profiting from Labor*

The leading ‘emerging’ economies in the world system (Brazil, Russia, India and China (BRIC)), hailed by the mass media for their rapid growth over the past decade, are producing billionaires at a faster rate than any bloc of countries in the world. According to the latest data in *Forbes* (March 2011), the number of billionaires in the BRIC countries increased over 56 percent from 193 in 2010 to 301 in 2011, exceeding that of Europe.

The rapid growth of the BRICs has led to the concentration and centralization of capital, in every case promoted by state policies which provides low interest loans, subsidies, tax incentives, unrestricted exploitation of natural resources and labor, the dispossession of small property owners and the give-away of publically owned enterprises.

The dynamic growth of billionaires in the BRICs has led to the most egregious inequalities in the world. Among the BRICs, China leads the way with the greatest number of billionaires (115) and the worst inequalities in all of Asia, in sharp contrast to its Communist past when it was the most egalitarian country in the world. An examination of the source of wealth of China’s super-rich reveals that it has resulted from the exploitation of labor in the manufacturing sector, speculation in real estate and construction and trade. China has surpassed the United States as the world’s biggest manufacturer in 2011, as a result of the super-exploitation of labor in China and the growth of parasitical financial capital in the United States.

In contrast to the United States, China’s working class is making significant inroads into the profiteering of its manufacturing and real estate elite. As a result of working-class struggle, wages have been growing between 10 and 20 percent over the past five years; protests by farmers and urban households against state-sanctioned evictions by real estate speculators have exceeded 100,000 per year.

The wealth of Russian billionaires, on the other hand, resulted from the violent theft of public resources (oil, gas, aluminum, iron, steel, etc.), developed by the previous communist regime. The great majority of Russian billionaires depend on the export of commodities, pillaging and devastating the natural environment under a corrupt and deregulated regime. The contrast in living and working conditions between the Western oriented billionaires and the Russian working class is largely the result of the siphoning off of wealth to overseas accounts, offshore investments and extraordinary personal luxuries including multi-million dollar real estate. In contrast to China's industrial elite, Russia's billionaires resemble the parasitical 'rentiers' found among Wall Street speculators and Persian Gulf sheiks.

India's billionaires are a combination of old and new rich drawing their wealth by exploiting low wage industrial workers, dispossessing slum and tribal peoples, as well as from diversified holdings in real estate, IT and software. India's billionaires accumulated their wealth through their class-kin linkages to the very corrupt higher echelons of the political class, securing monopolies via state contracts. India's high growth over the past decade (averaging 7 percent) and the upsurge in billionaires to 55 by 2011, are both linked the neoliberal policies of deregulation, privatization and globalization, which have concentrated wealth at the top, undermined small-scale producers and dispossessed tens of millions.

Brazil's billionaire class has expanded rapidly, especially under the leadership of the Workers Party, to 29, up from single digits a decade earlier. Today over two-thirds of Latin America's billionaires are Brazilians. The centerpiece of Brazil's wealth and the super-rich is the financial-banking sector, which has benefited enormously from the monetary, fiscal and neoliberal policies of the Lula Da Silva regime. Billionaire bankers have been the principal beneficiaries of the agro-mineral export economy, which has flourished over the past decade, at the expense of the manufacturing sector. Despite claims by Workers Party leaders, the class inequalities between the mass of minimum wage workers (paid \$380 per month as of March 2011) and the super-rich continues to be worst in Latin America. An analysis of the source of wealth among Brazilian billionaires reveals that 60 percent accrued their wealth in the finance, real estate and insurance (FIRE) sector and only one (3 percent) in the capital or intermediary manufacturing sector. Brazil's boom in economic growth and billionaires fits the profile of a 'colonial economy': heavy in conspicuous consumption, commodity exports and presided over by a dominant financial sector that promotes neoliberal policies. Over the course of the past decade despite the populist political theatrics and paternalistic poverty programs sponsored by the 'center-left' Workers Party, the major socioeconomic outcome has been the growth of a class of 'super-rich' billionaires concentrated in banking with powerful links to the agro-mineral sectors. The free-market high growth financial-agro-mineral class has degraded the manufacturing sector, especially textiles and shoes, as well as capital and intermediary goods producers.

The BRICs are producing more and growing faster than the established imperial powers in Europe and the United States but they are also producing monstrous inequalities and concentrations of wealth. The socioeconomic consequences have

already manifested themselves in increasing class conflict especially in China and India, as intensive exploitation and dispossession have provoked mass action. The Chinese political elite seems to be the most conscious of the political threat posed by the growing concentration of wealth and is in the midst of promoting substantial wage increases and greater local consumption which seems to be lowering profit margins among some sectors of the manufacturing elite. Perhaps the 'historical memory' of the 'Cultural Revolution' and the Maoist legacy plays a role in alerting the political elite to the political dangers resulting from 'capitalist excesses' associated with the high levels of exploitation and the rapid growth of a class of politically connected kinship-based billionaires.

### *The Middle East*

Over the past decade the most dynamic country in the Middle East has been Turkey. Led by a liberal democratic regime of Islamic inspiration, Turkey has led the region in GDP growth and in the production of billionaires. The Turkish economic performance has been presented by the World Bank and the IMF as a model for the post-dictatorial regimes in the Arab world—'high growth', a diversified economy based on the growing concentration of wealth. Turkey has 35 percent more billionaires (37) than the Gulf and North African states combined (24). The 'secret' of Turkish growth is the high rates of investments in diverse industries and the intensive exploitation of labor. Many Turkish billionaires (14) derive their wealth via 'conglomerates', investments in diverse manufacturing, finance and construction sectors. Apart from the 'conglomerate' billionaires, there are 'specialist billionaires' who have accumulated wealth from banking, construction and food manufacturing. One of the reasons Turkey has rebuked and challenged Israeli power in the Middle East is because its capitalists are eager to project investments and penetrate markets in the Arab world. Apart from the Zionized US political system, the ruling elites and publics in Europe and Asia have looked favorably on Turkey's opposition to Israel's massacres in Gaza and violation of international law on the high seas. If a modern liberal Islamic regime can grow rapidly through the rapid expansion of a diversified class of the super-rich, so can Israel, a modern neoliberal-Judaic state based on the rapid growth of a highly diverse class of billionaires. Israel, with 16 billionaires, is a country with the fastest growing class inequalities in the region, and with the highest per-capita billionaires in the world.

Israel's 'growth sectors', software, military industries, finance, insurance and diamonds and overseas investments in metals and mining are led by billionaires and multi-millionaires who have benefited from Zionist induced financial handouts from the US pillage of resources from the former USSR and transfer of funds by Russian-Israeli oligarchs and though joint ventures with Jewish-American billionaires in software corporations, especially in the 'security' sector. Israel's high percentage of billionaires at a time of sharp cuts in social spending puts the lie to its claim to be a 'social democracy' in the midst of Arab 'sheikdoms'. As

a matter of record, Israel has twice as many billionaires (16) as Saudi Arabia (8) and more super-rich than the entire Gulf countries (13). The fact that Israel has more billionaires per capita than any other country has not prevented its Zionist supporters in the United States from pressing for an additional US\$20 billion in aid over the next decade. Unlike in the past, today Israel's wealth concentration has less to do with its being the biggest recipient of foreign aid. Israel's handouts are a political issue: Zionist power over the Congressional purse. Given the total wealth of Israel's billionaires a 5 percent tax would more than compensate for any cutoff of US foreign aid. But that is not about to happen simply because Zionist power in the United States dictates that the US taxpayers subsidize Israel's plutocrats by paying for their offensive weaponry.

### *Conclusion*

The 'global financial crisis' of 2008–9 inflicted only temporary losses on the movers and shakers of finance capital, the global ruling class and the billionaires (mostly in the United States and the EU) that the rule of finance capital has spawned. Thanks to trillion dollar/euro/yen bailouts, these billionaires in the United States and Europe have rebounded from the crisis and expanded their operations, even as wages continue to stagnate, many workers (including those in the lower ranks of the middle class) have lost their homes and their jobs, and living standards are slashed by massive cutbacks in health, education, employment and public services. In this context of uneven development and controlled economic recovery it is estimated that the US billionaires, at the center of the system and the epicenter of the recent financial crisis, have increased their holdings and fortunes—by some 30 percent since 2008. In Mexico, Carlos Slim, the world's richest man, is reported to have increased his fortune by 38 percent since the end of 2008. Unfortunately, the fortune of most Mexicans, almost half of whom are forced to live below the official poverty line, is very different.

What is striking about the recovery, growth and expansion of the world's billionaires is how dependent their accumulation of wealth is on the pillage of state resources. Much of the change in their fortune (recovery from the crisis) was based on neoliberal policies, which led to the takeover at bargain prices of privatized public enterprises. Deregulatory policies allowed, and continue to allow, for the plunder of natural and human productive resources (labor) at the expense of the environment but at even higher rates of return on the 'investments' of the corporate rich.<sup>13</sup> How the state promoted the expansion of speculative activity in real estate, finance and hedge funds, while encouraging the growth of monopolies, oligopolies

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13 In some contexts as in Canada in response to the crisis the corporate tax rate was reduced (from 18.5 to 16 percent in the case of Canada), ostensibly so as to promote productive employment generating investments. Needless to say, these investments did not take place. What did take place was another round of bonuses paid out to the CEOs of the financial institutions and corporations that had failed to go under, in many cases because of

and conglomerates that captured ‘super profits’, rates above the ‘historical level’. Billionaires in the BRICs and in the older imperial centers (Europe, the United States and Japan) have been the primary tax beneficiaries of reductions and elimination of social programs and labor rights.

What is absolutely clear is that the state, and not the market, has the major role in bringing about the greatest concentration and centralization of wealth in world history, whether in facilitating the plundering of the treasury and the environment or in heightening the direct and indirect exploitation of labor.

The variations in the paths to billionaire club status are striking: in the United States and the UK, the parasitical speculative sector predominates over the productive; among the BRICs—with the exception of Russia—diverse sectors incorporating manufacturers, software, finance and agro-mineral billionaires predominate. In China the abysmal economic gap between the billionaires and the working class, between real estate speculators and dispossessed households is leading to increasing class conflict and challenges, forcing significant increases in wages (20 percent over the past three years) and demands for increased public spending on education, healthcare and housing. Nothing comparable is occurring in the United States, the EU or the other BRICs.

The sources of billionaire wealth are at best only partially due to ‘entrepreneurial innovations’. Their wealth may have begun, at an earlier phase, from producing useful goods and services; but as the capitalist economies ‘mature’ and shift towards finance, overseas markets and the search for higher profits by imposing neoliberal policies, the economic profile of the billionaire class shifts towards the parasitical model of the established imperial centers.

The billionaires in the BRICs and in Turkey and Israel contrast sharply from the Middle East oil billionaires, who are ‘rentiers’ living off ‘rents’ from exploiting oil and gas and overseas investments, especially in the FIRE sector. Within the BRICs only the Russian billionaire oligarchs resemble the rentiers of the Gulf. The rest, especially Chinese, Indian, Brazilian and Turkish billionaires, have taken advantage of state-promoted industrial policies to concentrate wealth under the rhetoric of ‘national champions’, promoting their own ‘interests’ in the name of a ‘successful emerging economy’. But the basic class question remains: ‘growth for whom and who benefits’? So far the historical record shows that growth of billionaires has been based on a highly polarized economy in which the state serves the new class of billionaires, whether parasitical speculators as in the United States, rentierism and pillagers of the state treasury and public assets such as in Russia and the Gulf states, or exploiters of labor such as in the BRICs.<sup>14</sup>

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huge bailouts and ‘loans’ paid for by taxpayers with the approval of the political class tied or beholden to these institutions and corporations, or accepting of the dominant ideology.

14 The Arab revolt can be seen in part as an effort to overthrow ‘rentier capitalist clans’. Western intervention in the revolts and support of the ‘opposition’ military and political elites is an effort to substitute a ‘neoliberal’ capitalist ruling class. This ‘new class’ would be based on the exploitation of labor and dispossession of current crony-clan-kin



## Global Imbalances in the Alignment of Economic Power: Understanding the World Economy

The all too clear evidence of a deep and persisting systemic crisis in the leading capitalist economies, especially the United States, has provoked an as yet unsettled debate as to the causes and consequences of the crisis, and the appropriate policies for remedying it. The debate has revealed a deep division over both diagnosis and policy, with Anglo-Franco-American (AFA) politicians, columnists and economists on one side and their Asian-German (AG) counterparts on the other. In general terms AFA spokespeople put the blame for the crisis on external factors, or more specifically they point their finger at the positive trade surpluses, the dynamic export sectors and high investment rates in the productive sectors, and low levels of consumption, as the cause of ‘unbalances’ or ‘disequilibrium’ in the world economy.<sup>15</sup>

In contrast, policymakers and their advisers in the AG countries tend to reject this argument that reduces the problem to a matter of prejudicial external practices. Instead they emphasize the internal ‘imbalances’ within the AFA countries that have weakened their international, commercial and financial position. As for ourselves we argue that both internal economic policies and external empire-building strategies of the AFA countries have been the driving force for global imbalances. The structural difference between the two regions and the differences in class structure and economic configurations in each bloc precludes any easy or immediate solution. On the contrary, for the foreseeable future the conflict between dynamic emerging export powers and the declining Western bloc is likely to intensify, leading to greater trade conflicts and possible military confrontations.

The AFA’s charges against China’s commercial ‘imbalances’ conflates trade with the West with Beijing’s relations with the rest of the world. China has balanced trade or even trade deficits with Asian, African, Middle Eastern and Latin American countries. Moreover, the AFA countries have trade imbalances with other regions including the Middle East and Germany. Even if the AFA countries curtailed imports from China, it is most likely that other Asian countries would replace them, including Vietnam, South Korea, Taiwan, Bangladesh and India. The resulting trade deficits of the AFA would remain about the same.

The AFA countries blame China’s ‘undervalued’ currency, claiming that Beijing authorities manipulate the exchange rate to underprice exports and beat out competitors (namely producers within the AFA). China’s currency has been

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owners of resources. Major enterprises would be transferred to multinationals and local capitalists. Much more promising are the internal working struggles in China and to lesser degree in Brazil and the rural based Maoist peasant and tribal movements in India that oppose rentier and capitalist exploitation and dispossession.

15 Martin Wolf, ‘Why China Must do More to Rebalance its Economy’, *Financial Times* (September 23, 2009, p. 11). See also *Financial Times* (October 3, 4, 2009, p. 3) and *Financial Times* (September 21, 2009, p. 9).

revalued steadily upward over the past five years, but even so the AFA still run a deficit, suggesting that their domestic producers have still not been able to compete with Chinese manufacturers.<sup>16</sup> More recently AFA writers have complained about low interest rates set by the Chinese government as a ‘subsidy’ to its exporters. Yet AFA interest rates are at 0 percent or even negative, to no avail. Moreover, the AFA have provided over 1.5 trillion in bailout funds and over 1.3 billion in stimulus spending—a subsidy five times greater than China’s stimulus package, without improving their trade balance. What is telling, given the sectoral allocations of each regime’s bailout-subsidy-stimulus packages, China has fully recovered and was growing at 8 percent by mid-2009, while the AFA continue to run up trade deficits. This points to the centrality of internal factors, namely, the economic sectors that receive the state subsidies and how they invest it and as a result how their decisions affect trade balances.

The AFA charge that China’s cheap labor, as well as an overvalued yen, accounts for trade imbalances. However, an increasing percentage of China’s exports are based on technological advances, not cheap labor. This is because low labor-cost competitors are emerging in Asia. The AFA complain that China overemphasizes its ‘export’ strategy at the expense of producing for the domestic market. Yet nearly half of China’s exports to the United States are made by US-owned MNCs that have invested, subcontracted and co-produced with Chinese counterparts. In other words, US domestic policy, the deregulation of capital flows, has facilitated the movement of US manufacturers abroad, resulting in a decline of local production, an increase in imports and larger trade deficits.

### *Internal Causes of Trade Deficits (and Unbalanced World Economy)*

The most obvious and striking correlation with the growth of trade imbalances in the United States and the AFA countries is the growth and dominance of the financial sector.<sup>17</sup> The financialization of the US economy, and the commanding position of Wall Street CEOs and financiers is evident, and is acknowledged by most private economists and academics. Trade deficits increased in direct proportion to the growing political and economic power of the financial sector. This was due in large part to the transfer of capital from manufacturing to financial services, leading to the decline of innovation and competitive management in

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<sup>16</sup> *Financial Times* (October 9, 2009, p. 1).

<sup>17</sup> The most-often expressed concern about excessive and growing disparities in income distribution is ethical, with reference to equity as a principle of social justice and development. However, the underlying but normally unexpressed concern is for political stability or governability. In this regard, a report commissioned by the UK Ministry of Defence (2007) is eloquent in pointing out the profound political implications of the global divide in wealth and development that continue to breed ‘forces of resistance’ and will likely lead to a ‘resurgence of not only anti-capitalist ideologies ... but also to populism and the revival of Marxism’ (2007: 3).

the manufacturing sector. The high salaries, bonuses and quick returns in the financial sector attracted the 'best and the brightest' as well as the greedy. MBA graduates multiplied while advanced engineering school graduates diminished. Advanced skilled worker training programs disappeared while low skill retail sales recruitment grew.

The problem was that financial services, and the attraction of overseas financial investments did not and could not substitute for the accumulation of capital and overseas earnings derived from the production of goods in the industrial sector. The mass of foreign direct and portfolio investments has enabled the United States to balance payments on its external account, and so finance the importation of manufactured goods and cover its huge and growing trade imbalance, but the erosion of its production apparatus cannot be sustained in the long-term. Given the massive destruction of the forces of industrial production in so many sectors (virtually all sectors not connected to state procurement) even the decline in the value of the dollar will not trigger a recovery of the industrial base of the economy. When, as is likely if not inevitable, the US dollar loses its status and function as the standard international reserve currency, the imbalance between finance and production could reach crisis proportions and require an enormous 'adjustment' in the living standards of most Americans. The financialization of the economy has masked the essential fragility of the US economy, but the chickens will come home to roost and likely sooner rather than later.

In the market economies of China, India, Japan and the rest of Asia the situation is radically different and more secure, basically because of government regulation of the financial markets and the subordination of banking to state planning and the expansion of manufacturing. In the United States, however, the dominance of finance capital and the related sectors of real estate and insurance, and a neoliberal regime subordinated to the dominant class of finance capitalists, led to a highly polarized social structure in which billionaire and millionaire investment bankers presided and an enormous army of low paid service workers (retail employees, cleaners and sweepers, etc.), and immigrant and non-union workers, occupied the bottom. Income inequalities in the distribution of wealth and income in the United States now exceed those of any other 'advanced' capitalist country. In fact, social inequalities in income distribution in urban centers such as Manhattan exceed those of Guatemala. The growing concentration of wealth is accompanied by decline in the value and purchasing power of median wages. The purchasing power of US workers has been on the decline for three decades, reducing the demand for locally produced quality goods and increasing the demand for imported cheap textiles, shoes and other accessories. The result is a decline in local saving, domestic investment in manufacturing and a decline in competitiveness. Moreover, the competition among financial lenders has fueled consumer spending, leading to a totally unsustainable level of consumer debt at a time when manufacturing exports are declining, starved of investment capital.

Most manufacturing firms transformed themselves into financial corporations, channeling investment funds in sectors not earning foreign exchange. Worst of all

in pursuit of higher profits, manufacturers turned into commercial vendors, closing down plants and subcontracting production to China and other Asian countries and importing final products into the United States, creating the trade imbalances. The extensive relocation abroad of US-based multinationals has also exacerbated the trade imbalances.

The key role of the state in creating domestic imbalances leading to global disequilibrium is a result of the financial sector's takeover of the state, and the deregulation of financial markets. The result was the long-term promotion of an economic policy, in which the central bank (the Federal Reserve) and Treasury encouraged the growth of finance, real estate and insurance sectors over manufacturing. The finance-based strategy was justified by a large army of academics and publicists who spoke of a 'post-industrial' or 'service' or 'information' economy as a 'higher stage', rather than a perversely unbalanced, unsustainable and unjust economy.

Financial supremacy coincided with the growing militarization of US foreign policy. Throughout the last 30 years, US overseas economic expansion was gradually eclipsed by the growing reliance on military intervention, and the build-up of military bases in hundreds of sites. As financialization weakened the productive capacity of US manufacturing exporters' efforts to capture markets, US policymakers increased their reliance on the supremacy of military power. The channeling of billions into military spending drained resources from efforts to upgrade the competitiveness of US civilian industry and was a major factor in its declining share of export markets. The end result of militarization was a loss of export earnings and the growth of trade deficits.

If we combine the three great internal imbalances in the AFA economics (especially the United States)—the financialization of the economy, the militarization of foreign policy and the concentration of wealth at the top—it is easy to understand why the United States has such a huge and growing trade deficit, measured in the trillions of dollars: 216.44 trillion as of June 3, 2011 (AmericanEconomicAlert.org).

### *China's Export-driven Strategy*

China's emphasis on an export-driven strategy and the resultant growing class inequalities is largely a result of the class composition of the state and its social structure. In other words, internal factors are the driving force of its pursuit of trade surpluses. What is ironic is that some of the AFA critics, who rightly point to internal 'imbalances' in China, overlook similar problems in the capitalist West. Even as they point to these deficits and deficiencies in China no mention is made of the absence of a national health plan in the United States, the growth of inequalities and declining mass purchasing power. What Western advocates of greater social welfare in China do not discuss is the capitalist class power, privilege and profits which hinder greater mass consumption. Least of all do they discuss the motor force for lifting working class and peasant living conditions,

namely the class struggle. Instead they rely on technocratic appeals to Chinese elites for greater social spending.

The Chinese state has evolved into a powerful machine for manufacturing goods and billionaires. Today China has the highest growth, the highest rate of exploitation and the greatest class inequalities in Asia. Increasing wages to stimulate local consumption means reducing profits, anathema to all capitalists including Chinese. Increasing public spending on universal health coverage especially for the 700 million uninsured peasants and rural workers means higher taxes on the rich, including the families and colleagues of the governing elite. In contrast, producing for export markets does not require increasing domestic consumer power. On the contrary it requires lower wages.

A shift from an export-driven to a domestic-market-driven strategy requires not only a 'change in policy', but a realignment of class power, from the current capitalist class and its state backers to the workers and peasants. To realize large-scale, long-term commitments of public revenues to social services for the rural poor and higher wages for exploited workers requires sustained popular mobilizations, uprisings and strikes to secure the independent trade unions and peasant associations necessary to secure a shift in state allocations towards domestic consumption.

China's 'imbalances' are largely internal—social and political. An imbalance of social power between an all-powerful capitalist state and a repressed powerless mass of workers and peasants; an imbalance in income between a super-rich banking, real estate, manufacturing export elite and a low paid working class and subsistence peasantry; an imbalance between a highly organized state linked by family, ideology and economic interests to the capitalist class and a dispersed, fragmented and isolated mass of working people.

China's ruling class, its outward billion-dollar investments in Western capitalist enterprises via its sovereign wealth funds, its billion-dollar investments in overseas extractive enterprises, are driven by the mass of capital accumulated via intense levels of labor exploitation and the elimination of state-funded pensions, health plans and education. China's position as an emerging imperial power is rooted in the imbalance of global power and social welfare.

The fact that Western capitalist writers, policymakers and their academic camp followers point to the same social imbalances in China as its domestic working-class critics should not obscure a basic point. Wall Street critics defend the AFA financial elite against the greater productivity of China's industrialists while the domestic working-class critics criticize the capitalists and their state officials for the high rates of exploitation and the concentration of wealth and income.

The key to reducing imbalances in world trade is reducing socioeconomic inequalities within each region. The United States requires a profound shift from a finance-dominated economy to a manufacturing economy, where finance, high-tech and higher education is directed to creating a competitive, productive economy based on skilled labor. The link at the top between Wall Street and the

Pentagon must be replaced by a link from below between the industrial working class, low-paid service workers and public sector employees and professionals.

The structural transformation of the US economy is necessary but not sufficient. If US efforts to pursue a military-driven empire persist, this will divert resources away from domestic and overseas economic priorities. Military-driven empires alienate trading partners, have high costs and low returns, isolate economic investors and traders from productive partnerships and are destructive of domestic and overseas civilian productive facilities.

The way out of the massive imbalances is for the United States to engage in large-scale and long-term domestic structural transformations, definancialization and demilitarization. But the political and economic forces benefiting from the current configuration are deeply entrenched, in control of both major parties and dominate the mass media and its message. Yet, despite their profound institutional power, they suffer several fatal flaws.

In the first instance they have created unsustainable global imbalances, which will sooner or later lead to a collapse of the dollar and renewed and more virulent and costly financial bubbles. Secondly, the free market that is the main ideological prop of the deregulated financial power elite is totally discredited as evidenced by the single-digit support and trust of Wall Street. Thirdly, military-driven empire building has run its course: after nine years of war in Afghanistan the vast majority of the US public has sent a message to the political elite of both parties, the White House and Congress, that it's time to shift from funding failed overseas adventures to solving the problem of 20 percent under- and unemployed Americans (30 million), the 100 million or 33 percent of Americans with no or costly and inadequate health coverage. No amount of media and political pundit scapegoating of China for our own self-induced 'imbalances' can divert American opinion from their direct experiences with our own internal inequalities and policy failures.

## **Conclusion**

The inequality predicament of capitalist development has given rise to three different conceptions and alternative approaches to social change: the Davos Consensus (economic growth with poverty reduction) represents the worldview and thus interests of the global ruling class. The ideologues of this neoliberal worldview and the architects of this consensus are convinced, or seek to convince others, of the need to pursue a strategy designed to boost economic growth and reduce extreme poverty. The policy implications of this strategy are that to produce optimum results markets should be free from regulatory constraint and the movement of capital and the international flow of goods and services should be liberated and free. This consensus is most clearly articulated and held by the members of the financial and economic elite, the CEOs of the largest corporations, and the political representatives of the global ruling class, who meet regularly at

Davos and behind closed doors at diverse policy forums such as the meetings of the Pelerin Society and the Heritage Foundation. The architects of this elite consensus have considerable influence and ideological sway over the policies pursued by the governments and neoliberal regimes that dominate the world system of capitalist states. The aim is to consolidate the system.

As discussed in Chapter 3 the alternative post-Washington Consensus (inclusive growth and participatory development) is articulated and advanced by the socially liberal heterodox economists, neostructuralists and institutionalists who surround the organizations engaged in the project of international cooperation for development.<sup>18</sup> The consensus view among these social reform liberals, dubbed by theorists as ‘new developmentalism’, is that the capital accumulation process, as well as private sector activity and markets, should be regulated in the interest of equity and that the state should play a major role in this regulation. The concern is for the governability of the system. In addressing this concern it is important to strike a better balance between the state and the market, and the need for a new form of global governance. As for the government it should intervene in the process of determining who gets what, redistributing some market-generated income in the interest of equity and to equalize opportunities for self-advancement.

A study of the social movements and bursts and cycles of political activism that have emerged in recent years in the context of opposition to the neoliberal policy agenda and in response to the financial and economic—and in some contexts, political—crisis, leads us to conclude that there is also emerging an inchoate and as yet relatively informed radical consensus that looks beyond capitalism as well as neoliberalism. Elements of this emerging radical consensus (a new model, substantive social change) are identified and discussed towards the end of Chapters 2, 3, 9 and 11.

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18 The latest political event in the institution (and promised implementation) in Latin America of the post-Washington Consensus is the electoral victory of Ollanta Humala in Peru (June 6). On the lines of this consensus, Humala promised his supporters ‘economic growth with inclusion’ and that he would work to ‘fix the problem of inequality’. For that reason, he declared to his supporters in the Plaza Dos de Mayo, ‘I’m here in front of you’.

## Chapter 3

# A New Development Paradigm: Saving Capitalism from Itself

The fundamental problematic of development is how to satisfy the requirements of both economic and social development—to activate the process of capital accumulation (stimulate economic growth) while meeting the basic needs of the population. The World Bank from the outset saw its mandate as economic reconstruction and development but in the context of the Cuban Revolution, spreading peasant uprisings and growing pressures for revolutionary change in the 1970s declared a war on poverty, which it has continued to lead ever since.

In the 1980s, within the institutional and policy framework of the new world order (neoliberal globalization), and a Washington Consensus on the virtues of the free market, the thinking was that the state should withdraw from its leading role in the development process and that a pro-growth approach to development would create conditions that would lead the fruits of growth to trickle down to the poor.

When this did not happen, and the ‘new economic model’ (free market capitalism, neoliberal globalization) failed to deliver economic growth or to alleviate the social conditions of poverty—generating instead renewed pressures for revolutionary change—the theorists and practitioners of development came to a new consensus: the need to ‘bring the state back in’ and establish a ‘better balance between the market and the state’ so as to generate a more equitable and socially inclusive form of development that would empower the poor to act for themselves with the assistance of the state and international cooperation.

Throughout the 1990s this post-Washington Consensus served as a set of guiding principles in the construction of the ‘new development paradigm’ (Atria et al., 2004; Craig and Porter, 2006; Sandbrook et al., 2007). But this paradigm was predicated on the strategy of governments staying the course of neoliberal (pro-growth) policies—and to complement these policies with a new social policy targeted at the poor. And indeed a number of governments that until that point had held back from the Washington Consensus (Argentina, Brazil, Peru) fully embraced the neoliberal agenda, generating or giving rise to powerful movements that mobilized the forces of resistance against the neoliberal policies of most governments in the region. The stage was set for the transition from free market neoliberalism to post-neoliberal developmentalism, from globalization to nationalism.



## The Poverty Problematic of Capitalist Development

No problem has troubled the international development community over the last 50 plus years, or has engaged so many resources and so much effort as poverty, a problem that has assumed global proportions with diverse regional, national and local permutations. The ‘problem’, ‘discovered’ as it were in 1973 by the economists at the World Bank, and then placed on the agenda of the organizations and development associations, remains a central concern of the international development community today at the end of the first decade of the new millennium. The World Bank defines its mandate as ‘working for a world free of poverty’.

Back in the 1970s, when poverty was placed at the center of the development agenda, it was estimated to encompass some two-fifths of the world’s total population. Towards the end of the century and the beginnings of the new millennium, notwithstanding four decades of concerted effort and diverse strategies aimed at poverty reduction and alleviation, neither the scale nor the dimensions of the problem had diminished. As a percentage of the world’s population, a slight improvement was recorded (perhaps 37 percent rather than 40 percent in 1980) but, given four decades of population growth, the magnitude of the problem in terms of the sheer number still living in poverty or destitute was hardly diminished if at all.

Nevertheless, over the course of the first decade in the new millennium, some progress was recorded, with an apparent substantial decline in the rate of extreme poverty in some places and also a reduction in the global scale of the problem. According to the Economic Commission for Latin America and the Caribbean (ECLAC, 2009) the regional poverty rate in Latin America and the Caribbean for 2008 was 33 percent (equivalent to 180 million), which is high enough but down from 44 percent in 2000, 48 percent in 1990 and 40 percent in 1980. Table 3.1 presents some recent data on poverty rates in Latin America. It shows a noticeable trend towards poverty reduction over the first decade of the new millennium.

Recent reports by ECLAC estimate that the financial crisis of 2009 added some 90,000 to the ranks of the poor in Latin America. However, according to ECLAC’s *Social Panorama of Latin America 2010* this added only added a tenth of a percentage point to the rate of poverty in the region (from 33 percent to 33.1 percent). Thus, ECLAC predicts (or hopes, rather) that the region will soon return to the downward trend in the incidence of poverty that began in the early years of the new millennium, ostensibly in response to policy measures taken by governments in a concerted effort to achieve the target agreed upon at the UN Millennium Summit of 2000, which set a goal of reducing by half the rate of extreme poverty by 2015. A number of official reports, including an annual Millennium Development Goals progress assessment, as well as data presented by ECLAC (see Table 3.1), point towards considerable progress in this direction in Latin America.

**Table 3.1 Incidence of poverty/indigence, percentage of population, 1989–2009**

	Poverty		Indigence	
	1989/90	2009	1989/90	2009
Argentina	16.2	8.1	3.5	3.0
Bolivia	48.9	47.2	21.9	27.2
Brazil	41.4	19.3	16.3	5.7
Chile	33.3	9.8	10.6	3.3
Ecuador	55.8	35.9	22.6	14.9
Mexico	39.0	27.9	14.0	8.2
Venezuela	34.2	23.6	11.8	8.5
Latin America	41.0	26.3	17.7	10.3

Source: ECLAC (2010: 73–4).

What is unclear is whether this belated (after more than three decades of strategic action and development effort) and rather uneven progress in the war on poverty is the result of efforts exerted by different agencies and stakeholders in the development enterprise in response to the United Nations declaration of the ‘Millennium Development Goals’ (MDGs). Or whether it is the result of policies implemented by governments with international cooperation and social participation, as per the ‘post-Washington Consensus’ on the need to ‘bring the state back in’ and promote a more inclusive and equitable form of development. There are also those who continue to argue, albeit with scant evidence, that the best way to reduce poverty is to boost economic growth via the time-honored path of productive investment, technological innovation, human resource development, trade and structural reform.<sup>1</sup> It has also been suggested that the main reason for the

1 This was the approach that dominated theory and informed development policy throughout the post-war period of state-led development based on strategic or directive planning and government intervention. A book-length study, *The Unheard Truth*, by Irene Khan, Amnesty International Secretary-General, argues (with both passion and scientific analysis) that the scourge of poverty remains a global epidemic precisely because of this modernist, capitalist development approach, and that the free market fundamentalism of the past three decades has worked against the efforts of the development community and those who have rallied in support of the fight against poverty, including international organizations, political and business leaders, philanthropists, rock stars and even Mexico’s 11 billionaires who meet annually, at the invitation of Carlos Slim, to discuss ways of reducing poverty. She argues that the fight against global poverty is almost certainly doomed to fail if it is driven solely by the imperative of boosting economic growth through investment, trade, new technology or foreign aid—and, in particular, so-called ‘pro-growth’ policies of ‘structural’ (market friendly) reform. To tackle global poverty, she argues, albeit

recorded and reported 'success' in reducing the global poverty rate was a change in international conditions in the world economy for a number of countries on the south of the development divide. The so-called global financial crisis, which put an end to the short-lived boom in the export of primary commodities from the developing and less developed countries to the more developed, has given some credence to the argument about the importance of changes in the global economy in the reduction of global poverty.

It has also been suggested that the progress made in regard to alleviating and reducing poverty in Latin America over the last decade and a half is the result not of international cooperation, government intervention or changes in the global economy, but should be attributed to actions taken by the poor themselves, especially in regard to the decision to migrate in the search for better opportunities and a more secure livelihood. For example, De Janvry and Sadoulet in 2000 argued that any progress made to that date in the war on poverty had been the result not of development in one form or the other, but of actions taken by the poor themselves.

Even so it is still unclear as to what the best explanation is or what weight to attach to the different factors involved in these explanations. Is the persistence of global poverty in diverse contexts, and the recorded or apparent progress made on the poverty front, the result of conditions over which governments and other 'actors', including the poor themselves, have little or no control? Or is it the result of a failure to understand or address the root causes of the problem?<sup>2</sup> Is it a matter of conflicting interests between the powerful few and the powerless many? Of policies that favor the rich or that are biased or work against the poor? Of 'structures' or policies that make and keep people poor? Of misinformed actions or counterproductive strategies?

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unconvincingly, we need to focus on the human rights abuses that drive [*sic*] poverty and keep people poor. Giving people a say in their own future, and demanding that they be treated with dignity and respect for their rights, she argues, is the way to make progress.

2 One attempt to explain why anti-poverty policies have failed over the years, one of so many, has resulted in the publication of *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty* (2011) by Abhijit Banerjee and Esther Duflo, who 'have worked for fifteen years in dozens of countries spanning five continents'. The odd feature of this 'radical rethink' of poverty is that it is almost entirely based on a analysis of the poor themselves rather than the institutionalized practices and the system that has impoverished them. This leads the authors to focus on questions such as: why would a man in Morocco who doesn't have enough to eat buy a television? Why is it so hard for children in poor areas to learn even when they attend school? Why do the poorest people in the Indian state of Maharashtra spend 7 percent of their food budget on sugar? Does having lots of children actually make you poorer? But the question is: what is so radical in looking at the poor for an answer as to why the global fight against poverty has failed? Needless to say, by focusing on the poor rather than the structural sources of their poverty might have allowed the authors (dubbed 'practical visionaries' by the publishers) to discover 'some of the most surprising facets of poverty'. But it did not provide any breakthroughs in overcoming the prevailing 'inadequate understanding of poverty'.

Salient features of the research on these questions are discussed below. A lot of the research is inconclusive or dependent on assumptions, predilections or perspectives that are rooted more in ideology than science. But what is nevertheless clear is the connection between social inequality and poverty, between poverty and the ‘pro-growth’ policies of the Washington Consensus that have been shown to increase social inequality, and between the failure of the war on poverty waged by international organizations over the past 50 years and the prevailing relations of economic and political power. In this regard, the UNDP, for example, in its most recent 2010 report on human development in Latin America and the Caribbean, argued that there is a direct correlation between structured social inequalities (in power and production relations) and the persistence of poverty.

As for the source of the problem (the inequality–poverty nexus) the UNDP report is clear enough, although it is necessary to read between the lines of a text that seeks and manages to elude the underlying political issue of economic power—the power of the economic elite and its sway over the political class. The problem is located and can be found in the institutionalized practices and ‘structures’ brought about by powerful economic interests that have advanced with the policies of ‘neoliberal globalization’ instituted under the Washington Consensus. In the words of the report there exists a ‘direct correspondence between the advance of globalization, neoliberalism, and the advance of poverty, social inequality, social inequity’ (UNDP, 2010: xv). ‘The most explosive contradictions’, the report adds, ‘are given because the advance of [neoliberal] globalization marches hand in hand with the advance of poverty and social polarization’. ‘It is undeniable’, the report continues, ‘that the 1980s and 1990s [were] the creation of an abysmal gap between wealth and poverty’ and that this gap constitutes the most formidable obstacle to achieving human development (UNDP, 2010: xv).

Undeniable it might be, but it was not until 2010 that the UNDP—and also the economists at ECLAC (2010)—finally made the connection between structured social inequalities and poverty, a connection long made in the scholarly literature. UNDP Regional Director Heraldo Muñoz in this regard notes that ‘Inequality is inherently an impediment to progress in the area of human development (the proposed “solution” to the poverty problematic), and efforts to reduce inequality must be explicitly mainstreamed in the public agenda’. For the UNDP, he adds, ‘equality is instrumental in ensuring meaningful liberties; that is to say, in terms of helping all people to share in meaningful life options so that they can make autonomous choices’.

### *Posing the Problem: Poverty Matters*

Poverty alleviation and reduction is a central feature of the international development agenda and has been for over three decades, ever since the World Bank, under the presidency of Robert McNamara, discovered that around two out of every five people in the world were unable to satisfy their basic needs as human beings. To redress this problem, which had scarcely been diminished in its

awesome magnitude since its initial determination, the world leaders meeting at the UN Millennium Summit in 2000 agreed to a number of key social development objectives, including the goal of significantly reducing poverty by 2015—reducing by half the rate of extreme poverty (MDG #1). However, the question arises—a question that oddly enough was not even raised at the Millennium Summit—as to how is it possible for a problem identified and diagnosed three and a half decades ago to be with us still?

What then accounts for the persistence of poverty in its most extreme forms and debilitating conditions even with and after a four-decades long global war waged against it by so many powerful organizations such as the World Bank? How is it that so many dedicated people, so many resources and so much effort has resulted in so little by way of solution to the problem? Is it because the war on poverty has been waged irresolutely or poorly targeted, fought with misguided ideas and the wrong weapons? Or is it perhaps, as some have suggested, that the war has been fought at cross-purposes, with a perverse insistence on macroeconomic policies that by some accounts exacerbate the problem if not reproduce some of its most perverse conditions? Is it perhaps because the war on poverty was fundamentally flawed in its conception and in the way that it has been conducted and led by multilateral financial institutions such as the World Bank that have various masters to serve at once, both those organizations genuinely concerned to bring about an improvement in the human condition as well as the guardians of the capitalist world order who are at the beck and call of the rich and powerful in the pursuit of private profit? In any case, the persistence of poverty in a world of plentiful resources remains a serious challenge.

### *Research Findings: Poverty at Issue*

It is estimated, on the basis of a methodology elaborated by the World Bank that anywhere from 950 million to 1.3 billion people across the world live in conditions of extreme poverty, i.e. on less than a dollar a day and are unable to meet their basic human needs; at least another 1.7 billion (depending on how poverty is defined) are 'poor' according to the Bank's measurement standards. In fact, other estimates of the world's poor are much higher, as much as double. But even by the more conservative World Bank proxy measure of extreme poverty it means that nearly 800 million people each day do not get enough food, and about 500 million people are chronically malnourished. According to UN data and calculations close to a billion people go to bed each night hungry and are vulnerable to life-threatening disease, malnutrition and starvation. Also, according to the Bank close to one half of the world's children are surrounded by wealth but live in poverty and more than a third are malnourished. More than 840 million adults (538 million of whom are women) are illiterate, 640 million live without adequate shelter, 400 million have no access to safe water, and 270 million have no access to basic health services. In 2003 10.6 million died before they reached the age of five (roughly 29,000

children a day). According to UNICEF, 24,000 children die each day because of poverty.

### *Poverty: Current and Recent Trends*

Research shows that over the five past decades the rate of poverty has hardly responded at all to the rate of economic growth—which system-wide averaged 5 percent from 1960 to 1980 under the aegis of the development state; 2.3 percent in the era of neoliberal globalization (1983–99); and around 3 percent from 2002 to 2008 (with wide dispersals from the average in some regions and countries) in the context of a global commodity export boom from 2002 to 2008. Over the course of these ‘development’ decades the percentage of the world’s population living in poverty hardly changed at all, and the overall number steadily grew. Only in the first decade of the new millennium was some progress made in reducing the incidence of extreme poverty—and this only in some few places (mainly, it turns out, in China, Brazil and Chile) and in conditions of a primary commodity boom. When this boom went bust in October 2008, and with the onset of a global financial crisis (that was soon transformed into a global food crisis for many of the world’s poor), much of this progress was reversed.

In explaining this progress and the recent trend towards a reduction in the incidence of extreme poverty researchers have pointed towards three main factors: (1) the ascension of China in the world economy, with rates of economic growth averaging over 10 percent for a decade and a half (if one were to take China out of the equation a different picture emerges—one of growing social and economic inequality between the global North and South, i.e. rich and poor); (2) the shift from free market capitalism and neoliberal policies towards a post-Washington Consensus on the need to bring the state back in; and (3) actions taken by the poor themselves, such as to migrate in search of a more viable livelihood or labor market opportunities.

It seems that most of the gains in poverty reduction (at least in the 1990s) are the result of the latter factor. In this connection, De Janvry, a lead author of the World Bank’s *World Development Report* on ‘agriculture for development’, concludes that as regards Latin America the exodus of the poor to the cities has been the primary form of poverty reduction, explaining virtually all of the advances made on the rural front of the global war on poverty: ‘Reduction in the number of rural relative to urban poor has been mainly the outcome of migration, not of successful rural development’ (De Janvry and Sadoulet, 2000: 389).

### *The China Factor*

Aggregate economic performance, arguably a necessary condition of poverty reduction (a more equitable redistribution of society’s productive resources and global output would be another) improved significantly in the developing world in the 1990s and particularly the 2000s, and over the same period average poverty

rates decreased even faster. However, China's success was responsible for much of this (see, for example, OECD, 2010a). Poverty in China, the OECD reports, stood at 84 percent of the population in 1981 but had dropped to 16 percent by 2005. Excluding China, the picture is more mixed. Poverty in India—home to a sixth of the world's population—also fell fairly steadily from 60 percent to 42 percent over the same period (Ravallion, 2009). This, the authors of the OECD report point out 'is certainly a worthwhile improvement but it will not be fast enough to eradicate poverty in a lifetime'. As for the rest of the developing world, the rate of poverty reduction during the 1990s was marginal (Chen and Ravallion, 2008).

Nevertheless, there has been some improvement since the early 2000s, particularly in 'emerging economies' like China and India but also in parts of Latin America beset with some of the worst inequalities and bulwarks of poverty in the world. According to the Economic Commission of Latin America and the Caribbean (ECLAC, 2009) the regional poverty rate in 2008 was 33 percent (equivalent to 180 million), which is high enough but down from 44 percent in 2000, 48 percent in 1990 and 40 percent in 1980. In terms of these statistics poverty in the region worsened significantly in the 1980s under the weight of the inequalities engendered by the Washington Consensus, improved marginally in the 1990s under policy conditions of the post-Washington Consensus, and then improved markedly in the following decade—raising questions that are very much at issue in this book. What lies behind and can be seen as responsible for this belated reduction in the incidence of poverty in the region? And can this improvement in the social condition of the poor be sustained? Is the improvement in social conditions regarding poverty the result of actions taken by governments with international cooperation in pursuit of a development strategy? Or is it, as De Janvry and Sadoulet suggested was the case in the decade leading up to the new millennium, the result of decisions made and actions by the poor themselves? In other words, what was at issue in this poverty reduction: pathways or public policies?

As for the global trend regarding poverty there is some dispute as whether the trend is towards convergence or divergence, a deepening or extension of this divide. At issue here is China. When China is taken out of the equation the global trend takes a different form than the convergence identified by *The Economist* (January 22, 2011). In fact, by different accounts the extraordinarily rapid rate of rapid economic growth, sustained over two decades, in China by itself explains most, if not all, of the observed trend towards convergence in regional and national incomes, and the reported success in achieving global poverty reduction over the past decade.<sup>3</sup> However, there is a downside to this 'development' as regards China.

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3 Ever since the 2000 Millennium Summit, diverse international organizations, forums and publications have reported on the progress made in meeting the targets set for various millennium development goals, notably #1 (reducing by half the rate of extreme poverty from 2000 to 2015).

Although large numbers of Chinese, some 40 million of mostly rural migrants, have been lifted out of poverty in the sense of increased access to work-related income (earning over \$2.5 a day), this has entailed the separation of many millions of rural Chinese from their means of production, pushing many of them into other non-income forms and conditions of poverty—leading also to numerous almost daily outbreaks of political protest and conflict in rural society, inducing a mass exodus from the countryside, and leading many to replace rural poverty (in income terms) with urban poverty (not captured by official figures using the Chinese government’s poverty line or the measure of \$2.50/\$1.25 a day). Although the scale of magnitude is very different, what is happening in China today in terms of the push and pull and the dynamics of rural–urban migration is comparable to the process of capitalist development that unfolded in Latin America in the 1960s and 1970s, and especially the 1980s and 1990s.

Studies by World Bank and other economists concluded that the deeply entrenched and growing inequality in the global distribution of wealth and income is a major source of poverty and a major obstacle in the war on global poverty. The data regarding social inequality are astounding. For example, the poorest 40 percent of the world’s population accounts for just 5 percent of global income (and the distribution of wealth is much more unequal!). On the other hand, the richest 20 percent account for three-quarters of world income, and the richest 10 percent consume about 60 percent of the world social product (World Bank, 2008).

Reducing inequality, concludes Oxfam Canada (Fried, 2009), ‘is essential to reducing poverty’. Not only is inequality a fundamental source of poverty but ‘the world’s yawning social and economic divides’ are morally repugnant. ‘There is something deeply unjust’, Fried observes, ‘about a system that allows 800 million people to go hungry, while an epidemic of obesity blights millions of lives in rich countries’. Extreme inequality, he continues, ‘provokes outrage and condemnation because it violates the widely held notion that all people, wherever they are, enjoy certain basic rights’. ‘Addressing social inequality and inequity’, according to Fried, ‘is essential if countries are to live up to their obligations under the international human rights framework established by the UN’. ‘Yet’, he observes, ‘inequality and redistribution have been out of fashion with rich country decision-makers for many years and warrant barely a mention in the Millennium Development Goals (MDGs), which emerged during the course of the 1990s’.

In sway to the Washington Consensus view that ‘a rising tide lifts all boats, rich country leaders believed that economic growth alone would be enough to address poverty’. Yet ‘by 2005 the manifest failure of this approach prompted a rash of high-profile publications from the World Bank, and the UN argued that tackling inequality is one of the most urgent tasks of our time’. The virtual consensus of these economists at the World Bank and the UNDP is that equality is good for growth and makes that growth more effective at reducing poverty (ECLAC, 2010; UNDESA, 2005).

More recently, a number of UN organizations have begun to focus more sharply on what the United Nations Department of Economic and Social Affairs



(UNDESA) in its 1995 report on the world social situation termed the ‘inequality predicament’. Both ECLAC’s 2009 *Social Panorama of Latin America* and the UNDP’s 2010 *Human Development Report* on Latin America and the Caribbean identified social inequalities in the access to vital resources and services, the grossly inequitable global distribution of wealth and income, and the free market policies that exacerbated these inequalities, as the fundamental obstacles to achieving the MDG #1.

*Bringing the State back in: The Post-Washington Consensus*

As ECLAC (2010: 40) notes, ‘the Washington Consensus neoliberal reforms of the 1980s by diverse accounts widened income gaps, and it was only in the past decade that this trend was reversed, thanks to more inclusive labour market dynamics and the State’s assumption of a more active role in income transfer’.

Capitalist development, whether the market is free or regulated, generates social inequality in access to productive resources (which tend to be concentrated), wealth and the distribution of income. Under these conditions of uneven global capitalist development, poverty can be attenuated by means of government intervention in the market but is nevertheless inevitable. Thus, the ideas and policy prescriptions advanced by Jeffrey Sachs (2005) for putting an end to poverty are not realistic or practical; they are NOT based on any social science. The issue is: what institutional and policy frameworks provide the optimum conditions for social welfare and human development, i.e. for the alleviation (not the eradication) of poverty?

Recent experience with the macroeconomic and social policies established under the post-Washington Consensus suggest that what is required is to ‘bring the state back in’—to assign the state a substantive and leading role in establishing an institutional and policy framework for a more inclusive and equitable form of development (Sunkel and Infante, 2009). What is required is a ‘development state’ and a ‘mixed system, a combination of capitalism and socialism—policies that combine regulation of the market and capitalist development with the social inclusion of the poor in public policy formulation, and the empowerment of the poor with a disempowerment of the rich’.

A major finding of social scientific research, tacitly acknowledged by the economists at the UNDP and other operational agencies of the UN system, is that the existing distribution of wealth and income is based on power, on the capacity of the rich and powerful to set up a system that works in their interest. Given this economic and political power, and the unavoidable constraints of the macroeconomic policy regime that it sustains, the theorists and practitioners of development in the 1990s counseled reform—social reform in the direction of a new social policy; economic reform in the direction of a more nuanced macroeconomic policy (pro-poor redistributive growth); political reform in the direction of decentralized governance and the strengthening of civil society (Ocampo, 2007).

The proposed new institutional and policy framework is designed for a socially inclusive and equitable form of local development that builds on the one asset that the poor are deemed to have in abundance—social capital (Ocampo, 2004; Uphoff, 2004).

### *The Feminization of Poverty*<sup>4</sup>

*Poverty in Focus* is a regular publication of the International Poverty Centre (IPC). Its purpose is to present the results of research on poverty and inequality in the developing world. It specializes in the analysis of poverty and inequality, offering research-based policy recommendations on how to reduce them. IPC is directly linked to the Poverty Group of the Bureau for Development Policy, the UNDP and the Brazilian Government's Institute for Applied Economic Research (IPEA).

The January 2008 issue of *Poverty in Focus* highlights the importance of improving gender equity for pro-poor growth and improved wellbeing of poor families, with references to recent research literature and sharing of important and policy relevant results. Naila Kabeer leads the issue with a summary of current knowledge about the relation between gender, labor markets and poverty, explaining why there are no easy generalizations about the poverty implications of women's paid work. Gita Sen, for her part, approaches poverty as a gendered experience that has to be addressed with due consideration to its various impacts, responses and policy implications. Joana Costa and Elydia Silva underline the burdens of gender inequalities for society as a whole and show how paid work by women reduces overall poverty and inequality. The prospects for achieving the Millennium Development Goals are both directly and indirectly improved by enhancing gender equity. Thus, there are close links between the reduction of both gender inequalities and multi-dimensional poverty. The empirical evidence suggests that developing countries with less gender inequality tend to have lower poverty rates.

Addressing gender inequality represents an untapped source for stimulating economic growth and promoting social development. This is particularly true in the developing world, where women are often systematically deprived from having equal access to social services as well as to physical and social capital. Hence, empowering women by improving their living conditions and enabling them to actively participate in the social and economic life of a country may well be the key for long-term sustainable development.

John Sender, in the same issue of *Poverty in Focus* presents data indicating that when women in rural Mozambique have greater autonomy, daughters are less likely to be neglected; rural wages provide an escape route from poverty for a new generation of women. Ranjula Bali Swain and Fan Yang Wallentin in the January

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4 This section is based on an analysis of the 2008 issue of *Poverty in Focus*, a publication of the IPC. A more extended discussion of this issue ([www.ipc-undp.org/pub/IPCpovertyInFocus12.pdf](http://www.ipc-undp.org/pub/IPCpovertyInFocus12.pdf)) can be found in Kabeer (1996).

2008 issue of *Poverty in Focus* use evidence from India that microfinance may lead to increased empowerment, self-confidence, respect and esteem for women. Irene K.B. Mutalima reports on the experience of microfinance in Africa and warns that gender concerns often take a secondary role to the financial sustainability of the credit institutions. Marcelo Medeiros and Joana Costa examine the claims of a ‘feminization of poverty’, making the distinction between static levels and dynamic change, and argue that current poverty measures underestimate the real levels of women’s poverty. Sylvia Chant also finds that the scant data on intra-household inequalities prevent certain knowledge about the ‘feminization of poverty’ and that the focus should be on women’s privation beyond incomes.

### *Food for Thought—and Fuel for Action*

In the vortex of a multifaceted crisis of global proportions, and at the precipice of a disastrously vulnerable economic situation, hundreds of millions of the world’s poor are on the verge of hunger and starvation. According to the United Nations, for the first time in history more than a billion people face starvation worldwide. Secretary-General Ban Ki-Moon announced his intention to fast for 24 hours in ‘solidarity’ with the planet’s one billion people who do not have enough to eat.

If only the Secretary-General and others within the project of international cooperation would take more serious and consequential action in redressing this and other dimensions of the crisis as it affects the world’s poor—according to the World Bank close to three billion people, almost half of the world’s population. Such action, to be effective or consequential, would have to take a very different form and truly require a global partnership of diverse organizations in the governmental, non-governmental and intergovernmental sectors—all directed against the world capitalist system and its operational agencies and agents, and the guardians of the world order, which, unfortunately, includes some of the very same organizations that are leading the war on global poverty.

It might be said that this is the same as giving responsibility for guarding the chicken coop to the fox in the belief that the fox has both the wherewithal and the public concern to secure the survival, if not the wellbeing, of the poor chickens, all too vulnerable to climate change and other natural disasters. At issue in the threat of widespread hunger and mass starvation, a poignant expression of the situation faced by a large number of the world’s poor—and a major indictment of the system that governs global production—is a fundamental change in the capitalist world order and the system of global food production, and not merely regulatory reform in the search for good governance (Akram-Lodhi, 2011).

As for the urgent need of many of the world’s poor to access food and water—not to mention shelter, healthcare and other conditions of human welfare—the issue is not to expand production or to increase the supply of goods and services on the market. The issue is that many of the world’s poor do not have the income to afford to buy what is for them a need but for the system a commodity. Katie Allen of the *Guardian* (Allen, 2010) reports that food prices in many parts of

the developing world are poised for a 40 percent rise. In this and other such circumstances ‘food is here but the ability to buy it isn’t’.

In this connection, research suggests that the conditions of malnutrition, food insecurity, hunger and starvation are often not caused by natural disasters such as drought; more often than not, and increasingly so, they can be attributed to the dominant system of global food production as well as the dynamics of global finance and so-called ‘free trade’—and also, according to a recent UN report, due to the growing demand for commodities and natural resources from emerging markets as well as biofuel production.<sup>5</sup>

### *The Financialization of Production and Development, Crisis and Poverty*

A major trend offset by neoliberal globalization during 1980s and 1990s was a growing chasm between the economy based on financial transactions, many of them speculative or unproductive, and the real economy where most people work, engage in productive activity of one sort or another, and live. It is estimated that while in the 1970s the international flows of global capital served to an important extent to expand production and finance development, by the 1990s and into the new millennium these ‘international resource flows’ were largely disconnected from the development process, resulting in a highly polarized world economy and society characterized by huge concentrations of wealth at one pole and deepening regional and localized pockets of poverty at the other.

Another issue behind the current global production and food crisis is the financialization of global production: the separation of the real economy in which people are engaged in productive activity from the money economy based on financial transactions increasingly divorced from the production process (Bello, 2009). In this connection, it is estimated that the value of total financial transactions in just one capital market (the London currency exchange) is 20 times greater than the value of world trade. It is also calculated that whereas in the 1970s ‘international financial resource flows’ served to expand production and generate a process of economic development, by the mid-1990s only 5 percent of total international capital flows have any productive function at all.

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5 A secret study by the World Bank, which reportedly has not been made public on pressure from the Bush Administration, concludes that biofuel cultivation was directly responsible for the current explosion in grain and food prices worldwide. The US government at the recent Rome UN Food Summit claimed that ‘only 3% of food prices’ were due to biofuels but the World Bank secret report states that at least 75 percent of the recent price rises were due to land being removed from agriculture—mainly maize in North America and rapeseed and corn in the EU—in order to grow crops to be burned for vehicle fuel. The World Bank study confirmed what many critics have written about the madness of biofuels. It fits the agenda described in the 1970s by Henry Kissinger, namely, ‘If you control the food you control the people’—again substantiating the point made by UNRISD regarding the centrality of power relations in the poverty–development problematic.

Under these and such conditions of profit-seeking capital, the financialization of development and deregulated capital markets (what some have dubbed ‘casino capitalism’), there has emerged a crisis in global food production, which, combined with an expanding process of ‘primitive accumulation’ (forcing small-scale producers off the land), has deprived millions of the world’s poor of the capacity to access the food they need to avoid going hungry or starve (Bello, 2008).

Another factor in this ‘development’ has been the conversion of land for food production into biofuels. An even greater factor concerns the speculative profit-seeking operations of finance capital. The machinations of global speculative capital and its role in global speculative frenzy—controlling something everybody needed or desired, then holding back the supply to drive up prices and capture windfall profits—is described in detail by Frederick Kaufman, contributing editor of *Harper’s Magazine* (Kaufman, 2010). The ‘food bubble’ purposely created by Wall Street financiers to create a ‘killing’ on the market sparked riots in more than 30 countries and drove the number of the world’s ‘food insecure’ to more than a billion. In 2008, for the first time since such statistics had been kept, the proportion of the world’s population without enough to eat ratcheted upward.

In a study of the impact of the global financial crisis on poverty World Bank economists Ravellion and Chen (2009) calculate that the crisis in 2008 added another 94 million to the poverty head count just in Latin America, reversing a decade-long trend decline both in the region and worldwide. Moreover, they calculate that globally the ensuing production and food crises in 2009 added another 53 million people to the count of the number of people living below \$1.25 a day and 64 million to the count of the number of people living under \$2.50 a day. Given current growth projections for 2010, they argue, ‘there will be a further impact on poverty in that year, with the cumulative impacts rising to an extra 73 million people living under \$1.25 a day and 91 million more under \$2.50 a day by 2010’.

### **A New Role for the State: To Empower the Poor**

Liberalization through privatization and structural adjustment to reduce fiscal deficits has meant not only less intervention by the state in rural matters but also the dismantling of the institutions traditionally responsible for the sector, making rural development more difficult until these can be replaced with institutions devised by civil society at the local level. The reduction or withdrawal of public sector services has been particularly noticeable in some areas of rural life such as social spending (education, health), the financial system and infrastructure.

Most countries in Latin America in the 1980s and 1990s complied with the requirements for macroeconomic equilibrium set out in what became known as the Washington Consensus. The results in terms of economic growth and social equity were paltry, however, although the upturn in 2004–8 did bring some improvement. Annual growth averaged barely 3.2 percent in 1990–2008 (ECLAC, 2010: 50–1).

As for poverty, ‘an over-reliance on market forces and economic liberalization led to neglect of nationally designed and developmentally-oriented strategies, to the detriment of the world’s poor’ (UNDESA, 2010). Only at the turn of the new millennium was there any progress in reducing the incidence of absolute or extreme poverty. Research by the economists and sociologists at UNRISD and the IDB (1998) suggests that this progress ‘occurred principally through state-directed strategies that combined economic development objectives with active social policies in ways that are mutually supportive’ (UNRISD, 2010). As the authors of this study argued, ‘[I]t was only at the dawn of the new century that the social role of the State came to be seen in a new light, shifting from a focus on poverty (and the segmentation of services according to ability to pay) towards a more integrated vision’ (ECLAC, 2010: 176). In this connection, ECLAC notes, ‘the reforms of the 1980s and the impact of the debt crisis actually widened income gaps, and it was only in the past decade that this trend was reversed, thanks to more inclusive labour market dynamics and the State’s assumption of a more active role in income transfer’ (ECLAC, 2010: 171).

The most important lesson drawn by the authors from their findings—although they did not take into account steps and actions taken by the poor themselves (migrant remittances, etc.) or the effect of changed conditions in the world market—is that ‘governments need to play a developmental role, integrating economic and social policies that support inclusive output and employment growth, while attacking inequality and promoting justice’ (UNDESA, 2010: III).

### *Implications for Public Policy: The State with International Cooperation and Social Participation*

A major finding and conclusion reached by the academic community is that poverty fundamentally is a structural problem rooted in the social, rather than the institutional, structure of an economic system, and that the problem (structured inequalities) has been seriously exacerbated by the policies implemented by virtually all governments over the past three decades under the Washington Consensus. In effect, the root cause of poverty can be traced back to the way that society and the economy is organized, with extremes of wealth at one pole, and poverty at the other. In the context of this ‘inequality predicament’, the structure and conditions of which can be identified at both the global and the subnational level, ECLAC (2010) argues that it is ‘time for equality—for closing gaps, opening trails’. In other words, it is time to act and to do so collectively, with the agency of government intervention, international cooperation and social participation.

The policy framework for this action is constituted by measures designed to (1) substantively change the structure of social inequalities in the global and national distributions of wealth and income, and to improve access of the poor to means of production and productive resources (land, capital, technology, etc.); and (2) ensure democratic governance and participatory form of development that is empowering of the poor. This means, above all, allowing the poor to take charge

of, and to 'own', their own development effort—to take action for themselves, with the support of their government and the international development community.

An analysis of the conditions of the relative success in having achieved an appreciable reduction in the incidence of extreme poverty over the past decade notwithstanding a failure to change the basic social structure of poverty, has demonstrated the importance and the centrality of the agency of the state. By diverse academic accounts and official reports a major agency of this poverty reduction was government intervention, with international cooperation and social participation, in the form of a strategy formulated and pursued within the framework of a post-Washington Consensus (PWC) and a new Comprehensive Development Framework as well as a new development paradigm.

### *Pathways Out of Rural Poverty: Where Development Comes in*

According to the World Bank's 2008 *World Development Report* on 'Agriculture for Development' there are three major pathways out of rural poverty: (1) farming; (2) labor; and (3) migration. Each pathway, the report points out, is littered with obstacles and pitfalls that can be removed or overcome with appropriate policy intervention and international cooperation.

(1) *Farming*. In this sector analysts and theorists have identified two basic models for organizing agricultural production and farming. From the perspective of economists at the World Bank the forces of productive and social transformation at play in the process of capitalist development point to the need for a model of corporate capitalism. This corporate model of large-scale agricultural production and a global food regime (see Akram-Lodhi, 2011) is geared to the forces of change at work in the global economy and links the producer to the system of capital, markets and technology needed to expand production, and is designed to ensure the increased productivity of agricultural labor and the capacity of producers to compete on the world market.

However, farming in this model provides a pathway for very few of the rural poor; the vast majority are unable to take this pathway. For one thing, it requires that the smallholder 'peasant' farmer be converted into a capitalist entrepreneur, able to access capital, modern technology and the world market. Thus, many analysts conclude that for the rural poor the more appropriate model, a model more likely able to sustain rural livelihoods and reverse pressures to abandon farming as a way of life, is one advanced by diverse organizations of peasant producers, and articulated in theoretical terms by a growing community of scholars of agrarian change and rural development (Akram-Lodhi et al., 2007). The mode is one of small-scale agricultural production based on principles of cooperation and solidarity, and food sovereignty.

The policies prescribed by this model (see Kay, 2009) include: support for the small-scale producer, including land reform (expropriation of land not in productive or social use, land redistribution, legal security), credit, price support and protection of local markets from forces of undue foreign competition.

(2) *Labor* is regarded by political economists in both the classical and Marxist tradition to be the major driving force for economic development. However, labor, in one form or the other, is also seen as a, if not the, major pathway out of rural poverty. In this respect it is of critical importance that governments, with international cooperation and social participation, design and implement policies that facilitate the incorporation of the rural poor into the labor force, be it in the formal sector of paid employment (waged or salaried labor), or, as is increasingly the case, in the informal sector. In regard to the former the policy should include social inclusion in government programs in the areas of education health and social security. In regard to the latter, the best or most frequently recommended policy is for governments to provide credit and microfinance. A micro-credit or microfinance strategy of local development has been promoted by the Inter-American Development Bank in its interventions over the past two decades. By a number of accounts the strategy has had a measure of success in reducing poverty. However, the strategy has also had its share of critics (see, for example, Weber, 2002), and the precise contribution of the strategy and associated policies to redressing poverty is not clear. It awaits a more definitive systematic evaluation.

(3) *Migration* to the cities or beyond—to the United States, Canada, Europe or elsewhere in the region—has also been conceived to be an important pathway out of poverty, both rural and urban (World Bank, 2008). In the case of Bolivia it is estimated that over 50 percent of Bolivians now live and work abroad, and the number of Mexicans who have crossed the border as an escape from rural poverty or in search of better conditions and opportunities is in the many millions. People migrate for all sorts of reasons. Poverty to be sure, but also out of landlessness, insecure or unsustainable livelihoods, and in search of new opportunities, employment and better conditions for themselves and their children. Migration, however, is also a mixed blessing. While providing a avenue for mobility or improved conditions for individuals it also deprives many rural communities of their productive members, exacerbating conditions of rural poverty.

On the other hand, it has been argued that migration is a factor of rural development in the form of migrant remittances, which in many countries constitutes a major source of foreign exchange—in the case of Mexico second only to manufactured products and greater than oil exports.

Currently, governments both in the region and abroad do not actively promote outmigration, i.e. they do not have any policies explicitly designed in support or to induce outmigration. But some of them do have policies designed to help migrants adjust to their new situation or to protect their rights (although this is primarily a responsibility assumed by or assigned to the NGOs in the area rather than governments). In this connection, governments should implement policies designed to integrate migrants into city life—to facilitate their incorporation into the labor market and ensure inclusion in social programs and services, particularly education, that facilitate their adjustment to a new life.

It has been discovered by both researchers and governments that on the whole migrants are disproportionately entrepreneurial—i.e. that they have a greater



than average propensity for innovation, self-employment and setting up their own enterprises. In this migrants constitute a major driving force for economic development. To take measures, such as credit provision, designed to take advantage of this propensity would be of benefit to the recipient community or country as well as the migrants themselves.

*Fiscal Expenditures: Investment in People (Human Capital)*

A key feature of the post-Washington Consensus is a new social policy (NSP) targeted at the poor and the inclusion of the poor in social programs designed to: (1) provide the infrastructure for social development (health, education, security); and (2) capacitate the poor in taking advantage of existing ‘opportunities’ for self-development and improvement in their social condition.

Regarding the agency of governments within the post-Washington Consensus this policy entails measures designed for decentralization, greater inclusion in social programs, local development and targeting of the poor in social expenditures. The problem with this policy, and the entire strategy within which it is framed, is that the policy and the strategy are predicated on the building and mobilization of social capital. The problem is that while as a social capital strategy it has proven to be relatively effective at the level of community-based local development, it has also proven to have serious problems and limitations (Harriss, 2001; Veltmeyer, 2007). First, in focusing on social capital to the exclusion of improved access to building other forms of capital, improved access to which requires government intervention, it seriously reduces the scope of economic development, which requires improved access to natural, physical and financial forms of capital as well as social capital. Secondly, it is predicated on the poor seeking to make improvements and change within the local spaces of the ‘power structure’, which, a number of studies suggest, is a major structural source of poverty and a major impediment to the poor. In this circumstance, a better policy vis-à-vis empowering the poor would be to assist them in their struggle to challenge the rich and the powerful—to intervene in this struggle on the side of the poor, rather than the rich and powerful, who, according to the UNDP in its latest report on human development in Latin America (UNDP, 2010), tend to have much greater access to the levers of political power.

UNRISD in its 2010 poverty report makes precisely the same point, one that has been made for decades by scholars in the political economy tradition but that only seems to have dawned on the consciousness of the development practitioners within the UN system recently. With this convergence in academic (theoretical) and policy perspectives redressing the inequality predicament can be taken as the most effective policy response to the poverty problematic. Unfortunately, neither the academic literature nor the two UN system reports provide any policy guidelines or prescribe any precise policies. At the moment there appears to be no adequate or defined policy response to a problem that is of critical concern to the social movements in the region.

As for the poverty problematic more generally, in addition to structural change vis-à-vis inequality an effective policy response has proven to be, or would be, for governments to include the poor in their social programs and to target them in their social policies. Every country in Latin America over the course of the 1990s, in the context of the PWC, has formulated a variation of the NSP, and designed a program of measures to implement it. Although there has not been any systematic and comparative evaluation of these policies, it is nevertheless evident that the policy has had positive outcomes and results, and is a contributing, if not determinant, factor in the relative success of some countries in the region in having reduced the incidence of extreme poverty over the past decade.

Over this period a number of countries, with very different policy regimes that range from the ‘orthodox neoliberal’ (Mexico, Peru, Colombia) and ‘pragmatic neoliberal/social liberal’ (Chile, Argentina, Brazil) to the ‘radical populist/socialist’ (Bolivia, Ecuador, Venezuela), have had a measure of success in reducing the incidence of extreme poverty. Each country, irrespective of the ideological orientation of the governing regime essentially pursued the same policies, with different degrees of success. Perhaps the most successful case—widely regarded as an exemplar or the paradigmatic case of the NSP—is Brazil, which has managed to reduce the rate of extreme poverty by 40 percent in just five years. In various scholarly assessments of this record, there are two determinant factors of this success: (1) various policy measures designed to redress the country’s inequality predicament (ECLAC, 2010; UNDESA, 2005); 2) increased and targeted expenditures on social programs; and (3) social inclusion of the poor, and their active participation; and, most notably; (4) direct cash transfers to the poor, conditional on their inclusion and participation. This conditional cash transfer (CCT) approach is now widely touted as the model of the NSP for reducing the incidence of extreme poverty. The policy is a new form of social welfarism in which the poor are expected, and do, assume a more active role in the development process.

The strategy and policies of poverty reduction in Latin America in the new millennium have generally been constructed and pursued within the framework of a PWC predicated on the institutional framework of a capitalist system of economic production and development—on state-led social reform of these institutions. However, two countries in the region have pursued a different approach: the same strategy and policies but within a different systemic framework—socialism, in the case of Cuba, and a mixed economy (socialism of the twenty-first century) in the case of Venezuela.

In the case of Cuba, poverty in its extreme form (absolute poverty) by 1985 to all intents had been eradicated in a strategy of socialist human development, pursued in the 1960s and 1970s, but the specter of income poverty re-emerged in the 1990s in the wake of the collapse of socialism in the USSR and in the context of a major economic downturn, which required of the regime a program of ‘structural adjustment’ (market-oriented policy reform). This structural adjustment strategy and associated policies of economic reform by some accounts (Espina Prieto,

2008) generated new forms of structured social inequalities that accentuated the poverty problematic of the economic downturn. However, a continuing policy of socialist human development pursued by the government, not unlike the policy implemented by other governments in the region within a different institutional and systemic framework (although in the case of Cuba not one school as closed down, nor one clinic), meant that the emerging inequalities and poverty were kept in check.

As for Venezuela, poverty over the same period in the new millennium was targeted and attacked systematically, not only in the inclusion of the poor in new social programs ('misiones sociales') and the targeting of expenditures and investments on the poor, but by a policy of engaging the poor directly in decision-making at the level of community development. The basic mechanism of this development 'from below' was the institution of the Community Council. Again, in regard to the improvement image in social conditions vis-à-vis poverty the relative contribution of the NSP implemented by the government and broader structural change is not at all clear. This issue needs a closer look and further study.

As for international cooperation in the policy arena of social programs and participatory development the dominant strategy, formulated by World Bank economists in 1989 and advanced thereafter, has been to require governments to prepare a Poverty Reduction Strategy Paper (PRSP) as a condition of financial and technical assistance. Although once again there have not been any systematic evaluations of this strategy and the policies that flow from it (but see Dijkstra, 2005; Morrow, 2001), indications are that the policy has been somewhat effective. As to whether the success of countries in the region on the poverty-reduction front can be attributed to this strategy, or to changed conditions in the global economy, or actions taken by the poor themselves, is not clear. Nevertheless, based on the evidence there is no reason NOT to pursue this strategy. At the very least, it is a useful part of the multifaceted strategy that is called for in the war on global poverty.

### *Explaining Poverty Up Close and From Afar*

Explanation is a matter of theory, identifying the critical factors involved in making people poor and keeping them poor, preventing effective action. At this level numerous factors have been identified over the years, but they can be sorted into two categories: factors that relate to the type of individual involved or conditions (values and attitudes, for example) for which the individual might be held responsible or could change; and factors that relate to the social or economic system, that is, the predominant form of social and economic organization, the working of which creates conditions that are 'objective' in their effects on the individual, essentially determining who is rich and who is or will become poor.

Explanations of poverty given in both academic studies and an array of poverty-watch organizations and research centers have ranged from discriminatory practices and attitudes; lack of equal opportunity; barriers to accessing strategic

resources; lack of education; exclusion from essential government services or other resources or assets; policy biases or dysfunctional institutions; or diverse systemic factors: the capitalist mode of production, neoliberal globalization, exploitation, the policy agenda and institutional framework, systemic forces, location in the social structure or geographical marginalization, etc.

What is most striking about the explanations given by economists and sociologists over the past 60 years of development efforts, and used by governments and international organizations to inform policy or action, is the lack of congruence between theory and practice—between the type and range of explanations given most often by academics in their studies of poverty and the strategies pursued and actions taken by the governments and organizations that have led the fight against poverty at the global level. Sociologists for the most part, and also those economists oriented towards a structural or some institutional form of analysis, have emphasized structural factors and generally insisted that poverty is a function of the way that the society or economy is organized—the ‘structure’ of institutionalized practices, the dynamics and machinations of economic and political power rather than social exclusion or a failure of the poor to grasp and act on their ‘opportunities’.

However, policymakers, and also organizations such as the World Bank that define poverty alleviation or reduction as their mandate, generally locate the source of poverty not in the system itself but in the culture of poverty that traps the poor and prevents them from taking action to seize their opportunities and take one of the available pathways out of poverty. In effect, they blame the poor themselves for their poverty.

The thinking that prevails in the global circuit of policymaking is reflected in a report tabled by the G-8 in their 2000 summit. In this study poverty is defined as a condition of ‘multidimensional deprivation’ that reflects not only a lack of income and resources but also a dearth of opportunities caused by ‘low capabilities and geographical and social exclusion’ and an inability to access resources and essential services. For example, limited access to education affects the ability of the poor to get jobs and to obtain information that could improve the quality of their lives. Poor health due to inadequate nutrition, hygiene and health services further limits their prospects for work and from realizing their mental and physical potential.

As for the ‘structural’ (or systemic) explanations of poverty, a large number of studies seek to establish as a fact that poverty is a social condition at one extreme of the unequal distribution of wealth and income, a socioeconomic structure that is undoubtedly the end result or ‘product’ of specific social relations of production and power dominated by the rich and powerful and beyond the ability of the poor to control or affect in any way—a structure which arises from actions taken and institutionalized practices, which, as the sociologist Durkheim emphasized, are ‘external to individuals’ and ‘coercive in their effects’ on them.

What the UN in a 2005 report dubbed the ‘the inequality predicament’—the unequal distribution of wealth and income to such an extreme that just 350 of the world’s super-rich dispose of more income than all of the world’s poor together,

some 1.4 billion—is a major source of enduring poverty. In fact, if the poorest 47 percent of the world (about 2.7 billion persons) were to pool their incomes they could barely purchase the assets of the world's wealthiest 225 individuals (UNDP, 1999: 3). The GDP of the 41 Heavily Indebted Poor Countries (567 million people) is less than the wealth of the world's seven richest people combined. Thus, any 'solution' to the poverty problematic should take into account and change the system that generates poverty and keeps the poor in their place (Chossudovsky, 1997). And, it must perforce fall to the state, the greatest repository of political power, to allocate more equitably the productive resources of the society, or, at the very least, to regulate the market, the institution that the rich and powerful have used so effectively to advance their economic interests.

A study by Weisbrot et al. (2001) makes this connection clear—that poverty is the indirect consequence of policies, and a system, that generated a huge concentration of wealth, sprouting an enormous number of billionaires in conditions of deepening and spreading new forms of poverty in the developing countries. The Centre for Economic Policy Research, a network of critical economists, put the neoliberal hypothesis—that if the poor countries were to let their economies be dominated by private capital and the free market they would converge with the rich countries—to the test. They divided countries into five groups, from the poorest to the richest. Then they compared how these countries fared between 1960 and 1980 (before the introduction of neoliberal policies) and 1980 to 2000 (when these policies were widely embraced). Their results are revealing of the impact of neoliberal policies, touted by the official as 'pro-poor'. The study concludes that the neoliberal policy reform agenda recommended, where not imposed, by the IMF and the World Bank has a deleterious effect on developing countries, reducing their economic status (and creating new forms of poverty) relative to states (mostly in Asia) that did not embrace the neoliberal policy reform agenda.

Structuralism in its most persuasive form has brought to light the connection between social inequality and poverty on the one hand, and policies pursued over the past two decades under the Washington Consensus as well conditions of a global multiple crisis generated by these policies. In diverse 'structuralist' accounts the world is on the threshold, if not in the throes, of a crisis that will dramatically reduce the capacity of billions of the world's population, with few resources and little income, to access potable water and nutritious food and affordable housing, sinking them further into the morass of hunger. For example, the doubling of world food prices in conditions of a global financial meltdown and recession since 2008 have forced an added 100 million people below the poverty line, triggering food riots from Bangladesh and Egypt to Haiti.

A striking if puzzling feature of the many reports on poverty by the World Bank and other international organizations is that they have documented at length, and illustrate with tables and graphs the complex and varied dimensions, forms and conditions of poverty but yet manage to elude any reference to its structural sources, attributing it instead to various deficiencies of the poor themselves or to institutional rigidities, social exclusions or prejudices that can be remediated by

education, rational argument or legislation. It is as if the economists at the Bank know everything there is to know about poverty but understand nothing.

### *Who and Where are the Poor? Measurement Matters*

Most of the debate and controversy surrounding the concept of poverty has to do with matters of methodology and measurement rather than conceptual issues. Poverty is conceptualized by virtual consensus as a state of deprivation, a condition in which individuals or households lack the capacity or the resources needed to have a minimally decent standard or quality of life—to meet their basic needs. Over the years, there has been some discussion as to the range and number of these needs, ranging from five basic needs to as many as 24 (Max-Neef, 1986), including non-physical or ‘spiritual’ needs such as freedom of choice and participation in decisions that affect one’s life. This discussion has been limited, however, compared to the debate surrounding the question of how to operationalize these ‘needs’—how to move from conception to measurement (translate a theoretical definition into an empirical indicators).

Where controversy has arisen is at the level of empirical measure—how to measure the quality of life of the population within different societies, and to measure shortfalls and deficits related to basic needs (Streeten, 1984). At this level, the center of debate has been on the use of gross domestic product (GDP) per capita as a measure of ‘development’ conceptualized as economic ‘growth’ and poverty as a deficit in the distribution of this growth. At issue in a series of unsettled debates is the World Bank’s methodology of a universal standard for a poverty line, adjusted to local purchasing power, in which poverty is defined empirically in income terms as having to subsist on less than \$2 a day (now \$2.50)—extreme poverty as \$1.00 (now \$1.25) a day. By these measures around 2.4 billion people, around a third of the world’s population, today are deemed to be poor—about half of them destitute or extremely poor.

This methodology, used by most international development associations, differs from that used by many governments, such as the United States, China and India, in which the poverty income line is measured in terms of a basket of goods needed to meet basic needs. This measurement methodology has been fraught with controversy however, and the surrounding debate has not yet been settled. One issue has to do with the rather arbitrary nature of setting the poverty line. The issue has plagued policymakers for years. How should a country define a reasonable poverty line? At issue is who and how many in the population are deserving and in need of government support. In both China and India, the official poverty line is below the World Bank’s already conservative \$2.50 per day (India’s by about 75 percent, and China’s by about 25 percent). This is because important basic needs are not being included. India’s ‘basket’, for example, specifies three basic meals a day and nominal expenditure on healthcare and education, but does not include expenditures for housing or transport (the same is true of China). In many other countries, even after housing and transport costs are factored in, it is evident that

there are large groups and numbers of people just above the World Bank's official poverty line who are in need, even dire need, and in poverty by any reasonable definition or other calculations and judgments.

Academic studies by sociologists or welfare economists on the whole have opted for an alternative methodology for measuring poverty based on the integration of the income factor into a broader measure or index that includes a number of non-income conditions of poverty such as access to nutritious food, healthcare, education, housing, transportation and other vital services that in many countries are 'commodities' (not services provided by the government). In this methodology, the concept of poverty is operationalized in terms of variables such as: (1) the percentage of the population 15 years and older that is illiterate; (2) the percentage of the same population that has not finished primary school; (3) child mortality rates; (4) the percentage of the population with public health insurance and pensions; and, in the area of housing, (5) the percentage of houses with running water or (6) with sewer systems and (7) with electricity.

By using an 'integrated' measure of poverty understood in its acute conditions and multi-dimensional forms, and that includes a number of these 'basic needs' variables, the number of the population deemed to be poor can be considerably higher than measured by the poverty line approach. For a systematic analysis of the limitations of conventional measures of poverty, and a proposal for a 'new index for developing countries' see Alkire and Santos (2010).

### *Poverty Reduction and the Rural Poor*

There are a number of mutually reinforcing alternatives for addressing the problems of rural poverty. These alternatives cover a wide range of possibilities from overall planning to specific details. Five approaches may be considered central to design of a strategy for reducing rural poverty: (1) a favorable institutional and policy framework; (2) affirmative action programs to assist the poor; (3) sustainability; (4) investments in human capital; and (5) greater participation by communities in designing and carrying out strategies.

The World Bank, together with the IMF, in 1999 formulated a new approach to its lending policy in regard to promoting Wolfensohn's 'Comprehensive Development Framework' (CDF) and enhancing the implementation by governments of their own Poverty Reduction Strategies. The approach was simple in concept but potentially radical in its implications for development assistance. It was to require all governments, as a condition of accessing official 'assistance' from the Bank and the Fund to prepare a Poverty Reduction Strategy Paper (PRSP) in which the government outlines the steps it proposes to undertake in the direction of reducing poverty. The PRSP must be prepared through a participatory process involving both domestic stakeholders and external development partners. The PRSP approach, in effect (or at least, as the Bank understood or presented it) is based on 'country ownership' and 'participation' (Dijkstra, 2005; Morrow, 2001).

Anthony O'Malley (see Chapter 4) identifies four schools of thought ('perspectives') on how to achieve poverty reduction, each with a number of 'cons' and 'pros', though the program as a whole awaits a more systematic assessment and evaluation.

### *Poverty Pathways and Public Policies*

As Alain De Janvry, one of the leading authors of the World Bank's 2008 *World Development Report* on 'Agriculture for Development', noted in an earlier study on poverty in Latin America, the exodus of the poor to the cities had been, and still was, the primary mechanism of poverty reduction in the region, explaining virtually all of the advances made on the rural front of the global war on poverty.

De Janvry and Sadoulet conceived of four 'exit paths' available to the rural poor: exiting (outmigration), agriculture (farming), development (assistance) and pluriactive, with reference here to the livelihood strategies pursued by many if not most of the rural poor, which is to combine farming with off-farm wage-labor. Without going into detail, then as now (at least in Latin America) most of the rural poor remain poor not because of the low productivity of agricultural activity, or their regressive worldview, but because they have been rendered landless or near landless in a process of 'primitive accumulation' of capital. Dispossessed from their means of social production, they had little choice but to turn from direct production to labor in one form or another, working the land owned by others or, more often, searching for non-farm employment in the countryside or in the cities. Most of the rural poor had (and still have) no option but to turn from farming to migration and labor, often both.

In this view—entirely, and in many cases quite consciously, ignoring the structural sources of poverty—the only way out of poverty is for the poor to participate in the opportunity structure of modern industrial-urban capitalist society, and the best policy advice that can be given the poor is for them to adjust to, and not resist, the forces of change. 'Development' in this context implies intervention in the form of helping the poor make this adjustment—to capacitate them to take advantage of the opportunities open or made available to them, a policy matter of 'equity', 'inclusion', 'participation', 'empowerment' and 'good governance' (Bebbington et al., 2008; UNDP, 2006; World Bank, 1994).

In the Latin American context, the rural poor include large numbers of landless or near landless peasants but most, over 50 percent in many cases, are semi-proletarianized, i.e. in their livelihood strategy they have to combine agricultural production or tenant farming with wage labor—what the World Bank economists conceive of as the labor-migration (De Janvry's pluriactive) pathway out of poverty.

In theory, the labor released from the land would be absorbed by urban industry, incorporated into the labor markets of the growing urban centers. But reality has not confirmed this theory. In practice what has occurred is a process of partial or semi-proletarianization. Rather than being converted into a modern urban-



centered working class, the vast majority of the rural poor, dispossessed from the land, have been converted into a rural semi-proletariat, retaining access to some land but increasingly reliant on wage labor as a means of livelihood and household income, and an urban semi-proletariat of informal workers, working ‘on their own account’ on the streets rather than exchanging their labor power against capital. Over 50 percent of the rural poor in Latin America can be categorized as semi-proletarianized in these terms, with substantial evidence to suggest that they will never complete the theorized transition—the process of social transformation into a modern wage-earning working class.

The role of the state (the government, to be precise), with international cooperation, is to assist the rural poor in this process of productive and social transformation—to pave their chosen path out of poverty, facilitating access to productive resources such as education and a decent job, ensure their inclusion in essential government services, empowering them to act, develop their capabilities and seize their opportunities for self-advancement.

### *The Politics of Poverty Reduction*

There is an obvious theoretical blind spot in the World Bank’s 2008 *World Development Report*, trapped as it is in the old paradigm of modernization theory, which is that the pathways out of poverty identified are conceived entirely in terms of economic adjustment to the presumably irresistible forces of agrarian transformation and capitalist development. In these terms, the opportunities of the rural poor to ‘farm their way out of poverty’ are few, and the majority are expected—and encouraged—to take the pathways of labor and outmigration.

The report’s ‘three world’ categorization (agriculture-based, transforming and urban) suggests a remarkably uniform triad pathway out of rural poverty: (1) commercially-oriented entrepreneurial smallholder farming; (2) rural non-farm enterprise development; and, more particularly, (3) rural non-farm waged labor, outmigration, or both. These pathways can be complementary and mutually reinforcing. In the report’s typology of livelihood strategies, it is the latter two (outmigration and rural income diversification) that are usually found to be the normal route out of rural poverty.

What is surprising, considering the extensive field experience of at least one of the report’s leading authors (De Janvry in the contentious area of land reform), is how it entirely ignores the struggle of small-scale agricultural producers and other categories of ‘peasants’ that make up the bulk of the rural poor in each of the ‘three worlds’, the political dynamics of social change that arise out of this struggle, and the ‘voices of the hitherto excluded’—which the World Bank itself commissioned but subsequently ignored; voices that have been loudly raised by the international peasant movement Via Campesina against the economic model used by the World Bank to guide their thinking/practice.

In Latin America, for example, the struggle for land reform has brought the small-scale producers and the mass of landless and near-landless ‘workers’—

generally conceived of as ‘peasants’ in diverse forms—into a relation of political conflict with the big landlords and rural bourgeoisie, who through different means under changing conditions in diverse rural contexts managed to acquire the lion’s share of the arable and productive land, and also the state apparatus, which in this context generally assumes responsibility for mediating this conflict.

## **Development Dynamics of Regime Change: A New Model for Latin America**

Latin America’s current relations with the United States as well as its present political and economic configuration can best be understood in the context of large-scale changes over the past 20 years and the relative stability of the past five years. We will proceed in this section by schematically highlighting the salient features leading to the rise and crises of neoliberal regimes and policies and the emergence of diverse ‘post-neoliberal’ regimes in the present period. We will analyze the nature and performance of the post-neoliberal regimes to bring out their strengths and weaknesses in the context of world market conditions, as well as the emerging political and social contradictions and alternatives.

### *US Imperial Power and the Rise and Fall of Neoliberal Regimes*

US imperial power and influence reached its maximum influence between 1976 and 1999. The military and civilian regimes throughout this period backed US international and regional positions and embraced the doctrine of the ‘free market’. The neoliberal rulers denationalized and privatized all strategic economic sectors, deregulated the banking and financial systems and submitted to the dictates of the IMF and World Bank. Nearly one trillion dollars in profits, interest and principal payments, rents and illegal funds were transferred to US and European banks and corporations.

By the end of the 1990s, mass discontent was boiling over into street protests and strikes by public sector trade unions and especially in rural mobilizations. With the onset of the economic crisis and financial crash of 2000 major upheavals took place throughout the continent.

*Crisis and Social Uprisings, 2000–5* Between 2000 and 2005 there were major popular uprisings overthrowing nearly a dozen neoliberal presidents and several elections that led to regime change in a center-left direction. In Argentina from 2001 to 2002, three presidents were ousted by the popular movements, as banks closed, middle-class savings were frozen, unemployment skyrocketed to nearly 30 percent and poverty levels exceeded 40 percent, unprecedented in this country renowned for its wheat and beef. In Ecuador popular uprisings in 2000 and 2005 replaced corrupt neoliberal presidents and resulted in the election of President Correa, identified with the center-left Citizens Alliance.

In Bolivia worker-peasant-Indian revolts ousted two presidents closely allied with Washington (2003, 2005), leading to the election of center-left parliamentarian, coca farmer and indigenous Aymaran leader Evo Morales in 2005.

In Venezuela President Chávez was briefly overthrown by a US-backed military-business junta and restored in 48 hours by a military-popular mass movement in April 2002.

In other contexts, ostensibly center-left presidents were elected in Uruguay 2005 and 2010, in Paraguay in 2008, in Chile in 2005, and Brazil in 2002 and 2006.

Having lost its docile clients in the face of the deep crises and with its principal ideological prop (free market neoliberalism) totally discredited and massively rejected, US dominance was severely eroded but not extinguished.

In Mexico, the US-backed PAN party blocked any transition to a new post-neoliberal transition in 2000, and later stole the election of 2006, perpetuating and deepening Mexico's disintegration into warring armed narco-gangs allied to different state factions.

The crises and revolts and the ascendancy of the post-neoliberal regimes, was essentially a historical compromise between the failed and discredited neoliberal elites of the 1990s and the rising radical social movements of the first years of the new millennium. US imperialism, engaged in two wars in the Middle East and South Asia, embedded in a global war against Islamic militants directed by Zionist policymakers in top positions in Washington, was unable to intervene and reverse the shift towards the 'center-left'. Throughout the 2000–10 decade, Washington's policy was essentially 'looking backward' towards the 'golden age of pillage', the 1990s, and totally unable to cope with the decisive shifts of power within Latin America, changes in the world market and the demise of its formerly hegemonic neoliberal ideology.

*The Ascendancy of Post-Neoliberal Regimes* Post-neoliberal regimes, to the degree that they conform to any common pattern have the following characteristics:

1. They are products of popular mass movements that rejected the dominant neoliberal ideology and elites.
2. Their rise to power is the result of deep economic and social crises that adversely affected sectors of the business elite, the middle and working class, landless rural workers and peasants/small farmers and alienated the indigenous communities.
3. The post-neoliberal regimes embraced state-directed economic stimulus policies without expropriating foreign or national banks and industries or renationalizing privatized firms, except in a few cases of bankrupt enterprises.
4. Post-neoliberalism retained the class inequalities of the neoliberal class system but introduced poverty programs, unemployment payments, subsidies for small business and employment generating investments.

5. Multinational corporations were induced to increase royalty payments, some agro-export taxes were increased but there was no effort to redistribute land and income.
6. Joint ventures, private–public enterprises were the rule, with the major emphasis on links with foreign multinationals, especially in mineral and energy sectors.
7. Institutional politics displaced extra-parliamentary movements and the PNL regimes successfully promoted state-business-social movement ‘corporatist politics’ based on ‘social pacts’, regulating wages but not profits.
8. The regimes pursued ‘developmentalist strategies’ based on expanding and diversifying export markets, tight monetarist fiscal policies and incrementalist income policies.

In summary the post-neoliberal regimes introduced regulations, social welfare and crisis management policies designed in the first instance to demobilize the mass movements, promote economic recovery and secure political and social stability. The anti-neoliberal rhetoric was directed towards ‘normalizing’ capitalist growth and creating a political-social balance between insurgent labor/peasants who were their original electoral base and private foreign and domestic investors who were their engines of growth.

*Performance of Post-Neoliberal Regimes: Stability and Growth* During the past five years of post-neoliberal regimes, there have been neither revolutions nor coups, with the exception of the US-backed seizure of power by the military in Honduras. The social movements have been de-radicalized. As a result of incremental wage gains, growing employment and high growth there has been a decline in social mobilizations. The military has been rewarded, chastised for past human rights crimes, pampered and incorporated into the new ‘developmentalist’ growth model and has shown little appetite to revert back to the crisis-ridden US-directed neoliberal model.

Between 2004 and 2008 the post-neoliberal regimes enjoyed exceptional growth, high commodity prices, large-scale capital inflows, the expansion of new Asian markets and reasonable levels of public and private investment. The result is relatively sound fiscal and trade balances, high levels of foreign reserves and access to capital markets (except for Argentina).

The post-neoliberal regimes have diversified their overseas markets but not their export products, increasing their dependence on energy, mineral and agricultural products but benefiting from high prices.

Contrary to historical experience the world economic crisis of 2008–10 did not strike Latin America as hard as it did the United States, in part because of financial controls established after the neoliberal crash of 2000–1 and because of their diversified economic ties with Asia, namely China, which continued to grow at 9 percent in 2009 and 11 percent in 2010. The fundamental question remains

whether the steady growth and the accompanying relative stability is a result of internal policies and structural adjustments or the result of favorable world market conditions—high commodity prices and strong demand?

Post-neoliberal regimes vary in political composition, social origins and the degree and type of state intervention. What they have in common is (1) their rejection of unregulated capital, particularly speculative investments; (2) a rejection of non-reciprocal free trade agreements such as the FTAA; (3) increased taxes on agro-mineral export sectors; (4) a strong corporatist tendency, namely incorporating movement leaders and organizations into the state apparatus; (5) support for regional organizations excluding the United States such as UNASUR; (6) and diversified trading and investment strategies. Above all the post-neoliberal regimes have embraced a ‘developmentalist’ ideology and practice, which seeks to maximize investment and growth, at the expense of any redistributive policies or fundamental changes in property ownership. In other words the shift from free market neoliberalism to post-neoliberal developmentalism is largely based on alliances with foreign and domestic agro-mineral and manufacturing elites rather than financial and banking groups.

The new developmentalist regimes, in the main, have their origins in populist and social democratic politicians who gained mass support by adopting a position attacking a variant of capitalism (‘neoliberalism’) and not capitalism per se. The ideological ambiguity of ‘anti-neoliberalism’ allowed the leaders to present themselves as part of the popular insurgency and to identify with the uprisings of the 2000–5 period without committing themselves to any specifically anti-capitalist program or specific measures such as a comprehensive agrarian reform or renationalization of the strategic economic sectors privatized by the preceding neoliberal elites.

The exception was Venezuela under President Chávez who did initiate a land reform program and renationalized the oil and several other strategic economic sectors.

The key challenge facing the developmentalist regimes was how to turn their radical political and social support of the movements that brought them to power into a solid base of electoral support for policies that essentially favored large-scale and long-term private foreign and domestic investors.

*Ideology, Markets, Co-optation* The post-neoliberal regimes mystified their popular followers with a variety of political formulas, depending on the specificities of their social background and organizational affiliations.

For example, Evo Morales made a big show of his ethnic identity, even as he ardently pursued agreements and signed lucrative exploitation contracts with major mining and energy multinational corporations from India, Europe, Brazil, the United States, Canada and China amounting to over 100 corporations. Morales’ developmentalist strategy, from the beginning, guaranteed the security of the 100 biggest agro-business corporations that owned over 80 percent of the most fertile lands, as long as they invested, produced and increased their exports. Morales’ key

propagandist, Vice-President Garcia Linera, provided the ideological cover, by manipulating the focus of the mass struggle from a socioeconomic transformation to a ‘cultural and political revolution’. Garcia Linera first dished out rhetoric about the importance of ethnic identity over class politics, to cover-up the regime’s collaboration with the foreign mining and domestic agro-business oligarchy. The ‘revolution’ was essentially the rise to power of an upwardly mobile mestizo lower middle class, made up of technocrats and co-opted social movement leaders, who promoted private investment and social control.

For the consumption of the foreign ‘tourist’ left, (EU, United States, Canada and Latin America) Morales and Garcia Linera organized an international conference on ‘Mother Earth’ (*Pachamama*). Upon their return they wrote a glowing account of the Morales’ leadership fighting ‘earth warming’, totally ignorant of the regime’s huge extractive capital investment pursuits and chemical based agro-business development strategy.

In the case of Brazil, Lula played on his social origins as a child of a poor immigrant family from north-east Brazil, his years as a trade union organizer, his affinity with popular causes and leadership of the Workers Party. His propagandists played down the fact that he had not worked in a factory for 20 years prior to his election. The most relevant consideration in Lula’s regime was not his distant past but his current links to big business, agro-mineral capitalists, his promotion of investments for growth and his strict monetarist policies to accommodate the overseas financial elite. His anti-poverty policies (*Bolsa familia*, with its conditional cash transfers)<sup>6</sup> were typical of conservative patronage politics: food baskets for the poor rather than land distribution or substantive social change; survival payments to the unemployed not industrial employment. The yearly social spending of the Lula regime for health, education and anti-poverty was less than the US\$100 billion transfers of interest payments to overseas banks. Lula’s decrees on the restrictions of public employees’ salaries and the cuts in public pensions ensured budget surpluses and attracted massive foreign capital inflows. Lula’s independent foreign policy flowed from his developmentalist ideology and not from any ‘anti-imperialist’ sentiments. For Lula growth required cutting loose from restrictive US commercial agreements and signing new trade and investment deals with China, India, Iran, Venezuela, Angola, etc.

Argentina, Uruguay, Chile, Ecuador and Paraguay have reinforced the agro-mineral export strategies and opened the door for foreign investors, especially in ‘productive sectors’. Their enemy is not capitalism; it is ‘speculative capital’. The social problem is how to tax the profits to subsidize the poverty programs to sustain electoral support.

The key for social stability is to co-opt the trade union and peasant leaders and pacify their followers with incremental and marginal wage increases in exchange

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6 On *Bolsa familia* and other programs that extend to the poor conditional cash transfer (CCT)—today some 17 countries in the region have implemented them—see Enrique Valencia Lomeli (2012).

for their support in signing off on big economic investment contracts with multinationals. The PNL co-opted the anti-neoliberal ideology and profited from favorable world market conditions. This has led to relative political stabilization and economic growth over the past five years. The question is whether this is a long-term or temporary 'conjunctural situation'?

*The Future of Developmental Capitalism in Latin America* Over the past five years the new developmentalist regimes have been able to disguise their collaboration with big capital via rhetorical attacks on neoliberalism and have gained an electoral clientele on the basis of short-term poverty programs.

There are definite signs that the 'progressive' identity is beginning to lose its attraction for major sectors of the working class, peasantry and the indigenous population in the face of the absence of substantive structural changes.

In Bolivia, prolonged strikes by public sector and factory workers over meager 5 percent salary increases arbitrarily dictated by the Morales regime is one clear indication that the mystique of the 'Indian President' who presides over budget surpluses and boasts about new lucrative contracts with foreign extractive corporations is beginning to wear thin.

In Paraguay, over 15,000 peasants have marched in Asuncion against President Lugo in protest over his inaction and impotence with regard to agrarian reform, and his reliance on police and military repression to oust landless peasants from large plantations.

In Brazil, public sector workers demanding salaries beyond the 5 percent dictated by Lula, especially in light of the US\$280 billion reserves and the over US\$100 billion interest payments are having their wages deducted. Lula, like Lugo and Morales, has launched virulent verbal assaults on independent class organizations demanding a fair share of the profit. Lugo has militarized the countryside in the search for 'ten guerrillas'. Evo Morales and Garcia Linera accuse striking factory workers of being 'agents of the US Embassy' and the protesting teachers of being 'tools of Trotskyists'. And Correa denounces the the leaders of the indigenous movement as 'delinquents' for opposing the de facto privatization of water rights.

In other words, the first fissures and contradictions in the new developmentalist model have evoked a virulent attack from the PNL regimes. One suspects that the regimes' violent responses to reformist economic demands is fear that the independent class struggles could escalate in the near future into an openly political challenge to the developmental model.

While the developmentalist model appears solid and world market conditions favorable today, the regimes depend on a fragile balance of power. PNL require large capital inflows, which require high profits that depend on control over labor costs, budget surpluses and tight monetary policies. Labor unions and the working class, to the extent that they put forward an agenda that demands greater social expenditures and a greater share of profits via strikes and direct action, could weaken the 'class collaborationist' framework of regime stability. Greater state repression could lead to greater alienation and disenchantment among sectors of

the working class and indigenous and peasant movements, leading to divisions and possible ouster of co-opted trade union confederation leaders and the revival of independent Indian and peasant movements.

The key problem in some countries is the fragmentation of movements. For example, in Mexico there were million-person meetings led by López Obregon protesting electoral fraud, preceded by a few years by a massive meeting of over 250,000 convoked by the Zapatistas demanding positive pro-Indian legislation, followed by tens of thousands of teachers and allies in Oaxaca demanding the ouster of a corrupt governor and more recently the quarter of a million workers led by the Mexican Electrical Workers' Union marching and protesting the firing of 43,000 of their comrades. Separately each movement was ultimately defeated. United they could have paralyzed the country and possibly won.

One of the unfavorable outcomes of the recent weaknesses of the radical social movements and the discarding of their proposals for structural change, is the growth of powerful narco-gangs based on the recruitment of urban and rural youth. In the face of dispossession of land by big agro-business, the free market food imports bankrupting small farmers and rural to urban migration without industrial employment, narco-organizations offer a way out of poverty via 'armed direct action', backed by corrupt state officials with bank-laundering cooperation. From Mexico, through Central America and the Andean states, the armed struggle of drug gangs of many young people for market shares of the cocaine trade has replaced the class struggle for land and jobs.

### *Alternatives to Post-Neoliberalism*

The first step towards constructing an alternative requires an understanding and a clear break with post-neoliberalism (PNL). The vacuous phrases about 'progressive' and 'center-left' regimes must be discarded and their identification as capitalist developmental regimes, deeply dependent on their agro-mineral elites, embedded in world markets is essential.

Secondly in constructing an alternative to PNL, the starting point is not 2000–5, a time of radical popular movements and class-based revolts. Nor is the starting point the period of the 1990s when unrestrained 'neoliberal' regimes allowed wholesale pillage by unrestrained bankers and multinational corporations.

Today the class and national struggles take place in a context of new developmentalism, regimes that use the state to promote growth and utilize social movements and trade unions ('civil society') as mechanisms for policing and limiting popular demands within the parameters fixed by state–capital partnerships.

For the Left, the key to the current phase of capitalist development is to recreate independent social movements and autonomous class trade unions that can challenge the wage-salary constraints which these developmentalist regimes impose to attract foreign investors and private lenders. The leaders of the Left must recognize that the developmentalist regimes are rich in foreign reserves, have budget surpluses and that their development strategies are producing



reasonable growth. In other words the left must recognize that Latin American capitalism as a whole is not in crisis, that the regime and the capitalists must pay for substantial raises in wages and social expenditures. The financial resources, economic revenues of the state and private profits of the agro-mineral, banking and big manufacturing and commercial elites can increase annual salaries and social payments between 10 and 20 percent.

The workers and peasants in the peripheral social formations, organized predominantly in the form of social movements, recognize that they are not the beneficiaries of the economic successes, growth and stability, celebrated by the leaders of the developmental regimes. The Left must encourage, organize and capitalize on the masses' rising expectations for higher living standards in the face of record high commodity prices. In recent years, too often, the Left has fallen prey to the theater of a self-described 'new left' and its anti-neoliberal rhetoric, even as it increases the presence of multinational capital (MNC). The new state-MNC partnerships exclude the working class from the profits and revenues which, instead, are distributed between new rising middle professional and technocratic classes and foreign investors.

The new rising middle class used its past leftist and social connections to the mass movements to rise to power; it consolidates power via its control over the state and subsidies to movement leaders. To legitimate its rule the new middle-class regimes organize leftist, ecology and ethnic conferences and meetings. The new middle-class rulers enrich themselves via an increase in the share of revenues from agro-mineral capital via joint ventures, increased taxes and profit sharing. The developmental state concentrates the 'new wealth' in the narrow confines of the top and middle level state bureaucrats who are in effect the new bourgeoisie. The bourgeois essence of this developmental regime is found in the profound and growing inequalities of property and income, the lopsided transfers of state income to bank creditors, subsidies and credit to agro-mineral exporters, while social transfers to the poor remain minuscule and minimum wages are paltry.

The struggle today is against capitalist exploiters not 'speculators'; against the post-neoliberal developmentalists who control the state for their own benefit not free market neoliberals working for real estate and financial swindlers.

The strategic weakness of the new middle-class rulers of the developmental state is that they do not directly own property; their power is derived from political control over the state and masses. That means that the economic struggle for wages and social expenditures immediately becomes a political threat to the legitimacy of the new rulers. As a result any working class or peasant demands provokes a disproportionately virulent attack, slandering the popular struggles for economic gains with bizarre charges of being 'counter-revolutionary'.

Given the opportunistic support of the North American and European left 'tourist' for these developmentalist regimes (even as they repress strikes and denounce the struggles of workers, peasants and Indians for economic improvements), the consequential left must take a stand either in solidarity with the economic struggles of the emerging new autonomous trade unions and class- and

ethnic-based social movements. The revival of popular revolutionary movements begins by rejecting complicity with the new middle-class rulers presiding over the new phase of state–private capitalist expansion.

## **Conclusion**

Few problems have engaged as much attention and concern over the past five decades of capitalist development as poverty—the inability of a substantial part of humanity to satisfy even their basic human needs in a context of unparalleled wealth, the result of an unprecedented global expansion of society’s forces of production based on new forms of social cooperation and technological development. Poverty in a world of plenty, it could be said: a monstrous problem and totally unacceptable because it is incontrovertible that the global community of nations and international organizations have at their disposal the means and more than sufficient resources needed to ‘make poverty history’.

The question then arises—and we tackle it in this volume from different angles and perspectives: what explains the fact that until recently so much effort, and so many resources targeted at the problem in such a long war, resulted in so little improvement, so little change? And what, if anything, has changed in the new millennium, when, according to diverse official reports, the problem of global poverty has finally begun to show signs of improvement? Is it changes in the global economy, as some have argued? Is it because the poor have taken in greater numbers the pathways out of poverty available to them, paved by actions taken by governments with international cooperation? Or is it, as the architects and officials of international cooperation for development allege in their self-congratulatory official ‘reports’, the result of the successful new millennium poverty reduction strategy constructed by the international development community and pursued by governments with international cooperation and social participation?

The one overriding conclusion that we have come to on the basis of a review of the academic literature and the official reports on the poverty-development problematic is that any proposed solution to the problem must address, and come to terms with what has been described as the ‘inequality predicament’. The predicament is how to ensure a more equitable distribution of the world’s wealth and the income-generating assets built up globally on the basis of social cooperation—how to prevent the appropriation of these assets by the super-rich, a small number of powerful men acting and free to act in their own interest and at the expense of the many. The problematic of this predicament is the subject matter of subsequent chapters, but we can anticipate the discussion and analysis provided in these chapters with the observation made by the authors of the 2010 ECLAC report on the war on poverty in the region: ‘it is time for equality—for closing gaps and opening pathways’. And, we can add, it is time for the exercise of people power, for workers to revolt and bring about transformative change—a revolution.

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## Chapter 4

# The Global Crisis and Latin America

This chapter provides a critical perspective on the current global financial crisis from the standpoint of its dynamics in Latin America. The past two years has seen the publication of some books and numerous scholarly and periodical articles, many of them converging on a common theme: the lack of financial regulation and the resulting acceleration of irresponsible speculation. The general argument advanced in these publications is that the global financial crisis, precipitated by the sub-prime debacle, together with misguided policies has allowed financial ‘innovation’ and speculation to proceed unchecked, giving unscrupulous lenders and traders free rein to exploit the lack of regulatory oversight. We argue that the crisis is not systemic or even structural but financial, and thus correctable with the right monetary policy fix, the construction of a new and more effective financial architecture and global governance.

The crisis is but the latest albeit most virulent manifestation of an endemic propensity of the system towards crisis. However, the crisis, which is quickly transforming from a financial into a production crisis of global scope and multiple dimensions, is not uniform in its regional dynamics. In Latin America diverse popular and non- or anti-capitalist responses are paving the way for a possible way out of the crisis that goes beyond out-of-control markets, greedy bankers and ineffective regulation or saving capitalism, but that challenges the institutional structure and the pillars of the system.

This argument is constructed in four parts. First, the premise of our argument is established that capitalism has an inherent propensity towards crisis. Then the recent literature on the crisis is reviewed to identify two basic strands: monetary and structural. It is argued that the second gets closer to the real world and the roots of the crisis. We then turn to the dynamics of the crisis as it is unfolding in Latin America. Here the focus is on the diverse responses to the crisis rather than its dynamic effects on the economy and society. In the next part, we examine some of the popular and alternative responses to the crisis that are emerging in the region, drawing several conclusions that are summarized at the end of the chapter.

One conclusion we have reached is that neither definancialization, the re-regulation of global capital in its speculative form, new checks on the greed and the ‘forces of economic freedom’ unleashed in the new world order of neoliberal globalization, or a counter-cyclical approach to the crisis with the restoration of credit or a production stimulus plan will suffice to stave off the crisis. Another is that this is the moment for moving beyond capitalism to socialism in some form. A final conclusion is that the agency for this development—the way out of the crisis—is the active mobilization of the forces of change in the popular sector

of society. Developments in Latin America, precisely in the popular sector, are pointing the way forward here.

### **A Propensity towards Crisis**

Notwithstanding the diversity of perspectives on what is emerging as a global financial and economic crisis, the most significant patterns of economic and political development over the past four decades derive from a fundamental built-in propensity of the operating world capitalist system towards crisis. Once (prior to the 1990s, that is) there were two operating systems, capitalist and socialist, and three worlds of development based on these systems. But for a number of as yet un- or not well-explained reasons socialism succumbed to a systemic crisis of its own, which led to a economic and political restructuring process in which a number of ‘actually existing’ forms of socialism collapsed in the USSR and Eastern Europe but also China and other parts of Asia. As it turned out, socialism in Africa was never more than an idea; the conditions for its implementation were simply not available. Cuba, as it turned out, a victim of the forces deriving from this collapse, managed to survive a momentous production crisis by means of a radical restructuring of the socialist model, a restructuring that threatened the survival of socialism in this one island state but that resulted in a slow but steady recovery that has been sustained over a decade of ongoing economic reform.

As for the other countries in the region and other parts of the world, still under the sway of a restructured world capitalist system, they have been subject to the diverse destructive forces generated by a process of capitalist development and neoliberal globalization. As for the dynamics of the systemic crisis that in the current conjuncture has economies across the world in its grip, as Walden Bello has argued (2009) they can best be traced back to the system-wide crisis of overproduction in the early 1970s that ended the ‘golden age of capitalism’—what French historians have dubbed the ‘thirty glorious years’ (1945–75). Social scientists have advanced diverse theories in explanation of this crisis. But, notwithstanding the accelerated rhythm of crises—increasing in number decade by decade as of the 1970s—this involution in the system of global capitalist production (a crisis of overproduction manifest in a tendency towards stagnation) unleashed a lengthy and as yet ongoing restructuring process in the form of:

1. The technological conversion of the global production apparatus, leading to a process of ‘productive transformation’ (ECLAC, 1990).
2. The global spatial or geographical displacement of capital and production, resulting in the appearance of a succession of newly industrializing countries in the global South and a new international division of labor (Fröbel et al., 1980).
3. A restructuring of macroeconomic policy designed to renovate the institutional structure of the world capitalist system and reconfigure

- decision-making power regarding the allocation of reproductive resources, releasing thereby forces of economic freedom from the regulatory constraints of the welfare-developmental state (Petras and Veltmeyer, 2001, 2005).
4. A corresponding political restructuring in a neoconservative counterrevolution that diminished the power of the centralized state and destroyed that of organized labor vis-à-vis capital, resulting in a process of decentralization and redemocratization designed to share the responsibility of governance with a broadly reconstructed system of ‘civil society’ organizations (Veltmeyer, 2007).
  5. Finally, as of the late 1980s, a process of *financialization*, leading to the appearance of an enormous disjunction between the real economy and a financial superstructure, and, in 2007, a major crisis of the financial system, a financial implosion and meltdown of global investment capital that is threatening to shake the very foundations of global capitalist production with a sharp contraction in the ‘real economy’ at the center of the system and powerful reverberations in the periphery (Bellamy Foster and Magdoff, 2009).

As Walden Bello (2009) conceives of this process, the economic and political adjustment to the requirements of a ‘new world order’ in the 1980s had three major dimensions, each associated with an attempt to escape what was essentially a crisis of overproduction: *neoliberal restructuring*; *globalization*; and *financialization*.

[1] *Neoliberal restructuring*, in Bello’s account, took the form of Reaganism and Thatcherism in the North and ‘structural adjustment’ in the South. The aim, as he sees it, was to ‘invigorate capital accumulation’ by (a) ‘removing state constraints on the growth, use and flow of capital and wealth’ and (b) ‘redistributing income from the poor and middle classes to the rich on the theory that the rich would then be motivated to invest and reignite economic growth’. The problem with this formula, Bello continues, ‘was that in redistributing income to the rich ... the incomes of the poor and middle classes (were gutted), thus restricting demand while not necessarily inducing the rich to invest more in production’. As a result, neoliberal restructuring, generalized in the North and South during the 1980s and 1990s, had a poor record in terms of growth: ‘Global growth averaged 1.1% in the 1990s and 1.4% in the 1980s, compared with 3.5% in the 1960s and 2.4% in the 1970s when state interventionist policies were dominant.’

[2] The second ‘escape route’ taken by global capital was ‘extensive accumulation’ or ‘*globalization*’—‘the rapid integration of semi-capitalist, non-capitalist, or pre-capitalist areas into the global market economy’. The aim, as Walden reconstructs it, was for capital to gain access to cheap labor, emerging markets and new sources of cheap agricultural and raw material products. Integration is accomplished via trade liberalization, removing barriers to the mobility of global capital, and abolishing barriers to foreign investment—policies

of financial and trade liberalization, a major plank in the program of neoliberal policies instituted under the Washington Consensus.

The problem with this escape route is that it exacerbates the problem of overproduction because it adds to productive capacity. For example, ‘a tremendous amount of manufacturing capacity has been added in China over the last 25 years, with a depressing effect on (capital accumulation) prices and profits elsewhere in the system’. Not surprisingly, Bello notes, by around 1997 the profits of US corporations stopped growing. According to one calculation, ‘the profit rate of the *Fortune 500* went from 7.2 in 1960-69 to 5.3 in 1980-90 to 2.3 in 1990-99 to 1.3 in 2000-2002’. By the end of the 1990s, with excess capacity in almost every industry, the gap between productive capacity and sales was comparable to the Great Depression.

[3] Given the limited gains in countering the depressive impact of overproduction via neoliberal restructuring and globalization, the third escape route—*financialization*—became very critical for maintaining and raising profitability. With investment in industry and agriculture yielding low profits owing to overcapacity, large amounts of surplus funds have been circulating in or invested and reinvested in the financial sector—i.e. as Walden argues, ‘the financial sector ... turn[ed] on itself’.

The result, all too evident in a spate of recent accounts, is an increased bifurcation between a hyperactive financial economy and a stagnant real economy. As noted by one financial executive in the *Financial Times*: ‘there has been an increasing disconnection between the real and financial economies in the last few years. The real economy has grown ... but nothing like that of the financial economy—until it imploded’ (cited in Bello, 2009; but see Bellamy Foster and Magdoff, 2009, for an extended analysis of the dynamics of this ‘financial implosion’).

This multi-dimensional restructuring (or ‘escape routes’, in Bello’s conception) can be traced out in close to four decades of ‘development’, a process dominated by a decisive turn from a welfare-developmental state to a neoliberal state: a ‘short history of neoliberalism’ in the conception of David Harvey (2003) and others. This short history can be traced out in four development cycles (Petras and Veltmeyer, 2009):

1. In the policies engineered in the 1970s by a new generation of Chicago-trained economists and implemented under the military regime of Augusto Pinochet.
2. In the response, in the early 1980s, to a call for a new world order in which Thatcher, Reagan and other neoconservatives turned to a program of ‘structural’ reforms in national policy designed by the economists at the World Bank on the model of the Pinochet regime, under a Washington Consensus and conditions of a major external debt crisis.
3. A third round of neoliberal reform in the 1990s under a post-Washington Consensus (PWC) regarding the need for a more socially inclusive, sustainable and governable form of neoliberalism, together with a better

- balance between the state and the market in the development process (on this see, in particular, Ocampo, 2007).
4. In the new millennium, under conditions of an enormous financial bubble (more of a balloon) that exceeded many times the growth of the real world economy, and a global primary commodities boom (2003–8) led by the demand in China and India for energy and natural resources (on these developments in the Latin American context see Petras and Veltmeyer, 2009).

### Rethinking the Crisis

At one level, the dynamics and the root causes of the crisis are clear enough, having been adumbrated by a long line of scholars who have followed Marx in his conception of the inherent propensity of capitalism towards crisis (Bellamy Foster and Magdoff, 2009; Magdoff and Sweezy, 1988). What is different and somewhat ‘new’ about the current crisis is not the depth or global scope of the crisis but its multiple dimensions and forms—financial, overproduction, labor regulation (Fordism), food and energy, environmental, social and political. In any event, it is evident that this multiple crisis is deeply rooted in the economic and social structure of the world capitalist system, and in this regard can be deciphered with reference to the Marxist theory of the dynamics of capitalist development. In terms of this theory, capitalism is clearly advancing into a new phase and the diverse indications of crisis prefigure a process of restructuring of the conditions of capital accumulation. In theory it is certainly possible that these conditions can lead to either the collapse or the overthrow of the system. But it is more likely, given the resilience of the system and the diverse mechanisms of response to the crisis, that the current crisis, notwithstanding its depth and global scope, will lead to a renewed process of capital accumulation via an effective restructuring of the system, which, like the crisis itself, is likely to be multi-dimensional in form.

As for the political dimension, restructuring is the likely outcome of a system that is fast approaching its political limits in expanding production on a capitalist basis: the concentration of decision-making as to the allocation of productive resources and the resulting social distribution of wealth and income. In a previous phase of crisis restructuring (the 1970s–1990s) these *political* limits to the capitalist development of the forces of production were overcome via a process of state-led development of these forces and the institution of a social democratic form of the welfare state (Glynn et al., 1990).

In the current context of neoliberal globalization, these same limits have given rise to a post-Washington Consensus on the need for a more socially inclusive form of neoliberalism, new more democratic forms of local and global governance, the re-emergence of social democracy as a global social movement, and a more pragmatic way of balancing the state and market in the process of capitalist development. Whether this new political form (pragmatic neoliberalism or what



some have termed ‘post-liberalism’), and the underlying configuration of social and political forces, can be used to harness the forces of resistance and re-establish ‘order’ remains to be seen.

### The Dynamics of the Global Crisis in Latin America

Between 2003 and 2008 Latin America generally, and South America in particular, managed a way out of the production crisis that beset many countries at the turn into the new millennium. More than a few of these countries rode a short five-year wave of a primary commodities boom fueled by the explosively growing demand in Asia—China in particular—for energy, minerals and other industrial inputs, as well as middle-class consumer goods. Over the course of this boom, the rate of economic growth increased from an average regional rate of 0.6 in 1996 and a bare 1 percent in 2002 to a regional average of 6.2 percent in 2004, 5.5 percent in 2005 and 5.6 percent in 2006. In the South American countries that led the boom the rate of recovery and sustained growth from 2003 to 2007 was even greater, ranging from 8.3 percent in Argentina and 8.0 percent in Venezuela to 6.3 percent in Peru, 3.9 percent in Bolivia—and, in a different systemic context, 9.0 percent in Cuba.

In 2008, however, this primary commodities boom was caught up in the vortex of the current financial crisis. The first response to this crisis, at the level of government, was to deny it, as in the case of Mexico’s President Felipe Calderón, who argued (at Davos, to an assembly of world capitalism’s most illustrious representatives) that Latin America was more or less insulated from this particular virus and that it could ride out the storm easily enough. Ironically, Calderón heads the most vulnerable economy in the region vis-à-vis the US economy at the epicenter of the crisis. As for Mexico itself, even at the time of Calderón’s public statement that did nothing to soothe tempers back home, economists in Mexico were predicting the loss of at least 500,000 jobs in a contracting economy. Mid-March, the estimate of Mexico’s GNP growth for 2009 was reduced from -1.5 percent to -3 percent (*La Jornada*, March 17, 2009).

Other Latin American governments were not so quick to discount the effects of the crisis on the regional and local economies, even though the initial response of many, in the last quarter of 2008 and even into 2009, as Petras (2009) notes, was ‘self-delusion’: the belief that their country could ride out the crisis on the basis of relatively high reserves of foreign currency and relatively healthy (reduced) levels of short-term debt. This was particularly so for those countries in South America that had ridden the wave of the primary commodities boom on the world market, a boom that has largely gone bust to the consternation of both the agro-elites and the governments who had substantially benefited from the boom in the form of higher prices, windfall profits and increased fiscal revenues (Petras and Veltmeyer, 2009). It appears that Uruguay had thus far weathered the global storm, tacking with the winds of change so as to post a surprisingly ‘robust’ growth rate of 11 percent over the past year. But if the economists at ECLAC (2009) and participants in a recent

(January 19–21, 2009) international colloquium on the ‘Global Crisis and Latin America’ in Mexico are correct in their assessment and prognosis the leaders of the other countries in the Southern Cone have no reason to be sanguine in the face of the apparent failure of the G-8 to solve the crisis at home at the epicenter of the system and the possibility, nay likelihood, that they will have to seriously contend with its spread-effects in both the financial markets and the real economy.

No country, according to a recent study of Latin American government responses to the crisis by ECLAC (2009) is immune, not even those in a context of the primary commodities boom that were careful not to over-spend or cut short-term debt on the global market and build up reserves. The Latin American economists who gathered in Mexico City to analyze what the crisis might mean for the region established that no country is safe from the maelstrom of the global crisis, notwithstanding what *The Economist* sees as Latin America’s ‘valiant efforts’ to thus far manage if not elude the crisis. *The Economist* puts Mexico, Brazil, Argentina and Venezuela among the nations most likely to fall, although it is the private sector, rather than the governments in these countries, that are facing the greatest challenges. Governments and the capitalists in the private sector in these countries, it turns out, either still have a high amount of short-term debt as a percentage of their total reserves, or their bank loans as a percentage of total deposits are at risk with the impending credit squeeze, or both (Bustillo and Hellos, 2009: 35ff.; ECLAC, 2009).

In any case, Latin America, according to the Washington office of ECLAC, has already (since October 2008) felt the effects of the crisis, primarily at the level of the market with the credit crunch, a slowdown in capital inflows and a dramatic decline in portfolio investment flows, large declines in stock price indexes, significant currency adjustments and an increase in debt spreads. Latin America’s GDP projected growth for 2009 declined from 3.6 percent in September 2008 to 1.4 percent in December 2008 (*Financial Times*, January 9, 2009). More recent projections estimate Latin America’s GDP per capita falling to -2 percent. As a result bankruptcies are expected to proliferate and state spending on social services will undoubtedly decline. State credit and subsidies to big banks and businesses will also increase. Unemployment will expand, especially in the agromineral and transport (automobile) export sectors. Public employees will be discharged and experience a sharp decline in wages. Latin America’s external financial flows will also suffer the loss of billions of dollars and euros from declining remittances from overseas workers. Foreign speculators are withdrawing tens of billions of investment dollars to cover their losses in the United States and Europe. Foreign disinvestment will replace ‘new foreign investment’, eliminating a major source of financing for any major ‘joint ventures’.

According to the IMF, 40 percent of Latin America’s financial assets (\$22 billion dollars) was lost in 2008 with the decline of the stock market and other asset markets and currency depreciation. This decline is expected to reduce domestic spending by 5 percent in 2009. Latin America’s terms of trade have deteriorated sharply as commodity prices have fallen sharply, making imports more expensive

and raising the specter of growing trade deficits (*Financial Times*, January 9, 2009, p. 7). The onset of the recession in Latin America is evident in the 6.2 percent fall in Brazil's industrial output in November 2008 and its accelerating negative momentum (*Financial Times*, January 7, 2009, p. 5). As a result, Latin America experienced a delayed entry into a period of profound and likely prolonged recession without any serious plan or program to counteract its destructive impact.

As a result of these 'developments' governments in the region—particularly Chile, Peru and Colombia that are heavily dependent on the flow of foreign direct investment—took defensive action, to protect these markets and to minimize their exposure to this deadly virus by means of diverse 'countercyclical policies to buffer the impact of the crisis' (*CEPAL News*, XXIV, No. 2, February 2009).

But governments in the region are not the only organizations responding to the global crisis. Nor have all governments responded—or are they responding—in the same way. Sectors of the left and a number of popular sector organizations that bring together unions, diverse class-based organizations and the social movements throughout the region, have conducted their own analysis of what the global crisis means for them and the region. As they see it—and there is a virtual consensus at this level—although production and the crisis have been 'financialized', the crisis reflects the 'decline of neoliberalism' ('el agotamiento de la ideología neoliberal') as well as conditions of capitalist development that are endogenous to the region. Further, it is recognized that although the crisis has assumed multiple and diverse forms it is primarily a crisis of production: a massive loss of jobs, the erosion of incomes and pensions wrapped up in capitalist financial institutions, the cutback of essential government services and the lack of access (affordability) to food—all problems that are reaching crisis proportions with disastrous social effects.

### **Strategic and Political Responses to the Crisis**

In the absence of a nationally organized revolutionary force the recession by itself, even with as-yet non-existent mass protests, will not lead to a social transformation. At least in the initial phase of response to the crisis, most 'mass pressure and struggles' will be in the direction of conserving jobs, blocking mass layoffs and even some 'defensive' factory occupations. This may be accompanied by demands for greater state involvement, either through subsidies to failed enterprises or selective nationalizations. The demise of neoliberal ideology is inevitable but its initial replacement will most likely be 'state capitalism' or a muted more socially inclusive, pragmatic and 'sustainable' form of neoliberalism parading as democratic socialism or social democracy *à la* Chile as per the post-Washington consensus achieved in an alliance between the center-left in state power with 'civil society'.

The most radical response and popular demands will likely occur in those countries most dependent on primary product exports and world demand, and in those countries integrated into the depressed markets of the United States and

the EU. These countries include Mexico, Ecuador, Peru, Venezuela and Bolivia. Chile, Argentina, Brazil and Colombia, with more diversified exports and a larger internal market, will also be impacted by world and regional recession but not as severely or abruptly. The recession will likely proceed in phases, cushioned initially by large foreign reserves. By mid-2009, the recession will likely deepen under conditions of capital flight and the loss of credit, investment markets and remittances. Local producers and capital markets will be hit hard. By 2010 Latin America will likely be in deep recession.

A radicalization of the Left could well take hold once the counter-cyclical economic stimulus plans and public works programs fail to stimulate the economy, and as the recession deepens and is prolonged. The key to the growth of revolutionary movements is their location in the socioeconomic centers of the crisis with organized cadre and 'local opinion' leaders capable of articulating and linking local discontent with a national plan of struggle, informed by a clearly anti-imperialist socialist program. Given present circumstances the recession opens a door of opportunity for the re-emergence of mass movements, which in turn would provide conditions for a revival and renewal of socialist movements. The renewal of socialist mass movements will undoubtedly reflect the limitations of fragmentation and spontaneity on the left and the lack of deep implantation in communities and neighborhoods, workplaces and the factories.

Although the process of crisis and response is ongoing and some of the offered solutions are poorly defined, there is an emerging trend for both the academic and political left, and popular sector organizations in the region to discuss or negotiate their ideas, and actions, with some of the 'progressive' or quasi-socialist governments in the region (Hugo Chávez, Rafael Correa, Evo Morales—even Ignacio [Lula] Da Silva, Cristina Kirchner and Michelle Bachelet, pragmatic or social neoliberals all, who cannot by any stretch of political imagination be accused of being 'socialist')—governments formed in the wake of a regionwide wave of anti-neoliberalism. These proposals have included:

1. An increase in social spending and infrastructure investment, and a reorientation of Central Bank policy away from stabilization and towards a priority concern for employment generation (the first recommendation of the structuralist (and institutionalist) economists gathered in Mexico City in January).
2. An extension of regional banking and development finance institutions such as the Bank of the South (a consensus proposal from all sectors).
3. The extension and deepening of ALBA, an alternative regional trade mechanism originally proposed by Venezuela (Chávez) and now including a supportive alternative popular regional trade alliance of Bolivia and Ecuador with Cuba and Venezuela, as well as Nicaragua and Honduras—and possibly even El Salvador after the recent victory of the FSLN (another consensus 'position' on the left).

4. An alternative model of local food production and food security based on the sustainable livelihoods of small-scale peasant producers (advanced by Via Campesina).
5. Socialism in one form or the other (state centralized or, as in some proposals, decentralized to allow for popular power in public decision-making), socializing both the means of social production and consumption.

This proposal, permutations of which have also been advanced by elements of the labor movement such as the Union of Electrical Workers of Mexico, emphasizes the fact that the workers had nothing to do with causing the crisis but everything to do with ending it. It presupposes an engaged public agency based on the active social mobilization of all sectors of the left, including both the state, in the case of Venezuela—and perhaps Bolivia and Ecuador; the intellectual and political left and supportive elements of civil society critical of neoliberalism; organized labor where possible; and the social movements as well as regional alliances and coordinating bodies (‘Coordinadores’) such as the Coordinadora de movimientos Sociales (CMS) in Ecuador.

As for the counter-cyclical policies recommended by the structuralist (and Keynesian welfare state) economists at the Mexico City Symposium, policies that are consistent with those recommended by other groups of economists in the region on the social democratic left, it turns out that many of the governments in the region have already taken or begun to take precisely these policies. In a summary of counter-crisis policy measures taken by different governments in the region over the past year a study by ECLAC (2009) notes that 16 out of 21 countries in the region over the past year did in fact increase spending on infrastructure. Five also promoted job creation (including Argentina, the country with the lowest external ‘openness’ index) and as many as 14 either maintained or even increased their public social program spending. Nevertheless, the predominant response of these governments reflects their understanding of the crisis as essentially a financial market and monetary-fiscal policy issue. In the policy response of the major countries in the region to the crisis there was a predominance of monetary, financial, fiscal and exchange rate measures. Six governments reduced the hard currency reserve requirements and, in a similar move to that taken by the G-8 governments, 15 of them increased liquidity in national currency and eight of them in foreign currency.

Two structural (as opposed to monetary or fiscal) policy measures of particular relevance were implemented or acted upon by a number of ‘progressive governments’ in the region, most notably by Venezuela, the pivotal center of the Latin American left since 1999 and a new axis of center-left governments, together with Cuba, Bolivia and Ecuador. However, this axis and these measures—including the construction of a new axis for intra-regional trade (ALBA); a new institutional mechanism for promoting national economic development (the Bank of the South); and the renationalization of natural resources and economic enterprises in strategic sectors—predated or were coincident with rather than in

response to the crisis. They represented a response to both US imperialism and the model of neoliberal globalization in place throughout the region since the 1980s but now in serious decline. Like the timid moves in the United States and the UK, in exchange for a financial bailout, towards an ownership stake in the country's major banks and financial institutions—and calls for the outright nationalization—they also point to the 'need for a systemic alternative to capitalism' (Panitch and Gindin, 2009), conceived by Hugo Chávez as 'socialism of the 21st century'. As to the form that socialism 'in the new conditions' will or might take there is no consensus, or as Chávez insists, no model—just an agreement in principle for the need of a new more humane and 'fully human' society, a 'society of equals', a 'new world of justice, dignity and equality' that is 'only possible with socialism' (Chávez, 2007: 247).

Indications are that these and other such 'structural' changes in the organization of national and regional development can help insulate the countries and the people in the region from the anticipated ravages of the restructuring process, which has already destroyed up to US\$50 trillion of capital in the world economy, with seriously negative consequences for the livelihoods of those having to work or make a living in the real economy, not only at the center of the system but on its periphery. Often, if not normally, such a capital restructuring process always hits the hardest those who are on the margins and the furthest away from the 'center', unable to protect themselves from the restructuring strategies pursued at their expense by the guardians of the world capitalist system and the neoliberal world order. The only way for working peoples to defend themselves from this restructuring process is to disconnect where and how they can from the system—and to actively mobilize not only for a change of direction but for 'another world', i.e. systemic change.

### **Responses to the Crisis in the Popular Sector**

We can distinguish five types of strategic response to the crisis in the popular sector, particularly in the social movements made up of indigenous peoples, peasants and rural landless workers that dominated the political landscape in the 1990s. At the moment these strategies exist primarily in the form of ideas and in practice, but there is in formation an active debate on how to proceed in acting on these ideas. This debate is largely internal to the popular movement but in the context of the global financial and production crisis there has emerged a series of conversations and discussions of social movement leaders with other sectors of the political left, both the intelligentsia and what we might term the 'political class', elements of which in recent years (1989–2008) have in fact captured state power in a number of South American countries (Venezuela, Argentina, Brazil, Bolivia, Ecuador, Chile, Uruguay and Paraguay), establishing in the process a number of center-left or left-of-center regimes.

*A Shift towards the Left at the Level of Macro-Economic and Social Policy*

For the political left that managed to capture state power in the pre-crisis period by riding a wave of anti-neoliberal sentiment and a primary commodities boom, socialism is not the abolition of private property or the socialization of production. Rather, it is understood as the nationalization of the country's natural resources or enterprises where the proprietors are not fulfilling their assigned social responsibilities; regulation of the market and economic activity in the 'private sector' in order to restrict the ability of capitalists to exploit labor and for investors to enrich themselves at the expense of others; and a more equitable distribution of national income.

The problem is that, with the exception of Venezuela, none of the center-left regimes that had come to power took advantage of the highly favorable economic and political conditions of the pre-crisis years (2002–8) so as to change policy in this 'socialist' or in a 'progressive' direction. In this regard, with the exception of Venezuela it is not possible to observe any significant difference between the policies regarding the allocation of fiscal resources (and the social distribution of these resources) adopted by these left-leaning regimes and those with a pragmatic or even dogmatic neoliberal orientation (Chile, Peru, Colombia, Mexico).

In any case, as explained above, under the conditions of the current crisis it will be much more difficult for these regimes, regardless of their ideological orientation, to reorient national policy and tax expenditures in a progressive direction. Even so, in this changed context of the financial crisis (with a capital loss in the region up to US\$220 billion over six months), virtually all of the governments in the region have adopted counter-cyclical policies designed to pump-prime demand, prevent massive unemployment and minimize the negative socioeconomic effects of the crisis, and, at the same time, contain the forces of social discontent and political opposition that will undoubtedly be generated by these conditions. In anticipation of these and such 'developments' virtually every country in the region has sought not only to maintain liquidity at the level of financial markets but to invest in and increase fiscal expenditures on both economic and social infrastructure and on social programs designed to redistribute income and alleviate poverty (on these policy dynamics see Petras and Veltmeyer, 2009).

*Nationalization*

Nothing is more important to the social movements than respect for the territorial rights of indigenous peoples in relation to communal resources, in particular water, the struggle over which has replaced 'land' as a, perhaps *the*, major concern of the popular movement. With reference to water as a 'fundamental human right' and a public good that should in no case be turned into a commodity (major demands of the social movements), one of the very first legislative actions of the government of Evo Morales in Bolivia was to re-nationalize ownership of natural resources

such as oil and gas, and to prevent a commercial encroachment on the global commons, the heritage of humankind (Abya Yala, 2009).

With this reversion of the neoliberal policy to privatize these resources together with other means of production, and a more extended policy in this direction in Venezuela to nationalize companies in the strategic sectors of the economy, nationalization is understood as a transitional form of socialism—the ‘socialism of the 21st century’, according to Hugo Chávez. Thus, socialism in this context takes the form of nationalization combined with a policy of regulation regarding markets and private enterprises in its capitalist form, capping the ability of the owners of these enterprises to exploit labor and enrich themselves, and a more equitable distribution of social product by means of the instrument of fiscal expenditures.

However, within the popular movement a different conception of socialism as an alternative to neoliberalism prevails. Within the movement ‘socialism’ is understood in a similar way as the utopian socialists of the nineteenth century understood it: as ‘communalism’, ‘our political practice’ in the words of Evo Morales (2003), leader of the Movement Towards Socialism (MAS). As constructed within the social movement and understood by Morales this ‘practice’ is rooted in a culture of solidarity, i.e. in ‘relations of reciprocity, complementarity and equity’ (Abya Yala, 2009). As for socializing the means of production a country’s natural resources are common property of the people and cannot be privatized. They are under the stewardship of ‘the people’ in their communities in a social relationship of solidarity and ‘respect and harmony with Mother Earth’ (Abya Yala, 2009). In terms of peoples’ ‘territorial rights’ socialism does not mean and should not take the form of state control. Rather it implies a decentralized state allowing the people in their local communities to exercise their collective responsibility in protecting and sustaining the heritage of humankind, to allow people to ‘vivir bien’ (live well) in harmony with nature and in solidarity with each other.

### *Integration ‘from below’ in Trade Relations with Other Countries in the Region*

A key element of the proposed policy and what amounts to a consensus in the Movement is support of ALBA, a trade mechanism originally proposed by Chávez but now encompassing six countries including Cuba and Bolivia, the initial partners of the project, and Honduras and Nicaragua. The movement in its indigenous character understands and has constructed ALBA as a mechanism of ‘integration from below’ based on a conception of ‘living well’, the basic goal of ‘development’ as understood by the Movement and embodied in the Bolivian government’s ‘National Development Plan’. In this development paradigm, rooted in an indigenous worldview ‘integration’ is not just a matter of ‘trade’ but is a means of ‘social, cultural, political and productive integration’ of the people in the Andes, Amazonia and the urban areas.

The design of ALBA as a ‘bottom-up integration of the peoples’ based on ‘living well’ includes a proposal for a ‘new financial architecture ... to have economic independence and sovereignty’. In this connection the proposal of Chávez to form



the Bank of the South (BS) as a national and regional development mechanism has gained force. Although the project since its conception in 2006 has had to overcome political hurdles of one sort or another the global crisis has revived the project as a mechanism allowing companies and governments in the region access to an alternative source of capital.

### *An Agrarian Reform based on a New Model of Agricultural Production*

The principal problem of the countryside and rural poverty is land: the separation of peasants from the land, forcing them to migrate to the cities or be transformed into a proletariat (so as to provide capitalist or big landowners with a source of cheap labor) or a class of ‘capitalist entrepreneurs’ (to improve their access to markets, capital and modern technology). To reverse this process and ensure the sustainability of their livelihood peasant movements are demanding land reform—not ‘market assisted’ as the World Bank conceives of it, but ‘state-led’; i.e. the distribution not of idle public land but of land concentrated in the hands of large landowners and capitalists in the sector. Another demand of the movement, with reference here to the Via Campesina, is to change the model that governs the sector of agricultural production—an agroexport model that only benefits the large landowners (‘the oligarchs’) and capitalist corporations—in favor of small producers and the peasant economy oriented towards the local and national markets, to provide for food sovereignty and security and to meet the needs of the people at affordable prices.

### *A Minga of Resistance and Popular Action*

On February 29, 2009, a Bolivia-based regional alliance of indigenous, peasant and social movements convoked a ‘Minga of Resistance’ in association with ‘other peoples and processes’ in the region (Abya Yala, 2009).<sup>1</sup> *Minga* is a Quechua word meaning ‘collective action’ having wide currency among the indigenous poor, both indigenous and mestizo, in the Andes. The call to join in a *Minga*, as a name for collective action that is at once local and global, gains force from both its cultural and historical references to a shared experience of subjugation. By calling their movement a *Minga*, the indigenous participants call attention to both the work that must go into politics and the need for collective action.

Thought and action in this direction—in the search for an alternative to capitalist development and neoliberalism, the undoubted source of the current

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1 This alliance includes the Coordinadora Andina de Organizaciones Indígenas (CAOI), the Coordinadora de Organizaciones Indígenas de la Cuenca Amazónica (COICA), the Consejo Indígena de Centro América (CICA), the Movimiento Sin Tierra del Brasil (MST), Vía Campesina; the organizations of the Unity Pact (Pacto de Unidad) of Bolivia; and diverse indigenous organizations of Colombia, Ecuador and Peru—meeting most recently on February 26, 2009, in the locality of the Unity Pact in La Paz.

global crisis as it happened and is widely understood—is underway in the popular sector of different countries in the region. See for example the Convocation (January 20, 2009) of the Social Movements of America at the World Social Forum in Belém. Departing from a diagnosis of the ‘profound crisis’ of capitalism in the current conjuncture, a crisis that the agents and agencies of capitalism and imperialism are seeking to ‘unload’ [descargar] on ‘our people’, the representation of a broad regional coalition of American social movements announced the need, and its intention (un ‘proyecto de vida de los pueblos’ frente al ‘proyecto del imperialismo’), to create a popular form of ‘regional integration’ (ALBA) ‘from below’—‘social solidarity in the face of imperialism’ (alba@movimientos.org).

From this popular perspective the global crisis is not a matter of financial markets but rather a production and social issue—a matter of sustainable livelihoods, employment and the price of food, which is rapidly escalating under the conditions of the global and local crisis. In this connection ECLAC Executive Secretary José Luis Machinea has noted that the steep and persistent rise in international food prices is hitting particularly hard the poorest in Latin America and the Caribbean, worsening income distribution. Poverty and indigence will rise if urgent measures are not taken to reduce the effects of these hikes: nearly 10 million people would become indigent due to price hikes, and a similar number would increase the ranks of the poor. This does not even take into consideration the aggravating social situation of those who were already poor or indigent prior to the price rises and the global crisis.

Another example of popular action against the production and food crisis is the peasant-worker alliance recently formed in Mexico to make available affordable food to workers in the cities (*La Jornada* online, February 24, 2009). In regard to the staple ‘tortilla’, the prices of which have literally hit the roof over the past year (see the analysis of the price dynamics by Bello, 2008), spokespersons for the alliance at a press conference announced that the producers in the alliance would deliver goods to workers and their families at cost or prices at least 20 percent below those at commercial enterprises—and there would be no taxes charged. Efraín García Bello, Director of the Confederación Nacional de Productores Agrícolas de Maíz de México (CNPAMM), a signatory to the production alliance, noted that actions of this sort would support the economy of both the workers in the urban areas and the inhabitants in the countryside.

Along the same lines and supportive of this popular action against the crisis, different organizations in Mexico’s peasant movement, including those set up by or close to the government, proposed that the government’s anti-crisis plan include a policy of local production in corn and rice, milk, vegetable oil, pork products, etc., ending the policy of free agricultural imports under NAFTA, which, as the EZLN (the Zapatista Movement) had predicted, has been the cause of a major production crisis in agriculture, if not its ‘deathknell’. In regard to the local production and imports of vegetable oil, the president of the Senate’s Rural Development Commission pointed out that in just this one case government policy (elimination of import duties) put at risk the livelihoods and direct employment of up to 10,000 jobs in the sector plus an additional 30,000 indirect jobs.

At issue in this and other such actions in the popular sector is whether the political and intellectual left are up to the challenge leveled by Abya Yala—able and willing to actively support if not lead the forces of revolutionary change that are being formed in the popular sector.

As for the government it responded, as have other governments in the region, by attempting to head off the possible political spread-effects of a growing crisis-generated social discontent via fiscal expenditures on a program of social and development assistance. In the case of Mexico, the basic mechanism of this anti-crisis response is ‘Oportunidades’ (Opportunity), a program designed to assist those with scarce resources most directly affected by the global crisis. With a negotiated World Bank loan of US\$500 million this program is expected in 2009 to pump US\$4 billion into the countryside and the local economy, continuing the time-honored tradition (at least since the 1960s) of using rural development as a means of demobilizing the social movement and defusing revolutionary ferment in the countryside.<sup>2</sup>

## **Conclusion**

The global crisis in substance is not a financial crisis but rather a crisis of capital—of the system governing global production. To ensure that the usual victims of this crisis, the people in the popular sector of the ‘developing societies’ on the periphery of the system, are able to resist and cope with the forces released in the capital restructuring process it is essential that ‘the people’ actively mobilize their resistance to the neoliberal model and determine their own solution based on the unification of all anti-capitalist forces. This mobilization of movements and forces in the popular sector, as well as their few political representatives outside of the movement, should resist any proposal for a solution to the crisis that includes the existing system. The various ‘solutions’ to the crisis proposed by the political left in its ‘actually existing’ forms, generally presume the institutional framework of capitalism, seeking only to mitigate the effects of the crisis and ensure a more sustainable (socially inclusive, equitable, participatory and humane) form of capitalist development.

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2 On this use of ‘development’ as a means of turning the rural poor away from direct action and confrontational politics, and to appreciate the virtues of capitalism and democracy, to resort to the market and elections, see Petras and Veltmeyer (2005).

# Chapter 5

## Uneven Development and the Class Struggle

The class struggle continues to play a central role in the process of capitalist development, albeit it takes different forms depending on the socioeconomic context. In order to map out the unfolding of the class struggle it is necessary to specify key concepts related to (1) the varied conditions and dominant sectors of capital in the global economy; (2) the nature of the class struggle; (3) the principal protagonists of these struggle; (4) the character of the demands; and (5) the emergence and form taken by the popular movements.

Capitalist accumulation is unfolding in a very uneven pattern with important consequences for the nature and intensity of the class struggle. Moreover, the particular responses by workers and especially the capitalist state to the general condition of the economy has shaped the degree to which class struggle intensifies and which of the two major 'poles' (capital or labor) has taken the offensive.

### Conceptual Clarification

In analyzing contemporary capitalism, the most striking distinction is between three radically different conditions facing the capitalist system. Accordingly, for the sake of analysis countries can be placed into three categories, depending on whether they are experiencing conditions and forces of (1) high growth, (2) stagnation or (3) deepening crisis.

*High growth capitalist countries* (category 1) are sharply divided between those that are (1) commodity boomers, largely exporters of agro-mineral-energy products, mostly found in Africa and Latin America, and those that are predominantly (2) manufacturing exporters largely found in Asia (China, India, South Korea). As for crisis economies (category 2) they can be sub-divided into three groups: (1) *fast recovery economies*, including Germany and the Nordic countries, which, after dipping into negative growth, have expanded their industrial exports and since 2010 are growing rapidly; (2) *low recovery or stagnant economies*, including the United States, UK, France and Italy, which have touched bottom, recovered profits especially in the financial sector, but have made little or no progress in reducing unemployment, expanding manufacturing and overall growth; and (3) *prolonged and deep crisis economies*, including Portugal, Spain, Greece, the Baltic and Balkan countries, which are bankrupt, with rising double-digit unemployment (between 15 and 20 percent) and negative growth. They carry

a heavy debt burden and are implementing severe austerity programs designed to prolong their economic depression for years to come.

Just as there are uneven patterns of capitalist development, the same is true with regard to the class struggle. There are several key concepts that need to be taken into account in the analysis of class struggle. First, there is the distinction between ‘class’ and ‘mass’ struggle. In Latin America there are many instances of multisectoral worker, peasant or public sector struggles led by class anchored organizations. At times these class-based movements become ‘mass struggles’ incorporating heterogeneous groups (street vendors, self-employed, etc.). The contemporary Arab revolts are mostly mass struggles generally without class leaderships or organizations, or in some cases led by ‘youth’ or ‘religious organizations’.

Secondly, there is the distinction between ‘offensive’ and ‘defensive’ class struggles where class organizations either fight to extend their social rights and increase wages or struggle to preserve or limit the loss of wages and living standards. The class struggle is a two-way proposition: while workers and other exploited classes struggle from below, ruling classes and their states engage in class struggle from above to increase their profits, productivity and power. The class struggle takes various forms. The majority of class struggles today are over ‘economic issues’, including an increasing share of national income. A half decade ago throughout Latin America, as is the case today in the Arab countries, the class or mass struggle was/is primarily political, a struggle to overthrow oppressive neoliberal and repressive regimes.

With these concepts, we can proceed to analyze the relationship between countries and regions in varying degrees of crises or growth and their relationship to the varying degrees and types of class struggle.

## Uneven Development and the Class Struggle

The countries experiencing high growth, whether in Asia based on manufacturing or in Latin America based on the agro-mineral export boom, are facing a growing offensive economic class struggle over a greater share of the growing economic pie. In China, under pressures from below, wages and salaries have exceeded 10 percent growth, and in some regions 20 percent, over the past decade<sup>1</sup> while in Latin America, workers in Bolivia and elsewhere demand over 10 percent.<sup>2</sup> In large

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1 On workers’ struggles in China see ‘Workers Call the Tune’, *Financial Times* (February 22, 2011, p. 3) and ‘Chinese Wages Increased 12.6% between 2000-2009 According to the ILO’, *Financial Times* (February 16, 2011).

2 *La Jornada* (April 8, 2011). The Bolivian Workers Confederation demanded 15 percent wage increases. In 2010, Bolivia had the greatest number of conflicts in 41 years (*El Pais*, April 16, 2011).

part high growth is accompanied by inflation,<sup>3</sup> which erodes nominal increases offered by the state and employers. Especially provocative are sharp increases in the prices of basic foodstuffs, energy and transport that directly impinges on the everyday lives of workers.

Among the most promising signs of the advance of the class struggle are the real and substantial socioeconomic gains achieved by workers over the past decade in Latin America. In Argentina unemployment has declined from over 20 percent to less than 7 percent; real wages have risen by over 15 percent; the minimum wage; pensions and medical coverage have increased substantially and trade union membership has expanded. Similar processes on a lesser scale have taken place in Brazil: unemployment has fallen from 10 percent to 6.5 percent (March 2011), the minimum wage has increased over 50 percent over the past eight years and several hundred landed estates have been occupied and expropriated because of the direct action of the Rural Landed Workers Movement. In Latin America, while social revolutionary politics have declined since the mid-2000s the economic class struggle has been successful in extracting substantial reforms that improve the livelihood of the working class and impose some constraints on neoliberalism's rapacious exploitation of labor, in sharp contrast to what is occurring in Anglo-America and Southern Europe.

In the stagnant 'developed' imperial countries, the state has proceeded to impose the entire cost of the 'recovery' on the backs of workers and public employees, reducing employment, wages and social services, while enriching bankers and the corporate elite. The United States, the UK and France have witnessed a sharp class offensive from above which in the face of feeble opposition from a shrinking bureaucratized trade union apparatus has largely reversed many previous social gains by labor.<sup>4</sup> Essentially the struggles of labor are defensive attempts to limit the rollback of gains, but lacking the class political organization to counter-attack reactionary budgetary measures that cut social programs and reduce taxes for the rich, widening class inequalities.

The most intense class struggles have taken place, and are still a feature of the political landscape, in the countries with the deepest economic crisis, namely, Greece, Spain, Ireland and Portugal. In these countries the ruling class has reversed a half century of social and wage gains in the course of three years in order to meet the demands of the Western bankers and the IMF. The class offensive from above led by the state has been met with a number of general strikes, numerous marches

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3 'Emerging Markets Inflation Surge', *Financial Times* (April 14, 2011, p. 1); 'Beijing Poised to let Renminbi Rise to Fight Inflation', *Financial Times* (April 17, 2011, p. 3).

4 On Obama's Fiscal Year 2012 budget compare *New York Times*, April 13, 2011 and February 14, 2011. The later budget speech emphasizes over US\$4 trillion in cuts over 10 years largely affecting the social net, a major concession to right-wing Republican extremists.

and scores of protests, but to no avail.<sup>5</sup> The corporate-state elite, led in most cases by social democratic politicians, have privatized public firms, slashed millions of public employees, raised unemployment levels to historic heights (Spain 20 percent, Greece 14 percent, Portugal and Ireland 13 percent) and channeled tens of billions into debt payments.<sup>6</sup>

The crisis has been seized by the ruling class as a weapon in reducing labor costs, transferring income to the top five percent of the class hierarchy and increasing productivity, without reactivating the economy as a whole. GNP continues ‘negative’ for the foreseeable future, while austerity undermines domestic demand, and debt payments undermine local investment to reactivate the economy.

The political crisis of the rentier-autocratic-corrupt Arab client regimes is manifested in the mass popular democratic movements on the offensive, toppling regimes in Egypt and Tunisia, to begin with, and challenging the pro-imperial state apparatus.<sup>7</sup> In Egypt and Tunisia, pro-imperial autocracies were overthrown but new popular democratic regimes reflecting the new mass protagonists of political change have yet to take power. In the rest of the Arab world, mass revolts in Yemen, Bahrain, Algeria, Jordan, Syria and elsewhere have pressed forward against imperial armed autocracies, raising the specter of democratic as well as socioeconomic changes.

The US and EU imperial powers initially caught off guard have proceeded to launch a counter-attack, intervening in Libya, backing the military junta in Egypt and attempting to impose ‘new’ collaborator regimes to block a democratic transition.<sup>8</sup> The mass struggle, influenced by Islamic and secular forces, have a clear program of rejection of the political status quo, but, lacking a class leadership, have not been able to pose an alternative political economic structure beyond vague notions of ‘democracy’.

In summary, growth accompanied by a rapid increase in national income and resurgent inflation has been much more conducive to offensive class struggle from below than ‘crises’ or ‘stagnation’, which at best, have been accompanied by ‘defensive’ or rearguard struggles. In part the theory of ‘relative deprivation’ seems to fit the idea of rising class struggle, except that the struggle in question is essentially ‘economistic’ and not aimed at government policies, the state per se, or even the neoliberal model. Moreover, the methods of struggle are normally strikes for higher wages. This is most evident in Argentina, Brazil, Chile and Peru

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5 The Greek workers have organized over six general strikes between 2009 and 2011, see *DROMOS (The Road)* Athens weekly over that period. Spanish workers organized two general strikes in 2010, Portugal one and Ireland one major march.

6 Data compiled from International Labour Organization Reports on Employment 2010–11.

7 See Al Jazeera (February–March 2011). On the repressive role of the new military junta see Al Jazeera (April 7, 2011).

8 Reuters, February 14, 2011. Washington’s behind-the-scenes maneuvers to install a former Mubarak loyalist, Field Marshall Tatawi, as head of the junta is a blatant example.

where intense struggles have taken place over narrowly economic demands. The exception are the community-based indigenous struggles in Peru and Ecuador against the state and foreign mining companies that are exploiting and contaminating their land, air and water. The indigenous communities in Ecuador have recently won a landmark legal battle against multinational capital and the governments that paved the way for their destructive operations in the extraction of natural resources.

Nevertheless, several caveats are in order. The working class in Bolivia, experiencing a dynamic growing agro-mineral export boom, launched a 10-day general strike (April 6–16, 2011) over wages.<sup>9</sup> The prolonged strike over time turned ‘political’, raising questions about the legitimacy of the Morales regime in some sectors. In part this is due to the fact that wage increases are fixed by the government. According to the principal workers organization (COB) the pay raises dictated by the regime were below the rise in the prices of the basic family food basket. Hence, what began as an economic struggle became politicized. Likewise, in the case of Peru, with a dynamic mineral export economy, the neoliberal Garcia regime experienced sharp economic and ecological confrontations with mine workers and Indian communities. In the run-up to the presidential elections of 2011, the struggle became highly political, with a plurality of working and peasant class voters supporting Humala the center-leftist candidate.<sup>10</sup> In high-growth countries depending on big foreign-owned mining companies and substantial Indian communities, class conflict combines with ecological, class, national and ethno-community demands. In other words the distinctions drawn earlier between offensive/defensive and economic/political class struggles are fluid, subject to changes as the struggle and its context changes.

The dramatic rise of the class struggle in high-growth China reflects the growing labor shortages in the coastal regions, the huge profits to a new class of billionaires, the intense exploitation of labor and the entry of a ‘new generation’ of young workers with alternative options to working in a ‘single plant’.<sup>11</sup> The ‘socialization’ of large concentrations of workers in big plants, in close proximity, facilitates collective action. Sharpening inequalities, especially in light of the rapid growth of super-rich capitalists linked to corrupt political officials and unresponsive state-controlled trade unionists has led to ‘spontaneous’ class direct

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9 On the general strike in Bolivia see ‘Central Obrera declaran huelga general’, *La Jornada* (Mexico City) (April 8–16, 2011).

10 On the first round of the Peruvian presidential elections and center-left populist winner Ollanta Humala see ‘Peru Facing Polarizing Election as Populists Face Off’, BBC (April 12, 2011).

11 According to one account ‘rising labour costs are an issue (in China). There is job opportunity everywhere there is much less need for migration’, *Financial Times* (March 18, 2011, p. 22).



action.<sup>12</sup> The radicalizing impact of inflation is evidenced by the outbreak of a large-scale strike of truckers in China's biggest port Baoshan in Shanghai: the workers were protesting rising fuel costs and port fees. According to one report, 'Chinese officials have warned that soaring prices, rampant inflation and official corruption pose the greatest threat to Communist Party rule' (*Financial Times*, April 22–23, 2011, p. 1).

Politically oriented trade union struggles also have recently come to the fore in Venezuela, where the Chávez government has emphasized the 'worker content' of the 'Bolivarian socialist revolution'. This has encouraged workers striking in private firms to demand the expropriation of intransigent capitalists as well as change in the management of public firms replacing bureaucratic technocrats with workers.<sup>13</sup>

The least advanced class struggle is in the 'stagnant' United States. A combination of low union density (93 percent of private sector workers are not unionized), highly repressive labor legislation, a self-perpetuating millionaire trade union leadership that is totally dependent on the capitalist Democratic Party inhibits the development of class consciousness except in 'local pockets' of resistance.<sup>14</sup> The rapid erosion of wages has been combined with heightened exploitation (fewer workers increasing production) and the shredding of the last vestiges of the social net (social security and medical plans for the over-65 population).<sup>15</sup>

One could argue that high per capita income per se is not a sufficient reason to assume a weakening of class struggle, as France and Italy have more general strikes than the UK even as per capita income is higher. What is crucial is the institutional links between trade unions and labor/social democratic parties on the one hand and the free association of factory-based worker assemblies on the other. In the United States and UK stagnation and reaction are linked to the subordination

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12 On Chinese billionaires see *Forbes*, March 2011. As a result of 'a rash of disputes between May and August (2010) employers were hit by strikes or other problems. This resulted in pay raises notably a 30% increase at Foxconn the Taiwanese manufacturer' (*Financial Times*, February 16, 2011, p. 3).

13 *Correo de Orinoco* [Caracas, Venezuela English edition weekly], April 3–9, 2010.

14 The general strike of Wisconsin public sector workers in March 2011 was the exception to the rule, a first of its kind, induced by the Republican governor and legislature's effective abolition of collective bargaining rights. Except for a one-day strike of the San Francisco longshore workers' unions and a few sporadic protests in other states, the US confederation of labor, AFL-CIO, has not mounted a single national public demonstration, instead relying on multi-million dollar funding of Democratic politicians.

15 Congressman Ryan, a Republican, has proposed the privatization of social security and the senior health program (Medicare) and a draconian reduction of spending for healthcare for the poor and disabled. President Obama followed up with his version of regressive social cuts somewhat on a lesser scale but in the same direction. See Obama's speech to the American people, White House press release April 3, 2011 (*New York Times*, April 14, 2011, p. 1).

of labor to neoliberal social democratic/democratic parties, while in France and Italy the trade unions have closer ties to the factory assemblies and retain a higher degree of class autonomy.<sup>16</sup>

In other words, there is no iron rule that ties particular forms of class struggle to the dynamism or stagnation of the economy. What needs to be included is the degree of independent class organization capable of raising the level of struggle amidst volatile economic and political changes.

### **Imperialism, Inter-Capitalist and Class Struggle**

Despite the economic crisis of 2007–2009, that shook most but not all of the major neoliberal capitalist centers, the capitalist class in Europe and North America came out stronger than ever. Following prescriptions laid out by the International Monetary Fund, the major private creditor banks and the central banks, the entire burden of debt payments, fiscal deficits and trade imbalances incurred by the neoliberal regimes was laid on the backs of the working and salaried classes. Similar class selective austerity measures were applied throughout the ‘periphery’ of Eastern and Southern Europe. The result was a radical restructuring of pensions, wages, and indeed the entire ensemble of state–class relations. As a consequence a veritable ‘peaceful electoral’ socioeconomic counter-revolution from above has occurred that heightens exploitation of labor by capital while concentrating income in the top 10 percent of the social pyramid.

The imperial countries of the United States and Europe, facing intensifying competition from the BRIC countries (especially China) and the industrializing countries of Asia and rising commodity prices, have turned towards ‘competitiveness’ via intensified internal exploitation, pillage of the public treasury and imperial wars. In regard to the latter it is estimated that while US military expenditures account for 4.7 percent of GDP, up to 80 percent of industrial production today in the United States is geared to national security, the construction of military bases, the procurement of goods and services for the overseas war effort and maintenance of the empire.<sup>17</sup>

Nevertheless, this inter-capitalist competition is having an inverse effect, raising incomes among workers in the BRIC countries and lowering living standards in the established imperial centers. This is because the BRIC countries

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16 Discussions with shop delegates and Luciano Vasapollo, secretary of the militant Italian trade union movement *Reto di comunisti* (Rome, Italy), May 1, 2009.

17 The amount of military construction in Latin America planned by the Pentagon for 2011 has doubled since 2009. This annotated map of current and planned US military construction in Latin America is based on publicly available information on federal contracts (see [www.usaspending.gov](http://www.usaspending.gov)) and on US Army Corps of Engineers activities.

invest in the productive economy while the imperial centers waste trillions in military and speculative activity.<sup>18</sup>

One should make a caveat regarding the competition between imperial and BRIC countries, insofar as there are thousands of financial, commercial, technological and manufacturing threads linking them together. Nonetheless, the conflicts between social formations and the global war on terrorism, etc. are real enough, as are the nature of the internal class cleavages and configurations. Imperialism as it is played out today is a burden to working-class advance. For now the internal dynamic of the rising economic powers seem to provide them with the capacity to finance domestic growth expanding overseas trade and wage concessions to the emerging working class demanding a share of the growing income pie.

### **Whither the Working Class: On the Rebound?**

Throughout the first three decades of capitalist development after World War II the working class led the struggle against capitalism and bore the brunt of the class war launched by capital against labor in a context of a system-wide production crisis. On the periphery of the system the struggle of workers against wage exploitation combined with the struggle of landless rural workers ('peasants') and the broader anti-imperialist struggle in a war of national liberation. There were numerous battlefronts to this war, with significant regional variations in the form of struggle. In Africa and Asia the class struggle was more or less subordinated to the war for national independence that brought the workers and peasants into a common front with the petit-bourgeoisie and nationalist elements of the bourgeoisie. In Latin America, where, with the exception of Cuba, the war for national independence had been settled a century earlier, the class struggle predominantly took the form of a worker-peasant alliance against the machinations of US imperialism (see Chapter 7 on the political dynamics of this struggle). However, in the heat of different battles in this war the workers and peasants in many cases were divided by the forces ranged against them, allowing them to be isolated, picked off and defeated. The agency of this defeat was the state, aided and abetted by imperial power and international cooperation. By the turn into the 1980s and a new world order, the land struggle and associated social movement were brought to ground and had subsided, and the labor movement had been weakened where not destroyed, its organizational and political capacity seriously diminished.

Over the subsequent three decades of capitalist development in the era of neoliberal globalization the working class was never able to regain the offensive. The labor movement was in decline and the leadership of the popular movement was assumed or taken over by a semi-proletariat of landless rural workers, peasants

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18 On the negative impact of the financialization of capital and military spending on the productive economy see Chossudovsky and Marshall (2010: 72–101, 181–211).

and, in some contexts, indigenous communities. These elements of the popular movement organized and mobilized the forces of resistance against neoliberalism in the 1990s. As for the working class it was but a shadow of its former self. With the destruction of the forces of production in industry, a process accelerated in conditions of neoliberal globalization and the privatization of the key firms in the strategic sectors of the regional economy, the working class was gradually transformed from an industrial-state sector proletariat into an urban proletariat of informal street workers. Under these conditions, many of the unions in the labor movement were brought into line or into an alliance with the state, the leadership either destroyed, accommodated or corrupted.

Fast-forward to 2010, in a new context defined by the ascension of the center-left to political power, the demise of neoliberalism, the declining influence and power of US imperialism, and a system in crisis. At the center of the system, in Europe and North America, the most surprising political development was the relative absence of any reissuance to the machinations of capital and the massive assault on labor; with a few exceptions marked by organized protests in response to the latest attacks on what remains of the welfare state in Europe (in France, Greece and Spain).<sup>19</sup> On the Latin American periphery, however, there are signs of positive change that point to the possibility of rebuilding a socialist movement on the basis of organized labor—organizing and bringing together the diverse sectors of a divided and fragmented working class, and mobilizing the forces of resistance against capitalism in its neoliberal and post-neoliberal forms, and against imperialism.

In Bolivia, in May 2011, the workers organized and represented by the COB finally revolted against the policies of a government that was formed with the promise to abandon neoliberalism and the expectation of a socialist program, but that in four years of state power failed utterly to institute any fundamental change in the social structure of national production and development. With a working class brought to its knees by over two decades of neoliberalism, and the arteries of the treasury literally clogged with money held in hard currency reserve so as to assuage the fears and whet the appetites of potential foreign investors, the government adamantly refused to accede to the modest demands of the workers for a living wage. The government finally settled the labor strike and subdued a spreading labor movement by offering the workers a miserly 11 percent

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19 At the point of writing (May 20, 2011) Madrid is besieged by large crowds of young employed workers protesting the neoliberal policies of the government, more concerned with placating the financial markets than redressing the 45 percent unemployment rate among the youth. However, what this rather limited and ineffectual action (isolated street protest) can lead to is unclear. Conditions in France, Italy and Greece are more propitious for rebuilding the labor movement. In the United States and Canada the political or intellectual left has utterly failed to either rally workers or to mobilize them against the deterioration in the social condition of the working class and the incredible machinations of finance capital in the quest for profit and self-enrichment.

wage increase. The leadership of the emerging movement, in the form of COB, was constrained to settle with the government. But it is evident that in Bolivia we have the makings of a more powerful labor movement. Already, as also in neighboring Argentina, the revolutionary as well as the parliamentary left have begun the process of rebuilding the forces of popular resistance—and rebuilding the movement.<sup>20</sup>

Similar and potentially more powerful forces of resistance are also being built in the indigenous sector of the popular movement. If or when these forces are to be combined with the forces marshaled by the organizations of an incipient labor movement conditions could rapidly change. One manifestation of this potential is the Unity Pact (Pacto de Unidad) established by indigenous groups and working-class organizations in Bolivia, Colombia, Ecuador and Peru (February 26, 2009). This pact follows a series of meetings, forums and congresses held to the same purpose—to unify the indigenous social movement left—over the past four years.

This is one change that can be attributed to the rise of Evo Morales to state power and to the so-called red tide in national politics in the first decade of the new millennium. Another apparent trigger for a re-emergence of the social movements is the so-called global financial crisis, which in the Latin American context turns out to be a crisis of the neoliberal model of capitalist development. This model has attracted and appears to be the unifying factor in the emerging forces of resistance. A major conglomeration of these forces of popular resistance was generated in response to the US proposal, in 2001, to establish the Latin American Free Trade Agreement (LAFTA, or ALCA in its Spanish acronym).

In opposition to ALCA, ALBA proposed an alternative model of regional integration based on the socialist principles of social justice, fair trade and equitable development of the forces of production. ALBA turned out to be a key point and center of reference, and an organizing space, for the formation of a region-wide articulation of a social movement able to incorporate and unite in support of a common program diverse forces of resistance in the popular sector against the neoliberal model and the dominant system of capitalist development.<sup>21</sup>

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20 In this connection see, for example, the calls for unity and the formation of a united front in Argentina and Bolivia. In Bolivia COB is taking the lead, together with a social movement left; in Argentina, the so-called Leftist Front (the Frente de Izquierda) encompasses only a fraction of the revolutionary left, and envisages a electoral process rather than a broader class struggle for power, but even so the seeds of a broader labor movement have been sown.

21 Among the 160 plus movements that constitute the Council of the Movements for ALBA (Consejo de Movimientos Sociales del ALBA) formed in May 20, 2007, at an ALBA summit meeting in Venezuela, some can be found the Movimiento de Pobladoras y Pobladores, la Asociación Nacional de Medios Comunitarios Libres y Alternativos (ANMCLA), El Frente Nacional Campesino Ezequiel Zamora, el Frente Nacional de Campesinos y Pescadores ‘Simón Bolívar’, CONIVE, el Frente Bicentenario de Mujeres 200, La Red de Colectivos La Araña Feminista, la Red Nacional de Sistemas de Truke, el Frente Nacional Comunal ‘Simón Bolívar’, Red Nacional de Comuneros, la Red de

Lines of proposed action based on shared principles, agreed upon and ratified in several subsequent ALBA summits, include:

1. Defense of the sovereignty of the people and their right of self-determination, supported with policies of autonomous development, equity, internationalism, and solidarity with the people in struggle.
2. Constitute a united front against neoliberal policies, including in particular privatization and denationalization.
3. Support for forms of agricultural production that guarantee food sovereignty, that respects life and mother earth.
4. Promoting solidarity among people and nations.
5. United in support of the feminist struggle against patriarchy and sexism in all of its forms.
6. Support of an emancipatory (anti-capitalist) culture.
7. The need for the political participation of the people in the construction of a new state committed to the consolidation of ALBA and its objectives.

It would appear that the eclipse of the social movements in the wake of the red tide and the economic crisis has passed. And with each passing day the movement appears to be rebuilding, auguring well for the battle ahead—for the world to win.

## **Conclusion**

While on the surface there is a decline of revolutionary political class struggle from below, there is the potential for economic struggles to become political insofar as inflation erodes gains and political leaders fix rigid guidelines on wage advances. Secondly, as the case of Venezuela illustrates, political leaders can provide conditions that favor the advance from economic to political class struggle.

The most dynamic class action today comes from above: the systematic assault on wages, social legislation, employment and working conditions launched in the United States, Spain, Greece, Ireland, Portugal, the UK and the Baltic/Balkan states. There the economic crisis has yet to precipitate mass revolt; instead we see defensive actions, even large-scale strikes, attempting to defend historic gains. This has been an unbalanced struggle where the capitalist class holds political and economic institutional levers backed by the international power of imperial banks and states. The working class has little in the way of comparable international

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Organizaciones Afrovenezolanas, el Movimiento Nacional de Televisoras Comunitarias-ALBA TV, Movimiento de Mujeres Ana Soto, el Movimiento Gayones, OPR Bravo Sur, la Compañía Nacional de Circo, Colectivo Nuevo Nuevo Circo, Jóvenes por el ALBA, la Alianza Sexo – Genero Diversa Revolucionaria.

solidarity.<sup>22</sup> The most helpful signs in the global class struggle are found in the dynamic direct action of the Latin American and Asian working class. Here steady economic gains have led to the strengthening of class power and organization. Moreover, the workers can draw on revolutionary traditions to create the base for relaunching the socialist project. What could detonate a new round of political and economic class warfare from below? Possibly the resurgence of inflation, recession and a further deterioration in the condition of the working class, repression of the class struggle, and an ever-deepening cutback of the welfare state that will expose workers to the barbarism of capitalism in the twenty-first century.

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22 The World Social Forum and other such 'left forums' are mainly speech-making opportunities for the chattering classes made up of academics and NGOs. In most cases the foundations and sponsors explicitly prohibit them from taking a political position, let alone organize material support for ongoing class struggles. None of the major working-class general strikes in Europe, Latin America or Asia has ever received material support from the perpetual left forum attendees. The decline of workers' internationalism has not been in any way replaced by the international gatherings of these disparate forces.

PART II  
Imperialism in the  
Twenty-First Century



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## Chapter 6

# Rethinking US Imperialism

In this chapter we criticize contemporary theorizing about imperialism for its economic reductionism and a lack of class analysis and institutional specificity regarding the imperial state. In the context of this argument we establish the importance of class analysis for grasping the changing dynamics of imperial power before proceeding to argue how specific alignments of class forces in the world economy, in their interactions with existing imperial power configurations, are leading to a realignment of economic power in the world capitalist system that constitutes a major challenge for US imperialism in its Latin American operations. In the final section of the chapter we point to the discontinuities and continuities in US imperial relations with Latin America, and the potentialities and constraints of these relations on economic growth and development.

### **The Social Basis of Imperial Politics**

Almost all theories of contemporary imperialism, both in its (neo-)Marxist and (neo-)liberal variants, lack any but the crudest sociological analyses of the class and political character of the governing groups that direct the imperial state and its policies (Amin, 2001; Foster, 2006; Hardt and Negri, 2001; Harvey, 2003; Magdoff, 2003; Panitch and Leys, 2004). The same is true about contemporary theorizing about the imperial state, which is largely devoid of both institutional and class analysis (Panitch, 2000). Most theorists of imperialism resort to a form of economic reductionism in which the political and ideological dimensions of imperial power are downplayed or ignored, and categories such as ‘investments’, ‘trade’ and ‘markets’ are decontextualized and presented as historically disembodied entities that are comparable across space and time. Changes in the configuration of class relations and associated dynamics are then accounted for in terms of general economic categories such as ‘finance’, ‘manufacturing’, ‘banking’ and ‘services’ without any analysis of the political economy of capitalist development and class formation, or the nature and sources of financial wealth—illegal drug trade, money laundering, real estate speculation, etc. (Panitch and Leys, 2004). As for the shifts in the political and economic orientation of governing capitalist politicians representing the imperial interests of the dominant class, resulting in the formation of links with other capitalists and imperialist centers with major consequences in the configuration of world power, they are glossed over in favor of abstract accounts of statistical shifts in economic measures of capital flows.

Contemporary theorizing about imperialism tends to ignore the role of sociopolitical and ideological power configurations in shaping imperial policy, as opposed to major economic institutions such as the multinational corporation (MNC) and other operational and governing agencies of imperial power, including major military installations and commitments.<sup>1</sup> In addition, the role of Zionist power configurations and militarist ideologues in shaping US Middle East policy is a crucial consideration regarding the US imperial state as well as contemporary imperialism in theory and practice, but it is almost entirely ignored in studies of US foreign policy and the projection of imperial power in the Middle East, a critical feature of US imperialism in its global operations and the quest for world domination.<sup>2</sup>

The dynamics of imperial power relations are both economic and political. As for the economic dynamics, as theorized by Lenin in a very different context, they derive from the search by capitalists for productive outlets for surplus capital, as well as cheaper sources of raw materials and labor, and markets. In terms of these dynamics, particularly those that relate to the emergence of monopoly capital and the export of capital, Lenin theorized imperialism as the highest form of capitalism, a manifestation of its fundamental laws of development. However, liberal theorists of imperialism tend to emphasize the political, and to isolate the political dimension of imperialism from its economic dynamics, viewing imperialism purely in terms of the quest for world domination or the pursuit of geopolitical strategic concerns and the national interest. Marxist theorists after Lenin generally recognize that the imperial state is a critical agency of capitalist development and a fundamental source of political and military power pursued in the service of capital, to ensure its dominion.

From this Marxist perspective imperialism is understood in terms of its connection to capitalism, and the agency of the imperial state system—the projection of state power—in securing the conditions needed for capital accumulation. Not that there is a consensus on this point—on imperialism as the bearer of capital, an agency of capitalist development. William Robinson, for example, expands on the argument advanced by Hardt and Negri (2001) and other world system theorists that the ‘class relations of global capitalism are now so deeply internalized within every nation-state that the classical image of imperialism as a relation of external domination is outdated’ (Robinson, 2007: 7).

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1 In this connection, the distribution of military bases, facilities and training centers play an important role. For example, vis-à-vis US imperialism in Latin America the policy of center-left regimes in Bolivia and Ecuador to dismantle US bases in their national territory or no longer to send armed forces personnel for ‘training’ and indoctrination is significant, indicating an erosion of imperial power in Latin America.

2 One looks in vain in the imperialism literature for any systematic study of the role of the major Zionist organizations and individuals in influencing US imperial wars in the Middle East among the major leftist presses in the US or UK.

Although what these ‘class relations’ might possibly be is unclear, as is the question as to what form imperialism takes under these circumstances (the dominion of capital over labor?), Robinson argues that ‘national capitalist monopolies’ no longer need to ‘turn to the state for assistance’. The corollary of this argument is that the state no longer needs to assume the responsibility for empire-building and the projection of imperial power is no longer concerned with the dynamics of capital accumulation.<sup>3</sup> In Robinson’s formulation ‘the system of nation-states ... is no longer the organizing principle of capitalist development, or the primary institutional framework that shapes social and class forces and political dynamics’ (2007: 8).<sup>4</sup>

Another assumption made by Robinson, and shared by other world system theorists of transnational capital (and ‘globally integrated enterprise’), is that ‘if we are to get at the root of 21st century global social and political dynamics’ the Marxist tradition of imperialism theory based on the classical statements of Lenin and Hilferding should be discarded. Based on the assumption of a world of rival national capitals and economies, conflict among core capitalist powers, the exploitation by these powers of peripheral regions, and ‘a nation-state centred framework for analyzing global dynamics’, this theoretical tradition is entirely useless, incapable—according to Robinson—of grasping the fundamental contemporary dynamics of capitalist development (pp. 6–7).

If, as Robinson and others contend, capital no longer needs the imperial state does it mean that imperialism will wither away, or does it mean, as argued by Klare, that it will take the form of ‘geopolitical competition ... the contention between great powers and aspiring great powers for control over territory, resources, and important geographical positions such as ports and harbours ... and other sources of wealth and influence’ (2003: 51–2)?<sup>5</sup> Or again does it mean what Robinson and some—including Arrighi, Brenner, Foster and others in the torrent of ‘new

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3 It is interesting to note that world system theorists of ‘transnational(ized) capital’ such as William Robinson (2007) and ‘neoimperialism’ theorists such as David Harvey (2003) seem to coincide in the view that capital is ‘economic’ and inherently ‘global’ (no longer takes a national form) but that the state is ‘political’ and inherently ‘national’ (territorial-based and ‘geopolitical’)—and that they therefore pursue ‘distinct’ (albeit, according to Harvey, interconnected) ‘logics of power’.

4 In line with this world systems theory (although argued from within a different theoretical framework, that of ‘monopoly capital’), Foster and McChesney (2009) contend that ‘although industrialization has expanded in the periphery, it has generally been along lines determined by global corporations centred in the advanced capitalist countries, and therefore has tended to be directed to the demands of the centre’.

5 The geopolitics school of theorizing about imperialism focuses on the interest of the imperial power in controlling access to strategic resources, such as and especially oil (Gowan, 1999), Gowan, for example, argues that the increasing militarization and intervention of twenty-first century US imperialism represents a ‘global gamble’ to restore US hegemony through military domination and control of the world’s last remaining oil reserves.

imperialism' literature that has appeared in the new millennium—contend, namely that imperialism is advanced primarily, if not exclusively, in economic form via the agency of transnational(ized) corporations that represent an empire without imperialism, as Hard and Negri would have it, or capitalism beyond imperialism, as Robinson sees it?<sup>6</sup>

In opposition to this rather reductionist view of imperialism, we hold that imperial power is shaped predominantly by the imperial state and its policies that take as a given that what is perceived as in the 'national interest' coincides with the concerns and interests, both economic and political, of the capitalist class—of the 'private sector', in the official discourse. Notwithstanding arguments to the contrary, and taking into consideration both its economic and political dynamics and its actual operations (investments, production, sales), imperialism now as before is clearly designed and works to advance the project of capital accumulation in whatever and in as many ways as possible—to penetrate existing and open up new markets, exploit labor as humanely as possible but as inhumanely as needed, extract surplus value from the direct producers where possible, and access as needed or process raw materials and minerals. Insofar as the capitalist class is concerned the aim and the agenda of its individual and institutional members is to accumulate capital.

As for the imperial state and its agents and agencies, including the World Bank and the agencies of international cooperation for security and development, the agenda is merely to pave the way for capital, to create the conditions needed for economic and social development. In neither case is uneven development of the forces of production and its social conditions (social inequality, unemployment, poverty, social and environmental degradation, etc.) on the agenda. Rather, these conditions are the unintended or 'structural' consequences of capitalist development, and as such inevitable and acceptable costs of progress that need to be managed and, if and where possible, mitigated in the interest of both security and development.

Under these strategic and structural conditions it is illuminating but not particularly useful to measure the impact of imperialism merely in economic terms of the volume of capital inflows (FDI, bank loans, portfolio investments) and outflows (profit, interest payments).<sup>7</sup> This is because imperialism essentially is a matter of

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6 US military adventurism, manifest in the invasion of Iraq, sparked much scholarly debate about the 'new geopolitics' (Klare, 2004) and the 'new imperialism' (Harvey, 2003). Michael Klare's theory of the new geopolitics represents an inter-capitalist rivalry line of analysis: 'the war against Iraq was intended to provide the US with a dominant position in the Persian Gulf ... It was aimed as much, if not more, at China ... Ten years from now, China is expected to be totally dependent on Persian Gulf oil' (Klare, 2004: 55). While accepting Klare's theory about the geopolitics of oil, David Harvey's conception of 'new imperialism' also includes the drive to create outlets for surplus capital, under conditions of overaccumulation, via 'accumulation by dispossession' (Harvey, 2003: 73).

7 The authors actually have done so—measured the impact and consequences of US imperialism in Latin America—but this economic analysis (Petras and Veltmeyer, 2005) was contextualized in terms of the projection of US state power at the level of military force, ideological hegemony (globalization), imposition of a policy agenda, and foreign policy.

class and state power, and as such an issue of politics and political economy—issues that are not brought into focus in an analysis of national accounts. At issue here are not only the structural dynamics of uneven capitalist development (the ‘development of underdevelopment’, in André Gunder Frank’s formulation) but social and international relations of power and competition between imperial and domestic classes, between officials and representatives of the imperial state and the state in ‘emerging economies’ and ‘developing societies’. Under current conditions of rapid economic growth and capitalist development on the southern periphery of the world system, these relations are very dynamic and changing. By no means, or at least not easily or too accurately, can they be described today as relations of domination and subordination, and ‘dependency’. In addition, members of the global ruling class (investors, financiers, big bankers, industrialists, etc.) must compete with each other not only in the same sector but in different countries within the imperialist system. This is not only a question of inter-capitalist and intra-imperialist rivalry. It is also a development and political issue embedded in a complex and dynamic class system (see the discussion on class below)—vis-à-vis relations of class domination and subordination mediated by the state. For example, within the dynamic and changing structure of this complex system of class and international relations representatives of the non-imperial state will insist on the transfer of technological, management and marketing know-how to strengthen the ability of their capitalists to compete and for them to extract rents and serve the ‘national interest’.

As for the relations of ‘domination’ and ‘dependence’ among nations on the lines of a North–South divide (for example, the exchange of raw materials and minerals for manufactured products and technological transfers) they do not specify unchanging features of the system. Rather, the structure of global production, and the international relations of domination and subordination, are dynamic and change over time, in part because the geopolitical and economic concerns of the nation-state subject to imperial power leads to a quest for relative autonomy by state officials and politicians in these countries and protection of the national interest at issue. Developments along these lines have resulted and will result in qualitative changes in the relations between established imperial and emerging capitalist states.<sup>8</sup> Thus, theorizing that is focused only on the pattern of inflows and outflows of capital—as if the ‘host’ country was a ‘blank factor’—or on the structure of global production based on a fixed international division of labor, cannot account for the dynamics of capitalist development in countries and regions on the periphery of the system.<sup>9</sup> Nor can this type of economic theorizing explain certain

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8 China, Japan and South Korea, the high-growth East Asian countries, are an excellent example of countries moving beyond dependency to independent high-growth economies. *Financial Times*, March 25, 2010 and February 22, 2010. On China see ‘China Shapes the World’, *Financial Times* (January 21, 2011, p. 5).

9 The Monthly Review Press, beginning with Paul Baran’s book, *The Political Economy of Growth* (1957) was prominent in emphasizing the ‘one-sided’ impact of foreign capital.

dynamic features of the world capitalist system, for example the shift in economic power from North America and Western Europe towards Asia—China and India, to be precise.

As we argue below this shift in world economic power has significant implications for US imperialism and US–Latin American relations—reducing the scope of US state power and influence in the region and the capacity of Washington to dictate policy or dominate economic and political relations.

### **Class, Ideology and Imperial Power**

The class that dominates the imperialist system, and in the literature variously referred to as the ‘transnational capitalist class’ (Robinson, 2007; Sklair, 2001), the ‘global ruling class’ (Petras, 2007; Pilger, 2002) and ‘the billionaire club’ (*Forbes*, March 10, 2010: 35), has not been the subject of any systematic analysis either as to its ‘structure’ or the dynamics of its ‘social formation’. Even so we can identify the following constituent elements of a class structure that is reproduced in diverse national contexts and also taking form at the level of international relations and the world capitalist system:

- a core of big bankers, ‘financiers’, ‘investors’ and ‘industrialists—and the directors and CEOs of the multinational corporations (the ‘giant conglomerates of the *Fortune 500*’);
- a stratum of policy-makers and politicians who constitute a sort of ‘political class’, the political representatives of the capitalist class;
- a stratum of policy analysts, development practitioners, advisers and theoreticians who constitute an imperial intelligentsia that operates primarily in the context of academe in its elite redoubts, the project of international cooperation for security and development, and diverse policy forums and foundations such as the National Security Council (NSC) and the Heritage Foundation, and;
- a stratum of ‘service’ specialists who provide the capitalists in this dominant class with all sorts of high-level services (finance, business management, corporate and tax law, accounting, etc.)—a ‘professional-management’ (upper-middle) class found on the interstices between the capitalist class in its global divisions and a more broadly-based ‘middle class’ defined in terms of education, knowledge and skills rather than property in the means of production.

The capitalist core of this imperial class system, constituted by *Forbes*’ 1,200 plus billionaires, occasionally meet as a group (as, for example, Mexico’s 11 billionaires do at Carlos Slim’s annual invitation), but the dominant class in its diverse elements and social circles come together and meet in diverse elite policy forums closed to the public such as the Trilateral Commission, Bildenberg,

the Pelletier Society, and the World Social Forum at Davos, where the elite of the dominant class in the imperial system can gather in the public eye.

Apart from these and other class relations of production and power the system and dynamics of imperial power rest on a dominant ideology, a set of ideas designed by its architects to serve the interests of the ruling class and to advance its project of capital accumulation. In the context of the 'new world order' established in the 1980s this ideology takes the dominant form of neoliberal globalization, aimed at liberating the 'forces of economic freedom' (the free market, the private sector of profit-making enterprises) from the regulatory constraints of the welfare-development state (Petras and Veltmeyer, 2001).

In this discourse, globalization appears as a behemoth whose appetite must be satisfied and whose thirst must be quenched at all costs, ripping up the social contract that had allowed the benefits of capitalism to be broadly shared with other social classes—costs borne, as it happens but not fortuitously, by the working class. In this context, to write and talk, as do so many on the left today, of the 'corporate agenda' and 'national interests', and so on, is to obfuscate the class realities of globalization—the existence and machinations of the global ruling class and what Jeffrey Faux (2006) has termed a 'global class war'.

Faux's book allows us to view in a different way the globalizing economy, the politics and economics of free trade, and soaring corporate profits, on the one hand, and deteriorating standards of living and the continuing (and deepening) poverty of most of the world's people, on the other. What is behind this reality? Is it a dynamic objective process, working like the invisible hand of providence through the free market to bring about mutual benefits and general prosperity? Or is it a class of individuals who in their collective interest in capital accumulation have launched a global war against labor in its multitudinous forms?

In the context of the production crisis that hit the system in the early 1970s this class war meant ripping up the social contract that had allowed the benefits of capitalism to be broadly shared with other social classes. Another feature was the use of the state apparatus to reduce the share of labor in national income, weaken its organizational and negotiating capacity, and repress the popular movement for substantive social change in both the countryside and the cities and urban centers. This was in fact the primary form taken by the class struggle in the 1960s and 1970s. In the subsequent period of capitalist development—dubbed by Harvey (2005) as a 'brief history of neoliberalism'—it assumed a different form: resistance against the neoliberal agenda of 'structural reform' and neoliberal globalization, or forced adjustment to the requirements of the new world order.

The globalization discourse of the World Bank (1995) and other agencies of capitalist development in the 1980s was designed to hide the class realities behind it (Petras and Veltmeyer, 2001). The media and business press, for example, consistently talks about national interests without ever defining who exactly is getting what and how, and under what policy or decision-making conditions. Thus, workers in the 1990s were encouraged to join globalization as the only pathway



to material prosperity, benefiting all social sectors. American workers today are told that the Chinese are taking their jobs even though this threat from China is but another global business partnership, in this case between Chinese commissars who supply cheap labor to global capital and the United States and other foreign capitalists who supply the technology and much of the capital used to finance China's exports. Workers in Latin America are told that it is their inflexibility and intransigence, and government interference in the free market, that hold them back from engaging meaningfully, or not engaging at all, in the many benefits of globalization. Many, including those on the left, view 'globalization' in this way. However, it would be better to see it for what it is: a class project vis-à-vis the accumulation of capital on a global scale; and as 'imperialism' vis-à-vis the project of world domination, a source and possible means of securing ideological hegemony over the system.

Neoliberalism, as we have reconstructed it, is the reigning ideology of the global ruling class, an elite group that holds its annual meeting in the plush mountain resort of Davos, Switzerland. Hosted by the multinational corporations that dominate the world economy (Citigroup, Siemens, Microsoft, Nestlé, Shell, Chevron, BP Amoco, Repsol-YPF, Texaco, Occidental, Halliburton, and so on), and attended by some 2,000 CEOs and prominent politicians (including the former and current presidents of Mexico), this and other such meetings allow this elite to network with pundits and international bureaucrats, discuss policy briefs and position papers on the state of the global economy, and strategize about the world's future—all the while enjoying the best food, fine wine, good skiing, and cozy evenings by the fire among friends and associates—with fellow self-appointed and nominated members and guardians of the imperial world order.

Although it is surrounded by meetings and workings of a host of groupings, that is, meetings and committees and extended networks, Davos is not a secret cabal. Journalists issue daily reports to the world on the wit and informal charm of these unelected, self-appointed or nominated members of the class that runs and manages the global economy. In this sense, it is a political convention of what Faux dubs 'the Davos Party', which includes solid representation from the economic and political elite in Latin America. The mechanism and dynamics of class membership are unclear; as far as we know it has not been systemically studied. But it likely involves 'people' like Henrique Fernando Cardoso, former dependency theorist and later neoliberal president (of Brazil), upon or before completion of his term in office, being invited to give a 'talk' or address members of the imperial braintrust, the global elite, at one of its diverse foundations and 'policy forums' such as the Council on Foreign Relations (CFR), a linchpin of the imperial braintrust and its system of think-tanks, policy forums and geopolitical planning centers. This is certainly why former presidents of Mexico, Carlos Salinas and Ernesto Zedillo, were appointed and assigned specific responsibilities on diverse working committees designed to identify and redress fissures in, and threats to, the system. It is evident that being listed in *Forbes'* listing of the world's

biggest billionaire family fortunes, such as Bill Gates, George Soros and Carlos Slim, is sufficient in itself to ensure automatic membership in the club.

The new world order identifies those members of the global elite in each country that, as Salbuchi (2000) notes, are ‘malleable, controllable and willing to subordinate themselves to the system’s objectives’. Their careers are then launched so that they may rise to become presidents of their countries or ministers of finance and central bank governors. This was the case, for example, for Argentina’s Domingo Cavallo, Chile’s Alejandro Foxley and Brazil’s Henrique Cardoso, each of whom received suitable local and international press coverage; were honored with ‘prestige-generating’ reviews, interviews, conferences and dinners, and so on; and then invited to address the Council on Foreign Relations, the Americas Society and Council of the Americas, so that the key new world order players in New York and Washington could evaluate them. If and when they pass muster, their election campaigns are generously financed by the corporate, banking and media infrastructure of the ‘establishment’ that has the resources and means to bring them to power legally and democratically—to do the bidding of their masters and colleagues. Some are even invited to join elite circles and organizations (such as Trilateral Commission and the Carnegie Endowment for International Peace), or one of the CFR’s working committees.

### **Changing Configurations of Economic and Political Power**

Can those ‘emerging countries’ whose dynamic growth is based on the export of agro-mineral commodities sustain this growth or their expansion over time, and avoid the volatility associated with the boom-bust cycle of capitalist development? Can the high prices for commodity exports in recent years be sustained by the demand for minerals, natural resources and energy in China and other rapidly emerging economies? Do the earnings and revenues that accrue to agro-mineral export states have ‘spread effects’ beyond the enclaves or sectors that are directly engaged in the production, transportation and exportation of commodities? Are the emerging states adding value to raw material exports? Are they processing or industrializing agricultural commodities and minerals, developing technology and upgrading skills in the formation of human capital? Are they acquiring technological and marketing know-how, and forming professional managers disposed and able to retain and invest capital productively? Are they diversifying their economies, markets and exports? Are their exports financing the development of the home market, lessening vulnerability to external market fluctuations? Is growth overly dependent on investments and exports at the expense of social consumption and the domestic market? Are state revenues from commodity exports secured at the expense of local industry? Is a local comprador class of importers and retailers, financiers and creditors of local consumers, creating a ‘power complex’ that weakens and undermines the operations and influence of local large-, medium- and small-scale producers? Is access to overseas markets for commodities secured

at the expense of local manufacturers? Do agro-exporters undermine local food production, increasing the need for food imports and augmenting food insecurity?

These and other such questions were very much at issue in imperialist theorizing in the context of the post-war welfare-development state (the ‘old imperialism’), but it seems have been put aside in the more recent context of neoliberal globalization (ne imperialism), a boom-bust-boom cycle. In this context, the dynamic growth of the emerging agro-mineral export countries coincided with the financialization of capitalist development, relatively high interest rates and a propensity towards financial crisis, as well as a weakening of the ideological consensus constructed in the 1980s. In this context, in some areas and countries low interest rates in the imperial countries have led to the large-scale influx of speculative funds into the local bond markets of emerging economies. This has fueled a speculative bubble and an overvaluation of the local currency, undermining the export competitiveness of local industrialists (*Financial Times*, January 31, 2011, p. 1).

### **Imperial Class Power in Latin America**

Most discussions of US imperial power in Latin America are impressionistic, superficial and anecdotal; focused on particular events, and overly concerned with the presumed ideological crisis of the system or the various dimensions of an economic crisis without being able to link the two, they are generally devoid of a comparative historical perspective and any class analysis. The general tendency in recent years has been to emphasize the ‘downside’ or decline of US power, without reference to specific political time frames or class issues.

In this section we point towards a number of methodological and measurement problems that reveal the complexity accompanying any estimate of the power of the US empire in Latin America. We then identify the principal tendencies regarding the direction of imperial power, and conclude with an interpretation of the complex shifts over time and location.

As for determining the direction of imperial power—whether it is rising or in decline—depends on the comparative historical time frame as well as the type of indicators used. If for example one were to compare US imperial power in Latin America from 1990–9 to 2000–10 on a broad range of issues, including class dynamics, ideology, client regimes, market shares, economic policy, foreign policy alignments, there is no doubt that a sharp decline in US hegemony has taken place. But if one were to take and examine a shorter time frame, comparing, for example, the period 2000–5 with that of 2006–10, an argument can be made that by certain measures the decline in US power and influence—hegemony, if you will—has stopped and may have even recovered.

For instance, in Latin America between 2000 and 2005 a number of major popular upheavals and mass mobilizations, resulting in the overthrow of incumbent neoliberal client regimes, took place. The context for this regime change included widespread political disenchantment with the neoliberal policies

initiated under the Washington Consensus, and the evident erosion and decline in the ideology of neoliberal globalization that had guided policy throughout the 1990s and provided the ‘legitimacy underlying current OECD economic power’ (Kwasi Fosu, 2010). The center-left regimes that came to power in this context called for the re-nationalization of privatized firms, renunciation of the foreign debt, radical agrarian reforms and income redistribution. Neoliberal ideology was totally discredited and US foreign policy was subject to a thorough discredit. In addition, a nationalist or anti-imperialist, if not anti-capitalist, ideological and political current swept across broad sectors of the working and popular classes and even—in some contexts—elements of the political class. The class character of the regimes and policies that emerged have been misunderstood, leading to all sorts of illusions on the left as to the potential for radical or revolutionary change (see Petras and Veltmeyer, 2009). Nevertheless, there is no question about a change in the political tide and the crisis of the dominant ideology used to justify neoliberal structural reform and sustain imperial power.

However—and this is of critical importance—this radical moment did not lead to a break with the capitalist system. Instead a series of ‘center-left’ regimes took power and, favored by extraordinarily high commodity prices, proceeded to stimulate an economic recovery and a marked improvement in social conditions. In fact, the policies of these regimes led to the demobilization of the social movements and a normalization of relations with Washington, albeit with greater autonomy.

If Washington in this period (2000–5) ‘lost’ collaborator clients in Argentina, Brazil, Uruguay, Bolivia, Venezuela, Ecuador and elsewhere, and faced strong opposition throughout the region, in the subsequent period (2006–10) Washington retained or regained clients in Panama, Costa Rica, Honduras, Colombia, Peru, Mexico and Chile. Of equal importance the center-left regimes that emerged in the region stabilized capitalism, blocking any move to reverse the privatization policy or to move substantively towards what Chávez termed ‘the socialism of the 21st century’. However these regimes might be characterized—radical or national populist, nationalist, social democratic or pragmatic neoliberal—with the possible exception of Venezuela (and, of course, Cuba), they were not and are not socialist. The center-left regimes weakened the independent class-based movements that were pushing for radical or more substantive change—beyond capitalism as well as neoliberalism. They moved the political-economic spectrum to the ‘center’. Furthermore, the disarray and retreat of pro-US right-wing parties of the 2000–5 period was replaced by a recovery and regroupment in Bolivia, Venezuela and elsewhere.

Using regime composition and alignment as a measure, the decline in the power and influence of Washington in the period from 2000 to 2005 was contained and even to a degree reversed by the end of the decade. However, when we turn to economic indicators, such as free trade agreements, market shares, trading and investment partnerships, the decline of US influence accelerated throughout the decade. By 2010 Asia, especially China, replaced the United States as the major market for Brazil, Argentina, Peru and Chile as well as encroaching on

US primacy throughout Latin America (Deyer, 2010). If we examine patterns of regional integration a similar decline in US hegemony is apparent in the growth of inter-regional trade and political associations: UNASUR, an association of Latin American countries, eclipses the US-dominated OAS. MERCOSUR, ALBA and other intra-Latin American free trade organizations expand at the expense of US-centered 'free trade' projects.

In the area of military influence and political intervention, US collaborators suffered major setbacks in coup efforts in Venezuela (2002, 2003) and Bolivia (2008)—and in Ecuador with the closing of the military base in Manta, but were successful in Honduras (2009). The United States secured a military base agreement with Colombia, a major potential military ally against Venezuela in 2009. However, with a change in the president of Colombia in 2010, Washington suffered a partial setback with the reconciliation between President Chávez and Santos. A lucrative US\$8 billion trade agreement with Venezuela trumped Colombia's military-base agreements with Washington (Mapstone, 2010).

In the context of these developments several propositions about US imperial power in Latin America can be advanced:

- The decline in US economic power is structural and irreversible, at least given the state of the world economy and the dynamic growth of Asia.
- US political influence exhibits a great deal of fluidity, depending on the levels and intensity of the class struggle and most important the success or failures of the incumbent regimes in combining growth and increased living standards.
- US military power does not translate into political influence and increased market shares, especially where the guiding ideology ('neoliberalism' or 'US-centred economic strategies') and its local advocates have been discredited because of severe economic crises.
- The decline of US imperial power has not led to an increase in the influence of the working class or other exploited classes: a dynamic 'national' capitalist class is the prime mover and beneficiary of the loss of US influence.
- The rise of a dynamic relatively independent capitalist class has not broken with the colonial international division of labor (rather the dynamism of this class is a product of the intensification and extension of primary product exploitation and exports. The new dynamism is derived from the revenues from high prices and expanding export markets and here lies future vulnerability if prices decline).
- The 'structural' analysis that underlies most theorizing about imperialism overlooks the important contingencies and class agencies that put into motion the organizational and institutional forms of capital accumulation.

## **Imperial Power in Latin America**

The poverty of class analysis of imperial power among the leading and best-known theorists underlies their superficial understanding of complex changes and continuities in US–Latin American relations. The ‘fluidity’ found in the countervailing tendencies in imperial power is illustrated by the relative economic decline in the present decade and continued military hegemony in the same period. This can be best understood by the fact that there have been no changes in the mode of production in the hemisphere, no reversals in the wholesale privatizations of the 1990s and the continuation of free trade practices. Given these continuities, US imperial policymakers retain a presence, albeit reduced, as close collaborators in important economic sectors and are potentially in a position to reverse the current decline. Equally important the United States is still the principal economic power in the hemisphere, even as its ability to exercise ‘dollar diplomacy’ has diminished.

Secondly, while politically Washington can no longer dictate policy or easily pursue a strategy of military intervention the basic infrastructure of military power, including a global network of military bases and alliances, joint military exercises, armaments sales and training programs, remain intact, thus providing important points of leverage for limiting radical (but not reformist) changes.

Thirdly, the growth of autonomous political action and an independent foreign policy in Latin America is, to an uncertain degree, dependent on personalities in power. It is not clear to what degree the institutional base to sustain the current course of action is firmly entrenched or based on merely ‘conjunctural’ circumstances.

Fourthly, Latin America’s current growing affluence, high growth rates and relative independence is to a large extent based on a ‘colonial division of labor’, mainly trade and investments in agro-mineral products and the importation of finished, intermediate and capital goods. Historically, this has been subject to great volatility in demand and prices.

Taken together these historical continuities argue for greater caution in assuming a permanent shift in imperial power relations with Latin America.

Nevertheless, there are powerful reasons to consider the decline in US power as a long-term and irreversible trend. Among the most important structural considerations is the embedded military-Zionist power configuration, which dictates continuing wars that bankrupt the treasury, devalue the currency and undermine any effort to project economic power and new initiatives to recover market shares in Latin America.

Secondly, the new dynamic capitalist centers in Asia are firmly established, growing and defining a multi-polar economic world. They have established in the minds of Latin American policymakers and ruling classes a new ‘worldview’: their future interests lie in Asia. As a consequence of this fact Latin America’s rulers have reoriented the direction of trade and investment, away from the United States.

Thirdly, there are no signs of any reversal of the decline of US manufacturing. Nor has Washington demonstrated any capacity to curtail the trade and budget deficits.<sup>10</sup> Washington lacks the capacity to challenge, subvert or co-opt the emerging capitalist power configuration that underpins the trend towards greater independence in Latin American politics.

## **Conclusion**

The ‘fluidity’ of US power relations with Latin America is a product of the continuities and changes in Latin America. Past hegemony continues to weigh heavily but the future augurs a continued decline. The current balance of power will however be determined by shifts in world markets, in which the United States is destined to play a smaller role. Hence the probability of more divergences in policy, barring major breakdowns within Latin America.

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<sup>10</sup> The US budget deficit will jump to its widest level on record in 2011, reaching US\$1.5 trillion, while the US trade deficit with the world, especially in regard to Asia, widens. See Rappeport et al., ‘China Imports Widen US Trade Gap’, *Financial Times*, July 14, 2010. Politi, ‘Record US Budget Deficit Projected’, *Financial Times*, January 26, 2011.

## Chapter 7

# Globalization and Imperialism in the Twenty-First Century

The current era of capitalist development dawned in the early 1980s, in the vortex of forces and conditions associated with unresolved system-wide production crisis, a far-reaching and hard-hitting debt crisis, and a fiscal crisis brought on by the contradictory forces upon the capitalist state (compelled by these forces to both sustain and advance the accumulation process, and to improve the welfare of the population). This chapter takes the form of four analytical probes into the dynamics of neoliberal globalization and US imperialism in the vortex of the forces released in the context of this triple crisis

### **Networks of Empire and a Realignment of World Power**

Imperial states build networks that link economic, military and political activities into a coherent mutually reinforcing system. This task is largely performed by the various institutions of the imperial state. Thus imperial action is not always directly economic, as military action in one country or region is necessary to open or protect economic zones. Nor are all military actions decided by economic interests if the leading sector of the imperial state is decidedly militarist.

Moreover, the sequence of imperial action may vary according to the particular conditions necessary for empire-building. Thus state aid may buy collaborators; military intervention may secure client regimes followed later by private investors. In other circumstances, the entry of private corporations may precede state intervention.

In either private or state economic and/or military-led penetration, in furtherance of empire-building, the strategic purpose is to exploit the special economic and geopolitical features of the targeted country to create empire-centered networks. In the post-Eurocentric colonial world, the privileged position of the United States in its empire-centered policies, treaties, trade and military agreements is disguised and justified by an ideological gloss, which varies with time and circumstances. In the war to break-up Yugoslavia and establish client regimes, as in Kosovo, imperial ideology utilized humanitarian rhetoric. In the genocidal wars in the Middle East, anti-terrorism and anti-Islamic ideology is central. Against China, democratic and human rights rhetoric predominates. In Latin America, receding imperial power relies on democratic and anti-authoritarian rhetoric aimed at the democratically elected Chávez government.



The effectiveness of imperial ideology is in direct relation to the capacity of empire to promote viable and dynamic development alternatives to their targeted countries. By that criteria imperial ideology has had little persuasive power among target populations. The Islamophobic and anti-terrorist rhetoric has made no impact on the people of the Middle East and alienated the Islamic world. Latin America's lucrative trade relations with the Chávez socialist regime and the decline of the US economy has undermined Washington's ideological campaign to isolate Venezuela. The US human rights campaign against China has been totally ignored throughout the EU, Africa, Latin America, Oceania and by the 500 biggest US-based MNCs (and even by the US Treasury busy selling treasury bonds to China to finance the ballooning US budget deficit).

The weakening influence of imperial propaganda and the declining economic leverage of Washington, means that the US imperial networks built over the past half century are being eroded or at least subject to centrifugal forces. Former fully integrated networks in Asia are now merely military bases as the economies secure greater autonomy and orient towards China and beyond. In other words, the imperial networks are now being transformed into limited operations' outposts, rather than centers for imperial economic plunder.

### *Imperial Networks: The Pivotal Role of Collaborators*

Empire-building is essentially a process of penetrating a country or region, establishing a privileged position and retaining control in order to secure (1) lucrative resources, markets and cheap labor; (2) a military platform to expand into adjoining countries and regions; (3) military bases to establish a chokehold over strategic road or waterways to deny or limit access of competitors or adversaries; (4) intelligence and clandestine operations against adversaries and competitors.

History has demonstrated that the lowest cost in sustaining imperial domination over the long term is by developing local collaborators, whether in the form of political, economic and/or military leaders operating from client regimes. Overt imperial rule results in costly wars and disruption, especially among a broad array of classes adversely affected by the imperial presence.

Formation of collaborator rulers and classes results from diverse short- and long-term imperial policies ranging from direct military, electoral and extra-parliamentary activities to medium- to long-term recruitment, training and orientation of promising young leaders via propaganda and educational programs, cultural-financial inducements, promises of political and economic backing on assuming political office and through substantial clandestine financial backing.

The most basic appeal by imperial policymakers to the 'new ruling class' in emerging client states is the opportunity to participate in an economic system tied to the imperial centers, in which local elites share economic wealth with their imperial benefactors. To secure mass support, the collaborator classes obfuscate the new forms of imperial subservience and economic exploitation by emphasizing

political independence, personal freedom, economic opportunity and private consumerism.

The mechanisms for the transfer of power to an emerging client state combine imperial propaganda, financing of mass organizations and electoral parties, as well as violent coups or 'popular uprisings'. Authoritarian bureaucratically ossified regimes relying on police controls to limit or oppose imperial expansion are 'soft targets'. Selective human rights campaigns become the most effective organizational weapon to recruit activists and promote leaders for the imperial-centered new political order. Once the power transfer takes place, the former members of the political, economic and cultural elite are banned, repressed, arrested and jailed. A new homogenous political culture of competing parties embracing the imperial-centered world order emerges. The first order of business beyond the political purge is the privatization and handover of the commanding heights of the economy to imperial enterprises. The client regimes provide soldiers to engage as paid mercenaries in imperial wars and to transfer military bases to imperial forces. The entire 'independence charade' is accompanied by the dismantling of public social welfare programs (pensions, free health and education), labor codes and full employment policies. Promotion of a highly polarized class structure is the ultimate consequence of client rule. The imperial-centered economies of the client regimes, as a replica of any commonplace satrap state, is justified (or legitimated) in the name of an electoral system dubbed democratic—in fact a political system dominated by new capitalist elites and their heavily funded mass media.

Imperial-centered regimes run by collaborating elites spanning the Baltic States, Central and Eastern Europe to the Balkans are the most striking example of imperial expansion in the twentieth century. The break-up and takeover of the Soviet Union and the Eastern bloc and its incorporation into the US-led NATO alliance and the European Union resulted in imperial hubris. Washington made premature declarations of a unipolar world while Western Europe proceeded to plunder public resources, ranging from factories to real estate, exploiting cheap labor, overseas and via immigration, drawing on a formidable 'reserve army' to undermine living standards of unionized labor in the West.

The unity of purpose of European and US imperial regimes allowed for the peaceful joint takeover of the wealth of the new regions by private monopolies. The imperial states initially subsidized the new client regimes with large-scale transfers and loans on condition that they allowed imperial firms to seize resources, real estate, land, factories, service sectors, media outlets, etc. Heavily indebted states went from a sharp crisis in the initial period to 'spectacular' growth to profound and chronic social crisis with double digit unemployment in the 20-year period of client building. While worker protests emerged as wages deteriorated, unemployment soared and welfare provisions were cut, destitution spread. However, the 'new middle class', embedded in the political and media apparatuses and in joint economic ventures, is sufficiently funded by imperial financial institutions to protect their dominance.

The dynamic of imperial expansion in East, Central and Southern Europe however did not provide the impetus for strategic advance, because of the ascendancy of highly volatile financial capital and a powerful militarist caste in the Euro-American political centers. In important respects military and political expansion was no longer harnessed to economic conquest. The reverse was true: economic plunder and political dominance served as instruments for projecting military power.

*From War for Exploitation to Exploitation for War*

Relations between imperial military policy and economic interests are complex and changing over time and historical context. In some circumstances, an imperial regime will invest heavily in military personnel and augment monetary expenditures to overthrow an anti-imperialist ruler and establish a client regime far beyond any state or private economic return. For example, US wars in Iraq and Afghanistan, proxy wars in Somalia and Yemen have not resulted in greater profits for the MNCs; nor has it enhanced private exploitation of raw materials, labor or markets. At best, imperial wars have provided profits for mercenary contractors, construction companies and related 'war industries' profiting through transfers from the US treasury and the exploitation of US taxpayers, mostly wage and salary earners.

In many cases, especially after World War II, the emerging US imperial state lavished a multi-billion dollar loan and aid program for Western Europe. The Marshall Plan forestalled anti-capitalist social upheavals and restored capitalist political dominance. This allowed for the emergence of NATO (a military alliance led and dominated by the United States). Subsequently, US multinational corporations invested in and traded with Western Europe reaping lucrative profits, once the imperial state created favorable political and economic conditions. In other words, imperial state intervention preceded the rise and expansion of US multinational capital. A myopic short-term analysis of the initial post-war activity would downplay the importance of private US economic interests as the driving force of US policy. Extending the time period to the following two decades, the interplay between initial high-cost state military and economic expenditures with later private high returns provides a perfect example of how the process of imperial power operates.

The role of the imperial state as an instrument for opening, protecting and expanding private market, labor and resource exploitation corresponds to a time in which both the state and the dominant classes were primarily motivated by industrial empire-building.

US-directed military intervention and coups in Iran (1953), Guatemala (1954), Chile (1973) and the Dominican Republic (1965) were linked to specific imperial economic interests and corporations. For example, US and UK oil corporations sought to reverse the nationalization of oil in Iran. The US United Fruit Company opposed the agrarian reform policies in Guatemala. The major US copper and

telecommunication companies supported and called for the US-backed coup in Chile.

In contrast, current US military interventions and wars in the Middle East, South Asia and the Horn of Africa are not promoted by US multinationals. Imperial policies are promoted by militarists and Zionists embedded in the state, mass media and powerful 'civil' organizations. The same imperial methods (coups and wars) serve different imperial rulers and interests.

### *Clients, Allies and Puppet Regimes*

Imperial networks involve securing a variety of complementary economic, military and political 'resource bases' which are both part of the imperial system and retain varying degrees of political and economic autonomy.

In the dynamic earlier stages of US empire-building, from roughly the 1950s to the 1970s, US multinational corporations and the economy as a whole dominated the world economy. Its allies in Europe and Asia were highly dependent on US markets, financing and development. US military hegemony was reflected in a series of regional military pacts that secured almost instant support for US regional wars, military coups and the construction of military bases and naval ports on their territory. Countries were divided into 'specializations' that served the particular interests of the US empire. Western Europe was a military outpost, industrial partner and ideological collaborator. Asia, primarily Japan and South Korea, served as 'frontline military outposts', as well as industrial partners. Indonesia, Malaysia, the Philippines were essentially client regimes which provided raw materials as well as military bases. Singapore and Hong Kong were financial and commercial entrepôts. Pakistan was a client military regime serving as a frontline pressure on China.

Saudi Arabia, Iran and the Gulf mini-states, ruled by client authoritarian regimes, provided oil and military bases. Egypt, Jordan and Israel anchored imperial interests in the Middle East. Beirut served as the financial center for American, European and Middle East bankers.

Africa and Latin America, including client and nationalist-populist regimes, were a source of raw materials as well as markets for finished goods and cheap labor.

The prolonged US-Vietnam war and Washington's subsequent defeat eroded the power of the empire. Western Europe, Japan and South Korea's industrial expansion challenged US industrial primacy. Latin America's pursuit of nationalist, import-substitution policies forced US investment towards overseas manufacturing. In the Middle East nationalist movements toppled US clients in Iran and Iraq and undermined military outposts. Revolutions in Angola, Namibia, Mozambique, Algeria, Nicaragua and elsewhere curtailed Euro-American 'open ended' access to raw materials, at least temporarily.

The decline of the US empire was temporarily arrested by the collapse of Communism in the Soviet Union and Eastern Europe and the establishment of

client regimes throughout the region. Likewise the upsurge of imperial-centered client regimes in Latin America between the mid-1970s and the end of the 1990s gave the appearance of an imperialist recovery. The 1990s, however, was not the beginning of a repeat of the imperial takeoff in the early 1950s: it was the 'last hurrah' before a long-term irreversible decline. The entire imperial political apparatus, so successful in its clandestine operations in subverting the Soviet and Eastern European regimes, played a marginal role when it came to capitalizing on the economic opportunities that ensued. Germany and other EU countries led the way in the takeover of lucrative privatized enterprises. Russian-Israeli oligarchs (seven of the top eight) seized and pillaged privatized strategic industries, banks and natural resources. The principal US beneficiaries were the banks and Wall Street firms that laundered billions of illicit earnings and collected lucrative fees from mergers, acquisitions, stock listings and other less than transparent activities. In other words, the collapse of Soviet collectivism strengthened the parasitical financial sector of the US empire. Worse still, the assumption of a 'unipolar world' fostered by US ideologues played into the hands of the militarists, who now assumed that former constraints on US military assaults on nationalists and Soviet allies had disappeared. As a result military intervention became the principal driving force in US empire-building, leading to the first Iraq war, the Yugoslav and Somali invasion and the expansion of US military bases throughout the former Soviet bloc and Eastern Europe.

At the very pinnacle of US global-political and military power during the 1990s, with all the major Latin American regimes enveloped in the empire-centered neoliberal warp, the seeds of decay and decline set in.

The economic crises of the late 1990s led to major uprisings and electoral defeats of practically all US clients in Latin America, spelling the decline of US imperial domination. China's extraordinary dynamic and cumulative growth displaced US manufacturing capital and weakened US leverage over rulers in Asia, Africa and Latin America. The vast transfer of US state resources to overseas imperial adventures, military bases and the shoring up of clients and allies led to domestic decline.

The US empire, passively facing economic competitors displacing the United States in vital markets and engaged in prolonged and unending wars which drained the treasury, attracted a cohort of mediocre policymakers who lacked a coherent strategy for rectifying policies and reconstructing the state to serve productive activity capable of 'retaking markets'. Instead the policies of open-ended and unsustainable wars played into the hands of a special sub-group (*sui generis*) of militarists, American Zionists. They capitalized on their infiltration of strategic positions in the state, enhanced their influence in the mass media and a vast network of organized 'pressure groups' to reinforce US subordination to Israel's drive for Middle East supremacy.

The result was the total 'unbalancing' of the US imperial apparatus: military action was unhinged from economic empire-building. A highly influential upper caste of Zionist-militarists harnessed US military power to an economically

marginal state (Israel), in perpetual hostility towards the 1.5 billion Muslims worldwide. Equally damaging, American Zionist ideologues and policymakers promoted repressive institutions and legislation and Islamophobic ideological propaganda designed to terrorize the US population. Equally important, Islamophobic ideology served to justify permanent war in South Asia and the Middle East and the exorbitant military budgets, at a time of sharply deteriorating domestic socioeconomic conditions. Hundreds of billions of dollars were spent unproductively as 'Homeland Security' strove in every way to recruit, train, frame and arrest Afro-American Muslim men as 'terrorists'. Thousands of secret agencies with hundreds of thousands of national, state and local officials spied on US citizens who at some point may have sought to speak or act to rectify or reform the militarist-financial-Zionist centered imperialist policies.

By the end of the first decade of the twenty-first century, the US empire could only destroy adversaries (Iraq, Pakistan and Afghanistan), provoke military tensions (Korean peninsula, China Sea) and undermine relations with potentially lucrative trading partners (Iran, Venezuela). Galloping authoritarianism fused with fifth column Zionist militarism to foment Islamophobic ideology. The convergence of authoritarian mediocrities, upwardly mobile knaves and fifth column tribal loyalists in the Obama regime precluded any foreseeable reversal of imperial decay.

China's growing global economic network and dynamic advance in cutting-edge applied technology in everything from alternative energy to high-speed trains, stands in contrast to the Zionist-militarist infested US empire.

US demands on client Pakistan rulers to empty their treasury in support of US Islamic wars in Afghanistan and Pakistan, stands in contrast to the US\$30 billion Chinese investments in infrastructure, energy and electrical power and multi-billion dollar increases in trade.

Military subsidies of US\$3 billion to Israel stand in contrast to China's multi-billion dollar investments in Iranian oil and trade agreements. US funding of wars against Islamic countries in Central and South Asia stands in contrast to Turkey's expanding economic trade and investment agreements in the same region. China has replaced the United States as the key trading partner in leading South American countries, while the US unequal 'free trade' agreement (NAFTA) impoverishes Mexico. Trade between the European Union and China exceeds that with the United States.

In Africa, the United States subsidizes wars in Somalia and the Horn of Africa, while China signs on to multi-billion dollar investment and trade agreements, building up African infrastructure in exchange for access to raw materials. There is no question that the economic future of Africa is increasingly linked to China.

The US empire, in contrast, is in a deadly embrace with an insignificant colonial militarist state (Israel), failed states in Yemen and Somalia, corrupt stagnant client regimes in Jordan and Egypt and the decadent rent-collecting absolutist petrol-states of Saudi Arabia and the Gulf. All form part of an unproductive atavistic coalition bent on retaining power via military supremacy. Yet empires of the

twenty-first century are built on the bases of productive economies with global networks linked to dynamic trading partners.

Recognizing the economic primacy and market opportunities linked to becoming part of the Chinese global network, former or existing US clients and even puppet rulers have begun to edge away from submission to US mandates. Fundamental shifts in economic relations and political alignments have occurred throughout Latin America. Brazil, Venezuela, Bolivia and other countries support Iran's non-military nuclear program in defiance of Zionist-led Washington aggression. Several countries have defied Israel-US policymakers by recognizing Palestine as a state. Trade with China surpasses trade with the United States in the biggest countries in the region.

Puppet regimes in Iraq, Afghanistan and Pakistan have signed major economic agreements with China, Iran and Turkey even while the United States pours in billions to bolster its military position. Turkey, an erstwhile military client of the US-NATO command, broadens its own quest for capitalist hegemony by expanding economic ties with Iran, Central Asia and the Arab-Muslim world, challenging US-Israeli military hegemony.

The US empire still retains major clients and nearly 1,000 military bases around the world. As client and puppet regimes decline, Washington increases the role and scope of extra-territorial death squad operations from 50 to 80 countries. The growing independence of regimes in the developing world is especially fueled by an economic calculus: China offers greater economic returns and less political-military interference than the United States.

Washington's imperial network is increasingly based on military ties with allies: Australia, Japan, South Korea, Taiwan in the Far East and Oceania; the European Union in the West; and a smattering of Central and South American states in the South. Even here, the military allies are no longer economic dependencies: Australia and New Zealand's principal export markets are in Asia (China). EU-China trade is growing exponentially. Japan, South Korea and Taiwan are increasingly tied by trade and investment with China, as are Pakistan and India.

Equally important new regional networks that exclude the United States are growing in Latin America and Asia, creating the potential for new economic blocs. In other words, the US imperial economic network constructed after World War II and amplified by the collapse of the USSR is in the process of decay, even as the military bases and treaties remain as a formidable 'platform' for new military interventions.

What is clear is that the military, political and ideological gains in network-building by the United States around the world with the collapse of the USSR and the post-Soviet wars are not sustainable. On the contrary the overdevelopment of the ideological-military-security apparatus raised economic expectations and depleted economic resources resulting in the incapacity to exploit economic opportunities or consolidate economic networks. US-funded 'popular uprisings' in the Ukraine led to client regimes incapable of promoting growth. In the case of Georgia, the regime engaged in an adventurous war with Russia resulting in trade

and territorial losses. It is a matter of time before existing client regimes in Egypt, Jordan, Saudi Arabia, the Philippines and Mexico will face major upheavals, due to the precarious bases of rule by corrupt, stagnant and repressive rulers.

The process of decay of the US empire is both cause and consequence of the challenge by rising economic powers establishing alternative centers of growth and development. Changes within countries at the periphery of the empire and growing indebtedness and trade deficits at the 'center' of the empire are eroding it. The existing US governing class, in both its financial and militarist variants show neither the will nor interest in confronting the causes of decay. Instead each mutually supports the other: the financial sector lowers taxes deepening the public debt and plunders the treasury. The military caste drains the treasury in pursuit of wars and military outposts and increases the trade deficit by undermining commercial and investment undertakings.

### **Imperial War and Skyrocketing Crime Rates**

Imperial interventions in civil wars have a devastating effect on countries that last for decades and affect the entire economy and society. One indicator of the long-term consequences of imperial military intervention is the tremendous increase of violent crime, the multiplication of gangs, homicides and general insecurity in Central America. Violence increased far beyond what existed prior to imperial wars in such countries as Iraq, Afghanistan and Somalia. In the period prior to imperial intervention in Central America, during times of revolutionary ferment, high levels of social organization via inclusive social movements channeled discontent into political and social channels. Revolutionary movements organized armed resistance against specific targets; repressive police, military and death squad militias. Imperial intervention included military advisers and counter-insurgency strategies that uprooted peasants via scorched earth policies and destroyed communities. Assaults on urban barrios led to the break-up of family and neighborhood networks. The social bonds that integrate people into a moral and social community were ruptured. The goal of imperial planners is to decimate any independent popular civil-society organization as a political threat to its illegitimate collaborator regime.

In El Salvador, the United States provided over US\$300 million a year in arms and training for almost a decade. The Pentagon through its advisory missions, in collaboration with local landlords and generals, financed and forcibly recruited thousands of peasants into death squad 'civilian militias' to assassinate local movement activists and terrorize farm workers' movements and trade union organizations. Under imperial military pressure the leaders of the major Central American guerrilla organizations signed on to a peace agreement. The 'peace accords' retained the US collaborator regimes in power and the promised social reforms were never implemented. As a result, the homicide rate skyrocketed. The discharged guerrilla militants and unemployed right-wing militia members,



armed and trained and with no future, formed the social basis for gangs, drug and people traffickers, kidnappers and extortionists. The number of people who were annually killed in violent crime (1991–2011) exceeded the number who died each year during the revolutionary struggle (1979–90). Having successfully blocked the prospects of positive socioeconomic transformations in wealth, land ownership, the judicial system and allocation of public investments, the United States pushed for neoliberal ‘free trade agreements’ which further decimated small farmers and retail commerce. Mass outmigration and crime became the ‘roads out of poverty’ in the aftermath of imperial intervention. Violent crime became so pervasive that the business elites of the United States and Central America were hesitant to invest and profit from the low wages and the unemployed who crowded the labor market. The cost of hiring private security armies to protect upscale neighborhoods, business operations, country clubs and exclusive restaurant and leisure centers became prohibitive.

Faced with the ‘unfavorable climate for business’ created by the very same pro-business Pentagon intervention, after two decades of murder and mayhem, the World Bank intervened. Its *World Development Report* (WDR) for 2010 (published in 2011) focuses on the theme of ‘conflict, security and development’. The Report proposed a series of measures to lessen what it calls ‘mass violence’. The Report was taken up and elaborated in the *Financial Times* (April 27, 2011, p. 9) by Martin Wolf in an article titled ‘Remove the Scourge of Conflict’. The time-series data from 1999 to 2009 in these reports show the growth of ‘criminal violence after civil wars’. The data show that countries with high poverty rates (based on the percentage of the population with incomes below \$1.25 per day) experienced greater violence than those with a low poverty rate. The data also show that ‘violence’ had a negative impact on real GDP growth.

What can we say about this issue? Both the *World Development Report* and the *Financial Times* fail to identify the true nature of the ‘violent conflict’—the principal source of violence and the foreign and domestic elite economic policies that deepen and prolong ‘violence’. In the case of Central America, particularly El Salvador, Guatemala, Nicaragua and Honduras, the WDR and *Financial Times* resort to vacuous generalization to avoid discussing the massive military role of US imperialism in promoting large-scale, long-term violence in the countries. Instead the *Financial Times* strikes a phony philosophical note: alas, ‘man is a violent animal’. In fact, imperialist rulers are violent animals; especially with regard to poor countries attempting to free themselves of US-backed oligarchies. To their discredit the World Bank and *Financial Times* obfuscate the data by claiming that the deaths were a product of ‘civil wars’.

Throughout the 1970s and 1980s the United States and Israel provided arms, advisers and technical capacity to the murderous Guatemalan regime which slaughtered over 300,000 (mostly Indians) and wiped off the map over 420 villages. During the United States’ decade-long proxy war against the progressive Sandinista revolutionary movement via the Somoza dictatorship (1969–78) and the decade-long contra terror war against the Sandinista government (1979–89),

over 50,000 people were killed, hundreds of thousands maimed and displaced and productive farms, factories, infrastructure, clinics and schools and co-operatives were targeted by US counter-insurgency advisers.

As mentioned earlier, El Salvador's social movements and their supporters throughout civil society were targeted by US backed military and paramilitary groups forcing hundreds of thousands to flee to urban squatter settlements or across borders and overseas. Similar outcomes occurred during the US counter-insurgency campaign in Honduras and invasions of Grenada and Panama in the 1980s.

Imperial-backed invasions, counter-insurgency campaigns and the subsequent imposition of corrupt oligarchs led to the total disarticulation of local social networks and the bankruptcy of small-scale farms because of the importation of subsidized US foodstuffs. These led to the presence of a deadly combination: thousands of automatic rifles, tens of thousands of unemployed displaced rural youth living in urban slums and an economy geared to enriching elite importers, exporters and US bankers and creditors. The World Bank's WDR, in all of 301 pages and numerous tables, does not contain a single phrase about the nature, consequences and the profound and lasting impact of imperial intervention on the out-of-control homicide rates in Central America or elsewhere. Instead we are told it's all about a 'civil war'.

The mendacious cover-up proceeds to the current decade. The WDR and the *Financial Times* sound an optimistic note claiming that annual battle deaths have 'fallen to 42,000 in the 2000s'. First of all, calling the US-NATO invasion of Iraq and Afghanistan a 'civil war' is a travesty of common knowledge, and then falsifying the over one million Iraqi deaths into a few thousand flies in the face of independent surveys published in the prestigious British medical journal, the *Lancet*.

What is striking about the imperialist interventions and most relevant to the growth of violent crime, is the fact that the subsequent client rulers are themselves deeply enmeshed in international criminal networks. Drug dealing and large-scale theft of billions in aid funds and public revenues is the hallmark of Central American clients who are most intimately tied to Washington. The same is true in Iraq and Afghanistan: tribal clans and ethnic gangs who pledged allegiance to the US occupiers run billion-dollar heroin enterprises. They murder civil society activists and undermine the bases of community-based organizations.

### *Policy Proposals*

Based on a diagnosis that totally ignores the imperial causes of social breakdown and the subsequent spiraling violent crime rate, the WDR and the *Financial Times* propose 'lessons' for a 'successful transition to ending high rates of violence'. Since their diagnosis of the historical roots of crime is deeply flawed, the prescriptions fail to come to terms with the political and economic transformations necessary to reduce spiraling homicide rates. The WDR-11 proposes: (1) 'inclusive coalitions'

for change; (2) impact programs that produce quick results and impress people; (3) reforms of the security and justice institutions; and (4) a pragmatic perspective of several decades to bring about change. In other words, the World Bank recognizes that its policies, allies and agencies are so embedded in the current system that its 'reform proposals' are at best designed to co-opt local leaders in coalitions, to pursue incremental changes, that will not reverse homicide rates for several decades.

The World Bank thus proposes to create bottom-up 'links' between the neoliberal state and civic society: an impossible task when 'the state' is the principle agency undermining employment via free market policies. Their proposal to act against corruption and to reform the police and judicial system overlooks the fact that the past and present closest political and judicial collaborators of US counter-insurgency and dominance are precisely those corrupt officials willing to repress popular movements and provide military bases. The World Bank calls for greater intervention by 'external institutions' (like itself and USAID) to 'deliver support', when it was precisely external intervention which short-circuited changes fought for by 'bottom-up' grassroots movements.

However, the point of departure for a reduction of violent crime is precisely to reduce or eliminate external intervention by the United States: eliminate military aid and training programs that block and repress social movements and organize coups; eliminate World Bank programs promoting agro-export elites and promote agrarian reforms led by and for co-operatives and family farmers; and end free trade and the saturation of local market with subsidized US food exports to allow peasants to produce for local markets.

Further, it should be demanded that the United States and the World Bank pay multi-billion dollar compensation for the destruction caused by the counter-insurgency wars and neoliberal policies, as a way of creating alternative employment for young people tempted by the drug gangs. Because of the long-term destruction resulting from imperialist wars, the process of decriminalizing society will require a profound revolution in institutions and culture, one which will by necessity need to root out the current crop of generals, oligarchs and World Bank trained economists who perpetuate the conditions which spawn crime. Those changes will require supporting social movements independent of the state. Immediate positive impacts to attract popular support will result from movements engaged in direct action, such as occupying large rural estates. Police and security reforms can only be instituted as part of a process of regime changes in which ties to repressive overseas experts are replaced by links to community councils. Crime will be reduced in direct relation to greater independence from the regional policeman and with greater freedom to pursue an alternative economy based on social solidarity.

## **Imperial Globalization and Social Movements in Latin America**

The unimpeded growth of Euro-American capitalism following the collapse of Soviet and European Communism, the conversion of China and Indochina to



state capitalism, and the rise of US-backed, free market military dictatorships in Latin America give new impetus to Western empire-building in the form of ‘globalization’.

The process of globalization was the result of ‘external’ and ‘internal’ conditions and class coalitions embedded in the social structure of both the imperial and ‘recipient’ or targeted countries. The expansion of capital was neither a linear process or continual expansion (accumulation); nor did it entail the sustained collaboration of the targeted countries. Crises in the imperial centers and regime transformations in collaborator regimes affected the flow of capital, trade, rules and regulations.

One of the unintended consequences of the formation and ascendancy of a global ruling class, and the establishment of a new world order to advance their interests, was the rise of tumultuous social movements, especially in Latin America, that challenged the ideology and institutions sustaining the global empire. Relations between imperial globalization and social movements are complex, changing and subject to reversals or advances. In this chapter we formulate several hypotheses regarding the relation of globalization to social movements in the era of neoliberal globalization—from the onset of the free market doctrine in the form of neoliberal policy agenda in the early 1980s to the present. This time frame, corresponding to but extending by a few years David Harvey’s ‘brief history of neoliberalism’, provides us with a sufficient period to review the long-term operations of global capital and the historical trajectory of the social movements in the conditions associated with the neoliberal policy agenda. By looking at Latin America as a whole, we lessen the possibility of mistaking idiosyncratic developments specific to a single country for a new phase of capitalist development and imperialism.

Our inquiry into the globalization–social movement nexus is guided by a specific set of hypothesis that will be tested, as it were, by means of an analysis that associates global trends in capitalist development with the trajectory of social movements in Latin America. We proceed along this line of analysis by first providing a brief overview of the dynamics of globalization and the growth of social movements in Latin America and then proceeding to specify our key hypothesis regarding the globalization–social movements nexus.

### *Globalization: Class, State and Economy*

The onset of a new and dynamic phase of imperial capital expansion, which we term ‘globalization’, owes a great deal to the favorable political outcome of the capital–labor struggle on a world scale. The defeat and retreat of the working class in the West, particularly in the United States and UK, and the self-destruction of the Communist regimes of the East laid the groundwork for an aggressive global crusade against left-wing regimes and movements in the Third World, especially in Latin America. The ‘rollback’ of the working-class movements was particularly vicious and successful in Latin America, where the major part of the continent

experienced the onset of military dictatorship, which dismantled the national constraints on capitalist flows and trade tariffs.

Within this new global framework of imperial empire-builders and authoritarian collaborator regimes, several factors enhanced global economic expansion:

1. Technological innovations, especially information technologies, accelerated the flows of capital and commodities.
2. Large-scale accumulation of capital in the imperial states, a relative decline in rates of profits and the growing role of finance capital spurred the drive for overseas investments, speculation and buyouts of privatized firms.
3. Intensified inter-capitalist competition drove the multinationals to seek an advantage by acquiring local banks, intensifying the pillage of resources and extending their market share within Latin America.
4. The rise of pro-Western rightist dictatorships provided exceptionally favorable socioeconomic conditions for buyouts and acquisitions of local enterprises and resources, extraordinary returns on financial speculation and minimal opposition from repressed trade unions and nationalist and leftist parties.

In response and as a consequence of these structural changes, free market doctrines and neoliberal policies were put in practice resulting in bilateral free trade agreements (NAFTA), and deregulation. The growth of speculative activity took root and prospered, at the same time that social safety nets was dismantled.

After over two decades of highly polarized development and mediocre growth the neoliberal economies stagnated and went into crises: commodity prices fell, the financial bubbles burst, large-scale banking swindles impoverished middle-class depositors, investors were defrauded, leading to a virtual economic collapse and mass unemployment. By the beginning of the new millennium, Latin America faced a systemic crisis in which neoliberal regimes were overthrown, social movements were ascendant and economic bankruptcies were multiplying. Center-left parties and coalitions were elected and moved to implement ameliorative measures that lessened the impact of the crises. Stimulus packages were passed to revive the economies. The vertical rise of agro-mineral prices in the world market facilitated economic recovery that lasted until the onset of the world recession of 2008–9.

### *Social Movements, Neoliberalism and Imperialism*

Growing out of the polarized growth, intensified exploitation of labor and displacement of peasants and farm workers endemic to free market policies, social unrest spread in rural areas, especially among the landless rural workers, peasants and Indian communities. A new generation of militant leaders emerged, with a capacity to link local grievances to national and international structural policies. By the early 1990s mass movements took hold and launched a series of mass

campaigns and mobilizations which spread to the cities and engaged the growing mass of unemployed urban workers, public sector employees and impoverished downwardly mobile middle-class business people and professionals.

The crises precipitated large-scale uprisings led by the new social movements demanding systemic changes but settling for the election of center-left regimes. The first decade of the twenty-first century saw the ebb and flow of movement activity that eventually settled into varying niches in the new order presided over by the center-left regimes.

### *Hypotheses on Globalization and Social Movements*

The expansion of 'globalization' or the imperial-centered development model was accompanied by the growth of mass social movements. This raises the fundamental question of the relationship between the two processes. We set out several hypotheses to explore the relationship.

1. The greater the deregulation of the economy the greater the acceleration of globalization, spurring the growth of the social movements.
2. The crises and breakdown of deregulated globalization leads to a greater role and radicalism of the social movements up to and including social upheavals overthrowing incumbent regimes.
3. The stronger the regulatory regime controlling the globalizing process the lesser the impact of the crises, the more moderate the activities of the social movements and the less likely a popular rebellion.
4. The weaker the social safety net in time of crises the bigger the social movements and the more radical their demands. Conversely, the stronger the social safety net in time of crises the slower the growth of the social movements and the more reformist their demands.
5. Depressed world commodity prices are more likely to engender radical social movements than periods of buoyant prices.

By combining our four principal variables into a single hypothesis on the relation of globalization to social movements, we come up with the following two propositions: (1) the optimal conditions for radical mass social movements occur when an economy is highly deregulated, in times of financial crises and productive recession, when commodity prices are depressed in the context of a weak social safety net. Conversely, (2) radical mass social movements are less likely to emerge under a highly regulated economy with a strong social safety net when world commodity prices are rising and the economy is buoyant.

### *Testing the Hypotheses: Latin America 1980–2010*

Between 1980 and 1990, Latin America experienced a period of moderate growth and stable world prices for its commodities. This was a period of major dismantling

of state regulations of the economy and weakening of the social safety net. Yet there were no major social uprisings or mass social movements, except in Chile between 1985 and 1986, which ended with a US-backed political pact between the Pinochet dictatorship and the socialist-Christian democratic parties and their subsequent ascent to government in 1990.

During the first half of the 1990s world commodity prices declined to historic lows, the social safety net continued to deteriorate, capitalist profits soared in an orgy of privatizations and foreign takeovers, while overall growth stagnated. Social movements grew, mass mobilization extended from the countryside to the cities but few popular rebellions occurred.

The period between the late 1990s to the early 2000s (roughly 1999–2003) was punctuated by a series of major economic, financial and political crises in Argentina, Bolivia, Brazil, Venezuela, Ecuador, Peru and Uruguay. After over 20 years of free market policies accompanying the globalization process, the social safety net was seriously strained where not in tatters. Commodity prices remained low throughout the period and financial deregulation and liberalization deepened the vulnerability of the economies in the region, especially Mexico, to the US recession.

Between 2000 and 2005, neoliberal regimes were overthrown or replaced in Argentina (three regimes in two weeks, 2001–2), Bolivia (2003, 2005), Ecuador (2000, 2005), Peru, Uruguay, Brazil, Venezuela (coup regime 2002, lasting 48 hours). Social movements grew precipitously throughout the region and their demands radicalized, including fundamental structural changes. The Brazilian Landless Rural Workers Movement (MST) led massive land occupation movements throughout the country. Worker, peasant, indigenous uprisings in Bolivia ousted two incumbent electoral regimes. In Ecuador, indigenous–urban movements in coalitions overthrew an incumbent neoliberal regime in 2000 and a broad-based urban citizens movement ousted a corrupt neoliberal regime in 2005. In Argentina, popular uprisings led by unemployed workers and impoverished middle-class neighborhood organizations ousted neoliberal presidents and dominated politics from 2001 to 2003. In Venezuela a mass popular mobilization with military allies ousted the US-backed business–military junta of April 2002 and restored Chávez to power.

The subsequent period 2003–8 witnessed a sharp rise in commodity prices to record levels; and the ascent of center-left regimes was accompanied by the restitution of capital controls and the partial restoration of the social safety net, rapid economic recovery and relatively high growth, as well as policy measures targeted at extreme poverty. The model used to inform and shape these policies was based on both the Davos Consensus on the need to both promote growth and eradicate extreme poverty, and the post-Washington consensus on the need for a more inclusive form of capitalist development (see Chapter 1 on the policy dynamics involved). The social movements in this context were pushed towards the sidelines of the political process of social change. The forces of resistance commanded by these movements were demobilized and their demands were

refocused away from a determined opposition to the neoliberal model towards a concern with immediate reforms; mobilizations became more infrequent and some of the key leaders were co-opted. The wave of resistance against the neoliberal model and the associated policy agenda had subsided, replaced by a red or pink tide of regime change.

The period 2008–10 witnessed a sharp decline of growth, reflecting the impact of the world recession and a commodity price boom gone bust. However, while a number of countries went into a brief recession, and capital with an estimated value of US\$40 billion was destroyed in the process, the financial system did not experience a collapse comparable to the earlier period (2000–2). This was in part because of the regulatory regime and the capital controls put in place in response to this crisis and a turn away from neoliberalism. While the ranks of the unemployed swelled and another 90,000 or so were added to the ranks of the poor, the defensive measures taken and the improved social net ameliorated the impact of the recession. Some of the social movements resumed their activity; others expanded (within the framework of ALBA as discussed in Chapters 3 and 4) and experienced mild growth, albeit with few if any direct challenges to state power, at least during the first two years of the crisis.

### *Conclusion*

Our historical survey demonstrates that single factors such as implantation of neoliberal changes and deepening globalization in and of themselves do not lead to the growth of massive, radical social movements: witness the period 1980–90. Nor do low commodity prices, a weak social safety net and declining state revenues provoke popular uprisings and radical mass social movements. Likewise an economic crisis, such as the recession of 2008–10 has not led to a resurgence of mass radical social movements and popular rebellions.

Only when a combination of internal factors coincide, such as a weak social safety net and a deregulated economy and an external crisis such as a global recession and declining world commodity prices, do we have optimal conditions for the growth of dynamic mass radical social movements. Writers who focus or start from a ‘world system’ or other ‘globalist’ perspectives in attempting to address the rise of social movements as a function of the ‘operations’ of the market fail to take account of the internal political and social struggles and the resultant state social policies as determining factors.

We should note that social movement rebellions do not suddenly occur because all of the contingencies are in place. The social upheavals at the end of the 1990s and early years of the new millennium had a decade of gestation: organizing, accumulating social forces, creating alliances with institutional dissidents, like radical church people, and developing leaders and cadres. Economic crises, at best, were ‘trigger’ events which severely discredited the ruling class, undermined the dominant ‘globalization’ ideology, that allowed the movements to make a qualitative leap from protest to political rebellion and regime change.



Finally, although the point is not central to this chapter we should note that while social movements at their height were able to oust incumbent neoliberal regimes, they were not able to take political power and revolutionize society: their upheavals allowed center-left politicians to come to power. Ironically, once in power they passed sufficient social economic reforms to fend off the re-radicalization of the movements when the world economic crisis struck at the end of the first decade of this century.

### **Washington's Long War against Africa**

The US bombing of Libya in support of rebel clients in the spring of 2011 is part and parcel of a sustained policy of military intervention in Africa since at least the mid-1950s. According to a US Congressional Research Service Study (Ploch, 2010) published in November 2010, Washington has dispatched anywhere between hundreds and several thousand combat troops, dozens of fighter planes and warships to buttress client dictatorships or to unseat adversarial regimes in dozens of countries, almost on a yearly basis. The record shows that US armed forces intervened 46 times prior to the current Libyan war (Grimmett, 2011). The countries suffering one or more US military interventions include the Congo, Zaire, Libya, Chad, Sierra Leone, Somalia, Rwanda, Liberia, Central African Republic, Gabon, Guinea-Bissau, Kenya, Tanzania, Sudan, Ivory Coast, Ethiopia, Djibouti and Eritrea. The only progressive intervention was in Egypt under Eisenhower whose government forced the Israeli-French-English forces to withdraw from the Suez in 1956.

From the mid-1950s to the end of the 1970s, only four overt military operations were recorded, though proxy and clandestine military operations were pervasive. Under Reagan–Bush Sr. (1980–91) military intervention accelerated, rising to eight, not counting the large-scale clandestine ‘special forces’ and proxy wars in Southern Africa. Under the Clinton regime, US militarized imperialism in Africa took off. Between 1992 and 2000, 17 armed incursions took place, including a large-scale invasion of Somalia and military backing for the Rwanda genocidal regime.<sup>1</sup> Clinton intervened in Liberia, Gabon, Congo and Sierra Leone to prop up a longstanding stooge regime. He bombed the Sudan and dispatched military personnel to Kenya and Ethiopia to back proxy clients assaulting Somalia. Under Bush Jr. 15 US military interventions took place, mainly in Central and East Africa. The Obama regime’s invasion and bombing of Libya is a continuation of a longstanding imperial practice designed to enhance US power via the installation of client regimes, the establishment of military bases and the training and indoctrination of African mercenary forces dubbed ‘collaborative partners’. There

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1 Edward Herman, ‘Gilbert Achar’s Defense of Humanitarian Intervention’, ZNET (April 8, 2011).

is no question that there is a rising tide of imperial militarism in the United States over the past several decades.

Most of the United States' African empire is disproportionately built on military links to client military chiefs. The Pentagon has military ties with 53 African countries (including Libya prior to the current attack). Washington's efforts to militarize Africa and turn its armies into proxy mercenaries in putting down anti-imperial revolts and regimes were accelerated after 9/11. The Bush Administration announced in 2002 that Africa was a 'strategic priority in fighting terrorism'.<sup>2</sup> Henceforth, US imperial strategists, with the backing of liberal and neoconservative congress people, moved to centralize and coordinate a military policy on a continent-wide basis forming the African Command (AFRICOM). The latter organizes African armies, euphemistically called 'co-operative partnerships', to conduct neocolonial wars based on bilateral agreements (Uganda, Burundi ...) as well as 'multilateral' links with the Organization of African Unity (Ploch, 2010: 19–25).

Despite its assigned role as a vehicle for spreading imperial influence AFRICOM has been more successful in destroying countries rather than in gaining resources and power bases. The war against Somalia, displacing and killing millions and costing hundreds of millions of dollars, enters its twentieth year, with no victory in sight. Apart from the longest standing US neo-colony, Liberia, there is no country willing to allow AFRICOM to set up headquarters. Most significantly AFRICOM was unprepared for the overthrow of key client regimes in Tunisia and Egypt—important 'partners' in patrolling the North African Mediterranean, the Arabian coast and the Red Sea. Despite Libya's collaboration with AFRICOM, especially in 'anti-terrorist' intelligence operations, Washington mistakenly believed that an easy victory by its 'rebel' clients might lead to a more docile regime, offering more in the way of a military base, headquarters and a cheap source of oil. Today the United States depends as much on African petroleum as its suppliers in the Middle East.

The continent-wide presence of AFRICOM has been matched by its incapacity to convert 'partnerships' into effective proxy conquerors. The attempt to foster 'civil-military' programs has failed to secure any popular base for corrupt collaborator regimes, valued for their willingness to provide imperial cannon fodder.

The continuing North African uprising overthrew the public face of the imperial-backed dictatorships. As the popular Arab revolt spreads to the Gulf and deepens its demands to include socioeconomic as well as political demands the empire struck back. AFRICOM backed the assault on Libya, the crackdown on the pro-democracy movement by the ruling military junta in Egypt and looks to its autocratic 'partners' in the Gulf and the Arabian Peninsula to drown the civil society movements in a blood bath. The growing militarization of US imperial

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2 The White House, National Security Strategy of the United States (September 2002).

policy in North Africa and the Gulf is leading to a historic confrontation between the Arab democratic revolution and the imperial-backed satraps; between Libyans fighting for their independence and the Euro-American naval and air forces ravaging the country on behalf of their inept local clients.

## Chapter 8

# Imperialism in Latin America: Then and Now

Finding itself in the wake of a second world war as the dominant economic power in the ‘free world’ the US government strove assiduously to consolidate this power at the level of foreign policy.<sup>1</sup> Under prevailing conditions that included the potential threat posed by the USSR and the fallout from a spreading and unstoppable decolonization movement in the economically backward areas of the world, US policymakers decided on, and actively pursued, a foreign policy with three pillars. One of these pillars was a strategy of economic reconstruction of an economically devastated Europe and the capitalist development of the economies and societies on the periphery of the system. A second pillar of the post-war order was what would become known as the ‘Bretton Woods system’, composed of three institutions (a Bank of Economic Reconstruction and Development—the World Bank today; the International Monetary Fund; and a General Agreement on Tariffs and Trade that would morph into the WTO 50 years on) and the mechanism of the US dollar, based on a fixed gold standard, as the currency of international trade. The third pillar would become the United Nations—a system of international organizations designed to provide the necessary conditions of

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1 After the war the UK reluctantly passed on the mantle of empire to the United States, content, in effect, to serve as junior partner to its successor. The only post-war innovations were, first, to incorporate the United States as imperial successor, and second, to add as another strategy to extend British influence if not power. However, as noted by Madeleine Bunting (2011) in a brief review of the history of the British empire, although the war’s end saw the eclipse of the empire in India in other parts of the world, particular in the Middle east (Palestine) and Malaysia, as well as Kenya, the British empire not only lingered on but in various imperial endgame moves demonstrated that ‘liberal imperialism can only be sustained by illiberal dirty wars’. As Bunting emphasizes, the endgame of British imperialism in the post-war period explains much about—for example—the growing crisis in Bahrain and why the UK and its NATO allies are not bombing Bahrain with as much enthusiasm as in Libya. In the endgame of British imperialism, the various strategies and tactics that the United States would use were all employed, namely, to avoid formal political control, and instead use trade, finance and military power to build alliances with client states. Military intervention in this context was only used when necessary, when the ‘smiling face’ of imperialism’s civilian troops, and the blandishments (and development projects) of the private voluntary associations contracted by the imperial state no longer sufficed to placate the population.

(capitalist) development and collective security, a system of multilateral conflict resolution.

The motivating force behind this foreign policy is clear enough: it was to advance the geopolitical and economic interests of the United States as a world power, including considerations of profit and strategic security (to make the world safe for US investments and to reactivate a capital accumulation process). It was to be an empire of free trade and capitalist development, plus democracy where possible, a system of capitalist democracies backed up by a system of international organizations dominated by the United States, a military alliance (NATO) focused on Europe in the protection of US interests and collective security, and a more global network of military bases to provide logistical support for its global military apparatus.

Within the institutional framework of this system and international order the United States was particularly concerned to consolidate its power and influence in Latin America and the Caribbean, regarded by policymakers and many politicians as a legitimate sphere of undue influence—the exercise of state power in the ‘national interest’. This chapter will elaborate on the economic and political dynamics of the efforts made by the United States to pursue these interests via the projection of state power—and the resulting ‘informal empire’ constructed by default.

### **US Imperialism in Latin America—Forms and Dynamics**

The United States has always been imperialistic in its approach to national development in Latin America, but in the wake of World War II the situation that it found itself in—commanding, it is estimated, half of the world’s industrial capacity and 80 percent of its financial resources; and already an occupying power of major proportions—awakened in US policymaking circles and its foreign policy establishment its historic mission regarding the Americas and also the dream of world domination, provoking the quest to bring it about in the preferred form of an ‘informal empire’.

A key strategy to this purpose was to institute the rules for what would later be termed ‘global governance’—for securing its economic and geopolitical strategic interests in a world liberated from colonial rule (i.e. competing empires). The resulting world order, dubbed Bretton Woods I by some, provided an institutional framework for advancing the geopolitical strategic interests of the United States in the context of a ‘cold war’ waged against the emerging power of the USSR, and for advancing cooperation for international development, a policy designed to ensure that the economically backward countries seeking to liberate themselves from the yoke of European colonialism would not succumb to the siren of Communism, that they would undertake a nation-building and development process on a capitalist path.

This development project required the United States to assume the lead but also share power with its major allies, strategic partners in a common enterprise organized as the OECD and a united Europe, with a system of United Nations institutions to provide a multilateral response to any security threats (and that prevented any one country from embarking on the path of world domination via unilateral action). This was the price that the United States had to pay for national security under conditions of an emerging threat presented by the USSR—Soviet Communism backed up by what was feared to be a growing if not commanding state power.

In this context the United States began to construct its empire, and it did so on a foundation of six pillars:

1. Consolidation of the liberal capitalist world order, renovating it on neoliberal lines in the early 1980s when conditions allowed.
2. A system of military bases strategically across the world, to provide the staging point and logistics for the projection of military power when needed, and rule by military force when circumstances would dictate.
3. A project of cooperation for international development, to provide financial and technical assistance to countries and regimes willing to sign up to the project—to provide a safe haven for US economic interests and pave the way for the expansion of capitalism and democracy, the bulwarks of US imperialism.
4. Implementation of a neoliberal agenda of policy reforms—to adjust the macroeconomic and development policies to the requirements of a new world order in which the forces of freedom would be released from the constraints of the welfare-development state.
5. Regional integration—construction of regional free trade agreements to cooperate with, and not discriminate against, US economic interests regarding international trade.
6. Globalization—the integration of economies across the world into the global economy in a system designed to give maximum freedom to the operating units of the global empire.

Each strategy not only served as a pillar of imperial policy but provided the focal point for the projection of state power in different forms as circumstances required or permitted. Together they constituted what might be termed imperialism. Each element of the system was, and is, dynamic in its operations but ultimately unstable because of the countervailing forces that they generated.

### **Rule by Armed Force: War in the Informal Empire**

Within ruling class circles in the United States since at least 2000 there is an open acceptance that theirs is an imperial state and that the United States should

maintain or act to restore its dominant position in the twenty-first century by any means available, and certainly by force if need be.

The whole tenor of the debate in the past two decades over US foreign policy is framed in these terms. In this connection, Richard Hass, the current director of Policy Planning in the State Department, wrote an essay in November 2000 advocating that the United States adopt an ‘imperial’ foreign policy. He defined this as ‘a foreign policy that attempts to organize the world along certain principles affecting relations between states and conditions within them’. This would not be achieved through colonization or colonies but through what he termed ‘informal control’ based on a ‘good neighbor policy’ backed up by military force if and when necessary—harking back to the ‘informal empire’ of a previous era (McLean, 1995; Roorda, 1998).

Mechanisms such as international financial markets and structural reforms in macroeconomic policy, and agencies such as the World Bank, the WTO and the IMF, would work to ensure the dominance of US interests, with the military iron fist backing up the invisible hand of the market and any failure in multilateral security arrangements. This system of ‘economic imperialism’, maintained by US hegemony as leader of the ‘free world’ (representing the virtues of capitalist democracy), was in place and fully functioning from the 1950s throughout the 1980s and the reign of Ronald Reagan. In the 1990s, with the disappearance of the threat of the Soviet Union and international Communism, this system of economic imperialism, based as it was on the hegemony of ‘democracy and freedom’ as well as multilateralism in international security arrangements, did not as much break down as it was eclipsed by the emergence of the ‘new imperialism’ based on the unilateral projection of military force as a means of securing world domination in ‘the American century’.

This conception of a ‘new imperialism’, a ‘raw imperialism’ that would not ‘hesitate to use [coercive] force if, when and where necessary’ (Cooper, 2000), based on ‘aggressive multilateralism’ or the unilateral projection, and strategic use, of state power including emphatic military force, was advanced in neoconservative circles over years of largely internal debate, and put into practice by a succession of regimes, both democratic and republican. It achieved its consummate form in George W. Bush’s White House, in the Gang of Four (Donald Rumsfeld, Paul Wolfowitz, Condoleezza Rice, Dick Cheney), and its maximum expression in a policy of imperial war in the Middle East and the Gulf region. Although the United States also projected its military power in other theaters of imperial war such as Yugoslavia and Colombia (namely, the covert Colombia-centered class war ‘on subversives’ against the FARC-EP and the overt regional ‘war on drugs’) the policy of imperial war and the strategy of military force were primarily directed towards the Gulf region.

In the academic world the issue as to the specific or dominant form taken by imperialism has not been generally framed as a matter of when and under what circumstances military force might be needed or legitimately used (generally seen as a ‘last resort’ but as the necessary part of the arsenal of force available to the

state, conceived of as the only legitimate repository of the use of violence in the ‘national interest’). Rather, the issue of armed force in the imperialist projection of military power has been framed in terms of an understanding that an imperial order cannot be maintained by force and coercion; it requires ‘hegemony’, which is to say, acquiescence by the subalterns of imperial power achieved by a widespread belief in the legitimacy of that power generated by an overarching myth or dominant ideology—the idea of freedom in the post-World War II context of the ‘cold war’ against Communism and the idea of globalization in the new imperial order established in the 1980s. Power relations of domination and subordination, even when backed up by coercive or armed force, invariably give rise to resistance, and are only sustainable if and when they are legitimated by an effective ideology—ideas of ‘democracy’ and ‘freedom’ in the case of the US empire or ‘globalization’ in the case of the economic imperialism that came into play in the 1990s.

It is no accident that the 1990s saw the advent of a new—military—form of imperialism. For one thing, the idea of globalization, used to legitimate and justify neoliberal policies of stabilization and structural reform, had lost its commanding force—its hold over the minds of people, particularly among classes within the popular sector. As a result, the 1990s in Latin America saw the advent and workings of powerful forces of resistance to the neoliberal policy agenda and the machinations of US imperialism. To combat these forces of resistance state officials resorted to different strategies and tactics as dictated by circumstances, generally by combining development assistance and outright repression.

How this worked in practice can be illustrated in the case of Paraguay in recent years. In 1996 the then government presided over by Nicanor Duarte decreed as legal the presence of military and paramilitary forces in the countryside because the police were unable to contain the peasant struggle. At the same time and in the same context the regime authorized the presence of American troops, giving them immunity for any violation of the country’s laws that might occur in the process of their ‘humanitarian assistance’ (counter-insurgency training) provided to the Paraguayan troops. It was alleged by the peasant organizations that some of the non-governmental organizations operating in the area and financed by USAID were also enlisted to provide assistance in controlling the population, diverting the rural poor away from the social movements and have them opt for local micro-development projects instead. In this sense, what is happening in Paraguay is in the time-honored US tradition of combining the iron fist of armed force with the velvet glove of local development on the frontlines of rural poverty.

Elsewhere in the global US empire, neither neoliberalism in policy or resistance in the form of social movements were as virulent as they were in Latin America. As a result, the idea of ‘globalization’ had more currency in other macro-regions of the empire than it ever had in Latin America (Bowles and Veltmeyer, 2007). It would require the events of 9/11, and the resurrection and reconstruction of the United States’ global mission (to defend the free world) for the administrators of the empire under George W. Bush to escape the confines of ‘globalization’



and dispense with its constraints, allowing the administration to institute the 'new imperialism' with as much overt force and military power as the state could dispose of multilaterally if possible but unilaterally if necessary.

### *International Cooperation for Development*

Overseas Development Assistance (ODA)—foreign aid, in more common parlance—is widely viewed as a catalyst of economic development, a boost to developing societies' economies to assist them in following the path towards progress and prosperity traced out by the club of rich or advanced capitalist countries. But it is possible to look at foreign aid in a very different way—as a means of advancing the geopolitical and strategic interests of the governments and organizations that provide this aid. In 1971, at the height (but impending crisis) of the Bretton Woods world economic order, this view was expressed in the notion of 'imperialism as aid' (Hayter, 1971). The purpose of aid was essentially geopolitical: to ensure that the former colonies of British-led European imperialism, upon achieving national independence, would not fall prey to the lure of Communism and to ensure that they would follow a capitalist path towards their national development.

In the wake of the Cuban Revolution the United States redirected its 'development' efforts and its entire strategy away from nation-building towards the countryside in various 'developing societies' where there was a build-up of revolutionary ferment. In Latin America, where this new strategy was concentrated, this entailed the construction of the 'Alliance for Progress', a new policy and institutional framework of international cooperation for rural development, a project aimed at the rural poor—to turn them from the confrontational politics of the social movements and opt instead for local development.

In the 1960s and 1970s, a combination of this approach with a strategy of co-optation of the leadership of the social movements, and strategic use of its repressive apparatus, resulted in the defeat of the impulse towards social revolution among the rural poor and destruction of the armies for national liberation that had sprouted throughout the Latin American countryside under conditions of imperialism and class exploitation. The Revolutionary Armed Forces of Colombia—the People's Army (FARC-EP) was one of the very few such revolutionary organizations in the region that survived. The occasional fragile unity of the forces of resistance mounted by organized labor in the cities and the proletarianized peasants in the countryside was everywhere broken, and the remaining forcers of resistance were demobilized and went to ground, awaiting more favorable conditions. As it turned out such conditions only materialized in Chiapas, allowing the grounded forces of resistance to reappear under changed conditions—erupting, in this case, on January 1, 1994, the day in which NAFTA, a new offensive in the imperialist war, was launched.

This particular offensive, as it turned out, would also be ultimately defeated—not by armed force but by a policy of strategic isolation and encirclement. In other

contexts—particularly in Brazil, Ecuador and Bolivia—the forces of resistance against neoliberalism and US imperialism were more successful. Indeed, the social movements in these countries succeeded in either halting, slowing down and even, in some cases, reversing the neoliberal agenda, placing state officials in these countries, as well as the agencies of US imperialism, on the defensive. It would take another decade of concerted actions against these movements to hold them at bay. Again it was not armed force but the project of international cooperation for ‘development’, implemented within the new policy framework of the post-Washington Consensus, that was primarily responsible for dampening the forces of revolutionary change in the region.

The political left, having abandoned the revolutionary struggle, was complicit in this defeat of the social movements. Certain elements took up positions within the development project on the basis of what John Holloway (2002) views as a ‘no power’ approach to social change (to bring about change without taking power). Other elements of the left opted for what used to be termed the ‘parliamentary road’ to state power, namely democratic elections. By 2005, with the notable exception of Bolivia, where the revolutionary forces were actively mobilized in the struggle to prevent the privatization of the country’s strategic natural resources, the wave of social movements that had washed over the neoliberal state in the 1990s had ebbed, weakened and were forced into retreat by the very center-left that had achieved state power in the wake of widespread disenchantment with neoliberalism.

### *The Neoliberal Reform Agenda*

The neoliberal agenda, a prominent feature of the economic imperialism of recent years, had been decades in the making but it was not until the early 1980s, in the vortex of two crises, that the conditions needed for its implementation became available. The fiscal crisis provided the political conditions of a conservative counterrevolution in development thinking and practice—for the advent of neoliberalism. On the other hand was the debt crisis, which provided a lever for adjusting government policies to the requirements of this new world order.

While the World Bank and the IMF might be considered the operational units of the economic imperialism, its brain trust, as it were, was constituted by an array of neoconservative and neoliberal institutions, including the Pelerin Society, a neoliberal thought collective constituted to advance free market capitalism at the level of national policy (Mirowski and Plehwe, 2009). It also includes the Council on Foreign Relations, a complex of policy forums and Washington-based foundations. The institutional structure of this ‘new world order’ encompasses the World Bank, the IMF and the WTO, the latter stillborn in 1944 negotiations not constructed until 1994 in a major shift in imperial strategy manifest in and coinciding with the institution of NAFTA.

The impetus behind the call for a ‘new world order’ in the 1980s was to resolve the fiscal and production crisis, to advance capitalist development on a global scale, and create a policy agenda for advancing these interests, which

are represented most directly in the operational units of this system, namely the multinational corporations which could be defined as the crack troops of US economic imperialism. The dynamics of these institutions, namely globalization and structural adjustment, and the role in the design and implementation of macroeconomic policy, are well documented, much more so than the operations of the CFR and even more so of the MPS, whose members have played a major role in the promotion of neoliberalism, to finance research centers and policy forums to promote (1) free enterprise and the free market; (2) economic integration in the form of regional free trade agreements; (3) macroeconomic policy in the form of structural reform.

This project, based on a neoliberal agenda, can be traced back to the 1940s, to ideas promulgated at the time by members of the Mont Pelerin Society, but was only seriously advanced in the 1980s when political conditions for a counterrevolution in development theory and practice—a new world order—were favorable.

In the mid-1980s the neoliberal ‘structural reform’ agenda was advanced in the form of globalization, the ideology constructed as a means of mobilizing support for this policy agenda, presenting it as a consensus and a development program, the only way forward to general prosperity—and to establish hegemony over the whole system (World Bank, 1995). By the end of the decade, however, the idea of globalization fractured and succumbed to forces of resistance. It no longer served as an effective ideology to justify and mask the neoliberal policy agenda, leading to a major revision in the agenda in an effort to provide it a human face—present it as the policy framework for a more inclusive form of development designed to empower the poor. By the new millennium, this post-Washington Consensus was achieved in the form of a more pragmatic form of neoliberalism pursued by the center-left regimes in the region that had assumed and remain in power.

### *The Imperialism of Free Trade*

The first projection of an imperial strategy of regional free trade arrangements was in the immediate post-war period in which the United States was constrained in its own national interest to push for the integration of Europe—the creation of a strong economy and a system of cross-Atlantic state alliances that would provide an important market for the United States as well as a bulwark against Communism and the growing power of the USSR.

Subsequently, the decade saw an important twist if not turn in imperial policy—towards the creation of free market in the form of NAFTA, instituted in 2004, and later the unsuccessful project of the FTAA—defeated by the forces of resistance in the region. The impetus behind this strategy, certainly in the case of Latin America, was to reverse the large and growing trade deficit with countries in every region except, as it happens, in Latin America. In fact, Latin America was a crucial factor in offsetting a growing deficit on its global trade account, and NAFTA (and later FTAA) were viewed, and used, as a mechanism of economic imperialism.

The now defunct Latin America Free Trade Agreement (LAFTA) was a key element of Washington's empire-building project in Latin America—an extension of NAFTA (CAFTA-DR) and its bilateral agreements with Chile, Colombia and Peru. The FTAA, if it had succeeded, would have given US MNCs and banks unrestrained access to markets in the region, as well as raw materials and labor, while limiting European and Japanese entry and protecting US markets. This imperialist device was another unilateral initiative, taken in agreement with the client states such as Colombia and Peru in the region without any popular consultation. Given the high levels of discontent already in the region, under the neoliberal regimes, the imposition of neomercantilist imperialism would likely have led to explosive social conditions and the re-emergence of nationalist and socialist alternatives. As it is the alternative trade agreement advocated by Hugo Chávez, ALBA, has provided a major counterpoint and countervailing force to US imperialism in the region.

### **Dynamics of Empire-Building in Latin America**

The informal US empire, constructed in the post-war years, extended into and held sway in five macro-regions. The dynamics of these forces and the working of imperialism in each region is substantively different. But in this chapter we are only concerned with Latin America, where the US empire was extended from its original base in Central America and Mexico to points further south to encompass virtually the entire region.

The workings of empire in the region can be traced out in three phases that more or less correspond to empire-building efforts elsewhere.

#### *US Imperialism in an Era of State-led Development (1945–79)*

In the American hemisphere after World War II the informal US empire remained largely unchanged, although it began to creep further southward. The region was seen as having relatively low strategic and economic value, and received less economic or military attention from the United States than other regions. The bigger states in the hemisphere pursued their own development path while the United States was content to influence the smaller states in its backyard through comprador regimes that shared US preference for authoritarian regimes and conservative forms of capitalism.

However, these regimes more often than not were confronted by popular forces of resistance, by workers in the cities and peasants in the countryside, demanding and actively mobilizing for social change. If and when these forces achieved power as they did in Cuba in 1959, they drove a hard bargain with US corporations and financial interests as well as the ruling classes—threatening US 'interests', leading US officials to brand them as 'Communists', enemies of the forces of freedom and democracy. Alternatively, where local class conflict intensified, the United States

perceived a danger of escalation to 'chaos' and then perhaps to 'communism'. Both outcomes were perceived to threaten US interests. In response, or in some conjunctures in anticipation of this threat, the United States mobilized its military assets in attempting to overthrow regimes deemed to be antithetical to its interests—Arbenz in Guatemala (1954), Fidel Castro in Cuba (1961), Bosch in the Dominican Republic (1963), Goulart, a moderate nationalist, in Brazil (1964), the Dominican Republic (1965), Jagan in Guyana (1953) and then Allende in Chile (1973).

Arbenz was deposed by military force in a direct military invasion but the dismal failure of this tactic in Cuba (namely the Bay of Pigs debacle) led the United States to elaborate and pursue an alternative strategy of sponsoring military coups and a concerted regional strategy of a 'dirty war' by proxy against subversives, using the armed forces of the countries in question, arming them and training them within the framework of a National Security Doctrine (NSD) constructed to the purpose. In 1964 this strategy was successful in removing Goulart from power in Brazil because of his nationalist threat to US interests—to nationalize US assets and property. Within one hour of his removal from power by the US-trained Armed Forces the new self-proclaimed president of the country was congratulated by President Johnson for 'restoring democracy' to Brazil. A decade later, Salvador Allende, also democratically elected but unlike Goulart a proclaimed 'socialist', was removed from power by means of a violent coup engineered and financed by the United States, allowing the subsequent military dictator Augusto Pinochet to implement a neoliberal agenda at the level of national policy—as well as 'teach the world a lesson in democracy'. Other NSD-based military coups, all supported by the United States, took place in Bolivia (1911), Uruguay (1972) and Argentina (1976).

In this period, the United States launched several open military interventions but far more covert or proxy ones. It was an informal empire, mixing gunboats with proxies but without colonies. It was generally justified or legitimated as the spread of freedom and democracy, with Communism presented as the antithesis of democracy, the enemy of freedom. But this mission statement was undercut by the clear US preference for authoritarian allies and the sponsoring as well as support and propping up of military dictatorships in the region.

In reviewing the dynamics of US imperialism in this period there were essentially two major strategies pursued, each with appropriate tactics. The two-pronged strategy included use of the iron fist of military force within the velvet glove of development assistance or foreign aid. The resort to military force has already been alluded to in the sponsoring or support of military coups across the region from 1964 to 1976. However, an equally important use of imperial power took the form of rural development—NGO-mediated assistance to the rural poor to prevent them from joining or forming social movements pressing for revolutionary change.

The state was assisted in this struggle but in the wake of the Cuban Revolution the United States redoubled its efforts on the ground, using community development

activists and organizations to penetrate the countryside and turn the rural poor away from social revolution, to teach them the virtues of democracy, capitalism and reform. By these means, and a deployment of non-governmental organizations on the frontline of the war on rural poverty, the agents of the state managed to dampen the revolutionary ferment in the Latin American countryside. Where this effort did not suffice in demobilizing the forces of revolutionary change the state stepped in with its repressive apparatus. By the end of the 1970s virtually every army of national liberation had been destroyed or decapitated—FARC in Colombia a notable exception. In many cases, as in Mexico in Guerrero and Chiapas, the revolutionary movement went to ground, held at bay or, as in the case of Chiapas, given time and space to rebuild, awaiting more favorable conditions.

### *Imperialism under the Washington Consensus (1980–9)*

By 1980, the countryside was more or less pacified and labor was very much on the defensive in a long class war waged against it by capital and the state, its leadership co-opted, its forces in disarray and its ties to the peasant movement for land disarticulated, and its capacity to organize and negotiate with capital reduced. At the macro-level virtually every government has to contend with the conditions of a decade-long production crisis and an emerging fiscal crisis, as well as pressures to restore democracy, not in the authoritarian bureaucratic or military form pushed by the United States but as the rule of law and civilian-elected administrations responsive to demands from ‘the people’, not a preserve of the political elite. As for the fiscal crisis, and the detritus of the 1970s production crisis in the form of stagnant production and runaway inflation, in the early 1980s it combined with conditions derived from US high interest rate policy and an unfavorable turn in the export markets to produce a scissor-squeeze on fiscal resources to precipitate a decade-long debt crisis and create conditions for launching the new world order.

Unfortunately for the revolutionaries in Nicaragua these conditions also coincided with their capture of state power, provoking the contra affair, as the US government struggled, and used its proxies to launch covert military operations, against the revolutionary regime. As it turned out this would be the last military adventure of US imperialism, its agents resorting instead to structural reform of macroeconomic policy (to create conditions for a renewal of foreign investment and reactivation of an accumulation process), international cooperation for local development (to demobilize or turn the rural poor away from the social movements), and co-opting ‘civil society’ organizations in the responsibility of restoring order—‘good governance’ in the lingo of the new imperialism.

The emergence of neoconservative regimes in the United States, the UK and elsewhere in the North, formed under conditions of a fiscal crisis, facilitated the implementation of the neoliberal agenda under the Washington Consensus on correct policy. Under these conditions US imperialism turned away from the generals, allowing them to be shunted back to the military barracks, and turned away from armed force towards the officials of the IMF and the World Bank,

essential adjuncts of US state imperialism, to help make Latin America safe for US capital.

It would take close to a decade for this to happen. But developments in the 1990s tell the tale: the privatization of key economic sectors and lucrative state enterprises (Petras and Veltmeyer, 2007); a major influx and reflux of capital, netting the empire, it is estimated, over US\$100 million in profit over a decade of neoliberal policies.

The ‘contras affair’ closes one chapter in US imperialism and the installation of a new world order (i.e. implementation of a ‘new economic model’—neoliberal globalization) opens another—a chapter characterized not by armed force, projection of military power, but rather what we might term ‘economic imperialism’—the engineering of free market ‘structural reforms’ in national policy, the penetration of foreign capital in the form of MNCs (the shock troops of the old imperialism) and a free trade regime implemented in diverse regional contexts. The agents of this economic imperialism included the IMF and the World Bank and the WTO—the ‘unholy trinity’ (Peet, 2003)—as well as the host of neoconservatives, neoliberal economists and policymakers that serve the ‘global ruling class’ as described by Pilger (2002).

The new imperial order of neoliberal globalization was made possible, and facilitated, not only by a political turn towards neoconservatism but by new reserves of ideological power: the idea of globalization, presented as the only road to ‘general prosperity’, the necessary condition for reactivating a growth and capital accumulation process. The idea of globalization, used to justify and advance the neoliberal agenda, as noted above, came to replace the widespread call for a new world order and was launched mid-decade. The World Bank’s 1995 *World Development Report*, ‘Workers in an Integrating World’, could be seen as one of its most important programmatic statements, a capitalist manifesto on the need to adjust to the requirements of a new world order in which the forces of freedom would hold sway over the global economy.

The call for a new world order was led by the Heritage Foundation and other Washington-based foundations and policy forums that, together with the US Treasury and Wall Street, exemplified what became known as the ‘Washington Consensus’ (although it also represented the wisdom of the City in London and finance capital everywhere). These banks and international financial institutions would bail out the indebted countries, agreeing to ‘restructure’ their loans in return for deep economic reforms—an austerity program of cutting central and local government spending, imposing high interest rates, stabilizing the currency, privatizing state-owned enterprises, abolishing tariffs, freeing labor markets from union restrictions, and opening up local capital markets and business ownership to foreign business. This was backed by a rhetorical neoliberalism declaring that morality and efficiency alike required reducing the power of governments, communal land ownership and labor unions. The freedom of markets and private property rights must rule.

As for the political adjustment to the 'new world order' the United States was constrained by its own declared mission to spread democracy and make the world safe for freedom, to support the widespread movement in diverse regions towards political democracy. As for Latin America, the United States adapted to the spread of democracy across the hemisphere, conducting a policy of 'democracy by applause' from the sidelines, as Latin Americans made their own democratic gains (Carrothers, 1991) in a process of redemocratization based on the negotiated retreat of the generals to their barracks.

The structural adjustment programs (SAPs) implemented under the Washington Consensus and pressures to renegotiate payments on the external debt were unpopular to say the least, with the core opposition coming from organized labor and those dependent on the state. The newly formed civilian regimes or democratic governments were reluctant to sign up, which is one reason that the IMF and the World Bank, like the US State Department at the time (in the 1970s), favored dictatorships over democracies (Biersteker, 1992: 114–16; Vreeland, 2003: 90–102). However, the external debts contracted by the military regimes in the 1970s provided the World Bank and the IMF with the lever that they needed to bring into line the civilian regimes and democratic governments formed in the 1980s, and most programs were introduced by administrative fiat or presidential decree.

In the academic circles of the US empire there was a similar 'adaptation' to reality, and to the ideology of free market democracy, leading to a reversal of the hitherto prevailing belief among political scientists in the liberal tradition that an authoritarian state provided a better fit and improved conditions for economic liberalism and development than democracy. In short order in the 1980s this idea gave way to the idea that economic liberalization would lead to political liberalization or vice versa, and that both were conditions of 'development', allowing a new generation of liberal scholars to celebrate the virtuous marriage of capitalism and democracy.

The 1980s paved the way for what could be regarded as the golden age of US imperialism in Latin America: a decade of pillage facilitated by a program of Washington-mandated structural reforms in national policy. Under these conditions in the 1980s all but four major governments in the region (especially Bolivia, Chile, Mexico, Jamaica) followed the Washington Consensus or succumbed to direct pressures exerted by the IMF and the World Bank and structurally adjusted their economies. In the following decade, three of the major holdout countries in this 'development'—Argentina, Brazil, Peru—made the belated transition towards neoliberalism. In Venezuela the memory of *Caracazo*, a violently repressed wave of riots and protests in Caracas in 1989, was enough to hold back if not derail the neoliberal agenda of the governments of the day. It also helped created the political conditions that took form in the presidency of Hugo Chávez as the Bolivarian Revolution.



*Imperialism and the post-Washington Consensus (1990–9)*

The 1990s can be viewed as a decade of major gains for the social movements in their resistance to the neoliberal agenda of governments in the region and the operations and machinations of US imperialism. Already in the 1980s the push towards neoliberal policies had generated widespread opposition and protest, which in the case of Venezuela resulted in a major social and political crisis—the *Caracazo* of 1989, in which hundreds of protesters against the high price of food and IMF policies were massacred by the state. More generally, conditions of structural adjustment across the region generated widespread opposition and resistance in the form of protest movements. They also led to a reorganization and mobilization of the forces of resistance in the popular sector. By the 1990s these organizations took form as anti-neoliberal social movements formed on the social base of indigenous communities, landless workers and peasants.

The rural social movements represented the most dynamic forces of resistance to the policies of neoliberal globalization and US imperialism. In a number of cases these movements managed to halt and even reverse the policies implemented under the neoliberal agenda. In this context it is even possible to name the decade as a decade of major gains for the movements.

However, the neoliberalism at issue in this resistance was not the same as it was in the 1980s, modified as it was by the search for a more socially inclusive form of development. Already by the end of the 1980s it was widely recognized by the guardians of the new world order that neoliberalism was economically dysfunctional and more important unsustainable, generating as it does forces of resistance that could be and were mobilized against the system. The solution was a more socially inclusive form of neoliberalism—to give the structural adjustment process a human face—a new development paradigm and social policy targeted at the poor, empowering and capacitating them to act on their own behalf, in taking advantage of their ‘opportunities’ for self-advancement (Sandbrook et al., 2007; World Bank, 2007).

In this context, the 1990s saw a major shift in the correlation of class forces, mobilized in support or against capitalist development in its neoliberal form. On the left, the political class was on the defensive, unable to make gains under condition of a divided and demobilized working class, and few ties to the new forces of resistance. The left materialized basically in the form of social movements and, to some extent, social organizations for local development mobilized against the neoliberal regimes that were loath to accept the post-Washington Consensus and against new imperialist offensives such as NAFTA—and beyond Latin America the 1994 Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Most Latin American regimes at the time (the mid-1990s) were still aligned with the United States. But the United States, seeking to reverse major setbacks in Asia and other parts of the world, was rapidly losing influence and the capacity to dictate policy in the region or to counter the growing power of the social

movements. The major exception here was Colombia, where the United States continued with a major military presence. The governments of Mexico and Peru, and El Salvador in Central America, were (and are) also similarly aligned with the United States.

### *Imperialism under the Davos Consensus (2000–10)*

The first decade of the new millennium opened and is closing with an involution in capitalist production, a region-wide crisis in the first case, and a crisis of more global proportions in the second. The years betwixt and between, some six years under the presidency of George W. Bush and a shift in the political tide towards the center-left in South America, the region actively participated in a primary commodities boom on the world market, a development that for some six years changed and to some extent reversed a historic pattern in the terms of North–South trade, bringing with it windfall profits for the private sector in agro-export production and unanticipated windfall gains in fiscal revenues for the center-left regimes that had formed in the wake of a spreading disenchantment and turning away from neoliberalism. Unfortunately for the left and the popular sector organizations that had pinned their hopes on these regimes the opportunity to change the course of national development in a popular or populist direction was missed; apart from Chávez’s Venezuela no change in national policy could be discerned.

It would take the onset of crisis in October 2008 to bring about a change in fiscal policy and then not in the interest of a more equitable distribution of the social product but as part of a counter-cyclical strategy to boost demand. Throughout the decade what prevailed was a development policy program designed as a means of saving capitalism from itself—from a propensity towards crisis and from widespread forces of resistance held in abeyance by the center-left in power. In addition to this post-Washington Consensus on development policy, which was implemented to different degrees by virtually every government in the region, what prevailed—and still prevails—is what *The Economist* (January 22, 2011, p. 13) describes as the ‘Davos Consensus’: the belief in the need to boost economic growth with free market capitalism (pro-growth policies of ‘structural reform’—privatization, deregulation, liberalization), and to reduce the incidence of extreme poverty, via a strategy of enhancing human capital and targeted social expenditures.<sup>2</sup>

As for US–Latin American relations the Obama regime has attempted to reconstruct them in an effort to reverse the decline in US power and influence over the past decade, a decline facilitated by the overriding concern of the George W.

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2 In the service of this consensus the economists at the World Bank and the IMF in 1999 designed the Poverty Reduction Strategy Paper (PRSP) policy as a tool for achieving this policy objective. On the dynamics of this and other policy tools in the arsenal of the war on global poverty see Veltmeyer (2012).

Bush Jr. Administration with developments elsewhere in the empire. In the context of what might well be described as a ‘new military empire’ based on ‘aggressive unilateralism’ or unilateral action, officials of the US imperial state in the 1990s were forced to turn their attention to greater priorities in other macro-regions—East Asia and even Europe (Kosovo), but especially the Middle East and Gulf region. Except for a military invasion of Panama in December 1989, which could be used to date its beginnings—and an earlier skirmish in Grenada launched by Reagan in 1983 against the small island state in the Caribbean—the new military imperialism was almost entirely engaged elsewhere in the world, providing governments, parties and movements in the region space and time to conduct their affairs with relatively little concern or interference from the United States.<sup>3</sup>

In this context political regimes in South America can be placed into three categories vis-à-vis their orientation towards the neoliberal policy agenda and relations with the United States: (1) *neoliberal*, as per the Washington Consensus: Peru, Colombia and Mexico, all aligned with the United States in their international relations; (2) *pragmatic neoliberal*, as per the post-Washington Consensus: Argentina, Brazil and Chile, in pursuit of a path of relative autonomy vis-à-vis the United States; and (3) *national populism*, *populist nationalism* or *proto-socialism*: Venezuela, Bolivia and Ecuador, in pursuit of an alternative form of regional integration via ALBA. The United States in this political situation is able to count on precious few allies in its geopolitical agenda. Colombia and Mexico are the only two Latin American states that remain firmly within the orbit of US power and influence.

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3 An exception to this proposition can be found in the US war on drugs, particularly the operations of this war in Colombia. In fact, it has even been argued that in this context US military presence if not power has increased (Lobe, 1999). In a week that saw the official end of the US military presence in Panama in terms of bases and the southern command, the Pentagon’s activities throughout Latin America, he argued, remained on the rise. According to a report released that week and summarized by Lobe, even as the last US military bases were handed over to the Panamanian government, Washington was actively establishing new military capabilities, called ‘Forward Operating Locations’ (FOLs) on bases in Puerto Rico, Ecuador, Honduras, the Dutch Antilles, and possibly even Costa Rica—all in pursue of the ‘war against drugs’. In fact, Adam Isacson, co-author of the report (*Just the Facts: A Civilian’s Guide to US Defense and Security Assistance to Latin America and the Caribbean*) stated that ‘the handover of the Canal Zone doesn’t signal any shift in US military priorities and presence in Latin America’. ‘It’s not ending; it’s just moving around’, he added. In this connection, he noted that in 1998 nearly 50,000 US troops were deployed in the region, mostly for anti-drug as well as counter-insurgency training rather than military operations. In the context of the State Department’s continued anti-drug war operations since and now both in Colombia and elsewhere it is likely that US military ‘aid’ and sales, as well as military training both at home and in the region (of ‘some of the region’s worst human rights abusers’, according to a recent House-Senate Conference Committee) have continued to increase (END/IPS/jl/mk/99; Lobe, 1999).

## **US Imperialism in Latin America Today: Peru and Honduras**

One of the ironies of the often commented on but generally misunderstood pattern of regime change—i.e. a supposed red or pink tide in national politics—over the course of the past decade has been a weakening of the forces of resistance against neoliberalism, a retreat of the social movements in a context of revived dynamism of the right—a weakening of the left and the strengthening of the right. In part this is the result of misplaced views of the left that these regimes are ‘on their side’—anti-neoliberal in economic policy and anti-imperialist in their relations with the United States. However, this is clearly not the case. Except for Venezuela, and of course Cuba, and to some extent Bolivia and Ecuador, these regimes are not in the least or only formally ‘populist’ and can best be characterized as pragmatic neoliberal. In some cases, particularly in the case of Peru, Colombia and Mexico, the current and recent regimes can even be described as dogmatically neoliberal—not even as in the case of Chile, Argentina and Brazil, concerned with adapting neoliberal agenda to the post-Washington Consensus on the need for a more inclusive form of neoliberalism.

A clear example of this is Peru, where the efforts of the government to protect the economic interests of US capitalism in June 2009 resulted in a major confrontation with the indigenous communities adversely affected by these interests, leading the government to resort to its repressive apparatus, resulting in the deaths of 24 police and 10 indigenous. Today, at the time of this writing (July 2009), the day after Alan García announced a new cabinet in response to the growing wave of social and class conflict, and a month into the wave of conflict arising from the confrontation with the indigenous communities, thousands of workers have taken to the streets to demand a change in the government’s neoliberal policies in the interest of US imperialism. At a time in which the Defensoría del Pueblo has identified up to 226 ‘active’ social conflicts in the country, transport and public sector workers are on strike, joining in the march organized by the General Confederation of Workers (CGTP), the major Workers’ Central in the country. At the same time on the periphery of Lima numerous streets blockades were reported, harking back or pointing towards the quasi-revolutionary situation or insurrection that emerged in Ecuador in 2000 and in Bolivia at various points between 2000 and 2005.

Similar situations are brewing in other countries in the region. But none of these are as meaningful for US imperialism as the current situation in Honduras brought about by the actions of the ruling class against the sitting and democratically elected president of the country. For US imperialism, Honduras represents not so much a political crisis, a crisis in US–Latin American relations, as a crossroads in imperial power and policy—in the way the US administration under President Obama is trying to recover its position and influence in Latin America.

Today US imperialism in the region is at another crossroads. Whereas the primary commodities boom of 2002–8, at a time in which the US administration was seriously distracted by the greater game in Eurasia and security concerns in the Gulf region, and too overstretched to attend to its Latin American affairs, saw

the emergence of a somewhat if not entirely new context for US–Latin American relations.

It is in this context that Honduras took center stage for a time, eclipsing efforts of the regime to repair its relations with former client states and reassert its influence if not dominance. The successful coup engineered in Honduras, and actively supported and even encouraged by the US administration, followed various similar interventions over the past decade—in Venezuela (unsuccessful) and Haiti (successful). In Bolivia, US intervention in Latin American affairs, in an effort to reassert its waning influence and declining power, took a different albeit not unconventional form: the financing of NGOs and active support of oppositional forces with the explicit subversive aim of destabilizing the regime. In this context US foreign policy in the region, aimed at reasserting its dominance, was focused on Colombia, its chief ally in the region and central to its empire-rebuilding project. The significance of Honduras in this context is that it represented an opportunity for the United States to counter the growing influence of Hugo Chávez and his Bolivarian Revolution project in the region, particularly in its Central American domain, where Nicaragua and even El Salvador, not to mention Honduras, were vulnerable and at risk of being lost. In this context, Chávez, more than Raúl Castro, is perceived by the United States to be the major obstacle in its efforts to restore its dominion, and this in part because of the financial resources Chávez is able to command but also because of the ideological attraction of his policies—particularly his project of twenty-first century socialism—in some circles, particularly among the popular classes.

In 1992, within hours of being deposed from power in a coup engineered by elements of Venezuela's ruling class, the US administration recognized the *de facto* regime. But it was soon forced to backtrack from this support when masses of poor urban workers rallied to Chávez's defence and forced his return to power. However, in the case of Honduras, given the immediate and definitive response of the OAS and its demand that Zelaya be restored to office, the United States had no choice in public to join the demand for Zelaya's return. Needless to say, the coup succeeded with the active, albeit covert, support of the US administration. Neither Honduras' ruling class, in control of the military apparatus as well as the legislature and the judiciary if not the government, nor the US administration had any intention to allow Zelaya to track Chávez's move towards some new form of socialism. The United States had no intention to allow this if it could be helped, and it is safe to assume that the State Department will stop at nothing in its efforts to prevent another Chávez. Democracy and capitalism have to be defended at all cost, regardless of any sensibilities regarding sovereignty, human rights or the freedom of a country to pursue its own development path.

## Conclusion

Apart from Honduras, which provided the United States with both a challenge and an opportunity to recover lost political space, other issues on the agenda of the Obama Administration include Cuba and how to counter the leftist tilt in national politics and an incipient but growing nationalism vis-à-vis control over natural resources and trade. Since 2001 a growing number of countries in the region have taken and are taking positions on policy and trade issues (the search to diversify trade relations, join ALBA) that are not in the national interest of the United States, and Obama has undoubtedly been briefed as to how to respond to this challenge to US power and influence. Of particular concern for US imperialism is the movement of more and more countries in its immediate backyard and former sphere of influence, the Caribbean and Central America, towards and into the Chávez orbit (Petrocaribe, etc.). In this panorama, Honduras too provides favorable conditions for a Washington-made solution—a US military base, intimate regular day-to-day relations with Armed Forces personnel, a malleable and supportive Congress and Supreme Court, a ruling class that shares its concerns about the actual and possible forces of subversion in the country and region.

In some ways the situation confronted by Obama in Central America is similar to that faced by President Reagan in the early 1980s regarding Nicaragua. But Reagan had on his side a number of cronies and dictators—Alvarez in Uruguay, Videla in Argentina, Pinochet in Chile, Stroessner in Paraguay. In this regard at least the political landscape in Latin America has indeed changed. The majority of countries in the region might be described as centrist and pragmatic in terms of macroeconomic policy, rather than leftist (national populist) or rightist (neoliberal), but are also concerned to maintain a line of independence vis-à-vis the United States on matters of foreign relations and policies. What this means for the current Obama Administration might be gauged by its reaction to the nomination of Insulza, a social democrat close to, and a nominee of, Chile's Bachelet, for the position of OAS Director. It seemed that the United States was implacably opposed to his nomination, apparently (according to several Washington 'insiders') because of Insulza's support for Cuba's entry into the OAS, his campaign against the *golpistas* in Honduras and his earlier denunciation of US intervention in Venezuela. If this is the attitude and position of the United States vis-à-vis a noted progressive and liberal social democrat, a representative of a centrist and pragmatic position in Latin American politics and the nominee of a country supportive of the United States and allied with it at the level of bilateral trade, what might the position of the Obama Administration be regarding relations with regimes seeking to strike a more independent line and steer a leftward course? Obama's Administration at the outset made various overtures to governments in the region such as Lula's in Brazil with which previous US administrations had strained relations, but how the Obama Administration copes with an emergent push in the region for greater independence, and how it relates to Chávez and to the right-wing opposition in countries such as Honduras, Bolivia and Venezuela, and how it deals with the

'Honduras question', will provide a clear sign of the direction that US imperialism is taking in the region. If the Obama regime's current mix of strategies and tactics fails to bear fruit, and if politics in the region tilt or turn further to the right as it appears to be doing (witness developments in Chile), then the United States might well return to its historic policy of direct intervention in Latin American affairs and support for military coups—this time not as matter of choice but as a 'last resort'.

## Chapter 9

# Uprisings and Regime Change in the Arab World

I would only have intervened [in Libya] if America could keep its oil afterward ...  
In the old days when you have a war and you win, that nation is yours.

(Donald Trump, property billionaire and would-be  
president of the United States, 2012 elections)

The events from mid-February to early March 2011, that saw among other events an outbreak of protest and unrest in Tunisia, resulting in the downfall of the government; a political revolution of sorts in Egypt and the overthrow of the tyrant Mubarak, and a serious challenge to the rule of Colonel Gaddafi in Libya, comprised a short period in which, to quote Adam Hanieh (2011), ‘the lessons of many decades can be telescoped into a few brief moments and seemingly minor occurrences can take on immense significance’. Developments in Egypt were particularly significant. The entry of millions of Egyptians onto the political stage graphically illuminated the processes that underlie the politics of the Middle East. Among other things, ‘it ... laid bare the long-standing complicity of the US and other world powers with the worst possible regimes, revealed the empty and hypocritical rhetoric of US President Barack Obama and other leaders, exposed the craven capitulation of all the Arab regimes, and demonstrated the real alliances between these regimes, Israel and the US’. ‘These are’, as Hanieh notes, ‘political lessons that will long be remembered’.

The uprisings have also shown ‘the remarkable fragility of the nepotistic regimes across the Arab world. These regimes depended upon their networks of secret police (*mukhabarat*) and thugs (*baltajiya*), and inculcated a seemingly unassailable pessimism about the possibility of change that was reflected in the biting sarcasm of Arab political humour’. But, as Hanieh notes, ‘these mechanisms of control simply evaporated as people shed their fear’. The Arabic word *intifada*, he further notes ‘conveys this sense of shaking off, and the sight of millions of people losing their fear and gaining a sense of the possible will long remain one of the most enduring memories of this revolutionary moment’. The historic significance of this process should not be lost: there has quite literally *never* been a moment of such potential in the Arab world.

The purpose of this chapter is not to recount the story of these uprisings or to predict the possible future scenarios of the revolutionary process in the Arab world. Rather, it aims to draw out some of the broader implications for the Middle East as a whole, and to argue that these struggles are best understood through the lens of *class struggle*. The recent uprisings in the Arab world of Middle East and



North Africa show decisively that class remains the key dynamic to understanding any social transformation and, simultaneously, that the ways in which the class struggle is expressed takes a variety of forms that disrupts any reductionist economic or political readings of events.

### **Roots of the Arab Revolts and Premature Celebrations**

Most accounts of the Arab revolts from Egypt, Tunisia, Libya, Morocco, Yemen, Jordan, Bahrain, Iraq and elsewhere have focused on the most immediate causes: political dictatorships, unemployment, repression and the wounding and killing of protestors. They have given most attention to the ‘middle class’, young, educated activists, their communication via the Internet (*Los Angeles Times*, February 16, 2011) and, in the case of Israel and its Zionists conspiracy theorists, ‘the hidden hand’ of Islamic extremists (*Daily Alert*, February 25, 2011).

What is lacking is any attempt to provide a framework for the revolt that takes account of the large-scale, long- and medium-term socioeconomic structures as well as the immediate ‘detonators’ of political action. The scope and depth of the popular uprisings, as well as the diverse political and social forces which have entered into the conflicts, preclude any explanations that look at one dimension of the struggles.

The best approach involves a ‘funnel framework’ in which, at the wide end (the long-term, large-scale structures), stands the nature of the economic, class and political system; the middle-term is defined by the dynamic cumulative effects of these structures on changes in political, social and economic relations; the short-term causes, which precipitate the socio-political-psychological responses, or social consciousness leading to political action.

#### *Arab Economics*

With the exception of Jordan, most of the Arab economies where the revolts are taking place are based on ‘rents’ from oil, gas, minerals and tourism, which provide most of the export earnings and state revenues (*Financial Times*, February 22, 2011, p. 14). These economic sectors are, in effect, export enclaves employing a tiny fraction of the labor force and define a highly specialized economy (*World Bank Annual Report*, 2009). These export sectors do not have links to a diversified productive domestic economy: oil is exported and finished manufactured goods as well as financial and high-tech services are all imported and controlled by foreign multinationals and expats linked to the ruling class (*Economic and Political Weekly*, February 12, 2011, p. 11). Tourism reinforces ‘rental’ income, as the sector which provides ‘foreign exchange’ and tax revenues to the class-clan state. The latter relies on state-subsidized foreign capital and local politically connected ‘real estate’ developers for investment and imported foreign construction workers.

Rent-based income may generate great wealth, especially as energy prices soar, but the funds accrue to a class of 'rentiers' who have no vocation or inclination for deepening and extending the process of economic development and innovation. The rentiers 'specialize' in financial speculation, overseas investments via private equity firms, extravagant consumption of high-end luxury goods and billion-dollar and billion-euro secret private accounts in overseas banks.

The rentier economy provides few jobs in modern productive activity; the high end is controlled by extended family-clan members and foreign financial corporations via expat experts; technical and low-end employment is taken up by contract foreign labor, at income levels and working conditions below what the skilled local labor force is willing to accept.

The enclave rentier economy results in a clan-based ruling class which 'confounds' public and private ownership: what's 'state' is actually absolutist monarchs and their extended families at the top and their client tribal leader, political entourage and technocrats in the middle.

These are 'closed ruling classes'. Entry is confined to select members of the clan or family dynasties and a small number of 'entrepreneurial' individuals who might accumulate wealth servicing the ruling clan-class. The 'inner circle' lives off of rental income, secures payoffs from partnerships in real estate where they provide no skills, but only official permits, land grants, import licenses and tax holidays.

Beyond pillaging the public treasury, the ruling clan-class promotes 'free trade', i.e. importing cheap finished products, thus undermining any indigenous domestic start-ups in the 'productive' manufacturing, agricultural or technical sector.

As a result there is no entrepreneurial national capitalist or 'middle class'. What passes for a middle class are largely public sector employees (teachers, health professionals, functionaries, firemen, police officials, military officers) who depend on their salaries, which, in turn, depend on their subservience to absolutist power. They have no chance of advancing to the higher echelons or of opening economic opportunities for their educated offspring.

The concentration of economic, social and political power in a closed clan-class controlled system leads to an enormous concentration of wealth. Given the social distance between rulers and ruled, the wealth generated by high commodity prices produces a highly distorted image of per-capital 'wealth'; adding billionaires and millionaires on top of a mass of low-income and underemployed youth provides a deceptively high average income (Washington Blog, February 24, 2011).

### *Dynamics of Rentier Rule: Arms and Handouts*

To compensate for these great disparities in society and to protect the position of the parasitical rentier ruling class, the latter pursues alliances with multi-billion dollar arms corporations, and military protection from the dominant imperial power. The rulers engage in 'neocolonization by invitation', offering land for

military bases and airfields, ports for naval operations, collusion in financing proxy mercenaries against anti-imperial adversaries and submission to Zionist hegemony in the region (despite occasional inconsequential criticisms).

In the medium term, rule by force is complemented by paternalistic handouts to the rural poor and tribal clans; food subsidies for the urban poor; and dead-end make-work employment for the educated unemployed (*Financial Times*, February 25, 2011, p. 1). Both costly arms purchases and paternalistic subsidies reflect the lack of any capacity for productive investments. Billions are spent on arms rather than diversifying the economy. Hundreds of millions are spent on one-shot paternalistic handouts, rather than long-term investments generating productive employment.

The glue holding this system together is the combination of modern pillage of public wealth and natural energy resources and the use of traditional clan and neocolonial recruits and mercenary contractors to control and repress the population. US modern armaments are at the service of anachronistic absolutist monarchies and dictatorships, based on the principles of eighteenth-century dynastic rule.

The introduction and extension of the most up-to-date communication systems and ultra-modern architecture shopping centers cater to an elite strata of luxury consumers and provides a stark contrast to the vast majority of unemployed educated youth, excluded from the top and pressured from below by low-paid overseas contract workers.

### *Neoliberal Destabilization*

The rentier class-clans are pressured by the international financial institutions and local bankers to ‘reform’ their economies: ‘open’ the domestic market and public enterprises to foreign investors and reduce deficits resulting from the global crises by introducing neoliberal reforms (*Economic and Political Weekly*, February 12, 2011, p. 11). As a result of ‘economic reforms’ food subsidies for the poor have been lowered or eliminated and state employment has been reduced, closing off one of the few opportunities for educated youth. Taxes on consumers and salaried/wage workers are increased while the real estate developers, financial speculators and importers receive tax exonerations. Deregulation has exacerbated massive corruption, not only among the rentier ruling class-clan, but also by their immediate business entourage.

The paternalistic ‘bonds’ tying the lower and middle class to the ruling class have been eroded by foreign-induced neoliberal ‘reforms’, which combine ‘modern’ foreign exploitation with the existing ‘traditional’ forms of domestic private pillage. The class-clan regimes no longer can rely on the clan, tribal, clerical and clientelistic loyalties to isolate urban trade unions, student, small business and low paid public sector movements.

*The Street against the Palace*

The ‘immediate causes’ of the Arab revolts are centered in the huge demographic-class contradictions of the clan-class ruled rentier economy. The ruling oligarchy rules over a mass of unemployed and underemployed young workers; the latter involves between 50 and 65 percent of the population under 25 years of age (Washington Blog, February 24, 2011). The dynamic ‘modern’ rentier economy does not incorporate the newly educated young into modern employment; it relegates them into the low-paid unprotected ‘informal economy’ of the street as vendors, transport and contract workers and in personal services. The ultra-modern oil, gas, real estate, tourism and shopping-mall sectors are dependent on the political and military support of backward traditional clerical, tribal and clan leaders, who are subsidized but never ‘incorporated’ into the sphere of modern production. The modern urban industrial working class with small, independent trade unions is banned. Middle-class civic associations are either under state control or confined to petitioning the absolutist state.

The ‘underdevelopment’ of social organizations, linked to social classes engaged in modern productive activity, means that the pivot of social and political action is the street. Unemployed and underemployed part-time youth engaged in the informal sector are found in the plazas, at kiosks, cafes, street corner society, and markets, moving around and about and outside the centers of absolutist administrative power. The urban mass does not occupy strategic positions in the economic system; but it is available for mass mobilizations capable of paralyzing the streets and plazas through which goods and services are transported out and profits are realized. Equally important, mass movements launched by the unemployed youth provide an opportunity for oppressed professionals, public sector employees, small business people and the self-employed to engage in protests without being subject to reprisals at their place of employment—dispelling the ‘fear factor’ of losing one’s job.

The political and social confrontation revolves around the opposite poles: clientelistic oligarchies and déclassé masses (the *Arab Street*). The former depends directly on the state (military/police apparatus) and the latter on amorphous local, informal, face-to-face improvised organizations. The exception is the minority of university students who move via the Internet. Organized industrial trade unions come into the struggle late and largely focus on sectoral economic demands, with some exceptions, especially in public enterprises, controlled by cronies of the oligarchs, where workers demand changes in management.

As a result of the social particularities of the rentier states, the uprisings do not take the form of class struggles between wage labor and industrial capitalists. They emerge as mass political revolts against the oligarchical state. Street-based social movements demonstrate their capacity to delegitimize state authority, paralyze the economy, and can lead to the ousting of the ruling autocrats. But it is the nature of mass street movements to fill the squares with relative ease, but also to be dispersed when the symbols of oppression are ousted. Street-based movements

lack the organization and leadership to project, let alone impose, a new political or social order. Their power is found in their ability to pressure existing elites and institutions, not to replace the state and economy. Hence the surprising ease with which the US-, Israeli- and EU-backed Egyptian military were able to seize power and protect the entire rentier state and economic structure while sustaining their ties with their imperial mentors.

### *Converging Conditions and the ‘Demonstration Effect’*

The spread of the Arab revolts across North Africa, the Middle East and Gulf states is, in the first instance, a product of similar historical and social conditions: rentier states ruled by family-clan oligarchs dependent on ‘rents’ from capital intensive oil and energy exports, which confine the vast majority of youth to marginal informal ‘street-based’ economic activities.

The ‘power of example’ or the ‘demonstration effect’ can only be understood by recognizing the same sociopolitical conditions in each country. Street power—mass urban movements—presumes the street as the economic locus of the principal actors and the takeover of the plazas as the place to exert political power and project social demands. No doubt the partial successes in Egypt and Tunisia did detonate the movements elsewhere. But they did so only in countries with the same historical legacy, the same social polarities between rentier-clan rulers and marginal street labor and especially where the rulers were deeply integrated and subordinated to imperial economic and military networks.

### *Conclusion*

Rentier rulers govern via their ties to US and EU military and financial institutions. They modernize their affluent enclaves and marginalize recently educated youth, who are confined to low-paid jobs, especially in the insecure informal sector, centered in the streets of the capital cities. Neoliberal privatizations, reductions in public subsidies (for food, unemployment subsidies, cooking oil, gas, transport, health and education) shattered the paternalistic ties through which the rulers contained the discontent of the young and poor, as well as clerical elites and tribal chiefs. The confluence of classes and masses, modern and traditional, was a direct result of a process of liberalization from above and exclusion from below. The neoliberal ‘reformers’ promise that the ‘market’ would substitute well-paying jobs for the loss of state paternalistic subsidies was false. The neoliberal policies reinforced the concentration of wealth while weakening state controls over the masses.

The world capitalist economic crisis led Europe and the United States to tighten their immigration controls, eliminating one of the escape valves of the regimes—the massive flight of unemployed educated youth seeking jobs abroad. Outmigration was no longer an option; the choices narrowed to struggle or suffer. Different studies show that those who emigrate tend to be the most ambitious,

better educated (within their class) and the greatest risk-takers. Now, confined to their home country, with few illusions of overseas opportunities, they are forced to struggle for individual mobility at home through collective social and political action.

Equally important among the political youth is the fact that the United States, as guarantor of the rentier regimes, is seen as a declining imperial power: challenged economically in the world market by China; facing defeat as an occupying colonial ruler in Iraq and Afghanistan; and humiliated as a subservient and mendacious servant of an increasingly discredited Israel via its Zionist agents in the Obama regime and Congress. All of these elements of US imperial decay and discredit, encourage the pro-democracy movements to move forward against the US clients and lessen their fears that the US military would intervene and face a third military front. The mass movements view their oligarchies as ‘third tier’ regimes: rentier states under US hegemony, which, in turn, is under Israeli–Zionist tutelage. With 130 countries in the UN General Assembly and the entire Security Council, minus the United States, condemning Israeli colonial expansion; with Lebanon, Egypt, Tunisia and the forthcoming new regimes in Yemen and Bahrain promising democratic foreign policies, the mass movements realize that all of Israel’s modern arms and 680,000 soldiers are of no avail in the face of its total diplomatic isolation, its loss of regional rentier clients, and the utter discredit of its bombastic militarist rulers and their Zionist agents in the US diplomatic corps (*Financial Times*, February 24, 2011, p. 7).

The very socioeconomic structures and political conditions which detonated the pro-democracy mass movements, the unemployed and underemployed youth organized from ‘the street’, now present the greatest challenge: can the amorphous and diverse mass become an organized social and political force which can take state power, democratize the regime and, at the same time, create a new productive economy to provide stable well-paying jobs, so far lacking in the rentier economy? The political outcome to date is indeterminate: democrats and socialists compete with clerical, monarchist and neoliberal forces bankrolled by the United States.

It is premature to celebrate a popular democratic revolution.

### **Washington Faces the Arab Revolts: Sacrificing Dictators to Save the State**

To understand the Obama regime’s policy towards Egypt, the Mubarak dictatorship and the popular uprising it is essential to locate it in an historical context. The essential point is that Washington, after several decades of being deeply embedded in the state structures of the Arab dictatorships, from Tunisia through Morocco, Egypt, Yemen, Lebanon, Saudi Arabia and the Palestinian Authority, is attempting to reorient its policies to incorporate and/or graft liberal-electoral politicians onto the existing power configurations.

While most commentators and journalists spill tons of ink about the ‘dilemmas’ of US power, the novelty of the Egyptian events and Washington’s day-to-day

policy pronouncements, there are ample historical precedents that are essential to understand the strategic direction of Obama's policies.

### *Historical Background*

US foreign policy has a long history of installing, financing, arming and backing dictatorial regimes which back its imperial policies and interests as long as they retain control over their people.

In the past, Republican and Democratic presidents worked closely for over 30 years with the Trujillo dictatorship in the Dominican Republic; installed the autocratic Diem regime in pre-revolutionary Vietnam in the 1950s; collaborated with two generations of Somoza family terror regimes in Nicaragua; financed and promoted the military coup in Cuba in 1952, Brazil in 1964, Chile in 1973 and in Argentina in 1976, and the subsequent repressive regimes. When popular upheavals challenged these US-backed dictatorships, and a social as well as political revolution appeared likely to succeed, Washington responded with a three-track policy: publically criticizing the human rights violations and advocating democratic reforms; privately signaling continued support to the ruler; and thirdly, seeking an elite alternative which could substitute for the incumbent and preserve the state apparatus, the economic system and support US strategic imperial interests.

For the United States there are no strategic relationships: only permanent imperial interests, namely preservation of the client state. The dictatorships assume that their relationships with Washington are strategic: hence the shock and dismay when they are sacrificed to save the state apparatus. Fearing revolution, Washington has had reluctant client despots, unwilling to move on, assassinated (Trujillo and Diem). Some are provided sanctuaries abroad (Somoza, Batista), others are pressured into power-sharing (Pinochet) or appointed as visiting scholars to Harvard, Georgetown or some other 'prestigious' academic posting.

The Washington calculus on when to reshuffle the regime is based on an estimate of the capacity of the dictator to weather the political uprising, the strength and loyalty of the armed forces and the availability of a pliable replacement. The risk of waiting too long, of sticking with the dictator, is that the uprising radicalizes: the ensuing change sweeps away both the regime and the state apparatus, turning a political uprising into a social revolution. Just such a 'miscalculation' occurred in 1959 in the run-up to the Cuban Revolution, when Washington stood by Batista and was not able to present a viable pro-US alternative coalition linked to the old state apparatus. A similar miscalculation occurred in Nicaragua, when President Carter, while criticizing Somoza, stayed the course, and stood passively by as the regime was overthrown and the revolutionary forces destroyed the US and Israeli trained military, secret police and intelligence apparatus, and went on to nationalize US property and develop an independent foreign policy.

Washington moved with greater initiative in Latin America in the 1980s. It promoted negotiated electoral transitions which replaced dictators with pliable

neoliberal electoral politicians, who pledged to preserve the existing state apparatus, defend the privileged foreign and domestic elites and back US regional and international policies.

### *Lessons from the Past and Policies in the Present*

Obama has been extremely hesitant to oust Mubarak for several reasons, even as the movement grows in number and anti-Washington sentiment deepens. The White House has many clients around the world, including Honduras, Mexico, Indonesia, Jordan and Algeria, who believe they have a strategic relationship with Washington and would lose confidence in their future if Mubarak were dumped.

Secondly, the highly influential leading pro-Israel organizations in the United States (AIPAC, the Presidents of the Major American Jewish Organizations) and their army of scribes have mobilized congressional leaders to pressure the White House to continue backing Mubarak, as Israel is the prime beneficiary of a dictator who is at the throat of the Egyptians (and Palestinians) and at the feet of the Jewish state.

As a result the Obama regime has moved slowly, under fear and pressure of the growing Egyptian popular movement. It searches for an alternative political formula that removes Mubarak, retains and strengthens the political power of the state apparatus and incorporates a civilian electoral alternative as a means of demobilizing and de-radicalizing the vast popular movement.

The major obstacle to ousting Mubarak is that a major sector of the state apparatus, especially the 325,000 Central Security Forces and the 60,000 National Guard are directly under the Interior Ministry and Mubarak. Secondly, top generals in the army (468,500 members) have buttressed Mubarak for 30 years and have been enriched by their control over very lucrative companies in a wide range of fields. They will not support any civilian 'coalition' that calls into question their economic privileges and power to set the political parameters of any electoral system. The supreme commander of the Egyptian military is a long-time client of the United States and a willing collaborator with Israel.

Obama is resolutely in favor of collaborating with and ensuring the preservation of these coercive bodies. But he also needs to convince them to replace Mubarak and allow for a new regime that can defuse the mass movement that is increasingly opposed to US hegemony and subservience to Israel. Obama will do everything necessary to retain the cohesion of the state and avoid any splits that might lead to a mass movement soldier alliance that could convert the uprising into a revolution.

Washington has opened talks with the most conservative liberal and clerical sectors of the anti-Mubarak movement. At first it tried to convince them to negotiate with Mubarak—a dead-end position that was rejected by all sectors of the opposition, top and bottom. Then Obama tried to sell a phony 'promise' from Mubarak that he would not run in the elections, nine months later.

The movement and its leaders rejected that proposal also. So Obama raised the rhetoric for 'immediate changes' but without any substantive measures backing it



up. To convince Obama of his continued power base, Mubarak sent his formidable thug and lumpen elements of the secret police to violently seize the streets from the movement. A test of strength: the army stood by; the assault raised the ante of a civil war, with radical consequences. Washington and the EU pressured the Mubarak regime to back off—for now. But the image of a pro-democracy military was tarnished, as killings and injuries multiplied in the thousands.

As the pressure of the movement intensifies, Obama cross-pressured by the pro-Mubarak Israel lobby and its Congressional entourage on the one hand, and on the other by knowledgeable advisers who call on him to follow past practices and move decisively to sacrifice the regime to save the state while the liberal-clerical electoral option is still on the table. But Obama hesitates and, like a wary crustacean, he moves sideways and backwards, believing his own grandiloquent rhetoric is a substitute for action ... hoping that sooner or later, the uprising will end with Mubarakism without Mubarak: a regime able to demobilize the popular movements and willing to promote elections which result in elected officials following the general line of their predecessor.

Nevertheless, there are many uncertainties in a political reshuffle: a democratic citizenry, 83 percent unfavorable to Washington, will possess the experience of struggle and freedom to call for a realignment of policy, especially to cease being a policeman enforcing the Israeli blockage of Gaza, and providing support for US puppets in North Africa, Lebanon, Yemen, Jordan and Saudi Arabia. Secondly, free elections will open debate and increase pressure for greater social spending, the expropriation of the US\$70 billion empire of the Mubarak clan and the crony capitalists who pillage the economy. The masses will demand a reallocation of public expenditure from the overblown coercive apparatus to productive, job-generating employment. A limited political opening may lead to a second round, in which new social and political conflicts will divide the anti-Mubarak forces, a conflict between the advocates of social democracy and elite backers of neoliberal electoralism. The anti-dictatorial moment is only the first phase of a prolonged struggle toward definitive emancipation not only in Egypt but throughout the Arab world. The outcome depends on the degree to which the masses develop their own independent organization and leaders.

### **Unrest and Change: Dispatches from the Frontline of a Class War in Egypt**

To properly grasp the political dynamics of capitalist development means that we need to think of ‘politics’ and ‘economics’, which in liberal and bourgeois discourse are conceived of as separate spheres, as interconnected and part of the same struggle. For example, to claim that the Egyptian demonstrators were primarily concerned with Hosni Mubarak and so-called political freedoms—the dominant narrative of US and other world leaders and much of the corporate media coverage—is to distort and misread the nature of these protests. Clearly, as noted by Adam Hanieh in his penetrating analysis of recent developments in Egypt, ‘the

protests have encompassed a wide variety of social layers with different demands, but their overall logic is inextricably tied to broader questions of capitalism in the Middle East'. These questions are neither solely 'political' nor 'economic' but revolve primarily around which class rules Egypt and in whose interest the Egyptian state functions. They include: (1) the global economic crisis and the nature of neoliberalism in Egypt, and (2) Egypt's role in sustaining patterns of US domination in the Middle East. The nature of Mubarak's rule, Hanieh argues, cannot be separated from these questions, which is 'why the struggle against political despotism is inevitably intertwined with the dynamic of class struggle'.

An illustration of the class character of these popular uprisings is their link to the chain of protests that have erupted over the last three years in the wake of the global economic crisis. This is the Arab world's response to that crisis, which confounds the dominant narrative that the economic crisis was largely confined to the advanced capitalist core and that the so-called 'emerging markets' had escaped the worst effects. However, Hanieh notes, 'decades of neoliberalism have tied the Egyptian economy into the capitalist world market in a very uneven fashion and, as a consequence, the crisis was to have a devastating impact on the majority of the country's population'.

There have been a variety of mechanisms through which this transmission of crisis has taken place. First, the Middle East (and particularly the North Africa region) is highly dependent upon exports to Europe and these have fallen precipitously due to the drop in demand that followed economic contraction. World Bank figures show that Egypt's year-on-year growth rates of merchandise exports to the EU dropped from 33 percent in 2008 to -15 percent by July 2009 (World Bank, 2010: 142). Similarly, Tunisia and Morocco saw the total value of their world exports fall by 22 and 31 percent respectively in 2009—leading the World Bank to note that these countries were facing the worst recessions in six decades (Hanieh, 2011; World Bank, 2010: 142).

A second transmission mechanism has been the curtailment of worker remittances on which the Middle East is highly dependent. In the case of Egypt, workers tend to migrate to the Gulf countries, Libya and Jordan. For the rest of North Africa, this labor migration tends to be towards Europe. Egypt is the largest recipient of remittances in the Middle East, representing approximately 5 percent of national GDP. With the mass layoffs that continue to characterize the global crisis—particularly in sectors such as construction—remittances have fallen rapidly. Egypt experienced a massive contraction of 18 percent in remittances from 2008 to 2009. For a region where these flows form the basic survival mechanism for millions of people, the decline has had devastating consequences.

These effects also need to be placed alongside the other more recent feature of the crisis: the spiralling cost of basic food and energy items. This rising commodity inflation is another aspect of the crisis itself, partially resulting from the large quantities of extra cash pumped into the system to ameliorate the crisis in the core countries, particularly the US program of 'quantitative easing' (McNally, 2011). Once again, Hanieh argues, the effects have been magnified in much of the Middle

East. In Egypt, he notes, annual food price inflation accelerated to 18.9 percent in January 2011 from 17.2 percent in December. These rapid increases in prices are essentially a form of severe wage cuts for those segments of the population compelled to spend most of their income on basic items.

### *Neoliberalism in Egypt*

Any mapping of the crisis needs to go beyond the immediate results of global slowdown and be situated within the three decades of neoliberal ‘reforms’ that Egypt, together with other countries and regions on the periphery of the system, has experienced. What neoliberalism has done among other things is to make the country much more vulnerable to the crisis itself—massively widening the levels of inequality and, simultaneously, undermining potential mechanisms of social support. Precisely because of these outcomes of neoliberalism, the effects of the crisis were sharply concentrated on the most vulnerable layers of Egyptian society. At the same time, and this expresses the essential class character of the neoliberal project, a tiny elite benefited enormously from these economic measures. In Mexico, for example, in another part of the world but with substantially the same experience of neoliberalism, the super-rich, a small group of 11 billionaires that effectively stage-managed if not substantively benefited from the government’s response to the ‘global financial crisis’, came out of the crisis with a 127 percent increase in the value of their net worth, representing 12.4 percent of the GDP (*La Jornada*, March 10, 2011, p. 31). The personal fortune of Carlos Slim, at the very top of *Forbes*’ list of the world’s richest, increased 38 percent over the course of the last year. By the same token, the poor, estimated conservatively at 44 percent of the population, suffered a severe deterioration in their social condition as a result of the crisis that according to some never was—having to confront a sharp rise in the cost of many basic commodities under precarious working conditions and falling incomes.

This reading of Egypt’s—and Mexico’s—experience runs directly counter to the account of international financial institutions such as the IMF and World Bank. The IMF, for example, in February 2010, claimed that Egypt had been ‘resilient to the crisis’ because ‘sustained and wide-ranging reforms since 2004 had reduced fiscal, monetary, and external vulnerabilities, and improved the investment climate’ (quoted by Hanieh). According to the IMF, as quoted by Hanieh, the Egyptian government’s successful implementation of neoliberalism had ‘bolstered the economy’s durability and provided breathing space for appropriate policy responses’ (IMF, 2010).

The IMF finds evidence for Egypt’s resilience in the relatively high GDP growth rates that the country has managed to sustain. From 2006 to 2008 growth was around 7 percent annually, and in 2009, when much of the world was experiencing negative GDP growth, Egypt recorded a growth rate of 4.6 percent. But, as Hanieh notes, this GDP-centric account assesses a country’s health on the basis of aggregate macro-statistics, on the assumption that a growth trend at the

aggregate level is good for the population as a whole. In fact it hides the reality that capitalism is an exploitative system, and the outcome of the unfettered market typically means that overall growth results in the widening of inequality. See, for example, the assessment of neoliberal 'pro-growth' policies provided by ECLAC (2010) in the case of Latin America. It is, in other words, a statistical expression of the 'trickle-down effect'. Egypt is a perfect example of the reality behind this myth: neoliberalism *has* produced rapid growth rates but, simultaneously, it has led to worsening living standards for the majority of the population and the increased concentration of wealth in the hands of a tiny minority (literally, a handful of families).

According to official government statistics poverty increased from 20 to 23.4 percent from 2008 to 2009. This in itself is a significant increase but official statistics need to be approached with a large degree of skepticism. The official poverty line is set at an absurdly low rate, when in fact some 40 percent of Egyptians live on less than \$2 per day. The official unemployment rate is recorded at around 9 percent, but again the reality is completely different—more than half of those outside of agriculture are found in the 'informal sector' and are not properly recorded in the unemployment statistics. As so many other places on the capitalist periphery, these informal workers live in a society that lacks any decent social provisions for education, healthcare or broader welfare. It is estimated, for example, that one-third of the Egyptian population is illiterate. The demographic question also looms large here. In a country where the leadership consists of men in their eighties, youth apparently make up more than 90 percent of the jobless.

The onset of neoliberalism in Egypt is associated with the series of policy measures known as *infatih* (opening) that were launched in the 1970s under President Anwar Sadat. After Mubarak came to power following Sadat's assassination, successive governments continued the policy trajectory set by *infatih*. There were two prongs to this policy, particularly as it unfolded under the aegis of an IMF structural adjustment program in 1990–1. First, a series of policies began to transform social relations in the rural areas. In 1992, Law 96 of the Egyptian Peoples' Assembly liberalized agricultural rents and allowed for the eviction of tenants by landowners after a five-year transitional period. Rents were raised threefold and—with the encouragement of international financial institutions such as the IMF and World Bank, and US government bodies such as USAID—Egyptian agriculture shifted towards the type of export-oriented production that typifies much of African agriculture today (Bush, 2004). Hundreds of thousands of Egyptians lost their ability to survive on the land and streamed into the informal sector of urban centers, particularly, but not only, into Cairo.

Second, with the policy of privatization, a vital component of the neoliberal reform agenda, state employment was cut back dramatically. Of a total of 314 state enterprises 209 were privatized by 2005, leading to a massive displacement of public sector workers, and with it a further weakening of the struggling labor movement (Joya, 2008). The number of workers in these public sector companies was halved from 1994 to 2001. In the banking sector, nearly 20 percent of the

banking system was transferred from public control to the private sector. The consequence of this wave of privatization, hailed by the IMF in 2006 as having ‘surpassed expectations’ (IMF, 2010), was a massive downgrading of working conditions and the further impoverishment of wide layers of the Egyptian population. This was also a contributing factor to the expansion of the army of informal workers that characterize Egyptian cities and that have played such a critical role in the recent uprising.

It is in response to these neoliberal measures—and the complicity of the official state-linked trade union movement—that independent forms of worker organizing emerged in an important wave of strikes in 2006–8. During 2006 there were 220 major strikes involving tens of thousands of workers in the largest strike wave that Egypt had seen in decades (Allison, 2007). These strikes linked up with peasant movements, which aimed at resisting the loss of land due to the neoliberal measures described above. These earlier forms of organization and struggle, according to Hanieh and others, have been a key element to the historical experiences underpinning the current wave of protests.

Accompanying these neoliberal measures was its corollary: the concentration and centralization of wealth in the hands of a tiny layer of the country’s elite. As Tim Mitchell (1999) has described, a key feature of the 1990–1 IMF structural adjustment was a transfer of wealth from the public to the private sector, and from the middle and working classes to the rich and the well-to-do. The result was the strengthening of a handful of massive conglomerates such as the Osman, Bahgat and Orascom Groups, whose activities stretch across construction, import/export, tourism, real estate and finance (Mitchell, 1999). It was this class that substantively benefited from the privatization process, the access to cheap labor, the government contracts, and the other forms of largesse distributed through the channels of the state.

So while the outrage at the wealth of Mubarak and the state officials associated with his regime is well deserved, we should not forget that Mubarak—and the Egyptian state as a whole—represented an entire capitalist class. The result of neoliberalism was the enrichment of a tiny elite concurrent with the immiseration of the vast majority. However, as Hanieh correctly notes, this is not an aberration of the system—a kind of ‘crony capitalism’ as some financial commentators have described it—but precisely a normal feature of capitalist accumulation replicated across the world. The repressive apparatus of the Egyptian state was aimed at ensuring that the lid was kept on any social discontent arising from these worsening conditions. In this sense, the struggle against the effects of the economic crisis would inevitably be compelled to confront the dictatorial character of the regime.

### *Arab Capitalism*

The series of uprisings in the Arab world cannot be understood without situating it within the regional context. Once again, there is the intertwining of the political and economic. For one thing, US policy in the Middle East is aimed, first and foremost,

at keeping the oil and petro-dollar rich Gulf states under its influence. This does not mean that the United States wants to directly own these oil supplies but rather that it wants to ensure that the oil supplies remain outside of the democratic control of the people of the region. The nature of global capitalism and the dominant position of the US state within the world market rests significantly upon its control over the Gulf region. As Hanieh notes in his review of political developments in the region, any move towards a broader democratic transformation of the region could potentially threaten US interests and power at a global level. This is why the United States has so strongly supported the dictatorships that rule the Gulf states and also why the majority of the labor in the Gulf is performed by temporary migrant workers who lack all citizenship rights and can be deported at any sign of discontent.

All other relations between the United States and other countries in the region are subordinated and linked to this goal of US hegemony over the Gulf region. This includes the US–Israel relationship. The United States sees Israel as a key pillar of its overall Middle East policy: it is an ally that is fully dependent upon US military and political support and can always be relied upon to act against the interests of the Arab masses. Precisely because Israel has its origins as a settler-colonial state founded upon the dispossession of the Palestinian people, it is seen as a more stable and steadfast pillar of US power than any of the Arab dictatorships that are exposed to the threat of popular revolt. This is why the interests of Israel and the Arab dictatorships are coincident, not opposed to one another, as was so clearly illustrated in the recent uprisings of both Tunisia and Egypt.

Beyond the Gulf states and Israel the third pillar of US power in the region is reliance upon autocratic leaders such as Mubarak. But behind Mubarak (as with his predecessor Sadat) is the Egyptian military. US linkages to Egypt have largely been constructed through the military and this is one of the key reasons why the military plays such a dominant role in the Egyptian state. The vast amount of military aid that Egypt receives from the United States (around US\$1.4 billion annually) is well known, as is the role that the military has played in supporting US policy across the Middle East (the current head of the Supreme Council of the Armed Forces, Mohamed Tantawi, fought alongside US troops in the 1991 Gulf War). The highest ranks of Egypt's military are so closely connected to the capitalist class as to be an integral part of it with significant economic interests that overlap with the state and private sector. Precisely because of the military's central role in sustaining US power regionally, and its own stake in the reproduction of Egyptian capitalism, the belief of some that the Egyptian military is 'part of the people' or 'neutral and above politics' is illusory, to say the least (Achcar, 2011).

Over the last two decades the linkages between the political and economic configuration of US power in the Middle East have become even more explicit. US policy has followed a two-pronged track that ties neoliberalism with the normalization of economic and political relations between the Arab world and Israel. The broader goal has been the creation of a single economic zone from Israel to the Gulf states, linked under the dominance of the United States. One of

the mechanisms for reaching this goal has been a series of Free Trade Agreements (FTAs) signed between the United States and Arab states in the region (Morocco, Bahrain, Oman, Jordan and Egypt) that, over time, would be knitted together in a single free trade area enabling the unfettered flow of capital and goods across the region (Hanieh, 2008).

The bond between normalization and neoliberalism is powerfully illustrated in the character of these US bilateral FTAs, which include as part of their conditions a requirement to lift any boycott or refusal to trade with Israel (Hanieh, 2011). In the case of Egypt (and Jordan) the link is more advanced than any other state in the region, and is best shown in the so-called Qualified Industrial Zones (QIZ). These QIZ provide duty-free access to the US market for Egyptian exports. But they contain the remarkable provision that a certain proportion of imports (around 12 percent) must be Israeli in order to qualify for duty-free status. The Egyptian QIZ is concentrated in the textile sector, with 770 companies operating in the zones at the end of 2009. Since the few short years of their existence they have grown to be a significant weight in Egyptian exports to the United States. Egyptian exports from the QIZ grew at an incredible 57 percent annually between 2005 and 2008, more than 10 times the rate of Egypt's exports to the United States as a whole (Kotschwar and Schott, 2008: 20). In 2010, QIZ exports made up more than 40 percent of the value of all of Egypt's exports to the United States.<sup>1</sup>

It is noteworthy that Egyptian activists have raised the demand during the recent uprising to shut down these QIZ. It would be a further powerful step to open the books of these QIZ—accurate and factual information about their operations are notoriously hard to come by and it would be a great service of the Egyptian people to reveal them to the world. It should also be noted that similar QIZ exist in the Jordanian context—with the added twist that many of the workers in the Jordanian QIZ are badly exploited migrants from Asia.

These regional processes thus further confirm the impossibility of separating the 'economic' and 'political' aspects of the current uprisings. The demand to cut ties with Israel and abrogate the regional agreements signed by Sadat and Mubarak are part and parcel of resisting the logic of neoliberalism and US power in the region. The authoritarian nature of the state is a direct outcome of these regional processes and, for this reason, if it is to be successful, the struggle for greater political freedom must inevitably take up questions of confronting US dominance of the region and the particular role Israel plays in sustaining that dominance.

### *Conclusion*

The story that has been told in much of the mass media and reinforced by the carefully worded rhetoric of US and European officials is that these demonstrations have primarily been a struggle to overthrow individual tyrants. There is, of course, a one-sided truth to this: protestors have taken aim at the individual personages

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1 Calculated by Hanieh (2011) from data at [dataweb.usitc.gov](http://dataweb.usitc.gov).

of Ben Ali and Mubarak. But the claim that this is a struggle for ‘democracy’ acts to obfuscate more than clarify what these uprisings are about. Two-thirds of the Egyptian population are under the age of 30. This means that the vast majority of the Egyptian population have not only spent their entire lives under the rule of Hosni Mubarak; they have also endured a very brutal form of neoliberal capitalism. The demonstrations were a direct result of the naked class power embodied by Mubarak’s rule. This was, Hanieh notes, graphically illustrated in the way in which the capitalist class essentially fled the country in the first few days of the uprising.<sup>2</sup>

The anti-democratic character of so many of the regimes in the Arab world is not accidental or just a cultural matter, but rather the political form of capitalism in the region. It is the way that capitalism necessarily functions in a society marked by astonishingly high levels of inequality, and which is located in a region that is so central to the constitution of US power at a global level. In this regard, the Middle East and North Africa region can be compared to Latin America, a region with even wider and deeper levels of social inequality in the distribution of wealth and income. Again, there was nothing accidental or contingent about the succor and support given by the United States to every military dictatorship or authoritarian regime that dominated the Latin American political landscape in the years from the 1950s to the 1970s. For this reason, the demand for democratic expression in societies characterized by decades of atrophied public space is one facet of a much broader struggle that pivots around the question of class. Mubarak, for example, was but the public face of a military government, and removing that face does not change the character of military rule or the way in which that rule sustains the dominance of a particular class. The role of the Egyptian military cannot be decisively reformed while leaving the structure of capitalism and its regional linkages unchallenged.

This analysis runs precisely opposite to the rhetoric of Obama and other world leaders that whitewashes the West’s decades-long support for Mubarak and other Arab autocrats, and that claims that the uprisings in the region by the citizens against their government is simply a question of political ‘transition’. Thus there is a furious attempt now by local elites and the US government, and all their regional allies (including Israel), to separate the ‘political’ and ‘economic’ characteristics of the popular struggle and confine the struggle to simply a question of democratic transition—to elude thereby any deeper questioning of the regimes in place. This is clearly demonstrated by media reports on February 14, 2011, that the Egyptian military would outlaw strikes and other forms of independent worker organizing. But the struggle against the Egyptian dictatorship and the other authoritarian regimes in the region remains, in essence, a class struggle.

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2 Hanieh (2011), in this regard, cites reports in the early days of the uprising that Egypt’s largest business owners flew out on 19 planes to Dubai where they hoped to ride out the storm of the uprising.



## **The Euro-US War on Libya: Official Lies and the Misconceptions of Critics**

One of the basic flaws of the arguments of critics of Euro-US wars is their resort to clichés, generalizations and arguments without any factual bases. The most common line on the US-Euro war on Libya is that it's 'all about oil'—the seizure of oil wells. On the other hand Euro-US government spokespeople have defended the war by claiming it is about 'saving civilian lives facing genocide', an act of 'humanitarian intervention'.

Following the lead of their imperial powers, most of what passes for the left in the United States and Europe, ranging from social democrats, Marxists, Trotskyists and other assorted progressives, claim to see and support a revolutionary mass uprising and not a few call for active intervention by the imperial powers, or the same thing, the UN, to presumably help the 'social revolution' defeat the Gaddafi dictatorship.

The claims and variations of these arguments are totally without substance and belie the true nature of US-UK-French imperial power, based on rising militarism as evidenced in all the ongoing wars over the past decade (Iraq, Afghanistan, Somalia). What is revealing in the context of militarist intervention in Libya is that all the major countries which refused to engage in the war are motivated by a different type of global expansion: economic and market forces. China, India, Brazil, Russia, Turkey, Germany, the most dynamic capitalist countries in Asia, Europe and the Middle East are, in part, all opposed to the self-styled 'allied' military response because they see (with solid reasons) no threat to their security, an open door for access to oil, a favorable investment climate and no signs of any progressive democratic outcome among the disparate elites competing for power and Western favor among the media labeled 'rebels'.

### *Myth 1: Humanitarianism of the West*

The principal imperial powers and their mass media mouthpieces claim they are militarily assaulting Libya for 'humanitarian reasons'. Their recent past and present history suggests the contrary. Interventions in Iraq resulted in over a million killings, four million displaced civilians and the mass destruction of an entire civilization including water, electricity, research centers, museums.

Similar outcomes resulted from the invasion of Afghanistan. What was dubbed a humanitarian intervention resulted in a human catastrophe. In the case of Iraq the road to imperial barbarism began with 'sanctions', progressed to 'no fly zones', then to partition, then to invasion and occupation and the unleashing of sectarian tribal warfare among the 'liberated' rebel paramilitary death squads. Equally telling the imperial assault against Yugoslavia, also justified as a 'humanitarian war' against a 'genocidal regime', led to the 40-day massive bombing and destruction of Belgrade and other major cities, the imposition of a gangster terrorist regime (KLA) in the separatist province of Kosova and a huge US military base in the latter.

The bombing of Libya has destroyed major civilian infrastructure, airports, roads, seaports, communication centers as well as military targets. The sanctions and military attacks have driven out scores of multinational corporations and exodus of hundreds of thousands of African, Middle Eastern and North African immigrant workers and technicians, devastating the economy and creating mass long-term unemployment. Moreover, following the logic of previous imperial military interventions, the seemingly ‘moderate’ call to patrol the skies via a ‘no fly zone’, leads directly to bombing terrestrial civilian as well as military targets, onward to overthrowing the government. The imperial warmongers attacking Libya, like their predecessors, are not engaged in anything remotely resembling a humanitarian gesture: they are destroying the civilian lives they purport to be saving—as was the case in Vietnam earlier.

### *Myth 2: War for Oil or Oil for Sale?*

One of the most opt-repeated clichés by the left or at least those leftists is that the imperial invasion is about ‘seizing control of Libya’s oil and turning it over to their multinationals’. The facts on the ground tell us a different story: the multinational oil companies of Europe, Asia, the United States and elsewhere have already ‘taken over’ millions of acres of Libyan oil fields, some are already pumping and exporting oil and gas and have been reaping hefty profits for almost the better part of a decade. MNC ‘exploitation by invitation’—from Gaddafi to the biggest oil companies—is an ongoing process from the early 1990s to the present day. The list of foreign oil majors engaged in Libya exceeds that of most oil producing countries in the entire world. They include British Petroleum with a seven-year license on two concessions with US\$1 billion in planned investments. Each concession involves BP exploiting enormous areas of Libya, one the size of Kuwait, the other the size of Belgium (Libyonline.com). Five Japanese firms, including Mitsubishi and Nippon Petroleum, Italy’s Eni Gas, British Gas and Exxon Mobil secured exploration and exploitation contracts in October 2010. In January 2010, Libya’s oil concessions mainly benefited US oil companies, especially Occidental Petroleum. Foreign multinationals gaining contracts also include Royal Dutch Shell, Total (France), Oil India, CNPC (China), Indonesia’s Pertamina and Norway’s Norsk Hydro (BBC News, October 3, 2005).

Despite sanctions imposed by Reagan in 1986, Halliburton has worked on billion-dollar gas and oil projects since the 1980s. During former Defense Secretary Cheney’s tenure as CEO of Halliburton, he led the fight against sanctions, arguing that ‘as a nation [there is] enormous value having American businesses engaged around the world’ (Halliburtonwatch.com). Sanctions against Libya were lifted under Bush in 2004. During the current decade Gaddafi invited more foreign companies to invest in Libya than any other regime in the world. Clearly, with all the European and US imperial countries already exploiting Libya’s oil on a massive scale the argument that the ‘war is about oil’ does not hold water or oil!

*Myth 3: Gaddafi is a Terrorist*

In the run-up to the US military assault, the Treasury, led by Stuart Levey, a well-known Zionist, authored a sanctions policy freezing US\$30 billion in Libyan assets, claiming Gaddafi was a murderous tyrant (*Washington Post*, March 24, 2011). Yet precisely seven years earlier, Cheney, Bush and Condoleezza Rice took Libya off the list of terrorist regimes and told Levey and his minions to lift sanctions. Every major European power followed suit: Gaddafi was welcomed in European capitals, prime ministers visited Tripoli and Gaddafi reciprocated by unilaterally dismantling his nuclear and chemical weapons programs (BBC, September 5, 2008). Gaddafi bent over backwards in cooperating with Washington's campaign against groups, movements and individuals on Washington's arbitrary 'terror list'—arresting, torturing and killing Al Qaeda suspects; expelling Palestinian militants and criticizing Hezbollah, Hamas and other Israeli adversaries. The United Nations Human Rights Committee gave Gaddafi a clean bill of health. Western elites welcomed Gaddafi's political turnabout but it did not save him from a massive military assault. Neoliberal reforms, political apostasy, anti-terrorism, eliminating weapons of massive destruction, all weakened the regime, increased its vulnerability and isolated it from any consequential anti-imperialist allies. Gaddafi's concessions made his regime an easy target for militarists in Washington, London and Paris.

*Myth 4: The Revolutionary Masses in Waiting*

The Left, including the principal social democratic, green and even left socialist parties of Europe and the United States, tail-ending their imperial mentors, and susceptible to the massive media propaganda campaign demonizing Gaddafi, justified their support for military intervention, in the name of the 'revolutionary people', the peace-loving masses 'fighting tyranny' and organizing popular militias to 'liberate the country'. Nothing could be further from the truth.

The root base of the armed uprising is Benghazi, a hotbed of tribal backers and clients of the deposed King Idris who ruled with an iron fist over a semi-feudal backward state, who gave the United States one of its biggest air bases (Wheeler) in the Mediterranean basin. Among the feuding leaders of the 'transitional council' (who purport to lead but have few organized followers) are neoliberal expats who promoted the Euro-US military invasion and can only envision coming to power on the basis of Western missiles. They look forward to dismantling the public oil companies engaged in joint ventures with foreign multinationals. All independent observers report the lack of any clear reformist let alone revolutionary organization or social-political democratic movement.

The armed militias in Benghazi are reportedly more active in rounding up, arresting and executing any members of Gaddafi's national network of civilians active in his 'revolutionary committees', arbitrarily labeling them 'fifth columnists', than in engaging the regime's armed forces. The top leaders of the

'revolutionary' masses in Benghazi include high-level recent defectors of what the left dubs Gaddafi's 'murderous regime', Mustafa Abdul Jalil, a former justice minister (who prosecuted dissenters up to the day before the armed uprising), Mahmoud Jebril, a top Gaddafite neoliberal prominent in inviting multinationals to take over the oil fields (*Financial Times*, March 23, 2011, p. 7) and Ali Aziz al-Eisawa, Gaddafi's former ambassador to India who jumped ship when it looked like the uprising would succeed. These self-appointed leaders of the 'rebels' are staunch backers of Euro-US military intervention just as they previously were long-term backers of Gaddafi's dictatorship and promoters of MNC takeovers of oil and gas fields. The heads of the 'rebels' military council are Omar Hariri and General Abdul Fattah Younis, former head of the Ministry of Interior, both with long histories (since 1969) of repressing any democratic movements. It is not surprising that these top level military defectors have been totally incapable of arousing their troops, conscripts, to engage the loyalist forces backing Gaddafi and all look forward to riding the coattails of the Anglo-US-French armed forces.

The absence of the minimum of democratic credentials among the leaders of the anti-Gaddafi ragtag forces is matched by their abject dependence and subservience to the imperial armed forces to bring them to power. Their abuse and persecution of immigrant workers from Asia, Turkey and especially sub-Sahara Africans, their false accusations that they are suspected 'mercenaries', augurs ill for any possible new democratic order, or the revival of an economy dependent on immigrant labor, any vestige of a unified country and anything resembling a national economy.

The composition of the self-appointed leadership of the 'National Transitional Council' is neither democratic nor nationalist, nor capable of uniting the country. Least of all are they capable of creating jobs lost by their armed power grab and sustaining the paternalistic welfare program and the highest per-capita income in Africa.

### *Myth 5: Libya and Al Qaeda*

The greatest geographical concentration of Al Qaeda terrorists is precisely in the areas dominated by the 'rebels' (Cockburn, *Counterpunch*, March 24, 2011). For over a decade Gaddafi, in line with his embrace of the Bush-Obama 'anti-terrorist' agenda, has been in the forefront of the fight against Al Qaeda. They have now enlisted in the ranks of the 'rebels' fighting the Gaddafi regime. Likewise, the tribal chiefs, fundamentalist clerics and monarchists in the East have been active in fighting a 'holy war' against Gaddafi and welcome arms and air cover from the Anglo-French-US 'crusaders', just as the Taliban and the Islamic fundamentalists welcomed military support from the Carter-Reagan White House to overthrow a secular regime in Afghanistan. The imperial intervention is based on 'alliances' with the most retrograde forces in Libya, with uncertain outcomes as to the future composition of the regime, and the prospects for political stability allowing Big Oil to return and exploit energy resources.

*Myth 6: Genocide or Armed Civil War*

Unlike all ongoing mass popular Arab uprisings, the Libyan conflict began as an armed insurrection, directed at the violent seizure of power. Unlike other autocratic rulers, Gaddafi had secured a mass regional base among a substantial sector of the population on the bases of a well-financed welfare and housing program. Violence is inherent in any armed uprising and once one picks up the gun and tries to seize power there is no basis for claiming one's 'civil rights' are being violated. The rules of warfare come into play, including the protection of non-combatant civilians as well as respect for the rights and protection of prisoners of war.

The unsubstantiated Euro-US claims of 'genocide' amplified by the Western mass media and parroted by 'left' spokespersons are contradicted by the daily reports of single and double digit deaths and injuries, resulting from urban violence on both sides, as control of cities and towns shifts between one side and the other.

Truth is the first casualty of civil war and both sides have resorted to monstrous fabrications of victories, casualties, demons and angels.

The fact of the matter is that this conflict began as a civil war between two sets of elites: an established paternalistic burgeoning neoliberal autocracy with substantial popular backing and, on the other, a Western imperialist financed and trained elite backed by an amorphous group of regional tribal, clerical and neoliberal professionals lacking democratic and nationalist credentials

*The Washington-led Assault on Libya*

The majority of air sorties and missiles are carried out by US warplanes and submarines as part of a counter-attack against the most recent Arab popular pro-democracy movements. The West is backing the repression of pro-democracy movements throughout the Gulf; it is financing the pro-imperial, pro-Israel Egyptian junta; it is intervening in Tunisia to ensure that any new regime is 'correctly aligned'. It backs Algerian despotism and Israel's daily assaults on Gaza. And now in Libya, it backs an uprising of ex-Gaddafiites and right-wing monarchists who promise to militarily align with the US-European empire builders.

Dynamic market driven global and regional powers refuse to join in this conflict, which jeopardizes their access to oil, including current large-scale exploitation of energy sources under Gaddafi. Germany, China, Russia, Turkey, India and Brazil are growing at fast rates by exploiting new markets and natural resources, while the United States, UK and France spend billions in wars that destabilize markets and foment long-term wars of resistance. They recognize that the 'rebels' are not capable of a quick victory, or of creating a stable environment for long-term investments. The 'rebels' in power would become political clients of their militarist imperial mentors. Moreover, the military thrust of the imperial invaders has serious consequences for the emerging market economies. The United States supports holy-roller rebels in China's Tibetan province and Uyghur separatist 'rebels' elsewhere. Washington and London back separatists in the

Russian Caucasus. India is wary of US military support for Pakistan and its claims on Kashmir. Turkey opposes Kurdish separatists backed by US-supplied arms to their Iraqi counterparts.

The Libyan precedent of imperial armed invasion on behalf of separatist clients bodes trouble for the market driven emerging powers. It is an ongoing threat to the burgeoning Arab freedom movement. And the death knell to the US economy; three wars can break the budget sooner rather than later. Most of all, the invasion undermines efforts by Libya's democrats, socialists and nationalist to free the country from dictatorship and imperial backed reactionaries.

### *Conclusion*

If not humanitarianism, oil or democratic values, what is the driving force of Euro-US imperial intervention? A clue is in the selective bases of armed intervention. In Bahrain, Saudi Arabia, Yemen, Jordan, Qatar, Oman, ruling autocrats allied with and backed by Euro-US imperial rulers arrest and murder peaceful protestors with impunity. In Egypt and Tunisia, the United States financially backs a conservative self-appointed civil-military junta, to block a profound democratic, nationalist, social transformation in order to facilitate neoliberal economic 'reforms' run by pro-imperial electoral officials. While liberal critics accuse the West of 'hypocrisy' and 'double standards' in bombing Libya but not the Gulf butchers, in reality the imperial rulers are using the same imperial standards in each region. They defend autocratic strategic client regimes where they possess air force and naval bases, run intelligence operations and logistic platforms to pursue ongoing wars in Iraq and Afghanistan and to threaten Iran. They attack Libya because it still refuses to collaborate with Western military operations in Africa and the Middle East.

The key point is that while Libya allows most of the big US-European oil MNCs to plunder its oil wealth, it is not, yet, a strategic geopolitical imperial asset. As we have written in many previous essays the driving force of US empire-building is military not economic. In fact billion-dollar economic interests were sacrificed in setting up sanctions against Iraq and Iran; the Iraq war shut down most oil exploitation for over a decade.

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PART III  
Twenty-First Century Socialism



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## Chapter 10

# Socialism of the Twentieth and Twenty-First Centuries

The electoral victory of center-left regimes in the first decade of the new millennium in a swath of Latin American countries (Venezuela, Argentina, Brazil, Bolivia, Ecuador, Paraguay, Uruguay) and the search for a new ideological identity to justify their rule, led ideologues and the incumbent presidents to embrace the notion that they represent a new twenty-first century version of socialism (21cs). Prominent writers, academics and regime spokespeople celebrated a totally new variant of socialism, as completely at odds with what they dubbed the failed twentieth-century, Soviet-style socialism. The claims of the advocates and publicists of 21cs of a novel political-economic model rest on what they ascribe as a radical break with both the free market neoliberal regimes that have dominated the political landscape, and the statist version of socialism embodied by the former Soviet Union as well as China and Cuba.

In this chapter we will proceed by examining the variety of critiques put forth by 21cs of both neoliberalism and twentieth-century socialism (20cs), the authenticity of their claims of novelty and originality, and a critical analysis of their actual performance.

### **The Socialist Critique of Neoliberalism**

The rise of 21cs regimes grew out of the crisis and demise of neoliberal regimes that pervaded Latin America from the mid-1970s to the end of the 1990s. Their demise was hastened by a string of popular uprisings, which propelled the ascent of center-left regimes based on their rejection of neoliberal socioeconomic doctrines and the promise of basic changes favoring the great majorities. While there are important programmatic differences among the 21cs regimes, they all shared a common critique of six features of neoliberal policies.

1. They rejected the idea that the market should have precedence and dominance over the state, by which they meant that the logic of capitalist class profit maximization should exclusively shape public policy. The collapse of the market driven capitalism in the recession of 2000–2 and mass impoverishment discredited the doctrine of ‘rational markets’ as banks and business bankruptcies skyrocketed, the middle class lost their

savings and the streets and plazas filled with unemployed workers and peasants.

2. The 21cs regimes condemned deregulation of the economy that led to the rise of speculators over and above productive capitalism. Under the aegis of neoliberal rulers regulatory legislation in place since the Great Depression was abrogated and, in its place the policies of capital controls and financial oversight were suspended in favor of a 'self-regulated' regime in which market players established their own rules, thus leading, according to their critics, to speculation, financial swindles and the pillage of public and private treasuries.
3. The predominance of finance over production was the centerpiece of the anti-capitalist discourse of the 21cs regimes. Implicit was a differentiation between 'bad' capitalism that earned wealth without producing goods and services over 'good' capitalism, which presumably did produce value of social utility.
4. Related to its overall critique of neoliberalism was a specific critique of the lowering of tariff barriers, the privatization of public enterprises at below their true market value, the denationalization of ownership of strategic resources and the massive growth of inequality.
5. The 21cs argued that neoliberal regimes surrendered the economic levers of the economy to private and foreign bankers (like the IMF) who imposed deflationary measures instead of reflate the economy through infusions of state spending. The political leaders of the center-left used this critique of neoliberalism and the implicit future promise to break decisively with neoliberal capitalism, without committing themselves to a specific break with capitalism of another variety.
6. While the center-left critique of neoliberal capitalism appealed to the popular classes, their rejection of 20cs was directed at the middle class and to reassure the business owners and operators that they would not encroach on private ownership as a whole.

### **Critique of Twentieth-Century Socialism**

In a kind of political balancing act to their opposition to neoliberalism, 21cs advocates have also put distance to what they dub 'twentieth century socialism'. Partly as a political tactic to disarm or neutralize the numerous and powerful critics of past socialist regimes and partly to further claims of a novel, up-to-date variant socialism in tune with the times, the 21cs make the following critique and highlight their differences with twentieth-century socialism.

1. Past socialism was dominated by a heavy-handed bureaucracy that misallocated resources and stifled innovation and personal choices.

2. The old socialism was profoundly undemocratic both in the way it ruled, the organization of elections and the one-party state. The denial of civil rights and the abolition of all market activity figure large in the 21cs narrative.
3. 21cs conflates democracy as a system with the electoral road to power or regime change. Changes of government resulting from armed struggle, especially guerrilla movements, are condemned, though all three 21cs governments came to power via elections that followed popular upheavals.
4. One of the key arguments put forth by 21cs regimes is that in the past socialists failed to take account of the specifications of each country. Concretely they emphasize differences in racial, ethnic, geographic, cultural, historical traditions and political practices, which are now considered as defining 21cs.
5. Related to the previous point 21cs emphasizes the new global configuration of power in the twenty-first century which shapes the policies and potentialities of 21cs. Among the new factors, they cite the disappearance of the former USSR and China's conversion to capitalism; the rise and relative decline of a US-centered global economy; the rise of Asia, especially China; the emergence of Venezuelan promoted regional initiatives; the rise of 'center-left' regimes throughout Latin America; and diversified markets, in Asia, within Latin America the Middle East and elsewhere.
6. The 21cs regimes claim that the 'new configuration of society and state' is not a copy of any other past or present socialist state. It is almost as if every measure, policy, or institution is the design of the contemporary 21cs regime. Originality or novelty is an argument to enhance the legitimacy of the regime before external and internal critics from the anti-Communist right and to dismiss substantive criticism from the left.
7. 21cs regimes make a point of emphasizing the fact that the leadership has no links past or present with communism and in the case of Bolivia and Ecuador openly reject Marxism both as a tool of analysis or as a basis for policy prescription. The exception is President Chávez whose ideology is a blend of Marxism and nationalism linked to the thought of Simon Bolivar. Both Correa (Ecuador) and Morales (Bolivia) eschew class discourse, counterpoising a 'citizen's revolution' against a corrupt party oligarchy, in the case of the former, and culturally oppressed Andean Indian communities against an 'European oligarchy'.

While 21cs regimes have more or less clearly stated what they are not and what they reject in the past both on the left and the right, and have in general terms stated what they are, their practices, policies and institutional configurations have raised serious doubts about their revolutionary claims, their originality and their capacity to meet the expectations of their popular electorate.

While a number of ideologues, political leaders and commentators refer to themselves as 21cs, there is a great variety of differences in theory and practice

between them. A critical examination of the country experiences will highlight both the differences between the regimes and the validity of their claims of originality.

### **Venezuela and the Project of 21cs**

Hugo Chávez as president of Venezuela was the first and foremost advocate and practitioner of 21cs. Although a number of presidents and publicists in Latin America, North America and Europe have jumped on the bandwagon there is no uniform practice to match the public rhetoric.

In many ways Chávez's discourse and the Venezuelan government's policies define the radical outer limits of 21cs both in terms of its foreign policy challenging Washington's war policies and in terms of domestic socioeconomic reforms. Nevertheless, while there are innovative and novel features to the Venezuelan model of 21cs, there are strong resemblances to previous radical populist-nationalist regimes in Latin America and European welfare state reforms.

The most striking novelty and original feature of the Venezuelan version of 21cs is the strong blend of 'historical' Bolivarian nationalism, twentieth-century Marxism and Latin American populism. Chávez's conception of 21cs is informed and legitimated by his close reading of the writings, speeches and actions of Simon Bolivar, the nineteenth-century founding father of Venezuela's independence. His conception of a deep rupture with imperial powers, the reliance on mass support against untrustworthy domestic elites capable of selling out the country to defend their privileges is deeply embedded in his readings of the rise and fall of Simon Bolivar. Although Chávez makes no pretext of identifying Bolivar with Marxism, he does make a strong case for the endogenous, national roots of his ideology and practice. While supporting the Cuban revolution and maintaining a close relation with Fidel Castro, he clearly makes no effort to assimilate or copy the Cuban model even as he adapts to Venezuelan realities and certain features of mass organization.

Chávez's economic practice includes extensive nationalization and expropriation (with compensation) of large sectors of the petrol industry, selective nationalization of key enterprises based on pragmatic political considerations including capital-labor conflict (steel, cement, telecoms) and in pursuit of greater food security (land reform). His political agenda includes the formation of a mass competitive socialist party within the framework of a multi-party system and the convoking of free and open referendums to secure constitutional reforms. The novelty is found in his encouraging of local self-government through the formation of nonsectarian communal councils based in the neighborhoods to bypass the dead hand of an inefficient, hostile and corrupt bureaucracy. Chávez's goal appears, at times, to be the replacement of 'representative' electoral politics run by the professional political class by a system of direct democracy based on self-management, in factories and communities. In terms of social policy Chávez has funded a plethora of programs designed to raise living standards of 60 percent of the population that includes the working class, self-employed, poor, peasants

and female heads of households. These reforms include universal free healthcare and education, up to and including university enrolment. The contracting of over 20,000 Cuban doctors, dentists and technicians and a massive program encompassing the building of clinics, hospitals and mobile units criss-cross the entire countryside, with a priority to low-income neighborhoods ignored by previous capitalist regimes and private medical staffers. The Chávez regime has built and financed a large network of publicly run supermarkets that sell food and related household items at subsidized prices to low-income families. In foreign policy Chávez has consistently opposed US wars in the Middle East and South Asia, and the entire rationale for imperial wars embedded in the 'War on Terror' doctrine.

### **How Novel is Venezuela's 21cs?**

Several questions arise regarding the Venezuelan version of 21cs: (1) Is it really 'socialist' or better still does it represent a break with twentieth-century socialism in all of its variants? (2) What is the 'balance' between past and existing capitalist features of the economy and the socialist reforms introduced during the Chávez decade? (3) To what degree have the social changes reduced inequalities and provided greater security for the mass of the people in this transition period?

Venezuela today is a mixed economy, with the private sector still predominant in the banking, agricultural, commercial and foreign trade sectors. Government ownership has grown and national social priorities have dictated the allocation of oil resources. While the mixed economy of Venezuela resembles the early post-World War II social democratic configurations in Europe, there is one key difference: the state owns the most lucrative export sector and the principal earner of foreign exchange.

While the government has vastly increased social expenditures comparable or exceeding spending in some of the earlier social democratic governments, it has not reduced the great concentrations of wealth and income of the upper classes, via steep progressive tax rates as in Scandinavia and elsewhere. Inequalities are still far greater than existed under twentieth-century socialist societies and comparable to existing Latin American societies. Moreover, the upper and upper middle levels of the state bureaucracy especially in the oil and related industries have levels of remuneration that are comparable to their capitalist counterparts, as was the case in nationalized industries in the UK and France.

Self-management of public enterprises, a relatively new idea in Venezuela, has moved beyond the limits of German social democratic co-participation schemes but is confined to less than a half-dozen major enterprises—a far cry from the extensive, nationwide networks found in socialist Yugoslavia from the 1940s and the 1980s.

The agrarian reform proposals of the Chávez regime, although radical in intent and forcibly promoted, have failed to change the relationship between

farm workers, peasants and large landowners. Where inroads have been made in land distribution, the government bureaucracy has failed to provide the extension services, financing, infrastructure and security to land reform beneficiaries.

The National Guard has by commission or omission failed to end assassinations of leaders and supporters of land reform by the hired guns of landlords. Over 200 unsolved killing of peasants were on the books by the end of 2009.

While publicists of 21cs have emphasized the government's nationalizations of oil enterprises from existing owners, they have failed to take account of the growing number of new joint ventures with multinational corporations from China, Russia, Iran and the European Union. In other words while the role of some US multinationals has declined, foreign capital investment in mineral and petrol fields has actually increased, especially in the vast Orinoco tar fields. While the shift of investment partners in oil reduces Venezuela's strategic vulnerability to US pressure, it does not enhance the socialist character of the economy. Joint ventures do add weight to the argument that Venezuela's mixed public-private economy approximates the social democratic model of the mid twentieth century.

The most questionable aspect of Venezuela's claim to socialism is its continued dependence on a single commodity (oil) for 70 percent of its export earnings and its dependence on a single market, the United States, an openly hostile and destabilizing trading partner. The Chávez regime's efforts to diversify trading partners has taken on greater urgency with Obama's military pact with Colombian President Alvaro Uribe, to occupy seven bases. Equally threatening to the mass base of the Chávez road to socialism is the skyrocketing crime rate based on the growth of a lumpen-proletariat and its links to Colombian drug traffickers and civilian and military officials. In many popular barrios the lumpen compete with the leaders of the communal councils for hegemony, using unrest and violence to exercise dominance. The ineffectiveness of the Ministry of Interior and the police and their lack of a close working relation with neighborhood organizations represent a serious weakness in mobilizing civil society and mark a limitation in the effectiveness of the communal council movement.

The remarkable reforms instituted by the Chávez government, and the original synthesis of Bolivarian emancipatory anti-colonialism, with Marxism and anti-imperialism, mark a rupture with the predominant neoliberal practice pervasive in Latin America over the previous quarter century and still operative under numerous contemporary regimes, who claim otherwise.

What is doubtful, however, is whether all the changes amount to a new version of socialism, given the predominance of capitalist property relations in strategic sectors of the economy and the continuing class inequalities in both the private and public sector.

Yet one should keep in mind that socialism is not a static concept, but an ongoing process, and the bulk of recent measures are tending to extend popular power in factories and neighborhoods.

## 21cs in Ecuador

In Ecuador, President Correa has adopted the rhetoric of 21cs and it has gained credibility in association with several foreign policy initiatives. These include the termination of the US military base lease in Manta; the questioning of parts of the foreign debt incurred by previous regimes; the critique of Colombia's border incursions and military assault of a clandestine Colombian guerrilla camp; his criticism of US free trade policies and support of Venezuela's regional integration program. President Correa has been identified as part of the 'new wave of leftist Presidents' by the mass media including the *New York Times*, the *Financial Times* and numerous leftist journalists, North and South.

In terms of domestic policy issues, Correa's claim to be a founding member of 21cs rests on his critique of the traditional rightist parties and the oligarchy. In other words, his socialism is defined by what and who he opposes, rather than any social structural changes.

His main domestic achievements revolve around his denunciation of the major electoral parties; his support for and leadership of a 'citizens' movement', and its success in overthrowing the rightist US-backed authoritarian electoral regime of Lucio Gutiérrez, the convoking of a constitutional assembly and the writing of a new constitution. These legal and political transformations define the outer limits of Correa's radicalism and provide the substantive bases for his claim of being a 21cs. While these foreign policy and domestic political changes, especially when taken in the context of increased social expenditures during his first three years of office, warrant his being included as a 'center-leftist' they hardly suffice or add up to a socialist agenda especially if they are seen in the large socioeconomic structural matrix.

The most striking departure from any credible claim to socialism is the persistence and expansion of foreign private capitalist ownership of the strategic mining and energy resources: 57 percent of petrol is produced by overseas petroleum multinationals. Large-scale, long-term mining contracts have been signed and renewed giving foreign-owned mineral companies majority control over the principal foreign exchange and export earning sectors. Worse, Correa has violently repressed and rejected the longstanding claims of the Amazonian and Andean indigenous communities living and working on the lands signed off to the mineral multinationals. In rejecting negotiations, Correa dismissed the four major indigenous movements and their allies in the ecology movements as little more than a 'handful of backward elements' or worse. The contamination of water, air and land, leading to serious illnesses and deaths by the foreign oil companies has been demonstrated in US courts where Texaco faces a billion-dollar law suit. Despite adverse court rulings, Correa has vigorously pursued his push to make foreign-led mineral exploitation the centerpiece of his 'development strategy'.

While Correa has vigorously attacked the coastal financial agro-commercial capitalist class, centered in Guayaquil, he has vigorously supported and subsidized



the Quito (Andean based) capitalist class. His ‘anti-oligarchy’ rhetoric is certainly not anti-capitalist, as his embrace of 21cs would imply.

Correa’s success in building a mass citizen electoral movement is measured by his impressive electoral victories, securing presidential majorities under multi-party competition, and over 70 percent in the constitutional elections. Despite his popularity, Correa’s popular backing is largely based on short-term concessions, in the form of wage and salary increases and credit concessions to small business, measures that are not sustainable with the onset of the world recession. His granting of telecommunication monopolies to private firms, his opposition to land reform, and the restrictions of trade union strikes, while not provoking systemic challenges have led to a increasing number of strikes and protests. More important, the strengthening of capitalist, especially foreign ownership, control of strategic banking, commercial export and mineral sectors, reduces the claims of 21cs to a merely symbolic, rhetorical exercise. What is apparent is that the basis for 21cs is rooted in foreign policy pronouncements (which are subject to reversal) rather than changes in class relations, property ownership and popular power. ‘21cs socialism’, in the case of Ecuador, appears as a convenient way of combining innovative foreign policy measures with neoliberal ‘modernization’ development strategies. Moreover, initial radical measures do not preclude subsequent conservative backsliding as is evidenced in the questioning of the foreign debt (which caused premature leftist ejaculations of glee) and subsequent return to full debt payments.

### **Bolivian Socialism: White Capital, Indigenous Labor**

The greatest contrast between twentieth and twenty-first century ‘socialism’ is found between the current regime of Evo Morales (2005–) and the short-lived Presidency of J.J. Torres (1970–1).

While the former has openly and publicly invited mineral and extractive multinational companies from five continents to exploit gas, oil, copper, iron, lithium, zinc, tin, gold, silver and a long list of other minerals, under the twentieth-century Torres regime, foreign and local capitalist firms were nationalized, expropriated. While billions of profits are currently repatriated both during and after the commodity boon, under Torres, state control over capital flows and foreign trade limited the de-capitalization of the country. While Evo Morales provides hundreds of millions in loans, export subsidies and tax incentives to the wealthiest agro-exporters and expels landless indigenous squatters from large estates, under President Torres land takeovers were encouraged to further the regime’s agrarian reform policies. There is an abundance of socioeconomic data demonstrating that the socialist policies undertaken during President Torres’ term of office stand in polar opposition to the social liberal policies practiced by the Morales regime. In the following sections we will outline the major social and liberal policies of

the Morales regime in order to assess the true meaning of the self-declared 21cs politics in Bolivia.

### *Social Change in the Bolivian Highlands*

Numerous social changes have been implemented by the Morales regime during its first five years in power (2005–9). The question is whether these changes add up to any of the most generous definitions of socialism or even to transitional measures pointing to socialism in the near or even distant future, given the scope and depth of the liberal economic policies adopted.

Morales has implemented sociopolitical changes in nine policy areas. The most significant domestic change is in the area of the political-cultural-legal rights of the indigenous people. The regime has granted local governance rights for Indian municipalities, recognized and promoted bilingualism for carrying out local affairs and education, given national importance to Indian religious and holiday celebrations and promoted prosecution of those who violate or persecute indigenous civil rights.

Under Morales the state has slightly increased its share of revenues in its joint ventures with multinational corporations, increased the price of gas sold to Brazil and Argentina, while increasing the share going to the national government over and against provincial governments. Given the record prices received by Bolivia's agro-mineral exports between 2005 and 2008, the local municipalities increased their revenue flow, though actually investments in productive and service sectors lagged behind because of bureaucratic bottlenecks.

Morales allowed for incremental increases in the minimum wage, salaries and wages, thus marginally improving living conditions. The increases, however, were far below Morales' electoral promise to double the minimum wage and certainly not commensurate with the large-scale windfall profits resulting from the commodity boom.

Morales' prosecution of local officials and the provincial governor of Pando province and rightist terrorists for the assault and murder of Indian activists put an end to impunity of the assaults on citizens of indigenous complexion and culture.

The regime's biggest boast was the accumulation of foreign reserves from US\$2 billion to US\$6 billion, fiscal discipline and strict control over social spending and the favorable balance of payments. In this regard, Morales' practices were more in line with the IMF than anything remotely resembling the expansive economic practices of socialist and social democratic regimes.

Tripling hard currency reserves in the face of the continuing brutal poverty levels affecting at least 60 percent of the mostly rural indigenous population is a novel policy for any regime claiming socialist credentials. Even contemporary capitalist, North American and EU regimes have not been as orthodox as Evo Morales' left-of-center national populist or popular nationalist, and self-proclaimed revolutionary, regime.

Morales has promoted trade union organizations and by and large has avoided repression of miners and peasant movements, but at the same time he has co-opted their leaders, thus lessening the number of strikes and independent class action, despite the widespread and deep social inequalities that characterize and afflict Bolivian society. De facto greater tolerance is matched by the increased 'corporatist' relation between the regime and the social movements in the popular sector, a relation mediated by 'civil society'—the complex of non-governmental organizations that the World Bank and many other international development 'associations' have brought into play in the global war on poverty waged by these organizations in the name of 'international development'.

Morales' economic strategy is based on a triple alliance between the agromineral multinationals, small- and medium-sized capitalists, and the social movements, mostly indigenous. The MAS government has poured millions of dollars in the form of subsidies to so-called 'cooperatives', which in reality are private small- and medium-size mine owners who exploit wage labor at or below standard wages of miners in larger operations.

The principal changes made by the Morales regime are in its foreign policy and rhetoric. Evo Morales has aligned with Venezuela in supporting Cuba, joining ALBA, forming ties with Iran, and above all, opposing US policy in important areas of international relations. Bolivia opposes the US embargo against Cuba, the seven military bases in Colombia, the coup in Honduras and the lifting of tariff preferences. Of equal importance Bolivia has terminated the presence of the DEA and curtailed some of the activities of USAID in subsidizing right-wing sociopolitical organizations and activities designed to undermine and destabilize the regime. Morales has spoken out forcefully against the US war in Afghanistan and Iraq, condemned Israel's assaults against the Palestinians, and he has been a consistent supporter of non-intervention, except in the case of Haiti, where Bolivia continues to dispatch troops.

The most striking aspect of Bolivia's economic policy is the increased size and scope of foreign-owned multinational corporate extractive capital investments. Twenty-nine major foreign multinationals, and close to 100 in total, are currently exploiting Bolivia's mineral and energy resources under very lucrative conditions based on an enhanced royalty and tax rate regime, and low wages and weak environmental regulations. Moreover, in a speech in Madrid (September 2009) Morales told an audience of elite bankers and investors that they were welcome to invest as long as they did not intervene in politics and agreed to a joint ownership regime. Whatever the merits of Bolivia's foreign capital driven mineral export strategy (and the historical record is not encouraging), it puts a peculiar twist on 21cs: replacing the proletariat and peasants with overseas CEOs and local technocrats: a novel way to practice 'socialism' in any century and more fittingly associated with free market capitalism.

In line with Morales' 'open door' policy towards extractive capital, he has strengthened and provided generous subsidies and low interest loans to the agribusiness sector, even in those provinces like the 'media luna' where 'big agro'

has backed extreme right-wing politicians bent on destabilizing his regime. His willingness to compromise with the political opposition in Santa Cruz, overlook the political hostility of the agribusiness elite and to finance their expansion, are clear indications of the priority which the government gives to orthodox capitalist growth over and above any concern with developing an alternative and socialist-oriented form of development built on the social base of peasants, landless rural workers and indigenous communities.

Our on-site visits to different rural areas and peri-urban conglomerations such as El Alto reinforce anecdotal evidence and published reports as to the persistence of class and other social inequalities. The super-rich 100 families of Santa Cruz still own over 80 percent of the fertile lands in the lowlands while over 80 percent of the peasant households and the rural indigenous population are below the poverty line. Ownership of the means of production in the sector of mines, retail and wholesale trade, banking and credit, continues to be concentrated in an oligarchy that in recent years has diversified its asset portfolio across economic sectors, resulting in a more integrated ruling class with greater links to global capital.

Morales has fulfilled his promise to protect and secure the traditional multi-sector economic elite, but he has also added and promoted new private and bureaucratic entrants to the ruling class, mainly foreign CEOs and high paid functionaries directing public-private partnership. While most socialists (of any century) would agree that big landowners are hardly the building blocks of a socialist transition, the Morales-Garcia MAS (Towards Socialism) regime in fact has depended upon and promoted agro-export production over family farming for local food production. With the re-election of the MAS regime in 2009 the Vice-Minister for Land and Agriculture, a proponent of community-owned and -based co-operative enterprises, arguably a proto-socialist form of production, was replaced with a representative of the indigenous peasantry but an advocate of individual landholding.

The 'agrarian revolution' declared in 2006, with reference to a law that authorized the government to expropriate any and all land that was not in productive use or having a social function, is stillborn. In subsequent years the government has indeed given land title to several thousand small landholders but the land in question was part of the commons or publicly-owned; not one big landlord has had his land expropriated. Even worse, the conditions of farm workers on these landholdings has barely improved if at all. In extreme cases, into the sixth year of his administration, several thousand 'indios' are reported to be exploited in the form not of wage labor, which is bad enough, but slave labor.

Reports have been filed by a Dutch TV media company and the United Nations of slave labor in the landed estates and operations of both foreign companies and private companies in Bolivia as well as Argentina and Brazil. But it would seem that to the regime the harsh super-exploitation of farm workers is a far lesser concern than productivity growth and the generation of export revenues. While labor legislation facilitating labor activity has been approved, it has not

been enforced in the countryside, especially in the ‘media luna’ provinces, where, by numerous accounts, labor inspectors avoid any confrontations with well entrenched landowner associations. The few land occupations engineered by the landless rural workers have been denounced by the government. Any grassroots movements pressing for land reform in extensive under-cultivated estates have been strongly opposed by the government, violating its own norms—and indeed the agrarian reform law enacted in 2007—that only cultivated farms would not be expropriated.

Given the regime’s emphasis on the ‘cultural and political’ aspects of its version of 21cs it is not surprising that it has spent more time and funds celebrating indigenous fiestas, song and dances, than it has in expropriating and distributing fertile lands to the malnourished mass of indigenous.

The regime’s effort to deflect attention from agrarian reform by settling landless Indians on public lands in distant tropics was a disaster. This ‘colonization plan’ organized by the so-called agrarian reform institute, dumped highland Indians in disease-ridden lands which were not cleared, without farm tools, seeds, fertilizers and even living quarters. Needless to say in less than two weeks the Indians demanded bus transportation back to their impoverished villages, an improvement over these remote malaria-ridden ill-planned settlements. To compensate for the lack of any comprehensive land redistribution program, Evo Morales occasionally organizes with pomp, ceremony and much publicity, ‘gifts’ of tractors to medium- and small-scale farmers, more a political patronage opportunity than an integral part of a social transformation.

The two most striking aspects of the government’s economic and political strategies is the emphasis on the traditional extractive mineral exports and the construction of a typical corporatist-patronage based electoral machine.

Into the sixth year of his regime and administration the joint ventures signed with foreign multinational corporations have extracted and exported raw materials with little value added. To an astonishing degree there has been a minimal degree of industrialization and final product manufacture that would generate greater industrial employment. The same story is true of agricultural exports; grains and other agricultural products are not processed in Bolivia, which would provide thousands of jobs for the poverty-stricken mass of landless indigenous. To attract foreign direct investment and gain the confidence of investors the regime has accumulated huge hard currency reserves, but it has failed to finance or foment local industry to substitute for imports of capital, intermediate and durable consumer imports.

The government’s political strategy closely resembles that adopted by the Nationalist Revolutionary Movement (MNR) half a century ago, in which trade unions and especially peasant movements were incorporated into the dominant party-state regime. In the absence of any significant socioeconomic changes, the government has relied on public patronage, channeled through trade union and peasant and indigenous leaders, which trickles down in the form of local favors for party loyalists. This clientelism is reinforced by symbolic gestures that

reaffirm both the ethnic identity of indigenous groups and nations and relations of ‘solidarity’ between the giver and recipient of political patronage.

The 21cs of Morales’ political practice is far less innovative and ‘socialist’ and far closer in political style to his twentieth-century corporatist predecessors. Observers with little knowledge of Bolivia’s past, impressionable journalists enamored with symbolic politics, and financial writers who pin the ‘socialist label’ indiscriminately on politicians who even rhetorically question the free market doctrine, have reinforced the ‘radical’ or 21cs image of the Morales regime. Given what we have described about the real practices of the 21cs regimes it is useful to place them in a broader historical-comparative framework to make some sense of their possible impact on Latin American society.

### Comparative-Historical Analysis of Three Cases of 21cs

Despite claims by regime publicists the most striking aspect of 21cs regimes is what is not novel or special about their policies. Adoption of a mixed economy and playing politics according to the institutional rules of a liberal capitalist state, differs little from the practices of European social democratic parties of the late 1940s to the mid-1970s. To the degree that the 21cs pursue nationalist politics (and we should note that nationalization means expropriation and public ownership) they are a pale reflection of the measures taken between the 1930s and the mid-1970s. With the exception of the Chávez regime, the rest of what passes as 21cs has at best nationalized bankrupt private firms, increased shares in joint ventures and raised taxes on agro-mineral exporters.

The ‘indigenismo’ most forcefully expressed by two Andean regimes, Bolivia and Ecuador, resonated with the rhetoric of the ‘indo-americanismo’ of the 1930s. This was forcefully pronounced by Peruvian Marxist writer Mariatagui and APRA political leader Haya de la Torre, as well as the Chilean Socialist Party, a number of Bolivian and Mexican writers, Augusto Sandino the Nicaraguan guerrilla leader, and the revolutionary El Salvadorean leader Farabundo Martí. In striking contrast to the 21cs *indigenistas*, their predecessors in Central America pursued profound agrarian reforms, including the restoration of millions of acres of confiscated fertile lands and a profound rejection of the agro-business export model. The earlier version of *indigenismo* combined symbolic identification with deep substantive changes in contrast to the contemporary *indigenistas* who rely mostly on symbolic gestures and identity politics.

The current policies relying on joint ventures resonates with the reformist alternatives to the Cuban revolution, which found expression in J.F. Kennedy’s Alliance for Progress, which was taken up by the Christian and social democratic counter-insurgency regimes of the 1960s. In opposition to the twentieth-century socialists and Communists who favored the socialization of the economy, the Chilean Christian democratic government (1964–70) promoted an alternative ‘Chileanization’, which resembles Evo Morales’ and Correa’s ‘joint ventures’. In

other words, the economic model of 21cs is far closer to the anti-socialist US backed reformist model of the 1960s than to any socialist variant of the past.

### **A Systemic Alternative: Social Democracy, Democratic Socialism and 21cs**

For over 150 years socialism has been recognized as the principal alternative to capitalism. Facing declining living standards, rising unemployment and underemployment, massive foreclosures of home mortgages, endless wars of oppression and domestic decay, more and more people are searching for a systemic alternative. More than ever the socioeconomic conditions of a system in crisis and moving towards barbarism are ripe for bringing about a socialist transformation.

As noted in Chapter 1 capitalism is based on a fundamental contradiction: production and the distribution of goods and services are based on the social cooperation of millions of workers, engineers, truckers and pilots, retail clerks, health and educational employees and many others. While the economy is based on social cooperation ('socialized') the owners are private, they take the profits, they hire and fire workers, they locate and relocate plants, and they invest or speculate. Capitalism is the collective production of the many for the profit of a few. Under socialism collective production would be linked to collective ownership and profits, and their allocation would be based on decisions by the producers for the producers.

The economy cannot function without workers, professional engineers, accountants, secretaries and others. However, the private owners of capital are not necessary for producing or distributing goods and services; they live off what 'their' workers and employees produce. When capitalists go on vacation or play golf the economy continues to function normally. In contrast if the workers and employees do not show up for work, as is evident when workers call for a general strike, nothing is produced or distributed. Under socialism, social production and distribution would be under social ownership.

Defenders of capitalism claim the economy is too 'complex' to be run by worker-controlled planning boards. Others claim that under private ownership 'the market' is more efficient than public enterprises, while some claim the market leads to greater prosperity and finally some claim public ownership under workers' control impinges on freedom.

With the giant multinational conglomerates that span the world and employ more workers and make more money than the budgets of many small nations, the corporate elite engages in central planning and complex decision-making based on information processed by powerful computers. Complexity or large-scale decision-making is not a problem for giant private corporations; nor will it be a problem for socialist worker-elected boards of directors.

Efficiency, measured by investments that produce goods and services for the vast majority of workers' needs, is severely lacking under capitalism as evidenced by the huge amount of capital wasted on speculative activity, the decline in living

wages, the 50 million families without healthcare and the loss of opportunity for secure employment. Under capitalism ‘efficiency’ is measured simply by rates of profit regardless of their source or impact on the people, which the economy is supposed to serve.

Under capitalism progress and prosperity is measured by profits even when the profits are a result of rising food prices, rents, interest rates, plant closures and relocation of capital from productive to speculative activity and relocation to low-wage countries. In other words capitalism prospers by impoverishing workers, renters, consumers, home-buyers and small-business suppliers to big firms. Prosperity is not inherent to capitalism; it results from the workers’ struggle, extracting a part of the wealth that workers produce.

*Capitalists Look to Government to Advance their Interests and Secure their Welfare*

The claim that capitalism and liberty are synonymous is absurd. Capitalists run their businesses with an iron fist. They run to the government for bailouts; they use government power of ‘eminent domain’ to expropriate small property owners to expand their real estate empires. In other words capitalists look to the government and state intervention to secure their ‘welfare’—i.e. profits. Capitalists only call the state intervention tyrannical when the state intervenes on behalf of workers to ensure their welfare. Today the market is based on state intervention for capitalists. But under socialism the state would intervene to reallocate resources to benefit the workers and conserve the environment.

*Change begins with Crisis and Advances through Struggle*

Systemic crisis creates the objective conditions for socialist transformation. Under these conditions the transition from capitalism to socialism would begin with the organization, education and struggles of the workers in order to create a working class conscious of the need and its historic mission to bury capitalism. Through immediate, local, regional struggles over reform—for public health and labor rights, against social security cutbacks and exploitation—powerful movements will emerge, even in the United States and Canada, both bastions of free market capitalism and neoliberalism. These movements, in the context of the United States, could lead to the creation of a workers’ or popular party formation independent of the two capitalist parties. The conquest of state power via elections and direct action would become the means of bringing about progress and change of benefit to all.

*The United States as a Class Dictatorship: We Have No Democracy Today*

Under capitalism, the concentration of wealth undermines both democracy and equal opportunity. The ‘price’ of electing a president is now nearly a billion



dollars, a Senator at least a hundred million and a Congressperson tens of millions. Wealthy owners control the mass media that promote their own candidates and bias reporting to promote profit-making and exclude any critics of capitalist profiteering. Socialists advocate public investment in public healthcare, education, pensions, social security, the environment and the general welfare of the vast majority of working Americans.

*Concentrated Wealth and Political Power Leads to Rule by the Few, Oligarchy not Democracy*

Capitalism perpetuates and deepens inequalities of opportunity; the children and families of capitalist oligarchs inherit wealth, control the levers of economic influence and buy the best lawyers to avoid prosecution for swindles, violations of occupational safety, environmental contamination and labor laws. While some individuals may rise from the middle class to the top they are the exception to the rule. The capitalist class decides which individuals rise and which do not, based on their capacity to generate the greatest profits for the capitalist class by lowering the wages and benefits of their fellow workers and professionals.

A socialist government would sharply reduce inequities basing pay on years of training, skills and application. A socialist government would increase the 'social wage'. It would use tax revenues to fund free healthcare and education, guaranteed pensions and provide low-interest loans for public and private housing and transport. It would fund leisure parks, six-week vacations and make large-scale public investments in pollution-free energy sources (sun, wind, wave, etc.) and technological innovations to lighten and reduce the working week.

Political accountability would be based on free elections in both local economic and geographic units. Elections will take place at the workplace and at the municipal, state and federal levels. Candidates would face limits on campaign expenditures and election campaigns would last no more than six weeks. Issues would have to be detailed, in the streets and public meetings, and the media would have to provide equal time to all candidates who qualify.

Elected legislatures based on representatives of workers, employees, professionals and managers would decide economic priorities and then vote on a general course of action to a joint worker-management committee. Women, minorities, environmentalists and occupational health commissions would analyze the impact of policies on their constituencies and make policy recommendations.

Public ownership of large-scale enterprises would coexist with private ownership of small and medium size factories, farms, restaurants, stores and offices. Private ownership of homes and transport would coexist with co-operative and public property. The entire system would be self-financed based on the transfer of trillion-dollar war budgets to the civilian social and productive economy; the trillion-dollar speculative funds of Wall Street would be transferred to rebuilding infrastructure, manufacturing, social services and pension funds. Profits would be reinvested in life improvements, upgrading skills and training and economic

competitiveness in the world market. Security would be based on community councils and professionally trained police; external threats to the territorial United States would be dealt with by a professional military corp subject to democratic control.

The US economy has produced and generates enormous wealth and the workforce is highly productive. There is no reason why this wealth and knowledge, and these skills, cannot be converted into a means of abolishing poverty, enriching the lives of the great majority of the population and restoring the dignity of the working class.

### *Democracy and 21cs*

While the scope and depth of socioeconomic changes wrought by 21cs does not match, or even approximate, the substantive social and structural changes associated with a number of 20cs regimes, how does 21cs measure up to the reformist or social democratic variant of socialism, a system that combines socialism with capitalism and democracy?

Three Latin American cases of such social democratic regimes based on electoral politics and a commitment to both socialism and democracy come to mind: the Arbenz regime in Guatemala (1952–4); the Goulart regime in Brazil (1962–4) and the Allende regime in Chile (1970–3). All these past social democratic regimes pursued agrarian reforms of greater impact, with thousands of peasant beneficiaries, than the contemporary 21cs. More substantial real nationalizations of foreign firms took place than in two of the three contemporary 21cs social democratic regimes (although Venezuela has expropriated a comparable number of firms).

In terms of foreign policy pronouncements and practices the anti-imperialist political rhetoric is similar, but the twentieth-century social democrats were more inclined and prepared to expropriate foreign capital and nationalize the commanding heights of the economy. For example, Arbenz expropriated land from United Fruit, Goulart nationalized ITT and Allende expropriated Anaconda copper. By comparison the agents of 21cs in practice have promoted and invited foreign agrobusinesses and MNC mining corporations to exploit land and mineral resources. The different foreign economic policies correspond to the different internal class composition and economic alignments between twentieth and twenty-first century social democracy. In contrast to conventional misconceptions, the agents of 21cs have consummated pacts between regime technocrats, the multinationals, and domestic agro-mineral elites that weigh far heavier in decision-making centers than the mass electoral base of workers, peasants and indigenous groups and communities in the popular sector of civil society. By comparison the peasant and worker movements of the twentieth century had greater representation and independence of action within and on the outside of the social democratic regimes.

Even so, notwithstanding these limitations and the deficits of twentieth-century social democracy as a form of capitalism, democracy is—or ought to be—an

essential principle of socialist organization. On the one hand, as emphasized by the veteran socialist Marta Harnecker, in the context and with reference to Venezuela's experiment in 21cs, '[a]n insufficient democratic life impedes the unleashing of the creative initiative of all the militants, with its subsequent negative impact on their participation'. On the other hand, democracy is an essential feature of 21cs. In the words of Harnecker, 'socialism turns its back ... on hunger for profit and the laws of the market [as] the guiding principles of human activity', but in doing so it necessarily turns towards 'the search for a fully democratic society [based on] a culture that promotes ... values such as solidarity, humanism ... and protection of the environment'. 21cs is or needs to be profoundly democratic.

### **A New Historical Configuration or a Cyclical Political Process?**

An examination of Latin American's past 60 years of history reveals a cyclical pattern of alternating left and right shifts in political regime. The constant has been the struggle between, on the one hand, US imperialist projections of power either through direct intervention, military dictatorships and client civilian regimes and, on the other hand, popular democratic and socialist movements and regimes. The question is whether the latest wave of center-left regimes is simply the latest expression of this cyclical pattern or whether basic alterations in the underlying internal and external structural relations are operating to provide a more sustainable process? We will proceed to outline the past cyclical pattern of left/right politics in the past and follow with a discussion of some key contemporary global and regional changes that might lead to greater sustainability for left political hegemony.

Post-war Latin American history has experienced roughly five cycles of left/right predominance. The immediate period after World War II, following the defeat of fascism, witnessed the worldwide advance of democracy, anti-colonialism and socialist revolutions. Latin America was no exception. Center-left social democratic, nationalist populist, popular front governments took power in Chile, Argentina, Venezuela, Costa Rica, Guatemala, Brazil and Bolivia between 1945 and 1952. Juan and Eva Perón nationalized the railroads, legislated one of the most advanced welfare programs and elaborated a regional 'third way' foreign policy, independent of the United States. A coalition of socialists, communists and radicals won the 1947 election in Chile on the promise of extensive labor and social reforms. In Costa Rica a political upheaval dismantled the national army. In Venezuela a social democratic party (Acción Democrática) promised to extend public control over petroleum resources and increase tax revenues. In Guatemala, newly elected President Arbenz expropriated uncultivated fields of the United Fruit Company, implemented far-reaching labor legislation promoting the growth of unionization and ended debt peonage of the indigenous population.

In Bolivia a social revolution resulted in the nationalization of the tin mines, a profound agrarian reform, the destruction of the army and the formation of

workers' and peasant militia. In Brazil Getulio Vargas promoted state ownership, a mixed economy and national industrialization.

The launching of the Truman doctrine in the late 1940s, the US invasion of Korea (1950), the aggressive pursuit of the Cold War entailed vigorous US intervention against democratic left-of-center and nationalist regimes in Latin America. Given the green light in Washington, the Latin American oligarchies and US corporate interests backed a series of military coups and dictatorships throughout the 1950s. In Peru General Odria seized power; Perez Jimenez seized power in Venezuela; General Castillo Armas was put in power by the CIA in Guatemala; elected President Peron was overthrown by the Argentine military in 1955; Brazilian President Vargas was driven to suicide. The United States succeeded in forcing the break-up of the popular front and the outlawing of the Communist Party in Chile. The US-backed Batista's coup in Cuba, the Duvalier and Trujillo dictatorships in Haiti and the Dominican Republic. The rise of the extreme right, the overthrow of center-left regimes and the bloody repression of trade unions and peasant movements, secured US hegemony, assured conformity with US Cold War policies and opened the door wide for a corporate economic invasion.

By the end of the 1950s the very extremities of US domination and exploitation, the brutal repression of all democratic social movements and left parties and the oligarchy's pillage of the public treasury led to popular upheavals and the return of leftist hegemony. Between 1959 and 1976, leftist regimes ruled or challenged for power throughout the continent with varying degrees of success and duration. The Cuban revolution in 1959 and a political revolution in Venezuela in 1958 was followed by the election of nationalist populist regimes of Jango Goulart in Brazil (1962–4), Juan Bosch (1963) reinstated for a brief moment in (1965), Salvador Allende in Chile (1970–3) and Peron in Argentina (1973–5). Progressive nationalist-populist military rulers took power: Velasco in Peru (1968), Rodriguez in Ecuador (1970), Ovando (1968) and J.J. Torres (1970) in Bolivia, Torrijos in Panama. All challenged US hegemony to one degree or another. All were backed by mass popular movements, clamoring for radical socioeconomic reforms. Some regimes nationalized strategic economic sectors and implemented far-reaching anti-capitalist measures.

However, all but the Cuban revolution had a short life span. Even in the midst of the left turn of the 1960s and 1970s, the United States and its military clients intervened vigorously to avoid the prospect of progressive social change. Brazil's Goulart fell to a US-backed military coup (1964), which was preceded by a coup against Juan Bosch in the Dominican Republic (1963) and followed by the US military invasion against the restorationist revolution of 1965/6; a US-backed military coup in Bolivia overthrew Torres in 1971; Chile's Allende was overthrown by a joint CIA–military coup in 1973; followed by Peru's Velasco (1974) and Argentina's Peron (1976). The once promising wave of progressive or revolutionary change was over, its force spent or scattered over the political landscape. Although it would be succeeded by another wave in the 1990s the forces

of resistance and revolutionary change would never again recover the momentum that they had built up in the 1960s and 1970s.

Between 1976 and 2000, with the notable exception of the victory of the Sandinista Revolution in 1979, the Right was ascendant. Its long rule secure through the worst continent-wide repression in the history of Latin America. The military regimes and the subsequent authoritarian neoliberal civilian electoral regimes dismantled all tariffs and capital controls in a wild plunge into the most extreme and damaging free-market, imperial-centered economic policies. Between 1976 and 2000 over 5,000 public firms were privatized and most were taken over by foreign multinationals. Over a trillion and a half dollars were transferred overseas via profits, royalties, interest payments, pillage of public treasuries, tax evasion and money laundering. However, the 'golden era' for US capital during the 1990s was a period of economic stagnation, social polarization and growing vulnerability to crisis. The stage was set for the popular revolts of the early years of the new millennium and the rise of the latest wave of center-left regimes in the region, which brings us back to the question of the sustainability of this new wave of leftist regimes. On this question see Petras and Veltmeyer (2005, 2009).

### **Some World-Historical Structural Changes**

One of the key factors reversing past leftist waves in Latin America was the economic power and interventionist capacity of the United States.

There is strong evidence that US power has suffered a relative decline on both counts. The United States is no longer a creditor country; it is no longer the leading trading partner with Brazil, Chile, Peru and Argentina and is losing ground in the rest of Latin America, except for Mexico. Washington has lost influence even in its 'patio' in the Caribbean and Central America, where several countries have signed up for the Venezuelan subsidized petroleum agreement (Petrocaribe). Washington, as if to compensate for its lost of economic leverage (highlighted by the rejection of its proposed Latin American Free Trade Agreement) has increased its military presence by expanding seven military bases in Colombia, backing a coup in Honduras against a social liberal president and increased the presence of the Fourth Fleet off Latin America's coast. Despite the projection of military power, circumstances outside of Latin America have weakened US interventionist capacity, namely the prolonged costly unending wars in Iraq, Afghanistan, Pakistan and the military confrontation with Iran. The already high levels of public exhaustion and opposition makes it difficult for Washington to launch war in Latin America. Therefore it relies on and finances local client military-civilian power configurations to destabilize and overthrow center-left adversaries. The increase in global markets, especially in Asia, has allowed Latin regimes to diversify their markets and investment partners, which limits the role of US multinationals and limits their possible political role as purveyors of State Department policies. The financialization of the US economy has eroded the US industrial base and limited its

demand for agro-mineral export products from Latin America, shifting the latter's dependence on new emerging powers. Moreover, having suffered the consequence of financial crises, regimes in the region have imposed some regulations on capital movements, which limits the operation of US investment bank speculators, prime movers in the US economy. While Washington talks 'free markets' its application of protectionist measures (on overseas leading) and subsidies to agriculture (sugar, ethanol) have antagonized key Latin American countries like Brazil. As the leading exponent of a failed free market neoliberal doctrine, the United States has suffered a major loss of ideological influence in the region as a consequence of the global recession of 2007–10.

For these reasons, one of the major actors (US imperialism) responsible for the cyclical rise and fall of leftist regimes, has been structurally weakened, improving the chances for a longer duration. Even so the United States is still a major factor in acting with potent resources based on its close ties with major rightist military and economic forces in the region. Secondly, by the very nature of the development strategies chosen by the 'center-left regimes' they are very vulnerable to crises, namely the agro-mineral export policies based on foreign and domestic economic elites and fluctuating world demand. Thirdly, the center-left regimes have failed to resolve basic regional imbalances, significantly lessen social inequalities and recapture ownership and control of strategic economic sectors. These considerations call into question the medium-term durability of contemporary center-left regimes.

There are few internal changes in the nature of the state apparatus and class structure that could prevent a reversion back to neoliberal policies. The basic question of whether the current 21cs regimes are stepping stones towards further socialization or simply transitory regimes opening the way for a restoration of neoliberal pro-US regions, is still open to dispute, even as evidence is accumulating that the latter outcome is more likely than the former.

## **Conclusion**

The question of whether 21cs is better or worse than 20cs depends on what versions of each we choose to compare and what political dimensions we select in our comparative evaluation. First and foremost there is no single 'model' of twentieth-century socialism, despite the facile equation of twentieth-century socialism with the Soviet variant. There were essentially four radically different types of twentieth-century socialist regimes:

1. Revolutionary single-party regimes, which includes Cuba, North Korea, China, Vietnam and the USSR. The first four combined socialist and national liberation struggles and were consummated independently of the USSR and exhibited at different times greater and lesser degree of openness to debate and individual freedoms. The 'four' all fought US invasions and

- were all subject to embargoes and under intense destabilization campaigns requiring a high level of security measures.
2. Electoral revolutionary socialist regimes include Chile (1970–3), Grenada (1981–3), Guyana (1950s), Bolivia (1970–1) and Nicaragua (1979–89). Multi-party competition and the four freedoms were encouraged even at the expense of national security. All were subject to successful US-backed military intervention, military coups and economic embargoes.
  3. Self-managed socialism was put in practice in Yugoslavia factories from the late 1940s to the mid-1980s and was briefly experimented in Algeria between 1963 and 1964. US and European promoted separatist movements dissolved the Yugoslavia state and a military coup ended the Algerian experiment.
  4. Social democracy based on large-scale, long-term social welfare programs linked to state management of macroeconomic policy was implemented in the Scandinavian countries, especially Sweden.

The stereotype of the Soviet model of externally imposed authoritarian socialism was applicable only to Eastern Europe and even that was subject to changes and democratic moments such as 1968 in Czechoslovakia and Hungary in the 1980s. Likewise there are significant variations among 21cs and socialists. Firstly, Venezuela has nationalized major foreign and nationally owned enterprises (oil, steel, cement, banking, telecoms), expropriated large tracts of farmland and settled over 100,000 families, financed universal public health and educational programs and encouraged community councils and worker self-management in a few instances. Secondly, Bolivia has expropriated few if any major firms. Instead Morales has promoted and signed public–private joint ventures, opened the door to dozens of foreign mining consortiums, supported political reform enhancing and extending civil rights to Indians and increased social expenditures for housing, infrastructure and poverty alleviation. No agrarian reform has taken place and none is foreseen. The third and most conservative variant of 21cs is found in Ecuador, where major concessions to mining and petroleum companies is accompanied by the privatization of telecom concessions and subsidies to regional business elites. Rather than land reform, Correa has transferred indigenous lands to mining companies for exploitation. Major claims to socialism are found in increased levels of social expenditures, the revoking of US use of a military base in Manta and a general criticism of US military and free trade policies. Correa retained the dollarized economy, limiting any expansionary fiscal policies.

By drawing on commonly agreed criteria for evaluating the socialist nature of both twentieth and twenty-first century socialism we can form an informed judgment on their performance in achieving greater economic independence, social justice and political freedom.

### *Public Ownership*

All variants of twentieth-century socialism, with the exception of the Scandinavian model, achieved greater public control over the commanding heights of the economy than their twenty-first century counterparts. Venezuela is the closest approximation of the twentieth-century experience. The comparative performance of the public, public-private and private models varies: in terms of growth and productivity, the public enterprises in the twentieth century have a mixed record of high growth tailing off to stagnation; the mixed enterprises are subject to the vagaries of the market and world demand, alternating between high growth in times of boom and depressed output in times of low commodity prices.

In terms of social relations, social benefits and work conditions in public sector socialism are generally more generous than in mixed and privately owned industries, though wage remuneration may be higher in the latter.

### *Agrarian Reform*

The 20cs were far more successful in redistributing land and breaking the power of the landlord class than any measures applied by the 21cs. The redistributive reforms of the 20cs contrast with the agro-export strategies by most contemporary 21cs that have actually promoted greater concentration of landownership and inequality between agro-business elites and peasants and rural landless workers. The agrarian reforms, however, were poorly managed, especially in the case of Cuba and China, and led to a second transformation, redistributing state farms to family farmers and cooperatives.

On the whole, twentieth-century socialists were much more successful in reducing inequalities of income (but not eliminating them) than their contemporary counterparts. Because twenty-first century capitalists, especially big mine owners, agribusiness capitalists and bankers, still control the commanding heights of the economies, the historic inequalities between the top 5 percent and the bottom 60 percent remain unchanged.

In terms of social welfare, twenty-first century socialists have increased social spending, raised the minimum wage but, with the notable exception of Venezuela, do not match the universal free public health and educational programs financed by twentieth-century socialism. While there were regional imbalances between the countryside and the city under twentieth-century socialism, free medical care, social security and basic health care was available to the rural poor under 20cs and is still lacking in most 21cs regimes.

In terms of anti-imperialist struggles the record of twentieth-century socialism is far superior to that of the 21cs. For example, Cuba sent troops and military aid to Southern Africa (especially Angola) to repulse an invasion by the racist South African regime. China sent troops in solidarity with Korea and secured the northern half of the region from the US invading army. The USSR provided essential arms and air defense missiles in support of the Vietnamese national liberation struggle



and provided Cuba with almost a half decade of economic subsidies and military aid allowing it to survive the US embargo.

Today's 21cs, with the partial exception of Venezuela, have provided no material support for ongoing liberation struggles. On the contrary, Brazil, Bolivia, Chile and Argentina continue to provide military forces in support of the US-sponsored occupation of Haiti. At best the 21cs condemn the US-backed coup in Honduras (2009), Venezuela (2002) and military bases in Ecuador and Columbia and reject a US-centered free trade agreement.

The one area in which the 21cs have an apparent advantage is in the promotion of greater individual freedoms and electoral processes. There is greater tolerance of public debate, competitive elections and political parties than was allowed in some variants of 20cs. Nonetheless, economic democracy, or workers' power was far more advanced in twentieth-century Chilean socialism and Yugoslavian self-management than is the case of 21cs parliamentary elections. Moreover, in the past there was greater concern for workers' opinions in making policy even in the authoritarian systems than takes place in the current agro-mineral 21cs states. The greater openness of 21cs is related to the fact that they face less high intensity military threats. In part this is because they have not altered the basically capitalist nature of their economics.

In comparison with 20cs, 21cs are generally more conservative, work closer with the multinationals, are less consistently anti-imperialist and are based on multi-class coalitions that span the class hierarchy, linking the impoverished poor sectors of the middle class to the very powerful agro-mineral elites. Although 21cs may occasionally make reference to class analysis, in times of crises their operative concepts obscure class divisions through the use of vague non-specific 'populist' categories.

Perhaps the radical image of the 21cs results from their contrast with the previous extremist right-wing regimes that ruled during the previous quarter century. The socialist label pinned on contemporary regimes by Washington and the Western media represents nostalgia for a past of unfettered political submission, unregulated economic pillage, and robust repression of popular movements rather than an empirical analysis of their socioeconomic policies.

Even as the 21cs are less radical and perhaps distant from commonly accepted definitions of socialist politics, they still have drawn the line in opposition to US militarism and interventionism, have put a cap on control over natural resources and provide greater tolerance for the organization of social movements.

# Chapter 11

## Cuba: Reforming the Revolution

Revolution is ... *changing everything that should be changed*; it is *complete equality and freedom*; it is being treated and treating others like human beings; it is *emancipating ourselves through ourselves*, and through our own efforts.

(Fidel, May Day Address, May 1, 2000)

Cuba, the principal and still existing socialist experiment in the history of the Western world is currently enmeshed in a process of imminent transformation. For the Revolution to survive the forces assailing it from within and from the outside it will need to tack carefully to the torrential winds of change blowing over the world capitalist system. Cuba has done so before, albeit not without errors and rectifications of these errors. In fact, an as of yet not entirely explained mystery is how the Cuban Revolution managed to survive the ‘perfect storm’ brought about by the collapse of socialism in the early 1990s. But it did survive, prompting some to argue that if Cuba survived that storm it can survive virtually anything thrown at it. But the leadership and current administration does not take this view. It is all too aware of what is at stake and that the government cannot continue to call on Cubans to endlessly tighten their belts—to absorb the high social costs of adjusting to the winds of change and the dictates of government policy. A further adjustment to the forces of change and another round of reforms to the Revolution is clearly called for and in the works. Indeed the leadership, if not the entire country, at in the current conjuncture of world development is seriously engaged in the process of seeking how best to make this adjustment—whether to ‘update the model’ or even possibly to change direction. Raúl Castro, at the helm of the ship of the state in this navigational context, has declared: ‘either we correct our mistakes or we sink’. At issue in this rectification, in addition to preserving the revolution’s achievements in human development is socialism itself. The question is whether Cuba will be forced to cut a capitalist path towards national development as Russia, China and Vietnam have done. Or whether it can continue to lead the forces of socialist transformation in the twenty-first century.

We address this question in the short form of a three-part play. In the first part we review the first three decades of the Cuban Revolution so as to reconstruct in brief the key elements of the Cuban model of socialist development. It is argued that this model was designed to bring about a process of socialist human development, which in some respects differed fundamentally from the socialism actualized in the Soviet Union and Eastern Europe. In the second part we review the dynamics and economic reform process that unfolded in Cuba from 1990 to 2008 in response to the systemic crisis associated with the collapse of the Soviet model. Our argument here is twofold. One is that structural adjustments made

in response to the forces of neoliberal globalization undermined a fundamental pillar of Cuban socialism, namely a commitment to ‘conditions equal for all’—a substantive social equality in both social relations and conditions. The other is that the Cuban Revolution survived the torment of the early 1990s in some measure because of a specific feature of the *human development model*<sup>1</sup> of socialist development, namely the engagement and active participation of Cubans of all walks of life in its defense and in a search for a way out of the crisis. The third part describes and briefly analyses the scope and meaning of the economic reforms implemented under the presidency of Raúl Castro. The third part of the chapter concerns the far-reaching reforms announced by the current administration in the context and wake of the Report to the 6th Congress of the PCC. The concern here is to establish the scope and significance of these reforms in regard to the prospects for socialism and capitalism in the twenty-first century.

### **Cuba 1959–89: The Revolution as Socialist Human Development**

The notion of human development advanced by the UNDP, and used to rank countries in its annual flagship publication the *Human Development Report*, is predicated on capitalism, even though no mention is ever made of this system requirement. The reason for this presumption is that capitalism is deemed to be uniquely configured around the idea of *freedom*—the freedom of individuals to pursue their opportunities and advance their own interests in the pursuit of life-enhancing goals or what has been termed ‘human flourishing’ (Deneulin and Shahani, 2009). However, given the propensity of capitalism towards class division and uneven development, the concern of the economists at the UNDP and other agencies of international cooperation for development was, and still is, to give a human face to a capitalist development process that is anything but humane—to determine the best policy mix and institutional reforms needed to sustain the development process.

#### *Development as Human Welfare*

According to most scholars, Cuba’s greatest achievement in the first three decades of the revolution was the construction of a system that provides universal free access to education, healthcare and social security—human welfare broadly defined. The workings of this system over the years are reflected in Cuba’s achievement of a relatively high level of ‘human development’, particularly as measured by the UNDP—in terms of life expectancy and the level of education.

In 1990, when the socialist world was collapsing and the capitalist world order in disarray, and Cuba was entering a system-threatening ‘Special Period’, the UNDP launched its flagship annual publication, the *Human Development Report*,

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1 On socialism as human development see Lebowitz (2007).

designed to measure and rank countries according to their success in achieving 'human development'. Cuba was ranked 62nd out of 130 countries on its Human Development Index (HDI). Two years later, Cuba's ranking dropped as low as 81st (61st in the category of 'developing countries'), a clear reflection of the drastic reduction in the GDP and thus per capita income. In 1993, reflecting both realities in Cuba and possibly methodological irregularities, Cuba was ranked 75th on the HDI vis-à-vis other 'developing countries' but 100th overall, while just a year later, Cuba's ranking returned to 89th and 108th (out of an enlarged group of 173 countries). In terms of the UNDP's 'capability poverty' measure Cuba ranked 10th out of all developing countries, not nearly as high as one might expect but then the country was at the nadir of a devastating economic crisis.

From 1994 to 2000 when Cuba introduced a series of major reform measures designed to restructure the economy out of the crisis, a slow but persistent trend towards an improvement in socioeconomic conditions could be detected notwithstanding increasing inequalities. This trend was reflected in a steady improvement in the HDI ranking from 88th in 1994 to 58th in 1999, 56th in 2000 and 51st in 2009 and 2010, placing it well up into the 'high human development category'.

What is most significant about this achievement at the level of social development is that, as in the comparable case of Kerala, it was on a relatively low economic base: while Cuba ranks very high at the level of social development, indeed on par with the most advanced capitalist democracies, at the level of economic development it ranks among the low income countries, i.e. the conditions of social development were achieved on a relatively low-growth economic base.

An improvement in the social welfare of the population, an essential dimension of human development under both capitalism and socialism, is generally brought about by the agency of the state. It entails the funding of programs designed to extend essential social services to the population, especially education and healthcare, and also to ensure that the basic human needs of everyone (for food, housing, etc.) are met. In the 1970s, this 'basic needs' paradigm provided the policy framework and was used to shape the development model of governments within both the capitalist system (the welfare-development state) and the socialist system (Cuba, for one). Within the capitalist system the 'welfare' and the 'development' functions of the state require a redistribution of market-generated incomes via progressive taxation, channeling a share of these incomes into social welfare and development programs to build human capital and to ensure a modicum of social welfare.

Under the socialist system the provision of human welfare is a fundamental responsibility of the state and a matter of the highest priority, as reflected in the constitution of the Cuban state. On this issue the socialist state can be differentiated from any capitalist state, which in its legal and other institutions is designed first and foremost to provide security to property in the means of production—and to protect the inalienable rights of each individual as well as the freedom to pursue their self-interests. The socialist state in contrast, as in the case of Cuba, attributes these rights and this freedom to the individual but defines them in terms of a

collective concern for shared values and beliefs, a culture of solidarity, which give a social form to individual human development.

In addition to instituting a system of human welfare provision with universal coverage in regard to education, healthcare and social security, the welfare function of the Cuban state was instituted in the form of a ration card that ensured the access of all citizens to affordable food and household needs, workplace *comedores* and daycare centers, and legislation limiting the cost of housing and rental charges to 10 percent of earned income. In addition to these programs and this social development policy, the government from the outset promulgated legislation designed to bring about a fundamental structural change in the dominant social relations of production and consumption. The first action taken and measures in this regard included land reform legislation designed to resolve the problem of landlessness and rural poverty by redistributing large landholdings among the direct producers and peasant farmers.

Other major measures included the socialization and nationalization of production, and a public system that provided employment and work for all,<sup>2</sup> with a relatively flat or egalitarian payscale that provided for a relatively equitable distribution of earned income. Zimbalist and Brundenius (1989) calculate that by 1965 the wage differential ratio between the highest and lowest groups of paid workers in the payscale was 4.3 to 1, versus an estimated ratio of 25 to 1 prior to the revolution. Mesa-Lago calculates that the payscale differential was further reduced from 3.6 to 1 in 1966 to 2.6 to 1 in 1971 (Mesa-Lago, 2000: 225). Given that the income of most Cubans was regulated by means of this payscale (the only source of income at the time), the leveling effect of the government's push towards a more egalitarian society is evident.<sup>3</sup>

Table 11.1 provides a snapshot of the social conditions resulting from these and other such policy measures and achieved after 25 years. The figures in Table 11.1 are averages. However, the universal coverage of the welfare system, and the lack of the fundamental class division in the distribution of wealth and income that is characteristic of other countries in the region and the capitalist world, means that the indicated social conditions are highly generalized. Unlike other countries in the region, there is no poverty and wealth at the extremes of the income distribution in Cuba.

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2 With the socialization of production, completed in 1968 with a revolutionary offensive against all remaining forms of private enterprise, a majority of Cubans workers had been converted into state-employed workers. By 1970 an estimated 87.5 percent of the economically active population (EAP) worked for the state. This contrasted with 8.8 percent in 1953 (Comité Estatal de Estadísticas, 1987). At the same time the self-employed were reduced from 24.0 to 1.2 of the EAP.

3 In 1973, the CTC, representing unionized labor as well as management, proclaimed a return to the 'socialist' principle of distribution according to work or social contribution (as opposed to need, which is presumably the same for all) and a return to wage differentials, albeit within a relatively flat range across different occupational categories—4.9 to 1 (Brundenius, 1984; Zimbalist and Brundenius, 1989).

**Table 11.1 Conditions of human development (2009)**

	Cuba	US	UK
Life expectancy	78.5	79.1	79.3
Infant mortality	5	8	6
Doctors per capita	1:160	1:280	-
Literacy	100%	97%	99%
Unemployment	1.9%	5%	4.7%
Poverty*	0	12%	17%

*Note:* \*This is according to Ridenour (2007). However, it must be noted that according to some Cuban economists, given the erosion in the coverage of the rationcard and the low purchasing power capacity of the Peso an estimated 20 percent of Cubans in the 1990s could be regarded as income poor.

*Source:* UNDP *Human Development Report 2009*; *State of the World's Mothers 2010*—Save the Children, May 2010; World Health Organization *Core Health Indicators*; Cuba's Office of National Statistics (ONE).

A study published in the December 2005 *MEDICC Review* shows Cuba at the top of all Latin American countries in providing the greatest opportunities for human development, the elimination of unnecessary and avoidable inequalities considered unjust. This study is based on statistics and reports by UNDP, WHO, FAO and related regional organizations in looking at longevity, literacy, access to safe drinking water, the student–teacher ratio, physicians per inhabitant, environmental protection, etc. ‘The combination of free and universal healthcare and education, public participation, and the willingness by the government to implement policies to maximize equity, has had positive effects on health outcomes’, wrote *MEDICC Review*. One of these outcomes had to do with infant mortality, which the WHO takes as an important ‘thermometer of social wellbeing’. This thermometer shows Cuba with 5.6 deaths per 1,000 live births compared, for example, to the United States, where in 2005 it stood at 6.5 (14.5 deaths for black babies) and in 2010 the ratio was 8/1,000 (Save the Children, 2010). In Cuba, it is fair to write, there is no evident color distinction in health conditions and healthcare. Other indicators were: under-five mortality rate: 7.7 per 1,000, which was better than the average of the ‘most developed’ or ‘advanced’ countries and the best performance of all ‘developing’ countries; 99 percent of births attended by professional staff; 5.5 percent of low-birth weight babies. Also Cuba has one of the fastest aging populations (15.4 percent are over 60 years old) but instead of cutting back on old age benefits, as happened in so many capitalist ‘democracies’, they were increased. In 2005, the minimum pension was raised by another 50 percent.

*Development as Freedom*

Cuba's achievement at the level of social development is beyond dispute. Indeed, it has even won reluctant faint praise from James Wolfensohn, president of the World Bank at the time. Acknowledging that 'Cuba has done a great job on education and health' he noted that 'it does not embarrass me to admit it'. Indeed, he added, 'they [Cubans] should be congratulated on what they've done' (quoted by Lobe, 2001). However, in the view of many scholars—although for many this view is filtered through an ideological lens—this achievement needs to be balanced against what is described as a democratic deficit regarding the conception of 'development as freedom'—the freedom and the opportunity for individuals to choose and to act on their opportunities for self-realization and advancement—to use their human capabilities in order to allow them to live a life that they have reason to value.

The first HDR in 1990 begins with the stirring words: 'An irresistible wave of human freedom is sweeping across many lands. Not only political systems but economic structures are beginning to change in countries where democratic forces had been long suppressed.' The report continues: 'People are beginning to take charge of their own destiny ... We are rediscovering the essential truth that people must be placed at the centre of development.' The report follows this rediscovery with the statement that the purpose of development is to 'offer people more options' such as 'access to income', a long life, knowledge, political freedom, personal security, community participation and guaranteed human rights. This turns out to be the UNDP's conception of development broadly defined as 'freedom'—development understood as the expansion of 'choice' and 'human capabilities', or 'enlarging the range of peoples' choices'.

Although the HDR defines freedom as the 'expansion of choice' and the freedom to pursue the choices available to individuals, its architects and proponents have a decidedly non- or apolitical conception of development. First, there is no political variable in the Human Development Index (HDI) used by the UNDP, in a comparative ranking of countries to measure the level of human development achieved by each. The index does not measure in any way the politics of development, which is to say the constraints on the opportunities available to the poor or the limits to their freedom. In this connection, the UNDP does indeed acknowledge the existence of such 'constraints' but it takes the developmental role of the state to be precisely the creation of a level playing field, to eliminate the barriers to choice and the restrictions on freedom—and to do with a policy of social exclusion and political reform: to ensure that the inalienable rights of the individual (human rights) are respected and protected.

Even though the HDI itself does not include a measure of political freedom, human development as *political freedom* features significantly in a number of HDRs as a matter of principle and point of discussion. At issue in this discussion is the degree to which human rights are respected and protected in practice. The issue as the authors of these HDRs see it is that human development only flourishes in conditions of economic and political freedom—economic freedom

understood as the right of individuals to pursue their personal interests and for private sector firms to seek a reasonable return on their investments and a profit on their operations; and political freedom understood, in liberal democratic terms, as the rights of the individual. However, as we will argue below in regard to Cuba freedom is no less an issue in a socialist context but understood very differently.

The profound value placed by the revolutionary regime on freedom, and the fundamental meaning of the Revolution in terms of freedom as a condition of human development, is expressed eloquently and powerfully by Fidel Castro in the *First Declaration of Havana*—in his passionate denunciations of ‘Yanqui imperialism’—of the obscene profits obtained by American corporations at the price of undernourishment and infant mortality in Latin America. To gauge the impact of Fidel’s speech, and what it meant at the time not only for Cubans but for people across the region, it is useful to turn to a recent speech by Norman Girvan, a Jamaican economist and a member of the ‘New World Group’ founded by Lloyd Best, at his honorary doctorate acceptance speech at the University of Havana (December 3, 2008). In this speech, Girvan recounts the stirring words of Fidel at the time, which were ‘still ringing in [his] ears’ 50 years later. As he recounts his experience: ‘The image of a million Cubans, assembled in one place as the National General Assembly of the People of Cuba, expressing their approval of the social and economic measures taken by the Revolution, and declaring their independence of foreign domination, was a transformative experience ... It helped to shape [our] view of the world.’ He elaborates on this point in the following terms: ‘the Cuban revolution was a source of inspiration to many of us [regarding] the ability of a small Caribbean country to chart its own course of social justice, economic transformation, and national independence by relying on the mobilization of the entire population, by relying on the will and energy of its people; with a leadership that trusted the mass of the population and refused to bow before threats, intimidation, economic punishment and counter-revolutionary violence from the greatest military power on the planet’. He adds: ‘It remains so to this day’.

Based on the precept that popular participation is an essential condition of human development practitioners at the UNDP and scholars in the liberal democratic tradition have argued that the Cuban model and the Revolution has been deficient in this regard—that decision-making is top-down, with power held by an exceedingly small group in control of the state, providing few if any channels or institutional forms of popular participation. The hypothesis derived from this ‘theory’ (or ideology, as the case may be), which attributes the extraordinary power of one individual (Fidel Castro) to dictate policy and events, is that the most important policy decisions are made by the government, with scant or no popular participation, and a weak, if not entirely absent, civil society is subordinated to the state. At the same time, the argument goes, Cubans are denied all sorts of democratic or political freedoms—to freely express their views and organize to present the electorate an alternative government program.



Notwithstanding the fact that the proponents of this widely disseminated view of Cuban politics tend to argue from an ideological standpoint with little to no empirical evidence, there are grounds for arguing that Cuba suffers from a ‘democratic deficit’. However, it seems and the evidence can be interpreted in various ways and suggests that it is more a case of the government’s overreaction to a perceived if not entirely fabricated and constant threat to national security. And it is evidently true that in the context of a fundamental commitment to socialism as the systemic foundation of rational development Cubans are accorded by the constitution, and indeed in practice, all sorts of democratic freedoms that are limited only by a fundamental respect for, and participation in, the revolutionary process. That is: within the revolution everything is permitted; outside, nothing. Needless to say, or to say the least, although capitalist democracies seem to have a similar stricture regarding capitalism and democracy, this stance is both arguable and continues to be highly contested.

From the standpoint that the defining characteristic and best protection of democracy is popular participation the entire issue can be looked at somewhat differently. The issue becomes the institutional mechanisms and channels set up to promote and ensure participation. On this point there is a clear, although perhaps not fundamental, difference between human developments as conceived and programmed by the UNDP, and human development as institutionalized in the Cuban Revolution. For the UNDP participation is viewed in terms established by an economist at ECLAC as a means of ensuring an ‘equality of opportunity’ (equity) and the participation of the ‘hitherto excluded’ (Stiefel and Wolfe, 1994). In these terms the critical factor in the democratization process is to strengthen civil society—to ensure a vibrant and active counterweight to the state in the development process.

In Cuba popular participation is structured not so much in terms of a strong vibrant civil society as the institution of ‘organs of people’s power’ (a democratically elected representative parliament in the formulation of public policy), the ‘mobilization of the entire population’, and, in response to the crisis of the 1990s, opportunities for local development initiatives in the context of community-based organizations. In this regard, civil society organizations for the most part are linked to the government and the state in ways designed to permit, if not ensure, dialogue, cooperation and a two-way transmission of proposals, alternative ideas and initiatives.<sup>4</sup>

Within this institutional set-up, Cubans from all walks of life, in their communities and workplaces, actively participated in designing the policy responses made by the government to the worst production crisis of the ‘Special Period’. Several scholars have argued that the mobilization of the population (some two million, it is estimated) in the form of ‘workers’ parliaments’ in 1993

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4 Non-Cuban scholars tend to be skeptical about these channels, viewing them, as well as neighborhood associations such as the CFR as government controlled or in service of the state. Nevertheless, there is considerable evidence to the contrary.

to debate the issues and to search for a way out of the crisis was a critical factor in reproducing the revolutionary consciousness (*'la conciencia'*) needed and serving to help the revolution survive the crisis—and to hold the socialist line in a context of market reforms that threatened to undermine some of the pillars of the socialist human development model.

### *Development as Equality*

Whereas human development in the context of capitalism is based on the idea of freedom<sup>5</sup> and the values (and institutions) attached to it, socialist human development, it could be argued, is predicated on the fundamental importance of equality as a social condition—in 'conditions equal for all' (Marx) as well as social solidarity.<sup>6</sup>

Within a capitalist development policy framework the idea of equality is transmuted into equity, understood not in terms of social justice in the distribution of the social product but as an 'equality of opportunity'. The economists at the World Bank and responsible for the UNDP's *Human Development Report*<sup>7</sup> are crystal clear on this point: 'For development to enlarge people's opportunities they need equitable access to these opportunities [and the freedom to pursue them]. Otherwise the choices available to many individuals in society (often, entire sectors) are restricted. We must emphasize that equity should be understood as equal access to opportunities, but no equal results because what one does with one's opportunities is in the sphere of individual initiatives' (UNDP, 2010: Synopsis).<sup>8</sup> But it could be argued that socialist human development is predicated on a very different conception, that of equality as a substantive social condition

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5 Freedom as constructed in the philosophy of social liberalism espoused by Amartya Sen and other social liberals. So constructed and understood the concept of freedom should be differentiated from the neoliberal conception, notwithstanding a shared concern for and emphasis on the individual as the bearer and agent of this freedom. However, a socialist conception of freedom as emancipation, is based on a theory that can be traced back to Marx in his early works.

6 As for 'social solidarity' it gave meaning to the value attached by the Revolution to freedom and equality, and gave Cuban socialism a different shape and form that it had in the Soviet Union and Eastern Europe. High value placed by the Cuban Revolution and many Cubans on solidarity is reflected in the weakness if not absence of a deeply embedded culture of material consumption and the belief that greed is good, which leads to a view of others as mere means to one's own ends. But it is also evident in Cuba's astounding record of international solidarity—solidarity with the struggles of people all over the world to improve their lives in the face of grinding poverty and the machinations of class and imperialist exploitation.

7 Lead economic consultants in the design of the *Human Development Report* included Amartya Sen, Gustav Ranis, Francis Stewart, Keith Griffin, Meghnad Desai, Aziz Khan, Paul Streeten and Mahesh Patel.

8 The author's translation.

shared by all—social equality in access to society’s productive resources and in the distribution of income.

Socialism was conceived in such terms by Che Guevara, whose dream and vision of socialism was that of human development—to bring about a ‘new man and woman’ (human beings socialized with a revolutionary spirit and a socialist consciousness). Guevara argued the need for moral rather than material incentives: that economic behavior should be governed by a socialist ethic and a revolutionary spirit based on the ‘love of humanity’.<sup>9</sup> Guevara continually stressed that a socialist economy in itself is not ‘worth the effort, sacrifice, and risks of war and destruction’ if it ends up encouraging ‘greed and individual ambition at the expense of collective spirit’ (in Kellner, 1989: 62). His primary goal thus became to reform ‘individual consciousness’ and values to produce better workers and citizens. Cuba’s ‘new man’ (and woman) would be able to overcome the culture of ‘egotism and “selfishness”’ that characterize capitalist societies. In describing this new method of ‘development’ Guevara stated that ‘there is a great difference between free-enterprise development and revolutionary development. In one of them, wealth is concentrated in the hands of a fortunate few, the friends of the government, the best wheeler-dealers. In the other, wealth is the people’s patrimony’ (in Kellner, 1989: 59).

Guevara, as Minister of Industry, put his stamp on development policy from 1964 to 1969, after the ‘great debate’ and before the lack of economic growth led the government to revert to economic orthodoxy and switch to a more pragmatic approach. In the context of a policy shift away from Guevarist idealism and concern for social equality towards pragmatism and economic orthodoxy, the old wage-scale was seen as too egalitarian. Hence the government abandoned Guevara’s policy of moral incentives and introduced various material incentives. Also a wage reform in 1981 increased the wages of highly skilled labor relative to unskilled labor, rewarding both skill and productivity. The engine of economic growth did indeed kick in but growth was halting and sporadic until the early 1980s at a time when the rest of Latin America was mired in debt and entered a historic ‘decade without development’.<sup>10</sup>

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9 To advance Guevara’s vision of the ‘new man (and woman)’ workers were exhorted to labor for society rather than for personal gain. In place of material reward for overtime work and exceptional productivity, workers individually and collectively were to labor hard out of a sense of moral commitment. Rewards for ‘socialist emulation’ and ‘fraternal competition’ consisted of diplomas, pennants, flags and titles. Sections, departments and factories, as well as individuals, competed for these nonmaterial ‘rewards’.

10 From 1980 to 1985 the annual rate of per capita income growth in Cuba was 6.8 percent versus -1.8 percent in Latin America as a whole (Zimbalist and Brundenius, 1989: 46). However, in 1986 the engine of economic growth sputtered to a halt, with a growth rate of only 0.1 percent (and a decline of 4.4 percent in 1987). Even so, taking into account this economic downturn from 1960 to 1987 Cuba outperformed the rest of Latin America at the level of both economic growth and equality.

The inception of an economic downturn in 1986 led to another switch in policy based on an effort to ‘rectify’ the mistake made by deviating from a Guevarist line in macroeconomic and development policy. Although remuneration was based on the principle of ‘each according to their work’ rather than to ‘their needs’ the ‘rectification program’ (RP), had a solid egalitarian foundation in its emphasis on moral incentives, criticism of excessive differentials, denunciation of the high private sector earnings, and concern for market-generated distortions in the egalitarian distribution of incomes. In the spirit of this ‘rectification’, and with the goal of advancing egalitarianism, the government implemented a policy of expanded rationing to counter the difficulties experienced by a growing number of households to make ends meet. The government’s new wage policy was used to advance egalitarianism. In 1987 the lowest rate on the wage scale was increased from 75 pesos per month to 100; from 82/93 to 107, and 95/107 to 118 (Zimbalist and Brundenius, 1989). As a result, the ratio of the highest to the lowest wage (the fundamental source of income in Cuba) was reduced from 5.5 to 1 in 1981 to 4.5 to 1 in 1987, and in real terms this ratio was maintained or even reduced as Cuba entered the ‘Special Period’ of war (and crisis) in peacetime.

The overall goals of RP was to put the Revolution back on the track of Guevara’s vision of socialism as human development—development aimed at generating a ‘new man and woman’ imbued with a revolutionary spirit and a socialist consciousness. The means and policy instruments for advancing the Revolution in these terms by increasing workers’ participation in economic functions and public policy, and fomenting a concern for increasing productivity and output, fighting corruption and improving labor discipline and restoring the moral impulse to social contribution (vs. personal advancement) and unpaid voluntary work. At a more practical level the RP was aimed at expanding social services for human development. The share of social service in the state budget, one indicator of the government’s priorities, increased from 41.8 percent in 1985 to a record 45 percent in 1988—a level unheard of even in the most advanced capitalist welfare state. Investments in social services rose from 17.7 percent of total investment in 1985 to 21.5 percent in 1988. Social expenditures per capita were also programmed to grow (by 13 percent from 1986 to 1990) notwithstanding their already high share of fiscal resources and declining fiscal revenues in the context of lower rates of economic growth.

In regard to workers’ participation in the making of public policy (and ‘continuous planning’)—a key objective of the rectification campaign—the CTC Congress held in 1989 complained about the inadequacy of mechanisms for workers’ participation in planning and that work managers (and perhaps policymakers) tended to treat production assemblies, as well as neighborhood assemblies and community councils, as mere formalities, discounting the input of workers in the policymaking process. Also questioned was the ability of workers to participate in decisions related not to the economy as a whole but to the system of labor remuneration, conditions of work and job security, as well as the hiring and firing, and redeployment of workers according to management criteria of

enterprise efficiency, which, some workers argued, should be balanced against workers' rights and collective decision-making power.

As for social security, entitlement conditions were relaxed for pensions: the retirement age in 1987 was reduced while pensions were increased—benefiting some 690,000 pensioners (Mesa-Lago, 1993). In this context, social security costs (including healthcare) surpassed 9 percent of GSP in 1990, the highest ever, and total security expenditures exceeded the one billion peso mark in 1986 and kept growing, even into the crisis of the 'Special Period'. The number of pensioners surpassed one million in 1990, 64 percent more than in 1979. Significantly, the number of physicians per 100,000 inhabitants increased from 22.5 to 36.4 between 1985 and 1990, mainly because of the rapidly growing number of physicians (a matter of socialist policy) and the family doctor program, which provided primary healthcare for the entire population on the basis of one fully staffed clinic per 60–70 inhabitants.

In terms of other indicators of human welfare and 'development' the availability and quality of consumer goods and the level of material consumption undoubtedly shrank in the downturn of the second half of the 1980s, albeit under conditions of increased egalitarianism, an important indicator of 'human development' in a socialist context. As for social indicators related to education, a critical factor and condition of human development in both a capitalist and socialist context, UNESCO reported a 6 percent illiteracy rate in 1990 among those 15 years and older. Enrollment in secondary and higher education kept increasing in this phase, reaching 88 percent and 23 percent of the respective age groups.

Infant mortality continued its impressive falling trend between 1985 and 1990: from 16.5 to 10.7 per 1,000, exceeding the target rate of 15 by 29 percent. ECLAC reported an increase in life expectancy from 74.3 years between 1981 and 1985 to 75.2 in 1986–90.

There are no data on social security coverage for this stage but pension expenditures increased by 44 percent. As for housing it appears that the brigades in 1986–90 built only 18,315 housing units as opposed to the annual target of 100,000. Total housing construction over the period appear to have fallen, aggravating a serious housing deficit, the one most notable shortfall in the Revolution's remarkable achievements at the level of social development, and a matter of concern in that housing generally affects health, a major condition of human development. Other shortfalls in the Revolution's achievements, or deficits in regard to the physical quality of life, would include transportation services and access to food as regards not so much nutrition and calorie intake as quality and range of choice. Although difficult to measure for the lack of hard evidence on the physical quality of daily life before the onset of the production crisis in 1991–3 indications are, based on anecdotal evidence and recollections by those who lived through this period, that the level of material consumption at the time was severely constrained—austere at best. This might not have been as major a factor in determining the level of human development in terms of education and health, where the achievements of the Revolution are indisputable and well documented,

but material consumption is nevertheless an important condition of the physical quality of life.

### **Cuba 1990–2008: The ‘Special Period’ and its Aftermath**

Cuba was not affected by the debt crisis of the 1980s in Latin America because it was protected from the machinations of finance capital by a system of credits, price subsidies, donations and soft loans provided by the Soviet Union. Although the engine of Cuba’s economic growth, reflected in a burst of rapid economic growth in the early 1980s, began to slow down in the second half of the decade by 1989 the country was at its economic peak and ahead of the region in all social indicators except for housing (Mesa-Lago and Vidal Alejandro, 2010). The end of economic aid and a drastic reduction in commerce with the collapse of the socialist bloc, preceded by errors and frequent changes in domestic economic policies, caused a 35 percent drop in GDP between 1989 and 1993, a 78 percent decrease in real social expenditures per capita, an increase in unemployment to 8 percent, and a deterioration in key social indicators. Such adverse effects forced the government to take action in the form of market reforms during what was officially labeled the ‘Special Period in Peacetime’.

One of these reforms was the restoration of private enterprise and the market in the agricultural sector. In the spring of 1986 Fidel Castro had launched an attack against the remaining peasant markets and private farmers, equating their ‘private enterprise’ with the worst of capitalism. The farmers were allegedly making exorbitant profits by selling their product on the markets (he gave examples of unlikely incomes up to \$5,000 and even an unlikely \$250,000 a year). He observed that they resisted integration into co-operatives and in the flaunting of their evidently higher incomes constituting an obstacle to co-operativism. He also stated that some private farmers delivered barely 10 percent of their output to the state while only a dozen or so out of a total 98,000 paid taxes, thus taking from but giving nothing to the country. In addition, he argued, the unsatisfied demand for agricultural products led to a lucrative black market, allowing these farmers enormous profits without having to bear the ‘social costs’ paid by their counterparts in the co-operative and state sectors. To stop these and other abuses the markets for small-scale private agricultural production were abolished and Fidel publicly opposed the reconstitution of the private sector and the reintroduction of free markets until 1993, when radically changed circumstances forced the government to restore the market, albeit in a regulated form.

In Cuba there is evidence of a similar outcome of policies pursued not under the pressures of neoliberal globalization (Lara et al., 1999). As the direct outcome of these policies, income inequalities increased throughout the 1990s, to the point of resurrecting the specter of poverty at one extreme of the income distribution. Several studies (e.g. Espina Prieto, 2004) established a clear trend in this direction in the 1990s, under conditions of economic crisis and liberalizing policy reforms,

and despite a continuing commitment to established social security and human development programs.

As for social inequality in the distribution of income, its major source was the creation of a dual economy, one geared to the peso, the other to the dollar—a policy reform that created a major distortion in the economy as well as an entirely new social divide in which professionals such as doctors and teachers would earn considerably less than service workers in the tourist sector, and many Cubans were forced to reduce material consumption to a bare minimum. Under these conditions, it is estimated that the Gini index of income inequality, which had dropped from 0.57 in 1958 to 0.28 just four years later, rose to 0.38 in 2000 (Espina Prieto, 2004; Ranis and Kosack, 2004). It should be kept in mind that this international standard for measuring inequality does not have the same import in Cuba, given that it is based entirely on the statistical distribution of income and that healthcare and education in Cuba are free and universal. As a result of the government's inclusive social policies, many of the population's basic needs were met, even in a context of crisis and emerging inequalities, and extreme poverty was eluded, even with the decline in the value of earned income and coverage of the ration card.

Even so recent studies have confirmed the re-emergence of poverty under conditions of the Special Period. Espina Prieto (2008) estimates that in the 1990s some 20 percent of Cubans were highly vulnerable and experienced conditions of relative poverty and were unable to meet their basic needs. At the same time, the institution of various market reforms, including the restoration of the market and the free exchange of agricultural produce, in addition to the social dynamics of a dual economy, seriously eroded the ethos of egalitarian idealism and led to the emergence of system-challenging social inequalities. At the very least it led the revolutionary regime—as Raúl did in his 2011 Report to the 6th PCC Congress—to commute the goal of Cuban socialism from equality as a social condition (an egalitarian society) into an 'equality of opportunity'.

Even so, in the context of a major social divide based on access to dollars and the level of income, towards the end of the decade Cuba began a process of slow economic recovery and saw a gradual but persistent upturn of the economy, reflected in a notable improvement in Cuba's ranking on the UNDP's HDI index. In 1994, in the throes of a major production crisis it was ranked 88th (out of 173 countries) but already by 2000 it had improved its ranking to 56th, placing it among the 'high human development' countries. The main difference was in the per capita income factor.

The question is: to what degree was this recovery the result of a shift in public policy and the institution of market reforms or to changed conditions in the world economy? The strong demand in China and Asia for minerals, energy and other natural resources has created conditions for a primary commodities export boom, which, it would appear, to some extent (in regards to nickel in particular) has benefited the Cuban economy. However, except for nickel Cuba is not as well positioned as some countries to participate in this boom and to benefit from the global turnaround in the terms of trade, so we can assume that to some extent the

recovery can be attributed to public policy. In any case, the significant aspect of this recovery is that the government introduced measures (in 2005 and again in May 2005) designed to ensure a more equitable social distribution of economic growth and greater social security.

### **Dynamics of the Economic Model**

More than ever today the principal task is the economic battle ... because on it depends the sustainability and survival of our social system.

(Raúl Castro, Closing Session of the 9th Congress of the Unión de Jóvenes Comunistas, April 4, 2010)

#### *Cuba's Economic Battle*

While Cuba's achievements at the level of social or human development have been widely acknowledged and celebrated, Cuba's long economic battle is an entirely different matter. Indeed, the government under the leadership and command of comrade Fidel has signally failed over five decades of strategic action and serious effort to substantially develop the country's forces of production within a socialist system. Although Cuba's socialist model did manage to eliminate the scourge of extreme poverty, and also achieved a substantial degree of social equality in the distribution of the social product, five decades of experimentation with different economic policies have yielded more problems than solutions. Cuba remains an underdeveloped economy, unable to provide the population with the income to sustain a standard of living commensurate with the mass of productive resources available to it. In this context what is required is not just an 'update of the model', as proposed in the Report prepared for the 6th Congress of the PCC in April 2011, but a closer look and a critical examination of the policies pursued over five decades of economic development under Fidel's leadership—an unflinchingly critical evaluation of Cuba's economic battle that takes stock of the mistakes made over the years and a socialist strategy for correcting these mistakes. We cannot and do not here propose to undertake this important task—the necessary prelude to any strategic revision and updating of the model. However, we can point to some of the issues involved and several strategic considerations.

The various shifts in strategy and economic policy over five decades of the Revolution have been described, and to some extent evaluated, by economists such as Mesa-Lago from both a social scientific and ideological standpoint. Also, economic policy has been debated over the years by Cuban economists and other socialist scholars. However, these scholars for the most part have failed to come to terms with the weight and extent of the evident mistakes made by the Cuban leadership over the years. In this Fidel himself is not immune from criticism, indeed largely at fault, having at crucial junctures ignored the views of constructive critics



both within and the outside the country, both in regard to the policy framework of the economic model and specific policies within this framework.

With the possible exception of Zimbalist and Eckstein (1987) there appears to be a relative consensus among foreign scholars on periodizing shifts in economic policy within the 'Revolution'. As for Cuban scholars, they generally follow the same periodization but stress the continuity of the process rather than the discontinuities. In this context Cuban scholars have marked 1959, 1962, 1975 and 1989–90, 1997, 2004, 2008 and 2011 as milestones marking different stages in the revolutionary process. With an emphasis on major shifts in government economic policy as well as certain discontinuities Mesa-Lago identifies seven major shifts in economic policy from 1959 to 1996 (and we can add two more): 1959–60 (from the capitalist market to a socialist state); 1961–3 (orthodox central planning); 1963–4 (the great debate between Guevarism and economic orthodoxy); 1964–9 (revolutionary consciousness and human socialist development); 1970–85 (return to orthodoxy); 1986–90 (the rectification campaign); 1990–6 (crisis and structural adjustment to forces of change in the 'Special Period'); 1997–2007 (economic recovery, holding the socialist line with structural dualism and austerity); and 2008–11 (a period of structural reform, updating the model).

Within the framework and as an extension of the socialization strategy initiated as early as May 1959, the first major mistake made by Fidel, with enormous negative consequences for Cuba's economic development, was the 'revolutionary offensive' of 1968 in which the government, under Fidel's command, closed down 50,000 small businesses. Confusing capitalism with private enterprise and the market, the remaining vestiges of 'private enterprise' were eliminated in one foul stroke. These small businesses in the vital personal service sector were never replaced by the state, leading to an enormous decline in service provision and the quality of life (with people having to line up in long queues in woefully under-supplied local stores ...). In 1993 Fidel authorized a partial re-opening of the private sector and the market in the agricultural sector, but a decade on, citing rampant corruption, Fidel once again ordered them closed down, forcing Raúl to re-open them in 2007, but not before a lost decade in regard to production, self-employment and essential services that the state could not and did not provide for.

Another major mistake and in retrospect a rather bizarre strategic move, also made without consultation and against the advice of prominent scholars and even his closest advisers, was to launch the economy onto a path of monoculture dependence. Launched barely a year after the revolutionary offensive of 1968 Fidel's mobilization of the population to achieve the arbitrary target of 10 million tons in the sugar harvest of 1969–70 was a dismal failure and totally dislocated the economy in the process. Leading to a path of monocultural dependence, and the failure to diversify production, Fidel's strategy resulted in an over-dependence on the USSR for the export of sugar and the importation of oil, and most significantly, the need to import food, at first from the Comintern and then, after the collapse of the USSR, from the United States and elsewhere. By 2008 up to two-thirds of Cuba's supply of agricultural goods and essential food products was imported,

making the economy highly susceptible to changing conditions, and when the global food crisis hit in 2008 in the form of rapidly increasing food prices Cuba was particularly vulnerable in terms of food security.

The structural problems associated with the failure to diversify production and the market for exports, and the dependence on essential food imports, were deepened in the 1990s with the strategy of using tourism as a means of acquiring foreign exchange. Although it could be argued that this strategy was dictated by conditions over which the government had little or no control, the strategy turned out to be disastrous at a number of levels. For one thing, the crisis of 1989–96 was so severe precisely because of the economy's total dependence on the exchange of sugar for oil with the USSR, and a reliance on outdated imported production technology as well as the import of agricultural products and manufactured goods. In addition, with domestic production geared to the provision of inputs for the tourist industry, and a large part of the population excluded from local markets and suffering from income poverty structural and social problems of low consumption were exacerbated. With a dysfunctional state sector and overly reduced small private sector in agricultural production, the diverse structural distortions and flaws of the Cuban economy were deepened and worsened, leading to economic and social problems that by the time that Raúl assumed state power had reached crisis proportions.

The 'structural deficiencies' here outlined are by no means the extent of the problems faced by Cuba in its extended economic battle. Other areas of continuing concern include a major misallocation of human resources (architects becoming bellboys, professors taxicab drivers); the lack of a diversified economy with resiliency to cope with the inevitable economic cycles endemic to the world capitalist market; a notable failure to incorporate advances in information technology into the economic structure, and problems related to educational and professional training programs. The problems associated with these and other 'structural problems' are far-reaching, broad in scope and deep, entrenched as they are in the economic structure of Cuban society as a result of a deficient economic model and misguided economic policy—and a number of erratic and rather ill-advised decisions made by Fidel Castro over the years. Neither the Cuban people who have to live with these problems, both structural and strategic, nor the socialist cause, would be well-served by a refusal or continuing failure to confront this issue.

### *The Scope and Meaning of Raúl's Reforms: Cuba 2008–11*

With an economy that is socialist in form but at the same time open to the world economy, Cuba can be seen as a special case of national development. At issue in current debates on this development: how to protect its socialist economy with universal social services and a level of equality unparalleled in the capitalist world from the forces of capitalist development and neoliberal globalization at work in the world economy. These forces are a constant in the capitalist development

process but tend to expand and acquire a particular virulence in situations of crisis to which the system is subject. But the crisis of the early 1990s was of a different order. It was brought on not by the contradictions of the system but by the collapse of socialism in the Soviet Union and Eastern Europe. However, as with capitalism the response to crisis was to restructure the system and adjust to the forces of change that cannot be managed or controlled.

Fidel's regime at the time managed to successfully navigate its way out of the crisis by adopting a number of market reforms. But these reforms were not system changing. Nor did they undermine the fundamental pillars of the system or force the government to abandon its commitment to socialism or a socialist system for meeting the basic needs of the population via the provision of universal social services and subsidized rations. Although the coverage of the *libreta* was reduced by as much as 40 percent, placing at least 20 percent of the population at risk or below the income poverty line, not one school nor one clinic was closed. The system of universal social services, although strained, was more or less kept intact.

But at the same time, the economic reforms introduced at the time and since did not redress some fundamental structural problems of the Cuban model, generating problems that have plagued the system ever since and that by some accounts (see Mesa-Lago and Vidal Alejandro, 2010) surfaced and were magnified by the recent so-called 'global financial crisis'.

The regime change in 2008, precipitated by Fidel Castro's illness, brought Raúl to the fore. Raúl almost immediately set about the task of adjusting the economy to the forces of change in Cuba's international relations, and, more importantly, of tackling the structural problems of the economy by 'updating the model'.

These problems, by a number of accounts include: (1) overly centralized state planning (which had been extended to sectors such as agriculture and services that are best left to the market and the small business private sector); (2) a failure to incorporate computer-based information technologies into the production process, to initiate thereby an internal restructuring process based on the technological conversion of the country's production apparatus; (3) monoculture in economic production—reliance in early years on the export of sugar, and in recent years on tourism—and an associated failure to diversify the economic structure of production; and (4) dependency and over-reliance on the import of food and energy. In conditions of the global food crisis that hit the world capitalist system in 2008 this dependency had a seriously negative economic impact on Cuba. Although government policy more or less insulated the population from the direct effects of the sharp price hikes for food—unlike Haiti and other countries on the capitalist periphery where the price hikes led to mass rioting—having to import up to 80 percent of the country's staple food supply (up from 50 percent in 2004) at world market prices had a major impact on the country's deteriorating balance of payments. And this at a time when the government was struggling to cope with the fallout of a disastrous environmental crisis and its exposure to the global financial crisis.

In response to these and other structural problems in the economy (see the 2011 Report to the Communist Youth for a list and brief discussion) Raúl Castro announced a new cycle of economic reforms. At issue in these reforms (see below) was whether Cuba could hold to its socialist line of national development (by simply updating the model) or if it would be forced by circumstance and pressures beyond its control to abandon socialism, or at least move the economy in a capitalist direction, as in China and Vietnam, i.e. adopt the system of a ‘mixed economy’ that combines centralized government planning with elements of a market economy, but under the command of a socialist state that would continue to hold the socialist line and to regulate the market economy to prevent the emergence of capitalism.

*The Scope of the Reform Process, 2008–10*

When Fidel Castro fell sick the popular sport among foreign ‘observers’ of speculating on the ‘post-Fidel transition’—on what would happen to Cuba once Fidel was constrained to step down from the driver’s seat of state power—was renewed with vigor and some glee. But in retrospect what struck (and in some corners, disappointed) most observers was how ‘smooth’ the ‘transfer of power’ was. ‘Unity at home’, the message went, ‘is the best defense against the only external power Cuba still regards as a threat—the United States’. These are not the words of a revolutionary or Cuba supporter but of Julia Sweig, an academic spokesperson for the Corporate Global Empire (CGE).<sup>11</sup>

‘None of what Washington and the [Cuban] exiles anticipated’, Sweig writes, ‘has come to pass’. Even as Cuba-watchers speculate about how much longer the ailing Fidel would survive, ‘the post-Fidel transition is already well under way. Power has been successfully transferred to a new set of leaders, whose priority is to preserve the system while permitting only very gradual reforms’. In this context, Sweig notes, ‘Cubans have not revolted, and their national identity remains tied to the defence of the homeland against US attacks on its sovereignty’. She adds: ‘Not one violent episode in Cuban streets; no massive exodus of refugees ... a stunning display of orderliness and seriousness’. She concludes that ‘[d]espite Fidel’s overwhelming personal authority and Raúl’s critical institution-building

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11 An axisoflogic.com label for the world’s hegemonists in the form of the Rockefellers, ruling class members of the empire and founders of the CGE, David and Nelson Rockefeller. Sweig is a Rockefeller Senior Fellow and the director of Latin America Studies at the Council of Foreign Relations (CFR), a major foreign policy forum for the US segment of the ‘global ruling class’. The CFR has published the bi-monthly journal *Foreign Affairs* since 1922. Eleven secretaries of state, including John Foster Dulles and Henry Kissinger, have been part of its stable. Sweig’s article, ‘Fidel’s Final Victory’, in the January–February 2007 issue, is worth citing because it does what security-intelligence agencies are supposed to do: provide information to CGE’s politicians so that they can make ‘realistic’ decisions about how to deal with their enemies, i.e. terrorists, socialists, revolutionaries and, generally, defenders of national sovereignty when this is anathema to CGE economic-political interests.

abilities, the government rests on far more than just the charisma, authority, and legend of these two figures'. Indeed, '[Cuba] is a functioning country with highly opinionated citizens ... Although plagued by worsening corruption, Cuban institutions are staffed by an educated civil service, battle-tested military officers ... and a skilled workforce'. Moreover, 'Cuban citizens are highly literate, cosmopolitan, endlessly entrepreneurial, and by global standards quite healthy'.

Beyond this issue of a peaceful 'transfer of power' as emphasized by the Cuban journalist Manuel Yepe (2008), 'the Cuban Revolution [since the transfer of power from Fidel to Raúl] has been characterized by its pragmatism within the context of very firm ethical principles'. The ability to 'correct errors and negative tendencies, without losing sight of the fundamental path', Yepe notes, 'has been a big factor in the survival of the Cuban vision of social revolution, which for a half century has faced very complex tests in the midst of great dangers'.

Yepe is almost certainly correct in this view of the Cuban Revolution—that its resilience and survival is based on a continuous process of reform and adjustment to changing conditions as well as a healthy and active internal debate. Raúl Castro, immediately upon assuming office in 2007, initiated another round of internal debates on the direction of the Revolution, a debate that resulted in another round of reform measures ('Raúl's reforms!'), the meaning of which has engaged the attention of Cuba-watchers within and outside the country. Some of the reforms have been announced publically, eliciting the most diverse interpretations;<sup>12</sup> others, as evidenced by Yepe in his review of recent and ongoing reforms to Cuba's food production process, were acted on without fanfare and few comments by outside observers like ourselves, who come in all kinds of ideological shades.

*Wage and Income Reforms* Under *Labour and Social Security Resolution 9*, signed in February 2008 although not published in the official Gazette, the limits placed on a state employee's earnings were lifted. For the first time in decades, there would be no limits on employee's earnings, state television reported on April 10, 2008: 'For the first time it is clearly and precisely stated that a salary (or wage) does not have a limit, that the roof of a salary [will] depend on productivity', economic commentator Ariel Terrero noted, with reference to a new policy measures designed to improve the country's economic performance, revamping the state wage system to create more incentive by allowing workers to earn as much as they can.

Currently the Cuban state controls about 90 percent of economic activity and employs the vast majority of workers, often setting wages from offices in Havana. Cuba has always prided itself on its relatively flat payscale system, ensuring a relatively equal distribution of the social product and national income—in a range

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12 On this diversity of interpretations, the normal accompaniment to any announced reform measure, and the rather jaundiced and ideological responses of the foreign press and many outside Cuba-watchers, see Walter Lippmann, Editor-in-Chief, *CubaNews*, July 27, 2008.

of 4 to 1 from top to bottom, versus a range of 12–18 to 1 that prevails elsewhere in Latin America. However, Cuba's egalitarian approach has come under fire in recent years for holding back production. 'One reason for low productivity is there is little wage incentive and this breaks productivity and stops bigger salaries', Terrero said. The *LSC Resolution 9* was aimed at breaking the cycle while yet respecting the socialist principle, 'to each according to his work, from each according to his ability'. Raúl Castro, in this connection, upon taking over from an ailing Fidel in February, promised to make wages better reflect one's work, a major complaint of the population. 'It is our strategic objective today to advance in an articulate, sound and well-thought-out manner until the wages recover their role and everyone's living standard corresponds directly with their legally earned incomes.'

Raúl also launched a major reform of the agricultural sector to create conditions for state and private farmers that would allow them to legally earn as much as they can from their efforts after meeting state quotas. It is an old problem. 'There is no reason to fear someone earning lots of money if it really is due to their work', Adalberto Torres, a Havana retiree, was reported to have said. 'It is the same with farmers. Give them land, let them work, it is not important how much they make. It is good because it means they are producing.'<sup>13</sup>

In addition, the ban on the sale of computers, DVD players, other consumer goods, cellphones, and on Cubans staying at tourist hotels, was also lifted. However, the problem here was that the vast majority of Cubans lacked the purchasing power to consume these goods or take advantage of the new opportunities for increased material consumption. One strategy of the Cuban government since the 1990s was to obtain foreign currency through their citizens who receive monetary gifts from relatives abroad. Behind this problem is the dual currency system instituted in the context of the Special Period as an adjustment to the economic conditions. When the fall of the Soviet Union plunged Cuba into its worst crisis in the early 1990s then-President Fidel Castro bitterly announced that the US dollar would become legal tender alongside the Cuban peso. He said at the time that the government had no choice if Cuban socialism were to survive, notwithstanding the inequality and social problems the measures would create.

As a result of the dual currency system and economy, the goods and services made available under the new policy could only be purchased by Cubans who have the hard currency to pay for them in convertible pesos, or CUCs, worth 20 times more than the Cuban pesos that most wages and salaries are paid in. By putting them on legal sale, it will make life easier for those Cubans with access to CUCs, which are pegged at \$1.08. But it also highlights the inequalities in a country where the average wage is equivalent to about \$17 a month in pesos.

Espina Prieto (2004), a Cuban academic specializing in matters of social inequality, notes that Cuba's Gini index of income inequality rose from 0.24 in

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13 Mark Frank, 'Cuba Removes Wage Limits in Latest Reform', *Reuters* (April 10, 2008), [www.reuters.com/article/idUSN1032792120080410](http://www.reuters.com/article/idUSN1032792120080410).

1986 to 0.38 in 2000 (perfect equality = 0, total inequality = 0.99). The index is an international standard widely used to measure inequality, though it excludes healthcare and education. Since these two elements are universal and free in Cuba, the country's Gini coefficient is typically underestimated. Cuba's Gini index is generally considered to have risen since 2000. Despite the dearth of updated figures, Cuba's standing remains above its neighbors in Latin America, which overall lie between 0.50 and 0.60 on the index.

While professionals such as doctors and teachers have very low state salaries, Cubans who receive remittances from family overseas, tips from tourists, run small businesses, go on government missions abroad, receive CUC bonuses, or sell goods on the black market have access to dollars with considerably higher purchasing power.

*Currency Reforms—May 29, 2008* The dual currency policy was undoubtedly functional and perhaps necessary at the time, but it had an exceedingly high social cost in generating a degree and forms of social inequality—even a class divide—that contradicted and placed a serious strain on one of most fundamental principles of socialism and the Revolution. Thus it was inevitable that the system would have to be dismantled sooner or later—when conditions allowed. Osvaldo Martínez, President of the Commission for Economic Affairs of the National Assembly, on a state visit to Madrid, acknowledged the problem and the plan to abolish the dual currency system: 'The government's policy is elimination of the dual currency, which in some way hurt the national self-esteem, but we need a minimum of monetary reserves for a normal exchange rate.' The government did not propose to eliminate the peso, the national currency, because it lacked the foreign reserves to back and circulate only CUCs. As for the US dollar, which circulated in Cuba from the mid-1990s on, it was removed from circulation late in 2004 because of the growing class divide and social discontent that it spawned. Today whenever a dollar is converted into CUCs, the government charges a 10 percent tax, which provides a minimal addition to the government's fiscal resources.

*Pension Reform—April 27, 2008* Barely two weeks after the announced labor code reform,<sup>14</sup> the government under the new Raúl Castro regime announced a policy reforming the pension system. In this regard, '[o]ne of the Revolution's invariable principles is to raise workers' wages and pensions, starting from those with the lowest, in the just aspiration of reducing social inequalities and reaching the point of all Cubans being able to live off their work or pensions'.

Needless to say, the pension system, like the ration card, no longer fully supports this principle, the value of pensions having been significantly reduced over a decade and more of economic adjustments to the 'new economic reality'. The announced reform was designed to compensate for this loss in value on the

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14 For details see 'Información a la población: Decide el Gobierno Revolucionario el incremento de las pensiones de la Seguridad y la Asistencia Social', *Juventud Rebelde*.

basis of the fiscal resources made available by five years of recovered export-led growth. ‘The revolutionary government’, it was announced, ‘has decided to increase social security and assistance pensions, in a fair acknowledgement to millions of men and women who have devoted a large part of their lives to creative work over nearly 50 years of building a new society and who are still firmly defending our socialism’.

The government decided to increase the wages of workers in the courts and public prosecutors’ offices—some two million (2,163,496 to be precise). In 2005, economic realities (three years of economic growth) allowed income increases for more than five million workers, retirees and people dependent on social security and assistance, almost 50 percent of the population. At the time Cubans were informed that ‘as economic realities, the fruit of hard work, savings, productivity and efficiency permitted, wages and pensions would continue to increase’. Wage and salary raises were designed and applied by sector and priority, always with ‘a rigorous assessment of economic and financial conditions as a premise for their implementation’. Thus, the government noted in its announcement that for that reason ‘it is not currently possible to apply across-the-board wage increases, as the country does not as yet have the necessary resources’.

The improvement in pension benefits came into effect on May 1 and covered all social security retirees receiving pensions of up to 400 pesos, more than 99 percent of the total. The minimum social security pension was also increased from 164 to 200 pesos, retirees receiving pensions from 202 to 360 pesos received a 40-peso increase, and those on pensions of 361–99 pesos received 400 pesos. Families covered by social assistance received an increase of 25 pesos each, bringing the minimum up from 122 to 147 pesos, a 20 percent increase. These increases, by the government account, benefited 2,154,426 people, almost the same number of beneficiaries of the salary raise for workers in the People’s Supreme Court and the public prosecutors’ offices.

International agencies acknowledge that more than half of the world’s population still has no guarantee of social security. But in Cuba social security is assumed by the state as a matter of human right, and on this basis the government channels a significant part of its fiscal resources to provide a measure of social security to the entire population, protecting people unable to work on account of age, disability, sickness or maternity. In the case of the death of a worker, similar protection is guaranteed to his/her family and, via social assistance, to senior citizens without resources or homes, as well as all people unable to work and who do not have relatives in a position to help them.

Together with its health and education programs, the social security provided by the state to the entire population is a major achievement of the Revolution, and undoubtedly a major policy reason for Cuba’s high rate of human development—including life expectancy and infant mortality rates at levels common to the most economically advanced and wealthiest countries in the world—a theoretical anomaly as well as a major policy and political achievement.



The new ‘economic realities’ of the ‘Special Period in Peacetime’ (officially from 1994 to 2004) put this and other achievements of the Revolution at serious risk. Arguably one of the most outstanding achievement of the Revolution was its ability to withstand the forces of change and survive a production crisis of such historic proportions, with its basic structure of economic and social policies intact; notwithstanding the enormous pressure of extremely scarce financial and economic resources not one school or hospital was closed; resources were stretched to and beyond their limits, and the requirements and pressures of economic adjustment led the government to institute reforms that themselves threatened to undo the entire system.

*Back to the Food Production Crisis—July 26, 2008* Even though there have not been any major public announcements on it, nor comments by the legion of Cuba-watchers and the capitalist media, no reform is as important—or very few of them are—as the current efforts to reform Cuba’s food production system under the terms of *Decree Law 259*, touching as these reforms do on ‘a matter of national security for the revolutionary process’ (Yepe, 2008).

This reform process in terms of its ‘far-reaching economic and social scope’ and implications, were compared by Yepe to the agrarian reforms of the early years of the revolutionary process. As we argued above, it was a monumental mistake for the revolutionary regime to sacrifice food security to gain a comparative advantage on the capitalist world market—a problem that came home to roost in the current global context of dramatically rising food prices.<sup>15</sup> In this context, food imports in 2007 cost the country \$1.6 billion and likely to rise thereafter, placing a serious constraint on national development as well a local consumption crisis in terms of domestic food costs.

One of the most significant changes wrought by *Decree Law 259* was to turn over idle land for use by state entities, co-operatives and any Cuban citizen physically fit for agricultural labor. The aim of the decree was to reverse the decline in the acreage of cultivated land, which had fallen some 33 percent from 1998 to 2007. After the decree went into effect, farmers were brought together through their local organizations to describe their needs in terms of machinery, spare parts, irrigation equipment, ploughs, windmills, and other inputs needed to make the best possible use of the land.

A short time earlier there had been a reorganization of the agricultural sector, aimed at moving decision-making as close to the fields as possible by eliminating

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15 Over 15 years ago, Raúl Castro, then Minister of the Revolutionary Armed Forces, had warned that in regard to national security and the continuation of the revolution, the availability of food for the population is as important as the weapons that the country requires for its defense—and sometimes even more important. From his new post as chief of state he has stressed the importance of securing the country’s food supply as a high-priority national security issue, at a time when the world situation makes the food question more pressing, serious and urgent.

intermediary layers. In the context of what might be described as ‘administrative decentralization’ and local development, the municipal delegations of the Ministry of Agriculture took over many of the functions that had been centralized, including servicing the private farmers and those organized in co-operatives. In addition, state food purchasing companies, which buy 70–80 percent of the crops harvested by private farmers, increased the prices for the food products paid for (the remainder of their produce is sold directly to the public on the open market). State farms and farmers’ co-operatives would presumably experience a similar price increase, allowing them to productively invest some of the proceeds as well as improve the livelihoods of farm households. Farmers and farm workers are being remunerated for their labor at levels well above prevailing payscales in the urban center, under working conditions that are vastly improved from conditions that prevail in the region.

More than a few have objected to the prominence that the measure cedes to private property in the context of a socialist project that theoretically is wedded to social property and that therefore would assign a minor role to individual property and market production. However, factors relating to the survival of the revolutionary process have led to a convincing case made in favor of the measure, which, as Yepe notes, in a review of the ongoing reform process, ‘borrows elements of the market economy to use to serve a pressing socialist objective’.

The ultimate aim of the reform process in the food production system is to increase food security as well as contributing to national development and an improved livelihood for the farm population in Cuba. The as-yet open and unsettled question is whether the reform process activated by *Decree Law 259* will bring about this development, and what effect it will have on Cuba’s socialist path to national development. At issue here is what capitalist institutions for the sake of national development should be incorporated into what is still a fundamentally socialist system. The issue: socialism or capitalism, or a possible permutation of the two?

*Private Sector and Employment Reforms (August 2010)* On August 12, 2010, President Raúl Castro announced the imminence of another round of economic reforms designed to absorb the surplus labor to be shed from the state sector—perhaps as much as 100,000 jobs (500,000 by April 2011). The regime had already shed hundreds of thousands of state sector jobs in recent years, but the only way to manage this contraction of the public sector in terms of employment without renegeing on the responsibility of the state to deliver on the right of all Cubans to a decent job or adequately remunerated economic activity is to expand the private sector. This is the aim of the latest round of reforms announced in August 2010 and acted upon some six months later in the context and after an extended public debate and internal discussions.

*Cuba and the Global Financial Crisis*

The Economic Commission for Latin America and the Caribbean (ECLAC)'s preliminary 2009 report on the global financial crisis noted that its strongest regional effects were channeled not through the financial sector but through the economy by means of a decline in exports, commodity prices, remittances, tourism and foreign direct investment. In most countries the negative impact of the crisis was minimal in that financial systems did not deteriorate, currency markets were relatively calm, and external obligations were met. The reason was that they were able to shield themselves.<sup>16</sup> But Mesa-Lago and Vidal Alejandro (2010) argue that Cuba was an exception to the regional rule as described by the ECLAC. The main reason was the tight relationship between economic growth and the external sector in Cuba's small and open economy.

From 2004 to 2007, the GDP increased at an annual average of 9 percent, largely due to Venezuelan trade, economic aid and price subsidies, but also the primary commodities boom on the world market. Unemployment in this environment decreased to 1.8 percent while some social services improved. In 2008, Cuba had the highest allocations for social services within Latin America: 34.7 percent of GDP and 52.6 percent of current budgetary expenditures, up from 29.9 percent in 1989 (Mesa-Lago and Vidal Alejandro, 2010: 692).

The year 2007 marked a high point in four years of steady growth, but the onset of a financial crisis in 2008 in the epicenter of the world capitalist system, combined with three disastrous hurricanes in 2008, provoked seriously adverse economic and social consequences in Cuba. When the so-called global financial crisis hit Cuba, the macroeconomic scenario had already been weakened. The rate of GDP growth decelerated from 7.3 percent in 2007 to 4.1 percent. Exports stagnated at 21 percent of GDP, and the balance of trade turned negative. External debt increased from 9.8 percent of GDP in 2002 to 15.8 percent in 2008. The fiscal deficit doubled in 2008, reaching its highest level in the decade.

As for the country's celebrated social programs, data for 2009 showed a rise in social expenditure as a percentage of total budget expenditures, mainly as a result of a significant increase in education and a minor rise in pensions, whereas the remaining categories were stagnant or decreased (Mesa-Lago and Vidal Alejandro, 2010: 700). Cuba's pension system was still the most liberal in Latin America: retirement ages were four years lower for women and two years lower for men than regional averages; retirement spans were the longest on average, due to the high life expectancy. Liberal entitlement conditions, system maturity, population aging and insufficient financing pushed pensions costs from 4.6 to

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16 'The emergence from this crisis has been quicker than expected, largely thanks to the ramparts that the countries of the region had built through sounder macroeconomic policy management ... The Latin American economies went into the crisis with unprecedented liquidity and solvency ... The positive stimulus of fiscal policy action was one of the distinctive features of economic management' (ECLAC, 2009).

7 percent of GDP between 1986 and 2008. The Social Security Reform Law, enacted on December 24, 2008 in the midst of the crisis, confronted some but not all of these problems. The retirement age was increased by five years for both sexes, raising it to 60 for women and 65 for men, to be phased in gradually over seven years. At the same time the number of required work years increased from 25 to 30, although pension would be increased for each year that retirement is postponed, and nominal pensions were raised (Mesa-Lago and Vidal Alejandro, 2010: 699–700).

Between 2002 and 2006, the number of social assistance beneficiaries jumped by 122 percent, placing further strains on the budget for social programs. Social assistance expenditures climbed and peaked at 7 percent of total social expenditures in 2006, but they fell to 4.3 percent in 2008 and to 4.1 percent in 2009, while the number of beneficiaries declined by 3 percent. Even so the pensions deficit rose to 41.3 percent in 2009, one year after implementation of the law (authors' estimate based on ONE, 2009). That is, Cuba's social assistance program, like the other components of the social service system, was already seriously stressed when the crisis hit.

Under these conditions, and given also a further erosion in the value of wages, the government postponed implementation of the announced elimination of rationing to 2011. The fundamental problem was that the government's turn to the market under prevailing social conditions spelt disaster for the Cubans subsisting on meager wages, whose value had steadily declined over the decade, and insufficient pensions set at below an unofficial but effective income poverty line. The average wage over the decade had increased from 188 to 427 pesos but its real value had declined from 188 to 48 pesos. Clearly neither a social insurance pension or wages were sufficient to cover the basic needs of many Cubans that now required income to access. Even worse, the negative impact of the global financial crisis, in addition to increased restrictions imposed by the US administration, reduced the amount and value of remittances, on which, it is estimated, up to a third of families were dependent for 'extra' (but clearly basic) income.

There were also at work internal factors predating the crisis. There was a decrease in sales of Cuban professional services (physicians, nurses, teachers, etc.) to Venezuela, the main source of expansion for Cuba's exports of services since 2004. These exports had initially experienced a boom based on beneficial agreements with Venezuela, but they soon stagnated due to limits on the number of health personnel that Cuba could export without seriously curbing its domestic provision. Simultaneously, other economic sectors were left behind, partly because of the low multiplier effect of professional service exports due to their poor linkages with the domestic economy, in contrast to the agro-industrial sugar and tourist sectors that had been engines of growth in previous decades.

In addition, the Cuban economy suffered two severe external shocks in 2008. The terms of trade fell 34.3 percent, the worst decline of the decade, due to the collapse of the world market price of nickel, Cuba's main export, and the escalation in world prices of oil and food, Cuba's two most significant imports.

Three hurricanes caused losses estimated at US\$ 9.7 billion, mainly in housing and food production, which required an increase in imports from 17.6 percent of GDP in 2007 to 23.3 percent in 2008 (Mesa-Lago and Vidal Alejandro, 2010: 684–5). Fiscal expenditure was equally affected by the damage inflicted by the hurricanes, and by the rise in world oil and food prices that forced an increase in state subsidies on domestic prices of such goods. Thus Cuba was already in a fragile macroeconomic situation when the global crisis hit.

*The Government's Response to the Financial Crisis* The first feature of the global financial crisis was that it was not entirely or at all global. It affected primarily although not exclusively countries at the center of the system. Secondly, notwithstanding the financialization of capitalist development, and the resulting disjuncture between the money and the real economy, the financial crisis had serious ramifications for the real economy, putting at risk or reducing the access of many people, both in the developed world and the developing countries on the periphery of the system, in dire straits, jeopardizing their livelihoods and pushing many into poverty.

There has emerged a major debate as to the scope of the financial crisis and whether or not, and under what conditions, it either triggered a broader or deeper economic crisis, exacerbating the effects of other dimensions of the crisis. Some argued that the crisis was largely restricted to or impacted economies and societies at the center. Economists at ECLAC, for example, argued that the region had ‘missed the bullet’, with governments either able to insulate the economies from the transmission effects or effective in their counter-cyclical policies in minimizing these effects.

Retrospective analysis confirms this general assessment. However, once again Cuba appears to be a special case. With an economy that in crucial respects was open to the global system Cuba was particularly vulnerable in regard to what economists have defined as ‘trade-growth transmission mechanisms’, and, lacking the resources for a counter-cyclical expansion, it was not in a position to cushion or ward off the negative effects of the crisis. As a result, Mesa-Lago and Vidal Alejandro argue that Cuba was hit harder by the crisis than other countries in the region. At the very least, the crisis forced the government to structurally adjust to changing conditions and the forces released by a system in crisis. This was certainly the view of the current Cuban administration of the economy, leading to the recognition of the need for an open and extended debate on the state of the economy and to ‘update’ the model used to guide policy in the direction of national development.

The government’s immediate response to the crisis was to maintain a fixed exchange rate and implement a belt-tightening policy. Cuba was not a member of international and regional financial organizations, and hence did not receive financial help to overcome the crisis. It had to rely on its own limited financial resources to mitigate or absorb the costs of its international exposure and to ensure necessary financial underpinning for social services.

Cuba is a special case as an open economy and hence vulnerable to trade-growth transmission mechanisms, but at the same time it is a socialist economy with universal social services. And, as emphasized by Mesa-Lago and Vidal Alejandro in their assessment of the impact of the crisis on Cuba, ‘the mechanisms by which the world economic crisis is transmitted from developed to developing economies are conditioned by domestic factors that may attenuate or accentuate external economic shocks and their adverse social effects’.

According to Mesa-Lago and Vidal Alejandro anti-crisis policies had not been implemented to date (2010). The reason is, they argue, that the state lacked the financial resources for a counter-cyclical expansion. As a result, the government had to resort to further belt-tightening measures to rebalance the economy. It underestimated the likely effects of the global crisis, thus further complicating the financial scenario and forcing extreme *ex post* adjustment measures on the expenditure side. But the modest reforms and economic incentives to increase revenue were insufficient. Evidently, the Cuban model required more profound changes to address the crisis and provide the necessary financial underpinning for its development and social programs.

*Structural Reforms in Response to the Crisis* In 2010 on December 18, President Raúl Castro in his address to the 6th Congress of the PCC (14 years since the previous congress) declared: ‘Either we correct our mistakes (rectificamos) or ... we sink’. But rectify what and in what direction? Does an opening towards the market mean a transition from socialism towards capitalism? On this point Raúl’s answer was as follows: ‘Yes, there will be an opening towards the market, an opening towards capitalism’<sup>17</sup> Does this mean the end of the Revolution—a rupture (of the socialist project)? No, he said, but it does mean turning away from the ‘perfect socialism of which the whole world dreams’. It means ‘the socialism that is possible in Cuba, under given conditions’. Furthermore, ‘as you know the mechanisms of the market already exists in Cuban society’.

Cuba’s economic model, Raúl continued, has suffered from excessive concentration in decision-making and ownership of the means of production, as well as lack of incentives and low efficiency. These problems, he noted, have impaired output and productivity and have worsened during the last decade due to ‘structural weaknesses in the pattern of growth’. There is, he added—harking back to the ‘structural reforms’ that he had called for earlier in 2007, reforms that would ‘improve production and productivity’—a ‘domestic consensus that the centralized state economic model has multiple shortcomings and distortions and needs profound structural changes’.

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17 Here Raúl once again seems to equate capitalism with the market, failing to distinguish clearly between them, raising questions that he does not answer and sowing the seeds of some confusion.

*Updating the Model: Evaluating the Reforms Presented to the 6th Congress of the PCC*

The reforms introduced from 2008 to 2010 provided some flexibility in the labor market, such as authorization to work in more than one job, elimination of wage ceilings and permission for state enterprises to set salaries based on workers' productivity. However, until mid-2010, these reforms, like those in the agricultural sector, did not involve a substantial modification of Cuba's economic model, which, Raúl noted, is closer to the Soviet model than the market-socialist model of China and Vietnam.

The most far-reaching project for reforming the revolution was formulated in the context of the 6th Congress of the PCC which, after being postponed for some years, was finally convened in April 2011 with the explicit aim of 'updating the model' of the Cuban Revolution in response to longstanding problems that were reaching critical proportions.<sup>18</sup>

To provide some coherence and a framework for the discussions of delegates to the congress, a Central Report was prepared on the basis of an evaluation of the state of the economy and the 'problems to be solved' and 'taking into account the major events and circumstances, both external and internal, since the last Congress'.<sup>19</sup> Also taken into account, and used as criteria for updating Cuban socialism, were the views and ideas advanced in a debate on the Cuban economy that unfolded throughout Cuban society. It is estimated that as of February 7 more than 127,000 meetings were held and that over seven million Cubans participated in the analysis of the *Project of Economic and Social Policies Guidelines of the Cuban Party and the Revolution* presented at the 6th Congress of the Cuban Communist Party (PCC) and in the surrounding debates. These meetings, according to Raúl, provided some 619,400 proposals, deletions, additions, changes, questions and concerns. Presumably congressional delegates were also so engaged and were able to bring forth ideas advanced in this debate to inform their discussions of the Report. A

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18 Raúl Castro, Cuban President, said during the expanded meeting of the Council of Ministers that updating the Cuban economic model is not a task of one day, or one year and, due to its complexity, the country needs at least a five-year period for its implementation (realcuba, Prensa Latina).

19 According to Raúl, the 6th Congress of the PCC 'really started on November 9 last year, with the release of the Draft Guidelines of the Economic and Social Policy of the Party and the Revolution, a subject that, as previously indicated, will be at the centre of the debates of this meeting that is regarded with great expectations by our people. As of that moment, numerous seminars were organized to clarify and to delve into the content of the Guidelines in order to adequately train the cadres and officials who would lead the discussions of the material by the party members, mass organizations and the people in general. The discussions extended for three months, from December 1, 2010 to February 28 of this year, with the participation of 8,913,838 people in more than 163 thousand meetings held by the different organizations in which over three million people offered their contributions' (www.Ahora.cu).

preliminary version of the Report was presented in the form of an analysis of the state of the Cuban economy presented by Raúl Castro at the closing ceremony of the 6th Congress of the Communist Youth on April 4.

The internal conditions highlighted by Raúl and reflected in the Report to the 6th Congress included factors such as low productivity, decapitalization of the productive base of the economy and infrastructure, and an aging and stagnant population growth. As for external conditions they included an environment characterized by the existence of a systemic and institutional crisis with multiple dimensions—economic, financial, energy, food and ecological—and an impact that weighed more heavily on the developing countries. Cuba, the Report noted, with an open economy and dependent on its external economic relations, has not been immune from the impact of this crisis, which was manifest in the instability of prices of the country's tradable goods, in the external demand for its social product, and restrictions in the possibility of accessing capital.

The creation of ALBA in 2004 to some extent shielded Cuba from these negative conditions, providing Cuba new sources of revenue generation in the services sector, especially in health and educational services, and significantly new opportunities for trade with other countries, especially China, Vietnam, Russia, Angola, Iran and Brazil. Nevertheless, several structural problems such as dependence on imported food in conditions of rising prices created a conjuncture in 2008 and 2009, that requires the adoption of structural reforms and an updating of the model used to guide national policy. An example cited in the report was the deterioration in Cuba's terms of trade, which fell by some 15 percent between 1997 and 2009, leading to a net loss of US\$10.2 billion.

In response to these conditions, and in anticipation of the likely scenarios regarding the external situation, Raúl Castro (2011: 7) emphasized the need for the country to adopt two types of solutions. First, short-term policy measures designed to eliminate the growing balance of payments deficit, generate export revenues and substitute for imports; at the same time, these measures would respond to problems related to work motivation and income distribution, creating thereby the infrastructure and productive conditions that would permit an advance to a higher stage of development. And secondly, measures designed to bring about sustainable development in the long-term, allowing for a high level of food and energy self-reliance, efficient use of human resources, heightened export competitiveness in traditional products, and the production of value added new goods and services (Castro, 2011: 7).

The resulting 'updated' model would take the following form: (1) the system of socialist planning would continue to provide the major direction to the national economy, as well as give rise to new forms of action and management; (2) the socialist state enterprise will stimulate the development of mixed capital enterprises, cooperatives, *usufructarios* (leaseholders), rentiers and leaseholders, self-employment and other forms that could contribute to the efficiency of social work; (3) the concentration of ownership will not be permitted; (4) the planning process will encompass not only the system of state and mixed-capital enterprises,



but will also regulate non-state forms of enterprise, which implies and will necessitate a new modality of economic planning.

As for the social policy framework the new model would (1) preserve the major achievements of the revolution, such as access to health services and medical attention, education, culture, social security and assistance to those in need of it; and (2) redeem the role of labor (work) as the fundamental means of contributing towards the development of society and the satisfaction of basic needs (*personales y familiares*). In addition, the model would (3) strengthen the role and scope of the wage relation, ensuring that all forms of work and economic activity be properly remunerated in the form of a salary (thus reducing gratuities and subsidies); (4) gradually eliminate the *libreta* (ration card), which tends to lead to the practice of bartering and an informal underground market; (5) maintain food provision in health and education centers that need it, and *comedores obreros* where required, but here assuring payment for services without subsidies; and (6) guarantee the provision of social assistance, via a coordinating center, for those persons who really need it because they are unable to work and have no family members to help out (pp. 21–2).

Under these conditions and within a policy framework elaborated to the purpose (see Raúl Castro, 2011), the Report to the 6th Congress of the PCC include the following reforms to the economic model of Cuban socialism:

*Self-Employment* Top priority issues placed by the government on its reform agenda included the issue of self-employment, the reversal of the ‘revolutionary offensive’ of 1968 when the ‘private sector’ was abolished not only in terms of capitalist enterprise but virtually all small and medium-sized businesses. The aim, it was made clear, was not just to adjust the economy to forces generated in the global economy, or another turn of the austerity screw, but to correct a mistake. The mistake, with enormous economic and social implications—including possibly cementing what turned out to be a major impediment to economic growth—was to conflate capitalism with market economics and ‘private enterprise’. It would take the regime more than 40 years to appreciate the magnitude of the problems generated by this mistake. However, indications are that the lesson has finally been absorbed.

What the CPC is told its members via an internal document circulated for discussion at both the base and leadership levels, is that when it comes to the ‘*cuentapropistas*’ (self-employed workers), both the party and the government must ‘first of all facilitate their activities and not create stigmas or prejudices against them, much less demonization’. Secondly, ‘[w]e must defend the interests of self-employed persons just as we do with all other citizens, provided they act in compliance with the established laws’. Formulation of the relevant policy measure, by diverse accounts, was the product of an extended internal debate. Without any documented review of this debate it is not possible to know what the decisive factors were in the design of this new policy reform. It is likely that the success of a similar policy in several ‘transition’ countries featured in the discussion of the

Report. Vietnam's ruling Communist Party, for example, has implemented policies that freed farmers to market their products and self-employed 'entrepreneurs' in the cities to set up restaurants or other businesses, with the obligation to pay social security for their employees. The policy measures announced by the Cuban government in April 2011 appear to have the same features.

What is the scope and likely consequences of this policy? And how can these consequences be managed? It is no easy thing for a socialist government to throw five million public sector workers on the mercy of an as-yet-to-be-established market—to assume that the innate entrepreneurship of Cubans will kick in. The government will need to assume an important role in facilitating the social transformation of public sector workers into self-employed entrepreneurs and small business owners, including operators of what in other contexts are defined a 'micro-enterprises'. What shape this new sector will take, and the precise role of the state role, is not yet clear, although it is evident that a major consideration would have to be the provision of credit, to supplement the efforts in this regard of diverse NGOs that have entered the fray of micro-enterprise lending in Cuba

*The Rationing of Food* Another keystone of the social welfare system of the revolution, the ration card, was also at issue, indeed probably the most highly debated issue. For some years the number of items on the ration book or *libreta* had been gradually reduced and restored to the market, but not without considerable discussion and debate. Indeed the document announcing the government's intention to do away with it acknowledged that '[m]any of us Cubans mistake socialism for entitlements and subsidies, equality for egalitarianism, and many of us consider [the ration book] a social achievement that should never be terminated'. In any event the reform includes incentives to subsidize not certain products but those 'Cubans who for one reason or the other really need it'. 'Such measures', the document goes on to state—and 'others that will be necessary to apply, although we know they are not popular'—are unavoidable, needed 'in order to maintain and improve the free services of public health, education and social security for all citizens'. Undoubtedly, the Report added, 'the ration book and its removal spurred most of the contributions of the participants in the debates, and it is only natural. Two generations of Cubans have spent their lives under this rationing system that, despite its harmful egalitarian quality, has for four decades ensured every citizen access to basic food at highly subsidized ... prices'.

This distribution mechanism (the *libreta*) introduced in times of shortages during the 1960s, in the interest of 'providing equal protection to our people from those involved in speculation and hoarding with a lucrative spirit', has become in the course of the years an 'intolerable burden to the economy', discouraging work in addition to 'eliciting various types of transgressions'. 'Certainly', the Report continues, 'the use of the ration book to distribute the basic foods, which was justified under concrete historic circumstances, has remained with us for too long even when it contradicts the substance of the distribution principle that should characterize socialism, that

is, [f]rom each in accordance with his ability and to each in accordance with his labour'. This situation, the Report adds, 'should be resolved'.

On this point, the Report makes reference to 'what comrade Fidel indicated in his Central Report to the First Party Congress on December 17, 1975', namely that '[t]here is no doubt that in the organization of our economy we have erred on the side of idealism and sometimes even ignored the reality of the objective economic laws' that Cubans should comply with. 'The problem', the Report adds, that 'we are facing has nothing to do with concepts, but rather with how to do it, when to do it, and at what pace'. In this context, '[t]he removal of the ration book is not an end in itself ... [but] one of the first indispensable measures aimed at the eradication of the deep distortions affecting the operation of the economy and society as a whole'.<sup>20</sup>

Here, Raúl observed, '[n]o member of the leadership of this country in their right mind would think of removing that system by decree, all at once, before creating the proper conditions to do so, which means undertaking other transformations of the economic model with a view to increasing labour efficiency and productivity in order to guarantee stable levels of production and supplies of basic goods and services accessible to all citizens but no longer subsidized'.

One of the 'other transformations' was to deal with a problem that 'came up often in the contributions made by the citizens', namely, 'the mismatch between salaries and the ranking or importance of the work performed', an issue closely related to 'pricing and to the establishment of a single currency', as well as to wages and to the *reversed pyramid* phenomenon. Another problem, necessitating action, relates to '[t]he excessively centralized model characterizing our economy'. Here Raúl announced the intention of the government to 'move in an orderly fashion, with discipline and the participation of all workers, toward a decentralized system where planning will prevail, as a socialist feature of management, albeit without ignoring the current market trends'. In this regard, Raúl notes, '[t]he lesson taught by practical experience is that an excessive centralization inhibits the development of initiatives in the society and in the entire production line, where the cadres got used to having everything decided *at the top* and thus ceased feeling responsible for the outcome of the entities they headed'.

## Conclusion

There is no question that the current regime has made a number of fundamental concessions to capitalism that threaten to undermine the socialist human

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20 The Report at this point notes that '[i]n Cuba, under socialism, there will never be space for "shock therapies" that go against the neediest, who have traditionally been the staunchest supporters of the Revolution; as opposed to the packages of measures frequently applied on orders of the IMF and other international economic organizations to the detriment of the Third World peoples and, lately enforced in the highly developed nations where students' and workers' demonstrations are violently suppressed'.

development model that has shaped government policy and the Revolution over the years. For example, a key concession has been in regard to how equality is conceived and instituted. The Cuban model was based on the institution of egalitarian relations and equality as a social condition. In the updated model of the Revolution, however, there is a clear shift from a commitment to equality as a social condition, or egalitarianism, towards equity, or the equality of opportunity, which is a social liberal rather than a socialist conception of equality, and the hallmark of the UNDP's human development model of capitalist development. However, the reforms advanced by Raúl Castro do not mean that Cuba will be forced to tread a capitalist path down the road towards national development.

Raúl's reforms, particularly the legalization and vigorous promotion of small business, is a positive step towards providing vital services and ending a dysfunctional state apparatus, which for a half century failed in its mission regarding economic development. The next step will be to allow medium-size enterprises which employ labor to come into operation, in high-tech activities, innovative manufacturing, food processing and especially in producing commodities for export. While a capitalist restoration is always possible, the current prolonged stagnation is not an option. There are several safeguards that can be adopted—and several existing regulations, if effectively and fairly applied, can retain socialist predominance over the economy and society.

A professional tax and revenue agency can enforce (with sanctions) a graduated income or revenue tax, to avoid the concentration of wealth and keep inequalities within bounds and socialist guidelines. Labor inspectors can oversee health, occupation and labor standards to avoid exploitation and ensure profit-making does not take place at the expense of workers. Most importantly independent worker-elected trade unions with the power to negotiate with capital and with the right to take job action and file grievances to an independent labor board is absolutely essential. Independent workers' unions can have 'access to the books' to oversee tax evasion, black market racketeering and other anti-socialist behavior—and to report it to the appropriate state agencies. In addition to these regulatory controls, capitalist development would be inhibited by the lack of institutional support for the perquisites and power of private property—for example, the freedom to accumulate capital by exploiting labor. Capitalism cannot function without legal protection to private owners of the means of social production. Also, formation of a capitalist class requires institutional development of a market for capital.

Raúl's reforms argue for greater enterprise autonomy from central authorities and especially from party functionaries, prioritizing experts and entrepreneurs over political loyalists. This is a two-edged sword: it encourages greater skill in developing market opportunities and international agreements, but managerial 'autonomy' could very quickly become a vehicle for a quasi-capitalist class at the peak of the economy, as happened in China, Vietnam and Russia. But to counter capitalist tendencies at the top by heavy-handed day-to-day intervention by state-party bureaucrats will stifle the purpose of the ongoing reform process. A more meaningful option is to promote the development of councils of workers,

engineers and employees that can meet to discuss and review performance, salaries and productivity gains and obstacles, and to take decisions in line with socialist principles of equality, equity and innovation. What is needed is a more participatory form of social development. Developing entrepreneurial skills and increasing earnings and ensuring socialist values of solidarity and equality create inevitable tensions that need to be mediated by representatives of the broader socialist society.

Above all there is a need to carry out basic reforms that go beyond immediate improvisations. Massive self-employment is no answer to the need for greater productivity, dynamic exports, sustained investments and the creation of skilled employment for the educated population. Cuba has largely lost out on the commodity boom that has benefited Latin America the latter half of the last decade. In this connection Cuba needs to expand investments in the production of commodities and services for export. Cuba is well positioned to take advantage of five decades of productive investments in human resource development, especially as regards education, healthcare and medical services. However, Cuba needs to find a way of incorporating technological innovations and advances in information technology into the production apparatus. At the level of international trade, a matter of critical importance to a small island economy, ALBA constitutes an excellent staging point for advancing socialist principles of fair trade. More broadly, regarding the production of commodities for export there is a voracious market in Asia (China) as well as favorable conditions for Cuba's terms of trade, allowing Cuba to enter the broader global capitalist market with a competitive advantage. As for the issue of technological conversion Cuba could develop ethanol production as a substitute for imported oil (even at Venezuela's discount) using Brazilian science, importing Haitian labor and ending the irrational rhetoric from past leaders who were blind to the benefits of alternative sources of fuel and applied energy sciences—especially solar energy, which is so plentiful throughout the year.

The dead hand of the bureaucracy condemned by Raúl cannot be changed by the leading heads of the same bureaucracy. Direct producers must not merely debate and petition; they must be in a position to lower the costs of production, even if only to enhance their own earnings.

The market should not be confused with or equated to capitalism. There is room in a socialist economy for both public and private enterprise, a public as well as a private sector. Market reforms are just beginning and that is a necessary and positive move, providing they are accompanied by political reforms that strengthen the countervailing power of labor, consumers, environmentalists and Afro-Cubans. Raúl has noted the insufficient representation of blacks and women in places of political power; those observations and the injustices are reflected in the social inequalities in society. Race and class reforms are necessary to counter the largely Euro-Cuban elite emerging at the head of the autonomous centers of decision-making in the peak economic organizations. Cuba has enormous

underutilized land, resources, skilled labor, talented artists and agriculturalists and innovators.

Breaking the dead hand of the political and civil bureaucracy via market reforms is a step forward. But to ensure that social and political development is governed by socialist principles requires workers' control over their workplaces and control by communitarians over their communities. In addition, workers and professionals, and Cubans of all walks of life and social complexion, need to deepen their engagement with and participation in the political process. The Communist Party has a role to play if and when it shifts from being top-down gerontocratic and dynastic to an open, horizontal young person's party, providing a platform for debate and options for elected policymakers. As argued recently by Marta Harnecker in a different context (Venezuela), socialism implies democracy, but not the false democracy advanced in the liberal democratic tradition, which often turns into the rule of capital or a dictatorship of money.

In the meantime, Cuba needs to move decisively to diversify production and develop a diverse line of exports, commodities, processed foods, high-tech products and services, and many others. The markets exist: the skilled labor is there; the resources are available. The question is whether Cuba's leaders are really ready to open up in a rational way or to continue in the improvised fashion of erratic swings of the past: from sugar to tourism, from full employment to mass layoffs, from state enterprise to self-employed.

The countervailing power to a growing private sector is not a decrepit inefficient bureaucracy but a dynamic independent movement of workers and consumer councils in factories, offices and markets. If and when autonomous enterprises take off, they will quickly bypass old-guard statist bureaucrats as they have in Asia. Only new sociopolitical formations, high-tech innovation, market and managerial savvy, can exercise oversight and ensure their compliance with socialist norms and the protection of the advanced social welfare programs. If Cuba's past 'imbalance' was too much welfare and not enough production, that is no reason to make the switch by sacrificing social policy to achieve high productivity gains. A more reasonable outcome can result not so much from achieving a better balance between the state and the market—the concern of the architects of the post-Washington Consensus—as a balance in power between autonomous directors and autonomous workers' organizations as they struggle over who gets what, where and how.

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## Chapter 12

# Barbarism or Socialism?

One of the fundamental questions addressed by this book is the possibility of building socialism in the twenty-first century in conditions of a system that is in crisis, conditions that might well be described as barbaric. Historically this dichotomy (barbarism or socialism) was resolved via: (1) the conquest of the state and (2) the socialist transformation of the economy and the society by means of state power and the active mobilization of the working classes. The form that socialism subsequently took, and the successful transition from capitalism to socialism in some contexts and the failure in others, were contingent on changing conditions. Material and objective conditions and their effects on subjective and political consciousness as well as the correlation of class forces and the particular conjuncture of these conditions effected the transition to socialism. Today, the problem of building socialism is very different, particularly the changed conditions of capitalist development (neoliberal globalization) and the added dimension of having to rebuild it under conditions of the collapse, some two decades ago, of a particular form of socialism. Because conditions today are manifestly different than they were in the twentieth century this complicates the terms for bringing about socialism—the question of ‘what can be done’ under these conditions?

Because the fundamental problem of building socialism today under existing conditions of capitalist development is different than it was in the twentieth century the challenge is to determine the particular mix and precise conjuncture of objective and subjective conditions that permit or facilitate actions that might lead towards socialism. In terms of this problem, the fundamental issue remains the same: do socialists wait upon the maturation of objective conditions created by the inherent contradictions of the system—its ‘eternal verities’ (propensity towards crisis, etc.)—to bring about the transition towards socialism? Or do they determine what ‘needs to be done’ under available conditions, and create the necessary conditions?<sup>1</sup>

In this chapter we reflect on this question, taking particular account of recent and current developments in North America and Latin America. The conclusion that we come to, and the argument advanced, is that the world faces the dilemma and fundamental choice identified by Rosa Luxemburg some 95 years ago in conditions of another class war: *socialism or barbarism*. The barbaric conditions

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1 In the study of social change and development this problem is posed as a question of determining the relative weight of the ‘structural’ and ‘strategic’ factors in the process of change—the former conceived of in terms of the workings of the system, the latter, as the result of actions taken consciously towards a predetermined or defined goal.



of capitalist development, advanced in the form of imperialist militarism and neoliberal globalization, by no means make socialism inevitable but they do make it possible and urgent.

There is much talk and writing these days about the ‘global financial crisis’ notwithstanding the fact that the crisis is neither global in scope nor financial in nature. The ‘financialization’ of capitalist development and the deregulation of the global movement of capital, together with an enormous expansion of fictitious and speculative forms of capital, have brought about belated but apparently fruitless efforts by the guardians of the imperial world order to discipline the excessive greed and overweening search for profit by the financial elite that dominates the global economy. However, if the system is in crisis it is not because of the instability of capital markets or the lack of liquidity and credit, but it is because of the incapacity of the imperialist system to meet the basic needs of more than a billion people worldwide exploited and dispossessed by the system, and in securing the legitimacy of its governing myths. In this connection we argue that imperialist development is pushing the system to its limits, creating barbaric social conditions and the emergence of diverse forces on the left, while encouraging a regrouping on the right.

The correlation of these forces need to be assessed. But it is safe to assert that they cut both to the left, in different albeit unorchestrated efforts to overthrow the system, and to the right, in a more concerted effort to intensify the power and concentrate wealth in the hands of the capitalist class. Those in the political center here are concerned to stave off pressures on the left for positive changes and unbridled capitalism and blind reaction to the right.

The project of the ‘political center’ is to save capitalism from itself, from the barbarism of a system pushed to its extreme limits. This relates to and is based on a ‘post-Washington Consensus’ on the need to ‘create a better balance between the market and the state’ (Ocampo, 2007) and to bring about a more ‘inclusive form of development’ (Sunkel and Infante, 2009) via the agency of what is perceived as ‘global social democracy’.

## **A System in Crisis**

One of the verities of capitalism (see Chapter 2) is a propensity towards crisis, which inevitably leads to a weakening of the ruling class and the emergence of mass movements and the opportunity to transform the capitalist system. The most recent manifestation of capitalist crises is the so-called global financial meltdown, which by most accounts was triggered by the sub-prime mortgage debacle in the United States. A closer look at this crisis, however, reveals that it is not at all global. Secondly, its roots are located in the production crisis of the early 1970s, and in the financialization of the economies of the US, the UK and EU in the 1980s, conditions in which the doctrines of ‘economic freedom’ released the capitalist class from the regulatory constraints of the welfare-development state.

The crisis extends beyond the speculative economy resulting from the process of deregulated capitalist development. The result is a multifaceted production crisis, with permutations in different parts of the world effecting diverse dimensions—including socioeconomic structures, food insecurity and hunger and the environment.

The crisis has exacerbated the deterioration of socioeconomic conditions, both in the postcolonial and imperial countries, and most especially the very heartland of the US empire. As a result an array of strategic and political responses have emerged against and in support of the system. These responses and forces will be identified and briefly analyzed below.

### **The Rising Tide of Barbarism**

Western societies and imperial states, in the throes of a multifaceted crisis of significant regional proportions, are moving inexorably towards conditions that can be described as barbaric. These policies are reversing decades of social welfare and subjecting nations, labor, natural resources and the wealth of entire populations to raw exploitation, pillage and plunder, destroying civilized lives, driving living standards downward and provoking, in some countries, unprecedented levels of discontent and anger.

In the ancient world, the cradle of Western civilization, ‘barbarism’ was seen as a threat from the outside—from uncivilized invaders in outlying regions of the Roman Empire. In the contemporary world, the barbarians come from within. An elite group of powerful and wealthy members of the ruling classes of the United States, UK and the EU are intent on imposing a world order that is destroying the social fabric and foundation of secular and Islamic societies and undermining the livelihoods of millions across the world. Imperial wars and exploitation are pushing large and growing numbers of people into poverty and misery, conditions that are accurately described as ‘barbaric’.

We need only look at conditions within the US itself, the heartland of the empire. The degree of deterioration over the past two decades resulting from imperial wars and neoliberal policies affecting social conditions of most US workers, especially those of color (black and Latinos), is staggering in its enormity and scope. It is estimated that up to one-third of all children in the United States, across different categories of race and class, depend on food stamps in order to stave off hunger and other social conditions of poverty. Unemployment and underemployment rates of 20 percent, which in some segments of the population, especially in the 18–25 age category, reaches 75 percent, and dispossession of homes, of one out of 10 mortgage holders resulting from the sub-prime mortgage debacle, are symptomatic of the deepening social crises.

According to the *Financial Times* (September 17, 2010) ‘poverty among the working-age population of the United States rose to the highest level for almost fifty years in 2009 ... The overall poverty rate rose to 14.3 percent’. According to

the Census Bureau 43.6 million people were living in poverty; by race the poverty rate was 25 percent for blacks and Hispanics. The Census report also shows that the number of Americans without health insurance rose to a record 50.7 million as unemployed workers lost health coverage and capitalists shifted the payment of health insurance onto workers who cannot afford it. In reality the poverty line set by Washington is totally inadequate because it does not include the cost of basic items growing at double the average rate of inflation, such as healthcare and education. As a result, poor workers are more susceptible of dying from curable diseases.

The processes of capitalist development, neoliberal globalization and empire-building have produced conditions of an extreme class polarization between a small stratum of super-rich, less than 1 percent of the population, and an impoverished working class that according to official statistics encompasses some 13 to 14 percent of all families and individuals but in reality reaches well into the so-called 'middle class', which, by diverse accounts is being 'hollowed out' in the process of capitalist development in the era of neoliberal globalization. The form and extreme conditions of this 'development' can best be traced out in the extreme concentration of the wealth generated over this period (the 1980s to date) but even at the level of income distribution—the distribution of wealth is much more unequal than income in its different forms (investment based, earned, etc.)—the pattern is clear. For example, the share of national income received by the richest 1 percent of Americans from 1972 to 2001 (already 57.5 percent of total income in 2003) increased by 7 percent, while the share of the richest 0.01 percent increased by 12.4 percent. As for the poorest 50 percent of households the value of their share of national income fell by 12 percent.<sup>2</sup> This means that the share of national income of the richest 1 percent of all income recipients increased by a factor of 25 times the share of the remaining 99 percent. We do not have to look too far to find the detritus of this enormous wealth grab. It can be found in the deteriorating socioeconomic situation of the US working class and the barbarism of the worsening conditions that afflict the poorest elements of this class, already some 25 percent of the population.

The key to barbarism today is found in the social structure of the imperial state and economy, in the conditions generated by this structure. These include an economic system in which the forces of production, wealth and income are highly concentrated, a social system characterized by dramatic and growing inequalities in the distribution of income and associated conditions, and more broadly the genocidal wars organized and directed by American and European imperial forces in the quest for political and military domination, goals which have prejudiced the US economic empire but favored Israel colonial interests, especially in the Middle East.

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2 <http://beatthepress.blogspot.com/2006/06/minimum-wage-and-doctors-pay.html>; [http://faculty.web.at.northwestern.edu/economics/Gordon/BPEA\\_Meetingdraft\\_Complete\\_051118.pdf](http://faculty.web.at.northwestern.edu/economics/Gordon/BPEA_Meetingdraft_Complete_051118.pdf).

Studies by UN agencies charged with the responsibility of protecting the most vulnerable members of society tell the tale: in countries under US imperial domination an enormous global development divide exists between a small powerful elite and a vast mass (some three billion by conservative estimates) of people immersed in poverty. And in the Middle East, on the frontlines of imperial colonial wars led and directed by US militarists and Zionists, we have the destruction of entire societies, a frontal assault on diverse forces of resistance, accompanied by the disarticulation of the forces of independent national development, and the murder and exile of skilled workers, scientists, professors and entrepreneurs and the total destruction of organized production of basic infrastructure.

The economists and sociologists who prepared the UNDP's 2010 *Report on Latin America* attribute the global development divide and the polarization of world society between the wealth of the few and the poverty of the many to the starkly inequitable social structure of capitalism and the neoliberal policies that have reinforced it over the past two decades. According to this UN Report—a very belated recognition to be sure—the fundamental source of global poverty (immiseration on a global scale) and its diverse conditions that afflict billions of working people and classes across the world is in the ‘structures’ (institutionalized practices) brought about and protected by powerful economic interests that have advanced under the cover of the Washington Consensus. In the words of the Report there is a ‘direct correspondence between the advance of neoliberal globalization and the spread of poverty’. The most explosive contradictions, the report notes, ‘are given because the advance of [neoliberal] globalization marches hand in hand with the advance of poverty and social polarization’. ‘It is undeniable’, the authors add, ‘that the 1980s and 1990s [were] the creation of an abysmal gap between wealth and poverty’ (UNDP, 2010: xv).

A key source of contemporary barbarism can be found in the financial institutions and agencies of an ascendant class of finance capitalists who have pillaged the productive and financial resources of the middle and working classes of societies across the world. The scale of the pillage is reflected in the enormous fortunes acquired by the billionaires listed by *Forbes* as well as the enormous volume of capital destroyed in the vortex of the ‘global financial crisis’—some 50 trillion, by some estimates—which is essentially a crisis of the ‘center’ of capitalist development (the United States and Europe), a crisis that will no doubt require and result in a major restructuring of the global economy and the emergence of new centers of capital accumulation and ‘economic growth’, and the ascension of China.

It is estimated (Saxe-Fernández and Núñez, 2001) that in Latin America alone over the past two decades of capitalist development in neoliberal form that the regional economy lost some US\$140 billion to the financial institutions, corporations and financiers of Wall Street and the City. It is true that this destruction relates to capital is largely fictitious in the sense that it has no productive base, and it affects primarily a relatively small group of investors but in many countries the pensions of the middle and working classes (and in some contexts their jobs and

mortgages) are also negatively impacted, indeed disproportionately so because the big investors are invariably bailed out.

Conditions of the global resource grab and pillage, if not the crisis where it manifests itself, include the destruction of the livelihoods of hundreds of millions of workers, unemployment and precarious forms of employment and work conditions. The conditions also include the pillage of trillions of dollars from middle- and working-class savers and small investors, mortgage carriers, consumers and the state treasury, siphoning enormous resources from the productive economy into the hands of a parasitic elite of financial capitalists and financiers, a key and powerful element of the dominant class that emerged with the 'financialization' of production and the bifurcation of the real economy and the money economy in the 1980s (Bello, 2009).

It is estimated by ECLAC economists that in 2008, in the throes of the 'global financial crisis', in Latin America up to US\$40 billion was 'lost'—evaporated—in the process, and this in a region where some have questioned whether there ever was a crisis (see Porzecanski, 2009 on 'the missing crisis'). In any case, the assets of the large investors and financiers—even the salaries and bonuses of the CEOs and biggest bankers responsible for the debacle—were protected and as it turns out not at risk. What was not protected, however, with the measures adopted by the governments in response to what they saw as simply a financial crisis, were the savings, pension funds, mortgages and other assets of the middle class and the jobs of the working class. What insulated the majority of workers in the region from the crisis as it manifested itself in the real economy is the fact that well over 50 percent of all workers do not exchange their labor power against capital but work 'on their own account' on the streets, selling what little they have, offering their 'services' for direct pay, employing themselves or setting up micro-enterprises.

Notwithstanding the subsequent recovery from the short-lived 'crisis' the consequences for the working class of the capitalist rape and pillage of resources, the sacking of the public treasury, and the assault on private savings, are staggering. Also staggering, or at least surprising and difficult to understand, is the relative quiescence of the working class in its myriad old and new forms in the face of this massive assault on the conditions of its social existence. Also surprising in this context is the apparent failure of the Left to mobilize the forces of social discontent that are inevitably brewing under these conditions. An explanation of this quiescence and failure requires a closer look and further study of the dynamics involved but we can draw several conclusions from our limited observations and study of the issue. It seems to us that the major reason that workers across the world, and other elements of the popular sector of society, have not revolted is the combined effect of the decline of mass organizations, trade unions and class consciousness resulting from a prolonged capitalist offensive and the power of the dominant ideology (which does not allow for, or let people imagine, an alternative system). The decline and weakness of the Left in its diverse permutations and divisions undermines its capacity to respond to the challenge—to understand what needs to be done and to act on this understanding.

A critical social and political pillar of the imperial state and economy is the militaristic political elite that emerged in the wake of the transition from Pax Britannica to Pax Americana in the 1940s. In order to secure the emerging US empire, Washington assumed the responsibility for overseeing a state of virtually permanent warfare within the world order set up at Bretton Woods. Over subsequent years this military caste of politicians and ideologues secured a major voice in the policies of the imperial state and its budget and, with the ascension of George W. Bush, total control over foreign policy. Another component of this imperial world order was the UN system, designed to prevent any one state from succumbing to the imperial dream of omnipotent power and hegemony. In practice the system constituted an adjunct to the economic development apparatus of the OECD and the security apparatus of NATO, both dominated by the United States and its allies in the project of maintaining ‘order’.

Endless wars, cross-border assassinations, military interventions and state terror and the suspension of traditional constitutional guarantees have led to the concentration of dictatorial powers, arbitrary jailing, torture and the denial of habeas corpus—and the institutionalized power of capital and money, hidden behind or disguised as democracy, development and globalization.

Behind the lines of the national and class struggle brought about by the concentration and projection of economic and military power, conditions are deteriorating. In the midst of a deep economic recession and stagnation, high levels of state spending on bailing out financial institutions, military empire-building at the expense of the domestic economy and living standards, reflects the subordination of the local economy to the concerns and dictates of the imperial state.

Corruption at the top in all aspects of state and business activity—from state procurement to privatization to subsidies for the super-rich—encourages the growth of crime worldwide from top to bottom, the *lumpenization* of the capitalist class and a state where *law and order* have fallen into disrepute. The lumpenization process, manifest most clearly in the spread of narco-trafficking throughout Mexico, has profoundly affected the financial system of both Mexico and the United States. For example, Mexico’s Financial Intelligence Unit reported that during the first half of 2010 they detected 24,449 suspected cases of money laundering, including a 105 percent increase between the first and second semester. International financial organizations estimate that Mexico’s ‘financial circuit’ launders between US\$15 and US\$25 billion of drug money annually (*La Jornada*, September 9, 2010). It turns out that major US, UK, EU, Swiss and Israeli banks are active collaborators. The *Financial Times* (September 18–19, 2010), in this connection, quotes the head of the UN’s drug and crime division as saying that most of the US\$352 billion of annual global drug profits were absorbed into the banking system during the crisis. In other words, narco-capitalism played a major role in saving the world financial system from collapse, highlighting the ties between lumpen capital and barbarous imperialism not merely in regard to Mexico but major countries of the Western world.

The growth of narco-power in the postcolonial countries of the global South as growers, processors and distributors is matched by the distributors, consumers and financiers in the imperial countries, 'the final market' of the drug chain. Experts claim that over 60 percent of the profits of the international narco-business are retained and recycled in the United States, EU and the UK, indicating the degree to which the 'respectable bourgeoisie' is embedded in the international circuits of lumpen capital.

One particularly disturbing manifestation of this lumpenization is in Mexico, a major outpost of the US empire where the trafficking of drugs by criminal organizations, it is estimated, now actively engages some 25,000 members. They have spawned an unprecedented wave of diverse forms of criminal activity that is estimated to have a black market value of some US\$60 billion, most of which is laundered by US, Swiss and UK banks. According to a legislative report filed in Mexico (*La Jornada*, August 29, 2010), the trafficking of migrant workers nets the narco-capitalists some US\$3 billion a year.

One group of narco-capitalists, the Zetas, has responded to the ethos of capitalist development by seeking out diverse opportunities to make money, investing capital in the expansion of its original service function as an armed enforcer for the drug-trafficking Gulf Cartel into other informal sectors of the capitalist economy as opportunities arise. Using the recipe for modern capitalist corporate enterprise, the directors of Mexico's most powerful murder-for-hire firm, the Zetas, have begun to diversify from the company's original and principal activity into the lucrative business of stealing and selling contraband gasoline. It now steals hundreds of thousands of barrels from Mexico's nationalized petroleum company, PEMEX, and resells the oil to Texas oil companies, including one run by a former Bush Administration insider.

Were the group not known for countless brutal murders in Mexico's endless and ever-more violent drug war, it might be considered the poster child of the North American Free Trade Agreement (NAFTA), able to see a business opportunity when there is one, and to cut through trade barriers like a specialized drill cuts into a highly pressurized steel pipe carrying oil. This is not only an example of criminals tapping savvy entrepreneurial skills to make another few million bucks. It is also an example of US policy blowback: the perversely unintended result of a failed policy. On the one hand the Zetas have been able to take advantage of NAFTA partly because of the 'two way overland highway of contraband', so aptly described by political economist Jeff Faux. The construction and paving of this highway has been greatly facilitated by the agreement, which has led to and includes not a few companies that now cook deals with organized crime.

The real power of the Zetas, which sets them apart from Mexico's other hit squads, comes from their roots. Before the founding members of the Zetas deserted an elite unit of the Mexican army, they received highly sophisticated training by US Special Forces in anti-narcotic operations. The tale of oil thievery thus takes on added significance, especially in the context of a tenfold increase in 'drug war' aid to Mexico under the Merida Initiative. Since 2008 Washington has

pumped over a billion dollars into Mexico for drug trafficking control and security operations, with millions designated to military and police training. The US arms industry profits both ways as the main supplier of guns to both the gangs and the Mexican army and the police.

Mexico's biggest drug lord has now entered the ledgers of *Fortune* as one of the 10 richest individuals in the world, to the chagrin of the country's president, who is ostensibly engaging in a war against these criminal gangs with the resulting death of several thousand members of the security forces of the state. Of course, significant elements of these security forces, and other parts of the state apparatus, have been corrupted and are in the pay of the drug lords. In this connection, an interesting if unexplained statistic is that the operations of the government's security apparatus against one of the most powerful gangs of organized criminals have netted eight times more arrests than in regards to the second largest gang, suggesting that the state is not totally neutral in this war.

Most significant and most disturbing about this lumpenization of capitalist enterprise is the incredible degree of insecurity that it generates for most of the working population, not to mention new forms of exploitation sustained by a campaign of shooting, assassination and acts of violence that include the beheading of victims and the dumping of bodies in mass graves. These 'developments', which are spreading across the country, are associated with the efforts of the criminal gangs of lumpen-capitalists to diversify their activities from the drug trade into the trafficking of people as well as drugs, and the extortion of small business owners as well as migrant workers. The statistics on this development are horrendous: 28,000 killed between 2006 and 2010, thousands of kidnappings, hundreds of thousands of businesses subject to extortion, the length and breadth of the country 'covered' by gangs.

As a result of the exceedingly high costs of capitalist development and empire-building under these worsening conditions, not to mention the pillage by the financial oligarchy and the formal capitalist class, the socioeconomic burden of capitalist development has been placed directly on the backs of waged and unwaged workers, pensioners and the self-employed, as well as members of the middle class, resulting in a long-term, large-scale downward trajectory. With job losses and the disappearance of well-paid jobs, home foreclosures have skyrocketed and the erstwhile stable middle and working classes—the backbone of the productive economy—are shrinking, their members forced to extend their hours of labor and years of work. Some economists and sociologists in the United States have conceptualized this development as the 'hollowing out of the middle class' in a context of a society increasingly polarized between the well-off (some extremely well-off) and the not so well off, indeed very badly off.



## Barbarism via Imperial War

As imperial wars spread across the world targeting entire populations, via sustained bombings and clandestine terror operations, they generate opposing terrorist networks, which also target civilians in markets, transport and public spaces. The world resembles a Hobbesian world of *'all against all'*.

Rising *ethno-religious extremism linked to militarism* is found among Christians, Jews, Muslims, Hindus, replacing international class solidarity with doctrines of racial supremacy and penetrating the deep structures of states and societies.

The demise of European and Asian welfare collectivism—in the former USSR and China—has lifted the competitive pressures on Western capitalism and encouraged them to revoke all the welfare concessions conceded to labor in the post-World War II period.

The demise of 'Communism' or 'actually existing socialism', and the integration of social democracy into the capitalist system, has led to a severe weakening of the left, which the sporadic protests of the social movements have failed to replace.

In the face of the current large-scale assault on the living standards of workers and the middle class, there are only sporadic general strikes in a few countries (France, Greece, Spain, Italy) at best and political impotence at worst. Massive exploitation of labor in post-revolutionary capitalist societies, like China and Vietnam, includes the exclusion of hundreds of millions of migrant workers from elementary public educational and health services. The unprecedented pillage and seizure by domestic oligarchs and foreign multinationals of thousands of lucrative strategic public enterprises in Russia, the ex-Soviet republics, Eastern Europe, the Balkans and Baltic countries was the greatest transfer of public to private wealth in the shortest time in all of history.

In short, 'barbarism' has emerged as a defining reality, a product of the ascendancy of a militarist and parasitic financial ruling class. The barbarians are here and now present within the frontiers of Western societies and states. They are dominant and aggressively pursuing an agenda which is continually reducing living standards, transferring public wealth to their private coffers, pillaging public resources, savaging constitutional rights in their pursuit of imperial wars, segregating and persecuting millions of immigrant workers and promoting the disintegration and diminution of the stable working and middle class. More than at any time in recent history, the super-billionaires found at the top of the heap of global capital, making up less than 0.1 percent of the population, have appropriated an incredibly large and increasing share of global wealth and income.

## **Popular Responses to Barbarism**

Capitalism as a system is not only rife with class conflict but it has a propensity towards crisis, which came to the surface in North America and Western Europe in 2008, giving rise to a major financial crisis that in some parts of the system turned into a production and consumption crisis in terms of the ability of growing numbers of the poor to afford the market prices of food and other commodified necessities of life. The typical capitalist economic crisis disrupts and weakens existing institutions, giving rise to movements demanding change which can be mobilized by both the left and right.

The dominant response to the so-called 'global financial crisis' brought into play the agencies of the capital controlled international organizations and the imperial state. The response of the guardians of the imperial world order has been to consolidate the system with some feeble efforts to re-establish some regulatory control over capital and a big push to impose austerity programs onto labor. As a result the living standards in the popular sector of society sharply decline while the financiers and bankers of Wall Street and the City in London, have recouped their losses and have regrouped in support of the capitalist state stripped of its welfare provisions and resorting to barbaric practices.

The rise of barbarism in our midst has provoked public revulsion against its principal practitioners. Surveys and several studies have found and documented profound and widespread—virtually system-wide—disgust and revulsion against all political parties; that huge majorities harbor profound distrust of the corporate and political elite; that majorities reject the concentration of corporate power and the abuse of that power, especially among bankers and financiers; the existence of widespread questioning of the democratic credentials of political leaders who act at the behest of the corporate elite and promote the repressive policies of the national security state. Even in the United States, the UK and other centers of capitalist development a large majority rejects the pillage of the state treasury to bail out banks and the financial elite, while imposing regressive austerity programmes on the working and middle class. In a few imperial countries and in some postcolonial nations, widespread discontent and general strikes and deep anger, frustration and disgust is growing with politicians, parties and governments both on the left and the right.

The question is whether capitalist barbarism can possibly generate a revolutionary situation? The unsettled question has to do with the 'subjective' conditions of this possible social transformation. Can the diverse and multiplying forces of resistance and opposition be mobilized and channeled in the direction of revolutionary change?

## Building Socialism in an Era of Neoliberal Decline and Barbaric Capitalism

The capitalist offensive under conditions of a financial, production and consumer crisis at the center of the system has had a major impact on the objective and, to a far lesser degree, subjective conditions of the working and middle classes. Immiseration has provoked a rising tide of social discontent albeit no mass organized political movements. In Latin America radical mass movements in the 1990s were better organized and more powerful than they are today. In fact, the relative quiescence of the working class and other groups in the popular sector is a disquieting feature of the current phase of capitalist development, a problem that requires very close examination. Major capitalist imposed structural changes eroding collective power demands a coming-to-terms with the current adverse circumstances and barbaric conditions that are emerging throughout the system. A major problem is the identification of new agencies and modes of class struggle and transformation.

Proposals for rebuilding a socialist alternative include: The need to (1) recreate a productive economy and to reconstruct a new industrial working class in the face of years of financial plunder and de-industrialization, not necessarily the 'dirty' industries of the past, but certainly new industries using and inventing clean energy sources; (2) dismantle the highly indebted capitalist economies via a fundamental shift from high-cost militarism and empire-building towards a kind of class-based austerity that imposes sacrifice and structural reforms on the banking, financial and big retail commercial sectors, substituting local production for cheap consumer imports; (3) downsize the financial and retail sector which requires the upgrading of skills of the displaced workers and employees as well as changes in the IT sector to accommodate the shifts in the economy; and (4) shift from the money wage to the social wage, in which free public education to the highest levels and universal healthcare and comprehensive pensions replace debt-financed consumerism. This can become the basis for strengthening class-consciousness against individual consumerism.

The question is how do we move from weakened, fragmented labor and social movements in retreat or on the defensive, to a position capable of launching an anti-capitalist offensive? Several subjective and objective factors are possibly working in this direction. Firstly, there is the growing negativity of vast majorities to political incumbents and, in particular, to the financial and economic elites who are clearly identified as responsible for the decline in living standards. Secondly, there is the popular view shared by millions that the current austerity programs are clearly unjust—having the workers pay for the crises that the capitalist class brought forth. As yet these majorities are more *anti* status quo than *pro* transformation. The transition from private discontent to collective action is an open question as to who and how, but the opportunity exists.

Several objective factors could trigger a qualitative shift from passive angry discontent to a massive anti-capitalist movement. Firstly, a 'double dip' recession, the end of the present anaemic recovery and the onset of a more profound and

prolonged recession, could further discredit current rulers and their economic backers. Secondly, a period of unending and deepening austerity could discredit the current ruling class notion of ‘*necessary pain for future gain*’ and open minds and move bodies to seek political solutions to achieve current gains by inflicting pain on the economic elites. Unending and unwinnable imperial wars that bleed the economy and the working class could ultimately create a consciousness that the ruling class has ‘sacrificed the nation’ for ‘no useful purpose’. Likely, the combination of a new phase or a deepening of the recession in the world’s largest economy, the ramification of this recession in other parts of the world economy, a further dismantling of the welfare state in Europe, growing unemployment and continuing austerity and endless imperial wars can turn the current mass malaise and diffuse hostility against the economic and political elite towards socialism. The problem is what agencies of socialist development are able to respond to the challenge? Is there an effective socialist movement in existence or in the offing? Are the socialist parties that were formed within and have been shaped by the institutional framework of liberal social democracy possible agents of revolutionary change?

If the answer to the above is negative, what is the social base and organizational form of new socialist movements and parties? What would be the most effective strategy for bringing about socialism? Under what conditions could this strategy be implemented? Are these conditions at hand, and if not how could they be brought about?

We have no formulaic ‘answers’ to these questions, but certain basic propositions can be established on the basis of lessons drawn from diverse experiments with, and experiences of, socialism in the twentieth century.

### **Learning from the Past: Lessons of the Cuban Revolution**

The Cuban Revolution has much to teach us about the successes and failures of socialist political and economic development. Cuba provides ample proof of the possibility to carry out and defend a social revolution despite 50 years of imperialist assaults. It also demonstrates the superiority of socialism in implementing and sustaining advanced social programs and constructing security systems capable of defending the integrity of the revolution in the face of imperial-backed terrorist warfare.

But in the realm of economic development, egregious economic errors illustrate policies that have to be avoided. They include:

- Reliance on ‘monocultural’ based economic strategies (sugar exports, tourism) instead of diversified production and export markets leads to greater vulnerability and inefficient use of skilled labor.
- The mistaken notion that the bigger the state sector, the bigger the enterprise and the smaller the private sector the speedier the transition to socialism.

Hence, the abolition of 100,000 small and medium size manufacturing and service enterprises (Castro's 'Revolutionary Offensive' in 1968). The result was the irrational expansion of public employment and the absence of vital services for the Cuban people. Unless the state can perform the same function as a small business it is best to regulate and even encourage it, while tending to the serious business of managing the strategic sectors of the economy.

- The mistaken notion that an aging charismatic leader can combine executive and legislative power for 46 years via a bureaucratic apparatus in place of the collective wisdom and practical knowledge of workers and farmers organized to propose and implement development policies. The result has been historic economic mistakes and failures, including the policy calling for Cuba to double its sugar production to 10 million tons (1969–70), dislocating the economy; the decision to specialize in sugar exports (1970–89), creating enormous dependence and vulnerability, instead of becoming food self-sufficient, processing sugar into ethanol (like Brazil), becoming energy independent and developing diverse agro-exports (like citrus products) to ready and available markets; launching costly international military missions in support of reactionary regimes (Ethiopia in the 1980s), and humanitarian programs to countries run by pro-imperialist regimes (Pakistan, Guatemala), which absorb state revenues better spent in diversifying the Cuban economy. A developing country in need of raising national personal consumption cannot afford the expenditures involved in securing international prestige.
- Abrupt shifts in policy to 'correct past errors' can lead to new and equally negative consequences. After overloading the state with unproductive employees, the Cuban regime announces the firing of one million functionaries (one-tenth of the labor force), 500,000 in six months, proposing they become 'self-employed' or form co-operatives. The 'announcement' takes place with no prior discussion among workers and employees affected; no planning or allocation of credits, market research, facilities, tools, training or development of entrepreneurial skills. In taking 40 years to correct Fidel's egregious blunder in eliminating the private small business service and manufacturing sector, the regime proposes to convert a half-million unemployed functionaries into productive producers and vendors in six months!

The lessons of Cuba are clear, workers' democracy can lead to mistakes but the possibility of self-correction and rational choice exists in a way that it did not under the most dynamic longstanding leader. Short-term economic policies based on orthodox 'comparative advantages' (sugar, tourism) always result in vulnerabilities and crises, in a way that diverse exports and markets, food self-sufficiency, efficient links between education and economy, and productivity-based rewards and incentives do not.

## Conclusion

The most elementary starting point in building socialism in the twenty-first century is that class consciousness as it was historically manifest in past struggles has sharply diminished. Any discussion of a socialist revival must identify the points of conflict and contradictions and struggle which lead to heightened class consciousness. It is evident today that the existing center-left labor and social democratic parties and trade unions are precisely the executors of some of the most barbarous austerity programs in the United States, UK, Spain, Greece, Portugal, among other countries, North and South. Class consciousness is most evident in Southern Europe, especially France and least present in the United States, Northern Europe and Scandinavia where anti-immigrant rightist politics have taken the lead in creating 'racialist consciousness'.

The cutting edge of socialist struggle today is found mostly in Venezuela among the urban poor and sectors of the working class in nationalized industries and in Asia among impoverished peasants, tribal peoples and displaced farmers. In wide swathes of north-eastern India, revolutionary armed struggles are gaining terrain. In Southern Africa, public sector employees and workers have taken the lead in calling for the nationalization of strategic economic sectors against the corrupt and gluttonous black bourgeoisie and their Western corporate 'mentors'.

Workers in China and Vietnam ruled and brutally exploited by a new class of economic and political oligarchs, under the façade of socialism, draw on their revolutionary past to initiate a 'first wave' of mass struggles based on economic demands.

It is very clear that 'class consciousness' as a social and political force is developing unevenly within and between regions. Secondly, class organization has grown in dynamic industrializing countries in which high rates of exploitation, deepening inequality and dispossession of small property holders have led to mass collective class action. Thirdly, class mobilizations have taken place on a regional basis, based on local leaders and in many cases without the leadership of an organized working-class movement or party.

The current record demonstrates that workers can play a leading role in China, and that poor residents in communal organizations are leading backers of socialist initiatives in Venezuela. Displaced tribal peoples provide the cadres of revolutionary movements in India. Hyper-exploited female textile and garment workers provide the mass base in Bangladesh, India and China. The mass movements in Haiti and Thailand make their demands via populist leaders. In a word, class consciousness in a traditional working-class context is the exception and not the rule. How far and how deep these movements will move towards a socialist transformation will depend on the internal ideological dynamics and struggle between varying competing ideological tendencies.

Given the importance of ideology as well as struggle in the making of class consciousness, the role of class-conscious workers, public employees, peasant leaders and intellectuals in the formulation of theoretical, historical and empirical

critiques and socialist strategies and alternatives becomes central to a socialist project. Written and oral presentations to class organizations in action are essential and should be the principal basis for 'political education'. The amorphous 'social forums' that eschew political definitions and depend on imperialist foundations for funding have demonstrated their irrelevance compared to class-based uprisings taking place from Nepal to Argentina and to national liberation struggles from Venezuela to Palestine. Let us be clear, academic leftist gatherings from New York to London and beyond, despite their claims of 'furthering the struggle', have had little measurable impact beyond organizing their next encounter.

The broad scope of popular and class struggles across the world and the different social settings strongly suggests several conclusions. Firstly, potential movements towards socialism are developing in a highly uneven pattern within the imperial and postcolonial states: the highly organized general strikes in France contrast with the moribund trade unions of the United States. The advance of socialist legislation and worker self-managed industries in Venezuela contrast with Mexico's lumpenized economy and decimated trade union movement.

Secondly, the intensity and scope of the class struggle over time is uneven: uprisings of workers and the unemployed in some countries and indigenous peoples in others which were prominent in the early part of the decade in Argentina, Bolivia and Ecuador have lost momentum and have been 'incorporated' or marginalized by the end of the decade.

Thirdly, long-term, large-scale class warfare has consolidated and expanded over the decade in India's tribal areas, Nepal's cities and countryside as well as in the urban slums of Venezuela and South Africa.

Finally the different socioeconomic settings in which class struggle is taking place and the 'ambiguous leadership' and eclectic ideology which informs these radical movements, means that the kind of social outcome is likely to take very distinct forms, some of which may have little relation to advanced forms of producer/worker-controlled states and productive systems. Class movements rooted in integrated industrialized economies where the key contradictions are found in social production and private appropriation of profit, are more likely to lead to social ownership of the commanding heights of the economy. This would be more likely in China, France, South Africa, Venezuela or Bolivia than in petty commodity Nepal, the tribal regions of India or where ethno-religious movements dominate the national liberation struggles in Afghanistan, Iraq and Palestine.

In summary while the spread of barbarous imperialism erodes the base of class rule in the US and EU both at home and overseas, class polarization has favored the advance of the far-right as well as the mass workers' movements in exceptional circumstances in Southern Europe (Greece, Spain). In contrast, the centers of revolutionary movements are found in postcolonial societies, but in regions and classes not clearly identified with socialist goals, with the notable exception of Venezuela.

If it appears true that the onset of barbarism in conditions of capitalist development, neoliberal globalization and imperialism, and the retreat of the

workers' movement in many countries, is a valid observation it is well to keep in mind that on several previous historical moments, socialism appeared as a 'utopian' goal. For example, during the global slaughter of World War I the vast majority of workers' parties and trade unions surrendered to a militarist chauvinist frenzy, leaving in their wake small isolated groups of militants. Likewise in 1939 on the eve of World War II, the fascist juggernaut advanced in Europe, Asia and beyond destroying and decimating all instances of independent class organization. Subsequent events proved the prophets of the 'inevitable end of socialism' wrong. Let us hope that history repeats itself.



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## Conclusion

# Capitalism in the Twenty-First Century

Although under attack imperialism is thriving. We only have to look at the growth of overseas investments by the major multinationals of the old and emerging economic powers, the takeover of farmland in Africa and Latin America, mines and the denationalization of oil fields in Iraq and Libya, the pillage of the treasuries of the indebted countries of Southern Europe, and privatization of the jewels of the economies of Central and Eastern Europe. But so is anti-imperialism a growing factor in the global power equation: the anti-colonial, anti-occupation struggles are advancing in Iraq and Afghanistan, calling into question the oil and mining concessions granted by imperial sponsored client regimes. In Spain and Greece, the de facto 'takeover' of the economy by the Northern European bankers and the IMF has provoked new spontaneous social uprisings that have mobilized hundreds of thousands of educated unemployed young people (mostly under 30 years old) who demand what the imperial powers cannot and will not provide: stable employment, any employment, that would allow the setting up of independent households. Thousands mobilize for long-term, 'permanent confrontations', as opposed to time bound ritual protests organized by the old-line trade unions.

The crises-ridden and dynamic capitalist countries face each in their own way, a deepening challenge from below: the downwardly mobile capitalist countries of Greece, Spain, Portugal, Mexico, Central America, Philippines, Egypt, Syria, Tunisia, Yemen, etc. have each in their own way regressed and are in an endless cycle of stagnation, forced to submit to the dictates of 'open markets' by the IMF and international bankers.

The prescriptions for 'stabilization' are in fact highly destabilizing; austerity means less consumption and public investment in order to meet payments and obligations to external and domestic bondholders who produce nothing and employ nobody. Facing the prospects of unending austerity and unemployment, the young generations have abandoned the social democratic electoral alternative and have taken to the streets, embracing direct action. In contrast, the self-styled crises managers of the 'center-left' are in electoral decline. In their place the 'hard right' is on the electoral ascent. The polarization between the rising electoral right and the extra-parliamentary social movements of the new generation defines the political offering in many parts of Southern Europe, the Middle East and North Africa.

In the dynamic newly emerging capitalist countries, the profound inequalities, the pervasive corruption of the governing officials and the grotesque ostentatious wealth and conspicuous consumption of the new millionaires (and billionaires) is setting in motion a great variety of class struggles and methods of

confrontation: in India millions of poor, so-called tribal peoples, have become the protagonists of guerrilla warfare—against state violence, forcible dispossessions from land and homesteads and rampant inflation. In China, tens of millions of workers have downed their tools, attacked managers and imposed substantial wage increases in the face of double-digit inflation of food, housing, education and health prices.

Recent history demonstrates that the leading Western European states and the United States have been the driving force of endless destructive wars which have killed, maimed and displaced millions in Iraq, Afghanistan, Somalia, Pakistan, Libya, and the list goes on. Instead of developing the forces of production, the Western imperial countries through speculation, sanctions and clandestine subversion, have launched a full-scale assault on countries like Venezuela and popular movements in the Middle East seeking to create a new vibrant participatory democracy and in some cases a socialist culture and economy. One of the major themes of this book, the great contest between socialism and barbarism, is plainly visible in the outcomes of the class struggle. The advance of the class struggle is evident in the demands of unemployed and employed workers, peasants and public employees, for greater equality or some equity; secure, safe and healthy employment; a greater share of profits and more influence at the workplace; and greater control over the policies and conditions that affect their lives and livelihoods. The advance of the class struggle is moving us towards a higher form of civilization, where human dignity and political freedom is expanding and embracing a greater part of humanity. When the class struggle advances we move towards a higher civilization; when it recedes barbarism emerges in all of its brutality.

Where the class struggle has receded and the capitalist state has, via repression and corruption, imposed imperial wars, financial pillage and great concentrations of wealth, we are transiting towards barbarism. The links between the defeat of class struggles and the advance of imperial neo-colonization and the rise and spread of barbarism is best illustrated by the case of current developments in Mexico and US–Mexican relations. To this we turn and with it we conclude our analytical probes into the dynamics of capitalist development and imperialism in the current conjuncture.

### **Capitalism on the Make: Imperialism, Bankers, Drug Wars and Genocide**

In May 2011, Mexican investigators uncovered another mass clandestine grave with dozens of mutilated corpses, bringing the total since 2006 to 40,000 killed since the Calderón regime announced its ‘war on drug traffickers’. Backed by advisers, agents, arms, the White House has been the principal promoter of a ‘war’ that has totally decimated Mexico’s society and economy. But if Washington has been the driving force for the regime’s war, Wall Street banks have been the main means of ensuring the profits of the drug cartels. Every major US bank has been

deeply involved in laundering hundreds of billions of dollars in drug profits, for the better part of the past decade.

Mexico's descent into the inferno has been engineered by the leading US financial and political institutions, each supporting 'one side' in the bloody 'total war' which spares no one. While the Pentagon arms the Mexican government and the Drug Enforcement Agency enforces the 'military solution', the biggest US banks receive, launder and transfer hundreds of billions of dollars annually to drug lords' accounts, to buy modern arms, pay private armies of assassins and corrupt political and law enforcement officials.

### *Mexico's Descent into the Inferno*

Every day, scores if not hundreds of corpses appear in streets and unmarked graves; dozens are murdered in their homes, cars, public transport, offices and homes; unknown victims in the hundreds are kidnapped and disappear; school children, parents, teachers, doctors and businesspeople are seized in broad daylight and held for ransom; thousands of migrant workers are kidnapped, robbed, ransomed and murdered. The police are barricaded in their commissaries; the military, if and when it arrives, assaults entire cities, shoots more civilians than assassins. Everyday life revolves around surviving the daily death toll; threats are everywhere, the armed gangs and military patrols fire and kill with virtual impunity. People live in fear and anger.

### *The Free Trade Agreement: The Sparks that Lit the Inferno*

In the late 1980s, Mexico was in crisis, but the people chose a legal way out: they elected a president, Cuauhtemoc Cardenas and a program to promote the economic revitalization of agriculture and national industry. The Mexican elite, led by Carlos Salinas of the Institutional Revolutionary Party (PRI) decided otherwise: the electorate was denied its victory; the peaceful mass protests were ignored. Salinas and subsequent presidents vigorously pursued a free trade agreement (NAFTA) with the United States and Canada, which devastated millions of Mexican farmers, ranchers and small business people. Ruin and the destruction of the productive forces in the rural areas led to flight—outmigration. Rural movements of debtors flourished and ebbed, co-opted or repressed. The misery of the legal economy contrasted with the wealth of the drug and people trade and its demand for well-paid armed auxiliaries. The beginning of the drug syndicates was born of local affluence. In the new millennium, popular movements and a new electoral hope arose: Andrés Manuel López Obrador (AMLO). By 2006 a vast peaceful electoral movement promised substantial reform, a bases to 'integrate millions of disaffected youth'. At the same time, the drug cartels were feeding off the misery of the millions marginalized by the elite, which plundered the public treasury, real estate, the petrol industry and privatized communication monopolies and banks.

Once again in 2006 millions were denied their electoral victory: the last best hope for a peaceful transformation was denied. Calderón stole the election and proceeded to launch the ‘war on drug traffickers’ in compliance with White House dictates.

*The War Strategy Escalates the Drug War: The Financial Crisis Deepens the Ties with Drug Traffickers*

The massive escalation of homicides and violence in Mexico began with the declaration of a ‘drug war’ by fraudulently elected President Calderón, a policy pushed initially by the Bush Administration and subsequently strongly backed by the Obama–Clinton regimes. Over 40,000 soldiers filled the streets, towns and barrios—violently assaulting citizens and especially young people. The cartels retaliated by escalating their armed assaults. The war spread to all the major cities and thoroughfares; murders multiplied and Mexico descended further into a Dantesque inferno. The Obama regime ‘reaffirmed’ its militarist solutions on both sides of the border: over 500,000 Mexican immigrants were seized and expelled from the United States; border patrols multiplied. Cross-border gun sales grew exponentially. The US ‘market’ for Mexican goods shrank, widening the pool for cartel recruits while the supply of high-powered rifles increased. White House gun and drug policy strengthened both sides in this maniacal murderous cycle: the US government sold guns to the Calderón regime and private industry sold guns to the cartels. Drug demand in the United States—and the profits derived from the transport and sales—remained the driving force of the rising tide of violence and societal disintegration in Mexico.

Drug profits, in the most basic sense, are realized through the ability to launder and transact funds through the US banking system. The scale and scope of the US banking–drug cartel alliance far surpasses any other economic activity of the US private banking system. One bank alone, Wachovia, laundered \$378.3 billion dollars between May 1, 2004 and May 31, 2007 (*Guardian*, May 11, 2011). Every major bank in the United States has served as an active financial partner of the murderous drug cartels, including the Bank of America, Citibank, JP Morgan, as well as overseas banks operating out of New York, Miami and Los Angeles.

While the White House finances the Mexican state to kill Mexicans suspected of being drug traffickers, the US government only belatedly fines the major US financial accomplices, with no jail time. This is, of course, perfectly in line with US policy on the crimes committed by the financial elite of the capitalist class. Take for example the case of Goldman Sachs in the recent sub-prime debacle and financial crisis which he helped engineer. Rather than bringing criminal charges against the perpetrators of one of the most notorious financial crimes of the century—for stealing more money (and from their own customers) and lying under oath before Congress, the Department of Justice and federal prosecutors have given the Wall Street master criminals a free ride.

The major agency of the US Treasury involved in investigating money laundering—the Undersecretary for Terrorism and Financial Intelligence—ignored US bank collaboration with drug terrorists, concentrating almost their entire staff and resources to enforcing bank sanctions against Iran. The head (Stuart Levey) for seven years preferred to serve Israel's faux 'war on terrorism' against Iran than pursue Wachovia's collaboration with Mexican drug terrorists murdering 40,000 Mexicans.

Without US arms and financial banking of the regime and cartels there would be no 'drug war', no mass killings and no state terror. If we eliminate the influx of subsidized agriculture goods and the US purchase of cocaine there would be neither 'drug soldiers' nor drug markets to kill and fight over.

### *The Drug Traffickers, the Banks and the White House*

If the major US banks are the financial engines which allow the billion-dollar drug empires to operate, the White House, the US Congress and the enforcement agencies are the basic protectors of the banks. Despite the deep and pervasive involvement of the major banks in laundering hundreds of billions of dollars in illicit funds, the 'court settlement' pursued by US prosecutors did not lead to a jail sentence; the court settlement led to a fine of \$50 million dollars, less than 2 percent of one of the bank's (the Wachovia bank) \$12.3 billion profits for 2009 (*Guardian*, May 11, 2011). The DEA, and the federal prosecutors acted under the political direction of the US executive branch. The leading economic officials of the Bush and Obama regimes—Summers, Geithner, Greenspan, Bernacke et al.—are all long-term associates, advisers and members of the leading financial houses and banks implicated in laundering the billions of drug profits.

Laundering drug money is one of the most lucrative sources of profit making for all Wall Street banks; they charge hefty commissions, they lend to borrowing institutions at interest rates far above what—if any—they pay to drug trafficker depositors. Even more important, during the most critical phase of the recent financial meltdown, according to the head of the United Nations Office on Drugs and Crime Antonio Maria Costa, '[i]n many instances, drug money (was) ... currently the only liquid investment capital ... In the second half of 2008, liquidity was the banking system's main problem and hence liquid capital became an important factor ... interbank loans were funded by money that originated from drug trade and other illegal activities ... (there were) signs that some banks were rescued in that way' (Reuters, January 25, 2009, US edition). Capital flows from the drug billionaires were key to floating Wachovia and other leading banks. In a word, drug billionaires saved the capitalist financial system in crisis.

## **Conclusion**

By the end of the first decade of the twenty-first century, it is clear that capital accumulation, at least in North America, is intimately linked to generalized violence and drug trafficking. Because capital accumulation is dependent on financial capital, and the latter is dependent on the profits of the hundred-billion-dollar drug trade, the entire ensemble is embedded in the 'total war' over drug profits. In times of deep crisis the very survival of the US financial system—and through it the world banking system—is linked to the liquidity of the drug 'industry'.

At the most superficial level the destruction of entire societies in Mexico and Central America is a result of a conflict between drug cartels and the political regimes of the region. At a deeper level there is a multiplier or 'ripple' effect: the cartels draw on the support of the US banks to realize their profits. They in turn spend millions paying US arms dealers and others to secure their supplies, transport and markets. They employ thousands of recruits for their vast military formations and civilian networks. They purchase compliance of political and military officials on both sides of the border. In turn the Mexican government acts as a conduit for US Pentagon/federal police, Homeland Security, drug enforcement and political apparatuses prosecuting the 'war', putting Mexican lives, property and security at risk. The White House stands at the strategic center of operations; the Mexican regime as the frontline executioners.

On one side of the 'war on drugs' are the major Wall Street banks; on the other side, the White House and its imperial military strategists and in the 'middle' are 90 million Mexicans, 40,000 victims and counting.

Relying on political fraud to impose economic deregulation in the 1990s (neoliberalism), the latter led directly to the social disintegration, criminalization and militarization of the current decade. The narco-finance economy has become the most advanced (albeit retrograde) stage of neoliberalism. When the respectable became criminals, the criminals became respectable. The question of genocide in Mexican development is a question decided by empire and its 'knowing' bankers and cynical rulers.

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