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ABSTRACT

The article argues that the current financial crisis that began unfolding in late 2007 cannot be explained merely by institutional failure, false economic theories, or human misbehavior. Instead, the crisis must be analyzed against the backdrop of the internal contradictions of capitalist accumulation and the gradual disintegration of the post-war hegemonic world order under U.S. leadership. The specifics of the crisis are inherently related to the failure of Fordism in the 1970s and the emergence of a post-Fordist, neoliberal, and finance-driven regime of accumulation that was pushed to its limits in the lead-up to the current downturn.

KEYWORDS

Crisis • world hegemony • post-Fordism • neo-Gramscian approaches

Contextualización de la crisis actual: Post-fordismo, reestructuración neoliberal y financiarización

RESUMEN

El artículo sostiene que la crisis financiera que se desencadenó a finales de 2007, y que prevalece en la actualidad, no puede ser meramente explicada por el fracaso institucional, las falsas teorías económicas o el mal comportamiento humano. Más bien, debe ser analizada en el contexto de las contradicciones internas de la acumulación capitalista y la gradual desintegración del orden mundial hegemónico de posguerra bajo el liderazgo de EE. UU. Los detalles de la crisis están intrínsecamente relacionados con el fracaso del fordismo en la década de 1970 y la aparición de un régimen de acumulación posfordista, neoliberal e impulsado por el sector financiero, que finalmente fue empujado a sus límites en los preparativos de la recesión actual.

PALABRAS CLAVE

Crisis • hegemonía mundial • posfordismo • neogramscianismo



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Contextualizing the Current Crisis: Post-Fordism, Neoliberal Restructuring, and Financialization

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INTRODUCTION

The U.S. financial crisis of 2007/08 has provoked the most severe global economic downturn since the Great Depression in the 1930s (Gill 2010; Foster and Magdoff 2009, 11; Petras 2008). Many orthodox voices view the origins of the crisis either in the U.S. housing bubble (Ferguson 2008; Greenspan 2010) or in regulatory changes, in particular, in the deregulation of the financial sectors since the 1970s (Bsirske 2009; Emunds 2009). By downplaying or ignoring the broader historical context, such interpretations largely fail to account for the underlying historical causes of the current crisis.

Since the 1970s, the world has witnessed an increasing number of financial crises. The most severe of these disruptions were the oil crisis (1974/75), the debt crisis in the periphery (1982), the U.S. stock market crash (1987), the savings and loan crisis (late 1980s/early 1990s), the Asian financial crisis (1997/98), the 'new economy' crash (2000), and the most recent financial crisis (2007-present) (Altwater 2009, 77-9; Bieling 2007, 153-4; Toporowski 2005, 110).

Until the late 1960s, the post-war economic world order was marked by strong consensus-based interrelation among ideas, institutions, and material capabilities, at the domestic and international levels. Firmly based on “embedded liberalism” (Ruggie 1982), this world order found concrete expression in the Fordist model of accumulation, the Keynesian welfare state, and the Bretton Woods system. The first signs of the erosion of this consensus in the most industrialized capitalist countries were rising inflation and falling profits in the production sector (manufacturing and extraction) and in investment due to rising wages, increasing costs of new technology and intensified international competition, oil-price shocks, and the subsequent re-appearance of financial crises and economic downturns (Schmalz and Tittor 2005, 11; Harvey 2005).

The underlying explanation for the transformation of the post-war hegemonic world order is related to the structural crisis of Fordism, which resulted in stagnation within the productive sectors of the most industrialized capitalist countries and to the process of financialization, i.e., the increasing transfer of capital to the financial sector (banking, insurance, stockholding, and real estate) (Arrighi 1994; Foster, McChesney and Jamil 2011). This paper will argue that the current crisis has to be analyzed against the backdrop of profound socio-historical transformations during the 1970s: the crisis of the Fordist model of accumulation, the ascendancy of new social forces, the rise of neoliberalism, and the financialization of economies around the world.

1. THE CRISIS OF FORDISM

During the first quarter of the 20th century, Fordism emerged as a dominant regime of capitalist accumulation. Originating in the United States from where the regime subsequently expanded around the world, Fordism was characterized by industrial mass production and mass consumption (Cox 1987, 219-21; Aglietta 2000, Braverman 1974; Brand 2000).

Fordism established itself as a regime of accumulation primarily in the capitalist core countries and there regulated capital-labor relations by successfully creating a broad compromise between both sides. In the periphery, Fordism largely failed to successfully create its particular wage-relation

(Lipietz 1982). As a model of production, Fordism developed “through the introduction of new productive methods by individual companies, eventually leading to the macroeconomic principle of combined increases in productivity and real wages” (Holman 1993, 221).

The 1950s and 1960s marked an era of unprecedented economic expansion around the world. The post-war boom had resulted from the accumulation of consumer savings during World War II, the automobile boom in the United States, the reconstruction of European and Japanese societies, the arms race following the onset of the Cold War, an increased sales effort, the expansion of the financial, insurance, and real estate sectors, and the dominant position of the U.S. dollar within the world economy (McChesney *et al.* 2009). Since by the late 1960s growth rates, productivity levels, and profits started to decline, Fordism as the hegemonic model of accumulation plunged into a deep crisis (O’Brien and Williams 2004, 148; Zeller 2007, 9; Girón 2010, 119).

No consensus exists in the literature on what exactly provoked the decrease in productivity levels and profit rates. One argument states that intensified competition at the global level between the manufacturing sectors of the most industrialized countries led to over-capacity and over-production. In particular, Japan and Western Europe emerged as potential challengers to the dominant position of U.S. transnational corporations. The increasingly competitive environment, in turn, began to decrease profitability in manufacturing all across the world between 1965 and 1973 and resulted in the “long downturn” (Brenner 2006, 8). The intensified competition at the global level triggered an accelerated introduction of new technology by individual capital holders in their pursuit of relative surplus value. The advancing mechanization of the labor process and the growing expenses for machinery and technology, in turn, further contributed to the decline in profitability. An alternative interpretation of the crisis of Fordism holds that the growing political and social power of organized labor in the industrialized countries was at the very core of the crisis. During the boom in the 1950s and 1960s, powerful and well-organized trade unions had achieved significant wage increases, and, ultimately, the rising wage rate increasingly began to force down productivity and profits (Sablowski

2004, 29-31). The introduction of new technology essentially brought down real wages and weakened the labor movements (Harvey 2009).

2. THE INTERNATIONALIZATION OF PRODUCTION

The crisis of Fordism in the center provoked a profound remodeling and rearrangement of the organization of the labor process (Atzmüller 2011). In the late 1960s, the internationalization of production thus emerged as the principal strategy pursued by national capitalists to re-establish the profit rate in light of the crisis. This decade also marked the transition toward a post-Fordist model of accumulation (Peter 2003; Cox 2002a, 81).

National economies around the world, in particular low-wage destinations in the periphery, opened up to products and financial investments from the most advanced capitalist countries (Saad-Filho and Ayers 2008, 111). Exporting capital and segments of the labor process to low-wage countries in the dependent world led to the ascendancy of a new international division of labor, “in which technological development and innovation is concentrated in a core area, while physical production of goods is moving slowly from the core area [...] into peripheral areas [...], periphery production being linked to the core by control mechanisms located in the core area” (Cox 1980, 384).

The internationalization of production brought about an uneven and hierarchical development and was marked by increasing competition among regions, countries, cities, municipalities, companies, and people. In the 1970s, social polarization of incomes and rising inequality became generalized trends throughout the world (Butterwege 1999, 37-8).

At the national level, pressure on domestic wages increased due to intensified foreign competition and notably diminished the capacity of governments to intervene in the economies as a counter-balancing and protectionist force (Hobsbawm 1996, 417). In the center, the structure of the labor force was significantly re-shaped as jobs in the sophisticated service sector increasingly replaced manufacturing labor. The transfer of jobs from rich to poor countries ended in a decline of wages in the industrialized center due to the increasing global pressure of wage competition. The shift in production to low-wage countries also led to rising rates in unemployment in the core

countries.¹ In the periphery, the internationalization of production evoked the mobilization of new working class movements. Here, a vital role was played by the non-established workforce in expanding international production. In particular, in less industrialized countries, outsourcing parts of the production processes mobilized non-established labor integrating millions of people into the ranks of a rapidly growing global workforce, which in many cases led to the formation of new working-class movements.

By the end of the 1970s, a new post-Fordist global political economy had emerged. By successfully expanding and integrating production processes across national borders, the accumulation of capital had increasingly become transnational. Post-Fordism was based on the enhanced mobility of capital, increasing mechanization of production, the heightened use of cheap labor, and the shift of production to low-wage countries in the periphery (Dörre 2003). Post-Fordism intensified the internationalization of financial, trading, and industrial capital, abolished the traditional corporatist arrangements between trade unions and labor representations, and diminished the possibilities of democratic control and popular participation (Demirovic 2009; Röttger 2003). Moreover, the transition to post-Fordism nurtured the de-democratization of decision-making processes, strengthened authoritarian power, shifted political competences from the national to the sub- and supra-national levels, reinforced governance over government, and gave rise to international and global regulatory regimes (Atznüller and Schwartz 2003; Dörre and Röttger 2003).

3. THE RECONFIGURATION OF SOCIAL FORCES

Directly related to the internationalization of production was the reconfiguration of social forces provoked by the dynamics of struggle between

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- 1 Unemployment in Western Europe climbed from 1.5% during the 1960s to 4.2% in the 1970s and even further to an average of 9.2% in the European Community by the late 1980s (Hobsbawm 1996, 406). In the largest Western European countries (France, Italy, Western Germany, and the UK), unemployment increased from 2.6% during the period 1960-1973 to 6.8% between 1973 and 1990. For the same periods, the unemployment rate in the United States jumped from an average of 4.9% to 6.9% (Eurostat; Bureau of Labor Statistics).

different capital and labor fractions. The internationalization of production fragmented capital and labor into transnational and national forces (Bieler 2006, 32-36). Moreover, internationalization contributed to the transnationalization of cooperation and interaction between national constituencies, in the center as well as in the periphery.

Even though the post-war imperial hegemonic system under U.S. leadership had increasingly become transnational since the 1970s, the traditional imperial subdivision into dominant core and dependent periphery largely remained unaltered. On the side of capital, the contradictions between transnational and national fractions significantly intensified. Transnational capital increased its structural power compared to national capital, states, and organized labor. Simultaneously, transnational finance capital in the form of international investment banks, hedge funds, private equity funds, etc., replaced trading and industrial capital as the dominant class fraction. In part, this development was fostered by different forms of elite cooperation through supranational institutions and transnational networks, which included business, state officials, employees of international organizations, representatives of the major media conglomerates, and members of international royalty (Tabb 2008). Transnational finance capital took the lead, as it began to operate a transnational network that managed and controlled the flows of direct investment around the world. Direct investment became the main engine for expanding international production, as such investment allowed international investors to control production, in particular, technology.

On the part of labor, the internationalization of production resulted in a twofold fragmentation in industrialized and peripheral countries: first, between established and non-established workers and second, between the sectors of established workers who benefited from the dynamics of internationalization and the sectors that were primarily aligned with national producers (Cox 1981, 148; Bieler 2000, 9-14). The rise of transnational social forces on the side of capital and labor resulted in the reconfiguration of different forms of states according to the reorganization of historic blocs within national contexts. Due to the internationalization of production, the state itself became part of a profound process of internationalization, in the core

countries as well as in the periphery. The internationalization of the state refers to the different ways “transnational processes of consensus formation, underpinned by the internationalization of production and the thrust of globalization, have been transmitted through the policy-making channels of governments” (Bieler and Morton 2004, 95-6).

The increasing need for mutual adjustment and policy harmonization between the national and international levels due to the accelerating integration of national economies into a rapidly expanding world economy led to the replacement of the post-war national corporative structures by a “new informal corporative structure [...] [which] reflected the dominance of the sector oriented to the world economy over the more nationally-oriented sector of the country’s economy” (Cox 1981, 146; Murphy 1998, 423).

Although the internationalization of production and the internationalization of the state largely benefited transnational capital, nationally-oriented capital was confronted with a serious challenge from foreign competitors. Consequently, a widening gap emerged between the interests of national businesses and national groups that formed part of the transnational class (Colás 2005, 71). The expansion of the global capitalist economy in the 1970s undeniably increased the relevance of transnational networks and institutions. Links between key government institutions such as the finance ministry, the central bank, and the presidential office and their ties to international financial institutions increasingly gained importance under post-Fordism (Sablowski 2009, 122-4).

In designing domestic policies, states were compelled to consider local as well as international concerns and demands. International organizations and transnational networks such as the OECD, the IMF, the World Bank, G7, the GATT, NATO, EC/EU, ASEAN, the Trilateral Commission, the Bilderberg Group, the Council on Foreign Relations (CFR), multinational corporations, policy planning groups, international financial institutions, elitist universities, government commissions and councils, leading think-tanks and foundations, international corporate media, and national elites, in advanced capitalist states and the periphery, became responsible for developing the ideological framework and designing government policies representing the interests of transnational capital that were subsequently adopted and implemented at the national level during the internationalization of the state (Gill 1995, 400).

The principal objective of this highly interconnected constellation of transnational social forces was the creation of a global hegemonic consensus “among corporate, financial, intellectual, university, civic, intellectual and government leaders around major policy directions” (Gill 1986, 216). In their totality, this transnational “nébuleuse” (Cox 2002, 39) functioned as institutional and ideological pillars to bolster the networking of transnational capital and thus to intensify market discipline and the commodification of social relations (Zelik and Altvater 2009, 167-8).

This newly emerged transnational power bloc began to organize the international system through a “new constitutionalism” (Gill 1995; Bieling 2007, 151-3), propelled by neoliberal policies and the increasing penetration of societies by the logic of the markets (Gill 2008, 123-5). The notion of ‘new constitutionalism’ refers to “the narrowing of the social bases of popular participation within the world order [...], the hollowing out of democracy and the affirmation, in matters of political economy, of a set of macro-economic policies such as market efficiency, discipline and confidence, policy credibility and competitiveness” (Bieler and Morton 2004, 97).

The concept encapsulates the pursuit by a transnational power bloc to establish neoliberalism as the only acceptable path for socio-economic development by promoting market solutions for socio-political problems, the ideological dominance of neoliberal orthodoxy, which functions as a means of naturalizing social relations of domination and exploitation, and the reproduction of structural and procedural aspects and patterns that guarantee the maintenance of social hierarchies (Gill 1995, 399).

4. THE RISE OF NEOLIBERALISM

Intimately related to the processes of internationalizing production, internationalizing the state, and forming a transnational power bloc were the introduction and subsequent implementation of neoliberal policies, which by the mid-1970s increasingly began to replace Keynesianism in the center and import substitution industrialization in the periphery (Radice 2005, 91). The overall context for the ascendancy of neoliberalism was provided by the crisis of Fordism.

During the 1950s and 1960s, neoliberalism had emerged as an intellectual program among conservative circles in the United States and Europe. Institutions such as the Mont Pelèrin society, the Institute for Policy Studies, the Adam Smith Institute, the Heritage Foundation, the Hoover Institute, the Cato Institute, the Institute of Economic Affairs, the Center for the Study of American Business, the National Bureau of Economic Research, the American Enterprise Institute, and the Project for a New American Century began to actively propagate socio-economic policies. Their common objective was to construct and deepen consensus within civil society by providing the technical, empirical, political, and philosophical justification for the neoliberal project (Gill and Law 1993, 121; Brand and Sekler 2009; Altvater 2008, 53-5). Drawing on neoclassical notions of self-regulating markets and rational expectations in individual decision-making, neoliberalism presented itself as a “neutral,” positivist science, “dominated by largely meaningless abstractions, mechanical models, formal methodologies, and mathematical language, divorced from historical developments” (Foster and Magdoff 2009, 136; Schui and Blankenburg 2002, 7-9; Ptak 2007, 27-9; Palley 2005, 20).

As a political and social theory, neoliberalism proposed “that human well-being can be best advanced by liberating individual entrepreneurial freedom and skills within an institutional framework characterized by strong property rights, free markets, and free trade” (Harvey 2005, 2). As a discourse, neoliberalism attained hegemonic status in the early 1970s by increasingly shaping and influencing the political decision-making processes, controlling and restricting the flow and dissemination of information and ideas in education and the media, and regulating global and national finance, business, and trade. The introduction of neoliberal policies was necessarily accompanied by the propagation and consolidation of a “neoliberal market-based populist culture of differentiated consumerism and individual libertarianism” (Harvey 2005, 42) at the inter- and intra-personal ideological levels (Gill and Law 1993, 111; Amin 2009).

During the late 1960s and early 1970s, neoliberalism was converted into a political project and a strategy of accumulation in response to the structural crisis of capitalism, aimed at the “restoration of the income and wealth of the upper fractions of the owners of capital” (Duménil and Levy 2005, 14; Harvey

2006; Saad-Filho and Johnston 2005, 4f; Clarke 2005, 57-8). The two main components of restoring class power were the restructuring of the relations in production and in the state-civil society complex.

A leading role in that class project was held by transnational financial capital that advanced to become the “main instrument for the imposition of the project of accumulation and social domination associated with neoliberalism” (Saad-Filho and Ayers 2008, 110). As mentioned before, neoliberalism provided the ideological basis and the corresponding set of policies pushed through by transnational elites to expand the structural power of transnational capital around the world (Brand 2005, 38). Generating a broad hegemonic consensus about the increasing progress and penetration of neoliberalism required business and financial elites to fund and promote the production of ideas and ideologies via think tanks, to train technocrats, and to take control of the major media outlets to establish neoliberalism as generally accepted new normality (Overbeek and van der Pijl 1993, 1-3; Butterwege *et al.* 2007, 12; Demirovic 2008, 19-21).

The rise of neoliberalism fundamentally transformed the relationship between the market and the state, as neoliberalism went hand in hand with the gradual cancellation of the post-war Keynesian tripartite corporatism (Munck 2005, 60; MacGregor 2005). The dissolution of social security nets was propelled by the intensified competition between states vying for transnational mobile capital, which became increasingly significant in the face of declining public revenues (Gill 1986, 217). States found themselves in a situation of nearly non-stop appraisal of their ‘business-friendly climate’ by market analysts and investors. Financial markets began to use credit ratings as a coercive mechanism against countries whose economic policies threatened the interests of transnational operators. By undermining the pursuit of sovereign economic policies, transnational capital indirectly forced states to compete with each other in a self-permeating pursuit of an ‘acceptable’ macroeconomic framework.

The neoliberal transformation of the state, however, was not a top-down process coordinated and propelled at the global level. The state itself emerged as a driving force behind the expansion of neoliberal policies. The state increasingly began to prioritize the interests of capital, as the power

of trade unions was considerably weakened by the internationalization of production, technological innovation, rising unemployment, the flexibilization of labor, and the shift from traditionally unionized manufacturing toward the service sector (Gill and Law 1993, 109; Tabb 2008). Neoliberal restructuring of national economies all around the world further produced new forms of de-skilling, de-professionalization, degradation, precarization, unemployment, and underemployment of formerly privileged mental and physical labor.

Within the national context, implementing neoliberal policies fundamentally transformed the relations between production and financial capital. Power and wealth were shifted from the working population and fractions of local capital focused on domestic markets toward technocrats, national export and import capital, financial operators, and transnational elites. The new constellation of social forces in turn began to undermine the capacity of governments to regulate and intervene in national economies (Cox 2000, 48).

5. FINANCIALIZATION

Since the early 1970s, the global economy has witnessed a general decline in overall economic growth, the tendency toward the formation of monopolistic and oligopolistic market structures driven by the increasing power of transnational corporations, and the rise of the financial sector, from being a mere facilitator of the accumulation process to being the driving engine behind economic growth (Duménil and Levy 2005, 13). The expansion of the financial sector was a response to the profound stagnation within the productive sector in the center (Epstein 2006; Butterwege 1999, 31-2).

To sustain continuous economic growth, capitalism depends on the perpetual accessibility of new sources and outlets that generate the necessary demand for re-investing a share of the surplus necessary for perpetuating the accumulation cycle. A lack of profitable investment opportunities that generates a crisis of over-accumulation may result from various reasons, such as the maturation of economies, the lack of new technologies over a long period, increasing inequality of income and wealth that reduces demand, blocks investment, and encourages financial speculation, and the monopolization and oligopolization of economies (Milanovic 2005).

Following the crisis of Fordism, capital was confronted with another serious dilemma: Although the reproduction of the accumulation process required a reduction of real wages, expansion simultaneously depended on wage-based consumption that ultimately sustained economic growth and investment. More generally, the need to increase productivity through introducing new technology in pursuing relative surplus value by the individual types of capital simultaneously reduces the human component in the production process. The consequence is a decline in the value incorporated in commodities and growing pressure on the profit rate. In the late 1960s, the emergence of the new international division of labor and the incorporation of millions of peripheral workers in the global production process resulted in huge productivity gains. The rapidly improving levels of productivity and rising inflation in the center primarily related to a massive increase in the world's money supply due to large U.S. deficits triggered an enormous expansion of the economy (Brenner 2009, 26; Gambina 2010, 81; O'Brien and Williams 2004, 148).

Combined with oligopolistic pricing, a declining wage rate, and regressive taxation reforms, the gains produced a massive absolute surplus that could not be absorbed by consumption and investment (Harvey 2009). Over-accumulation and over-capacity reduced the opportunities and outlets for profitable investment and thus propelled the economy's drive into stagnation. In this situation, the system fails to expand at adequate levels that encourage reinvestment of the generated surplus (Marx 1981; Baran and Sweezy 1966; Caputo 2010, 26). In the 1970s, the combination of stagnation and inflation in the capitalist core created "stagflation" (Schmidt 2009, 531-2).

The aforementioned shift in the economy's focus from the productive sector to the financial sector is a long-term trend in response to the structural crisis of over-accumulation (Sweezy and Magdoff 1972, 7-9; Tabb 2008). In particular, the expansion of debt and speculation in the 1970s began to function as the main counter-factors in preventing economies from falling into severe recessions: "The reduction of real wages (adjusted for inflation) and the redistribution of wealth upward (through reduced taxed and reductions in social services) –the results of class war waged unilaterally from above– have not been enough to guarantee an ever-increasing spiral of return on capital

invested in the productive economy. [...] The huge expansion of debt and speculation provide ways to extract more surplus from the general population and are, thus, part of capital's exploitation of workers and lower middle class" (Foster and Magdoff 2009, 61).

During the 1950s and mid-1960s, the world economy remained international rather than transnational. The internationalization of production not only provoked increasing activity of and power shift toward transnationally operating firms, primarily multinational corporations and international banks, and a new system of international division of labor, but also triggered the ascendancy of off-shore finance (Hobsbawm 1996, 277).

Following World War II, the Bretton Woods system emerged as the underlying foundation of the post-war liberal global order with fixed exchange rates, a U.S. dollar pegged to gold, and most-favored-nation treatment in international trade. In the mid-1960s, the crisis of Fordism began to call the foundations of the system seriously into question. Massive military spending for the wars in Southeast Asia, increasing foreign investment by U.S. corporations, and rising imports provoked an enormous efflux of U.S. dollars into international markets. U.S. capital had increasingly begun to lose ground to foreign competitors (Huffschmid 2004, 12).

The U.S. dollars leaving the country rapidly became the basis of an uncontrolled global currency market focused on granting short-term loans. At the heart of this market was the City of London, which emerged as the world's leading center for unregulated, off-shore banking and financial operations (Strange 1972, 198). Banks in the City started to attract off-shore dollars from around the world and subsequently lent "euro-dollars" at flexible rates to governments and private entities (Bieling 2007, 96). As U.S. banks and transnational corporations increasingly began to fund their operations with "euro-dollars" from the City, speculative attacks against the Bretton Woods system and the stable exchange rates intensified (Toporowski 2005, 108; Gowan 1999, 18).

As a result of the massive military spending since the mid-1960s, in 1971 the U.S. dollar's gold cover, which was legally stipulated at 25% of Federal Reserve currency, was nearly depleted (Hudson 2003, 4; Amin 2009). Combined with deepening trade and balance-of-payments deficits, the shrinking gold

reserves created an increasingly unsustainable situation, as a weakening dollar would have seriously undermined U.S. economic and political power during the height of the Cold War. In 1964, the United States reached the point at which the country's debts of foreign central banks exceeded the value of the U.S. Treasury gold stock. The military expenditures for the war in Vietnam threatened to bankrupt the country. The United States, however, continued to run balance-of-payments deficits, while European banks mainly recycled their surplus dollars into American gold reserves. This trend continued until March 1968 when the U.S. Treasury suspended further gold sales and thus broke the link between the dollar and the price of gold (Sarai 2008, 76-8).

In 1971, the United States under the Nixon administration decided to cut the dollar loose from gold. Eliminating gold as the universal money commodity significantly strengthened the already dominant role of the U.S. dollar as the world's reserve currency (Imhof and Jäger 2007, 148-50). Most companies and states began to hold a large part of their foreign exchange reserves in dollars and to invest them in the financial markets in the United States or the City of London (Hudson and Sommers 2008). The free-floating exchange rates between currencies opened the doors to speculation and increased the role and influence played by banks and other financial institutions. Moreover, the rates particularly forced countries in the periphery to constantly adjust to the fluctuations of the global financial markets, which, in fact, were mostly unrelated to the country's own economic performance.

Gold was ultimately replaced by an arrangement, referred to as the "U.S. Treasury bond standard" (Hudson 2003) or the "dollar standard regime" (Gowan 1999, 4) in which IOUs issued by the U.S. government and the U.S. dollar became the new quasi-anchor of the world financial order (Bieling 2007, 99-100). The system of fixed exchange rates eventually had to be abandoned by the mid-1970s. The United States had managed to keep its privileged position within the global economy and was simultaneously able "to spend internationally without limit, following whatever economic and military policies it wishes to, without any gold constraint or other international constraint" (Hudson 2003, 5).

Decoupling the U.S. dollar from gold formed part of a larger strategy to perpetuate the international supremacy of American capitalism around the

world in the post-war era. The definition of the United States' predominant position within the international monetary and financial system compensated for the lack of U.S. competitiveness in its productive sector (Strange 1986). With the ending of the gold option, the U.S. forced the rest of the world to pay for the country's imports, military spending, and wars, and for the U.S. takeover of foreign companies. Since 1971, the United States has been able "to pursue domestic expansion and foreign diplomacy with hardly a worry about balance-of-payments consequences. The new financial regime allowed the United States to impose austerity measures on a foreign debtor country rather than on its own people as it would have been the case had it remained with the gold standard" (Hudson 2003, 9).

The United States turned its payment deficits into "an unprecedented element of strength rather than a weakness" (Hudson 2003, 10). Under the new constellation, the U.S. government, the U.S. dollar, and U.S.-dominated financial markets entered into a relationship of mutual, reciprocal reinforcement. The dominant role of the U.S. dollar within world trade helped Wall Street (and the City of London) expand, which in turn increased the strength of U.S. financial firms and thus boosted the importance of the U.S. dollar. U.S. financial capital and U.S. corporations greatly expanded their power and control around the world while the U.S. government unilaterally shaped international monetary and financial policies (Hudson 2009).

The debased dollar system provided the U.S. government and U.S. capital with an unprecedented and extraordinary benefit compared to all other countries (Callinicos 2003). As debt was issued in U.S. dollars, the United States could spend abroad without any foreign exchange constraints. At the same time, governments and companies around the world were forced to raise the foreign exchange necessary for repaying the interest and principal on their issued bonds. In contrast to the United States, external deficit problems brought dependent countries rather quickly to the edge of insolvency, as they could not borrow funds in their own currency. This structural shift toward the U.S. dollar standard made the countries in the periphery even more vulnerable to crises and to changes within the global political economy. The increasing number of financial crises since the mid-1970s following the dismantlement of the Bretton Woods system disproportionately benefited financial operators,

financial markets, and transnational corporations located in the United States (Strange 1987, 553; Huffschnid 2006, 126; Panitch and Konings 2008).

Given the chronic trade and balance-of-payments deficits, the U.S. economy became highly dependent upon the ability of U.S. financial markets to attract massive inflows of capital from countries around the world (Zeller 2007, 125; Shaikh 2005, 45). External capital flows became of great significance for maintaining U.S. capitalism, as they contributed substantially to expanding the economy and financing public and private deficits. The United States used its newly defined predominant position within the international monetary and financial system primarily for compensating the lack of competitiveness in the country's productive sector.

The economic crisis in 1973 and the subsequent shift toward deflationary monetarist policies in the center countries propelled the accumulation of capital resources in the deposits of international banks, primarily located in the United States and Europe (Newstadt 2008, 98-100). Apart from these recourses, the banks were also awash with petro-dollars because of the quadrupling of oil prices since 1973, triggered by the Yom Kippur War and the subsequent oil embargo. The over-accumulation and hyper-liquidity of private international banks rapidly expanded the scope of loans given to peripheral countries from 1974 onward (Gill 2010; Tabb 2004, 118-9).

The oil shocks and the setting-in of stagnation in the most advanced capitalist countries in the mid-1970s provoked increasing current account deficits in the countries in the periphery (Gowan 1999, 48). Low U.S. interest rates and favorable repayment terms in the absence of political and economic conditionalities increased the attraction of foreign loans. The latter were made possible in the first place by the aforementioned credit expansion from public to private institutions, which opened up new lucrative investment opportunities for international banks in the periphery. The banks' activities were accompanied by technological and institutional changes within the global banking business such as financial innovations, especially securitization, i.e., the bundling of debt obligation into pools of commercial securities, the deregulation of financial markets and capital flows, technological innovations in information transfer and data processing, and dramatically reduced transaction costs (Boris 1987, 26-8).

The deregulation of international finance and the rise of private banks resulted in a massive diversion of investment away from production, toward the financial sectors within countries. In the face of stagnating productive sectors in the center countries, more and more money flowed into the financial industry. This development thus entailed the rapid expansion of securities markets, the enormous growth of risky derivatives trading, massive speculation of unprecedented scale, and the rise of hedge funds (Bieling 2007, 140-2). Deregulated and innovative financial markets became essential means of coordinating, procuring, and concentrating wealth, and restoring class power. The bulk of that money was not used for investment in production, but for speculation in securities and commodities markets and the real estate sector. Contrary to orthodox neo-classical claims that the function of financial markets was facilitating the efficient allocation of financial resources, speculation emerged as the dominant activity of financial operators (Redak 2003, 25). This boost in speculation in turn increased the vulnerability of national economies to the fluctuations of the global markets and to transnational money flows entering and leaving countries.

Following the liberalization of transnational capital flows and the introduction of floating exchange rates, money could be quickly moved out of a country and transferred to a more attractive destination. This provided transnational financial capital with the capacity to willingly create foreign exchange or payments crises, primarily in small open economies in the South. Through such means, governments could rapidly and forcefully be brought in line by international finance capital and coerced into adopting suitable policies (Gill and Law 1993, 107). National, regional, and global financial crises or recessions further benefit transnational capital, in particular transnational corporations and international banks, as during the process of recession and recovery, weaker competitors either go bankrupt or are taken over by stronger players.

Since the 1970s, financial crises in the periphery, in fact, have primarily strengthened U.S. financial institutions and the role of the U.S. dollar. Capital flight had a strong stimulating effect on Wall Street, as it increased liquidity. This in turn led to the lowering of U.S. interest rates and thus stimulated the economy at large. U.S. governments therefore continuously refused to reduce

the volatility and the vulnerability to crisis of the existing international financial and monetary order (Epstein 2006; Altvater 2009, 75-7).

The collapse of the Bretton Woods system was followed by a wave of financial innovation and deregulation in the financial sector in the United States. The U.S. took the lead in eliminating restrictions on money flows entering and leaving the country. The absence of financial regulation in the United States increased the pressure in other countries to follow suit on adopting deregulatory policies. Otherwise, domestic operators would have increasingly been incapable of competing with the Wall Street/City of London financial complex (Bsirske 2009; Emunds 2009).

The creation of more integrated global financial markets in the 1970s and the recession of the 1980s led to the rise of “competitive regulation” (Gill and Law 1993, 98) of national capital markets in the pursuit of attracting capital flows and foreign direct investment. The liberalization of U.S. financial markets provoked a power shift toward transnational finance capital and the emergence of the financial sector as the primary source for generating corporate profits² (Harvey 2010; Callinicos 2003). Liberalization put private U.S. banks at the very center of international finance and reduced the government’s control over financial operators. Intensified exploitation and growing increases in inequality regarding income and wealth distribution became necessary features of the post-Fordist, finance-led global economy (Harvey 2005, 19). Both guaranteed the continuous flow of large pools of cash to the financial sectors and thus sustained their expansion and the accumulation process at large.

The “Volcker shock” (1979-1982) with its high real interest rates, in conjunction with a stagnating manufacturing base, financial deregulation, and tax cuts for the wealthy facilitated the rise of the stock market in the early 1980s. Rising asset prices, cheap money, and stagnating real wages led to a declining savings rate and simultaneously encouraged household borrowing, which was essential for sustaining a bubble-driven expansion in the financial

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2 In the 1960s, 15% of all U.S. domestic profits originated in the financial sectors. By 2005, that number had increased to 40% (Foster and Magdoff 2009, 54).

sector. Due to the rising demand for loans by households and corporations fuelled by growing consumption, financial institutions willingly expanded borrowing, which, in turn, resulted in the acceleration of the overall U.S. money supply. Since the 1980s, the bubble and bust dynamics of the debt-based U.S. economy has provoked a series of financial crises; the current one has plunged the world into the deepest recession in the post-war era.

CONCLUSIONS

The article has tried to demonstrate that the present crisis, which began with the bursting of the U.S. housing bubble in 2007, is inherently related to profound changes in production relations, the rise of new social forces, and the reconstitution of the post-war world order in the 1970s. These changes subsequently gave rise to the establishment of a post-Fordist regime of accumulation and to the emergence of the financial sector as the primary engine for capitalist accumulation. In addition, the restructuring propelled the rollback and dismantlement of the Keynesian welfare state and corporate arrangements, which went hand in hand with the weakening and disciplining of organized labor and the collapse of the Bretton Woods system.

Historically, the crisis-ridden internal dynamics of capitalist development have always opened up new avenues for forming heterodox social, political, and collective organizations and identities. The implications and consequences of the ecological impacts of structurally-propelled economic growth and monetary expansion, the accelerated depletion of natural resources, growing levels of social inequality and polarization, the ongoing demise of the post-war welfare state, and the commodification of social relations increasingly aggravate the unceasing efforts aimed at stabilizing the process of accumulation. In light of the elucidating futility of the different strategies of “crisis management,” a multiplicity of protest movements in places such as Oakland, Cairo, Athens, and Madrid have, in part, radically called into question the ecological, economic, and financial sustainability of the prevailing set of social relations.

In particular, however, over the past two decades popular initiatives and grassroots movements in Latin America such as the recuperated and worker-owned companies in Argentina and Uruguay, the Zapatistas in Mexico,

the indigenous movements in Ecuador, Peru, and Bolivia, the Landless Workers' Movement (MST) in Brazil, and the student movements in Chile and Colombia have moved to the forefront in the global struggle over the redistribution of land, income, and wealth, the democratization of production, the redefinition of the ecological metabolism, and the overall transformation of the state. In this process, critical academic research plays a fundamental role in fostering alternative practices and debates about the construction of a multiplicity of genuinely democratic and sustainable living spaces. The criteria for this construction necessarily have to identify the possibilities of the concrete materializations of counter-hegemonic blueprints and viable emancipatory projects, address potential points of departure for challenging dominant relations of power, and, most importantly, relate to the lived experiences of day-to-day activities.

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