

WHY THE U.S. STIMULUS PACKAGE IS BOUND TO FAIL

By DAVID HARVEY

Much is to be gained by viewing the contemporary crisis as a surface eruption generated out of deep tectonic shifts in the spatio-temporal disposition of capitalist development. The tectonic plates are now accelerating their motion and the likelihood of more frequent and more violent crises of the sort that have been occurring since 1980 or so will almost certainly increase. The manner, form, spatiality and time of these surface disruptions are almost impossible to predict, but that they will occur with greater frequency and depth is almost certain. The events of 2008 have therefore to be situated in the context of a deeper pattern. Since these stresses are internal to the capitalist dynamic (which does not preclude some seemingly external disruptive event like a catastrophic pandemic also occurring), then what better argument could there be, as Marx once put it, "for capitalism to be gone and to make way for some alternative and more rational mode of production."

I begin with this conclusion since I still find it vital to emphasize if not dramatize, as I have sought to do over and over again in my writings over the years, that failure to understand the geographical dynamics of capitalism or to treat the geographical dimension as in some sense merely contingent or epiphenomenal, is to both lose the plot on how to understand capitalist uneven geographical development and to miss out on possibilities for constructing radical alternatives. But this poses an acute difficulty for analysis since we are constantly faced with trying to distill universal principles regarding the role of the production of spaces, places and environments in capitalism's dynamics, out of a sea of often volatile geographical particularities. So how, then, can we integrate geographical understandings into our theories of evolutionary change?

Let us look more carefully at the tectonic shifts.

In November 2008, shortly after the election of a new President, the National Intelligence Council of the United States issued its delphic estimates on what the world would be like in 2025. Perhaps for the first time, a quasi-official body in the United States predicted that by 2025 the United States, while still a powerful if not the most powerful single player in world affairs, would no longer be dominant. The world would be multi-polar and less centered and the power of non-state actors would increase. The report conceded that US hegemony had been fading on and off for some time but that its economic, political and even military dominance was now systematically waning. Above all (and it is important to note that the report was prepared before the implosion of the US and British financial systems), "the unprecedented shift in relative wealth and economic power roughly from West to East now under way will continue."

This "unprecedented shift" has reversed the long-standing drain of wealth from East, Southeast and South Asia to Europe and North America that had been occurring since the

eighteenth century (a drain that even Adam Smith had noted with regret in *The Wealth of Nations* but which accelerated relentlessly throughout the nineteenth century). The rise of Japan in the 1960s followed by South Korea, Taiwan, Singapore and Hong Kong in the 1970s and then the rapid growth of China after 1980 later accompanied by industrialization spurts in Indonesia, India, Vietnam, Thailand and Malaysia during the 1990s, has altered the center of gravity of capitalist development, although it has not done so smoothly (the East and South-East Asian financial crisis of 1997-8 saw wealth flow briefly but strongly back towards Wall Street and the European and Japanese banks). Economic hegemony seems to be moving towards some constellation of powers in East Asia and if crises, as we earlier argued, are moments of radical reconfigurations in capitalist development, then the fact that the United States is having to deficit finance its way out of its financial difficulties on such a huge scale and that the deficits are largely being covered by those countries with saved surpluses – Japan, China, South Korea, Taiwan and the Gulf states – suggests this may be the moment for such a shift to be consolidated.

Shifts of this sort have occurred before in the long history of capitalism. In Giovanni Arrighi's thorough account in *The Long Twentieth Century*, we see hegemony shifting from the city states of Genoa and Venice in the sixteenth century to Amsterdam and the Low Countries in the seventeenth before concentrating in Britain from the late eighteenth century until the United States eventually took control after 1945. There are a number of features to these transitions that Arrighi emphasizes and which are relevant to our analysis. Each shift, Arrighi notes, occurred in the wake of a strong phase of financialization (he cites with approval Braudel's maxim that financialization announces the autumn of some hegemonic configuration). But each shift also entailed a radical change of scale, from the small city states at the origin to the continent-wide economy of the United States in the latter half of the twentieth century. This change of scale makes sense given the capitalist rule of endless accumulation and compound growth of at least three per cent for ever. But hegemonic shifts, Arrighi argues, are not determined in advance. They depend upon the emergence of some power economically able and politically and militarily willing to take on the role of global hegemon (with its costs as well as its advantages). The reluctance of the United States to assume that role before World War II meant an interregnum of multi-polar tensions that could not halt the drift into war (Britain was no longer in a position to assert its prior hegemonic role). Much also depends on how the past hegemon behaves as it faces up to the diminution of its former role. It can pass peaceably or belligerently into history. From this perspective the fact that the United States still holds overwhelming military power (particularly from 30,000 feet up) in a context of its declining economic and financial power and increasingly shaky cultural and moral authority, creates worrying scenarios for any future transition. Furthermore, it is not obvious that the main candidate to displace the United States, China, has the capacity or the will to assert some hegemonic role, for while its population is certainly huge enough to meet the requirements of changing scale, neither its economy nor its political authority (or even its political will) point to any easy accession to the role of global hegemon. Given the nationalist divisions that exist, the idea that some association of East Asian Powers might do the job also appears unlikely as does the possibility for a fragmented and fractious European Union or the so-called BRIC

powers (Brazil, Russia, India and China) to stay on a common path for long. For this reason, the prediction that we are headed into another interregnum of multi-polar and conflictual interests and potential global instability appears plausible.

But the tectonic shift away from United States dominance and hegemony that has been under way for some time is becoming much clearer. The thesis of both excessive financialization and "debt as a principal predictor of leading world powers' debilitation" has found popular voice in the writings of Kevin Phillips. Attempts now under way to re-build US dominance through reforms in the architecture of both the national and the global state-finance nexus appear not to be working while the exclusions imposed on much of the rest of the world in seeking to re-shape that architecture are almost certain to provoke strong oppositions if not overt economic conflicts.

But tectonic shifts of this sort do not come about as if by magic. While the historical geography of a shifting hegemony as Arrighi describes it has a clear pattern and while it is also clear from the historical record that periods of financialization precede such shifts, Arrighi does not provide any deep analysis of the processes that produce such shifts in the first place. To be sure, he cites "endless accumulation" and therefore the growth syndrome (the three per cent compound growth rule) as critical to explaining the shifts. This implies that hegemony moves from smaller (i.e. Venice) to larger (e.g. the United States) political entities over time. And it also stands to reason that hegemony has to lie with that political entity within which much of the surplus is produced (or to which much of the surplus flows in the form of tribute or imperialist extractions). With total global output standing at \$45 trillion as of 2005, the US share of \$15 trillion made it, as it were, the dominant and controlling share-holder in global capitalism able to dictate (as it typically does in its role as the chief shareholder in the international institutions such as the World Bank and the IMF) global policies. The NCIS report in part based its prediction on loss of dominance but maintenance of a strong position on the falling share of global output in the US relative to the rest of the world in general and China in particular.

But as Arrighi points out, the politics of such a shift are by no means certain. The United States bid for global hegemony under Woodrow Wilson during and immediately after World War I was thwarted by a domestic political preference in the United States for isolationism (hence the collapse of the League of Nations) and it was only after World War II (which the US population was against entering until Pearl Harbor occurred) that the US embraced its role as global hegemon through a bi-partisan foreign policy anchored by the Bretton Woods Agreements on how the post-War international order would be organized (in the face of the Cold War and the spreading threat to capitalism of international communism). That the United States had long been developing into a state that in principle could play the role of global hegemon is evident from relatively early days. It possessed relevant doctrines, such as "Manifest Destiny" (continental wide geographical expansion which eventually spilled over into the Pacific and Caribbean before going global without territorial acquisitions) or the Monroe Doctrine which warned European Powers to leave the Americas alone (the doctrine was actually formulated by the British Foreign Secretary Canning in the 1820s but adopted by the US

as its own almost immediately). The United States possessed the necessary dynamism to account for a growing share of global output and was quintessentially committed to some version of what can best be called "cornered market" or "monopoly" capitalism backed by an ideology of rugged individualism. So there is a sense in which the US was, throughout much of its history, preparing itself to take on the role of global hegemon. The only surprise was that it took so long to do so and that it was the Second rather than the First World War that led it finally to take up the role leaving the inter-war years as years of multipolarity and chaotic competing imperial ambitions of the sort that the NCIS report fears will be the situation in 2025.

The tectonic shifts now under way are deeply influenced, however, by the radical geographical unevenness in the economic and political possibilities of responding to the current crisis. Let me illustrate how this unevenness is now working by way of a tangible example. As the depression that began in 2007 deepened, the argument was made by many that a full-fledged Keynesian solution was required to extract global capitalism from the mess it was in. To this end various stimulus packages and bank stabilization measures were proposed and to some degree taken up in different countries in different ways in the hope that these would resolve the difficulties. The variety of solutions on offer varied immensely depending upon the economic circumstances and the prevailing forms of political opinion (pitting, for example, Germany against Britain and France in the European Union). Consider, however, the different economic political possibilities in the United States and China and the potential consequences for both shifting hegemony and for the manner in which the crisis might be resolved.

In the United States, any attempt to find an adequate Keynesian solution has been doomed at the start by a number of economic and political barriers that are almost impossible to overcome. A Keynesian solution would require massive and prolonged deficit financing if it were to succeed. It has been correctly argued that Roosevelt's attempt to return to a balanced budget in 1937-8 plunged the United States back into depression and that it was, therefore, World War II that saved the situation and not Roosevelt's too timid approach to deficit financing in the New Deal. So even if the institutional reforms as well as the push towards a more egalitarian policy did lay the foundations for the Post World War II recovery, the New Deal in itself actually failed to resolve the crisis in the United States.

The problem for the United States in 2008-9 is that it starts from a position of chronic indebtedness to the rest of the world (it has been borrowing at the rate of more than \$2 billion a day over the last ten years or more) and this poses an economic limitation upon the size of the extra deficit that can now be incurred. (This was not a serious problem for Roosevelt who began with a roughly balanced budget). There is also a geo-political limitation since the funding of any extra deficit is contingent upon the willingness of other powers (principally from East Asia and the Gulf States) to lend. On both counts, the economic stimulus available to the United States will almost certainly be neither large enough nor sustained enough to be up to the task of reflating the economy. This problem is exacerbated by ideological reluctance on the part of both political parties to embrace the huge amounts of deficit spending that will be required, ironically in part because the

previous Republican administration worked on Dick Cheney's principle that "Reagan taught us that deficits don't matter." As Paul Krugman, the leading public advocate for a Keynesian solution, for one has argued, the \$800 billion reluctantly voted on by Congress in 2009, while better than nothing, is nowhere near enough. It may take something of the order to \$2 trillion to do the job and that is indeed excessive debt relative to where the US deficit now stands. The only possible economic option would be to replace the weak Keynesianism of excessive military expenditures by the much stronger Keynesianism of social programs. Cutting the US defense budget in half (bringing it more in line with that of Europe in relation to proportion of GDP) might technically help but it would be, of course, political suicide, given the posture of the Republican Party as well as many Democrats, for anyone who proposed it.

The second barrier is more purely political. In order to work, the stimulus has to be administered in such a way as to guarantee that it will be spent on goods and services and so get the economy humming again. This means that any relief must be directed to those who will spend it, which means the lower classes, since even the middle classes, if they spend it at all, are more likely to spend it on bidding up asset values (buying up foreclosed houses, for example), rather than increasing their purchases of goods and services. In any case, when times are bad many people will tend to use any extra income they receive to retire debt or to save (as largely happened with the \$600 rebate designed by the Bush Administration in the early summer of 2008).

What appears prudent and rational from the standpoint of the household bodes ill for the economy at large (in much the same way that the banks have rationally taken public money and either hoarded it or used it to buy assets rather than to lend). The prevailing hostility in the United States to "spreading the wealth around" and to administering any sort of relief other than tax cuts to individuals, arises out of hard core neoliberal ideological doctrine (centered in but by no means confined to the Republican Party) that "households know best". These doctrines have broadly been accepted as gospel by the American public at large after more than thirty years of neoliberal political indoctrination. We are, as I have argued elsewhere, "all neoliberals now" for the most part without even knowing it. There is a tacit acceptance, for example, that "wage repression" - a key component to the present problem - is a "normal" state of affairs in the United States. One of the three legs of a Keynesian solution, greater empowerment of labor, rising wages and redistribution towards the lower classes is politically impossible in the United States at this point in time. The very charge that some such program amounts to "socialism" sends shivers of terror through the political establishment. Labor is not strong enough (after thirty years of being battered by political forces) and no broad social movement is in sight that will force redistributions towards the working classes.

One other way to achieve Keynesian goals, is to provide collective goods. This has traditionally entailed investments in both physical and social infrastructures (the WPA programs of the 1930s is a forerunner). Hence the attempt to insert into the stimulus package programs to rebuild and extend physical infrastructures for transport and communications, power and other public works along with increasing expenditures on health care, education, municipal services, and the like. These collective goods do have

the potential to generate multipliers for employment as well as for the effective demand for further goods and services. But the presumption is that these collective goods are, at some point, going to belong to the category of "productive state expenditures" (i.e. stimulate further growth) rather than become a series of public "white elephants" which, as Keynes long ago remarked, amounted to nothing more than putting people to work digging ditches and filling them in again. In other words, an infrastructural investment strategy has to be targeted towards systematic revival of three percent growth through, for example, systematic redesign of our urban infrastructures and ways of life. This will not work without sophisticated state planning plus an existing productive base that can take advantage of the new infrastructural configurations. Here, too, the long prior history of deindustrialization in the United States and the intense ideological opposition to state planning (elements of which were incorporated into Roosevelt's New Deal and which continued into the 1960s only to be abandoned in the face of the neoliberal assault upon that particular exercise of state power in the 1980s) and the obvious preference for tax cuts rather than infrastructural transformations makes the pursuit of a full-fledged Keynesian solution all but impossible in the United States.

In China, on the other hand, both the economic and political conditions exist where a full-fledged Keynesian solution would indeed be possible and where there are abundant signs that this path will likely be followed. To begin with, China has a vast reservoir of foreign cash surplus and it is easier to debt finance on that basis than it is with a vast already existing debt overhang as is the case in the US. It is also worth noting that ever since the mid 1990s the "toxic assets" (the non performing loans) of the Chinese Banks (some estimates put them as high as 40 per cent of all loans in 2000) have been wiped off the banks' books by occasional infusions of surplus cash from the foreign exchange reserves. The Chinese have had a long-running equivalent of the TARP program in the United States and evidently know how to do it (even if many of the transactions are tainted by corruption). The Chinese have the economic wherewithal to engage in a massive deficit-finance program and have a centralized state-financial architecture to administer that program effectively if they care to use it. The banks, which were long state owned, may have been nominally privatized to satisfy WTO requirements and to lure in foreign capital and expertise, but they can still easily be bent to central state will whereas in the United States even the vaguest hint of state direction let alone nationalization creates a political furor.

There is likewise absolutely no ideological barrier to redistributing economic largesse to the neediest sectors of society though there may be some vested interests of wealthier party members and an emergent capitalist class to be overcome. The charge that this would amount to "socialism" or even worse to "communism" would simply be greeted with amusement in China. But in China the emergence of mass unemployment (at last report there were thought to be some 20 million unemployed as a result of the slow-down) and signs of widespread and rapidly escalating social unrest will almost certainly push the Communist Party to massive redistributions whether they are ideologically concerned to do so or not. As of early 2009, this seemed to be directed in the first instance to revitalizing the lagging rural areas to which many unemployed migrant workers have returned in frustration at the loss of jobs in manufacturing areas. In these

regions where both social and physical infrastructures are lagging, a strong infusion of central government support will raise incomes, expand effective demand and begin upon the long process of consolidation of China's internal market.

There is, secondly, a strong predilection to undertake the massive infrastructural investments that are still lagging in China (whereas tax reductions have almost no political appeal). While some of these may turn into "white elephants" the likelihood is far less since there is still an immense amount of work to be done to integrate the Chinese national space and so to confront the problem of uneven geographical development between the coastal regions of high development and the impoverished interior provinces. The existence of an extensive though troubled industrial and manufacturing base in need of spatial rationalization, makes it more likely that the Chinese effort will fall into the category of productive state expenditures. For the Chinese, much of the surplus can be mopped up in the further production of space, even allowing for the fact that speculation in urban property markets in cities like Shanghai, as in the United States, is part of the problem and cannot therefore be part of the solution. Infrastructural expenditures, provided they are on a sufficiently large scale, will go a long way to both mopping up surplus labor and so reducing the possibility of social unrest, and again boosting the internal market.

These completely different opportunities to pursue a full-fledged Keynesian solution as represented by the contrast between the United States and China have profound international implications. If China uses more of its financial reserves to boost its internal market, as it is almost certainly bound to do for political reasons, so it will have less left over to lend to the United States. Reduced purchases of US Treasury Bills will eventually force higher interest rates and impact US internal demand negatively and, unless managed carefully, could trigger the one thing that everyone fears but which has so far been staved off: a run on the dollar. A gradual move away from reliance on US markets and the substitution of the internal market in China as a source of effective demand for Chinese industry will alter power balances significantly (and, by the way, be stressful for both the Chinese and the United States). The Chinese currency will necessarily rise against the dollar (a move that the US authorities have long sought but secretly feared) thus forcing the Chinese to rely even more on their internal market for aggregate demand. The dynamism that will result within China (as opposed to the prolonged recession conditions that will prevail in the United States) will draw more and more global suppliers of raw materials into the Chinese trade orbit and lessen the relative significance of the United States in international trade. The overall effect will be to accelerate the drift of wealth from West to East in the global economy and rapidly alter the balance of hegemonic economic power. The tectonic movement in the balance of global capitalist power will intensify with all manner of unpredictable political and economic ramifications in a world where the United States will no longer be in a dominant position even as it possesses significant power. The supreme irony, of course, is that the political and ideological barriers in the United States to any full-fledged Keynesian program will almost certainly hasten loss of US dominance in global affairs even as the elites of the world (including those in China) would wish to preserve that dominance for as long as possible.

Whether or not true Keynesianism in China (along with some other states in a similar position) will be sufficient to compensate for the inevitable failure of reluctant Keynesianism in the West is an open question, but the unevenness coupled with fading US hegemony may well be the precursor to a break up of the global economy into regional hegemonic structures which could just as easily fiercely compete with each other as collaborate on the miserable question of who is to bear the brunt of long-lasting depression. That is not a heartening thought but then thinking of such a prospect might just awaken much of the West to the urgency of the task before it and get political leaders to stop preaching banalities about restoring trust and confidence and get down to doing what has to be done to rescue capitalism from the capitalists and their false neoliberal ideology. And if that means socialism, nationalizations, strong state direction, binding international collaborations, and a new and far more inclusive (dare I say "democratic") international financial architecture, then so be it.

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