2 The return of primitive accumulation

Saskia Sassen

The return of primitive accumulation

1989 marks the rise of histories other than those of democracy and freedom. These are histories made in the wake of the shift to a unipolar world dominated by a sharp rise in US power. Alongside the emergence of the United States as the world's sole global power, 1989 also signals an unsettling and debordering of existing arrangements within the deep structures of capitalist economies. Here we find new modes of profit extraction in the most unlikely places, modes that have now become systemic to the extent of being hard-wired into the functioning of the capitalist system itself. Since 1989, countries in the Global South have become subject to a form of financial control – carried out by institutions like the International Monetary Fund (IMF) – which operates as a worldwide financial disciplinary regime. Survival here hinges on exporting and trafficking people because it is the one resource that many of these countries have. Indeed, the rise in people trafficking has become the last hope for survival not just for ordinary households in poor countries, but for a number of actors ranging from small entrepreneurs to governments.

Countries in the Global North have their own version of this parallel history. Prominent here is the growing informalisation of work, the sharp downgrading of the manufacturing sector, and the explosion of high-risk finance, all of which took off in the post-1989 period. Over the past twenty years, high-risk finance has launched a series of major micro- and macro-financial crises which have brought down several powerful economies, such as the manufacturing sector in South Korea, and eventually led to the subprime mortgage crisis of 2007. By 2009, some of the world's most powerful financial firms were bankrupt or partly nationalised – the overriding sense is of whole economies in deep crisis. In each of these crises, central banks poured taxpayers' money into rescuing the financial system. Under these conditions, finance functions as a mechanism for primitive accumulation, albeit

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of a different sort than classical economists envisaged some 200 years ago.

There are few resemblances between these post-1989 economic histories and the celebration of post-1989 peace and freedom in countries once part of the Soviet sphere of influence. Yet these economic histories emerge after 1989 in most of the world, including former Soviet-controlled countries. All of this points to a *systemic* feature of advanced capitalism, one that may have been held in check by the Cold War but which rises to its full capacity (for destruction) once freed from the constraints of bipolar restraint. The end of the Cold War pronounced the free market victorious and neoliberalism the best growth policy for countries. This was the setting that enabled finance to enter a new phase which legitimised the financialising of growing sectors of the economy. One of the ironies emerging from the growing complexity of finance was the possibility of implementing financial forms of primitive accumulation – the corporate global outsourcing of jobs can be seen as the latest version of an older story. In other words, among the effects of 1989 is to have enabled both the most complex financial system the world has ever seen and a vast expansion of primitive accumulation implemented through sophisticated organisational mechanisms.

In this chapter, I focus on this 'other' post-1989 history – the rise of financial power unleashed by the emergence of the United States as the sole global power. It is a history that somehow evades the, by now, ritualised 'post-1989' frame, a frame that is usually understood as a celebration of the post-1989 liberation of Central and Eastern European countries. In his exceptionally illuminating introduction, George Lawson problematises the putative 1989 old/new history divide. He examines the diverse contents, spaces and times of what is often forced under a univocal meaning of 1989, exploring how xenophobic nationalists and market fundamentalists were as involved in the fall of communism as liberal intellectuals and utopian liberals. Chris Armbruster (Chapter 9, this volume) also explores how the non-violent revolutions of 1989 actually helped to feed older European histories of violence that have now returned, notably narrow nationalisms and naked totalitarianisms. Indeed, the revolutions of 1989 served to weaken the influence of leftist political options, as Outhwaite (Chapter 3, this volume) describes.

In this chapter, I build on these contributions by demonstrating how older histories of economic violence re-emerged with renewed vigour in the 1980s and 1990s. In particular, I concentrate on three

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forms of contemporary primitive accumulation: first, the growing informalisation of types of low-profit activities in advanced economies, whereby informalisation can be seen as the low-cost equivalent of formal deregulation/liberalisation in major, high-profit economic sectors such as telecommunications and finance; second, the extraction of value from the Global South via neoliberal policy and debt services; and third, the (mis)use of residential subprime mortgages by banks to build investment instruments without becoming dependent on the ability of those households to pay their mortgages. The result was that millions of those households lost everything: their houses and whatever savings they may have had. The final part of the chapter explores the consequences of these innovations both for the international political economy and for our understanding of the events and processes associated with 'the global 1989'.

Advanced capitalism and its mechanisms for primitive accumulation

The end of the Cold War launched one of the most brutal economic phases of the modern era. Following a period of Keynesian-led relative redistribution, the United States became the frontier space for a radical reshuffling of capitalism. In the post-Cold War period, the United States presumed the title of leader of the free world. This has allowed it to pursue a dramatic 'open door' policy which sees the world as a giant market dominated by large corporate actors – a shift from one people to one market under God. But this vast project to a large extent played out in thick local settings, and these are often excluded from examinations of the post-1989 world. Important here is Saull's (Chapter 8, this volume) work showing how variable local histories also feed world politics and that this unevenness becomes legible once we go beyond a Eurocentric view of history.

Three mechanisms enabled new forms of primitive accumulation post-1989. First, there is the informalising and downgrading of a growing range of economic activities in the Global North after decades of extensively regulated economies, itself arising from workers' struggles throughout the twentieth century. The post-1989 period has seen a strong tendency towards a casualisation of employment relations worldwide, but most prominently in highly developed economies, especially the United States. The decline of labour unions in manufacturing, the growth of part-time and temporary jobs in all economic sectors, and the informalisation of work are all core features of this general trend,

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a development evident in cities as diverse as New York, Paris, London and Amsterdam. A common interpretation in the Global North holds that the growth of the informal economy is a result of the propensity of immigrants from Global South countries to adopt informal work practices. In my research, I find this claim to be incorrect. Both the informalisation and the more general downgrading of many economic activities are a structured outcome of trends in advanced economies – indeed, these trends extend into the political domain (Sassen 2008: chs. 6, 8 and 9).[1]

Second is the implementation of restructuring programmes in the Global South at the hands of the reinvented IMF and the newly minted World Trade Organization (WTO). These global regulators were but two of the best known footsoldiers in the makeover of the unipolar world that took off in the late 1980s. Countries in the Global South were subjected to an international debt-financing regime which put governments, firms and households under enormous constraints. In the case of developing economies, the IMF and WTO put undue pressure on them to implement a bundle of new policies aimed at furthering corporate globalisation. These include the forced adoption of structural adjustment programmes (SAPs), prominently including the opening up of their economies to foreign firms (World Bank 2005a); the elimination of multiple state subsidies to vulnerable or development-linked sectors, from public health to road construction (United Nations Development Programme [UNDP] 2005; 2008); and, almost inevitably, financial crises and the prevailing types of programmatic solutions put forth by the IMF (Reinhardt and Kaminsky 1999; Pyle and Ward 2003; see also Henderson 2005). In most of the countries involved – whether Mexico or Thailand or Kenya – these conditions have created enormous costs for certain sectors of the economy and for most of the people, and have not fundamentally reduced government debt. Among these costs are growth in unemployment, the closure of a

[1] A central hypothesis organising much of my research on the informal economy is that the processes of economic restructuring that have contributed to the decline of the manufacturing-dominated industrial complex of the post-war era and the rise of the new, service-dominated economic complex provide the general context within which we need to place informalisation if we are to go beyond a mere description of instances of informal work. The specific set of mediating processes that I have found to promote informalisation of work are: (1) increased earnings inequality and the associated restructuring of consumption in high-income strata and in very-low-income strata; and (2) inability among the providers of many of the goods and services that are part of the new consumption to compete for the necessary resources in urban contexts where leading sectors have sharply bid up the prices of commercial space, labour, auxiliary services, and other basic business inputs.

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large number of firms in traditional sectors oriented towards the local or national market, the promotion of export-oriented cash crops that have increasingly replaced subsistence agriculture and food production for local or national markets, and finally, an ongoing and mostly heavy burden of government debt.

The third mechanism of primitive accumulation is the development of new types of investment instruments using mortgages oriented to low and modest income households. Finance has developed multiple ways of extracting profits over the last twenty years, including the securitization of bundles of thousands of small consumer debts, from credit card debt to auto loans. Subprime mortgages, embedded in complex financial instruments sold on the secondary financial market, serve as assets for the making of asset-backed securities and as a mechanism for the extraction of limited savings from modest-income households. These mortgages differ from traditional mortgages in two ways. First, the house itself functions as collateral only for those who own the instrument, which in a fast moving market of buying and selling may last for just two hours. Thus, when an investor has sold the instrument, what happens to the house itself and to the loan is irrelevant. The other is that the profit of the lender comes not from mortgage repayment, as in traditional banking, but from bundling up as many of these mortgages as possible as fast as possible and then selling off the package to an investor in the secondary financial market. The creditworthiness of the borrower is secondary at best – what matters are the number of mortgages issued and the speed with which the lender can secure the needed quantity of mortgages. Millions of these mortgages have been sold in the United States to people who had not thought of owning houses, who had not asked for a mortgage, and who were not in a position to afford mortgages, particularly not in a time of rapidly escalating interest rates. The result was that their savings were extracted via the mortgage instrument and millions lost both their savings and their house. And there are more losses to come as many of these mortgages shift into variable interest rates between 2009 and 2011. Both features of these mortgage instruments become alarming if their central target is the low- and moderate-income household market, which in a globalised financial market represents an enormous population. Ultimately these new types of mortgage-backed financial instruments can function as a vehicle for extracting even small savings from billions of modest-income households around the world (Sassen 2008). As such, if this mechanism of primitive accumulation began in the United States, it need not end there. The new mortgage business has no frontier.

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The informalising of work in advanced economic sectors

The recent growth of informal economies in major global cities in North America, Western Europe and, to a lesser extent, Japan, raises a number of questions about what is – and what is not – part of today's advanced urban economies. As I have looked in depth at this mechanism for primitive accumulation elsewhere, I discuss it only briefly here (see Sassen 2001: ch. 9; 2007: ch. 4).

One problem in understanding the meaning of these informal economies in global cities is that analysts and policy-makers often group together informal and illegal activities. Both are simply classified as breaking the law. This obscures two important questions: first, why have these licit activities become informal considering that they are activities which can be done above ground, unlike illegal activities such as tax evasion or trading in prohibited drugs; second, why have they become informal only now after a century of successful efforts to regulate them in most developed countries, and certainly in Europe and in Japan? Typically, the emergence of informal economies is seen as the result of a failure of government regulation and as an import from the less developed world brought in by immigrants – immigrants replicating survival strategies prevalent in their home countries. Related to this view is the notion that backward sectors of the economy are kept backward, or even alive, because of the availability of a large supply of cheap immigrant workers. The assumption is that, if there is an informal economy in highly developed countries, the sources of this can be found in Third World immigration and in backward sectors of the economy. These two arguments – government failure and economic backwardness – sit alongside a third: that this phenomenon is peculiar to Northern cities with the correlate assumption that nothing has really changed in the long-standing informal economies of the Global South.

In my reading, each of these three notions is inadequate. Government failure cannot explain a simple fact: many governments had solved the issue of informal work by the mid-twentieth century. As such, for decades this has not been an issue, begging the question, why now? Equally, although immigrants, insofar as they tend to form communities, may be in a favourable position to seize opportunities represented by informalisation, these opportunities are not *caused* by immigrants. In fact, as I explore in the next section, these processes are a structural outcome of trends endemic to advanced capitalist economies. Further, if there is indeed a global infrastructure for running and servicing the

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global economy, then global cities of the South are undergoing, or will undergo, a comparable transformation, albeit with their own specificities. Indeed, conditions akin to those in the global cities of the North appear to be producing a new type of informal economy in global cities of the South premised on the same politico-economic restructuring processes that led to the emergence of a new urban economy in the late 1980s and onwards which, in turn, enabled the formation of new informal economies. The decline of the manufacturing-dominated industrial complex that characterised most of the twentieth century, and the rise of service-dominated economic complexes, provide the general context within which we need to place informalisation if we are to go beyond a mere description of instances of informal work.

In this sense, it is more appropriate to see new forms of informalisation as the low-cost equivalent of formal deregulation in finance, telecommunications and most other economic sectors in the name of flexibility and innovation. The difference is that, while formal deregulation is costly, and tax revenue as well as private capital goes into paying for it, informalisation is low-cost and largely carried out on the backs of the workers and firms themselves. This, in turn, explains the particularly strong presence of informal economies in global cities. And it contributes to a mostly overlooked development: the proliferation of an informal economy of creative professional work in these cities – artists, architects, designers, software developers. In the case of the new creative professional informal economy, these negative features are mostly absent – informalisation expands opportunities and networking possibilities. There are strong reasons why these artists and professionals operate at least partly informally – it allows them to function in the interstices of urban and organisational spaces often dominated by large corporate actors and to escape the corporatising of creative work. In this way, they contribute to a specific feature of the new urban economy: its innovativeness alongside a certain type of frontier spirit. This is a trend not just present in Northern global cities, but those of the South as well. As such, it is clear that today's informalisation is not something restricted to the Global North, or a result of government failure and/or immigration, but a process embedded in core features of advanced capitalism.

Extracting earnings and revenue from the Global South

The second form of primitive accumulation in the contemporary world that concerns me here is the extraction of value from the Global South and, in particular, the implementation of restructuring programmes at

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the hands of the IMF and the WTO. Debt and debt servicing problems have been a systemic feature of the developing world since the 1980s. They are also a systemic feature of new global circuits of accumulation. The effect on people, economies and governments is mediated through the particular features of this IMF negotiated debt rather than the fact of debt per se. Among these particular features are cuts in specific government programmes in order to pay off interest on the debt to mostly Global North lenders, both private and public. It is with this logic in mind that this section of the chapter examines various features of government debt in developing economies.[2]

Much research on poor countries documents the link between hyper-indebted governments and cuts in social programmes. These cuts tend to affect women and children in particular through cuts in education and healthcare, both investments necessary to ensuring a better future (for overviews of the data, see UNDP 2005, 2008; World Bank 2005b, 2006). There is by now a large literature in many different languages on this subject, including a vast number of limited-circulation items produced by various activist and support organisations. An older literature on women and debt also documents the disproportionate burden that these programmes put on women during the first generation of structural adjustment programmes (SAPs) in the 1980s in several developing countries in response to growing government debt (Moser 1989; Tinker 1990; Ward 1991; Beneria and Feldman 1992; Bradshaw *et al.* 1993; Bose and Acosta-Belen 1995). Unemployment of women themselves but also, more generally, of the men in their households has added to the pressure on women to find ways to ensure household survival (Elson 1995; Safa 1995; Rahman 1999; Standing 1999; Lucas 2005; Buechler 2007). Subsistence food production, informal work, emigration and prostitution have all become survival options for women and, by extension, often for their households.

Heavy government debt and high unemployment have brought with them the need for search-for-survival alternatives not only for ordinary people, but also for governments and enterprises. And a shrinking regular economy in a growing number of poor countries has brought with it a widened use of illegal profit-making by enterprises and organisations. Thus, we can say that, through their contribution to heavy debt burdens, SAPs have played an important role in the formation of

[2] This section is based on a larger research project (Sassen 2008) that seeks to show how the struggles by individuals, households, entrepreneurs and even governments are micro-level enactments of larger processes of economic restructuring in developing countries launched by the IMF and World Bank programmes, as well as in WTO law implementation during the 1990s and onwards.

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counter-geographies of survival, of profit-making, and of government revenue enhancement. Furthermore, economic globalisation has provided an institutional infrastructure for cross-border flows and global markets, thereby facilitating the operation of these counter-geographies on a global scale. Once there is an institutional infrastructure for globalisation, processes that have operated for the most part at the national or regional level can scale up to the global level even when this is not necessary for their operation. This contrasts with processes that are by their very nature global, such as the network of financial centres underlying the formation of a global capital market.

Even before the economic crises of the mid-1990s, the debt of poor countries in the South had grown from US$507 billion in 1980 to US$1.4 trillion in 1992. Debt service payments alone had increased to $1.6 trillion, more than the actual debt. According to some estimates, from 1982 to 1998, indebted countries paid four times their original debts, and at the same time, their debt stocks went up by four times (Toussaint 1999). These countries had to use a significant share of their total revenues to service these debts. Thirty-three of the forty-one highly indebted poor countries (HIPCs) paid $3 in debt service payments to the North for every $1 in development assistance. For years, many of these countries paid between 20 and 25 per cent of their export earnings for interest on their debt (Ambrogi 1999). As of 2006, the poorest 49 countries had debts of $375 billion. If to these 49 poor countries we add the 'developing countries', we have a total of 144 countries with a debt of over $2.9 trillion and $573 billion paid to service debts in 2006 alone (Jubilee Debt Campaign UK, 2009).

The debt burden that built up in the 1980s, and especially the 1990s, has had substantial repercussions on state spending composition. This is well illustrated in the case of Zambia, Ghana and Uganda, three countries that global regulators (notably the World Bank and the IMF) see as cooperative, responsible and successful at implementing SAPs. A few examples of expenditure levels paint a far more troubling picture. At the height of these programmes, the mid 1990s, Zambia's government paid $1.3 billion in debt but only $37 million for primary education; Ghana's social expenses, at $75 million, represented 20 per cent of its debt service; and Uganda paid $9 per capita on its debt and only $1 for healthcare (Ismi 1998). In 1994 alone, these three countries remitted $2.7 billion to bankers in the North. Africa's payments reached $5 billion in 1998, which means that for every $1 in aid, African countries paid $1.40 in debt service in 1998. In many of the HIPCs, debt service ratios to gross national product (GNP) have long exceeded sustainable limits; many are far more extreme than what were considered unmanageable

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levels in the Latin American debt crisis of the 1980s (Oxfam 1999). Debt to GNP ratios were especially high in Africa, where they stood at 123% in the late 1990s, compared with 42% in Latin America and 28% in Asia. Generally, the IMF asks HIPCs to pay 20% to 25% of their export earnings towards debt service. By 2003, debt service as a share of exports only (not overall government revenue) ranged from extremely high levels for Zambia (29.6%) and Mauritania (27.7%) to significantly lowered levels compared with the 1990s for Uganda (down from 19.8% in 1995 to 7.1% in 2003) and Mozambique (down from 34.5% in 1995 to 6.9% in 2003). In contrast, in 1953, the Allies cancelled 80% of Germany's war debt and only insisted on 3% to 5% of export earnings debt service. Relatively favourable conditions were also applied to Central European countries in the 1990s.

These features of the contemporary conjuncture suggest that many of these countries cannot escape their indebtedness through strategies like SAPs. Generally, IMF debt management policies from the 1980s onwards can be shown to have worsened the situation for the unemployed and poor (Ward and Pyle 1995; Ismi 1998; Ambrogi 1999; Oxfam 1999; UNDP 2005, 2008). The 1997 financial crisis in the rich and dynamic countries of Southeast Asia shows us that accepting the types of loans offered, and indeed pushed, by private lenders can create unmanageable debt levels also among rich and high-growth economies, bringing bankruptcies and mass layoffs to a broad range of enterprises and sectors. Even a powerful economy like South Korea found itself forced into SAPs, with attendant growth in unemployment and poverty due to widespread bankruptcies of small and medium-sized firms catering to both national and export markets (Olds *et al.* 1999). The US$120 billion rescue package brought with it the introduction of SAP provisions, which reduce the autonomy of the governments. On top of that, most of the funds went to compensate the losses of foreign institutional investors rather than help address the poverty and unemployment resulting from the crisis.

It is in this context that alternative survival circuits emerge. The context can be specified as a systemic condition comprising a set of particular interactions including high unemployment, poverty, widespread bankruptcies and shrinking state resources (or allocation of resources). The central implication is that the feminisation of survival goes well beyond households; it extends to firms and governments. There are new profit-making and government revenue-making possibilities built on the backs of migrants, and women migrants in particular. As such, examining the question of immigrant remittances offers valuable insights into the broader subject of the formation of alternative political

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economies and how these unsettle older notions of an international division of labour.

The remittance business

Immigrants enter the macro level of development strategies through the remittances they send back home.[3] These represent a major source of foreign exchange reserves for the government in a good number of countries. Although the flows of remittances may be minor compared with the massive daily capital flows in global financial markets, they can matter enormously to developing or struggling economies. The World Bank (2006) estimates that remittances worldwide reached US$230 billion in 2005, up from US$70 billion in 1998; of this total amount, US$168 billion went to developing countries, up 73 per cent over 2001; in 2007, remittances reached US$318 billion, of which US$240 billion went to developing countries (*Migrant Remittances* 2008: 2). Immigration firms can also benefit. Thus, the Inter-American Development Bank (IADB) produced a series of detailed studies which show that, in 2003, immigrant remittances generated US$2 billion in handling fees for the financial and banking sector on the US$35 billion sent back home by Hispanics in the United States (see also Robinson 2004). The IADB also found that for Latin America and the Caribbean as a whole, these remittance flows exceeded the combined flows of all foreign direct investment and net official development assistance in 2003 (see, generally, Orozco *et al.* 2005; and the quarterly issues of *Migrant Remittances*).

To understand the significance of these figures, they should be related to the GDP and foreign currency reserves in the specific countries involved, rather than compared to the global flow of capital. For instance, in the Philippines, a key sender of migrants, in general, and for women in the entertainment industry in particular, remittances were the third largest source of foreign exchange over the past several years. In Bangladesh, another country with significant numbers of its workers in the Middle East, Japan, and several European countries, remittances represent about a third of foreign exchange. In Mexico, remittances have long been the second source of foreign currency, just below oil and ahead of tourism, and are larger than foreign direct investment (World Bank 2006), though early 2008 saw a decline in total inflows

[3] The basic source for remittances comes from the Central Bank of each receiving country. These figures exclude informal transfers. The scholarship on these subjects is vast. As such, it is not possible to reference fully each of the major propositions organising this discussion. For broader discussions of the literature, see Sassen 2001, 2006b, 2007.

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Table 2.1 *Countries with highest remittance inflows as share of GDP, 2002–5 (US$ million)*

Country	2002	2003	2004 (estimate)	2005 (estimate)	Remittances as a share (%) of GDP (2004)
1. Tonga	66	66	66	66	**31.1**
2. Moldova	323	486	703	703	**27.1**
3. Lesotho	194	288	355	355	**25.8**
4. Haiti	676	811	876	919	**24.8**
5. Bosnia/ Herzegovina	1,526	1,745	1,824	1,824	**22.5**
6. Jordan	2,135	2,201	2,287	2,287	**20.4**
7. Jamaica	1,260	1,398	1,398	1,398	**17.4**
8. Serbia/Montenegro	2,089	2,661	4,129	4,650	**17.2**
9. El Salvador	1,954	2,122	2,564	2,564	**16.2**
10. Honduras	718	867	1,142	1,142	**15.5**
11. Philippines	7,381	10,767	11,634	13,379	**13.5**
12. Dominican Republic	2,194	2,325	2,471	2,493	**13.2**
13. Lebanon	2,500	2,700	2,700	2,700	**12.4**
14. Samoa	45	45	45	45	**12.4**
15. Tajikistan	79	146	252	252	**12.1**
16. Nicaragua	377	439	519	519	**11.9**
17. Albania	734	889	889	889	**11.7**
18. Nepal	678	785	785	785	**11.7**
19. Kiribati	7	7	7	7	**11.3**
20. Yemen, Rep.	1,294	1,270	1,283	1,315	**10.0**

Source: World Bank 2006.

(*Migrant Remittances* 2008: 1). (See also details about the money generated through illegal trafficking in Kyle and Koslowski 2001 and Naim 2006).

Remittances represent around one-quarter of GDP in several poor or struggling countries: Tonga (31.1%), Moldova (27.1%), Lesotho (25.8%), Haiti (24.8%), Bosnia and Herzogovina (22.5%) and Jordan (20.4%) (see Table 2.1).

However, if we rank countries by total value of remittances, the picture changes sharply. The top remittance recipient countries in 2004 include rich countries such as France, Spain, Germany and the United Kingdom. As Table 2.2 shows, the top recipients are India (US$21.7 billion), China ($21.3 billion), Mexico ($18.1 billion), France ($12.7 billion) and the Philippines ($11.6 billion).

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Table 2.2 *Top 20 remittance-recipient countries, 2004 (US$ billions)*

	Billions of dollars
India	21.7
China	21.3
Mexico	18.1
France	12.7
Philippines	11.6
Spain	6.9
Belgium	6.8
Germany	6.5
United Kingdom	6.4
Morocco	4.2
Serbia	4.1
Pakistan	3.9
Brazil	3.6
Bangladesh	3.4
Egypt, Arab Rep.	3.3
Portugal	3.2
Vietnam	3.2
Colombia	3.2
United States	3
Nigeria	2.8

Source: World Bank 2008.

Trafficking as survival

The growing immiseration of governments and economies in the Global South launches a new phase of global migration and people trafficking, strategies which function both as survival mechanisms and profit-making activities. To some extent, these are older processes which used to be national or regional and today operate on global scales. The same infrastructure that facilitates cross-border flows of capital, information and trade is also making possible a range of cross-border flows not intended by the framers and designers of the current corporate globalisation of economies. Growing numbers of traffickers and smugglers are making money off the backs of men, women and children, and many governments are increasingly dependent on their remittances. A key aspect here is that, through their work and remittances, migrants enhance the government revenue of deeply indebted countries. The need for traffickers to help in the migration effort also

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offers new profit-making possibilities to 'entrepreneurs' who have seen other opportunities vanish as global firms and markets enter their countries, as well as aiding criminals able to operate their illegal trade globally. These survival circuits are often complex, involving multiple locations and types of actors, and constituting increasingly global chains of traders, traffickers and workers.

Spaces of globalisation

Globalisation has also produced sites that concentrate a growing demand for particular types of labour supplies. Strategic among these are global cities, with their sharp demand for top-level transnational professionals and for low-wage workers, often, women from the Global South. These are places that concentrate some of the key functions and resources for the management and coordination of global economic processes. The growth of these activities has, in turn, produced a sharp growth in the demand for highly paid professionals. Both the firms and the lifestyles of their professionals generate a demand for low-paid service workers. Thus, global cities are also sites for the incorporation of large numbers of low-paid immigrants into strategic economic sectors. This incorporation happens directly through the demand for mostly low-paid clerical and blue-collar service workers, such as janitors and repair workers. And it happens indirectly through the consumption practices of high-income professionals both at work and in their households, practices that generate a demand for low-wage workers in expensive restaurants and shops, as well as for maids and nannies at home. In this way, low-wage workers get incorporated into the leading sectors, but they do so under conditions that render them invisible, therewith undermining what had historically functioned as a source of workers' empowerment – being employed in growth sectors.

This mix of circuits for labour supply and demand is deeply imbricated with other dynamics of globalisation: the formation of global markets, the intensifying of transnational and trans-local networks, and the geographic redeployment of a growing range of economic and financial operations. The strengthening, and in some of these cases, the formation of new global labour circuits, is embedded in the global economic system and its associated development of various institutional supports for cross-border markets and money flows. These circuits are dynamic and changing in terms of their location. Some of these circuits are part of the shadow economy, but they use some of the institutional infrastructure of the regular economy. Most of these circuits are part of the formal economy and they service leading economic sectors and places

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worldwide. This mix of labour supply and demand circuits is dynamic and multi-locational.

Using modest-income households to develop investment instruments

The third form of contemporary primitive accumulation arises from financial developments that have produced sharp realignments in terms of income and inequality. Inequality in the profit-making capacities of different sectors of the economy and in the earnings capacities of different types of workers has long been a feature of advanced economies. But what we see happening today is taking place on an order of magnitude that distinguishes current developments from those of the post-war decades. The extent of inequality and the systems in which it is embedded, and through which these outcomes are produced, are engendering massive distortions in the operations of various markets, from investment to housing and labour. There are at least three processes that feed these outcomes. Although not necessarily mutually exclusive, it is helpful to distinguish them analytically: (1) the growing inequality in the profit-making capacities of different economic sectors and in the earnings capacities of different types of workers and households; (2) socio-economic polarisation tendencies resulting from the organisation of service industries and from the casualisation of employment relations; and (3) the production of urban marginality as a result of new structural processes of economic growth rather than decline.

Of all the highly developed countries, it is the United States where these deep structural trends are most legible. National level data for the United States show this growth in inequality. For instance, economic growth from 2001 to 2005 was high but very unequally distributed. Most of it went to the upper 10% and, especially, the upper 1% of households. The rest, that is 90% of households, saw a 4.2% *decline* in their market-based incomes (Mishel 2007). If we disaggregate that 90%, the size of the loss grows as we descend the income ladder. Since the beginning of the so-called economic recovery in 2001, the income share of the top 1% grew 3.6 percentage points to 21.8% in 2005, gaining $268 billion of total US household income. In contrast, that of the lower 50% of US households fell by 1.4 percentage points to 16% in 2005, amounting to a loss of $272 billion in income since 2001 (see Figure 2.1).

The invention of mortgages for modest-income households needs to be understood against this larger picture of growing inequality in earnings. Developing instruments to access the limited savings of

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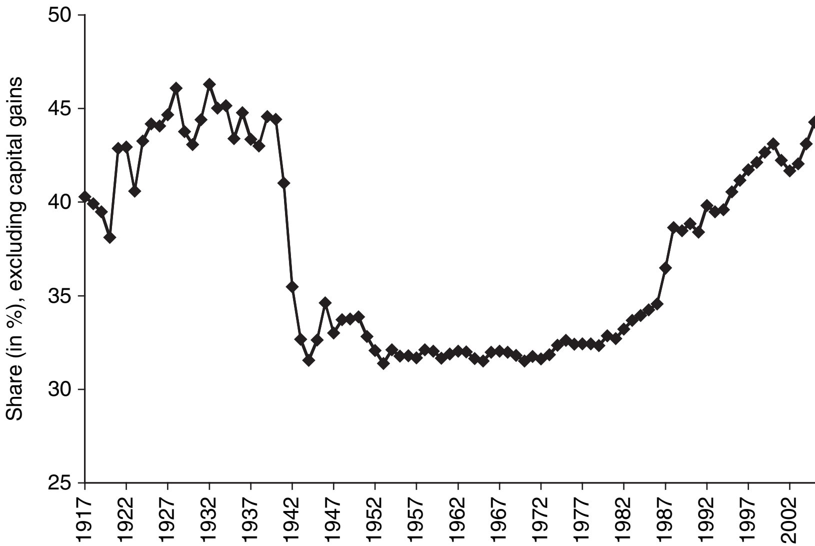

Figure 2.1 US income share of the top 10 per cent of earners, 1917–2005 (source: Mishel 2004)
*Income is defined as market income but excludes capital gains

modest-income households became a must in a setting where 80 per cent of households own their house. What was left as a market was the low-income population. Beyond its social and political role, housing has long been a critical economic sector in all developed societies. There have historically been three ways in which it played this economic role: as part of the construction sector, as part of the real estate market, and as part of the banking sector in the form of mortgages. In all three sectors it has, at times, been a vector for innovations. For instance, solar energy has largely been applied to housing rather than offices or factories. Mass construction has used housing as a key channel to develop new organisational formats. Finally, one of the main sources of income and innovation for traditional-style banking has been mortgages. The thirty-year mortgage, now a worldwide standard, was actually a major innovation for credit markets. Japan in the 1980s and China today instituted respectively ninety- and seventy-year mortgages to deal with a rapidly growing demand for housing finance in a situation where three generations were necessary to cover the cost of housing in a boom period – the 1980s in Japan and the 2000s in China.

Today, housing has become the instrument for several innovations. The first is a novel financial instrument that lengthens the distance

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between itself and the underlying asset (the house or apartment) to an extreme which is usually associated with high-risk finance. This is not the first time the financial sector has used housing to produce an instrument that lengthens the distance from the house itself. What makes this different, and in that sense an innovation, is the extent to which these mortgages function purely as a financial instrument in that they can be bought and promptly sold and, secondly, the fact that low- and moderate-income households are a major target for investors. This asymmetry between the world of investors (only some will be affected) and the world of home-owners (once they default, they will lose the house no matter which investor happens to own the instrument at the time), creates a massive distortion in the housing market and the housing finance market. Most investors can escape the negative consequences of home mortgage default because they buy these mortgages in order to sell them. But no home-owner can escape default on her own mortgage. Thus investors can relate in a positive way to even the so-called subprime mortgages (poor-quality instruments) and this, in itself, is bad for home-owners. We see here yet another sharp inequality in the current conditions.

Innovations in housing finance in advanced economies over the past two decades have changed the role of the housing sector in the economy at the local, national and global levels. This results partly from the growth of mortgage capital (expressed as a ratio to GDP) and the development of secondary mortgage markets (where financial instruments based on mortgages, rather than the houses themselves, get sold). Both of these, in turn, contribute to considerable spill-over effects to other economic sectors. At a time of massive concentration of financial resources in a limited number of super-firms, whoever owns a good share of the subprime mortgages when the mortgage default crisis hits gets stuck with massive losses. In an earlier period, ownership of mortgages was widely distributed among a range of banks and credit unions; hence losses were more distributed as well. The fact that large, powerful firms have also felt that they could get by with high-risk instruments has further raised their losses. As they say, the chickens have come home to roost. The greed of super-firms and their capacity to control these markets has made them vulnerable to their own power in a sort of boomerang effect.

It is important to emphasise that the viral infection of subprime mortgages originated in the United States but spread to other countries via the globalisation of financial markets. This spread was helped by the fact that non-national investors are, as a group, the single largest buyers of some of the weakest types of mortgage instruments, the so-called

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subprime mortgages. Together with banks, non-national mortgage buyers account for over one-third of all subprime mortgage holders. Foreign ownership strengthens the potential for spill-over effects well beyond the United States. A comparison of the value of all residential mortgage debt (from high- to low-quality mortgages) as a ratio of national GDP across developed countries shows sharp variations. The average for the period 2001–6 stood at around the equivalent of 20% of GDP for Italy and Austria; closer to 30% for France and Belgium; 40% for Japan, Finland, Canada and Spain; 50% for Sweden, Norway, Ireland and Germany; 70% for the United States, UK and Australia; and a whopping 90% for the Netherlands and Denmark.[4] To some extent, the variation in this value is a function of timing. For instance, the Netherlands has long had a high share of public housing ownership; thus when regulations were changed in the 1990s, there was a sudden sharp growth in the privatisation of housing, a process that should eventually stabilise. In the United States, the UK and Australia, the housing market has long been private and, importantly, the financial system is highly developed on a broad range of fronts. Thus the incidence of mortgages is both high and widespread in terms of the variety of financial circuits it encompasses.

There are other differences that can only be captured at the local level. In the case of the United States, race and locality can have a substantial impact. The following three tables show clearly that race and income level matter: African-Americans and low-income neighbourhoods show a disproportionately high incidence of subprime mortgages as of 2006. In Washington, DC, 70% of the purchase mortgages and 84% of the refinance mortgages made to African-Americans in 2005 were subprime mortgages. Table 2.3 shows the extreme difference between Manhattan (one of the richest counties in the whole country) and other New York City boroughs: in 2006 less than 1% of subprime mortgages were sold to Manhattan home-buyers compared to 27.4% sold in the Bronx. This table also shows the sharp rate of growth in subprime mortgages in all boroughs, except Manhattan.

A further breakdown by neighbourhoods (community districts) in New York City shows that the worst-hit ten neighbourhoods were poor – and had between 34% and 47% of subprime mortgages among home buyers (Table 2.4).

[4] The IMF, which reports these measures, bases them on several sources: IMF national accounts data; European Mortgage Federation; Hypostat Statistical Tables; the US Federal Reserve; the OECD Analytical Database; Statistics Canada; and IMF staff calculations; see IMF 2005, 2006.

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Table 2.3 *Rate of subprime lending (%) by borough, 2002–6*

	2002	2003	2004	2005	2006
Bronx	14.2	19.7	28.2	34.4	27.4
Brooklyn	9.2	13.9	18.4	26.1	23.6
Manhattan	1.3	1.8	0.6	1.1	0.8
Queens	7.7	12.6	17.8	28.2	24.4
Staten Island	7.2	11.1	13.9	19.9	17.1
NYC total	7.0	10.8	14.9	22.9	19.8

Source: Furman Center for Real Estate and Urban Policy, 2007.

Table 2.4 *Ten New York City community districts with the highest rates of subprime lending, 2006*

Sub borough area	Home purchase loans issued by subprime lender (%)
University Heights/Fordham	47.2
Jamaica	46.0
East Flatbush	44.0
Brownsville	43.8
Williamsbridge/Baychester	41.6
East New York/Starrett City	39.5
Bushwick	38.6
Morrisania/Belmont	37.2
Queens Village	34.6
Bedford Stuyvesant	34.2

Source: Furman Center for Real Estate and Urban Policy, 2007.

Finally, we see a similar pattern if we control for race (Table 2.5). Whites, who have a far higher average income than other groups in New York City, were much less likely to hold subprime mortgages than other groups, reaching 9.1% in 2006 compared with 13.6% of Asians, 28.6% of Hispanics and 40.7% of blacks. The table also shows the much lower growth rate in subprime lending from 2002 to 2006 of whites compared with other groups. It doubled from 4.6% to 9.1% for whites, but tripled for Asians and Hispanics, and quadrupled for blacks.

In brief, the case of New York City, a city with vast numbers of financial firms and resources, where finance is a subject of general debate in television news, shows that the aggressive tactics of financial actors fell disproportionately on poorer neighbourhoods. This should send an alarm bell ringing through developing economies that are now

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Table 2.5 *Rate of conventional subprime lending (%) by race in New York City, 2002–6*

	2002	2003	2004	2005	2006
White	4.6	6.2	7.2	11.2	9.1
Black	13.4	20.5	35.2	47.1	40.7
Hispanic	11.9	18.1	27.6	39.3	28.6
Asian	4.2	6.2	9.4	18.3	13.6

Source: Furman Center for Real Estate and Urban Policy, 2007.

seeing very sharp growth rates in mortgage lending, a trend I turn to next.

Central to this story is the difference between the value of housing loans as a ratio to GDP and the growth rate of such loans. Thus, the former is very low in countries with young housing markets, such as India and China, where it stands at 10%.[5] In contrast, in more mature markets in Asia, this value can be much higher – standing at 60% in Singapore, and 40% in Hong Kong and Taiwan – but the growth rate is much lower. Between 1999 and 2006, the average annual growth of housing loans in India and China was extremely high, certainly above the growth of other types of loans. Both countries have rapidly growing housing markets and are, therefore, at the beginning of a new phase of economic development. While most other Asian countries have not experienced comparable growth rates to India and China in the mortgage market, they have seen a doubling in such loans during this period. If we consider the particular financial innovations of concern in this chapter – moderate- and low-income households' mortgages and subprime mortgages – then we can see how attractive the Indian and Chinese residential mortgage markets become with their millions of low-income households.

The next two figures provide comparative data on the incidence of residential loans to total loans in several highly developed and so-called emerging market countries. These two figures also help situate the residential mortgage market in the rapidly growing and diversifying financial world of loans. Developed countries with multiple financial circuits, such as the United States and the UK, clearly show that compared to other types of loans, mortgages are a relatively small share of all loans,

[5] In China, the total value of mortgage finance is higher than suggested by residential mortgage-lending data alone because loans to developers are not well-recorded and could be rather large.

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even if most households have mortgages. It is important to note that the same low level of mortgage loans to total loans in economies marked by a small elite of superrich individuals has a different meaning from that in the United States and UK: hence, Russia's extremely low incidence of residential to total loans in the economy is an indication of a narrow mortgage market (mostly for the rich and very rich) and the fact that there are vast financial circuits centred on other resources.

While residential mortgage capital is growing, it needs to be situated in a larger financial landscape. Thus even though mortgage finance measured as a ratio to GDP is high in countries such as the United States and the UK, the total value of financial assets is far higher. The ratio of finance as a whole to US GDP is 450 per cent, as it is for the Netherlands. The other story, then, is the extent to which finance has found mechanisms for raising its revenue that have little direct connection to the material economy of countries. In this regard, the securitising of residential mortgages can be seen as a powerful instrument for the further financial deepening of economies. Finally, yet another way of understanding mortgage capital is its share in total loans. Figures 2.2 and 2.3 show this share for developed and emerging market economies. There is considerable variability within each group of countries. But the general fact is that there is much room for residential mortgage debt to grow in both. And some of this growth may well take the shape of subprime mortgages, with its attendant risks for modest-income households.

An important distinction is that between the ratio of residential mortgages to GDP shown in Figures 2.2 and 2.3, on the one hand, and the growth rate of residential mortgage finance on the other. Thus the former is very low in countries with young housing markets, such as India and China, where it stands at 10 per cent. In contrast, in more mature markets in Asia that value can be much higher, but the growth rate much lower. The average annual growth of housing loans between 1999 and 2006 in India and China was extremely high and above the growth of other types of loans; both countries have rapidly growing housing markets and they are at the merest beginning of a whole new phase in their economies. While most other Asian countries have not had the extremely high growth rates of India and China in the mortgage market, they nonetheless had a doubling in such loans from 1999 to 2006. In brief, understanding the weight of the residential mortgage market in the rapidly growing and diversifying world of lending, including household credit, gives us an indication of the growth potential of mortgage finance.

An important question raised by these developments is the extent to which developed and developing countries will follow this troublesome

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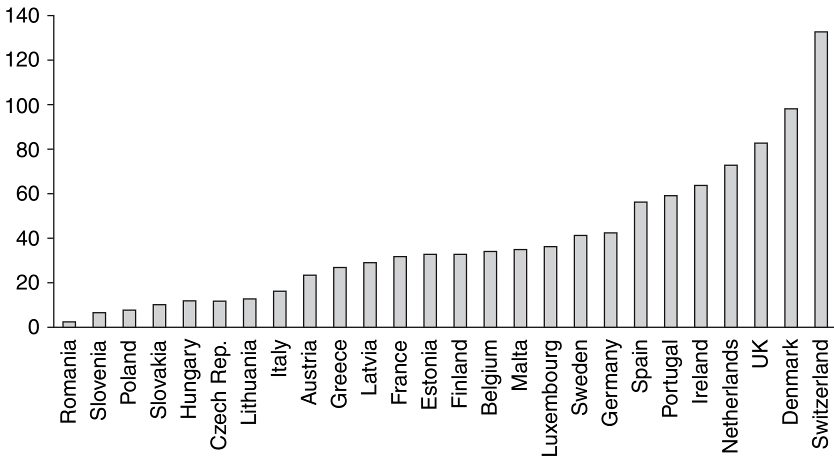

Figure 2.2 Ratio of residential mortgage debt to GDP, select countries, end 2006 (source: Miles and Pillonca 2007: 370)

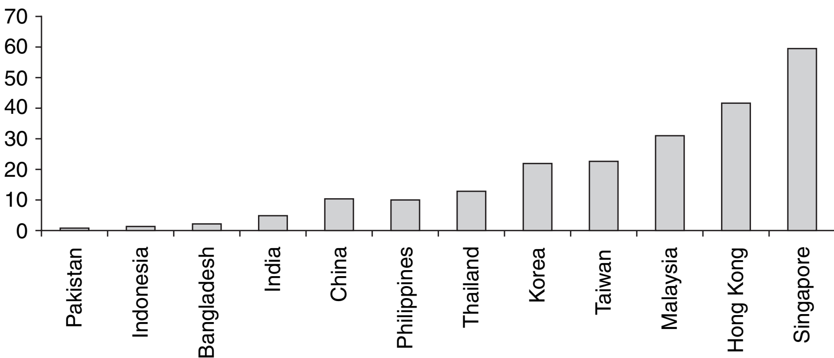

Figure 2.3 Ratio of residential mortgage debt to GDP: emerging Asia, 2007 (source: Warnock and Warnock 2008)

'development' path, which ultimately has become another way of extracting value from individuals, in this case through home mortgages that even very poor households are invited to buy, partly because once the sellers get the poor households to buy such a mortgage, they bundle them up and sell the package to an investor, thereby passing on the risk and removing an incentive to care whether the home-owner manages to hang on to the house. The data (e.g. Table 2.6) showing the growing share of loans those households are taking on as a share of disposable

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Table 2.6 *Ratio of household credit to personal disposable income (%), 2006*

	2000	2001	2002	2003	2004	2005
Emerging markets						
Czech Republic	8.5	10.1	12.9	16.4	21.3	27.1
Hungary	11.2	14.4	20.9	29.5	33.9	39.3
Poland	10.1	10.3	10.9	12.6	14.5	18.2
India	4.7	5.4	6.4	7.4	9.7	...
Korea	33.0	43.9	57.3	62.6	64.5	68.9
Philippines	1.7	4.6	5.5	5.5	5.6	...
Taiwan	75.1	72.7	76.0	83.0	95.5	...
Thailand	26.0	25.6	28.6	34.3	36.4	...
Mature markets						
Australia	83.3	86.7	95.6	109.0	119.0	124.5
France	57.8	57.5	58.2	59.8	64.2	69.2
Germany	70.4	70.1	69.1	70.3	70.5	70.0
Italy	25.0	25.8	27.0	28.7	31.8	34.8
Japan	73.6	75.7	77.6	77.3	77.9	77.8
Spain	65.2	70.4	76.9	86.4	98.8	112.7
United States	104.0	105.1	110.8	118.2	126.0	132.7

Source: IMF 2006.

household income is an alarming trend in this regard. Finally, when we compare the ratio of housing mortgage debt to GDP in different regions of the world we can infer the potential for growth in those countries where it is still a minor share.

Home mortgages are today a sort of new frontier for using financial high-risk innovations to extract profit. This is most acute in the United States, but other countries are following rapidly. Just to mark the situation empirically, in the vast financial sector of the United States, the ratio of residential mortgage finance to US GDP is 70 per cent; it is important to note that the total financial value at play in the United States is almost five times (450 per cent) the value of its GDP. The power of finance is its capability to invent instruments and to invent ways of subjecting more and more sectors of an economy to those instruments. The subprime and moderate-income home mortgages are an acute example of this. In this new game, modest-income home-owners are the peons and housing mortgages are the vehicle for a new investment instrument and a new way of extracting the savings of moderate- and low-income households, a vast target in a globalised financial world.

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Conclusion

The fall of the Soviet Union allowed proponents of free markets to proclaim that the market knows best. For these commentators, 1989 represented the 'ultimate triumph of Hayek over Keynes' (Introduction, this volume). But while the Adam Smith market – think of a village farmers' market – was a sorting and pricing mechanism that worked, today's markets dominated by large corporations and powerful financial firms are neither free nor do they approximate Smithian markets. We might say that, after 1989, state repression in the Soviet sphere has been replaced by corporate economic control with a concomitant capacity to eliminate competition. While focused on different modes of explanation, this chapter coincides with Tucker's (Chapter 7, this volume) examination of how the post-communist *nomenklatura* in Russia transferred its political rights to the economic sphere after 1989/1991. In each case – the Soviet Union and the post-Cold War neoliberal global economy – we can speak of the ascendance of single-rule systems. While such single-rule systems rarely achieve their full goals, they do succeed in reshaping vast stretches of the terrain they rule over.

Many of the critical components that are part of the post-1989 global economy were already present and under development in the early 1980s. As such, just as 1989 is the iconic representation of a political process that had been building for a long time, so the corporate globalising that took off in the late 1980s started many years earlier. Indeed, once we start looking, we can find numerous Trojan political and economic horses as in the case of structural adjustment programmes and forms of financial innovation. But 1989 did make a major difference, most notably in giving these innovations the run of the world via the legitimating aura of market triumphalism. The outcome was the formation of a new kind of global economy. This political economy contains three core dynamics. The first arises from the informalisation of particular types of low-profit activities in advanced economies. The second comes about, at least in part, from the interventions by the Global North in poor countries which extend back into those same Global North countries, but through alternative circuits (such as the trafficking of women), completing a loop that starts with decisions taken by the IMF and other international financial institutions. The third dynamic uses high-risk structured finance to develop new asset-backed securities based on mortgages (often forcefully) sold to modest-income households which are then bundled up and circulated in secondary financial

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circuits unconnected to the housing itself. These three dynamics have had the effect of generating mechanisms for primitive accumulation. Taken together, they indicate that one of the core features of the 'global 1989' has been the return of primitive accumulation on vast scale.

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