

# GLOBALISATION AND THE CRISIS

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*Current globalization has its predecessor in the global market of the 19<sup>th</sup> century. In that time, the main sign of globalization was de-socialization of the economy. That globalization ended during World War I as a result of applying the liberal ideology of de-socialization to an economy. An attempt to rebuild the global market after World War I led to the global economic crisis (1929-1932), which in Germany allowed Nazis to take over and finally led to World War II. In result of this development after the war, the idea of a welfare state arose in Western Europe. However, the problems brought about by realization of this idea led to further globalization and consequently to the rebuilding of the global market. It is clear that current globalization rebuilds also the process of de-socialization of the economy. It seems that this causes the repetition of radicalizations from left to right extremist movements. The current global economic crisis or the combination of energy and environmental crises could end the current globalization trend in the same way as it was brought to an end in the first half of the 20<sup>th</sup> century.*

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The global economic crisis of 2007-2008 focused the attention on examining economic, social and political systems of the global industrial civilization on national, regional as well as global levels. It first appeared in the financial and banking area, later affected the production sector and finally the social field. With the increase in unemployment the social crisis became a political crisis as well. The worldwide scale of this crisis is to an extent a consequence of the process of globalization, which has actually in the past three decades created a global civilization. The current crisis can be interpreted as a crisis of globalization, a process which began in the second half of the 18<sup>th</sup> century,

when the politics of the Great Powers demonstrated the signs of a global struggle for influence, power, resources and markets. Current globalization therefore had its predecessor in the 19<sup>th</sup> century. Then, as it is today, it was mainly about creating a global market for expansion of industry and business, which needed (as it does today) new raw materials and markets.

Globalization is motivated mainly by economy and justified by ideology. The economic crisis reaches to all areas of life of the society and all regions of the world. As P. Ricoeur emphasizes, “only the civilization as ours which in its hierarchy of values puts economy on the highest place, the economic form of crisis is promoted to an example of all the crises” (Ricoeur 1992, 33). However, it has fundamental consequences for the way such culture perceives its threats, or for what it considers a threat and what it overlooks as harmless or insignificant. Therefore, Ricoeur emphasizes that “the society ascribing the economic foundation of its existence the highest values experiences an economic disorder of the system not as partial but as total” (Ricoeur 1992, 34).

The rationalization of the economic view of the world has other consequences, connected mainly with the phenomenon of globalization. According to Ricoeur, “globalization of the market means globalization of the phenomenon of atomization and at the same time predominance of economy over other parts of the society in its whole” (Ricoeur 1992, 35). Ricoeur, however, does not regard Marx’s characteristics of the society according to the relationship between productive forces and production means, nor the Marxist ideology as the reason for preference of economic values and its justification in today’s world. In his view, the reason for this is the ideology of liberalism. He states that, “what had imposed the idea of economic phenomena ‘as separated from the society and composing in itself a different system to which everything needs to be subordinated’ on the west world, was... only... the idea of economic liberalism” (Ricoeur 1992, 35). This was brought forth in the 19<sup>th</sup> century as “ideology of de-socialization of the economy” (Ricoeur 1992, 35).

However, the first attempt to create a free market, not controlled by monarchs, their customs duties and monopolies, vanished in the chaos of the French Revolution and in limitations of trade that followed during the war conflicts. The formation of the global market of the 19<sup>th</sup> century was connected with the industrial revolution, the expansion of transport (steam engine and cheap coal) and the communication technology, the golden

standard which enabled the existence of international trade, as well as with the British colonial empire and its navy power, which helped to keep so called Pax Britannica in the world oceans. The market existed between the Napoleonic Wars and World War I with a short attempt for its renewal after World War I. It perished no later than 1929 when the global economic crisis broke out.

The course of the 19<sup>th</sup> century was marked by more or less regular repetition of economic crises (for an overview viz. e.g. Juglar 1966 and Röpke 1932), which, together with an exponential growth of population, created more and more complicated social and in its wake even political problems. One of the ways in which governments tried to solve these problems were protective duties and import quotas similar to those enforced by the German Chancellor Otto von Bismarck in 1879, couple of years after the unification of Germany. This was, according to W. Röpke, the beginning of the end of the global market and the market economy. An era of customs and business wars started and they led to real wars. It was followed by an avalanche of protective actions which contributed to the rise of economic patriotism, later even nationalism (viz. Röpke 1979, 58-59). A need for the new sources of raw materials and outlets for industrial production increased considerably. More and more people working in industry and therefore existentially dependent on an accessibility of the raw materials for industry and the possibility to sell its products on one hand, and an increasing productivity of manufacturing process on the other hand, forced governments to engage in favour of industry not only on a national, but also on an international level.

Several thinkers of the 20<sup>th</sup> century had reflected on similar globalization processes of the 19<sup>th</sup> century and their consequences. For example, A. Schweitzer during World War I or shortly afterwards wrote that “because of the modern social problems we are in a class conflict which is weakening and destroying our economic and state conditions. Those were, after all, machines and global market that led to the world war” (Schweitzer 1986, 106). During World War II a Dutch culturologist J. Huizinga stated that “the theory of economic freedom concealed in itself a germ of unrestrained exuberance of capitalism on the one hand and on the other inevitable imperialism of stronger states and nations. ... Teaching about free barter exchange and state restraints in the economic area helped national, even nationalistic configuration in Europe more than it would obstruct it”

(Huizinga 2002,175). At the same time an American sociologist of the Russian origin P. A. Sorokin stated that communism and fascism are both legacies of capitalism (Sorokin 1957, 78-79). A British historian and a philosopher of history A. Toynbee shortly after World War II notices that, “One of the considerations that drove the rulers of Nazi Germany and contemporary Japan into aggressive war was their inability to provide more than a minority of their young men with jobs that satisfied their expectations, or even with jobs of any kind” (Toynbee 1964, 131). In other words, the way in which the global market based itself on the principle of free trade at least contributed to the outbreak of World War I, when the price and customs wars became a reality. Another consequence of this was an installation of the communist dictatorship in Russia. An attempt to renew the global market after World War I ended in the global economic crisis which led to an unprecedented catastrophe de facto global in its dimension and far-reaching consequences not only for economic theory and practice but, if taken as foreplay to World War II, for society, culture and world politics as well. Concerning its social consequences, it helped Nazis to seize power in Germany. In the short term it made way for World War II and in the long run it enabled the Soviet influence to expand far beyond the then Russian Empire.

The reparations imposed on Germany by the Versailles Peace Treaty also considerably helped Nazis to seize power. The struggle to pay off its international debt led Germany after World War I to restrictive politics, which in its results contributed not only to de-socialization of the German economy, but also to an increase of social polarization in society. These processes were finished and multiplied by the global economic crisis. However, as Ricoeur notices, “in 1929 the disequilibrium didn’t break out in the manufacturing sector nor in the circulation of products but in the sector of capital circulation. The stock market crisis (the Wall Street Crash in 1929) followed by the banking crisis (withdrawal of deposits) caused the crisis of commerce and industry” (Ricoeur 1992, 34). The result was a social and political crisis which many democracies, so not only Germany, were not able to handle. De-socialization of the economy therefore led to the failure of the modern society, its degeneration to communist and fascist dictatorships coupled with extreme eruptions of violence and total conflicts. The flip side of de-socialization of the economy and spread over all other subsystems of a society represents social tensions which gradually accumulate. In times of growth and relative prosperity this is generally overlooked or downplayed.

However, during a crisis it can lead to a loss of legitimacy of a system and its elites or to intersocial conflicts which are destructive not only for economic, social or political systems, but also for the society itself.

The goal of political elites was to prevent the recurrence of a similar development after World War II. “Instead of an idea of inevitability, even necessity of cyclical development, a new paradigm of a stable way of growth was introduced after the thirties” (Borchardt 1992, 100). In consequence of the global economic crisis, not only the global market was destroyed, but also the politics of economic liberalism was abandoned. As a result, countries on both sides of the iron curtain made attempts for re-socialization of the economy. These were represented by efforts to build a social state or a welfare state which undoubtedly is “a product of the global economic crisis and World War II” (Keller 2005, 10).

According to J. Habermas, the economic and social politics of the Western European countries in the first three decades after World War II can be regarded as a reaction to the phenomenon of the economic crisis. “The structures of advanced capitalism can be understood as reaction formations to endemic crisis. To ward off system crisis, advanced capitalist societies focus all forces of social integration at the point of structurally most probable conflict – in order all the more effectively to keep it latent” (Habermas 1976, 37-38). One of the consequences of this was “permanent crisis in government finances, together with public poverty (that is, impoverishment of public transportation, education, housing and health care” (Habermas 1976, 38). These phenomena have appeared in countries of the former Eastern Bloc after 1990 and the crisis of 2008 has only deepened them. Habermas emphasizes that, “In decades since World War II the most advanced capitalist countries have succeeded (the May 1968 events in Paris notwithstanding) in keeping class conflict latent in its decisive areas; in extending the business cycle and transforming periodic phases of capital devaluation into permanent inflationary crisis with milder business fluctuations” (Habermas 1976, 38). The state then took on itself a role of the participant, the regulator of the market and at the same time the compensator of its negative social, cultural and later also ecological consequences. Thus, it prevented acute crises to break out. However, the price for this is a systematic overload of public finance in the form of a long-term deficit. Moreover, in the 1970s the Western countries were also affected by acute crises caused by the stop of oil supplies. “If governmental crisis management fails, it lags behind programmatic

demands *that it has placed on itself*. The penalty for this failure is withdrawal of legitimation. Thus, the scope for action contracts precisely at those moments in which it needs to drastically expand” (Habermas 1976, 69). Trustworthiness of the institution of the state as a protector against crises as well as the legitimacy of the political elites had considerably suffered. As J. Habermas states, one of the features and conditions of the postwar class compromise was “civic privatism – that is, political abstinence combined with an orientation to career, leisure, and consumption – promotes the expectation of suitable rewards within the system (money, leisure time, and security)” (Habermas 1976, 37). By the end of the 1970s, it was beginning to be clear that the state, again as in the pre-war period, is not able to give all a chance for a career and employment, and is certainly not able to provide steady growth in consumption. All this happened despite the steady increase of the tax burden and broadening areas over which the state is trying to gain bureaucratic or legislative control.

During the Cold War the free movement of goods and capital was limited to such an extent it was really impossible to talk about the global market. Beside the so-called Eastern Bloc, which set itself aside voluntarily and partly due to the sanctions imposed by the Western world, free movement of capital, goods and services was limited by many legal and customs regulations of individual countries of the so-called Western Bloc. But the global market emerged again in the last two decades of the 20<sup>th</sup> century. Its emergence contributed not only to a systematic pressure to liberalize the international trade and free movement of capital from the World Trade Organization, the World Bank and the International Monetary Fund and multinational organizations, but also to cheap oil allowing bulk worldwide shipping of goods and people. And with the global market the ideology of economic liberalism and also economic crises returned (e.g. Mexican crisis of 1994-1995; Asian crisis of 1997-1998; Turkish crisis of 2001; Argentinian crisis of 2002, to the global crisis of 2008). At the end of the 1990s G. Soros in this regard said that we are in the process of reliving the experience of the 19<sup>th</sup> century “interrupted by a devastating panic after which an economic crisis emerged” (Soros 1999, 126). However, according to Soros, the global market of the 19<sup>th</sup> century was more stable than the current one because it had a single currency in the form of gold (gold standard) and “people were more firmly rooted in the basic values than they are today” (Soros 1999, 133). Despite these words he yielded to the powers he himself helped to unleash.

J. Přibáň states that after 1989 “neoliberal economists took control over the politics almost as in a Marxist idyll, in which the economic base determines the political superstructure” (Přibáň 2012, 40). The recipe of economic neoliberalism for overcoming the combination of high unemployment, inflation and economic stagnation is deregulation, liberalization and privatization, in other words regulation of tasks and powers, and therefore possibilities of the state. These are considered to be the barriers to an economic growth. Promoted methods allowing another growth of economy are therefore actions that lead to reductions of social and health-care standards. Expenditures on environmental protection and removal of already existing undesirable consequences of the cycle of production and consumption are reduced as well. A further growth in consumption is massively supported. So again, we can see de-socialization of the economy spreading over all other subsystems of the society. “The last 30 years created an extraordinary strong asymmetry in the society between the economic and the political system, which consists in a primitive economic idea that deregulation increases the degree of political freedom. Economic neoliberalism was paradoxically the last phase of Marxism, naively considering all the social problems as economic problems and therefore requiring an exclusive economic solution” (Přibáň 2012, 44).

However, as P. Staněk points out, one of the main reasons for today’s economic crisis is a polarization of income, which is accelerating since the 1970s. The income of the majority of the population stagnates or even decreases, while the income of the richest increases in multiples. Apart from the growth of a social tension this led to a global decrease of consumption, which could be saturated only by a credit expansion (Staněk 2012, 61-62). However, indebtedness also has its limits. The first stage of the current economic crisis broke out in 2008 as a mortgage crisis when it became clear that too many credits provided to low-income groups in the USA was a wrong step. Efforts of governments to save the financial system and support the consumption led to a sharp increase of public debts. In retrospect, it is clear that the problem of indebtedness is worldwide and it affects all areas of economy. Moreover, the combination of austerity measures and massive income polarization translates into different protest movements, social tensions, an increase of political extremism and political crises.

It shows then that de-socialization of the economy is a part of, if not directly a condition of current globalization. Once again, we can talk about

competitive struggle, trade, currency and customs wars. Current states or their political-economic groupings are intensifying their efforts to gain new outlets and resources of still decreasing stocks of raw materials. Stock market speculations with prices of important commodities and equities and attacks of investors on national currencies leave damages comparable with a direct military attack. Often they are excused as a necessary price for the benefit of the economic growth brought by the freedom of establishment or they are described as something similar to natural elements whose spree we have to endure. At the same time we can observe a repeated growth in economic patriotism and nationalism as well as a certain form of a defense reaction to “globalization pressure”. And this is not limited to Europe or Japan, but we can see it in a greater extent also in India, China, South Korea, Vietnam, Indonesia and other countries with a high economic growth in the last couple of years. These countries increase spending on defense, similarly to the situation in Europe in the beginning of the 20<sup>th</sup> century.

The similarity with the development in Europe in the first half of the 20<sup>th</sup> century can be also seen in radicalization of extreme rightist and leftist movements in all European countries. Just as then, these two extremes commonly reject the principles of economic liberalism and the global market. Just as in interwar Germany, we can now observe as the pressure of creditors to unconditional debt repayment to be done as quickly as possible leads in Greece as well as in other countries not only to deepening of the economic crisis itself, but also – in the consequence of a social disruption caused by it – to radicalization of political scene on one hand and de facto suspension of already mainly formal democratic principles and institutions on the other. Increasing number of protesters clashes with the police in the streets of European cities and outbreaks of violence of frustrated unemployed resemble the situation from the 1930s. Reflections on the crisis of democracy and its failure to respond accordingly to an increasing tension between ideas of a significant number of citizens and economic elites about the level of social and health security and the extent of free rein of market forces are only one of the many similarities of the current and the pre-war development.

The current global market is in many aspects different from the previous and the economic theory has changed a lot, too. Environmental and customs arrangements are by far not as extensive as in the interwar era and it is possible they will decrease even more. The doubt remains: Can free movement of goods and capital enrich and stabilize the society or will it



impoverish and destabilize it? Majority of people unlike goods and capital doesn't want to and, in the increasingly overpopulated world, cannot move. Therefore, it can easily happen that they will find themselves in a familiar place, but a place also dangerous or at least uninviting for life. From this insecurity a fear is born, from it anger and that is a space for all kinds of extremism.

M. Hauser denotes on the current crisis: "In the history of capitalism this is the fourth big crisis: the first was in the 1870s, the second one was the crisis of 1929, the third one the crisis in the 1970s. The news about the crisis of 2008 is that the ruling economic doctrine cannot create a program that would give us hope to overcome it. ... We find ourselves in a situation when the crisis replicates. It is an economic crisis and also a crisis of economic theories" (Hauser 2012, 91). Hauser also notices that mass demonstrations, strikes and protest movements cannot convince political and economic elites of the need to change their attitude. "We are not only in the economic crisis and the crisis of economic theory, but also in the crisis of resistance. We can say that the crisis is not double but triple" (Hauser 2012, 92). However, this can potentially have catastrophic consequences for the society because demonstrations, strikes and protest movements happen in the context of an existing constitutional system. Their continuing failure can lead to a conviction that only procedures ignoring or purposefully violating constitutional principles can be effective.

But the crisis has at least quadrupled. When in the 1970s, in the name of accelerating the economic growth, a gradual process of repeated de-socialization of the economy began, ideas that questioned the imperative of the growth for still other reasons appeared. The Club of Rome reports (Meadows et al. 1972; Meadows et al. 1993) drew our attention to limits of an economic growth in a finite world. For the growth of our industrial civilization we need new resources of raw materials, and soil and water are not inexhaustible. Their shortage will not only mean jeopardizing the growth, but also an inability to at least keep the existing level of civilization including political and social institutions. This means that even fast application of the zero growth principle would become insufficient. Moreover, the growth of production and consumption is necessary at least because of the growth of the population. However, it's not only the population that grows, but also consumerist demands of individuals. Technocratic reasoning of the need of zero growth brought by the report of the Club of Rome (Meadows et al. 1972)

proved to be insufficient. To meet the requirements of the growth in living standards, so ultimately of the growth of consumption of individuals, became one of the main criteria of legitimacy of political systems and also individual governments in the second half of the 20<sup>th</sup> century. In its name, citizens of many countries were willing to accept cuts in existing levels of social, somewhere even civil rights. However, the economic growth is not possible without the growth of environmental pollution and without other negative impacts on the ecological and climate system of the planet. An economic growth as well as the sustainable world is subject to maintaining the planetary ecological and climate system at least on its contemporary level.

A far greater threat than a reprise of the development following the failure of the previous globalization is a chance that the planet's ecosystem would collapse or at least fundamentally change. As a matter of fact, the globalized market has a considerable influence not only on economic, social, political and cultural systems of all levels, but also on ecosystems – local, regional and the global. Most of the processes – social and ecological – suggest a prevalence of negative influences. Not only an economic crisis, but also energy (oil), food or ecological crises, and most likely their combination, could appear among the unwanted results of globalization. Ensuing social and political crises can be more menacing than those following the global economic crisis in the 1930s. However, since then, the overall risk of crisis has increased all the more the immense growth of the world population is accompanied by an equally multiple increase in consumption of raw materials and energy.

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