The Global Crisis and African Alternatives

Inspirations from Venezuela

Prepared by Herbert Jauch, Labour Resource and Research Institute (LaRRI) for a seminar of the Rosa Luxemburg Foundation, Johannesburg, 19-21 November 2009

The current global crisis seems to mark the end of the reign of the neo-liberal economic dogma that has dominated mainstream economic policy over the past 30 years. Milton Friedman and his followers from the Chicago School of Economics ignited an unprecedented reign of neo-liberalism that was aptly summarised as “disaster capitalism” by Naomi Klein in her recent book “The Shock Doctrine”. This book documents in detail how neo-liberalism left a trail of human devastation across the world, accompanied by record profits for the ruling corporations, aided by Western governments, particularly the US administration (Klein 2007).

The current crisis thus has to be placed within the context of a history of neo-liberal globalisation and the debate about alternatives cannot be limited to the question of how the current financial and economic system can be rescued. Alternatives cannot be found by merely tinkering on the fringes without addressing the structures that generate and uphold huge levels of global inequality, both between and within countries. Any credible alternative will have to address the systemic questions and move beyond the confines of rescue packages for banks and policies of “adjustment with a human face”. Kategekwa (2008) pointed out that “The injection of large sums to recreate liquidity is a short term solution. It does not redress the systemic issues that led to the world’s largest crisis after the great depression.”

The current global economic crisis may well mark the end of neo-liberalism and the “Washington Consensus”. Looking back at economic history since the Second World War, Wade (2008) described neo-liberalism as a system of international economic norms and rules that lasted from about 1975 until 2007-08. He warned that the debate in the wake of the financial crisis may result in some radical proposals but that over time there might be (once again) a return to “business as usual”. There are, however, indications that we may have entered a new phase beyond neo-liberalism and that greater state intervention in and regulation of the economy may become more acceptable in the years to come. It remains to be seen, however, if such intervention is geared towards redistribution and structural change or merely as a measure to safeguard corporate interests.

This paper briefly outlines some features of the current global crisis and then explores if some of the developments in Venezuela during the past decade may be relevant for current African struggles to develop alternatives.
The ongoing crisis of globalisation

Many governments, global financial institutions like the World Bank and the IMF, as well as the powerful Transnational Corporations (TNCs) have continuously claimed that globalisation will ultimately improve the livelihoods of people all over the world. They argued for years that opening up trade and markets would lead to prosperity everywhere. During the Doha round of trade negotiations in 2001, for example, the World Bank presented a study which suggested that further global trade liberalisation would lift another 300 million people out of poverty by 2015 (Tandon 2008). These assumptions and false promises were sharply contradicted by the experiences of the majority of the people in the “Third World”, especially in Africa. Africa’s rural and urban working people, especially women have borne the brunt of the failed policies that are part of the globalisation process during the last three decades.

Far from ushering in an era of rising standards of living, globalisation has dramatically widened the levels of inequality. Even mainstream media like the Financial Mail admitted that:

“At the start of the 19th century the ratio of real incomes between the world’s richest and poorest countries was three to one. By 1990 it was 10 to one. By 2000 it had risen to 60 to one” (quoted in Seabrook 2000).

Today, this ratio is estimated to be around 80 to 1 with Africa being worst hit by increasing poverty. Michael Chossudovsky (2003) pointed out that:

“The New World Order feeds on human poverty and the destruction of the natural environment. It generates social apartheid, encourages racism and ethnic strife, undermines the rights of women and often precipitates countries into destructive confrontations between nationalities.”

Unemployment now affects nearly a third of the global workforce and the abundant supply of cheap labour in the “Third World” and Eastern Europe contributes to depressing wages even in industrialised countries. Real wages in the low-wage countries are as much as 70 times lower than those paid in the US, Western Europe and Japan. Global corporations use this scenario to minimise labour costs and to achieve high levels of “corporate efficiency” through plant closures, mergers and acquisitions, market control and downsizing. The underlying rule is “survival of the fittest” as the enterprises with the most advanced technologies or those with command over the lowest wages will survive in a world economy marked by over-production (Chossudovsky 2003).

At the macro-economic level, such measures have the opposite effect: they lead to mass unemployment and poverty, bankruptcy of local SMEs and unutilised industrial capacity. Thus, despite the rapid technological advances, there is a stagnation in the production and supply of essential goods and services, simply because the impoverished majority of the world’s population cannot buy the production output. The ultimate contradiction of the global capitalist system is that “the very process of expanding output (through downsizing, lay-offs and low wages) contributes to compressing society’s capacity to consume” (Ibid).
Despite the global economic stagnation, the world’s largest corporations have experienced unprecedented growth and expansion of their share in the global market at the expense of local, regional and national producers. The “free market” reforms as promoted by the International Monetary Fund (IMF), the World Bank and the World Trade Organisation (WTO) opened up new markets and production sites for TNCs and ensured profitability through low wages and deregulated labour markets. Likewise, the G7 macro-economic policies paved the way for corporate mergers and acquisitions as well as the accompanying large-scale bankruptcy of small and medium-sized enterprises. Countries who refused to “open-up” their economies were confronted with a combined onslaught from the IMF-World Bank-WTO who use the lever of loan conditionalities and aid (sometimes even military threats in co-operation with NATO) to deal with “trouble-spots” (Ibid).

The “New World Order” thus created a vicious cycle: The relocation of industries to cheap-labour location leads to economic dislocation and rising unemployment in industrialised countries. As a result, spending power there and markets for developing countries decline which leads to intensified competition and reduced production as well as economic stagnation in the “Third World”.

In recent years, the global economic system produced a kind of “rentier economy” in the industrialised countries. This economy does no longer produce actual goods but is centred in the services sector. It is a “high-technology economy based on the ownership of industrial know-how, product design, research and development” (Chossudovsky 2003). This economy dominates over the “material production” and accounts for the bulk of the income from value addition. Royalties and licensing fees for the use of technology, brand names, product designs and value addition by distributors, wholesalers and retailers account for much more than what the actual producers receive.

Material production takes place in a low-wage country but the largest amounts for value addition are recorded in the importing industrialised country. The following examples illustrate this point:

- The retail price for coffee is 7-10 times higher than the import price and about 20 times the price paid to the coffee farmer.
- Designer shirts produced in South East Asia are sold in Europe for 5-10 times their import price.
- Less than 2% of the total value of shirts produced in Bangladesh are received by the direct producers as wages. The profit by local companies is equivalent to about 1% of total value.
- About 70% of the total value in the clothing sector consists of firstly profits of distributors, wholesalers and retailers; secondly costs for transport and storage etc; and thirdly customs duties and indirect taxes imposed by the importing (industrialised) country (ibid).

Furthermore, when accumulated capital can no longer find sufficient profitable outlets in productive investment, it is turned into speculative investment. Such “liquefied” capital is invested in stock markets and can be withdrawn in seconds. To engage in such speculative investment, TNCs need de-regulated financial
markets and an end to foreign exchange controls (Holloway 1995). However, 
speculative investments make national economies extremely vulnerable as 
shown by the events in Mexico at the end of 1994, the Asian crisis in 1998. 
Speculative short-term investment ("hot money") was withdrawn in huge 
amounts within hours and the stock market collapsed. In the mid-1990s, the 
International Confederation of Free Trade Unions (ICFTU) described the 
deregulated financial world as a “massive global casino”. It pointed out that as 
obstacles to capital flows were reduced, world-wide communication systems 
were installed and national states’ power to intervene was limited, financial 
markets were allowed to become their own masters (ICFTU1996). A decade 
later, the newly formed International Trade Union Confederation (ITUC) 
sounded an even sharper warning:

“The debt leverage presently undertaken by private equity and hedge 
funds represents a great risk to the stability of financial markets. Many 
funds are so heavily loaded with debt that they risk defaulting if market 
conditions change. Due to their increasing size, this may start a domino 
effect with detrimental consequences for the major financial markets… 
Risks and rewards are extremely unevenly divided in the private equity 
model. Workers bear the brunt of risks, costs and sacrifices while 
managers of private equity firms pocket the gains. This constitutes a 
basic injustice – the cruellest kind of capitalism – and needs to be 
subjected to rules and regulations so that the risks and the benefits are 
shared” (ITUC 2007).

Effects of globalisation in Africa

Amongst the most obvious legacies of globalisation in Africa are the Structural 
Adjustment Programmes (SAPs) of the World Bank and the International 
Monetary Fund (IMF). The effects of these policies are visible in virtually all 
African countries, although the manifestations are different. According to their 
proponents, SAPs were meant to lead to economic growth and improve a 
country’s competitiveness through increased investments. In reality, however, 
SAPs were built on the fundamental condition that debtor countries had to repay 
their debt in hard currency. This lead to a policy of “exports at all costs” 
because exports are the only way for developing countries to obtain such 
currencies. A first feature of SAPs was therefore a switch in production from 
meeting local needs towards export orientation. Since the 1980s dozens of 
countries have followed these policies simultaneously. They often exported the 
same primary commodities, competed with each other and then suffered 
because of declining world market prizes for their commodities. Between 1980 
and 1992, for example, developing countries lost 52% of their export income 
due to deteriorating prizes (see Touissant and Comanne 1995; George 1995; 
Bournay 1995).

Even before the current global economic crisis, virtually all African economies 
were already in deep crisis. Southern Africa was (and still is) characterised by 
huge levels of inequality, mass unemployment and the growing informalisation 
of work. Namibia, Botswana, Angola and South Africa are amongst the 
countries with the highest levels of inequality as measured by the Gini- 
coefficient (UNDP 2009)
Yash Tandon (2008) exclaimed that “the neoliberal ideology and the Washington Consensus are in tatters. Globalisation, once touted as an inevitable phenomenon, like gravity in physics, is exposed to what in reality it always was – a project of the North to globalise its corporate power.” This points to a historic opportunity to define a radical alternative that will usher in structural changes and meet the needs of the world’s majority in the “Global South”.

The search for alternatives

There is a growing consensus among labour, community and environmental activists that the search for theoretical and practical alternatives to neo-liberal globalisation is essential. The ongoing protests at meetings of the IMF, World Bank and World Trade Organisation (WTO) are indications of growing resistance.

Over the years, several proposed responses to globalisation were tabled by activists and movements in various countries. These centred around attempts to create mechanism to control the sweeping powers of the global corporations which control the world’s resources. Such initiatives *inter alia* included proposals for a Tobin Tax on speculative investments as well as attempts to safeguard workers’ and environmental rights. One of the most comprehensive alternative proposals in Southern Africa were those contained in the “Alternatives to Neo-Liberalism in Southern Africa” (ANSA). ANSA (2007) calls for the building of a mass movement from below to effect the transformational changes needed in Southern Africa. The initiative further proposes a human rights approach to development; an alternative production system based on human needs and the use of local resources; a strategic and selective de-linking from globalisation followed by negotiations for a re-linking to a fundamentally different global production and distribution system; a grassroots-led regional integration; a politically-governed redistribution of wealth and opportunities; and the creation of a dynamic, participatory and radical democracy.

Samir Amin has pointed out that the solution to Africa’s development problems cannot lie in a further “integration” into the global economy. In fact, he argued that it is this “integration” under highly exploitative conditions that is responsible to a significant extent for today’s misery. Those countries that are industrialised today were initially built as auto-centred (inward-looking) economies and then integrated into the global economic system in ways that are qualitatively different from those of Africa’s integration. Amin (2002), like ANSA, therefore called for the building of auto-centred African economies and the selective participation in the global economy. Such participation has to be fundamentally different from the current one that relegates Africa to the role of supplier of natural resources and cheap labour.

Similarly, Yash Tandon (2008) pointed out that “Regional integration of countries in the South (and not Free Trade Agreements between the North and the South) should be the basis for development cooperation. The primary institutions for protection against future shocks and for credit for development should be
regional". He called for an end to the widespread practice of making development hostage to finance:

“The cart is before the horse. A correct realignment of the horse and the cart would be a good start to ensuring that finances serve development and not, as is presently, the other way round.”

These debates are critical for the conceptualisation of alternative development paradigms. They require further elaboration beyond the constraints of this paper. The following section will outline some of the developments in Venezuela during the past decade as they may hold practical lessons for Africa.

**Inspirations from Venezuela**

Venezuela provides one of the most inspiring examples of redistribution and participatory democracy in recent years. The changes that occurred since President Hugo Chavez’s “Bolivarian” party (recently reconstituted as the United Socialist Party of Venezuela) won the country’s national elections at the end of 1998 bears testimony to the possibilities that exist even when confronted with a hostile global environment. Chavez’ party promised to change the political, economic and social landscape through a programme of redistribution and social justice. Until that time, Venezuela had followed the typical free-market policies as promoted by the US administration, the International Monetary Fund and the World Bank. As a result, Venezuela was characterised by severe apartheid-style social divisions between the affluent elite on the one hand and the working class on the other. One of the first steps taken by the Chavez government was to embark on a series of radical reforms regarding social service provision, for example, access to housing, education and health care (Jauch 2008).

The resources needed for these social programmes were derived from the country’s sought-after national resource, oil. The national oil company, several large manufacturing companies and much of Venezuela’s farmland already belonged to the state by the time the Chavez government was elected. What changed was how these resources were utilised to benefit the poor. The royalty fees payable by private oil companies were increased from 1% to 16% and an extraction tax was introduced, earning the country around US$ 10 billion between 2004 and 2007 (Chavez 2008). These resources were used for extensive, health, housing and education programmes, locally known as “missions”. Quality health care and education are now free across the country, supported by Cuban medical staff.

Venezuela’s achievements are reflected in impressive statistics showing, for example, how access to university education was broadened for students from poor families, how health services were made accessible, how government tries to redress regional imbalances within the country etc. Since 1999, access to potable water increased from 70% to 95% of the population; minimum wages were raised to the highest level in Latin America (about US$ 286 per month) and poverty levels dropped significantly. Venezuela’s GDP grew on average by 11.8% during the last 4 years and unemployment was reduced to its lowest level in decades – 6.3%. According to the UNDP,
Venezuela’s Human Development Index increased from 0.69 in 1998 to 0.88 in 2007 while the rate of poverty fell from 50.4% to 33% during that period. Even more dramatic were the achievements between 2003 and 2008: the percentage of households in poverty declined from 54% to 26% and the number of households affected by extreme poverty fell from 25% to 7%. The Gini index dropped from 46.96 to 40.99 during that period (see Weisbrot, Ray and Sandoval 2009; Chavez 2008). These are just some of the figures that show how Venezuela managed to significantly improve standards of living of the poor within the last 10 years.

**New economic policies**

The initially moderate economic programme of the Chavez government started changing in 2005 due to pressure “from below”. Former workers at a paper mill that had been declared bankrupt and closed by its owners decided to occupy the mill and re-opened it with the support of the local community. Venezuela’s parliamentarians then passed a law allowing for the expropriation of the mill and to let it operate under democratic workers management. Since then, workers started seizing other companies that had closed down. A worker and community-led movement for the “recovery” of companies was born and today over 800 companies are run by workers themselves, producing for local needs. In addition, some private companies in strategic economic sectors like oil and cement production were nationalised (Jauch and Shindondola 2008).

**The “Consejos Comunales” (community councils)**

Community councils were formally established from 2006 onwards, following the passing of a law that provided the legal basis. However, Venezuela’s decentralisation process already started years before that with the explicit aim of direct, grassroots empowerment. Various initiatives were taken such as the “Bolivarian Circles” before the communal councils were established. These councils are neighbourhood organisations comprising of 200 – 400 families in urban areas and at least 20 families in rural areas (Lopez Maya 2007; Albert 2008; McIlroy 2008).

All council decisions are taken in “citizens’ assemblies” attended by residents who are 15 years and older. These assemblies elect their council executive committee, financial management and monitoring committees as well as thematic committees dealing with particular local priorities such as health, education, land, recreation etc. Before a communal council is formed, the assembly has to elect a preparatory committee, which carries out a “census” of the community, including a profile and challenges faced by the particular community. The preparatory committee also has to organise an electoral commission to supervise the council elections. The elected spokespersons serve for 2 years but can be recalled at any time by the citizens’ assembly. This helps the community to hold their spokespersons accountable (Lopez Maya 2007).

The communal councils have constitutional status and are meant to effect direct democracy and decision-making power at grassroots level. They are a practical learning experiment for the poor who have responded
enthusiastically despite having had virtually no experience with participatory democracy before. During 2006 alone, about 16 000 communal councils were formed and this number has increased to about 30 000 today, covering about 70% of Venezuela’s population (Ibid).

**Communal banks**

Communal councils can receive funds directly from the national, state or city governments or through fundraising and donations. This is facilitated through communal banks, which the councils set up as co-operatives. Such communal banks can be established by a single council or in collaboration with other councils. For the past few years, the national government channelled annually between US$ 800 million and US$ 1,5 billion to the thousands of communal banks that the councils established. In turn, the communal banks provided grants for community projects and have already funded thousands of projects such as street pavings, housing for shack dwellers (who exchange a shack for a flat in a newly build block), medical centres, housing or sewage schemes etc (Pearson 2008, Jauch 2009).

Community councils and community banks as a direct expression of grassroots democracy seem to frequently clash with the formal political structures like city councils, mayors and governors. Although they co-operate with each other on several infrastructural projects, there is a tension regarding power and status. Funding for the community councils comes at the expense of city budgets and Chavez’ vision is to develop the community councils as the most important motor of the Bolivarian revolution. They facilitate a process of people regaining control over their lives and are an alternative rather than an appendix to the old local government institutions. Thus the communal councils and communal banks are the seeds for Venezuela’s “Socialism of the 21st century” that envisages the community structures to become the most powerful form of organisation in the years to come. They are meant to become the primary locus of government power and are part of a movement to replace the old government structures (Albert 2008).

The community councils and banks have massively increased grassroots participation. Incentives for participation include the prospects for neighbourhood improvements but also organising council meetings as fun events, mixed with food, music and entertainment. Transport costs and time required for participation are minimal due to the small size of the councils. Furthermore, the Venezuelan government has proposed to regard community activities as part of the working day, thus enabling the community to maintain high levels of participation.

**A new regional block**

Venezuela has recognised the importance of international linkages as reflected in Venezuela’s contributions towards preventing the US-sponsored Free Trade Area for the Americas (FTAA). Instead Venezuela and its allies in Latin America are now establishing the Bank of the South as well as the “Bolivarian Alternative for the Americas” (ALBA). ALBA is an attempt to implement “fair trade” (as opposed to “free trade”) where each country provides what it is best placed to produce and receives what it needs most -
independent of global market prices. Thus Bolivia provides gas at discounted prices to its neighbours; Venezuela offers subsidised oil to poorer countries and shares its expertise in developing oil reserves; Cuba sends health-care professionals and trains students from other countries at its medical schools (Klein 2007).

In order to balance the asymmetries between the various countries joining ALBA, Venezuela proposes compensatory funds or “Structural Convergence Funds”. ALBA proposes that the participating countries identify criteria and measures to be taken to deal with imbalances between countries and sectors. Once this is done, resources are to be allocated to redress imbalances. Unlike the free trade agreements, ALBA proposes that the elimination of poverty and marginalisation takes centre stage, including human, labour and gender rights (Cositore 2006).

Challenges
There are concerns that Venezuela’s “Bolivarian revolution” hinges too strongly on the personality of Chavez and that the community councils are too strongly dependent on funding from the presidency. Critics within Chavez’ own United Socialist Party pointed out that an emerging layer of bureaucrats lacks the commitment to the ideals of the revolution and may pervert positions of power for personal gain. Building and maintaining participatory democratic structures of mass participation at various levels (such as community councils and banks; worker-run factories; community health centres etc.) are the best defence for the achievements made. These community structures are thus one of the most important pillars of Venezuela’s transition to socialism.

Unlike the liberation movements in Southern Africa, which often demobilised popular movements (including trade unions) after coming to power, Chavez seems to encourage and support participatory democracy from below, although there is an inherent danger of centralising power in the presidency. Critics charge that Communal Councils are effectively depending on the presidency and that there is a danger of emerging clientelistic relationships (Lopez Maya 2007). Furthermore, Chavez himself admitted that the old bourgeois state is still alive and kicking and that his government faces a major challenge “to convert the old counterrevolutionary state into a revolutionary state”(Hugo Chavez, 8 January 2007, quoted in Robinson 2007: 150).

This challenge plays itself out in a paradoxical and highly polarised ways: as a conscientised and politicised popular movement emerges from below, it is confronted by state institutions that want to constrain, dilute and co-opt mass struggles in order to maintain the old order. Thus there is an ongoing struggle to convert the community councils into autonomous organs of community power that exercise power from below over state and party institutions. This was captured by the slogan of local activists in the barrios (townships): “We don’t want to be the government but we want to govern from below” (Robinson 2007: 151).
Conclusion

It is hard not to draw inspirations and lessons from what Patrick Bond (2009:24) called “semi-liberated sites” in Latin America, namely Cuba, Venezuela and Bolivia. When comparing the social progress made by Venezuela during the past decade with our region’s virtual stagnation, it seems obvious that policies to effect structural change and redistribution hold significant promises. The following aspects seem to be particularly crucial:

Quality public services
The provision of free quality public services for all as part of basic human rights is certainly a key intervention needed in Southern Africa. The coverage and quality of public services in the region is highly uneven and thus re-enforces and deepens exiting inequalities. Concepts like Private-Public Partnerships and cost recovery for social services have contributed to the exclusion of large sections of the population from public services and even in those cases where public services have covered the majority, the quality of services rendered tends to be highly uneven. A case in point are the educational outcomes in Namibia, which reproduce racial, regional and class inequalities despite government’s commitment to education for all and substantial budgetary allocations of 20-25% of the national budget.

The provision of free quality public services for all should thus be rights-based and broad enough to ensure that basic needs like healthcare, education, and housing are guaranteed through public services and not dependent on private, profit-driven suppliers.

Control over natural resources
Keeping natural resources under public ownership and control to provide social services for all instead of leaving such resources at the disposal of transnational corporations (TNCs) is one immediate area of intervention for Southern Africa. Key resources like oil, minerals, fish and diamonds thus far have only benefited a small local elite and the TNCs that retained control over them before and after independence. A particularly absurd case was Angola where during the civil war Angola’s MPLA government struck oil deals with American oil companies and then had to use Cuban soldiers to assist guarding the oil fields against the UNITA rebels that were sponsored by the USA (Carvalho, Chianeque and Delgado, forthcoming).

Unlike Angola and Nigeria, Venezuela uses its oil revenue to fund its expanded social programmes, including the community councils and community banks. Thus the benefits from natural resources are not limited to the local elite but spread much further. A precondition for such using resources for public instead of private benefit is what ANSA calls an “ethical and developmental state” (ANSA 2007:8)

None but ourselves
The establishment of participatory democratic structures to deepen democracy and to effect greater direct participation of working people, is another critical intervention. All too often, civil society organisations
themselves operate hierarchically and pin their hopes for change on dialogue with elites instead of creating a movement from below (Bond 2009). The experiences of trade unions being affiliated to ruling parties or forming alliances with them provide interesting case studies of the difficulties experienced when trying to shift policies to the left within centrist or centre-left political organisations. Political influence to a large extent is based on organisations’ ability to create mass movements around common ideals and demands. This can only be achieved through participatory democratic structures that can channel and support the demands of working class and the poor. By now, vanguardism and democratic centralism should have been relegated to the dustbins of history.

**Workers control**
As a result of the pro-investment, market-driven economic policies of Southern African states, workers’ health and livelihood was often sacrificed in the name of the “national interest”, defined as the interests of capital and the local elite. There are countless experiences of workers loosing job security, incomes or even their jobs altogether and then being forced to eek out a living in the informal economy. The bitter experiences with the Ramatex textile company in Namibia and many other investors point to the need for workers to play a more active and direct role in the economy, not just as employees but also as owners of worker-run factories. The Venezuelan and Argentinian experiences are certainly interesting case studies that may hold important lessons for our region.

**Regional co-operation**
The “Bolivarian Alternative for the Peoples of our America” (ALBA) provides an interesting example of building a regional block not on the basis of the rules of the free market and capitalist competition but rather on the basis of mutual benefits and co-operation. This is certainly lacking in the current African groupings such as SADC and the AU, which are shaky on both political and economic grounds by being apologetic for dictatorial tendencies and defending capital’s interests as those of the continent as exemplified in documents such as the New Partnership for Africa’s Development (NEPAD).

The time has come to take much bolder steps if we are to overcome mass unemployment, poverty and inequality on the continent. Venezuela may well be inspirational in this regard.
References:


