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# Human Security, Consumer Confidence and the Future of Neoliberalism

Jonathan Nitzan

Toronto, November 5, 2001

The two opening shots have been fired. On September 11, 2001, someone orchestrated an unprecedented suicide attack on the World Trade Centre in New York and on the Pentagon in Washington DC. The U.S. government immediately laid the blame on Osama bin Laden and his *al Qaeda* organization. It announced a total 'war on terrorism,' imaginatively nicknamed 'infinite justice,' and quickly moved to retaliate. On October 7, together with British forces and the blessing of many countries, it launched its first retaliation, bombing targets in Afghanistan, where bin Laden allegedly hides.

Much has already been written on the background and causes of these developments, and no doubt more will be coming. But so far, there has been little attempt to understand the possible consequences for contemporary capitalism. There is a real likelihood that these two events will mark the beginning of a global cycle of violence, with military operations, terror attacks, retaliations and counter-retaliations becoming the hallmark of the new century. And yet, could this type of warfare coexist with neoliberal capitalism? Can the ideology of 'consumer sovereignty' survive the reality of human insecurity? How might the new reality of terror affect the accumulation of capital? Will it engender a conflict *within* the ruling capitalist class? And if so, could such conflict open alternative possibilities for a less violent future?

## From 'investor confidence' to 'consumer confidence'

Viewed crudely, capitalist hegemony combines a stick with a carrot. The stick is the threat of unemployment and loss of livelihood. The carrot is the promise of consumption and the 'good life.' Historically, both have helped capitalism become the dominant form of social organization. But the balance between them has changed. Whereas until the nineteenth century, capitalist power was located mainly in production, in the factory, and in the labour process, since the early part of the twentieth century, particularly in the developed capitalist countries, power has shifted increasingly to consumption, to the shopping mall, to the control of leisure. As it stands, capitalist power now rests less and less on coercion, and more and more on temptation. And it is this latter process that a cycle of terror could put into risk.

Until now, capitalist crises were largely a matter of 'investor confidence.' Whether driven by a 'falling tendency of the rate of profit,' or by the inability to 'realize' a

growing surplus, the *resolution* of such crises was ultimately in capitalists' hands. Falling profit, for example, could be counteracted by squeezing wages, by seeking cheaper inputs and by mechanizing production, as Marx argued; or by capitalist collusion, as suggested by the Monopoly Capital School. Similarly, a realization crisis could be offset by imperialism and expansion outside one's own borders, as suggested by many writers since Hobson; or by various forms of institutionalized waste, as pointed out by Veblen. If, for some reason, capitalists lacked the 'animal spirits' to invest, they could be cajoled by their government through lower taxes and various incentives. And if that did not work either, a capitalist government could partly 'socialize' the investment process, so as to show investors the right the way, as Keynes had proposed. In short, capitalists, even when entangled in crisis, were still in the driver's seat.

But with the locus of power increasingly shifting from production to consumption, the situation has changed. The emergence of a large middle class after the two world wars, the rise of real wages and the relatively secure employment in most developed countries together have made 'consumer confidence' as important as 'investor confidence.'

The mechanisms developed to maintain this 'consumer confidence,' although not nearly as blunt as those described in Aldous Huxley's *Brave New World*, are highly sophisticated. They involve the constant production of new desires and wants, generated directly through advertisement and more broadly through the culture of material 'affluence.' These 'wants,' in turn, are enabled, so to speak, through various extensions of purchasing power. They include unemployment insurance and welfare payments that prevent the unemployed and the poor from falling off the consumption carousel, as well as the use of consumer credit, loans and mortgages that ensure that workers do spend their savings, and more. Using a term first coined by the Italian communist Antonio Gramsci, scholars have called this system *Fordism*, a capitalism based on mass production supported by mass consumption.

Since the 1970s, many Marxists and others writing on the subject have argued that *Fordism* is giving way to *Post-Fordism*. Neoliberal global formations, they point out, have substituted for the old welfare-warfare state; production has become 'flexible'; finance has been deregulated; capital has become mobile; and mass communication has undermined party politics and labour unions.

But one thing has not changed, at least not until now, and that is the crucial role of 'consumer confidence.' Whatever the precise nature of *Post-Fordist* capitalism, it remains dependent, more than ever, on the lure of consumption. And it is here that the unfolding cycle of terror could alter the nature of capitalism.

### **The political economy of human insecurity**

Whoever attacked the World Trade Centre and the U.S. Pentagon were no Luddites. Their targets were not the factories, the electricity grid, the ports or harbours, but rather the centres of command and control. And that is hardly surprising. Even in popular

culture the emphasis has long shifted from production to finance. Whereas in Fritz Lange's *Metropolis* the workers blow up the machines, flooding the 'lower city' where they toil for their capitalist masters, in Chuck Palahniuk's *Fight Club* they go after the big office towers, where the symbolic records of credit and ownership are stored.

But then, breaking machines or erasing records of ownership cannot stop capitalism. As long as capitalism retains its hegemony through force and persuasion, the machines will be rebuilt and the databases restored. This type of capitalist 'recovery' has occurred over and over in history. Japan and Germany, for instance, were devastated physically, culturally and organisationally; and yet, within a few years of their defeat, their economies staged a 'miraculous' recovery.

What *can* stop capitalism dead in its tracks is the breakdown of the spending circuit. As noted, so far this breakdown usually happened through the failure of 'investor confidence.' But now, perhaps for the first time in capitalist history, the risk comes from failing 'consumer confidence.' The issue here is not that consumers are uncertain about their *future income* and therefore wish to save more and spend less; such fluctuations in the propensity to consume are common and have been counteracted effectively throughout the post-war era with lower taxation, looser monetary policy, income transfers and other gimmicks. But if consumers do not spend because they are *afraid for their personal security*, that is a different story altogether.

The hijacking of the planes that crashed into the World Trade Centre and Pentagon had an immediate impact on the largest business in the world: tourism. Airports were deserted, tourists cancelled their vacations, business travellers reverted to ground transportation, resort hotels recorded large drops in occupancy and entertainment destinations were abandoned. Governments around the world immediately responded by announcing tighter security measures, helping to abate the initial reaction. But what if a month from now, a British Airways plane, flying from London to Glasgow, were shot down by a personal anti-aircraft missile? And what if, following a U.S.-British retaliation, someone were to poison the water supply of a Carnival Cruise ship sailing to the Caribbean? Under this scenario, who would not think twice before flying or taking a vacation?

Travel and tourism accounts, directly and indirectly, for nearly 11 percent of world GDP and over 8 percent of global employment.<sup>1</sup> For comparison, world military spending is a mere 3 per cent of global GDP.<sup>2</sup> Clearly, the loss of consumer confidence in this area would be devastating for the world economy. No one *has to* go on vacation. And if, in the wake of further terrorist attacks, most of those who usually do take vacations decided to 'postpone' them, the world would plunge into a great depression in no time. Most importantly, this type of depression would be *extremely difficult to counteract*. A sense of personal insecurity cannot be easily defused by price discounts,

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<sup>1</sup> Based on estimates reported by the World Travel and Tourism Council, *Tourism Satellite Accounting Research* (London, 2001, [www.wttc.org](http://www.wttc.org))

<sup>2</sup> Based on U.S. Arms Control and Disarmament Agency, *World Military Expenditures and Arms Transfers* (Washington, D.C.: U.S. G.P.O., Annual).

government bailouts, and lower interest rates. And if the 'fight against terrorism' were to continue, it would only call for more of the same from the other side, bringing even greater anxiety and insecurity, and therefore even less travelling.

This vulnerability of capitalism to terror is not limited to tourism. In the United States, and the picture is probably similar in the OECD as a whole, the personal consumption of goods and services *other than food, shelter and medical care* accounts for over one third of GDP.<sup>3</sup> Such spending is not *essential* for human survival. However desirable, it can be done away with, and on a very short notice. A bomb in a shopping mall in Cincinnati, a chemical attack on the Paris Metro, or the poisoning of Genoa's water supply, may be enough to seriously undermine 'consumer confidence.' And if the attacks seem indiscriminate, their impact could reverberate well beyond their immediate location.

### **Neoliberals vs. the war mongers?**

Given the vulnerability of contemporary capitalism to terror, an unfolding cycle of violence is bound to divide the capitalist ruling class. So far, investors in the developed countries have remained on the 'sideline,' in an attitude of 'watchful waiting.' There are two reasons for this attitude. First, many investors view the attack of September 11 as an assault on *them*, and therefore punishable by death. In this sense, both sides of the conflict practice their own version of *Jihad*. Second, and perhaps more importantly, most investors have not yet realised the longer-term repercussions of the recent events. So for the time being, the 'neoliberals' among them stand shoulder to shoulder with the more 'militant' elements in politics and business.

But this common front may not last for long. The Vietnam War initially enjoyed fairly broad support from the U.S. capitalist elite. But as Michal Kalecki argued in the 1960s, the war served to boost the power of the 'angry elements' among the armament contractors, *relative* to the more civilian-oriented business groups. According to Kalecki, it was the opposition of these latter groups that, perhaps more than anything, helped bring the war to an end.<sup>4</sup>

A similar conflict could develop now. In the 1960s, following the Second World War, the NSC68 decision to militarize the economy and the spending spree of the Korean conflict, U.S. accumulation had developed a clear 'military bias.' Arms contractors were already dominant in both business and politics, so the new war in Vietnam merely spelled more of the same. The present situation is drastically different. The arms contractors have lost their primacy to the new knights of civilian 'high tech,' entertainment, and communication. Military spending has fallen to a shadow of its past glory, accounting for a mere 4 percent of GDP – compared to over 13 percent at the height of the Korean War and 9 percent during Vietnam.

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<sup>3</sup> Based on the U.S. Bureau of Economic Analysis.

<sup>4</sup> Michal Kalecki, "The Fascism of Our Times" (1964), and "Vietnam and U.S. Big Business" (1967), both reprinted in *The Last Phase in the Transformation of Capitalism*, edited by M. Kalecki (New York and London: Modern Reader, 1972).

On the face of it, the presently low levels of military expenditures may seem to suggest that higher spending could be used to offset drops in consumer spending. But this possibility is more apparent than real. In order to counteract a mere 6 percent drop in consumer spending, the U.S. government would need to *double* its military budget to \$800 billion, up from \$400 billion presently. Such an increase, however, would need to be legitimized politically by the threat of a serious enemy. And that enemy does not exist, at least not for the time being. Most of the world's countries, out of fear or conviction, joined the U.S. coalition against terrorism. Only a handful, such as Afghanistan, Iraq and Iran have not, and they could be easily 'handled' with existing levels of spending. And what if consumer spending falls by *more* than 6 percent, triggering a further multiplier effect of lower investment and spending?

It seems possible, then, that the current 'war on terrorism' would end up being very bad for business. Some capitalist groups, particularly those engaged in military production, security and related artefacts, may strike it rich; but for the leading business interests in the United States and elsewhere the 'war on terrorism' would likely be a disaster. It would threaten not only their profit, but also the entire model of capital mobility, a model that they have painfully articulated and enforced throughout the rest of the world for the past generation.

It is a sad world, wrote Kalecki about the Vietnam War, in which the fate of humanity is decided by a cleavage within the ruling class. And yet, unfortunately, we may be forced to watch history repeat itself once more. In the end, the most effective opposition to the cycle of terror may be that of the neoliberals. We can only hope that they do not wake up too late.