Chapter 7
Social Crisis Within the Historical Progression of the Norm of Modern Development at the Bretton Woods Institutions

ABSTRACT

In the ongoing political debates over how Greece should overcome the consequences of the burden of its debt, a major phenomenon of the current global financial and economic structure is commonly avoided; namely, a process of global structural adjustment of social systems, dramatically known by peripheral economies in the past decades. In an attempt to explain the process, the following chapter draws on contributions from the international economy, historical, and institutional sociology. It traces how with the increasing influence of deregulation of financial capital, former isolated countries are now capable of tightening up the strings of the global economic system over the social system. The distrust of global debt rating agencies over the credit of the United States, Spain, Greece or Italy, represents an upcoming reality of core western territories on an historical process of "modern development".

INTRODUCTION

From the outburst of the financial bubble of the US housing market, to the difficulties some European countries are facing repaying or refinancing their debt, the concept of economic and systemic crisis has filled tabloids and research agendas at unusual levels. The attention paid to the "unpredictability" of the events has consistently ignored their similarity with previous cases of speculation of financial instruments or failed fiscal policy choices that occurred repeatedly during the recent decades. The economic measures that seek to deter the course of the devaluation of debt instruments in some of the most developed economies in the world, frequently appear problematic and socially conflicting. Yet, at the moment of

DOI: 10.4018/978-1-6684-9794-4.ch007

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the elaboration of this chapter, the aftermath of the events has not ceased, and the debt levels of countries like Spain, Italy or Greece have increased to historical peaks[1] (País, 2013) (The Economist., 2013). Meanwhile, the economic projections of the US Federal Reserve forecast high levels of unemployment up to the year 2015[2], and a difficult recovery from the depression that began in 2007 (Krugman, 2012b).

While a glimpse at the diverse diagnoses reveals multiple causes for the deviation from the normal stability, of some of the countries currently implementing shock measures, a more structural element has been consistently set aside from the political debate. This is; in a global economic system based on competitiveness, political asymmetries, exponential debt growth, and legal and normative structures of financial capital and trade liberalization, the ability of national political entities to halt the pressure of economic actors over national policies is smoothly eroded until symptoms of systemic disability arise. The events experienced since 2008, entail a de facto reconfiguration of the geographical boundaries of an economic system that, in previous decades, had tightened both the discretionary margins and the living conditions of numerous peripheral economies and societies. With the inclusion of new players in the global economy, the system is gradually beginning to exert pressure on social and political orders that had experienced relative advantage over most of the previous century.

While such events are customarily described as signs of a weakening or breakdown of the current economic system, this chapter argues that they are quite the opposite. Re-pricing of financial instruments owned by core economies, such as mortgage securities, public and private debt or subprime bonds; are indeed clear signs of the contemporary robustness of the economic system over the boundaries of the political sovereignty of the nation state. They represent a wider transition to “modern development”: a normative construction inherited from the end of the Second World War with the constitution of the Bretton Woods organizations.

In an attempt to explain this process, this chapter draws on contributions from international political economy, historical institutionalism and institutional sociology. It adopts a twofold structure. First, it describes in historical terms how the Bretton Woods Institutions embraced the task of shaping a norm of “modern development”, carried out via political or economic measures, to affect systems isolated from the central structures of technology and capital. This process is founded in three articulated phenomena: a) the erosion of sovereignty, b)global financial deregulation and the shift of national entities from social to productive structures, and a c)weakening of wage and labour conditions. Secondly, it describes how, from the 1960s (currencies pegged to the dollar), these political settings began a geographical reallocation from peripheral to core economies. This transition can be traced over three major historical peaks: first, the international debt crisis and the lost decade experienced by low income countries between 1970s and 1980s; second, the structural reforms undertaken by the United States and United Kingdom during the late 1980s; and, finally, the 2008 U.S. subprime mortgage crisis and its international repercussions. This last events included the necessity of influential countries to initiate processes of adjustment of their productive capability, while enduring a cycle of global re-pricing of financial instruments. Finally, it addresses the future of this normative construction in scenarios in which emerging influential economic “nodes”, gain momentum against increasingly eroded structures of governance within the nation state.

1) The construction of modern development and the Bretton Woods Institutions.

Against the backdrop of the final stages of the Second World War, the 1944 Bretton Woods conference set the ground for the constitution of an international system of institutionalized commerce for global “development”. The foundational agreements, highly influenced by the interests of the representatives

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