

EXPULSIONS

Brutality and Complexity
in the Global Economy

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To Richard

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CHAPTER 2

The New Global Market for Land

The acquisition of local land by foreign governments and foreign firms is a centuries-old process in much of the world. But we can detect specific phases in the diverse histories and geographies of such acquisitions. A major such shift began in 2006, marked by a rapid increase in the volume and geographical spread of foreign acquisitions, as well as the diversity of the buyers. More than 200 million hectares of land are estimated to have been acquired from 2006 to 2011 by foreign governments and firms. Much of the purchased land is in Africa, but a growing share is now in Latin America and, a first since the post-World War II era, in several countries in Europe and Asia, notably Russia, Ukraine, Laos, and Vietnam. Finally the buyers are increasingly diverse, including purchasers from countries of origin that range from China to Sweden, and firms from sectors as different as biotechnology and finance.

What matters for my analysis is this extremely sharp change in the total level and geographical range of foreign land acquisitions. It represents a break in a long-term trend and thereby becomes an indicator of a larger systemic shift, one that goes beyond the old, established patterns of acquisition. Two significant factors contribute to this sharp increase in acquisitions. One is the growing demand for industrial crops, notably palm for biofuels, and for food crops, the latter still coming largely from the states of the Persian

Gulf and from China. The second is that growing demand for land and the sharp rise in global food prices in the 2000s made land a desirable investment, even for speculative reasons. It is now public knowledge that the major banks were already concerned in 2006 about signs of the extraordinary financial crisis that was about to break. It is no coincidence that land then surged as a destination for investment capital, both because of its materiality (the thing itself, rather than a derivative representing land) and as a means of access to an expanding range of commodities (food, industrial crops, rare earth minerals, and water).

The acquisition of foreign land is not a lone-wolf event. It requires, and in turn stimulates, the making of a vast global market for land. It entails the development of an also vast specialized servicing infrastructure to enable sales and acquisitions, secure property or leasing rights, develop appropriate legal instruments, and even push for the making of new law to accommodate such purchases in a sovereign country. This is an infrastructure that goes well beyond supporting the mere act of purchasing. It not only facilitates but also stimulates further foreign acquisitions of land. This increasingly sophisticated specialized service sector invents new types of contracts and forms of ownership, and creates innovative accounting, legal, and insurance instruments.¹ As it develops, this specialized sector, in turn, depends on further acquisitions of foreign land as a source of profits. We see the beginnings of a large-scale commodification of land, which may in turn lead to the financializing of the commodity we still call, simply, land.

The scale of land acquisitions leaves a large global footprint. It is marked by a vast number of microexpulsions of small farmers and villages, and by rising levels of toxicity in the land and water surrounding the plantations constructed on the acquired land. There are growing numbers of displaced people, rural migrants moving to slums in cities, destroyed villages and smallholder economies, and, in the long run, much dead land. What actually happens when a

new owner/leaser, whether national or foreign, has acquired 2.8 million hectares of land to grow palm for biofuels? Mostly, dozens of villages, whole smallholder agriculture districts, and whole manufacturing operations in these rural regions are expelled from the land. Some may receive compensation and some may be resettled in equivalent terrain. But generally speaking, the losses are far larger than the compensations. Finally, flora and fauna are expelled to make room for monocultures. All this brings degradation of the land and the earth itself, through loss of diversity of nutrients and of insect life. After a few decades, the land will be exhausted, clinically dead, as we have seen in older plantation zones in Central America, the Caribbean, and parts of Africa. In the very long term the land may recover, but the descendants of the expelled farmers and rural manufacturers will most likely not benefit, and instead find themselves living in crammed slums at the edges of large cities.

Let me emphasize that this trajectory has become the norm, regardless of who is purchasing land and where. Millions of Brazilian smallholders have been expelled from their farmland, which has been taken over by vast soya plantations that produce for export. The developers may be national or foreign corporations and individuals. One outcome has been hunger in areas where there used to be little if any hunger even if they were poor: soya has replaced black beans, which were a source of income and food for poor farmers. And many of them have had no option other than to migrate to the slums of large cities. The new hunger is further accentuated by the toxicity that large plantations bring to the surrounding area, making it difficult for the households of plantation workers to use their small plots to grow food.

The actual material practices that underlie these large-scale foreign acquisitions vary enormously. I am interested in these material practices, which transform sovereign national territory into a far more elementary condition—land for usufruct. This process, at least indirectly, degrades the governments that sold and leased the

land. The eviction of farmers and craftspeople, villages, rural manufacturing districts, and districts of agricultural smallholders similarly degrades the meaning of citizenship for local people. And when the mines and plantations occupy land where there are no people, they degrade water and earth. Such material practices reconstitute territory in vast stretches of the nation-state: territory becomes merely land in the case of plantations and dead land in the case of mines.

These are accelerated histories and geographies in the making. Right now we know that many millions of people are dramatically affected by the scale of these processes. The fact that the vast majority of acquisitions since 2006 have been by foreign governments and firms may or may not prove decisive for the people of those areas. Sometimes host governments have agreed to these deals for the benefit of local elites; other times they have simply succumbed to pressures and commissions. Researchers can find it easier to track foreign rather than national acquisitions of land, as information about the former is more likely to be in the public domain. But large-scale national acquisitions are also happening, with implications similar to those I discuss for foreign acquisitions. The critical dimension explored in this chapter is the empirical one: the scale, geography, purpose, and diversity of foreign acquisitions.

This empirical examination aims at laying down the facts in order to signal the devastating consequences that rural populations and rural land may face. Given the recency of this new wave of acquisitions, we do not yet fully know the consequences for all the people and the land caught up in this vortex of large-scale acquisitions. But we do know enough to be worried.

DEBT AS A DISCIPLINING REGIME: PREPARING THE GROUND FOR LAND ACQUISITIONS

Today's large-scale acquisitions of foreign land are enabled by the explicit aims and unplanned consequences of the IMF and World

Bank restructuring programs implemented in much of the Global South in the 1980s. To this we can add the demands of the World Trade Organization (WTO) in the 1990s and into the 2000s to lift import-export barriers in the name of “free trade.” The resulting mix of constraints and demands had the effect of disciplining governments not yet fully integrated into the regime of free trade and open borders pursued mostly by large firms and the governments of dominant countries.

The aim was compliance with what was then an emerging body of rules and conditionalities that eventually were represented as self-evident norms for the proper governing of an economy if a country was to have growth and prosperity. Among the better-known of these quasi-norms were the control of inflation even if it meant sacrificing economic growth and employment, reduction of apparent government waste at just about any cost; payment of debt even if it meant cutting social benefits, health care, and infrastructure development; and privatization of all the basic service functions, from telecommunications to banking.² These norms, imposed on Global South countries through IMF and World Bank restructuring programs beginning in the 1980s, resonate with what today goes under the name of “austerity” in Europe.

In my reading, then, it is not merely the fact that governments of poor countries are burdened with debt repayment that creates suffering, as much well-meaning discussion of the Global South and the eurozone describes. What also matters is the larger assemblage of elements within which debt functions and which the dynamics of debt helped constitute. Let me bring in the qualifiers later and for now put it brutally for the sake of clarity. Even if privatization and the lifting of trade barriers are not by themselves destructive forces, they tend to become so in the context of weak governments weighed down by costly debt restructuring programs. Indeed, they have become mechanisms for the direct and indirect destabilizing of a large number of governments in the Global South. For instance, many

national manufacturing and consumer services firms have gone under because they could not compete with cheap mass imports by global firms. In short, these diverse programs had the effect of reconditioning national sovereign frameworks in ways that enabled the insertion of national territory into the new or emerging global corporate circuits. Once there, territory became land for sale on the global market.

My core conceptual move here is to see these programs of the 1980s and onward as regimes of discipline. These regimes aimed at a major restructuring of the role of government and at making the executive branch of government beholden to powerful international organizations such as the IMF, the World Bank, and the WTO. These regimes do not exist simply to push for repayment of debt and a few policy changes, though perhaps the work of the IMF and the WTO did, decades ago, begin with such limited goals. Nor have the IMF, World Bank, and WTO programs in the Global South succeeded in what they presented as necessary policies to achieve economic growth. Where followed, their advice has not delivered either economic development or strong democratic government. The effect in most of the program countries was, rather, a massive increase in indebtedness to foreign lenders and a sharp shrinkage in government funds for education, health, and infrastructure. Nor did the private economic sector fare well: there were widespread bankruptcies among local enterprises after the entry of well-capitalized foreign mass-market firms. Indeed, the IMF has had to face up to this by implementing special debt relief programs for the forty-one so-called HIPC (highly indebted poor countries).

The language of failed states, the most common way to describe these weakened, often devastated nation-states, leaves out many of the negative effects that key actors of the international governance system, notably the IMF and the WTO, have had on program countries. Such language represents these states' decay as endogenous, a function of their own weaknesses and corruptions. These states are

indeed mostly weak, corrupt, and uncaring about the well-being of their citizens. But it is important to remember that it often is and was the vested interests of foreign governments and firms that enabled the corruption and weakening of these states. And good leaders who resisted Western interests did not always survive; consider, notably, the now-recognized murder of the Congolese leader Patrice Lumumba by the United States government. Further, the extensive land acquisitions now under way, with the expulsions of small farmers and poisoning of land they are causing, cannot be understood simply as a consequence of the corruption of host states.

IMF and World Bank restructuring programs prepared the ground for the systemic deepening of advanced capitalism. This is not a novel point, and while I agree with the well-known critiques of these programs, my focus here is on something that has received less attention: detecting how those restructuring programs partly enabled the ease with which foreign buyers can purchase land in many of the countries subjected to such programs, and the ease with which governments are willing to allow those acquisitions. Greed and money are not enough to explain the outcome. Further, notwithstanding the similarities to older imperial epochs, there is now clear treaty law that asserts the authority of all national states over their territory. As a result, it is actually not so simple for a government to acquire vast stretches of land in a foreign country, nor for a government to sell or lease its land to a foreign government. Enablements, which include corruption and a government's overwhelming foreign debt, can play a role in the negotiation. But so can innovative lawyering, accounting, and business deal-making.

There are (at least) two vectors through which we can identify the bridge between restructuring programs and today's massive land acquisitions. One is the debt regime as a factor that helps weaken and impoverish national governments in much of the Global South. This in turn has often been a factor in governments' extreme corruption and disregard for the nation's well-being, especially in

underdeveloped but resource-rich countries. It can also be a factor in a government's willingness to sell vast amounts of land and expel whole villages from their land to do so. The other vector is the debt regime: it can function as a strong and "legitimate" point of entry into a sovereign nation-state; what was once open access to the economies of Global South countries for the IMF and World Bank seems to have eventually been extended to foreign governments and firms. The debt regime, in turn enabled extensive fiscal disciplining and prioritized the payment of foreign debt over national priorities such as education and economic development. To put it bluntly, it is easier for rich foreign governments and investors to acquire vast stretches of land in sub-Saharan Africa and parts of Latin America and Asia if their dealings are with weakened and/or corrupt governments and local elites, with little if any voice and political representation left for the population.

This is not to argue that rich countries, global firms, and international organizations have long conspired to weaken poor countries specifically to enable purchases of land. I am extracting the older history alluded to earlier in this chapter, which begins in the 1980s with restructuring programs, and arguing that it weakened and impoverished those national governments. As I will discuss later, many of these countries had developed both mass manufacturing and a middle class employed in government bureaucracies; for instance, Mogadishu, Somalia, was a middle-class city, with a large educated workforce and a prosperous working class. When national debt exploded in the 1980s in much of sub-Saharan Africa, partly due to the recycling of so-called post-1973 OPEC dollars, much of this progress was thwarted. Key reasons were the imposition of debt repayment priorities and the opening of markets to powerful foreign firms. This weakened the state, thereby impoverishing the middle classes, and it destroyed the indigenous manufacturing sector, which could not compete with large mass-market foreign firms. A downward cycle was put in motion that in turn enabled the much

later large-scale acquisition of land by foreign governments and firms.

One way of reading this earlier history in the Global South is to see it as an antecedent of what has begun to crawl into the Global North through the venue of state deficits as those deficits began to rise sharply over the last few years.³ A key component of these rising deficits among Global North governments is the falling share of corporate taxes in total state tax revenue; to this we can add in some countries, massive transfers of state tax revenue to fund bail-outs or cheap money for banks. The growing dependence of states on individual tax payments makes the state even more vulnerable given a financial crisis with massive repercussions on the economy, notably a sharp rise in unemployment. Add to this the bankruptcies of growing numbers of small enterprises, often family-owned, which are unlikely to use tax havens, and states experience an additional loss of revenue. These losses proceed alongside the sharp rise in corporate profits—public resources decline and private resources grow, as examined in Chapter 1. Under its own specific modalities, the Global North experiences an asymmetry between the fortunes of governments and major firms similar to what I examine here for the Global South. In the Global South this facilitated, among other things, the concentration of benefits at the top (including the upper levels of the middle class), thinned out the modest middle classes, and sharpened the meaning of poverty. This looks remarkably similar to the major trends in Greece today, even though Greece's wealthy elites mostly do not live in that country, unlike what is the case in Angola and Nigeria, for instance. The structural adjustment programs imposed on Global South countries echo the austerity politics of the Global North, not just in Greece but also in countries as diverse as the United States and the Netherlands.

Debt and debt-servicing problems have long been a systemic feature of the developing world. But the particular features of debt negotiated by the IMF, rather than the fact of debt per se, are what

concern me here: this was not just about debt, but rather about using the issue of debt to reorganize a political economy. The second feature that concerns me is how the gradual destruction of traditional economies in rural areas prepared the ground, literally, for some of the new needs of advanced capitalism, notably land for plantation agriculture and for access to water, metals, and minerals. While the pursuit of these needs is familiar and has happened before, my argument is that they are now part of a new organizing logic that changes their valence and their macro-level effects. This notion or proposition is based on a methodological and interpretation practice I develop at length elsewhere.⁴

With few exceptions, poor countries subjected to the restructuring regime that began in the 1980s now have larger shares of their populations that are in desperate poverty and are less likely to enter the "modern" economy via consumption than they did even twenty years ago, a dynamic that parallels certain developments in the Global North (see Chapter 1). When this new era began in the 1980s, many sub-Saharan countries had functioning health and education systems and economies, and less absolute destitution than today. Also, resource-rich countries have seen more of their people become destitute and expelled from basic survival systems because of those resources, even as another part of their population becomes a rich middle class, also because of those resources; Nigeria and Angola are probably the most familiar cases of this common pattern in the current decade. The dominant dynamic at work for these populations is, to a good extent, the opposite of the old Keynesian dynamic of valuing people as workers and as consumers. Expulsions from home, land, and job have also had the effect of giving expanded operational space to criminal networks and to the trafficking of people, as well as greater access to land and underground water resources to foreign buyers, whether firms or governments. Systemically, the role of rich donor countries has also shifted: overall they give less in foreign aid for

development than they did thirty years ago. As a result, in many cases the remittances sent by low-income immigrants to countries of origin are now larger than foreign aid to those countries. Further, since the late 1990s an increasing share of foreign aid comes through NGOs and philanthropic organizations, further marginalizing many a government's role in development. One extreme outcome is the de facto downgrading of governments to the status of predatory elites.

These systemic shifts contribute to explain a complex difference that can be captured in a set of simple numbers. Generally, the IMF asked poor program countries in the 1980s and 1990s to pay 20 to 25 percent of their export earnings toward debt service. In contrast, in 1953, the Allies cancelled 80 percent of Germany's war debt and only insisted on 3 to 5 percent of export earnings for debt service. They asked 8 percent from central European countries in the 1990s. Against these past levels, the debt service burdens on poor countries beginning in the 1980s are extreme. It does suggest that the earlier aim of policy for Europe—first Germany after World War II and more recently central Europe—was reincorporation into the capitalist world economy. In contrast, the aim for the Global South in the 1980s and 1990s was more akin to transformative discipline, starting with forced acceptance of both restructuring programs and loans from the international system. It is in this sense that the restructuring programs were about more than debt service: they aimed at shaping a political economy and a repositioning of these countries as sites for extraction, ranging from natural resources to the consumption power of their populations.

After twenty years of this regime, it became clear that it did not deliver on the basic components for healthy development. The discipline of debt service payments was given strong priority over infrastructure, hospitals, schools, jobs, and other people-oriented goals. The primacy of this extractive logic became a mechanism, perhaps mostly unintended, for systemic transformation that went

well beyond debt service payment. It contributed to the devastation of large sectors of traditional economies, often the destruction of a good part of the national bourgeoisie and petty bourgeoisie, the sharp impoverishment of the population and, in many cases, of the state. Again, beyond the many differences there are worrisome resonances with today's austerity politics in Europe and other developed countries.

Even before the economic crises of the mid-1990s that hit a vast number of countries as they implemented privatization and open-border policies, the debt of poor countries in the Global South had grown from \$507 billion in 1980 to \$1.4 trillion in 1992.⁵ Debt service payments alone had increased to \$1.6 trillion, more than the actual debt in 1980. From 1982 to 1998, indebted countries paid in interest four times the amount of their original debts, and at the same time their indebtedness went up fourfold. These countries had to use a significant share of their total revenues to service these debts. For instance, Africa's debt service payments reached \$5 billion in 1998; that year, for every \$1 in foreign aid African countries paid \$1.40 in debt service. By the late 1990s, debt-to-GDP ratios (see Table 2.1) were especially high in Africa, where they stood at 123 percent, compared with 42 percent in Latin America and 28 percent in Asia.⁶ As of 2006, the poorest forty-nine countries (countries with annual per capita income of less than \$935) had debts of \$375 billion. If to these poor countries we add the "developing countries," in 2006 a total of 144 countries had debt amounting to \$2.9 trillion and paid \$573 billion to service that debt.⁷

Generally, IMF debt management policies from the 1980s onward have not halted the worsening situation for the unemployed and poor.⁸ Much research on poor countries documents the link between hyperindebted governments and cuts in social programs. These cuts tend to affect women and children in particular through reductions in education and health care, both investments necessary to ensure a better future.⁹

TABLE 2.1: Debt Service Amount and as a Percentage of GDP in Selected Countries, 2009

Country	Total external debt (\$billions)	Total external debt payment (\$billions)	Total health spending (% GDP)	Total spending on debt service payments (% GDP)
Angola	15.1	1.6 ^a	1.5	6.8
Ecuador	17.1	4.1 ^a	2.2	11.4
Egypt	34.4	2.5 ^a	2.4	2.8
Georgia	1.9	0.2 ^a	2.4	2.9
Jamaica	6.5	1.0 ^a	2.4	10.1
Lebanon	23.3	3.5 ^a	2.4	16.1
Lesotho	0.7	54.2 ^a	2.4	3.7
Moldova	2.0	0.3	4.2	8.6
Morocco	16.4	2.7	1.7	5.3
Pakistan	33.7	2.4	0.4	2.2
Panama	9.8	2.0	5.2	13.4
Papua New Guinea	1.9	0.4	3.0	6.7
Paraguay	3.1	0.5	2.6	6.7
Philippines	61.5	9.9 ^a	1.4	10.0
Ukraine	333.3	5.9	3.7	6.6

Source: Jubilee Debt Campaign 2013.

Note: a. Yearly payment

There is now a larger history in the making. In my reading it includes as one key element a repositioning of much of Africa and substantial parts of Latin America and Central Asia in a new massively restructured global economy with a growing demand for land and the many things it allows access to, from food to minerals and water. Weakened governments and the destruction of tradi-

tional economies have facilitated access to that land by foreign governments and firms. After decades of debt service and competition from mass-market foreign firms, there is little left of what were once modern economic sectors in many of these countries. Thus modest middle-class sectors that may once have had the possibility of active participation in the new consumer economy, and even in the current land and resource boom, are simply no longer there, for reasons ranging from brain drain and military conflicts to IMF restructuring programs. To this we can add corruption on both sides of many international deals, which enabled the emergence of what can only be described as predatory elites in resource-rich countries. By the early 2000s, this mix of processes and conditions had launched a new phase of wealth accumulation for some and a struggle merely to survive for growing components of society, economy, and government.

THE WHO, WHERE, AND WHAT OF FOREIGN LAND ACQUISITIONS

What is actually being measured in general descriptions of land grabs can vary considerably depending on the study. I have chosen the data of the Land Matrix project, which were generated collectively in collaboration with the International Land Coalition. It provides the most comprehensive overall measure.¹⁰

But before discussing the Land Matrix findings, I briefly mention several focused investigations into specific sectors and countries; each contributes to the larger, rapidly moving overall process of data gathering.¹¹ GRAIN, a French NGO, developed its own database on land acquisitions in 2012. It can account for about 14 million hectares acquired by foreign investors in 416 separate land deals. GRAIN's methodology is stricter than Land Matrix's. It collected information specifically on post-2006 land deals led by foreign investors involving "large areas of land . . . for the production

of food crops.”¹² A second focused study comes from HighQuest Partners, an OECD contracted consulting firm specializing in farmland investing. They interviewed twenty-five financial groups that invested in farmland in 2010, and were managing a total of \$7.44 billion in agricultural assets. HighQuest Partners also generated estimates for total investment of private capital in farmland and agricultural infrastructure of between \$10 billion and \$25 billion. Finally, HighQuest also found that twenty of the twenty-five funds surveyed were at the time raising money for further investments.¹³ In short, this is a live story. A third study, by Ellen Aabø and Thomas Kring for the United Nations Development Programme, found that the total global area of farmed land in 2007 was 1,554 million hectares. Land for pasture expanded by 2.5 million hectares per year between 1990–2007, for a total global pasture area of 3,400 million hectares in 2007. They also report that plantation forestry expanded by 2.5 million hectares per year between 1990 and 2005, to a total of 140 million hectares globally. And while Aabø and Kring do alert the reader that “data on the exact scale of large land acquisitions are scarce and incomplete, due to the lack of transparency that often accompanies these investments,” their figures show that a large share of these acquisitions was in developing and transition economies: 54 percent in the case of plantation forestry, accounting for 75 million hectares.¹⁴

Several other estimates suggest similarly dramatic numbers.¹⁵ A recent report from the Oakland Institute suggests that during 2009 alone, foreign investors acquired nearly 60 million hectares of land in Africa. The Commercial Pressures on Land Research Project, a project of the International Land Coalition and the French group Centre de Coopération Internationale en Recherche pour le Développement, has documented more than 2,000 projects covering as much as 227 million hectares of land since 2001, with most purchases since 2011. Oxfam uses the Land Matrix data to report that an area eight times the size of the United Kingdom was sold or

leased in land grabs between 2000 and 2010. Further, Oxfam estimates that between 2008 and 2009, deals by foreign investors for agricultural land increased by approximately 200 percent. And Sofia Murphy, a researcher at the Institute for Agriculture and Land Policy, reports that “the World Bank estimates some ten million hectares of land were contracted in just five African countries (Ethiopia, Liberia, Mozambique, Nigeria and Sudan) between 2004 and 2009.”¹⁶

Each of the above findings and measures contributes insights into what is a vast global operation with multiple sites in very diverse countries and with very diverse buyers and sellers. The Land Matrix project provides a good overview of that large-scale phenomenon. To begin with, consider how Land Matrix defines the types of land acquisitions to be included in measurements. This is worth looking at, as it indicates some of the limitations of existing data. According to this definition, pertinent land transactions

1. Entail a transfer of rights to use, control, or own land through sale, lease, or concession
2. Imply a conversion from land used by smallholders, or for important environmental functions, to large-scale commercial use
3. Are 200 hectares or larger and were not concluded before the year 2000, when the FAO food price index was lowest

The Land Matrix database contains information about two types of data: “reported” and “cross-referenced.” “Reported” data cover deals presented in published research reports, media reports, and government registers where these are made public. “Cross-referenced” data refer to deals about which information is obtained from multiple sources; the cross-referencing process involves an assessment of the reliability of the source of the information, triangulation with other information sources, and, if necessary, confirming with in-country partners in the Land Matrix networks. Media reports are not considered sufficient for cross-referencing. Research reports

based on fieldwork, confirmation by known in-country partners, and official land records are considered sufficient evidence.

While the explosion in food demand and food prices in the mid-2000s was certainly a key factor in this post-2006 phase of land acquisitions, it is crops for biofuels that now account for most of the acquisitions. Cross-referenced data from the Land Matrix show that biofuel production accounts for over 37 percent of land acquired after 2006. In comparison, food crops account for 25 percent of cross-referenced deals, followed by 3 percent for livestock production and 5 percent for other nonfood crops. Farming broadly understood, including food and industrial agriculture, accounts for 73 percent of cross-referenced acquisitions. The remaining 27 percent of land acquired is for forestry and carbon sequestration, mineral extraction, industry, and tourism (see Figure 2.1).

A second major pattern is the massive concentration of foreign acquisitions in Africa. Of the publicly reported deals, 948 land ac-

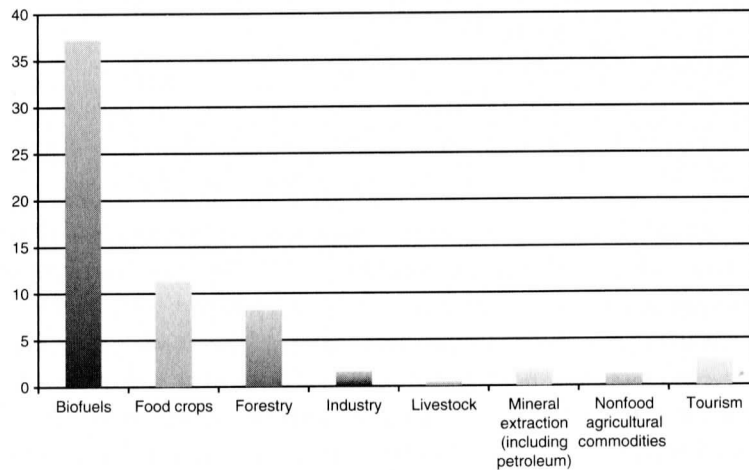


FIGURE 2.1 Global Land Acquisitions by Sector, 2006–2010 (in millions of hectares)

Data Source: Anseeuw, Wily, et al. 2012, figure 5.

quisitions totaling 134 million hectares are located in Africa; 34 million of these hectares have been cross-referenced. This compares with 43 million hectares reported for Asia (of which 29 million hectares have been cross-referenced) and 19 million hectares in Latin America (of which 6 million hectares have been cross-referenced). The remainder (5.4 million hectares reported and 1.6 million hectares cross-referenced) is in other regions, particularly eastern Europe and Oceania (see Figures 2.2 and 2.3).

It is important to note that acquisitions in OECD countries are generally not reflected in the data. One reason is that the Land Matrix only counts private transactions that involve a conversion of tenure system (e.g., land that formerly was held in common by a social group is transferred to private ownership) or a move away from smallholder production. Several major OECD countries, notably the United States and Australia, have had precisely such histories of land appropriation, from indigenous societies and from

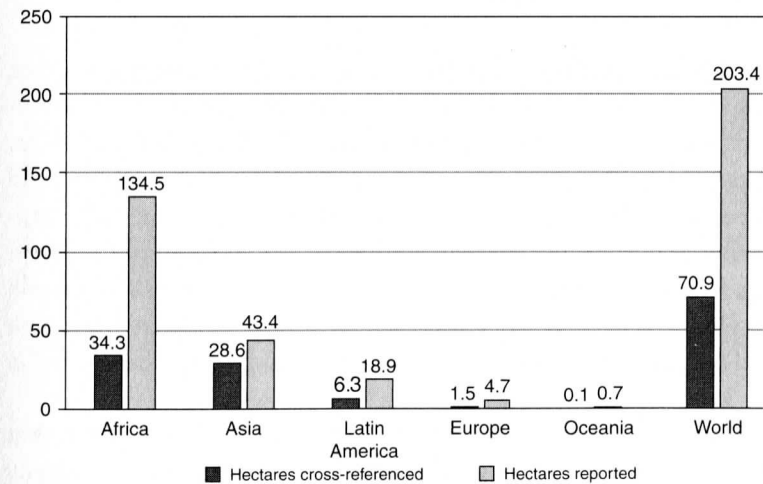


FIGURE 2.2 Regional Distribution of Land Acquisitions, 2011 (in millions of hectares)

Source: Anseeuw, Wily, et al. 2012, figure 4.

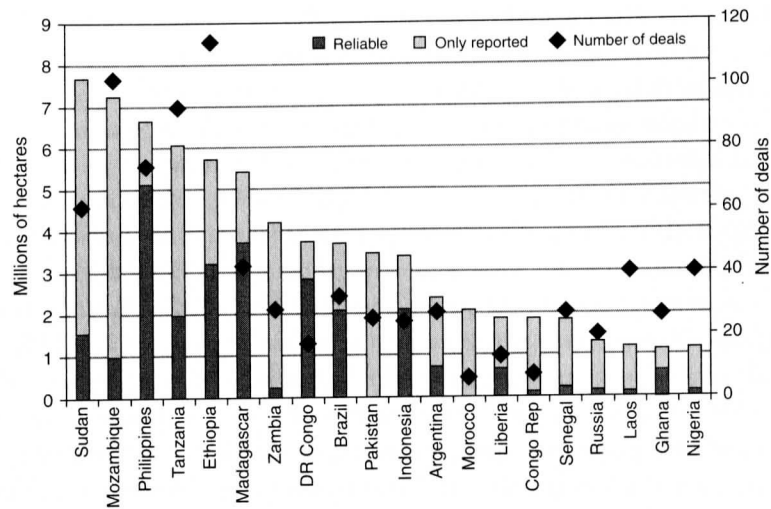


FIGURE 2.3 Most-Targeted Countries According to Size of Total Reported Acquisitions, 2012

Source: Anseeuw, Boche, et al. 2012, figure 4.

small farmers, but they took place decades and centuries ago. Further, this definition of “land grabs” also holds for several OECD countries today, among which are the United States, Mexico, Australia, Brazil, to mention just a few, where small farmers have lost their land to corporate buyers. It is worth noting that land grabs are also happening in Europe, but through a different venue—basically, preventing small farms from expanding and new small farms from being developed. This mode of land grabs falls outside the current definition and tends to fall below the 200 hectares minimum to be included in the Land Matrix measure.

The data on acquisitions also point to a sort of regionalism that is not just geographic but also geopolitical—that is, a tendency for buyers from certain regions to acquire land in a specific set of regions. The Land Matrix project finds that this might be linked to regional trade agreements. Thus, 75 percent of land acquisitions

in Southeast Asia are by regional players within the context of growing regional integration.¹⁷ I would venture that the role of geopolitics is exemplified by the interest of some Gulf States in land deals in Muslim countries such as Pakistan and Sudan, or by Libya’s earlier acquisitions under Qhadaffi in the Sahel. A third example capturing elements of both is the fact that intraregional trade in Africa has become dominated by South African actors, who account for a reported 40.7 million hectares in land acquisitions since 2009.¹⁸ Figure 2.4 shows the top investor countries, while Table 2.2 shows the regional origin of investors by region of land acquisition.

A brief elaboration of the case of biofuels and timber illustrates some additional features of land acquisitions. What stands out is how much land is needed to meet demand for biofuels, often implemented in the name of greening energy supplies, even though there is little greening involved. For example, the EU’s renewable fuels target requires that 10 percent of transport fuels be supplied by renewables

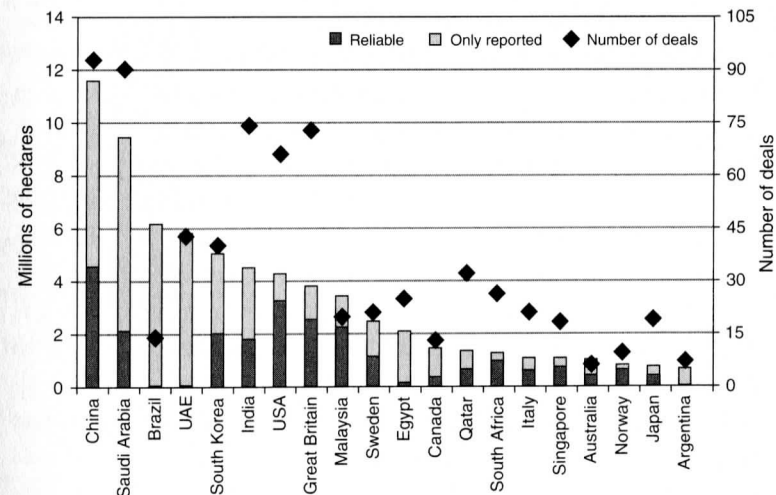


FIGURE 2.4 The Origin of Investment: Top 20 Countries, 2012

Source: Anseeuw, Boche, et al. 2012, figure 11.

TABLE 2.2: Who Buys Where, 2011 (millions of hectares)

Origin of investors	Regions where land acquired				
	Africa	Asia	Latin America	Europe	Oceania
Africa	6.4	0	0.1	0	0
Central Asia	12.3	25.3	0.6	0	0.1
Latin America	0.1	0	1.7	0	0
Europe	6.0	0.6	0.5	1.5	0
North America	3.3	0.4	1.6	0	0
Oceania	0	0.3	0.1	0	0
Western Asia	3.7	1.6	0	0	0

Data source: Anseeuw, Wily, et al. 2012, figure 3.

Note: Western Asia used by authors to indicate mostly Muslim Asia.

by 2020, with the expectation that 80–90 percent of this target is likely to be met by biofuels. The result has been widespread corporate investments in biofuel production both inside and outside Europe.¹⁹ The Netherlands Environment Assessment Agency estimates that these targets require 20–30 million hectares of production, of which 60 percent will be imported. A very different biofuel case, but with the same land-intensive features, is palm oil production for biodiesel in the Peruvian forest; it already uses 52,829 hectares and the plan is to expand to 307,329 hectares in the short- to medium-term.²⁰

The demand for timber might become another major stimulus for land acquisitions. Augusta Molnar and colleagues report that in nine tropical countries studied, concessions in forest areas have already been granted for 258 million hectares; the demand for forest lands is rising fast due to the growing commodification of forest products.²¹ Most forest land deals are not reported in the Land Matrix because they do not necessarily imply a conversion of the total concession area. The researchers suggest that demands on forests

are rising sharply as more forest products are being turned into commodities.²² Louis Putzel and coworkers report that since 2000, China has obtained 121 concessions over 2.67 million hectares of forest in Gabon and is negotiating rights in the Democratic Republic of Congo and Cameroon.²³ Further pressure on forests comes from clearance for oil palm plantations. An estimated 7.5 million hectares of land are already under oil palm cultivation in the Indonesian forest, with a rate of land clearance in the late 2000s exceeding 600,000 hectares per year.²⁴

While it belongs to a different economic domain and requires far less land than crops or timber, manufacturing is increasingly competing for land in particular areas. For example, case studies from the International Land Coalition show this is occurring with the establishment of special economic zones (SEZs) in densely populated areas

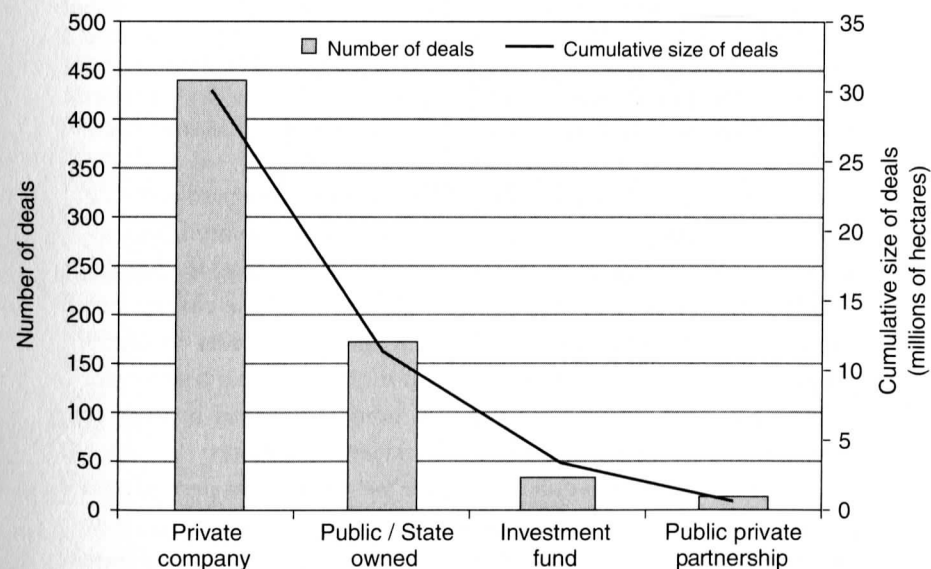


FIGURE 2.5 Land Acquisition by Type of Investor

Data source: Anseeuw, Boche, et al. 2012, figure 12.

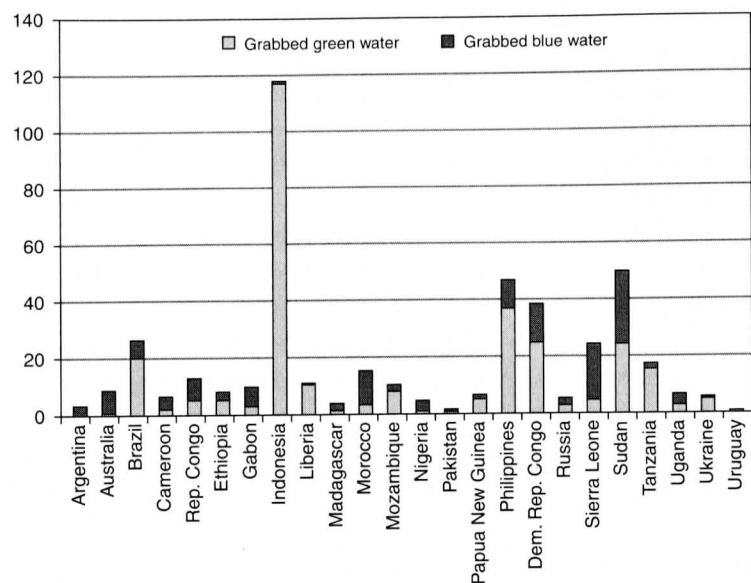


FIGURE 2.6 Assessment of the Grabbed Water in the Top 24 Grabbed Countries, 2012 (in billions of cubic meters)

Data source: Rulli, Saviori, and D'Odorico 2013, figure 3. Note that the word "grabbed" is in the original source.

in Benin and India.²⁵ In India, 571 SEZs have been approved covering 140,000 hectares in total, leading to conflicts with displaced land users in a number of cases. Such zones are also being developed in Africa: China is setting up eight major SEZs around the continent.²⁶ Besides land, manufacturing generates a demand for raw materials from rural areas, which may impinge on traditional rural economies.

Figure 2.5 provides an overview of land acquisition by type of investor, and Table 2.3 provides an overview by country.

A final set of findings concerns water use or needs as part of land acquisition. The researchers were particularly interested in how transnational land deals entailed water access and use (see Figure 2.6). They gathered data on land acquisitions from multiple sources, accounting for 90 percent of all known acquired land, and used a

TABLE 2.3: Countries with the Largest Foreign Acquisitions of Land, 2012

Grabbed country ^a	Grabbed land (hundreds of thousands of hectares)	% of total global grabbed land	% of country's cultivated land	% of country's area
Argentina	6.31	1.34	1.97	2.26
Australia	46.45	9.90	9.78	0.60
Brazil	22.55	4.80	3.29	0.26
Cameroon	2.95	0.63	4.01	0.62
Congo, Democratic Republic of	80.50	17.15	1.08	3.43
Congo, Republic of	6.64	1.41	8.91	0.28
Ethiopia	10.01	2.13	6.68	0.91
Gabon	4.07	0.87	85.75	1.52
Indonesia	71.39	15.21	16.76	3.75
Liberia	6.50	1.38	106.52	5.83
Madagascar	3.69	0.79	10.40	0.63
Morocco	7.00	1.49	7.73	1.57
Mozambique	14.97	3.19	28.24	1.87
Nigeria	3.62	0.77	0.98	0.39
Pakistan	3.34	0.71	1.57	0.42
Papua New Guinea	3.14	0.67	32.75	0.68
Philippines	51.71	11.02	49.48	17.24
Russia	28.31	6.03	2.29	0.17
Sierra Leone	4.94	1.05	40.62	6.88
Sudan	46.90	9.99	23.00	1.87
Tanzania	20.27	4.32	17.63	2.14
Uganda	8.59	1.83	9.70	3.56
Ukraine	12.08	2.57	35.53	2.00
Uruguay	3.46	0.74	18.08	19.61

Data source: Rulli, Saviori, and D'Odorico 2013, table 1. Note that the use in this table of the word "grabbed" is in the original source. In some countries the grabbed land is a substantial fraction of their cultivated land (FAO 2009).

TABLE 24: Land and Water Resources Available in the Grabbed Countries, 2012

Country	Cultivated area (thousands of hectares)	Land suitable for crops (thousands of hectares)	Yield gap	% Renewable freshwater resources withdrawn	Grabbed water per capita (m ³ per year)	Malnourishment (%)
Argentina	32,000	96,644	-0.57	3.99	12.71	0
Australia	47,511	134,146	-0.31	4.58	120.53	0
Brazil	68,500	512,983	-0.59	0.41	86.29	10
Cameroon	7,363	33,119	-0.78	0.34	676.51	29
Congo, Democratic Republic of	7,450	161,026	-0.80	0.05	307.35	37
Congo, Republic of	560	23,227	-0.78	0.01	2,382.25	32
Ethiopia	14,985	39,946	-0.80	4.56	185.27	49
Gabon	475	16,838	-0.80	0.08	4,428.47	8
Indonesia	42,600	49,351	-0.55	5.61	60.25	6

Liberia	610	5,323	-0.78	0.08	385.74	46
Madagascar	3,550	28,764	-0.75	4.36	73.27	40
Morocco	9,055	8,353	-0.90	43.45	172.51	5
Mozambique	5,300	60,437	-0.90	0.35	1,041.06	58
Nigeria	37,000	60,478	-0.78	3.60	34.91	8
Pakistan	21,280	4,438	-0.55	74.35	40.61	20
Papua New Guinea	960	11,603	-0.41	0.05	393.44	29
Philippines	10,450	8,734	-0.58	17.03	29.67	21
Russia	123,541	287,045	-0.70	1.47	139.40	6
Sierra Leone	1,215	3,753	-0.80	0.31	853.36	43
Sudan	20,391	89,285	-0.85	57.58	1,844.26	18
Tanzania	11,500	62,505	-0.81	5.39	1,131.01	41
Uganda	8,850	12,795	-0.75	0.48	139.14	30
Ukraine	33,376	49,338	-0.72	27.56	128.26	5
Uruguay	1,912	14,152	-0.65	2.63	51.46	4

Data source: Kull, Saviotti, and D'Odorico 2013, suppl. table 2. Note that the use in this table of the word "grabbed" is in the original source.

hydrologic model to determine the associated rates of freshwater use. They found that transnational deals for land and water are occurring in all continents except Antarctica. More important, they established that the amount of grabbed water lowered water supplies to a point below what is required to ensure the per capita volume necessary for a balanced diet and what would be sufficient to improve food security and abate malnourishment in the pertinent countries.²⁷ Table 2.4 gives an overview of land and water resources available in countries where water is being mined.

MATERIAL PRACTICES OF LARGE-SCALE LAND ACQUISITIONS

Investments in large-scale land acquisitions have crowded out other material economies, especially in sub-Saharan Africa. One outcome that has received little attention is the sharp decline in the share of foreign direct investment (FDI) going to mass manufacturing, a sector that can generate good jobs and feed the growth of a middle class. This decline took place just as several countries of the Global South were beginning to experience significant growth in mass manufacturing. If we consider Africa, for instance, the data show a sharp decline in foreign direct investment in manufacturing. Both South Africa and Nigeria, Africa's two top FDI recipients in 2006 (accounting for 37 percent of FDI stock in Africa), have seen a sharp transformation in the composition of investment: a fall in FDI in manufacturing and a sharp rise in FDI in the primary sector—mining, crops, oil, and such.²⁸ In Nigeria, where foreign investment in oil has long been heavy, the share of the primary sector in FDI stock stood at 75 percent in 2005, up from 43 percent in 1990. Other African countries have seen similar shifts. Even in Madagascar, one of the (mostly small) countries where manufacturing FDI inflows began to increase as recently as the 1990s, this increase was

well below that of FDI in the primary sector.²⁹ There is much evidence showing that this shift from investment in manufacturing to investment in mining, oil, and land is not good for the development of national economies.

The current phase of land acquisitions dwarfs investments in manufacturing. A few examples assembled by von Braun and Meinzen-Dick signal the range of buyers and of locations, with Africa a major destination. South Korea has signed deals for 690,000 hectares and the United Arab Emirates for 400,000 hectares, both in Sudan. Saudi investors are spending \$100 million to raise wheat, barley, and rice on land leased to them by Ethiopia's government; they receive tax exemptions and export the crop back to Saudi Arabia.³⁰ China secured the right to grow palm oil for biofuels on 2.8 million hectares of Congo, making it the world's largest palm oil plantation. It is negotiating to grow biofuels on 2 million hectares in Zambia. Perhaps less well known than these African cases is the fact that privatized land in the territories of the former Soviet Union, especially in Russia and Ukraine, is also becoming the object of much foreign acquisition. In 2008 alone, these acquisitions included the following: a Swedish company, Alpcot Agro, bought 128,000 hectares in Russia; South Korea's Hyundai Heavy Industries paid \$6.5 million for a majority stake in Khorol Zerno, a company that owns 10,000 hectares in eastern Siberia; Morgan Stanley bought 40,000 hectares in Ukraine; Gulf investors are planning to acquire Pava, the first Russian grain processor floated on the financial markets (the intention was to enable the sale of 40 percent of its landowning division to international investors), which will give them access to 500,000 hectares. Also less noticed is Pakistan's intended lease of 500,000 hectares of land to Gulf investors, with the bonus of a security force of 100,000 to protect the land.

In what follows I focus on one set of countries in more detail. It helps understand the variety of buyers and deals underlying the overall counts.

SIX DESTINATIONS FOR ACQUIRING LAND

In an analysis of 180 large land acquisitions in Africa, Cecilie Friis and Anette Reenberg identify major types of investors in this current period: (1) oil-rich Gulf states of Saudi Arabia, United Arab Emirates, Qatar, Bahrain, Oman, Kuwait, and Jordan; (2) populous and capital-rich Asian countries such as China, South Korea, Japan, and India; (3) Europe and the United States; (4) private companies from around the world. Investors are mostly energy companies, agricultural investment companies, utility companies, finance and investment firms, and technology companies.³¹

Using the Friis and Reenberg data, I constructed the representations of this geography (shown in Figures 2.7 and 2.8) by focusing on the top six sellers in Africa and their investors.³² They are Ethiopia, Madagascar, Sudan, Tanzania, Mali, and Mozambique—all sub-Saharan, and all, except Mali, in East Africa. In all these countries both private investors and government agencies have acquired land.

No specific investor dominates in five of these top-selling countries. The exception is Mozambique, where Agri SA, the South African farmers' association, is the largest buyer, and overwhelmingly so. However, when we measure by national origin, each "seller country" does have a dominant "buyer country" in terms of size of acquisitions: India in Ethiopia, South Korea in Madagascar, Saudi Arabia in Sudan, and China in Mali. In Tanzania, it is a multinational group. There are few cases of cross acquisition; among them are Sun Biofuels' purchase of land in Tanzania and Mozambique, China's acquisitions in Mozambique and Mali, Qatar's in Madagascar and Sudan, and those by the United Arab Emirates and Jannat, a Saudi Arabia conglomerate, in Sudan and Ethiopia.³³

Overall there are forty-seven different countries of origin among investors in these six countries. Among the countries with the most

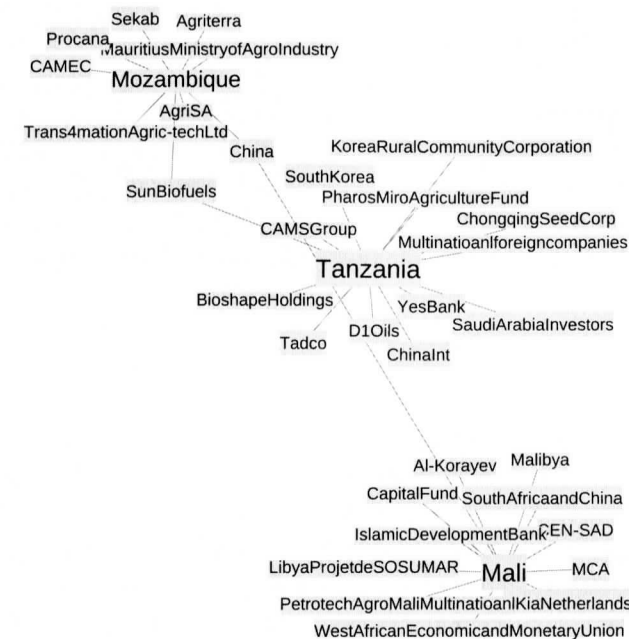


FIGURE 2.7 Top Land Sellers and Buyers in Africa (Tanzania, Mozambique, Mali), 2010

Data source: Friis and Reenberg 2010.

diverse group of investors by country of origin are Madagascar, with twenty-four foreign investors from fifteen countries, and Ethiopia, with twenty-six investors from twelve countries. Asian countries (China, South Korea, India, and Japan) make up almost 20 percent of investors in these six countries. Middle Eastern countries (Saudi Arabia, United Arab Emirates, Egypt, Jordan, Qatar, Lebanon, and Israel) account for almost 22 percent of investors. European countries (United Kingdom, Sweden, Netherlands, Germany, Italy, Denmark, and France) account for 30 percent of investors.



FIGURE 2.8 Top Land Sellers and Buyers in Africa (Madagascar, Sudan, Ethiopia), 2010

Data source: Friis and Reenberg 2010.

African countries (South Africa, Mauritius, Libya, and Djibouti) account for about 10 percent of investors. The remaining investors are from Australia, Brazil, and the United States.

Three countries have a significant share of all investments. The United States, United Kingdom, and Saudi Arabia account for 25 percent of all investors in these six countries. Each has investments in four countries. It is worth noting that private companies dominate among buyers for some countries, and states for others.

ONE CASE: PALM PRODUCTION AT GROUND LEVEL

Palm oil, traded on international commodities and futures market as crude palm oil, is a component of huge numbers of products, including livestock feed, prepared foods, cooking oils, cosmetics, lubricants, and fuels. Between 2000 and 2010, consumption of palm oil doubled to reach 46.8 million tons, surpassing soybean oil in 2005 to become the world's most popular vegetable oil.³⁴ By 2020, consumption of all vegetable oils is expected to increase 25 percent, with palm oil continuing to be a leader in the category.³⁵

In its raw state, crude palm oil is fragile: oil in freshly picked palm fruits begins to decay in as little as forty-eight hours after harvest, meaning that producers need ready access to processing sites. Mills that extract and stabilize palm oil require between 4,000 and 5,000 hectares of cropland to produce output at maximum efficiency. The transportation systems, infrastructure, and economies of scale required for profitable production of palm oil mean that the growing demand is being met by monoculture farming, usually on massive plantations or government-supported smallholder groups.³⁶

Eighty percent of commercial palm oil is produced in Malaysia (4 million hectares of land in palm oil production) and Indonesia (7.5 million hectares of land in palm oil production).³⁷ A scarcity

of arable land in Malaysia is pushing new production into Indonesia, where Malaysian conglomerates are the majority investors in approximately two-thirds of all palm oil production ventures.³⁸ The Indonesian government has promoted palm oil as pro-poor, pro-job, and pro-growth: 85 percent of palm oil consumed in Indonesia is used as food, especially as affordable cooking oil, and 3.5 million small farmers produced 40 percent of the Indonesian palm oil crop.³⁹

The outlook for locals, however, is not sunny. In the Indonesian province of Riau, protests by small farmers against the palm industry started in the early 1980s. That is when government officials required the forfeit and redistribution of collectively held land to develop palm oil plantations.⁴⁰

Indonesian land rights are nebulous, unclear, and often insecure. Customary law, known as *adat* in Indonesia and Malaysia, was codified and integrated into Dutch colonial law; it remains an important, if contested, part of the Indonesian legal framework. While *adat* varies greatly among Indonesia's ethnic groups, many indigenous peoples hold land through *hak ulayat* (communal tenure) or *hutan adat* (customary forest license).⁴¹ The Basic Agrarian Law of 1960 limits government recognition of *adat* land rights to claims where "the land is under the ownership of a recognized adat community[,] the boundaries are defined and understood and the community is recognized and functioning as such under adat law principles."⁴² These types of issues are also overlooked in the framework for resolving claims between overlapping rights and concessions on land such as conflicts between mining and agricultural claims.⁴³ Further, Indonesia's land registration system is insufficient; two-thirds of all land in forest administration within the country is without title.⁴⁴ These ambiguities and inadequacies leave significant room for vested interests to challenge community land rights. Various Indonesian governments (especially the Suharto regime) actively sought to bring more territory directly under the control of the

state, while various businesses have successfully challenged inadequately documented claims of ownership.⁴⁵

Land conflict has come to a head in Indonesia's Riau Province, on the island of Sumatra. Local people have opposed the spread of palm oil plantations since the 1980s; opposition to the industry was suppressed under the Suharto dictatorship but has spread like wildfire since regime change in 1998.⁴⁶ Seventy percent of all palm oil plantations in Riau are owned by Malaysian interests; many of these companies have engaged in questionable land acquisitions and failed to respect the rights of local communities that hold land collectively.⁴⁷ Under the Basic Agrarian Law of 1960, communities can be forced to forfeit land; this is especially the case in areas where local groups maintain traditional collective land ownership but are engaged in commodity production rather than following indigenous lifeways.

Here is a case that illustrates some of these tensions going back years and the lengthy process of the state recognizing the rights of smallholders. In 1998, PT Mazuma Agro Indonesia (MAI) seized 5,508 hectares of land in the village of Rokan Hulu, Riau, without the consent of village leaders, and began to illegally expel local farmers and their families.⁴⁸ Legal action was able to prevent further development until 2012. In February of that year, MAI began development on the land despite the unresolved court case. At 8:30 a.m. on February 2, 2012, a hundred local villagers tried to prevent bulldozers and excavators from clearing their land; at 11:00 a.m., officers of the Northern Sumatran Regional Police opened fire on the protesters, wounding five.⁴⁹ This was not the first time land conflicts in Rokan Hulu had become violent. Since 1998, MAI and the leadership of a nearby village had conspired to burn at least eighty-nine houses and destroy twenty-six palm oil processing plants owned by members of the community.⁵⁰ In 2004, two men from Rokan Hulu protesting a land claim by palm oil company PT Suraya were killed by the company's security guards; local police

deployed to the area prevented the conflict from escalating but failed to apprehend the killers.⁵¹

Responding to these abuses by firms, in May 2013, the pertinent court in Indonesia transferred millions of hectares of forest from government control to the control of local communities, at least nominally.⁵² However, the strength of these new land rights remains dependent on government records and agencies that have proved fallible in the past. It remains to be seen if indigenous people in Indonesia can use their land to produce commodity crops for the global economy without sacrificing their right to communal ownership.

CONCLUSION

These are the elements of a larger history in the making. It includes a repositioning of growing areas of Africa, Latin America, and Asia in a massively restructured global economy. Weakened governments that function as comprador bourgeoisies and the destruction of smallholder economies have launched a new survival phase in expanding parts of the world for rising numbers of people

The key empirical trends that matter for the larger argument in this chapter are the sharp growth in foreign land acquisitions after 2006, a year when the banking crisis was already brewing, and the rapid international diversification of the buyers. It is not the fact of foreign acquisition per se that is the issue here, as foreign ownership has long been part of the world's economic history, and further, there are positive reasons for some acquisitions, such as creating a nature reserve. What matters for my argument is that this sharp growth in foreign ownership is significantly altering the character of local economies, notably land ownership, and diminishing the sovereign authority of the state over its territory. The process of acquisition may be less violent and disruptive than the imperial conquests of the past. But that does not mean they should be confused with more benign examples of foreign ownership—the place-

ment of a job-generating Ford Motors plant in Europe or a Volkswagen plant in Brazil.

Emphasizing the juxtaposition of formal sovereign authority and growing foreign land acquisitions leads to two conceptual issues that are easily bypassed if we simply emphasize the power asymmetry between those acquiring land and host governments. One of these is the role of IMF and World Bank restructuring, eventually amplified by WTO rules, in weakening the economies, social development, and governments of various countries. The complex of trends and conditions associated with this restructuring actually facilitated the massive foreign land acquisition that took off after 2006 and further escalated after the crisis of 2008. These trends prepared the ground for the sudden rise in acquisitions, for the relative ease of the formal execution of many a novel type of contract, and for the rapid diversification of those doing the acquiring.

The other is the repositioning of national sovereign territory resulting from the sharp rise in land acquisitions by foreigners. National territory is not merely vacant land. Lands acquired by foreigners include vast stretches of national territory populated and shaped by villages, smallholder agriculture, rural manufacturing districts, and the actors that make these economies and reproduce them—whether this is recognized by the state or not. Much of this politico-structural complexity is today being erased from its home territory as a result of these acquisitions. At the extreme, we might ask what citizenship is worth when national territory is downgraded to foreign-owned land for plantations, leading to the eviction of everything else—flora, fauna, villages, smallholders, and the traditional rules that organized land ownership or use.

In their aggregate these large-scale land acquisitions have produced a global operational space that is partly embedded in national territories. They produce a partial denationalization deep inside nation-states, a structural hole in the tissue of national sovereign territory. I see acquisition of land by foreigners as one of

several such processes that partly disassemble national territory. The contracts developed for these acquisitions become capabilities of an organizing logic that is disarticulated from the national state even as these acquisitions operate deep inside its territory. Further, in so doing, these contracts often go against the interests not only of much of a country's people but also of local capital, one far more likely to generate positive feedback loops for a country's diverse regions. It is important to note that large-scale foreign land acquisitions could be generators of good jobs and local economic effects, especially when committed to workers rights and to environmental sustainability. But the current trends do not promise much along these lines: it is a story of expulsions of people and local economies and of biospheric destruction.

Against this larger context, the materiality and visibility of foreign land acquisitions become heuristic: they tell us something about a larger process that is often not as visible and material as land or the direct participation of the executive branch of government in the execution of contracts. This way of representing economic globalization is very different from the common notion of the whole state as victim. Indeed, to a large extent it is the executive branch of government that is getting aligned with global corporate capital, both in the Global South and in the Global North. This becomes highly visible in the case of foreign land acquisitions. At the same time, in my reading, a key implication of this strategic participation of states in global processes is that, guided by different interests, states could reorient their goals away from the global corporate agenda and toward global agendas concerning the environment, human rights, social justice, and climate change.

CHAPTER 3

Finance and Its Capabilities

Crisis as Systemic Logic

Once it exists, financial profit can be viewed as morally neutral. It can be used for unambiguous good—materialized, for example, into a nonfinancial asset such as a green transport system. It can be materialized for ill—to buy arms for warlords, say. Or it can be left immaterial, used as a platform for ever more speculative financial constructions that can be so complex they challenge empirical analysis, let alone moral examination. The last of these trends, associated most spectacularly with the market for derivatives, has come to dominate finance over the past twenty years. Until the financial crisis, the obscurity of its operations masked how dangerous this market can be. It has generated the extreme levels of financialization now evident in several major developed countries.

The orders of magnitude the financial system has built up over the last two decades are captured in the total value of outstanding derivatives, a form of complex debt that derives its value from another source, ranging from other types of debt to material goods such as buildings and crops; derivatives are presently the most common financial instrument. That total value of outstanding derivatives stood at \$600 trillion (more than ten times the value of global GDP) before the crisis exploded in 2008, and then it dipped briefly before rising again. By 2012, a few years after that very costly event that brought down firms, governments, and whole economies, it

had risen to over \$800 trillion, and by early 2013 it had reached more than \$1 quadrillion. Similarly, the value of bank assets, which stood at \$160 trillion right before the crisis, had risen to almost \$200 trillion by 2010, and it has kept rising since. In contrast, global GDP actually fell sharply from \$55 trillion in 2007 to \$45 trillion in early 2008, reflecting the crisis in the economy. The power of finance, and what makes it dangerous, is its capacity to build up its own value even as households, economies, and governments lose value.¹

I conceive of finance as a capability, though one with variable valence; it is not Amartya Sen's or Martha Nussbaum's positively marked concept of capability. Finance needs to be distinguished from traditional banking. Traditional banks sell money in their possession. Financial firms sell something they do not have, and therein lies the push to be far more innovative and invasive than traditional banking. In this regard finance can be thought of as a capability to securitize just about everything in an economy and, in doing so, subject economies and governments to its own criteria for measuring success. Securitization involves the relocation of a building, good, or debt, into a financial circuit where it becomes mobile and can be bought and sold over and over in markets near and far. In the past two decades finance has invented often very complex instruments to securitize extreme instances of familiar items—not just high-grade debt but also used-car loans and modest municipal government debt. Once an input is securitized, financial engineering can keep on building long chains of increasingly speculative instruments that all rest on the alleged stability of that first step. This is, then, a very special, distinctive, and often dangerous capability. (It is worth remembering that particular kinds of derivatives, one of the key enablers of finance, had been declared basically illegal in the United States. It was not until 1973 that derivatives became legal again in the commodity markets of Chicago.)

At the heart of finance is the work of inventing and developing complex instruments. It is the mathematics of physics and its models that are in play here, not the mathematics of microeconomic models. Exemplifying it all, Goldman Sachs's backroom is well stocked with physicists. The mathematics of the backroom is mostly well beyond the understanding of the highly paid executives of the boardroom.

These features make finance a major force in a process that started in the 1980s and took off sharply worldwide beginning in the 1990s. I consider finance a complex assemblage of actors, capabilities, and operational spaces. Elements of this assemblage function as one of the conceptually subterranean dynamics that concern me in this book. Finance can take diverse forms on the surface and adapt to institutional settings as different as China and the United States, with instruments as diverse as securitized student loans and credit-default swaps. But beneath this diversity of encasements lies an epoch-making capability—the financializing of the debt and assets of firms, households, and governments regardless of geopolitics, sovereign authority, legal system, state-economy relation, or economic sector.

We can think of finance as the most accomplished and effective—at least in the short run—of these conceptually subterranean trends that are reshaping our world in so many different ways. In the case of finance, the visible manifestations take the form of multiple microworlds and microtrends, some specialized, some not: credit card loans, this or that government's deficit, a particular firm's debt, and so on. All this disaggregating is partly due to the diverse institutional arrangements through which those debts and assets are generated and become recognizable to third parties. But disaggregation also renders invisible the deeper vortex and in many ways veils what is happening: a large-scale destruction of healthy economies, healthy government debt, and healthy households. In case after case, this destruction takes the form of a flow of capital and resources to

financial firms and the impoverishment of other economic sectors. We cannot generalize too much, for there are exceptions to everything, and we can see an enrichment of a range of sectors other than finance, from high-technology to oil. Many of these other sectors depend on finance or make a living providing finance with the highly specialized services it needs.²

Yet we can only apprehend finance and its dynamics through the thick worlds within which its diverse invasions happen. For instance, now we see not just the commodification of food, gold, and many other goods, but also the financializing of those commodities. Similarly, there is not only interest on loans but the financializing of interest payments. There are particularly brutal cases that reveal the economic violence that can ensue when something goes wrong. One example is the expulsion of huge numbers of people from their foreclosed homes in countries as different as the United States, Spain, and Latvia over a short and sharp history. Another is the massive losses arising from financial speculation and borne by the funds of municipal governments in countries as unlike as the United States and Italy.

I begin with a microcosm where all these aspects come together in thick, often elementary ways: how modest households seeking to own modest houses were brought into the financializing machinery in a growing number of countries. I focus on the United States because it was ground zero for this development and the innovation that enabled it. The case serves to illustrate some of the features of financialization, specifically the use of complex instruments in the making of a short, highly profitable investment cycle for some and elementary brutalities for the many millions who lost their homes. Next I examine the global potential for such instruments and focus on some other countries that have experienced similar expulsions, even though in each country there is a different specific explanation.

What matters to my analysis is that these diverse countries are beginning to share a deeper underlying dynamic that cuts across familiar divisions even as it gets filtered through the thick specifics of each situation. Conceptually we tend to remain captives of existing and inherited distinctions among different countries, different national banking systems, and so on. This has consequences: our focus on familiar, often long-standing distinctions serves to hide or make less legible the fact that a similar dynamic can underlie diverse cases. Local or national developments and trends can be building blocks of a global trend that transcends the familiar separations. The chapter concludes with a discussion of the intersection of complexity and brutality as it is filtered through national political economies, veiling the making of a deeper global political economy. While the latter is partial in its specificity, it cuts across many of the familiar divisions of nation-states, economic sectors, and markets.

WHEN LOCAL HOUSING BECOMES A GLOBAL FINANCIAL INSTRUMENT

Beyond its social and political role, housing has long been a critical economic sector in all developed societies and has made major contributions to economic growth. 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 to offices or factories. Mass construction has used housing as a key channel to develop new techniques and formats, and the industrial production of prefabricated buildings has similarly focused on housing to work out the kinks. Finally, mortgages have been one of the key sources of income and innovations for traditional-style banking. The thirty-year

mortgage, now a worldwide standard, was actually a major innovation for credit markets. Japan and then China 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.

The securitizing of mortgages, which took off in the 1980s, added yet another role for housing in the economy. Securitizing home mortgages can create growth in an economy. But it also opens up the mortgage market to speculation, making it vulnerable to risk and loss. This is acceptable if the owner of the mortgaged property decides to speculate and is fully informed of the risks. But it is not acceptable if the decision to enter a risky arrangement is made without such knowing consent. Even knowing consent may not be enough at a time when contracts are long and impenetrable and the culture pervading the financial and investment industry is not characterized by openness and transparency. It is worth recalling the notorious bankruptcy of Orange County, a municipal government in California: what the local government thought was a loan turned out to be a highly speculative investment, bankrupting the county and its pension funds. A similar crisis happened late in 2012 when dozens of municipal governments in Italy confronted a budget crisis because what they thought were straightforward bank loans turned out to be credit default swaps—one of the riskiest and most speculative types of investment.

The securitizing of home mortgages has a similar effect: it transforms what might look like a traditional mortgage into part of a speculative investment instrument to be sold and bought in speculative markets. But it follows a different pathway and represents yet another financial innovation capable of extreme destruction. It inserts a new channel for using housing as an asset that is to be represented by a contract (the mortgage) and can be sliced into smaller components and mixed with other types of debt for sale in the high

finance circuit. In the case of the particular type of subprime mortgage developed in the United States in the 2000s, the contract representing the mortgage was spliced and then each bit mixed with high-grade debt to generate an “asset-backed security” to be sold to financial investors. All that mattered to succeed in such selling was, in the last instance, a signed contract between bank and homebuyer representing an asset—the modest house. The actual value of the underlying asset (the house) did not matter, nor did the mortgage itself or the value of interest payments. The financial instrument was constructed so as to delink the instrument from those values. What mattered was that the instrument could function as an asset-backed security in the investment circuit, even if the instrument contained merely a small slice of a very low-cost asset (playing the role of material asset) and was mostly made up of other types of debt. The challenge was to delink the actual value of that asset (house) from the contract that was to be used in the high-finance circuit. It meant developing a series of complex steps, numbering up to fifteen, so that the fact of the actual value of the home and the mortgage payments did not matter. That is, the asset-backed security had to be “liberated” from the burden of the actual value of the asset, which was mostly very modest. The result was an enormously complex and opaque instrument.

Such delinking made the creditworthiness of mortgage holders irrelevant to the potential for profit. The result was to put modest households in a high-risk situation, with salespeople pushing to get the contract signed. What mattered was the mere existence of the signed contract, or, more precisely, the accumulation of large numbers of such signed contracts. This innovation opened up the world of lower-middle-income households to the high circuits of finance, creating what could potentially be a global market comprising billions of households. Later in this chapter I briefly examine the potential for this new financial instrument to spread to major developing regions of the world.³

This is not the first time the financial sector has used housing to develop an instrument for investors. The first residential-mortgage-backed securities were produced in the late 1970s. The concept, a good one in many ways, was to generate another source for funding mortgages besides the traditional one, which was basically bank deposits in their many variants. In their benign early form, mortgage-backed securities served to lower interest rates on mortgages and to stabilize the loan supply: that is, they allowed banks to continue lending even during downturns.

But that earlier incarnation of subprime mortgages was a state project. The one developed in the United States at the beginning of the twenty-first century and now spreading internationally is built by and for the financial sector. It is not about helping households to get housing but rather is intended to build a financial instrument, an asset-backed security, for use in financial circuits. Two features make this innovation different. One is the extent to which these mortgages function purely as financial instruments, in that they can be bought and promptly sold. Ownership of the instrument may just last for a matter of hours. Thus, when an investor has sold the instrument, what happens to the house itself is irrelevant; indeed, the firms or bank divisions that suffered sharp losses were largely those specialized subprime lenders or divisions within banks that did retain ownership of the debt. Further, as already described, since these mortgages have been divided, spliced, and distributed across diverse investment packages, there is no single component in such a package that actually represents the whole house. In contrast, the owner loses the entire house and all the value she has invested in it if she is unable to meet the mortgage payments for a few months—no matter who owns the instrument and the slice of her house inside that instrument.

The second difference from traditional mortgages is that the source of profit for the investor is not the payment of the mortgage itself but the sale of the financial package that bundles hundreds or

thousands of mortgage slices. This particular feature of the instrument enables lenders to make a profit from the vast potential market represented by modest-income households. The billions of these households across the world can become a major target when the source of profit is not the payment of the mortgage itself but the sale of the financial bundle. What counts for the lender is not the creditworthiness of the borrower but the sheer number of mortgages sold to (often pushed onto) households. This particular feature might be fine if the target for such mortgages is wealthy speculators, but it becomes alarming when less well-off households are the target.

The asymmetry between the world of investors (only some will be affected) and the world of homeowners (once they default, they will lose the house no matter what investor happens to own the instrument at the time) creates a massive distortion in the housing market and the housing finance market. While homeowners unable to meet their mortgage obligations cannot escape the negative consequences of default, most investors can, because they buy these mortgages in order to sell them; there were many winners among investors and only a few losers in the years before the crisis broke in August 2007. Thus, investors could relate in a positive way to even the so-called subprime mortgages (poor-quality instruments), and this indifference in itself was bad for potential homeowners. We see here yet another sharp asymmetry in the position of the diverse players enacting an innovation.

Finally, the current period makes legible a third asymmetry. At a time of massive concentration of financial resources in a limited number of superfirms, any that own a large share of the subprime mortgages when a mortgage default crisis hits get stuck with massive losses. In an earlier period, ownership of mortgages was widely distributed among a huge number of banks and credit unions, and hence losses were more widely distributed as well. The fact that several large, powerful firms wrongly felt that they could manage high-risk instruments further raised their losses. Ruthless practices,

the capacity of firms to dominate markets, and the growing interconnectedness of the markets have made these superfirms vulnerable to their own power, in a sort of network effect.⁴ One notorious example is that of now defunct Lehman Brothers, whose value still has not been established by the team of top-level experts assembled for the company's bankruptcy proceedings.

It is easy to persuade modest-income households to take out risky mortgages in a country such as the United States, where owning a house has been constructed into a high priority, unlike, for instance, Germany. Presented with the possibility (which turned out to be mostly a deception) of owning a house, modest-income people will put whatever savings they have into a down payment, and future earnings into monthly payments. The small savings or future earnings of modest-income households or the prior ownership of a modest house were used to enable customers to enter into a contract. And, as we have seen, to the lender it was the contract that mattered, not the house itself or the mortgage payments, for the contract was necessary to develop a financial instrument that could profit investors.

By 2004, the strategy was so successful with investors that mortgage sellers did not even ask for full credit reports or a down payment, just a signature on the contract. In a financial world overwhelmed by speculative capital, speed and numbers mattered, so the premium was on selling subprime mortgages to as many households as possible, including those who qualified for a regular mortgage that would have afforded them more protections but would have taken much longer to process. The negative effects on households, on neighborhoods, and on cities received no consideration. It is interesting to note that the same innovation that operated in the securitization of mortgages, in which a negative for some can actually translate into a categorical positive for a larger system, can be seen in the case of outsourced jobs as well. Outsourcing involves complex and costly logistics, but it is worth it to gain those cents on each work hour because it translates into addi-

tional value for a firm's shares in the financial markets, and hence additional profits for shareholders and executives.

Furthermore, within the logic of finance, it is also possible to make a good profit by betting against the success of an innovation—that is, to profit by predicting failure. This type of profit making happened as well with subprime mortgages and a series of other financial innovations, notably credit default swaps. In fact, it was the far larger market of swaps that sparked the September 2008 financial crisis: anxious investors trying to cash in their credit default swaps beginning in 2007 made visible the fact that this \$60 trillion market lacked the actual funds to meet its obligations. In short, the so-called subprime crisis was not due to irresponsible households taking on mortgages they could not afford, as is still commonly asserted in the United States and the rest of the world. Rather, the mounting foreclosures signaled to those investors who had bought credit default swaps, that it was time to cash in their “insurance,” but the money was not there, because the foreclosures had also devalued the swaps.

Multiple conditions, including the decline in housing prices, led to extremely negative outcomes for households, including foreclosure.⁵ From 2005 to 2010, out of more than 13.3 million mortgage

TABLE 3.1: U.S. Home Foreclosures, 2006–2010

Year	Foreclosure notices (in millions)
2006	1.2
2007	2.2
2008	3.1
2009	3.9
2010	2.9
Total	13.3

Data source: RealtyTrac 2012b.

foreclosure notices, 9.3 million ended in evictions, affecting perhaps as many as 35 million people. In 2008, an average of 10,000 U.S. households a day lost their homes. Not all foreclosures lead to eviction, of course, or at least not promptly, and some households may have been sent more than one foreclosure notice. But the available evidence shows that by 2010, more than 7 million of these households were no longer in the foreclosed home. There are still an estimated 4 million households that could be in trouble until 2014. This is a brutal form of primitive accumulation achieved through an enormously complex sequence of instruments using vast talent pools in finance, law, accounting, and mathematics.

For millions of people with modest incomes, the impact was catastrophic. New York City offers an example in microcosm. Table 3.2 shows how white residents of New York, who have a far higher average income than all other groups in the city, were much less likely to have subprime mortgages than all other groups. By 2006, when the numbers of subprime mortgages had risen sharply, just 9.1 percent of all mortgages taken in by whites were subprime, compared to 13.6 percent for Asian Americans, 28.6 percent for Hispanic Americans, and 40.7 percent for African Americans. The table also shows that all groups, regardless of incidence, experienced high growth rates in subprime borrowing from 2002 to 2006. If we consider the most acute period, from 2002 to 2005, subprime borrow-

TABLE 3.2: Subprime Lending by Race in New York City, 2002–2006

	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 2007.

ing more than doubled for whites, tripled for Asians and Hispanics, and quadrupled for blacks. A further breakdown by neighborhood in New York City shows that the ten worst-hit neighborhoods were poor: between 34 and 47 percent of residents who took mortgages got subprime mortgages.

The costs extend to whole metropolitan areas through the loss of property tax income for municipal governments. Table 3.3 shows the ten U.S. metro areas with the largest estimated losses of real gross municipal product (GMP) for 2008 due to the mortgage crisis and associated consequences, as measured by Global Insight.⁶ The total economic loss of these ten metro areas is estimated at over \$45 billion for the year 2008. In that year New York lost more than \$10 billion in GMP, Los Angeles \$8.3 billion, and Dallas, Washington, and Chicago each about \$4 billion.

The subprime mortgage instrument developed in these years is just one example of how financial institutions can achieve major additions to financial value while disregarding negative social outcomes and even negative outcomes for the national economy. This disregard is entirely legal, notwithstanding its pernicious effects.

THE POTENTIAL FOR GLOBAL SPREAD

Given its features, this type of subprime mortgage can travel globally, and could in principle reach at least a billion or more modest-income households across the world.⁷ Indeed, it already has traveled, and defaults outside the United States are rising fast. Hungary, for example, has already seen more than a million defaults on subprime mortgages.

One critical measure for gauging the potential growth of residential mortgage capital is the incidence of mortgaged homes in an economy. Figures 3.1 and 3.2 show the ratio of residential mortgage debt to GDP in diverse countries in Europe and in Asia, respectively. The mostly low incidence of this type of debt points to considerable potential for the selling of subprime mortgages.

TABLE 3.3: U.S. Metro Areas with Largest Losses of GMP, 2006

Rank	Metro area	Revised real GMP growth (%)	Loss in real GMP growth (%)	Loss of GMP (million \$)
1	New York–Northern New Jersey–Long Island, NY/PA	2.13	0.65	10,372
2	Los Angeles–Long Beach–Santa Ana, CA	1.67	0.95	8,302
3	Dallas–Fort Worth–Arlington, TX	3.26	0.83	4,022
4	Washington, DC–Arlington–Alexandria, VA/MD/WV/DC	2.79	0.60	3,957
5	Chicago–Naperville–Joliet, IL/IN/WI	2.23	0.56	3,906
6	San Francisco–Oakland–Fremont, CA	1.88	1.07	3,607
7	Detroit–Warren–Livonia, MI	1.30	0.97	3,203
8	Boston–Cambridge–Quincy, MA	2.16	0.99	3,022
9	Philadelphia–Camden–Wilmington, DE/NJ/PA/MD	1.85	0.63	2,597
10	Riverside–San Bernadino–Ontario, CA	3.51	1.05	2,372

Source: Global Insight 2007, table 2.

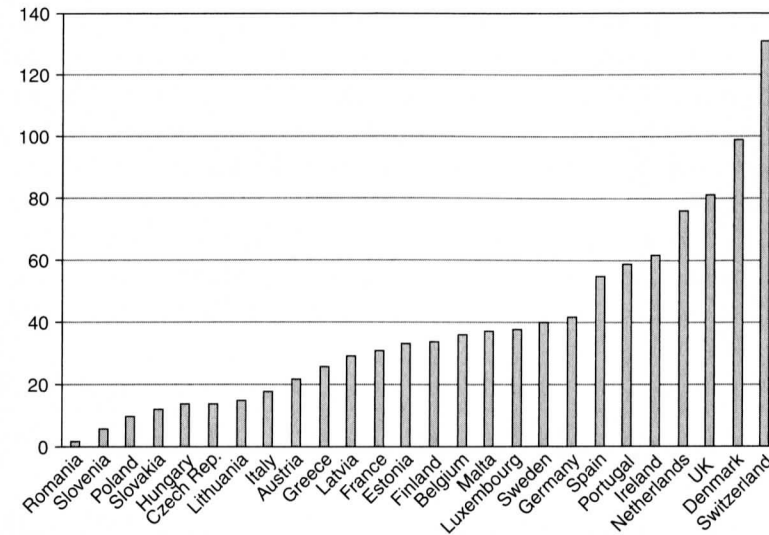


FIGURE 3.1 Ratio of Residential Mortgage Debt to GDP in Europe, 2006

Data source: Miles and Pilonca 2008, figure 1.

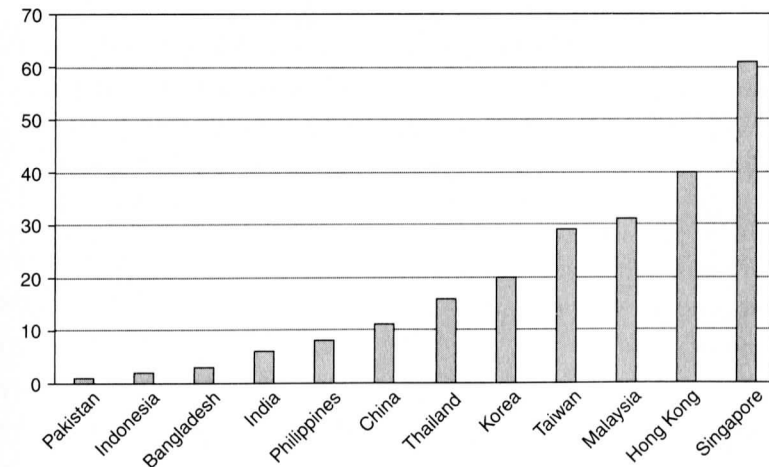


FIGURE 3.2 Ratio of Residential Mortgage Debt to GDP in Emerging Asia, 2001–2005

Data source: Warnock and Warnock 2008, table 2.

A second critical measure is the ratio of overall household credit (that is to say, debt) to household disposable income in the rapidly changing 2000–2005 period (see Table 3.4 and Figure 3.3). In some countries this ratio increased sharply: for instance, in the Czech Republic it grew from 8.5 percent in 2000 to 27.1 percent in 2005 and in Hungary from 11.2 percent to 39.3 percent, while in South Korea it rose from 33 percent to 68.9 percent. This growth is also evident in India, where the initial level was low, 4.7 percent in 2000, but had doubled to 9.7 percent by 2004. In mature market

TABLE 3.4: Ratio of Household Credit to Personal Disposable Income, 2000–2005

	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

Data source: IMF 2006.

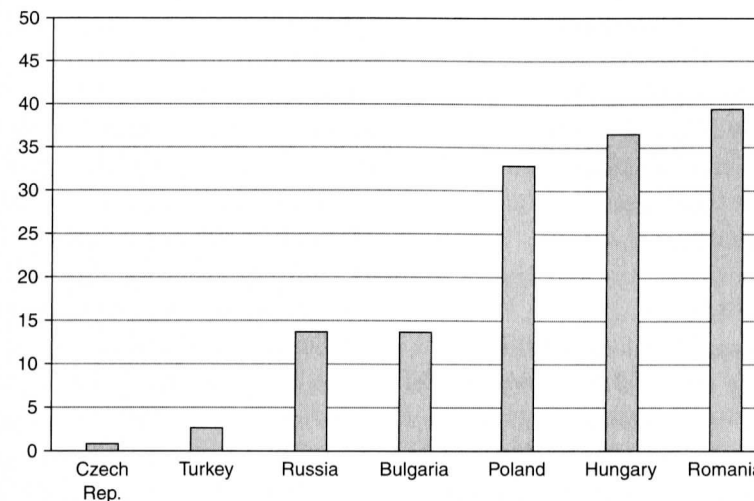


FIGURE 3.3 Share of Foreign Currency Dominated Household Credit, 2005

Data source: IMF 2006.

economies, this ratio is much higher but grew at a far lower rate than in emerging markets. For instance, in Japan it grew from 73.6 percent to 77.8 percent between 2000 and 2005, and in the United States from 104 percent to 132.7 percent. Spain had one of the highest increases, from 65 percent in 2000 to 112.7 percent in 2005, as did Australia, growing from 83.3 percent to 124 percent. Finally, who owns this household debt also can make a difference. If a small local bank owns it, there is a good chance that the proceeds (e.g. interest payments by local households on that debt), will recirculate in the locality. If a foreign bank owns it, such recirculation is unlikely.

THE OTHER GLOBAL HOUSING MARKET: SUPERPRIME FOR THE VERY RICH

The internationalizing of housing markets has taken on yet another novel format: a global superprime housing market for the very rich.

It is an invented or made market, where setting a very high base price allows it to avoid regular market dynamics, and then makes its specialness part of the cost to buyers. The basic concept is probably as old as wealth. But the developments of the past decade mark a distinctive phase. In a growing number of global cities, extremely rich foreigners have bought a significant number of luxury houses; in some cities this entails buying several smaller units to combine into one larger mansion. Among the main destinations for the superrich are Monaco, London, Paris, New York, Moscow, Singapore, Hong Kong, Shanghai, and Dubai. It is worth noting that Shanghai was the only city to show a marked decrease in the percentage of foreign buyers during the period of the economic crisis, from 2007 to 2012, when it showed a decline of 24 percentage points, while Hong Kong had the highest increase (23 percent), albeit mostly from China's mainland. In the other cities, the number of foreign buyers remained the same or increased.

As Table 3.5 shows, the minimum price of a house for it to be included in the superprime market varies considerably, from \$6.4 million in Shanghai to \$18.9 million in Monaco. The demographics of the market, specifically the incidence of foreign buyers, seem to play a role in the price. Thus, to take an extreme case, 100 percent of the market for superprime housing in Dubai consists of foreigners, compared to 10 percent in the cheaper market of Shanghai. As for nationalities, Russians have been the main foreign buyers in London, Paris, and Monaco. British buyers have been strong in Monaco, Paris, New York, and Singapore. Africans seem to be purchasing superprime real estate exclusively in Dubai. There is in some cases a regionalism in the choices. Housing in Singapore is predominately purchased by other Asians and Australians; in Hong Kong, mostly by mainland Chinese; in Paris, Monaco, and Moscow, mainly by local Europeans and citizens of the CIS. London, Dubai, and New York City seem to attract foreign buyers from all around the globe.

TABLE 3.5: Foreign Buyers in the Superprime Housing Market, 2007–2012

City	Country of origin of foreign buyers	Minimum price to qualify as superprime (in millions of \$)	% foreign (of all buyers)	2007	2012
Monaco	Russia, CIS, ^a United Kingdom, Italy, Switzerland	18.9	100	100	95
Paris	Russia, CIS, ^a Italy, France, Germany, United Kingdom, United States	15.9	75	85	85
London	United Arab Emirates, Greece, Australia, United States, Canada	8.0	45	60	60
Dubai	Kenya, Somalia, Tanzania, Saudi Arabia, Russia, India, Iran	10.0	50	50	50
New York	United Kingdom, France, Italy, Spain, China, Singapore, Australia, Brazil, Argentina, Canada	6.4	34	10	10
Shanghai	Hong Kong, Taiwan, United States, Canada, Japan, Malaysia, Germany, France, Indonesia, China, Malaysia, India, Australia, United Kingdom	15.4	12	35	10
Hong Kong	China	7.8	10	10	35
Moscow	CIS ^a				10

Data source: Powley and Warwick-Ching 2012.

Note: a. CIS refers to Commonwealth of Independent States, which includes the following countries: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, and Uzbekistan.

FINANCE: UNABLE TO GOVERN ITS OWN POWER?

Financial assets have grown far more rapidly than the overall economy of developed countries, as measured by GDP. This would not necessarily be bad, especially if the growing financial capital is transformed into large-scale projects for public benefit. But in the period that began in the 1980s, this accrual of benefit to the public was rare; among the exceptions were, for example, large-scale greening and environmentally sound projects in a range of cities, from London's Olympic Park to Rio's expansion of its mass-transport system. Mostly, finance focused on developing more speculative instruments and investments. Historically, this seems to be part of the logic of finance: As it grows and gains power, it does not use its power well. Giovanni Arrighi has argued that when speculative finance becomes dominant in a historic period, it signals the decay of that period.⁸

In the United States, the home of many organizational and financial innovations, the value of financial assets by 2006—before the economic crisis—was 450 percent the value of GDP.⁹ In the European Union, the corresponding figure was 356 percent, with the United Kingdom well above the EU average at 440 percent. More generally, the number of countries where financial assets exceeded the value of the country's GDP more than doubled, from thirty-three in 1990 to seventy-two in 2006.

These numbers signal that the period beginning in the late 1980s and continuing to the present constitutes an extreme phase. But is it anomalous? I argue that it is not. Furthermore, this phase is not created by exogenous factors, as the notion of crisis suggests. Recurrent crises are characteristic of this particular type of financial system. Even after the first crises of this phase occurred, in the 1980s, the U.S. government gave the financial industry the instruments to continue its leveraging stampede, as is illustrated in the

savings and loan crisis and the New York stock market crash of 1987. In the United States, perhaps the most extreme case, there have been five major bailouts, starting with the 1987 stock market crisis. Each time, taxpayers' money was used to pump liquidity into the financial system, and the financial industry used it to leverage, aiming at more speculation and gain. It did not use it to pay off its debt because this industry is about debt.

The financializing of a growing number of economic sectors since the 1980s has become both a sign of the power of this financial logic and the sign that it is exhausting its growth potential in the current phase, insofar as finance needs to use and invade other economic sectors in order to grow. Once it has subjected much of the economy to its logic, it reaches some type of limit, and the downward curve is likely to set in. One acute illustration of this is the development of instruments by some financial firms that allow them simultaneously to bet on growth in a sector and bet against that sector. This clearly is not made public, but every now and then we gain an insight into how it might work. In one recent case, Goldman Sachs designed derivatives for the Greek government that facilitated Greece's entry into the EU and then developed instruments for another client that would deliver profits if Greece's government went bankrupt. This generated considerable outrage in Greece and in the EU.

The current crisis contains features suggesting that financialized capitalism has reached the limits of its own logic for this phase. Finance has been extremely successful at extracting value from many an economic sector and from chains of derivative on derivative in an often long sequence. However, when everything in a sector has become financialized in a long chain that consists basically of finance building instruments on finance, then there is no longer value to extract. At that point the sector needs new, nonfinancialized sectors to build on. In this context, two of the last frontiers for financial extraction are housing for the modest-income household, of which

there are a billion or more worldwide, and bailouts through taxpayers' money (real, old-fashioned—not financialized—money).¹⁰

Credit default swaps, yet another recent innovation, are a critical factor in the current financial crisis. Their rapid growth was partly due to the fact that they were sold as a sort of insurance, which was valuable to many investors in a worrisome hypergrowth market. The second factor that fed the growth of this market was a familiar condition in any speculative market: some investors saw the economy as nearing crisis and others saw it as still having a few years of rapid growth. In short, there were eager buyers of swaps and there were eager sellers, and a market was thus made. From under \$1 trillion in 2001, swaps reached a value of \$62 trillion by 2007, more than the \$55 trillion of global GDP in 2007. But by September 2008 they had led to massive losses. The critical factor creating instability for the financial sector was not that millions of people with subprime mortgages were facing foreclosures, because the overall value of foreclosures was relatively small for global financiers. It was not knowing what might next turn out to be a toxic asset, since vast numbers of small slices of these mortgages had been bundled with high-grade debt in order to sell these instruments as backed by an actual material asset. The complexity of these investment instruments made it almost impossible to trace that tiny toxic component. What was a housing crisis for millions of people was only a crisis of confidence among investors. Yet it was enough to make that powerful system tremble. In other words, this type of financial system has more of the social in it than is suggested by the technical complexity of its instruments and electronic platforms.¹¹

The language of crisis remains ambiguous. A first point is that what we call "crisis" has enormous variability. Since the 1980s, there have been several financial crises. Some are well known, such as the 1987 New York stock market crash and the 1997 Asian meltdown. Others have received less attention, such as the financial crises that occurred in more than seventy countries during the

1980s and 1990s as they deregulated their financial systems. These are usually referred to as "adjustment crises," the language of "adjustment" suggesting that these are positive changes inasmuch as they move a country toward economic development.

Typically, the term "financial crisis" is used to describe an event that has a deleterious effect on the leading sectors of finance rather than on a country's institutions and people. Adjustment crises involved a far larger region of the globe than did the financial crises of 1987 and 1997. Yet the miseries the adjustment crises inflicted on middle-income people in the countries where they occurred, and the resulting destruction of often well-functioning national economic sectors, have largely been invisible to the global eye. These adjustment crises in individual countries intersected with global interests only when there were strong financial links with global firms and investors, as was the case with the 1994 crisis in Mexico and the 2001 crisis in Argentina.

A second point arises from data that present the period after the 1997 Asian financial crisis as a fairly stable one—until the current financial crisis. One element of this representation is that after a country goes through an adjustment crisis, what follows can be measured as "stability" and even prosperity according to conventional indicators. Except for the dot-com bust and the Argentine sovereign default, the post-1997 period was one of considerable financial stability for the leading financial markets and firms. But behind this "stability" lay the savage sorting of winners and losers that has already been described. It is easier to track winners than to track the often slow descent into poverty of households, small firms, and government agencies (such as those concerned with health and education) that are not part of the new glamour sectors of finance and trade. The postadjustment losers became relatively invisible globally over the last twenty years. Every now and then they became visible, as when members of the traditional middle class in Argentina engaged in food riots in Buenos Aires and elsewhere in the

mid-1990s, breaking into food shops just to get food—something that was previously unheard of in Argentina and took many by surprise. Such rare events also make visible the very incomplete character of postadjustment stability and the new “prosperity” praised by global regulators and media.

Thus, we need to disaggregate the often-touted fact that in 2006 and 2007 most countries had a GDP growth rate of 4 percent a year or more, a rate much higher than that of previous decades. Behind that measure lies the making of extreme forms of wealth and poverty and the destruction of well-established middle classes. In contrast, a 4 percent GDP growth rate in the Keynesian years described the growth of a massive middle class.

Also left out of this macro-level picture of relative stability in the decade after the Asian financial crisis is the critical fact that crisis is a structural feature of deregulated, interconnected, and electronic financial markets. Two points are worth mentioning in this regard. One is the sharp growth in the extent to which nonfinancial economic sectors were financialized, leading to the overall growth of financial assets as a share of sector value. That is to say, if crisis is a structural feature of current financial markets, then the more nonfinancial economic sectors experience financialization, the more susceptible they become to a financial crisis, regardless of their product. As a result, the potential for instability even in strong economic sectors is high, particularly in countries with sophisticated financial systems and high levels of financialization, such as the United States and the United Kingdom. Germany, which has weathered the financial crisis much better than the United States and the United Kingdom, has a manufacturing economy and a fairly low level of financialization—before the 2007 crisis hit, the value of financial assets in Germany was only 175 percent of GDP, compared with 450 percent in the United States.

Let me illustrate with an example from the current crisis and another from the 1997 Asian crisis. When the current crisis hit the

United States in 2007, many healthy firms, with good capitalization, strong demand for their goods and services, and good profit levels, were brought low. Large U.S. corporations, from Coca-Cola and Pepsi to IBM and Microsoft, were doing fine in terms of capital reserves, profits, market presence, and so on, but the financial crisis still hit them, directly via devalued stock and other financial holdings and indirectly through the impact of the crisis on consumer demand and credit access. Highly financialized sectors such as the housing market and commercial property market suffered directly and immediately. In many countries that underwent adjustment crises in earlier years, too, basically healthy nonfinancial firms were negatively affected. These adjustments were aimed at securing the conditions for globally linked financial markets, but they ruined many firms in the nonfinancial sector as well as small domestic banks.

We saw this also in the 1997 Asian financial crisis. Thousands of healthy manufacturing firms were destroyed in South Korea—firms whose products were in strong demand in national and foreign markets and that had the workforces and the machines to fill worldwide orders but which had to close because credit dried up and they were prevented from paying the up-front costs of production. The result was the unemployment of more than a million factory workers.¹²

The critical event that brought the financial system to a momentary standstill in 2008 was the classic bursting of a speculative bubble: the \$62 trillion credit default swap crisis that exploded in September 2008, a full year after the subprime mortgage crisis of August 2007. By 2008, the decrease in house prices, the high rate of mortgage foreclosures, the decline in global trade, and the growth of unemployment all alerted investors that something was not right. This in turn led those who had bought credit default swaps as a sort of insurance (see Figure 3.4 for the rapid growth in the value of such swaps between 2001 and 2007) to want to cash in.

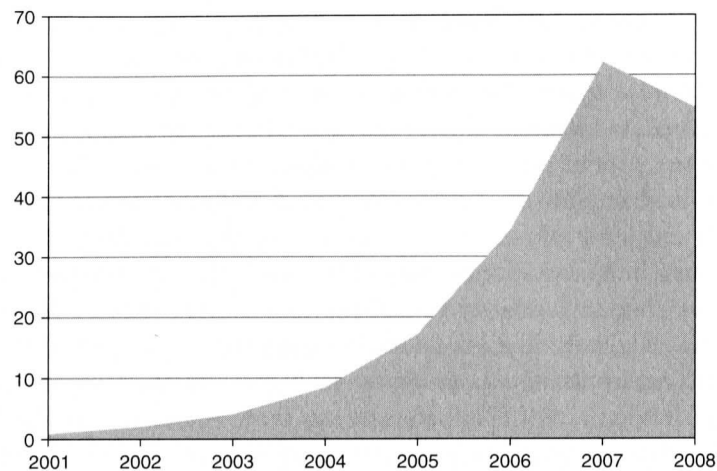


FIGURE 3.4 Rising Value of Credit Default Swaps, 2001–2008 (in trillions of \$)

Source: Varchaver and Benner 2008, based on data from ISDA.

But credit default swaps were not really insurance; they were derivatives, meaning that the sellers of the swaps did not have the capital required to back these instruments up, which would have been required had they really constituted insurance. The sellers had expected neither the downturn nor the desire of buyers to cash in. This catapulted much of the financial sector into crisis. However, not everybody lost; investors such as George Soros made large profits by going against the trend. Credit default swaps are part of what is referred to as the shadow banking system. According to some analysts, the shadow banking system accounted for 70 percent of banking at the time that the crisis exploded.

The shadow banking system is not informal, illegal, or clandestine. It is in the open, but it thrives on the opaqueness of investments. This opaqueness facilitates the recoding of instruments (a derivative recoded as insurance), which permits practices that are

now, after the fact, viewed as bordering on the illegal. For instance, it is now clear that credit default swaps were sold as a type of insurance. From the perspective of the financial system, this makes a significant difference, for had they constituted insurance, the law would require that they be backed by capital reserves and be subject to considerable regulation. Turning them into derivatives was de facto deregulation and eliminated the requirement for adequate capital reserves. Credit default swaps would not have grown so fast and reached such extreme values if they had needed to meet capital reserve requirements, which would have reduced much of the impact of the September 2008 crisis. Because they were derivatives, however, they could have an almost vertical growth curve.

A key component of the shadow banking system is so-called Dark Pools. A dark pool may refer to a wide variety of private, off-exchange Alternative Trading Systems (ATS) that share a key component: they do not display order size or price until after a trade has been completed. In a traditional public securities exchange, an electronic “order book” displays the volume of a particular stock available to be bought or sold at a certain price: these buy orders and sell orders are then matched algorithmically on a first-come-first-served basis. In dark pools, such information stays hidden until buy and sell orders are matched against each other, at which point the ATS is expected to report to a trade reporting facility any transaction of exchange-listed equities or options within ten seconds.¹³

Initially, dark pools appealed to institutional investors such as pension funds and mutual funds that need to periodically make large transactions in a single security. In a public exchange with an open order book, the presence of a large order can immediately move the price of a stock (for example, if ABC Co. has an average trading volume of 1 million shares a day, and there is an entry placed in the order book to buy 500,000 shares, it’s an easy bet that ABC stock is going to go up, and the price that the purchaser

will have to pay likely to be higher by the time the transaction is completed). To combat this, large investors had brokers “work” trades, breaking large blocks of stock into smaller transactions carried out on an extended period of time. This solution was never entirely effective: it increased price volatility and transaction time, and market participants could still detect a general upsurge of demand. The introduction of computerized high-frequency trading (HFT) made the situation much worse for institutional investors; algorithmic trading models could reliably detect even the most patiently distributed orders.¹⁴ Dark pools, first offered by financial giants such as Credit Suisse and Goldman Sachs, offered a refuge for investors who wanted to make transactions without immediately losing value. Today, dark pool trading represents about 13 percent of all stock market action¹⁵ and their numbers are increasing (see Figure 3.5).

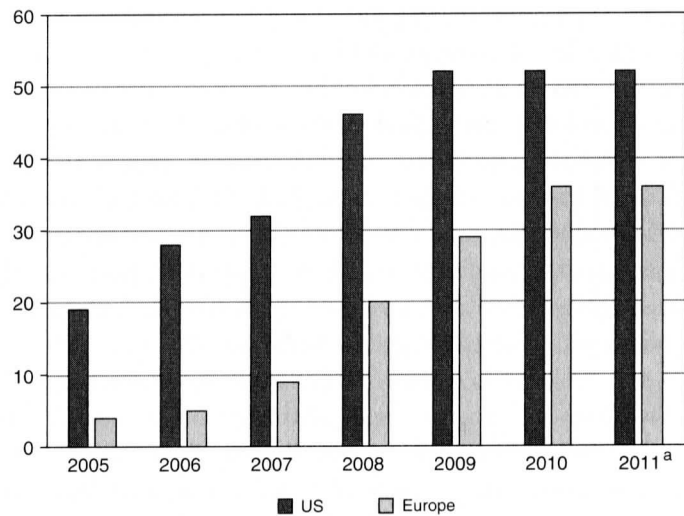


FIGURE 3.5 Number of Dark Pools in the United States and Europe, 2005–2011

Source: Economist 2011b, referencing data from TABB Group.

Note: a. Through August

The potential for abuse within dark pools is massive. The 10-second reporting delay for ATS transactions is an eternity in the modern stock market: in 2010, the major financial exchanges averaged 215,162 quotes per second and 28,375 trades.¹⁶ In this environment, the opacity provided by dark pools may distort markets. Further, the same opacity has enabled an extreme potential for abuse: large banks that run their own dark pools are suspected of giving unequal access to their own traders, and dark pool operators have been penalized for running the same HFT strategies within their exchanges and sharing confidential trade information with investors (Citigroup, in a recent case, received trade information from a dark pool it helped fund).¹⁷

In short, the so-called 2008 crisis contained several distinct crises. One was the subprime crisis experienced by the people who obtained these mortgages and lost out. A second crisis emerged from the fact that the millions of home foreclosures were a signal that something was wrong. But in itself, this crisis could not have brought down the financial system. It led to a crisis of confidence in the investor community. This, in turn, led those who had bought swaps as insurance against what they saw as the end of the growth cycle to want to cash in those swaps. And it was this that engendered the major crisis because the sellers of swaps were not ready for such a massive sudden disbursement. The decision by several governments to bail out banks with taxpayers’ money, with no guarantees from banks that they would recirculate bailout funds in the economy, led to further declines in growth and rising poverty of citizens and governments. It pushed already overindebted governments and households over the edge. And this is the crisis that lingers on and has led to the current austerity politics examined in Chapter 2. In contrast, global finance has gone back to super-profits after a brief but sharp fall in 2008.

We all need debt, whether we are a firm, a household, or a country. But do we need this level of debt? More important, do we need such complex instruments to finance basic needs for firms and households? No. Many of these needs can be met with traditional banking loans. We need finance because it “creates” capital, and can enable large-scale projects that we need—to clean toxic dumps, green our energy sources, address the vast needs of the destitute in poor and rich countries. In this latest growth cycle finance never did. It opted for financialization—of consumer loans and home mortgages, of student loans and pensions, of municipal government debt, and more. Finance was aggressive, invasive, and self-interested, and rather than being regulated firmly, it was too often left to risk our money for its own gain.

CHANGING OUR UNDERSTANDING OF GROWTH AND PROSPERITY

One important difference between the current crisis and other post-1980 crises is the order of magnitude that speculative instruments made possible. A second important difference involves the larger economic landscape: we now recognize clearly that we need to act quickly to curb financial excess, because existing international treaties and national laws are not sufficient. A third difference is the wider recognition that the growing extremes of wealth and poverty have become problematic. We now know that the profits secured by the richer segments of society do not “trickle down.” And we know that epidemics resulting from poverty and inadequate health care will in time also reach the rich.

The extreme character of the current crisis and the fact that we have recognized other major crises—most important among these being climate change—create an opening for the establishment of novel criteria for economic benefit. Yes, we need financial institutions: finance has the capacity to make and efficiently distribute

capital. However, financial capital has been used during the past decades for extremely speculative investments that largely served to enrich the already wealthy and has often wound up destroying healthy firms, even if more often that not this was unintended. Instead, we must use that new capital for large-scale investments in public goods, to develop manufacturing sectors, to green our economies, and more.

This combination of goals creates an opportunity to reorient financial capital to meet a broad range of needs. As an example, financial capital helped lift countless people in China out of poverty in recent years. But it did so via investments in manufacturing, infrastructure, and other material economies. Using financial capital to expand material economic sectors and to green our economies is distributive—the opposite of using financial capital to make more financial capital, which leads to massive concentrations of wealth and power. In principle, a serious effort to use financial capital to develop the material economy is an opportunity to green those investments—to encourage the development and use of technologies and practices that do not harm the environment.

The greater our capacity to produce wealth has become over the last twenty years (and finance has played a critical role here), the more radical the condition of poverty has become. It used to be that being poor meant owning or working a plot of land that did not produce much. Today the 2 billion people living in extreme poverty own nothing but their bodies. The fact is that we have the capacity to feed everybody on the globe, but feeding the poor is not the priority of the most powerful economic actors, so we have more hunger than ever before, and hunger is now growing in rich countries as well, notably the United States. Most of us have heard about the abusive conditions under which diamonds are extracted and how those profits get rerouted to armed warfare rather than to development. Fewer know about the circumstances surrounding the mining of rare earth elements, key metals needed for electronic components

(notably cell phones), for green batteries, and more. These metals are often mined by unprotected workers who use their naked hands to extract the minerals, live in extreme poverty, and die too young from poisoning to have been able to pass on the news of their abuse to the wider world. Finally, there is the well-established fact that discovering oil in a poor country becomes the formula for the creation of even more poverty and a small elite of the superrich.

We need to change the logics through which we define genuine prosperity. The triple crisis we confront should become an opportunity to reorient our enormous capacities to make capital and to produce what is urgently needed in both the Global South and the Global North.

CHAPTER 4

Dead Land, Dead Water

The biosphere's capacities to renew land, water, and air are remarkable. But they are predicated on specific temporalities and life cycles that our technical, chemical, and organizational innovations are rapidly outpacing. Industrialized economies have long done damage to the biosphere, but in at least some of these cases, and with time on its side, the biosphere has brought land and water back to life. Existing data show that in specific zones these sorts of recoveries have failed, however. We now have vast stretches of land and water that are dead—land overwhelmed by the relentless use of chemicals and water dead from lack of oxygen due to pollution of all sorts. The surge of foreign land acquisitions by governments and firms examined in Chapter 2 is one of many sources of this destruction. But the purchases are also partly a response to the crisis: more land and water need to be acquired to replace what has died. And if we take finance as a capability, following the analysis in Chapter 3, we can see more grist for its mill in the most foundational elements—not only the commodification of land and water, but also the further financializing of the resulting commodities.

The trends described in this chapter point to accelerated histories and geographies of destruction on a scale our planet has not seen before, making substantive the notion of the Anthropocene, the age marked by major human impact on the environment. Many of

58. On use of prisoners as exceptionally low-wage work camps, see Federal Bureau of Prisons n.d.; McCormack 2012; Summerill 2011. See also the *Times-Picayune's* 2012 eight-part series on incarceration in Louisiana, “How We Built the World’s Prison Capital,” at www.nola.com/prisons.

2. *The New Global Market for Land*

1. This is a subject I examine in *Ungoverned Territories* (forthcoming). On contracts see Cotula and Tienhaara 2013; Margulis et al. 2013; Pistor 2012; Shephard and Anuradha 2010; IFPRI 2009; Zoomers 2010.
2. I provide a detailed critical account of these various policies and the literatures they have engendered in Sassen 1988, 2001, 2010.
3. Sassen 1988. For broader historical accounts see Bertola and Ocampo 2013; Chatterjee 2011; Quijano 2007; Scott 1999; Landes 1999; Rubio 2003; McMichael 2009; White et al. 2012.
4. See Sassen 2008c, chapters 1, 8, and 9 for a development of the theoretical, methodological, and historical aspects.
5. This section is based on a larger research project (Sassen 2008d) 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 Programs, as well as in WTO law implementation during the 1990s and onward.
6. By 2003, debt service as a share of exports only (not overall government revenue) ranged from extremely high levels for Zambia (29.6 percent) and Mauritania (27.7 percent) to significantly lowered levels compared with the 1990s for Uganda (down from 19.8 percent in 1995 to 7.1 percent in 2003) and Mozambique (down from 34.5 percent in 1995 to 6.9 percent in 2003).
7. Jubilee Debt Campaign 2012, 2013.
8. UNDP 2005, 2008, 2013; see also Ferreira and Walton 2005.
9. For overviews of the data, see UNDP 2005, 2008; World Bank 2005; Atinc et al. 2006, 2013; Attinc et al. 2006; Behrman et al. 2011; Lucas 2005; Sassen 2008d, 2010.
10. Land Matrix, landmatrix.org (accessed July 29, 2012); Anseeuw, Wily, et al. 2012; Anseeuw, Boche, et al. 2012. See also DeSchutter 2011; FAO 2009; Cotula et al. 2009; Borrás and Franco 2012; IFPR 2011; Margulis et al. 2013; on particular legal aspects see Pistor 2012.
11. See also Provost 2012; Xing 2010.

12. GRAIN 2012.
13. HighQuest Partners 2010.
14. Aabø and Kring 2012, 2.
15. Oxfam 2012, 1.
16. Murphy 2013, 5.
17. Ravanera and Gorra 2011.
18. Hall 2011 and Cotula et al. 2009. Beyond Africa, see Visser and Spoor 2011; Novo et al. 2010; Shah 2009; Teubal 2006.
19. Cotula 2011; Ravanera and Gorra 2011.
20. Wiener Bravo 2011.
21. Molnar et al. 2011.
22. Ibid.
23. Putzel et al. 2011.
24. Colchester 2011.
25. For Benin, see Dossou et al. 2011; for India, see Rawat, Bhushan, and Surepally 2011.
26. Bräutigam and Tang 2011.
27. According to Rulli, Savioli, and D’Odorico 2013, “about 0.31×10^{12} m³/yr of green water (i.e., rainwater) and up to 0.14×10^{12} m³/yr of blue water (i.e., irrigation water) are appropriated globally for crop and livestock production in 47×10^6 ha of grabbed land worldwide (i.e., in 90% of the reported global grabbed land).”
28. The share of the primary sector (which includes prominently mining and agriculture) in inward FDI stock increased to 41 percent in 2006, up from 5 percent in 1996; in contrast, the share of the manufacturing sector almost halved, to 27 percent from 40 percent, over that period. (UNCTAD 2008).
29. For comprehensive data, see UNCTAD 2008.
30. On the other side, the World Food Programme spent \$116 million to provide 230,000 tons of food aid between 2007 and 2011 to the 4.6 million Ethiopians it estimated were threatened by hunger and malnutrition. This coexistence in a single country of profiting from food production for export and hunger, with the taxpayers of the world providing food aid, is a triangle that has repeated itself starting in the post-World War II war decades (Sassen 1988).
31. Friis and Reenberg 2010.
32. Ibid. Note that the graphs presented in Figures 2.7 and 2.8 are not contained in Friis and Reenberg 2010 but have been constructed by the author using their data.

33. Sun Biofuels actually failed in Tanzania and shut down in 2011, which led to severe and sudden shocks to the local economy.
34. Colchester 2011, 1; Productschap Margerine, Vetten en Oliën 2011, 1.
35. Productschap Margerine, Vetten en Oliën 2011, 1.
36. Colchester 2011, 2–3.
37. *Ibid.*, 1.
38. *Ibid.*, 2.
39. Burgers and Sustani 2011, 1, 11. See Vermeulen and Good for alternatives.
40. Mayer 2009.
41. Royal Tropical Institute 2012, 3.
42. Yusuf 2012, 7.
43. *Ibid.*, 13.
44. *Ibid.*
45. Deddy 2006, 91; Asian Human Rights Commission 2012.
46. Mayer 2009.
47. Colchester 2011, 18.
48. Asian Human Rights Commission 2012.
49. *Ibid.*
50. *Ibid.*
51. Santoso and Afrizal 2004.
52. Brunori 2013.

3. *Finance and Its Capabilities*

1. I develop this proposition in Sassen 2008b, 2013. These sources also contain extensive bibliographies on all key aspects of the subject of this chapter. See also generally Stiglitz 1999; Knorr and Preda 2013; Graebner 2012; Hartman and Squires 2013; Krippner 2011; Lerner and Bhatti 2013; IMF 2006, 2008, 2012a, 2012b.
2. Sassen 2001, chapter 4; 2008c, chapters 5 and 7. A key feature of finance is that it can extract robust profits from international transactions even in the face of massive job losses. Thus, in the United States the sector has profited from so-called Free Trade Agreements (FTAs) that, though presented as job creators (e.g., White House 2010), are not (e.g., Scott 2010, 2013; European Commission 2013; Office of the United States Trade Representative 2013a, b, c; Public Citizen 2011, 2013). Nor will the new Transpacific FTA create the promised jobs.
3. For a fuller development and extensive bibliography, see Sassen 2013.

4. Sassen 2008c, 348–65. On particular issues in the relation of finance and banking to housing see, e.g., van Onselen 2013; Goldstein 2013; Smith 2013; Krainer 2009; Kumhof and Rancière 2010; Neumann 2013.
5. See generally Center for Housing Policy 2012; Core Logic 2013; Furman Center 2007; Hankiewicz 2013; Levy and Gopal 2011; Mitchell 2013. On racial discrimination, see Wyly et al. 2009 and several chapters in Aalbers 2012. On details about foreclosure notices, see Realty Trac 2007, 2008, 2009, 2011, 2012a, 2012b, 2013a, 2013b.
6. Global Insight 2007; Pettit and Reuben 2012; but see also Dewan 2013. This is only one component of the financial system. There are many components of finance that consist of interactions between rich and powerful investors where these mechanisms of primitive accumulation are not an issue. But there are some other major components that also are subject to such mechanisms, notably pension funds and mutual funds, which often have to pay multiple little fees and commissions that add up to significant and unwarranted losses for the pensioners and the consumers who buy shares in mutual funds. Finally, much of the loss due to subprime mortgage foreclosures fell on bondholders, not on banks.
7. More detail can be found in Sassen 2008a; White 2013; Schwartzkopff 2013; Liu and Rosenberg 2013; Novinite 2011; Miles and Pillonca 2008; Glick and Lansing 2010; Warnock and Warnock 2008, 2012.
8. Arrighi 1994.
9. Farrell et al. 2008.
10. On the global potential of housing mortgage finance see generally European Mortgage Federation 2007; World Bank 2008, 2013a; Miles and Pillonca 2008; Glick and Lansing 2010; Neumann 2013. Elsewhere (Sassen 2008b, 2013) I examine diverse and extensive data that show the potential for global finance to use this particular type of subprime mortgage worldwide, given its invention of instruments that delink the capacity to pay the mortgage from investors' profit.
11. Sassen 2008c, chapter 7; Varchaver and Benner 2008, based on data from ISDA.
12. Sassen 2001, chapter 4.
13. Ganchev et al. 2009; SEC. 2013; Kocjan et al. 2012; Keohane 2012.
14. Alvarenga 2013.
15. Patterson 2013.
16. Clark 2011.
17. Patterson 2013.