

## When complexity produces brutality

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Embrasser le 21e siècle, enfin ?

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Résumé de l'article

Saskia Sassen explore ici la manière dont la créativité du capitalisme avancé a pu conduire à la crise des crédits hypothécaires (subprimes) aux USA. Au passage, elle découvre un lien secret entre la spéculation financière et une approche purement abstraite des réalités territoriales. Là où l'homme du commun assure que la terre vaut pour elle-même, qu'elle est le sol où se fonde toute vie humaine digne de ce nom, et que toute personne est fondée à demander à être protégée de la misère, et a fortiori dans le cas où elle met ses ressources à disposition des autres, il est soudain apparu que les techniques financières, telles le LBO (leverage buy out, achat avec effet de levier) n'étaient nullement cantonnées aux entreprises. D'où la mise en équivalence entre ce qui se développe dans les pays du Sud - lesquels ne se contentent plus d'exporter leurs ressources naturelles, mais vendent leur territoire à des compagnies étrangères - et ce qui s'est passé avec les emprunts hypothécaires. Dans les deux cas, le capitalisme avancé crée des « populations surnuméraires » qui sont réellement exclues de leurs propres villages ou de leur foyer. Il devient impossible aux populations du Sud de développer leur propres produits. Et dans les pays du Nord, un grand nombre de ménages ont été lessivés par des offres de crédits malsaines, et violemment rejetées sans la moindre possibilité de recouvrer l'argent qu'ils avaient placé dans le système. Que se passera-t-il ensuite ?

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## When complexity produces brutality

SASKIA SASSEN

**Abstract:** In a tentative project to understand how its own creativity led the advanced capitalism to the subprime crisis in the U. S., Saskia Sassen discovers a secret link between high finance and an essentially formal approach of territorial realities. Where the average human being considers the earth worth to be valued in itself as the basis for any human life, and any people as being entitled to be protected from misery by the resource they can flow into the social system, it suddenly appears that the financial techniques, such as the LBOS's are not restricted to corporate assets. Hence a comparison between what is actually occurring in most of the Global South countries, which are not only exporting their natural resources but selling their territories to foreign companies, and what happened with the subprime mortgage system. In both cases, the advanced capitalism created "surplus populations" effectively excluded from their own villages or houses. It becomes impossible for most of the people in the South to develop their own products. And in the Global North, a vast number of people were captured by distorted mortgage techniques, and left apart without any possibility to get what money they have spent into the system back. What is next?

**Résumé:** Saskia Sassen explore ici la manière dont la créativité du capitalisme avancé a pu conduire à la crise des crédits hypothécaires (subprimes) aux USA. Au passage, elle découvre un lien secret entre la spéculation financière et une approche purement abstraite des réalités territoriales. Là où l'homme du commun assure que la terre vaut pour elle-même, qu'elle est le sol où se fonde toute vie humaine digne de ce nom, et que toute personne est fondée à demander à être protégée de la misère, et a fortiori dans le cas où elle met ses ressources à disposition des autres, il est soudain apparu que les techniques financières, telles le LBO (leverage buy out, achat avec effet de levier) n'étaient nullement cantonnées aux entreprises. D'où la mise en équivalence entre ce qui se développe dans les pays du Sud - lesquels ne se contentent plus d'exporter leurs ressources naturelles, mais vendent leur territoire à des compagnies étrangères - et ce qui s'est passé avec les emprunts hypothécaires. Dans les deux cas, le capitalisme avancé crée des « populations surnuméraires » qui sont réellement exclues de leurs propres villages ou de leur foyer. Il devient impossible aux populations du Sud de développer leur propres produits. Et dans les pays du Nord, un grand nombre de ménages ont été lessivés par des offres de crédits malsaines, et violemment rejetées sans la moindre possibilité de recouvrer l'argent qu'ils avaient placé dans le système. Que se passera-t-il ensuite ?

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<sup>1</sup> <http://www.sens-public.org/spip.php?article721>

# When complexity produces brutality<sup>2</sup>

Saskia Sassen

When the cold war ended, a new struggle began. Following a period of Keynesian-led relative redistribution in developed market economies, the US became the point actor for a radical reshuffling of capitalism. The Keynesian period brought with it an active expansion of logics that valued people as workers and consumers. The current phase of advanced capitalism does not. In the last two decades there has been a sharp growth in the numbers of people that have been “expulsed,” numbers far larger than the newly “incorporated” middle classes of countries such as India and China. I use the term “expulsed” to describe a diversity of conditions: the growing numbers of the abjectly poor, of the displaced in poor countries who are warehoused in formal and informal refugee camps, of the minoritized and persecuted in rich countries who are warehoused in prisons, of workers whose bodies are destroyed on the job and rendered useless at far too young an age, able-bodied surplus populations warehoused in ghettos and slums. My argument is that this massive expulsion is actually signaling a deeper systemic transformation that has been documented in bits and pieces but not quite narrated as an overarching dynamic that is taking us into a new phase of global capitalism.

Here I examine three issues. First I briefly examine what got us to this point. Next I discuss a new profit logic that can thrive on the devastations produced by the dominant logic of the last two decades: the repositioning of what had been constructed as national sovereign territory as *land* for sale on the global market. This is land in Africa, Central Asia and Latin America that is being bought by rich investors and rich governments to grow food, to access underground water tables, and to access minerals and metals. The third examines what can be seen as a global extension of financial mechanisms that have till now been confined to the US which have as a key feature the possibility of massive financial profit off the backs of modest income households, of which there are about 2 billion globally.

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<sup>2</sup> This is based on a larger study “Expulsions: A Savage Sorting of Winners and Losers” (forthcoming 2010) and “A Savage Sorting of Winners and Losers: Contemporary Versions of Primitive Accumulation.”, in *Globalizations*, March-June 2010, Vol. 7, Nos. 1-2, pp. 23-50.

French translation available on line: [http://www.sens-public.org/article.php3?id\\_article=750](http://www.sens-public.org/article.php3?id_article=750)

## Designing complex instruments for elementary extractions

Two profound shifts stand out beginning in the 1980s. One is the ascendance of finance: while traditional banking is about selling money you have, finance is about selling money you do not have. To do this, finance needs to invade non-financial sectors to get the grist for its mill. And no instrument is as good for this as the derivative. The result was that by 2005 the (notional) value of outstanding derivatives was US\$630 trillion, which is 14 times global GDP. This is not unprecedented in our western history, but it is a major transformation from the Keynesian period, which was marked by the vast expansion of material economies: mass manufacturing and mass-building of infrastructures and suburbs.

The second major shift is the material development of growing areas of the world into extreme zones for key economic operations: the global outsourcing of low-wage manufacturing, services and clerical work to low-wage areas and the active world-wide making of global cities as strategic spaces for advanced economic functions– the Dubai's built from scratch and the often brutal renovating of central areas in older cities.

The growing weight of this financial logic also explains why the latest financial crisis has affected the economies of the richest countries more than past financial crisis of the last two decades, of which we have had several. Further it explains the co-presence of both an enormous growth of personal wealth since the 1990s and the fact that much of the job growth and national income growth of the in-between periods had been wiped out by the end of 2009. At the end of two decades of wild financialization, we find a zero growth economy in most of the rich countries, especially the US, the UK and Japan. More generally, the world has more poverty, more inequality, more concentration of wealth, and more devastated economies in the Global South.

What is next?

## When the land is more valuable than the people and enterprises on it

Inside capitalism itself we can characterize the relation of advanced to traditional capitalism as one marked by extraction and/or destruction. At its most extreme this can mean the immiseration and exclusion of growing numbers of people who cease being of value as workers and consumers. But it also means that traditional petty bourgeoisies and traditional national bourgeoisies cease being of value. This is part of the current systemic deepening of capitalist relations. One brutal way of putting it is to say that the natural resources of much of Africa and good parts of Latin America and Central Asia count more than the people on those lands count as consumers and as

workers. When this happens we have left behind earlier forms of capitalism which thrived on the accelerated expansion of prosperous working and middle classes. Maximizing consumption by households was a critical dynamic in that period; and it is today in the so-called emergent economies of the world.

Today, after twenty years of a particular type of advanced capitalism, we confront a human and economic landscape marked by a double helix dynamic.

On the one hand, there is a mix of conditions that are being coded as a growing surplus of people and a growing expanse of territory that is devastated – by poverty and disease, by so-called civil wars, by dysfunctional governments due to acute corruption, high indebtedness, extreme inability to address peoples' needs. These conditions are present to some extent also in the developed countries, but they take on extreme forms in the less developed world. We can add some other worldwide trends, notably the increasingly degraded use of people –as sex workers, as workers who are not just used, but used-up in extreme work situations and then discarded, of people merely as providers of body organs, and so on. There is a rapid, often active making of surplus populations – people displaced by proliferating armed conflicts in Sub-Saharan Africa, sharp increases in the numbers of prisoners in the US and several other Global North countries, displaced people of all sorts assembled in refugee camps managed by the international humanitarian system (at best) financed by the taxpayers of the world.

On the other hand, territory is systemically repositioned in growing parts of the Global South as representing not nation-states but “needed” resources (Sassen 2009). The devastations briefly described above, especially in the Global South, in combination with the implementation of restructuring programs by the IMF and the World Bank, have had multiple effects. Here I am particularly focused on one, which I see as central in the new phase of advanced capitalism that is taking off after the financial crisis that exploded in 2008. It is that this mix of processes has had the effect of “reconditioning” the terrain represented by these countries for an expansion of advanced capitalism, including its explicitly criminal forms.

The simplest way to illustrate this is through some of the numbers about the accelerating acquisition of mostly poor countries' land by foreign investors and governments. It is not the first time in modern times: this is a recurrent dynamic which tends to be part of imperial realignments. China's acquiring of mines in Africa is linked to its rise as a global power. Britain, France, the US and others all did this in their early imperial phases, and in many cases have owned vast stretches of land in foreign countries for hundreds of years. But each phase has its particularities. One key feature of the current period is that unlike past empires, today's world consists largely of nation-states recognized as sovereign, no matter how feeble this sovereign power is in many cases. Rather than imperial grab, the mechanism is foreign direct investment (among others).

The International Food Policy Research Institute (IFPRI 2009) finds that between 15 and 20million hectares of farmland in poor countries have been subject to transactions or talks involving foreigners since 2006.<sup>3</sup> That is the equivalent of a fifth of all the farmland of the European Union. Putting a conservative figure on the land's value, IFPRI calculates that these deals are worth US\$ 20 to 30 billion. This is ten times the emergency package for agriculture recently announced by the World Bank and 15 times more than the US government's new fund for food security. While there is no comprehensive data, there are a number of studies (e.g. though the IFPRI data are probably the most detailed. The contractual formats under which this land is acquired include direct acquisitions and leasing. A few examples signal the range of buyers and of locations. Africa is a major destination for land acquisitions. South Korea has signed deals for 690,000 hectares and the United Arab Emirates (UAE) for 400,000 hectares, both in Sudan. Saudi investors are spending \$100m to raise wheat, barley and rice on land leased to them by Ethiopia's government; they received tax exemptions and export the crop back to Saudi Arabia.<sup>4</sup> China secured the right to grow palm oil for biofuels on 2.8m hectares of Congo, which would be the world's largest palm-oil plantation. It is negotiating to grow biofuels on 2m hectares in Zambia. Perhaps less known than the African case is the fact that privatised 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 \$6.5m 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 to be floated on the financial markets to sell 40% of its landowning division, giving them access to 500,000 hectares. Also less noticed than the African case is that Pakistan is offering half a million hectares of land to Gulf investors with the promise of a security force of 100,000 to protect the land.

These developments are part of a larger combination of trends. On the one hand there is the immediate fact of how the global demand for food, partly fed by the half billion strong new middle

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<sup>3</sup> Worth noting that this happens at a time when *The Economist* index of food prices rose 78%; soya beans and rice both soared more than 130%. Meanwhile, food stocks slumped. In the five largest grain exporters, the ratio of stocks to consumption-plus-exports fell to 11% in 2009, below its ten-year average of over 15%." Beyond price, trade bans and crises pose a risk even to rich countries that rely on food imports.

<sup>4</sup> On the other side, the World Food Programme spends \$116m to provide 230,000 tons of food aid between 2007 and 2011 to the 4.6m Ethiopians it estimates are threatened by hunger and malnutrition. This co-existence in a country of profiting from food production for export and hunger famines, with the taxpayers of the world providing food aid, is a triangle that has repeated itself over the post-WW2 war decades (Sassen 1988).

classes of Asia, has meant that there are profits to be had in food and land. We now have a global market for land and food controlled by large firms and some governments, and it has been a growth sector throughout the financial crisis. Under these conditions pricing is a controlled affair. Secondly, there is the ongoing demand for metals and minerals of all sorts and a whole new demand for metals and minerals hitherto not much exploited as their demand comes from the more recent developments in the electronics sector. Africa, much less densely populated and built up than other parts of the world, has become a key destination for investments in mining. Thirdly, the growing demand for water and the exhaustion of underground water tables in several areas of the world. Fourth, and least noted perhaps, is the sharp decline in foreign direct investment in manufacturing in Africa, also signaling the repositioning of territory. In South Africa and Nigeria, Africa's top two FDI recipients accounting for 37 per cent of FDI stock in Africa in 2006, have had a sharp rise in FDI in the primary sector and a sharp fall in the manufacturing sector.<sup>5</sup> This is also the case in Nigeria, where foreign investment in oil has long been a major factor: the share of the primary sector in inward FDI stock stood at 75 per cent in 2005, up from 43 per cent in 1990. Other African countries have seen similar shifts. Even in Madagascar, one of the few, mostly small, countries where manufacturing FDI inflows increased in the 1990s, this increase was well below that of the primary sector.<sup>6</sup>

Elsewhere (2010) I develop these issues at length and argue that the extraction of value from the global south and, in particular, the implementation of restructuring programs at the hands of the IMF and the World Bank, have had the effect of "reconditioning" the terrain represented by these countries for an expansion of advanced capitalism, including its explicitly criminal forms. The buying of vast stretches of land in Africa and Central Asia to use for offshore agriculture, extraction of underground water, and access to metals and minerals, is an easier operation for the currently dominant investors and governments if they have to deal with weakened and/or corrupt governments and local elites, and disempowered citizens.

## Expulsions in the global north

By the beginning of the new millennium, the sharp acceleration of financial value compared to actual GDP was generating an acute demand for securities backed by actual assets. It is in this context that even low-grade mortgages on modest homes became grist for the financial mill in the

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<sup>5</sup> The share of the primary sector (which includes prominently mining and agriculture) in inward FDI stock increased to 41 per cent in 2006, up from 5 per cent in 1996; in contrast, the share of the manufacturing sector almost halved to 27 per cent from 40 per cent over that period. (UNCTAD 2008).

<sup>6</sup> For comprehensive data see United Nations Conference on Trade and Development (UNCTAD) *World Investment Directory Volume X Africa* (2008, New York: United Nations).

U.S.. This combination of poor quality debt and modest assets is probably the least attractive investment for finance. But mortgages on modest homes was one of the few under-financialized sectors in the US economy; the financializing of regular mortgages and of consumer loans had already been in place for two decades, so what was left was at the margins – low grade mortgages, school loans, and such. As the demand for asset-backed securities grew, so did the use of sub-prime mortgages to build asset-backed securities.

There is one feature about the resultant mortgage instrument which is critical for its potential spread to the global market of 2 billion middle and lower income households. It is also a feature often overlooked in explanations of the crisis, and especially in common notion that it was the irresponsible buyers of these mortgages who should have known that they could not pay for them. This feature is the de-linking of potential profits for the mortgage-sellers and investors from the consumer's capacity to pay the mortgage. It took a complex set of innovations to make possible a very elementary de-linking. Whether the buyer of the mortgage could pay the monthly installments mattered less than signing on at least 500 such buyers. Each of these mortgages could then be sliced into multiple fragments, each of these fragments bundled up with high-grade debt that was not asset backed, and generate an "investment product" that could then be sold as an *asset*-backed security to investors –mission accomplished.

Thus the foreclosure crisis that exploded in 2007 was not a crisis for financial investors. It was a crisis for the millions of middle- and working class families, most of whom we now know had been signed on under false pretenses; now they could not pay their mortgages and lost everything, including the little they had had before they took on the mortgage. Fifteen million households have now lost their home to foreclosures, which is more than the total population of the Netherlands. Millions of them now live in tents.

For high-finance, these millions of foreclosures in 2006 and 2007 created a crisis of confidence: The foreclosures were a signal that something was wrong but given the complexity of the bundled instruments, it had become impossible to identify the toxic component. The value involved, a mere US\$ 300 billion, could not have brought down the financial system. There is a profound irony in this crisis of confidence: the brilliance of those who make these financial instruments became the undoing of a large number of investors (besides the undoing of the modest-income families who had been sold these mortgages). The toxic link was that for these mortgages to work as assets for investors, vast numbers of mortgages were sold regardless of whether these home-buyers could pay their monthly fee. The faster these mortgages could be sold, the faster they could be bundled into investment instruments and sold off to investors. Overall, subprime mortgages more than tripled from 2000 to 2006, and accounted for 20% of all mortgages in the US in 2006. This premium on speed also secured the fees for the sub-prime



mortgage sellers and reduced the effects of mortgage default on the profits of the sub-prime sellers. In fact, those sub-prime sellers that did not sell off these mortgages as part of investment instruments went bankrupt eventually, but not before having secured fees from the home-buyers.

Sub-prime mortgages can be valuable instruments to enable modest-income households to buy a house. But what happened in the US over the last few years was an abuse of the concept. The small savings or future earnings of modest-income households were used for the sole purpose of developing a financial instrument that could make profits for investors even if those households went bankrupt. In an increasingly globalized world the good and the abusive uses of this instrument will proliferate.

The aggressive sale of subprime mortgages to those unable to pay for them becomes clear in the microcosm that is New York City. Whites, who have a far higher average income than all the other groups in New York City, were far less likely to have subprime mortgages than all other groups. Thus 9.1 percent of all Whites who got mortgages got subprime mortgages in 2006 compared with 13.6 percent of Asians, 28.6 percent of Hispanics, and 40.7 percent of Blacks. While all groups had high growth rates, if we consider the most acute period, 2003 to 2005, it more than doubled for Whites, but tripled for Asians and Hispanics, and quadrupled for blacks. Most of these households have lost their homes to foreclosure, and many of the neighborhoods have become devastated urban spaces.

**Rate of Conventional Subprime Lending by Race, New York City 2002-06**

	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 for Real Estate & Urban Policy, 2007

We can use several diverse bodies of data to detect the potential global market for these instruments, and hence the potential for devastating households, neighborhoods and more. A comparison of the value of all residential mortgage debt (from high to low-quality mortgages) as a ratio of national GDP across countries shows sharp variations. To some extent, the variation in this value is a function of timing. It is well above 100% of GDP in the US, the UK, Australia, and several European countries, notably 145% in Switzerland. Here, the housing market has long been private and, importantly, the financial system is highly developed on a broad range of fronts. Thus the incidence of mortgages is both high and widespread in terms of the variety of financial circuits it encompasses. Central to this story is the difference between the value of housing loans as a ratio to GDP and the growth rate of such loans. Thus, the former is very low in countries with young housing markets, such as India and China, where it stands at 10%. In contrast, in more

mature markets in Asia this value can be much higher – standing at 60% in Singapore, and 40% in each Hong Kong and Taiwan – but the growth rate is much lower. Between 1999 and 2006, the average annual growth of housing loans in India and China was extremely high, certainly above the growth of other types of loans. Both these countries each have new middle classes of about 200 million each, and hence rapidly growing housing markets; they are, thus, at the beginning of a new phase of economic development. If we consider the particular financial innovations of concern in this article – moderate and low-income households' mortgages and subprime mortgages – then we can see how attractive the Indian and Chinese residential mortgage market becomes.

While residential mortgage capital is growing, it needs to be situated in a larger financial landscape. Thus even though mortgage finance measured as a ratio to GDP is high in countries such as the US and the UK, the total value of financial assets is far higher. As indicated earlier, the ratio of finance as a whole to US GDP is 450%, as it is for the UK. The other story, then, is the extent to which finance has found mechanisms for raising its revenue that have little direct connection to the material economy of countries. In this regard, the securitizing of residential mortgages can be seen as a powerful instrument for the further financial deepening of economies.

Finally, a further way of understanding the potential market for mortgages is from the perspective of respectively a country's financial/banking system and a country's households (Sassen 2008). For the first, we can use data on the share of residential mortgages in a country's total loans. For instance, the share of residential loans to total loans in "emerging markets" ranges from 9 % in Russia and 13% in Poland to 20% in South Africa, with most countries in between these two. In the developed countries it varies enormously. The low end is the 17% in Germany and several other EU countries. The highs are in the US 40%, in Canada 60%, in Australia 50%, in Norway 60%, and so on. In other words, there is a potential for residential loans to gain share in total loans from the perspective of the financial and banking systems. Some of this growth may well take the shape of subprime mortgages, with its attendant risks for modest-income households and the added leveraging it brings into the financial system.

As for households, there has been rapid growth over a very short period of time in the ratio of household debt to personal disposable income. For instance, to take cases with high increases, in emerging markets, in the Czech Republic this ratio jumped from 8% in 2000 to 27% by 2005, in Hungary from 11% to 39%, in South Korea from 33% to 68%; in mature markets these ratios went from 83% to 124% in Australia, from 65% to 113% in Spain, and from 104% to 133% in the US. These are high growth rates and they indicate the potential for growth among countries with high increases in these years as well as among those with low rates of increase. An indication of the dynamic character of this market to become globalized is the fact that in some of these countries, much of this debt is foreign-owned. This holds for economies as diverse as, for

instance, Poland, Hungary and Romania, where, respectively 35%, 40% and 42% of this household debt is foreign-owned.

## Conclusion: a logic of expulsions

One way of thinking about the emergent trends discussed here is as an expansion of the operational space for advanced capitalism --it expels people both in the Global South and in the North even as it incorporates spaces. In the Global South these spaces amount to a channel for accessing earth itself with its riches as agricultural land for high-end crops, water, and rare earths minerals and metals. In the Global North the utility logics that might appropriate this newly emptied space are less clear. But in both cases we see an active *making* of "surplus populations," by which I intend to use surplus as a constructed condition within a system rather than a generic condition.

The Global South can be seen as a kind of systemic vanguard for a new phase of advanced capitalism, after the hyper-financial phase that began in the 1980s.

The devastated economies of the Global South, subjected to a full decade or two of debt-servicing under IMF restructuring programs, are now being incorporated into new circuits of advanced capitalism. This is taking place through the accelerated acquisition of millions of hectares of land by foreign investors – to grow food and extract water and minerals, all for the capital investing countries. The sharp increase in displaced peoples, now estimated at 26 million, with 17 million added in the last few years alone, is one indicator of this new phase.

The picture is less clear in the Global North. The greater complexity of these economies has entailed the elaboration of multiple logics of extraction. Here I briefly alluded to the subprime mortgage crisis, a largely Global North dynamic which entailed the profound distortion of the original concept of the subprime mortgage, an instrument aimed at helping modest households get a home. I see this distorted use as extending the domain for high finance, but in a way that delinks the financial circuit from the actual material entity that is the house, and hence from the neighborhood, and from the people who got the mortgage. In this usage, the house only matters as a contract representing a material asset, and then only if thousands of these mortgages can be bundled. The families are used to develop an instrument, and once the contract is signed it does not really matter whether they can or not pay the monthly mortgage payments. The resulting devastated neighborhoods are expelled from what are, strictly speaking, traditional circuits of capital.