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Globalization

World Capitalism in a Phase of Permanent Instability

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The years 2000-2001 marked a significant economic turning point, undermining the hopes placed in the generalization of the benefits of the hi-tech "new economy" and the "irrational exuberance" of the financial markets. Certainly, the United States authorities have succeeded in minimizing the breadth of the recession, but they have only done so at the cost of new disequilibria, while Europe is sinking once again into a depressed economic conjuncture.

The countries of the South have partly recovered from the consequences of financial crises, but remain subject to the uncertain outlook of the world economy.

An untypical upturn in the US

Contrary to the hopes that it had raised, the “new economy” pushed down the rate of profit in the US from 1997 onwards. Figure 1 illustrates the main reason for this; the new technologies undoubtedly brought productivity gains but these were insufficient to offset a spectacular growth in the rate of accumulation.

The “new economy” has then been very costly in terms of investment and in spite of a fall in the relative price of this investment, this has finally weighed on the organic composition of capital. This point is fundamental, because it puts an end to illusions about capitalism's ability to free itself from its fundamental laws. The new technologies are not a magic instrument that would allow capital accumulation free from the fear of crises.

[https://npa31.org/IMG/gif/Image1.gif]
Figure 1. Profit and accumulation - Rate of profit: profit as % of capital (scale on left) Rate of accumulation: investment as % of capital (scale on right)

The recession that followed, from 2001 onwards, had then a dual function. First, it allowed a restoration of the profitability of capital through very tight management of employment. One can speak of a â€˜jobless recovery' to the extent that the latter provided an opportunity to accumulate potential productivity gains. But neither were the more classic means of re-establishment of the rate of surplus value neglected, such as increased working time and wage restraint, made easier by the weak demand in the labour market, which always makes it harder for workers to resist.

[https://npa31.org/IMG/jpg/Michel_Husson.jpg]
Michel Husson

This period was also used to bring the rate of accumulation more into line with that of profitability. It is striking to see how the two curves have come together after having considerably diverged.

This adjustment was carried out without a deep and lasting slowdown of the economy, because of the economic policy pursued by Bush after September 11. This has three main aspects, all of which help to boost economic activity.

The first was a kind of “military Keynesianism” involving increased military expenditure. The second aspect was a spectacular tax cut to stimulate the consumption of the rich. Finally, interest rates were pushed low so as to support the internal market, particularly in the area of property. The dynamism of internal consumption was thus maintained and the impact of the recession was limited. These policies have however generated a whole series of contradictions, which represent the flip side of its advantages. These are the main ones:

1) tax cuts, combined with military expenditure have turned the budget surplus into a significant deficit;

2) support for household demand through the lowering of interest rates has carried household indebtedness to unprecedented levels and led to an incipient “bubble” on the mortgage market;

3) income inequalities have again deepened, to the point of caricature;

4) the trade deficit with the rest of the world has continued to deepen and now represents more than 5% of US GDP, or more than 1% of world GDP.

In this context, the scenario of a brutal adjustment threatening the US economy becomes more plausible. It will happen if capital from the rest of the world refuses to finance the US trade deficit or, what amounts to virtually the same thing, if the central banks of the other countries no longer accept holding growing reserves in dollars and sell them, bringing the dollar's exchange rate even lower.

It would then be necessary for the US to raise interest rates to reassure foreign capital and/or rein in the growth of the internal market to ensure the financing that foreign capital is no longer providing. This could then lead to a stock market and mortgage implosion and a serious social crisis not only for wage earners, but also those social layers whose wealth and incomes depend on the value of their financial assets.

It is not catastrophist to envisage such a scenario, and there is practically consensus that current deficit policies are unviable. To give only one example, the last OECD report devotes a whole chapter to the reduction of the US trade deficit, which seeks to calculate its impact on the world economy in figures. [1] The important thing is not making prophecies, but identifying the two essential factors on which the trajectory of the US economy in the years to come depends, namely its articulation with the other zones of the world economy and its capacity to make productivity gains.

The question of productivity

This absolutely decisive question is at the centre of the debate on the health of the US economy, and Alan Greenspan, the president of the Federal Reserve, misses no opportunity to refer to it. The debate can get quite technical but it relates to a central analytical question in contemporary capitalism, the impact of the “new economy”. The point of departure is the more rapid progress of productivity - in other words the relationship between production and employment - registered in the US from the mid-1990s onwards.

This acceleration followed previously mediocre US economic performance, clearly inferior to what were recorded in Europe. It justified the hopes placed in the “new economy” and gave meaning to the stock market explosion. According to this line of analysis, the dizzying growth of share prices only anticipated the profits to come, thanks to the productivity boosted by the introduction of new technologies. Capital was then correct in flowing to the US, even if this had as its counterpart a deepening of the trade deficit.

There are then two opposed theses, that of the “high tech” cycle and that of “new growth”. For the former, productivity gains were only the transitional product of the investment boom in the new technologies. Productivity would revert to its previous tendency after investment returned to lower levels. For supporters of the new growth thesis, technological change would on the contrary have a lasting impact in terms of productivity gains.

The recent facts seem to bear out the latter thesis, as productivity has continued to accelerate in spite of a fallback in the rate of investment (figure 2). Moreover, these productivity gains can be seen in all sectors, rather than being confined to the most technologically advanced sectors, undermining one of the main arguments of the “skeptics”.

[https://npa31.org/IMG/gif/Image2.gif]
Figure 2. Productivity and investment - Productivity: rate of growth of Gross Domestic Product (GDP) per head (scale on left) - Rate of â€˜investment: investment as % of GDP (scale on right)

The debate is not however settled, because exits from recession in the US are traditionally accompanied by significant peaks of productivity. For sure, this phase of upturn is particularly atypical since it involves very little job creation. The significant drop in company profits has led to a very rigorous policy of restructuring and intensification of work.

It could be argued that they are thus reaping the benefits of the new technologies, but it would be very hazardous to say that this development can continue at the same rhythm.

Observation of the facts is itself obscured by parasitic phenomena like the lengthening of working hours, the extension of undeclared work or of multiple employment, not to mention the haziness of statistical data.

Here we need to look at a discussion which is somewhat technical, but has a close relationship with the analysis of the “new economy”. The latter is reflected in a leap forward in investment, particularly in computer equipment. But does this amount to accumulation of capital or productive consumption? Statistical conventions are not the same in the US and most European countries. In the US, a computer is counted as capital, while in Europe it is intermediate consumption.

The US statistics have then a tendency to overestimate GDP (and thus productivity) in comparison to European statistics, [2] since they include depreciation of capital. GDP grows more quickly than net domestic product (NDP) which deducts this depreciation. In Marxist terms, calculating “in gross” amounts to (wrongly) including constant capital consumed in the definition of the new value created.

If we correct this bias, as well as the effect of work time, we see that the gap between the US and Europe is reduced. Julian Callow, an economist at Crédit Suisse First Boston, has made some calculations over the period 1996-2001. They show that hourly productivity increased by 1.8% a year in the US as against 1.4% in Europe. Such a difference can be easily explained by the more rapid growth of the US.

The complex overlapping of the world economy

The question of the US trade deficit is closely linked to this analysis of productivity gains, inasmuch as these latter are the objective basis of higher profitability, capable of reproducing the attractiveness of the US. We can then imagine two counterposed scenarios. The first is the prolongation of the current situation, where more rapid productivity gains and higher profitability would continue to attract the capital necessary for financing the US trade deficit.

This configuration is however hard to sustain, as it would involve the maintenance of a differential in growth between the US and Europe-Japan, in other words a growing disequilibrium of the world economy. This would have as its first consequence growing social tension in Europe or Japan. Moreover, the trade deficit is not only the indicator of US supremacy imposed on the rest of the world.

It is also, in the final instance, indicative of the fragile competitiveness of the US economy, confronted with growing competition on the world market. The paradox is that the mediocre growth imposed on Europe and Japan would have as its counterpart the reconstitution of their competitiveness, on the basis of wage restraint rather than productivity.

The real supremacy of the US economy is moreover to a great degree an illusion. Will Hutton [3] argues that outside of the military-industrial complex, "there is scarcely a high-tech sector where US companies can claim systematic leadership over their European competitors." The US is outdistanced in technology, inventiveness or innovation in sectors going "from cars to aerospace, industrial gases to cell phones".

The increasing power of China is another subject of concern that dominates economic debate in the US. It now accounts for nearly half of the US trade deficit, and this share can only grow. Between 1970 and 2002, Chinese exports increased by a multiple of 140, and their competitiveness is ensured by the anchoring of the yuan to the dollar, and this parity is one of the targets the US government is taking aim at, all the more so in that Chinese competition is beginning to affect US high technology sectors. There is a lot of discussion about relocation and de-industrialization, even if the loss of manufacturing jobs is essentially explained by productivity gains and restructuring.

In other words, the US does not dominate because of the intrinsic performance of its economy, but thanks to its ability to "arrange" the accumulation of capital on the world scale which depends in the last analysis on relations of force of a political nature. This hegemonic assertion is not without limits, so it is necessary to envisage a second scenario where competitiveness and the trade balance would be steadied by a fall in the value of the dollar in relation to the other currencies, notably the euro.

The imperial fall of the dollar

This scenario has moreover, largely been embarked upon, and it is expressed notably by the pressure exerted on China for the revaluation of the yuan. The downward movement of the dollar has already led to a considerable devaluation in relation to the euro (of the order of 40% in relation to its highest point of a little more than three years ago). If we go back in time, the dollar's rate of exchange to the euro (or the European currencies before that) has gone through significant fluctuations.

In order to better appreciate this, we should take account of the respective inflation in Europe and in the USA. In this way we can calculate a real rate of exchange, and compare it to the effective rate of exchange to locate the phases of "under valuation" and "overvaluation" of the dollar in relation to the euro (or a basket of the equivalent currencies before its creation). These appreciations obviously depend on the choice of period of reference, which is here 1986 (figure 3).

We can distinguish several phases, from 1971 onwards, when the dollar became freed from its linkage to gold. It then fell in relation to the other currencies up until the financial crash of 1979, marked by a very strong increase in US interest rates, which sent it upwards again.

Over the next five years, the real exchange rate of the dollar returned to virtually its level of 1971. But this appreciation of the dollar had some inconveniences, and the US decided to put an end to it, imposing on their European and Japanese partners the Plaza Agreement of 1985, which made the dollar fall sharply and restored the lost competitiveness of US products.

The fall continued for a decade, then the dollar started to rise again from 1996-97 until the recession of 2000. This date opened the phase that we are still in, marked by a continuous fall of the dollar and symmetric rise in value of the euro. Today the real rate of exchange of the dollar is at its lowest point ever for at least 50 years.

[https://npa31.org/IMG/gif/Image3.gif]
Figure 3. The real value of the dollar in relation to the euro - Effective rate of exchange related to the real rate of exchange (corrected for inflation). The index was 100 in 1986.

The breadth of these fluctuations goes beyond strictly economic determinants. They can be interpreted as the result of a contradiction in the mechanisms of US domination. As the dominant financial and monetary power, the US needs a strong dollar, but at the same time it needs a weak dollar as an economic and trading power. The successive highs and lows of the dollar can then be explained by the relative priority accorded to these two ways of affirming American supremacy.

The highs correspond to their desire to restore their supremacy over the world economy when this latter seems threatened on the financial plane, while the lows allow the reestablishment of their competitiveness and consolidation of the positions they have won. Each high period relates however to particular economic conjunctures. The 1980-1985 phase corresponds to the neoliberal turn designed to correct a world economy in crisis through financial discipline, while the 1996-2000 phase corresponds to the rise of the "new economy" and the gathering in of capital scalded by financial crises in the emergent countries.

[https://npa31.org/IMG/gif/Image4.gif]
Figure 4. Differential in growth USA/EU and rate of exchange â‚¬/$

The growing integration of the world economy has as a consequence a sharpened relationship between European growth and the rate of exchange of the euro to the dollar. This is a key variable which does only affect bilateral exchanges between the US and Europe but also contributes to the determination of their respective performances on third markets overall. A fall in the dollar in relation to the euro makes US products more competitive, not only on the European market but on the world market as a whole.

That is why the last decade shows a close correlation (which did not exist before) between the differential of growth Europe/United States and the rate of exchange of the euro in relation to the dollar. When this latter falls, the gap between the growth in Europe and in the US increases to the benefit of the latter (figure 4).

The US has thus deflected the slowing up of growth towards Euroland which, after the years of upturn (1997-2000), has again plunged into a mediocre conjuncture. This movement of exchange rates is combined with the disastrous economic polices being pursued in Europe. Enthusiasm for the "European Employment Strategy" has dissipated, and the Stability Pact has proved impractical.

The insistence on increasingly tough policies of wage restraint (under the pretext of competitiveness) has succeeded in stifling the internal market, while tax cuts targeted at the rich have not durably boosted consumption. Weak investment means insufficient productivity gains, in spite of a systematic policy of restructuring of European firms.

This contrast between the economic situation in the US and in Europe underlines the weak integration of European capitalism. Each EU country is positioned differently in relation to this overall configuration, and we are witnessing the beginning of a divergence of their trajectories. Some (notably the United Kingdom and the small countries) are doing better than the countries of the European "heart" (France, Germany and Italy), and this phenomenon is a supplementary obstacle to the coordination of their economic policies.

There is also a growing gap between national economies and the leading world companies, notably in the area of accumulation of capital. The big companies are to a certain extent indifferent to the sluggishness of the European market, because they also invest and sell on other markets. Their interests tend then to be increasingly dissociated from the relative health of the European economy, and this explains how they can escape the contradictions of European economic policy. The latter might seem suicidal, inasmuch as it stifles demand by blocking wages, but the world market provides a way out.

The price of oil

2004 saw a significant rise in oil prices. They had fluctuated around $30 a barrel throughout 2003, but then rose to $50 before falling back to around $40. This should however be put in perspective. Oil prices have gone up steeply on two occasions, in 1973-74 then in 1979; the price per barrel rose about 18-fold. In the 1980s prices fell back continually to around $20. Then prices rose again from 1999 onwards, with the price per barrel doubling to regain the heights attained at the beginning of the 1980s.

[https://npa31.org/IMG/gif/Image5.gif]
Figure 5. Price of barrel in dollars

But this evolution of oil prices needs to be corrected for inflation, since all other prices have also increased. So we need to convert past rates into 2004 dollars to compare over time. Then we get a different picture. The real price of oil is only now returning to the level reached between the two oil crises of 1973 and 1979 (figure 5).

Another corrective should be added concerning the EU in the recent period. EU countries pay for oil in dollars, in such a way that the fall of the dollar in relation to the euro compensates in part for the rise of oil prices calculated in dollars. So the increase is relatively low and for Europe the price per barrel has been virtually the same since 2000, the date of the last significant increase (figure 6). The ritual invocation of oil prices to explain the downward revisions of growth perspectives should then be placed in context.

The global effect of higher oil prices is relatively reduced in the short and medium term. The basic long-term question, that of an increasing scarcity of resources, weighs like a sword of Damocles on the world economy but at a more distant horizon. In the here and now, the rise in oil prices is rather a weapon that will be used to obtain a reevaluation of the yuan, which would reduce the bill for China, a big oil importer, while improving the competitiveness of US products.

[https://npa31.org/IMG/gif/Image6.gif]
Figure 6. Price per barrel in 2004 prices

The boomerang effect of globalization

Skepticism as to the benefits of globalization is gripping the highest spheres of the dominant economy. Paul Samuelson, Nobel prizewinner and theorist of the mutual enrichment of nations through international trade, has just published an article expressing his doubts. His basis is the tendency of the US share in world production to fall. It was close to 50% immediately after World War II and today is between 20 and 25%. Be it said in passing, neoliberal theory in no way guarantees the maintenance of the relative weight of the US economy.

It seems the theory has become less interesting from the time when its implementation no longer led to what was its practical objective. Samuelson's concern is that technical progress in China now affects the sectors where the US currently has the clearest comparative advantages. That says a lot about the absurdity of the theory, which does not take into account this kind of technological catching-up, and is closely linked to the interests of the dominant power. Certainly, Samuelson's article led to energetic protests from the free trade doctrinaires, like Jagdish Bhagwati (author of a paean to globalization - In Defense of Globalization, Oxford University Press, 2004) but it is revealing of a growing awareness of globalization's blowback on the US economy.

All this comes down to saying that the current configuration of the world economy is accompanied by a deepening of the contradictions linked to the process of capitalist globalization. The “Empire” is in reality profoundly divided, and we can see here the modern expression of the law of combined and unequal development.

There is a double line of fracture inside the zones of this world economy: between the US and the other dominant economies, around the fall in value of the dollar; and between the dominant economies and the “emergent countries”. The latter threaten the overall stability of the world economy by winning market shares and by increasing the price of raw materials, in particular oil.

Capitalism is today freed from its “fetters”. The circulation of capital is virtually free, and social entitlements have already been greatly eroded throughout the world. From this viewpoint, the hold of finance should not be understood as a form of parasitism that will prevent capitalism from functioning properly. On the contrary, it amounts to an instrument allowing the gradual establishment of a world market, where wage earners are directly placed in competition and subjected to the demands of profitability which are opposed to the satisfaction of unprofitable social needs.

Thanks to finance, contemporary capitalism comes closer to a “pure” functioning in this sense that it is progressively freeing itself from anything that could surround or regulate it. This movement cannot reform itself and implies a regressive redistribution of wealth.

That is why constructions which seek to separate the wheat from the chaff - for example “good” productive capitalism from “bad” finance capitalism - or to imagine a capitalism which is both hyper-competitive and more egalitarian, smack of a reformist utopia which does not correspond to the reality of modern capitalism.

The paradox of globalization can then be stated thus: the more capitalism succeeds in modeling the world economy to its convenience, the more tensions grow. World capitalism is today installed in a phase of lasting instability. And the fundamental question is whether this instability will be resolved according to the axis of inter-capitalist conflicts or of social confrontations.

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[1] OECD Economic Perspectives, number 75, chapter 5.

[2] On this point, see François Lequiller, The new economy and the measurement of GDP growth, document de travail INSEE G2001/1, février 2001

[3] Will Hutton, The American Prosperity Myth, The Nation, September 1, 2003