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Economy

# World Economy - Tendencies and Tensions

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**The attack on the Twin Towers on September of 2001 may be considered a turning point in the world both political and economic situation, which accentuates pre-existing tendencies but which also incorporates new elements. The North American military redeployment and economic recuperation are at the center of this process.**

Since the beginning of 2003, after the launching of the war machine, a new economic upswing may be observed, particularly in the United States economy, which is hegemonic on a world level and has a global impact which is proportionately bigger than its specific size.

Since then military spending and the lowering of interest rates in the United States have operated as anti-crisis mechanisms, while supply-side policies have been relaunched through the reduction in taxes of big corporations and high income sectors.

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The wider result has been an increase in domestic consumption -centered on the so-called real estate "bubble"-, the extraordinary growth of the trade and financial deficit and a growth of the foreign debt. One of the key debates among economists is if this upswing will lead to a soft landing - that is to say, if the tensions generated by the fall of the dollar will be administered to avoid or soften the consequences of a recession - or if a hard landing is inevitable, in that case the dollar will suffer a strong devaluation which would open the door to a generalized recession that will spread through the whole world economy.

The ongoing debates are not only related to this question, important as it may be. The role of China and of Southeast Asian countries as a rising sector of the world economy and the role they are playing in the administration of cyclical crises of the system cannot be ignored.

This regional block, whose economies advance toward their integration, tends to equal the block of the European Union and threatens to challenge US economic hegemony in the coming decades.

Underlying these tendencies there is another question: A profound process of non-antagonic but contradictory process which has as an objective the reordering of the world. What is at issue is the future administration of the planet, between a unipolar capitalism centered on the United States, or a multipolar one administered by the United Nations.

The mechanisms of accumulation through "dispossession", typical of the epoch of primitive accumulation, expanded during the last 25 years under the aegis of financial hegemony. Displacement of populations and appropriation of territories; sacking of natural resources; expropriation of ancient knowledges of indigenous peoples; comodification of essential services... Latin America has been one of the regions that has suffered the most from these global policies.

The public debt of countries of the periphery became an expropriatory mechanism which not only transferred an enormous amount of resources to the central countries but which also limited and limits any alternative policy. The social regression imposed around the world, the imposition that is as illegitimate as it is unpayable and the failure of the plans of recovery and development have led to the discrediting of international financial organisms such as the International Monetary Fund, the World Bank, or the Interamerican Bank of Development.

The ferocity of this pillage has provoked strong resistances that are expressed in the diversity of the worldwide alter-globalisation movement, which exhibits specific forms and dimensions in Latin America.

Such is the meaning of peasant, indigenous, ecological, and civil society movements in defense of food sovereignty; of biodiversity and ecological equilibrium; of strategic resources for life and development such as hydrocarbon and water; against privatisation of services, public pensions and culture; against free trade and free movement of capitals.

But the planet itself has rebelled. The natural catastrophies of the past year, the tsunami in the Asiatic coast; the earthquake in Kashmere and the tornadoes in the Caribbean and the South of the United States have exhibited a destructive capacity that has few precedents. They constitute a veritable insurrection of Nature against an economic system which maximizes profits without considering its effect on the natural habitat.

The prolongations of the wars in Iraq and Afghanistan; the failures of the WTO; the erratic course of the FTAA; the failure of the Plan Colombia and the Andean Regional Initiative; the discrediting of the Bush administration and its incapacity to impose its candidate as Secretary General of the Organization of American States; the uprisings and the overthrow of several governments in Latin America; the resistances that begin to suggest themselves in Europe, particularly in France; the disagreements regarding the final declaration between the United States and the governments of the countries that participated in the Fourth Summit of the Americas in Argentina, are all indicators that the weapons of neoliberalism no longer possess the sharp edge of other times.

Thus the tendency of the present world economic situation is as complex as it is contradictory and worrisome.

In what follows I will try to briefly present what I think are the principal tendencies and tensions of the world economy, particularly those that in one way or another may have an impact on the economy of Latin America, whose crisis has deepened in the last decade.

### **Some features of the world economy**

1. Both on a world and a local level - although evidently with different degrees of intensity - are going through the exhaustion of the neoliberal phase of capital, even though some significant countries, such as Brazil and India, have belatedly adopted the regressive reforms that it favors. This exhaustion is a result of its success not its failure. A success because it has been able to impose most of its economic, if not its political, objectives. Exhaustion in the sense that it has lost vitality - that sweeping force that it exhibited from the second half of the 70's and particularly in the 90's in our region - to pursue regressive transformation. Of course its effects will be long-lasting.

This process began in the early 70's with the end of the long wave which had begun at the end of the Second World War - already by the end of the 60's the reat of profit of capitalists on a world scale was showing signs of serious weakening - followed by the oil crisis which led to the creation of a mass of petrodollars. A plethora of financial capital unable to find opportunities of productive investments at the required profitability.

Making what some authors call "use of the crisis" capital initiated a strong offensive against labor. A generalized and sustained offensive. Sustained because it developed continuously since the 70's to the present and generalized because it has been deployed against all working class conquests which had been erected through many generations of struggle as barriers to the voracity of capital.

The continuity of that offensive was part of a slow and extensive process of capitalist restructuration, a reordering of industrial spaces, of the productive processes and services, in which new technologies have played a determinant role. This was linked to changes in the role of the State, the transition from what we knew as the "national welfare state" to what is now called national competitive state. In a few words, this means - deregulation, free trade, opening of the economy, free circulation of commodities and capital.

The general result of these changes has been the establishment of a relationship of forces favorable to capital at the expense of workers and the subaltern classes; a strong devalorization of labor power and strong increases in productivity.

2. This resulted in a recuperation of the capitalist rate of profit. Already by the end of the 80's the theorists of the French Regulation School indicated that the rate of profit in the central countries showed signs of recuperation; what capital was unable to find, given the lack of effective demand, was the way of realizing it.

Today demand has recuperated to a considerable extent - the reconquest of the markets of the so-called socialist bloc and of China are more than decisive in this recuperation - and this translates into strong increases in the global mass of profits and, as is logical, an increase in the rate of investment.

All of this restructuring process on a world scale took place under the hegemony of financial capital, and Argentina knows in detail what happens when accumulation is centered on financial valorization - shrinking of the internal market, decapitalization, deindustrialization, closing of sources of employment, accelerated deterioration in the quality of life of popular sectors, exponential increase in inequalities.

Now, linked to the weakening of the neoliberal fase productive capital has begun to gain ground on financial capital. These changes are much more notable in the central countries than in the periphery, but they also begin to be felt among us, and can be neatly perceived in the United States, the largest economy in the world. Some studies show that in the 80's and part of the 90's the subtraction that finance capital made of the profits of nonfinancial enterprises was around 35%, at present this is around 20%, but in the moments of upswing it does not reach 10%.

A clear element of this tendency is the interest rate policy of the Federal Reserve between 2001 and 2004, which took the federal funds rate to 1%, an unprecedented level in the context of a very relaxed monetary offer.

In periods of hegemony of financial capital the capital/labor relation is diluted -obviously this does not mean it disappears, the insistence of capital to impose flexibilization of labor power demonstrates it- and attention centers in the conflict between different fractions of capital.

In Argentina, for example, through most of the 90's most progressive economists analyzed everything in terms of "entrepreneurial summits".

On the contrary, when productive capital becomes the protagonist the capital/labor relation regains center stage. The wave of trade union struggles in France beginning in 1995 with the strike of public employees, particularly railway workers, later followed in other European countries and also in the United States; the emergence of strong trade union movements in South Africa and South Korea; the emergence of new trade union organizations in France and Italy -the Sub trade unions and the commitatto de base- and the present crisis and division of the AFL-CIO are some facts that should be kept in mind.

In our country, coinciding with cyclical upswing struggles of employed workers, new rank-and-file trade union leaders

and even attempts to organize outside traditional structures have reappeared.

Now, progressive economists speak much less about entrepreneurial summits and they emphasize the distribution of income or wealth, which is a disguised way of speaking of the capital/labor relation since the orientation of the former affects one or the other component of the latter relation.

Nevertheless, we must not overlook the fact that in the United States economy the easy money policy stimulated financial "bubbles"; first in the stock market and, today, in real estate. Lately, specialized journals have underlined that bigger spending in the real estate sector accounts for 60% of the increase in demand in the United States. Some economists characterize this as an upswing "pulled by finance".

But the real estate "bubble" cannot equal the stock market bubble. The latter is based on plain and simple speculation, while real estate, even if it has a speculative component in the process of inflating prices, has a basis in productive activity. As is well known, the construction industry pulls along an important group of industries which imply productive processes, capital investments and creation of employment.

3. These world transformations have led - particularly after the implosion of the USSR and the fall of the Berlin Wall, which at the moment pushed forward the neoliberal offensive - to a new matrix of international relations in which growing interdependence between countries and the creation of regional economic blocks. These included the European Union, NAFTA, CAFTA, ASEAN, MERCOSUR, also the attempts to create the so-called Free Trade Area of the Americas (FTAA) - are the basis of what we know as globalization, a term which in fact does nothing but identify a new phase in the historic process of internationalization of capital, which as any process of such characteristics is neither linear nor automatic but has advances and regressions.

The disintegration of the Stalinist model in Eastern Europe and the Soviet Union put an end to the so-called Cold War, or policy of confrontation between blocks -the socialist camp and the capitalist camp, which again brought to light that there are oppressor and oppressed countries and that within all there is class confrontation and above all it made visible the intercapitalist contradictions and conflicts on a world scale.

If in the 80's the supremacy of the United States was challenged by an emergent Japan and the European community, headed by Germany, today it cannot be doubted that the North American economy is hegemonic, to the point that an estimated 60% of the expansion of the world economy is accounted for by the economic growth of the United States.

This is more striking if we take into account the fact that the United States accounts for 21% of the world GDP, the European Union for more or less 24%, Japan 7%, and China, the emergent power of this epoch, more than 12% (some recent information indicate that China has recalculated its GDP which would be 20% higher than had been thought until now).

As can be appreciated, the world influence of the North American economy is proportionately larger than its participation in the GDP. Its growth is sustained by internal consumption. The United States lives above its means, it consumes more than it produces, and that gap is filled through imports. This is the reason for its present gigantic commercial deficit, which is in the order of 5.5% of its GDP. Its balance of trade is in deficit with all regions of the world, except with Latin America, where it enjoys a surplus.

We can thus understand the emphasis placed on the FTAA, the free trade zone from Alaska to Patagonia, proposed in the beginning of the 90's by the first President Bush, continued by the Clinton administration and that was supposed to be completed under the mandate of the second President Bush. That is to say, the FTAA has the

support of Democrats and Republicans and it is a State policy of the United States.

But besides this deficit there is another one, the fiscal deficit, which is already above 4.5% (bear in mind that in 2000 the American budget showed a surplus!), which is a product of the need to finance the wars in Iraq and Afghanistan (it is predicted that in 2006 this will amount to \$361 billion) and the policy of tax reductions to corporations and the higher classes, as a means of generating internal consumption. Furthermore, the advance in internal investments in recent years has been largely based on funds coming from other countries. The United States is today the largest debtor in the world.

It is this fiscal deficit of the United States, and the need of the European countries to abide by the budget standards of the European Union, that has led the IMF to adopt a policy of demanding payment of its loans to the main debtors to thus lower its credit vulnerability and demand less funds from the G7 countries. This has already been done by Russia, Brazil and Argentina, and other countries of lesser economic weight, in what some governments, trying to pass the payments as an autonomous policy, call "disindebtment".

4. The present growth of the North American economy is not only based on financial surpluses, it is also strongly stimulated by the military industrial complex. It is known that military spending has a strong multiplying effect, it is estimated that for each dollar handed over to the Pentagon the GDP grows 3.5 dollars after four trimesters. Thus the multiplication of military conflicts can be seen not only as a geopolitical instrument, facilitating the appropriation of natural resources and the imposition of a world "authority", but also as a means of activating the mechanism of accumulation.

Seeking to validate this state of violence the United States attempts to impose a new notion of sovereignty which would legitimize state violence. Thus in Kosovo military aggression was disguised as "humanitarian war"; in Afghanistan it was "anti-terrorist war"; in Iraq it became "preventive war". This perverse logic leads to a state of permanent war and this leads to a constant redefinition of the enemy to invent it or select it in each case.

Today it is much more evident that the present policy of permanent war and imperialist militarization are the direct result of a system of capital accumulation based on market globalization.

5. Never in the past did the United States have such a large trade deficit, and never in the past did it signify so much in relative terms in the world economy. This is what has led some researchers and analysts to describe the international situation as "the world economy as one motor" and to ask for how long can the world count on US consumption.

There are some who argue that this situation cannot be sustained, that beyond short term fluctuations will remain in the depressive long wave that began in the 1960's, that the new financial crisis is in the offing, and that to balance their foreign trade the United States must devalue the dollar by 40% (in recent years it has lost around 35% vis-à-vis the Euro).

It is clear that if this were to happen -the much feared "hard landing"- it would lead to strong losses for the holders of US bonds, who would see their value collapse -these bonds are mostly held by China and Southeast Asian countries- which would lead to a commercial war of such proportions that could lead to a world crisis which some suspect may reach the extension of that of the 1930's.

But it is necessary to note when we look over the more recent cyclical crisis that if the frequency between them has been accelerating they do not longer originate as much in the central countries as in the periphery, and thus have a lesser impact on the world economy. Perhaps this mechanism of increased frequency combined with decentralization

is operating as an escape valve that postpones a large crisis.

But there are those who argue that the world economy is no longer moving with only one motor, that there is a second motor which is none other than China, which after 26 years of sustained capitalist reforms has been growing at a very high rate for the past decades.

It is the largest world source of accumulation of productive capitals, which combine an active export policy with the development of the internal market and great infrastructural projects. China is today the world principal importer of steel, copper, cement and grain. It is increasingly interdependent with the world economy and the latter is in turn much more dependent on the development of China.

Based on this objective situation other analysts sustain that the twin deficits of the United States do not constitute an unsolvable problem -although obviously they are a serious problem, to the point that the IMF has drawn attention to the risk that they pose- that will not lead to an abrupt fall of the dollar or a generalized recession. They argue that China and the Asiatic countries, and also Russia, will continue to buy the debt of the United States to sustain the dollar and maintain the competitiveness of their economies.

The case of China is paradigmatic: It must strongly develop its industrial sector since it must absorb a rural surplus population of 200 million people, and it needs no less than 10 years to do it.

6. There is talk then of a new Bretton Woods or of a “reborn Bretton Woods”. In this implicit new “accord” the United States follow a policy of controlled weakening of the dollar; the countries of the Euro zone follow a policy of flexible exchange rates and inflation goals controlled by the central banks; while Asiatic countries resist the reevaluation of their currency to sustain their high levels of growth. This equation in the monetary system would allow to maintain the balance of power and the, obviously unstable, equilibrium of world finance -the more benign “soft landing”.

Of course, in the original Bretton Woods, the periphery of the system, which acted to counterbalance the tendencies of the center which was then as it is today the United States, were the European community and Japan, a much more compact group of countries identified with a more general policy which were coming out of the war. But today the periphery identified with the countries of Asia is much more numerous and heterogeneous, and furthermore the European Union continues as a third force with its own policies.

On the other hand, the relaunching of a Keynesian world monetary order finds important obstacles. On the one hand financial capital -which has given up space but remains important- would be seriously affected. On the other hand, big industrial capital continues to resist regulations to the free mobility of capitals since in the present framework it allows it to throw its surpluses in monetary markets to obtain profits above all in moments of lower levels of activity and, furthermore, because its expansion depends, in this stage, in the nonexistence of limitations to investments between nations. Thus the insistence of the big countries of the world on the “free circulation of capital”.

Nevertheless, for other students and analysts this would be the first time since the Industrial Revolution that the demand for all commodities grows at the same time: Grains, minerals, energy and steel. Until recently, when the demand for one increased the demand for others fell and so on. Based on this unique character of demand, on the strong increases in productivity in the United States and of investments in China, they predict a new wave of capitalist growth. It should not be overlooked that India is growing at yearly rates in the order of 6 to 8 percent and that without reaching the extraordinary Chinese levels it is a strong attractor of investments and products for industry.

Of course, we should incorporate into the analysis the price of oil, which pushed by a growing demand is already over \$60 a barrel and there are those who augur that it will pass \$100 soon, and that if this price is maintained long

enough a generalized recession is inevitable.

The projections of growth in China and in the countries of Southeast Asia allow for the supposition that in the coming decades they will constitute an economic pole capable of challenging US hegemony. Here one must wonder what will be the response on the military plane, where North American hegemony does not seem to be in danger.

In other words, how will the asymmetry between the declining role of the dollar as a means of exchange and the increasing military power of the United States be eventually resolved?

7. In Latin America, as an indication of the weakening of the neoliberal phase of capital, the so-called Washington consensus, formulated at the end of the 70's to impose a model of accumulation to replace the model of import substitution prevalent from the 40's to the 70's, has entered a cone of shadows.

The policies of structural adjustments favored by the consensus in the 80's and 90's have concluded with the exclusion from production and consumption of millions of people in all the continent. With a strong concentration of wealth and also a strong expansion of poverty. Today in Latin America almost half the population is poor and between 15 and 20 percent is indigent and social inequalities have increased.

After a quarter of a century the region does not count with a new model of accumulation and development capable of satisfying the growing needs of its population, on the contrary it is immersed in a social catastrophe without precedent. Latin America is again in transition, in search of a new horizon, after the neoliberal offensive.

The emergence of the Bolivarian Republic of Venezuela and its growing influence in the region means that Cuba is no longer alone. Big mobilizations and social insurrections in Bolivia were able to impose a democratic popular triumph of large proportions.

Ethnic, class and national interests find expression in this triumph of incalculable projections, which will have an effect in Peru, where the campaign of Ollanta Humala gathers strength, and also in Ecuador.

If they advance in this direction this would consolidate an Andean pole with governments arising from electoral processes of democratic nationalist characteristics with programs or proposals of reform which are "nonreformist" reforms in the sense that to sustain themselves they must advance to the achievement of new reforms. In a continuous process based on popular organization and mobilization which gives them a strong revolutionary content. Furthermore, their principal leaders have declared themselves in favor of another type of Latin American integration, and from that angle they enter into a strong contradiction with local dominant elites and with the United States. We should not forget that there will also be elections soon in Mexico, Nicaragua, Ecuador, Colombia and Peru.

On the contrary, in Brazil the neoliberal course of the government of Lula leads to the growing distancing of the social movements from both the government and the PT. Will Uruguay follow the same path?

The rejection of the FTAA and the resounding failure of the recent Presidential Summit is part of this cycle of social conflicts, political crises and transitions that traverses the countries south of the Rio Bravo, and are thus part of the new situation which opens in the region.

It is in this framework that the governments and part of the local bourgeoisie of the Southern Cone seek to reformulate their political-economic initiatives and their relation with the empire. But this is not an objective that may be attained as a block since there are many contradictions between countries and governments.

Brazil has geopolitical agreements with Venezuela, especially given the vulnerability of its Northern frontier, but it is already part of the more select group within the WTO and has its own policy. The entrance of Venezuela will strengthen and it may give a new content to the MERCOSUR, even if disagreements sharpen given the economic asymmetries between Venezuela and Brazil, and between them and Paraguay and Uruguay.

Venezuela exercises an undeniable political leadership, its proposal of the ALBA is clearly diferenciadora OJO and it is willing to play a central role in the energy and financial question in the region, its influence in the Andean countries is growing, and will surely increase in the immediate future.

Argentina navigates between Venezuela and Brazil while it tries not to collide with the United States. Thus its position is almost always undefined; while Uruguay, through the signing of the treaty of protection of investments with the United States and declarations favorable to signing its own free trade agreement (Paraguay too has made declarations against the MERCOSUR), threatens to follow the path of Chile, where the new triumph of the Concertación does not seem to augur important changes in the interior of the country but it will project the influence of a political-economic model different from that which Venezuela, Argentina or even Brazil itself may push.

To conjuncture in Latin America and Argentina in particular exists in the framework of the present and future tensions of the world economy, at the time in which the economies of the former are more open than in the past and therefore are more fully subjected to international movements.

Buenos Aires, January 2006

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