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European Languages	زبانهای اروپائی

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19.11.2022

Capital in the twenty-first century, between secular stagnation and war

Sources: Crisis Observatory

The United States maintains the hegemony of the dollar through military force and maintains military force by financing itself through the dollar.

Since losing its economic hegemony, the United States has increasingly relied on geopolitical influence, which is largely due to the fact that the United States has unparalleled military strength.

The geopolitical reality of the early twenty-first century must be studied from the category of mode of production. This category defines the mechanisms of functioning of capital in general, abstracting from individual economies and states. Therefore, we must interrelate the category of mode of production with that of historically determined socio-economic formation, which gives us the image of individual states and the relations between them at a given time.

Moreover, our approach must be dialectical, that is, based on the analysis of trends in economic and political reality. These trends are not linear, but often contradict others. Only the study of the different conflicting trends can allow us to outline possible future scenarios.

1. "Secular stagnation

The world capitalist economy has entered a phase of "secular stagnation." This definition was formulated in 2014 by Laurence H. Summers, a prominent American economist, Secretary of the Treasury under the Clinton administration, and Chancellor of Harvard University. Summers borrowed the term "secular stagnation" from economist Alvin Hansen, who coined it during the Great Depression of the '30s, which began with the stock market crash of 1929. The current "secular stagnation," instead, began with the 2007-2009 crisis, which followed the bursting of the subprime mortgage bubble.

"Secular stagnation" consists of very low GDP growth, well below potential. According to Summers, the low growth is due to reduced capital investment. After all, growth prior to the subprime crisis was always due to excessively expansionary fiscal and monetary policy, based on the maintenance of very low interest rates by the Fed, the US central bank. In essence, Summers points out, there has not been a single period in the last fifteen or twenty years in which there has been satisfactory growth under sustainable financial conditions. However, this problem has affected not only the United States, but also the euro area and Japan.

What Summers wrote in 2014 has been confirmed by what has happened to date. GDP growth has slowed everywhere, and 2020 saw the most severe recession since the end of World War II as a result of the pandemic. However, the slowdown has been more pronounced in the main advanced countries and less marked in some emerging countries. This phenomenon can be observed by comparing the G7 countries (United States, Japan, Germany, United Kingdom, France, Italy and Canada) with the BRICS (China, India, Brazil, Russia and South Africa), both in the period before the subprime mortgage crisis, between 1980 and 2007, and in the period after, between 2007 and 2021 (Table 1).

Table 1. G7 and BRICS average annual GDP growth (in %)

Economic zone	**1980-2007**	**2007-2021**
G7		

USA	3,1	1,5
Japan	2,5	0,1
Germany	1,9	0,8
United Kingdom	2,6	0,9
France	2,2	0,7
Italy	1,7	-0,5
Canada	2,7	1,3
BRICS Economic Zone		
China	10,1	7,0
India	6,1	5,5
Brazil	2,4	1,3
Russia*	1,7	1,3
South Africa**	3,4	1,1

*For Russia 1992-2007, **for South Africa 1993-2007

Source: IMF, World Economic Outlook (April 2022)

The growth of the Triad countries, which includes the three historically dominant areas of world capitalism, North America, Western Europe and Japan, was already lower than that of the BRICS in the period 1980-2007, but after 2007 it halved. The United States, for example, recorded average annual growth of 3.1% between 1980 and 2007, which halved to 1.5% in 2007-2021. On the other hand, China and India show much higher growth than the United States during the period 1980-2007, 10.1% and 6.1% on average annually, respectively. During the period 2007-2021, growth in China and India slowed, but much less than that of the US, to 7% and 5.5% per year respectively, remaining well above the US.

Even worse, compared to the United States, is the growth of Japan and Western Europe. Japan's growth during the period 1980-2007 was 2.5% per year on average, i.e. four times less than that of China and less than half that of India, falling to zero during the period 2007-2021 (+0.1%). Western Europe (Germany, United Kingdom, France and Italy), which in the period 1980-2007 had registered a lower growth than the United States, suffered a real stagnation in the period 2007-2021 with an average annual growth of less than 1%, which, as far as Italy is concerned, translates into a decrease of -0.5% on average per year.

As we have said, the crisis of 2020 caused GDP to contract to levels never seen in the post-World War II period. To combat this, central banks, starting with the Fed and the ECB, lowered the cost of money to negative territory and, at the same time, governments implemented large expansionary fiscal policies. It is no coincidence that, at the outbreak of the pandemic, Draghi argued that the growth of public debt and deficit was a necessity, as in the war, and no longer the absolute evil that had to be avoided at all costs with austerity policies. The economy, driven by expansionary policies, picked up in 2021, but by 2022 growth had already slowed. Thus, not only is "secular stagnation" confirmed, but an even worse scenario is looming: the coupling of low growth and high inflation, the so-called "stagflation". The most serious thing is that, to combat inflation, central banks, in particular the US Federal Reserve and the ECB, have decided to increase the cost of money and reduce their public bond purchase programs. This is the end of expansionary monetary policies, which will cause a slowdown in the recovery and, according to the forecasts of the International Monetary Fund, a probable recession in 2023.

Returning to Summers, it follows from his reasoning that the real problem of the world economy lies not in the lack of liquidity, but in its excess: financial crises are the consequence of the overabundance or overaccumulation of productive capital. An overabundance that is relative, that is, determined by the inability of private companies to employ it profitably. The fall in the real interest rate creates repeated stock market bubbles that burst and lead to a recurrent situation of financial instability that extends to the whole economy. The capitalist economy is thus trapped in the vicious circle of recession, expansionary monetary and fiscal policies, the creation of bubbles, the bursting of bubbles and the relapse into recession.

Stagnation, therefore, seems to be a "secular" feature, that is, in the long run, of the capitalist economy, especially at its most advanced peaks, the Triad. At this point, the question arises: how to resolve this "secular stagnation"? Summers' answer is that investment must be increased, but this is not possible unless an unexpected condition occurs: "it is certainly possible that some exogenous events intervene to increase spending and stimulate investment. But, war aside, it does not seem clear what these events might be."[1] Thus, only a war, and in particular a large-scale war like the world war, could pull the economy of the advanced countries out of the shoals into which it is sinking. After all, that's what happened in the previous "secular stagnation," that of the 30s. It was not the

New Deal, launched by President Franklin D. Roosevelt, that solved the Great Depression. Roosevelt, but the massive spending of the war and investment in reconstruction, after the enormous destruction of World War II, which caused the recovery of the economy and led to the expansion of the "Glorious Thirty", until the crisis of the years 74-75.

2. La caída tendencial de la tasa de ganancia y el colapso del capitalismo

Según Marx, la tendencia típica del modo de producción capitalista es la disminución de la parte del capital gastada en fuerza de trabajo (capital variable) en relación con la parte gastada en medios de producción y materias primas (capital constante). En otras palabras, hay un aumento progresivo de la composición orgánica del capital, es decir, un aumento de la parte del capital constante en relación con la del capital variable. El hecho es que solo el capital variable, la fuerza de trabajo, produce plusvalía. De ello se deduce que a igualdad de explotación de la fuerza de trabajo (es decir, con la misma tasa de plusvalía), la cantidad de plusvalía tiende a disminuir en relación con el capital total invertido. Dado que la tasa de ganancia viene dada por la relación entre la plusvalía y el capital total, existe una tendencia a la baja de la tasa de ganancia.

This creates an overaccumulation of capital. This means that too much capital has been accumulated in means of production, compared to the ability to generate a rate of profit adequate to the needs of the capitalists. When overaccumulation occurs in the main sectors of the economy, there is a general overaccumulation. At this point, capitalists, in the absence of a high rate of profit, reduce investment. At the same time, competition between individual capitals becomes more ruthless, and less strong capitals succumb, leading to the death of firms. As a result, there is a contraction of overall production, leading to crises and recessions.

Since the increase in organic composition is stronger in the more developed countries from the capitalist point of view, the fall in the rate of profit tends to occur more strongly in these countries. For this reason, the GDP growth rate is lower in the more developed capitalist countries and higher in the less developed ones. The slowdown in growth or the collapse of production, in the course of crises, also occurs with greater intensity in the most advanced countries, as we saw earlier in the long-term comparison between the G7 countries, capitalistically more developed, and the BRICS countries, capitalistically less developed.

Of course, the outbreak of crises and recessions can occur due to certain triggers, such as the bursting of a financial bubble, shortages or increases in the price of certain raw materials or components or semi-finished products, or due to factors exogenous to the economy, such as a war or economic sanctions or a pandemic. In addition, crises can arise due to an imbalance between a surplus of goods produced and the narrowness of the absorption market. However, these are contingent causes that light the fuse of the real underlying explosive material, namely the overaccumulation of capital and the fall in the rate of profit. The general crisis always goes back to this tendency typical of the capitalist mode of production.

However, the fall in the rate of profit is a trend, important yes, but a trend. Marx wrote that the theoretical problem for economists is not so much to understand why the rate of profit falls, but to understand why such a tendency is not faster and more pronounced, resulting in the collapse of the system. In essence, says Marx, "antagonistic influences must intervene which hinder or annul the application of the general law, giving it the character of a mere tendency; And it is for this reason that the fall in the general rate of profit we have called tendential."[2]

At the time, Marx pointed out the following antagonistic influences: the increase in the degree of exploitation of labor; the reduction of wages below their value; the fall in the price of constant capital; relative overpopulation, which leads to the creation of an industrial reserve army, that is, a mass of unemployed, which, by exerting competitive pressure on the employed, allows wages to fall. Among the most important factors is, then, foreign trade: both the export of surplus goods, caused by the increase in the productive capacity of capital, and the export of capital to the peripheral countries, where the rate of profit is higher due to lower capitalist development and labor is exploited more intensely. We can observe how the same causes that produce the fall in the rate of profit also determine the factors that counteract it. Indeed, technological development leading to the replacement of labour power by machines, that is, to the replacement of variable capital by constant capital, if, on the one hand, it leads to an increase in organic composition, on the other, it generates an increase in the exploitation of the individual worker and the creation of the industrial reserve army.

These antagonistic tendencies, which Marx emphasized in his time, are still valid today. However, from Marx to the present day capitalism has developed enormously: the overaccumulation of capital has grown to such a high level that, in fact, capitalism would have already collapsed if new conditions had not been met. Among them is the world war: without World War II, capitalism might not exist today. Then there is financialization, which allows, through a whole series of speculative inventions, to obtain profits without going through the production of goods. To tell the truth, financialization is also pointed out by Marx, although in his time it had not reached its current extremes. Finally, there is direct state intervention to support the capitalist economy. Due to increased public spending, public debt has swelled to levels never seen in peacetime, precisely because over the decades, especially since the "glorious thirties," the state has taken on the task of being a crutch of capitalism.

However, these new antagonistic factors have strong limitations: finance and debt, public and private, beyond a certain level represent a strong factor of instability and crisis. Moreover, capital has already exploited all the levers that, according to Marx, it has at its disposal, from wage compression to the use of the industrial reserve army and the export of capital from the capitalistically more developed countries to the less developed ones. A further accentuation of wage compression only aggravates the crisis in the long term. For this, the aspect of creative destruction comes into play: the destruction of productive capacity, which makes it possible to reduce the overaccumulation of capital and reactivate the production of profits. Crises themselves are a factor in reducing overaccumulation through the destruction of capital, in the form of the elimination of companies and centralization, through mergers and acquisitions, of those that remain. But it is above all the world war that looms in the background as an element of redefining the conditions of accumulation through the destruction of capital.

If the fall in the rate of profit had no countervailing tendencies, the capitalist mode of production would collapse in on itself. But, as we have seen, this is not the case. However, for Marx, the fall in the rate of profit demonstrates the "narrow, merely historical and transitory character of the capitalist mode of production: it shows that it is by no means the only mode of production capable of generating wealth, but, on the contrary, having reached a certain point, comes into conflict with its own further development."[3] The tendency towards the collapse of capitalism is increasingly evident and accentuated, Although it is not possible to think of an automatic collapse. We have to see what capital invents to advance its network rationem again. In addition to the war card, capital seems to want to play the ecological transition card. The shift to renewable energy sources and radical transformations, such as the switch from the internal combustion engine to the electric motor, are tools to reduce the overproduction of capital and commodities in order to increase profits.

3. Changes in global power relations

As Lenin wrote, concrete capitalism, that is, that formed by a set of socio-economic formations, is characterized by uneven growth [4]. Hegemonic powers that are "older" in terms of capitalist development tend to grow less, while "younger" ones tend to grow faster. Consequently, economic power relations tend to lean in favour of the latter. At some point, new economic power relations come into conflict with existing political relations, generating a tendency to war.

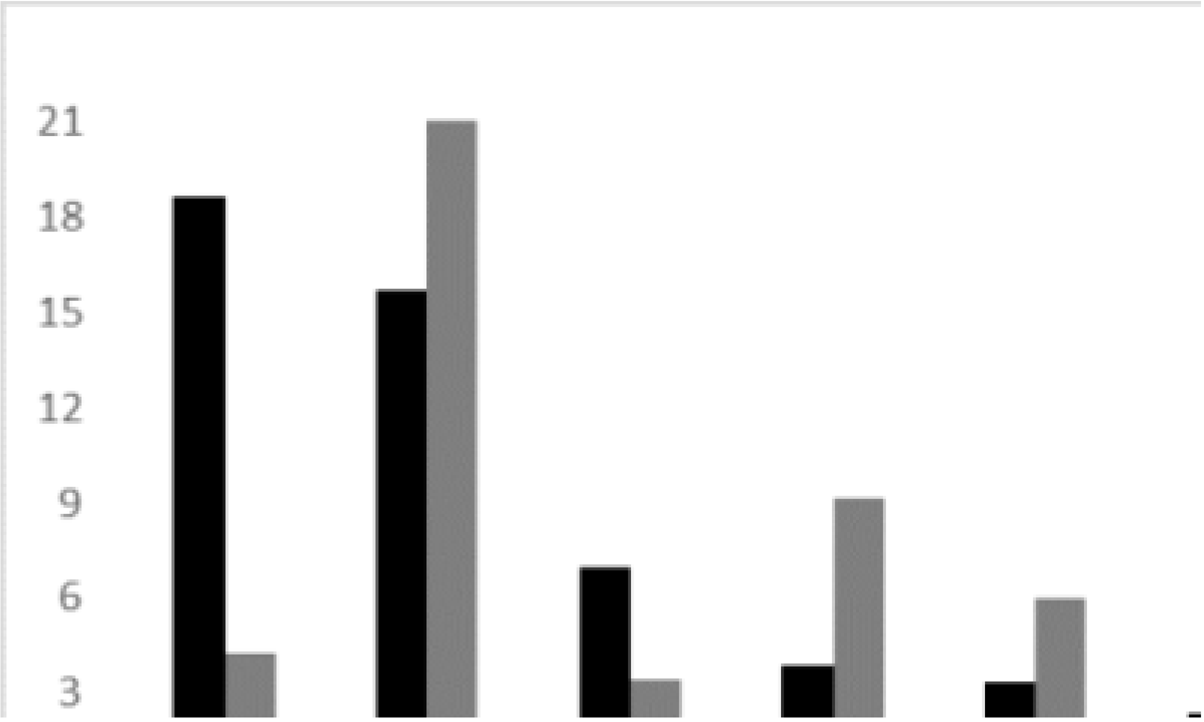
The history of capitalism can be read as a succession of economic cycles, more or less secular, which see the prevalence, from time to time, of a hegemonic power, around which the accumulation of world capital is determined. This is the theory of "secular cycles", devised by Giovanni Arrighi, which defines four secular cycles of capitalism, from the seventeenth to the twenty-first century: the Spanish-Genoese, the Dutch, the British and, finally, the American[5]. Economic power always goes hand in hand with political-military power: in each cycle the hegemonic states are increasingly large and militarily powerful. Secular cycles are divided into two parts: one based on material production and the other on finance.

To some extent hegemonic states are prevalent from the point of view of material production, then this prevalence is lost, due to the overaccumulation of capital, and, then, the financial aspect of controlling capital flows prevails. But finance-driven profit growth also fails at some point, and meanwhile, other powers emerge that challenge hegemonic power. Thus a period of chaos occurs at the end of which, again after a general war, the old hegemonic power is replaced by a new power, around which the cycle of capitalist accumulation resumes.

In the late nineteenth and early twentieth centuries, Britain was surpassed in the production and export of goods by two emerging powers, Germany and especially the United States. The First and Second World Wars are fought for world hegemony. At the end of the fight, Germany is defeated, but Britain is forced to cede the role of first power to the United States.

However, not even the United States escapes the laws of history, incurring a decline that manifests itself in a decreasing growth and a drastic decrease in its share of GDP and world exports. In fact, today, the decline can also be seen in the other countries that, along with the United States, are part of the so-called West, namely Western Europe and Japan. As has already happened to Great Britain, today the United States and the other core countries suffer from strong competition from some emerging countries, especially China (Figure 1).

Figure 1 – Share of major countries in world GDP (purchasing power parity; in %)



In fact, if we consider GDP in purchasing power parity, China surpassed the United States already in 2016. In the last thirty years, between 1991 and 2021, China has gone from 4.3% of world GDP to 18.6%, while the United States has gone from 21% to 15.7%[6]. India's share also grew from 3.4% to 7%, while that of other core countries, allies of the United States, declined. For example, Japan went from 9.2% to 3.8% and Germany from 6% to 3.3%. There is also a similar decline in the share of manufactured goods in world exports. Between 1991 and 2021, the United States went from a share of 12% to 7.9%, while China went from 2% to 15.1%. India goes from 0.5% to 1.8%, while Japan drops from 9% to 3.4% and Germany from 11.5% to 7.3%. However, it must be borne in mind that in terms of GDP per capita (always in purchasing power parity), China is still far behind the United States, although it has grown enormously in the last twenty years. China's GDP per capita was 3.8% of that of the United States in 1991 and 27.8% in 2021, while India's was 4.1% in 1991 and 10.3% in 2021.

Basically, we can observe that world power relations at the economic level have changed and that, for the first time in about a century and a half, China has regained the leadership in world GDP that it had historically had until the time of the Opium Wars, in the mid-nineteenth century. On the technology front, China is also making great strides, challenging the United States in this field as well. However, the latter, although they no longer have hegemony over world production and exports, maintain military and financial hegemony, thanks to the dollar.

4. The hegemonic role of the dollar and its downward trend

The United States followed in Britain's footsteps, albeit with significant differences, especially with the replacement of the pound sterling by the dollar as the world currency. With World War I many countries abandoned the gold standard, printing money massively to finance military expenditures. The United Kingdom, for its part, kept the pound tied to gold to preserve its role as the world's currency, but was forced, for the first time in its history, to borrow money abroad. The United Kingdom and other allied countries thus became debtors of the United States, to which they paid in gold. Thus, the United States became the main holder of gold reserves at the end of the war. The other countries, deprived of their gold reserves, could no longer return to the gold standard. In 1931, the United Kingdom also finally abandoned the gold standard and the dollar replaced the pound sterling as the world's reserve currency.

However, only with the Second World War the dollar saw its role as a world currency consecrated thanks to the Bretton Woods agreements (1944), in which it was decided to abandon the gold standard: world currencies would no longer be linked to gold, but to the dollar, which in turn was linked to gold. In case of demand, the creditor countries in dollars would be paid by the United States in gold. Thus, the central banks of the Bretton Woods countries accumulated dollars instead of gold. However, the system went into crisis in the late sixties, because the United States, to finance the Vietnam War and domestic welfare programs, began to flood the market with dollars. Worried about the devaluation of the dollar, U.S. creditors began demanding that they be paid in gold. Fearing to lose his gold reserves, President Richard Nixon decoupled the dollar from gold in 1971. The dollar remained the world's currency, but with the advantage for the United States that it could pay for imports and public debt simply by printing dollars.

The dollar remains, so far, the king of currencies. In addition to accounting for most of the world's foreign exchange reserves, it is the currency of exchange in international trade, because most commodities, including oil and gas, are bought and sold mostly in dollars. It is no coincidence that the dollar's global status in the 1960s was branded an "exorbitant privilege" of the US by French Finance Minister Valery Giscard d'Estaing. The global demand for dollars allowed the United States to finance itself cheaply, that is, by paying low interest rates to the buyers of its government bonds. As a result, since 1968, the United States has been accumulating a growing and almost uninterrupted foreign trade debt. In 2021, US commercial debt (goods only) amounted to the colossal sum of 1,182 trillion dollars[7], while the national debt reached 30.5 trillion dollars in 2021, that is, 133.3% of GDP and 2.7 trillion more than in the previous year[8].

The dollar's centrality in international payments also increases America's power to impose financial sanctions. In fact, any transaction that technically touches U.S. soil gives the U.S. legal jurisdiction and therefore the ability to block unwanted transactions. However, the sanctions have a boomerang effect on the dollar, as they push affected countries to use alternative currencies to the dollar. The hegemony of the dollar has been eroding for a couple of decades, mainly due to the increase in trade on a regional scale and as a response from countries that want to escape the dominance of the US currency. Between 1999 and 2021, central banks' dollar reserves fell from 71% to 59%[9]. In addition, today the dollar represents 40% of international transactions, the euro 35%, the pound 6% and the yuan 3%[10].

The war in Ukraine accelerated this trend. Russia has reacted to Western sanctions by redirecting oil and gas exports that previously went to the EU to other countries, such as India and China, and settling transactions no longer in dollars but in other currencies, such as rubles, yuan and rupees. The use of the ruble will also be extended to the marketing of other typical products of Russian exports, such as cereals destined for Turkey, Egypt, Iran and Saudi Arabia. In addition, China plans to make available to Russia the Cross-Border Interbank Payments System (CIPS), its own alternative international payments system to Swift, launched in 2015 to reduce dependence on the dollar, internationalize its currency (the renminbi yuan) and boost its use among countries participating in the New Silk Road. China has also signed agreements with some countries, such as Turkey and Pakistan, to trade goods in yuan.

The decision to accede to Russia's demands to be paid in currencies other than the dollar and the circumvention of the Swift system have made the United States very angry. U.S. Deputy National Security Adviser Daleep Singh: "We would not like to see systems designed to prop up the ruble or undermine the dollar-based financial system or to circumvent our sanctions... There are consequences for countries that do so."[11] The International Monetary Fund also expressed concern about the dollar's resilience as a global currency: "the exclusion of the Swift messaging system could accelerate efforts to develop alternatives. This would reduce the efficiency gains of having a single global system, and could potentially reduce the dollar's dominant role in international financial markets and payments." [12]

5. The tendency to war

The dollar is not only an instrument of war for the United States, but it is the very lintel of its world hegemony: with the dollar, the United States finances its state and indirectly its entire economy. Without the dollar, the United States would not be able to sustain its enormous double debt, public and commercial. When the dollar became the world currency, the US produced half of the world's domestic product and had 21.6% of world exports (1948)[13]. Today, China has unseated the United States from its economic primacy. At this point in history, the U.S. economy has a strongly parasitic character. Even more so than in the era of British hegemony. British imperialism could count on the resources extracted from the colonies, particularly India, from which the trade surplus flowed into the financial centre of London.[14] However, the pound was based on something tangible, gold. Today, the dollar has nothing tangible and real behind it, apart from the US military.

Since losing its economic hegemony, the United States has increasingly relied on geopolitical influence, which is largely due to the fact that the United States has unparalleled military strength. The military expenditure of the United States is 778,000 million dollars, while that of the second most important country, China, is 252,000 million dollars, and that of Russia is 61,700 million dollars[15]. In total, the military budget of the world's 10 largest countries is barely equivalent to that of the United States.

At this point a vicious circle is unleashed: the United States maintains the hegemony of the dollar through military force and maintains military force by financing itself through the dollar. Therefore, if the dollar loses strength globally, it is more difficult for the US to maintain its military strength, and if it is lost, the hegemony of the dollar is also lost. In short, if the dollar "toy" is broken, the United States risks a radical crisis.

The worsening economic balance of power and the need to maintain, despite this decline, geopolitical influence push the United States towards war. A war that is sometimes fought directly, as in Iraq, and sometimes indirectly, as in Ukraine. In today's war, the real object of contention is U.S. geopolitical influence and, through it, the dollar's ability to maintain itself as the world's bargaining and reserve currency.

Notes:

[1] Lawrence H. Summers, Reflection on the New Secular Stagnation Hypothesis, p.36. Emphasis added.

[2] Karl Marx, Capital, Newton Compton Publishing House, Rome 1996, p. 1070.

[3] Ibid, p.1077.

[4] Lenin, Imperialism. Supreme Phase of Capitalism, Editori Riuniti, Rome 1974.

[5] Giovanni Arrighi, Il lungo XX secolo. Money, power and the origins of our time, Il Saggiatore, Milan 2003.
[6] International Monetary Fund, Global Economic Prospects (April 2022).
[7] Unctad, data center.
[8] International Monetary Fund, Database.
[9] International Monetary Fund, The Stealth erosion of dollar dominance.
[10] G, Di Donfrancesco, "The IMF: Russia sanctions undermine dollar hegemony," Il Sole 24 Ore, April 1, 2022.
[11] G. Di Donfrancesco, "Lavrov in India to offer crude oil but Washington raises the alarm," Il Sole24ore, April 1, 2022.
[12] Ibid.
[13] Unctad, data center.
[14] Marcello de Cecco, Moneta e impero. Economia e finanza tra 1890 e 1914, Donzelli editore, Rome 2016.
[15] https://worldpopulationreview.com/country-rankings/military-spending-by-country.
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Original text: Laboratory. Per il socialismo del XXI secolo.
Source:https://observatoriocrisis.com/2022/11/12/el-capital-en-el-siglo-xxi-entre-el-estancamiento-secular-y-la-guerra/
Rebelion 18.11.2022