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# The International Economic Situation

Federazione dei Comunisti Anarchici

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1 November 2010

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technology and air and naval supremacy in themselves are not enough if the territory is not practicable.

Technology is not static and indeed the new Chinese missile which can neutralize aircraft carriers is changing the basic strategic set up of the control of the seas and the land that has existed since the end of World War II.

The Neoliberal ideology, which tied never-ending development to the spread of the market, is worn out. The cycle of widespread growth has come to an end. The phase of contraction, i.e. increasingly bitter competition, is beginning. This in itself is nothing new for capitalism – but over the past 30 years it was only to be found in the analyses of a few romantically antagonistic “revolutionaries”.

Crisis is a normal part of capitalist development, a phase that can only be overcome through radical restructuring and reorganization that modify both parameters and structures (modification of the technical and organic composition, devaluation).

It is not a crash in the sense of a halt, just an ebb in development, or rather of certain areas, and heralds a period of transition when economic and social instability overwhelm regular behaviour of social entities, also by reason of the fact that it profoundly modifies the social conditions.

Further enquiry into whether we are dealing with the fall of the idol – profit – or underconsumptionism is of marginal interest – what we need to be doing is building a practical and political solution to the dichotomy of socialism or barbarism!

## 1. The crisis

2007 was the year when the “neo-liberal” model of economic development entered an irreparable period of crisis following its introduction in the 1980s. It produced a domino effect: the property bubble burst, mortgage repayments from sectors with insecure incomes failed to be made, house prices became excessive, bank lending became overly “generous”, the solvency of banks was questioned and their share prices fell dramatically over a very short period. The entire credit system crashed. In a monetary economy of production<sup>1</sup>, the banks are not just one sector among many – they are the fulcrum of the circulation of goods and money.

Capitalism is M-G-M<sup>2</sup> and credit anticipates, fluidifies and expands this cycle. Stasis has an enormous effect on all sectors of production. A banking crash thus immediately becomes an economic crisis with a drop in GDP, over-production of goods which cannot find buyers, interruptions in production and unemployment.

The market implodes as it is unable to reproduce trade between buyers and sellers. The Central Bank, i.e. the last-resort<sup>3</sup> lender, or first-resort<sup>4</sup> lender, must intervene, flooding the cir-

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<sup>1</sup> See Riccardo Bellofiore, economist at the University of Bergamo, who maintains that labour continues to play an important role in the creation of labour.

<sup>2</sup> See Karl Marx, according to whom the capitalist cycle is not the same as the “simple” cycle of pre-bourgeois societies, i.e. G-M-G (goods-money-goods), with the reinvestment of capital into new goods. Rather, it is M-G-M (money-goods-money), where the capitalist invests money in goods in order to obtain more money. To explain this speculation to which extra value (known as surplus value) is added, Marx believes that this extra value must be sought for not at the level of exchange but at the level of production.

<sup>3</sup> See Hyman Minsky, American economist close to the post-Keynesians, noted for his theory of financial instability and of the causes of crisis in the market.

<sup>4</sup> See Marcello De Cecco, Italian economist who deals particularly with monetary and financial policies and market operations policies.

ulation with liquidity, in other words printing money and guaranteeing the bank circuit with currency.

But it is not enough: the government must act in order to guarantee businesses, support them with credit, acquire their toxic assets, even nationalize them by becoming the majority shareholder.

## **2. The USA**

The crisis hit the USA, the country on which the system world-wide hinges, the centre of the world's economy. This sparked off an avalanche which smothered the other States, producing a widespread domino effect.

A spectre loomed – the 1929 crash. But this was avoided because the system today is much more complex and differentiated; the various articulations soften the blow of the tsunami, diverting it, reducing its impact, spreading it out over time and space. The crisis is still there but it is diluted, watered down and offset because the impact of the avalanche is lessened.

National debt acts like a trench, a braking effect, even though the economy fails to shake off stagnation after 3 years. The deficit is 11%, 13%, 12%, with debt in the region of 100% of GDP.

The USA spends more than the cost of World War II, but even after 11 quarters of stasis, the Fed is once again ready to inject liquidity in sustained doses. But even this is not enough: the exchange rate is adjusted, the price of the dollar drops, it is devalued in order to boost exports but also to reduce the weight of its debt with the rest of the world.

Given that it has at its disposal the currency of international payments and reserves, the USA shifts its problems onto other countries, imposing its debt on others. In other words, it reduces its debt by devaluing it.

The new imperialism does not export capital – it exports debt, i.e. it has the ability not to pay it off because it can shift it or reduce its value. This is a scenario we saw back in 1985 at

## **5. Western & Central Asia**

In the various gaps and markets that appear in the international trade between the USA, EU and China, relations and sub-imperialist ambitions are formed, for example in Western Asia (Iran, Turkey, etc.), where they play an important role in the control of energy corridors and in the contradictions present in areas such as the Middle East and Indian Ocean.

## **6. Future developments**

The evolution over the coming years will be conditioned by the economic clash between the various areas, as the economic differences interconnect with political and military roles and there will be moments of tension in peripheral regions for the control of raw materials for foodstuffs and energy, and for the nodal traffic centres – the maritime and land corridors for container transit.

The economic crisis is threatening American supremacy, damaging its ability to use the world-system surplus for its growth, and its use of its debts in order to appropriate the goods of others.

But US imperialism has certain leading sectors at its disposal with which it can exercise its dominion. It is the centre of world finance, where even at the worst moments of international crisis, capital from the rest of the world flows in search of a safe haven. And it dominates the communications sector with regard to the creation and transmission of “lifestyles”, i.e. styles of consumption and the establishment of values of usage (Nike are not just sports shoes, otherwise they would only cost a few dollars).

Dominion, however, always requires a military power that can be used and this is the only public spending sector where the USA has always been first, even though the fact that it has become bogged down in Iraq and Afghanistan shows that

organizational techniques and new means of production in both Germany and Italy (such as FIAT's Pomigliano plant).

The banks and credit sector remain the problem. Despite the bail-outs to the tune of billions of euro, the volume and quality of the "toxic assets" they hold is unknown (in other words the total amount of unsaleable credits). The EU has decided that all that can be done is to spread them over time and allow them to be metabolized through recapitalization (Basle III), that is to say by providing opportunities for new, higher profits that can reduce the percentage of the losses.

Thus, it is necessary to discourage treasury bonds which, while they provide income in the short term, are not enough to make significant improvements to ROE<sup>5</sup>, the profit margin, with the added risk for the sovereign debt of States.

Ireland is symptomatic: when the banks were nationalized, their problems – linked to property (real estate) credits and the speculation bubble – seemed to have been solved with an extremely low percentage of write-offs, only to become a pit 2 years later which could only be filled by the State with 30% of the GDP.

The euro hinges on Germany, but Germany's predilection for exporting manufactured goods and for its surpluses, conditions its priorities and ties the other countries to the needs of its multinationals, who are indifferent to the idea of increasing consumption at home, but open to intensification of productive factors even by stimulating innovation. Indeed, it is one of the few metropolitan areas that still has a productive industrial sector (35% of GDP) in excellent health – like Japan – which adapts the type of work cycles common in Eastern Europe, Northern Italy and China.

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<sup>5</sup> Return on equity: the index that expresses the net global profitability brought into the company by way of risk.

the Plaza Hotel, when the dollar was devalued against the yen by 50% and by 25% against European currencies over a short period.

It is happening again today and the instability of exchange rates is a sign of the reorganization of power within the world system – a phase of harsh competition, of bitter clashes to re-define the economic hierarchies and to perpetuate American supremacy, which does not limit itself to economic wars but increasingly makes use of military force in unstable zones.

In the space of a few weeks, there is a 30% rise in the price of an ounce of gold, the last refuge, the one thing that can always be re-sold, an anchor in the flood of instability.

### 3. China

China is not the Japan that lost the war. It did not sign any secret clauses and is fully autonomous in its economic policy. It is no simple vassal that can be called back into line with the rules of hegemony.

The clash will therefore be bitter, but drawn out in alternating phases, due also to the fact that "market socialism" has acted as a counter-tendency to the economic crisis in metropolitan areas. With the stall in export growth, or rather in its rate of increase, China has developed a Keynesian policy of investment in infrastructure, of restructuring work processes, of increasing the range of goods on the market, and in particular innovative goods. It also continues to invest in education and research and is even introducing legislation on basic workers' rights.

The growth in internal demand allows it to continue growing at a rate of 10%, making it the second-largest economy in the world based on GDP after the USA, and it has become a driving force in a revival of growth in the world's economy – 3% in 2010 – with purchases of raw materials and investment goods in every area on every continent.

As of this year, China is now the world's top car maker, also topping the car sales tables. This can be seen in the multinationals' accounts where profits are rising, but also in the number of strikes and wage increases for workers and the ease with which they are conceded by the bosses and accepted by the government.

China is no longer peripheral, set apart from the productive cycle of the metropolis, the factory, the multinationals. It is an autonomous entity of capitalist accumulation that has reached its imperialist maturity exporting investment capital to Africa and Latin America in order to guarantee itself raw materials, but also acquiring the commercial spaces it needs for exports (Greek ports, for example).

35% of its GDP is in exports, but only 20% is in the metropolitan areas; 15% comes from other routes, including a trade network with neighbouring Asiatic zones, defined by the US Department of Defense as China's "pearl necklace" – in other words an integrated factory, the synapse in a connection that is growing though continually being changed and restructured and becoming increasingly integrated.

Japan's Ministry of Economy, Trade and Industry predicts that in the period 2010–15, 58% of the growth in the world's GDP will depend on the performance of developing countries, in particular Brazil, Russia, India and China.

But at its recent congress, the Chinese Communist Party outlined a new "plan" for growth without seeking to boost the motor/oil industry cycle, historically the basis of industrial accumulation in the USA in the 1920s and '30s and in Europe after the 1950s. Instead, it foresees investment of billions of dollars by 2015 in new materials, in information technology, in sustainable economy, in high-value sectors, together with the extension of mature industrial sectors into underdeveloped zones, those which have not benefited from economic development, where the cost of labour will be contained due to the large reserves of manpower.

#### 4. Europe

The US crisis hit Europe badly. Its GDP dropped. Intervention by individual governments mostly sought to use public debt in order to support banks, businesses and the building sector.

The European Central Bank has supported all this with lending rates near zero and ample liquidity. But Europe is paying the price for being a commercial area with import-export trade at 63%, an incidence of 21% on the world's GDP, a single currency, but no central economic planning. Each country has its own peculiarities and priorities. The decisions taken are brokered, often slow and dependant on the electoral needs of the various governments.

The conditions required for entry into the euro are presented again, i.e. 3% deficit and debt at 60%, so that the parameters of the single countries that exceeded them out of necessity can be brought back in line. Reduce the debt, lower public spending in all areas today but mainly and structurally where it comes to social expenditure, deferred wages and public-sector employees. Despite the fall in consumption, the unemployment and the stagnant growth that will take years to return to the levels of 2006 in GDP, more emphasis is placed on predetermined monetary parameters: in other words, guaranteeing the power of the banks and multinationals, and the rules of the market.

Only businesses and industry can bring about economic growth (if they restructure with exports going to driving-force zones they may remain competitive, if they continue to offshore mature production and if exhausted production is shut down), so they must be allowed to increase their profits.

Unemployment swells the ranks of the manpower reserves and makes those in employment more open to long hours, lower pay, fewer rights and increases in the intensity of their exploitation (absolute surplus value), but also to greater use of productive forces (relative surplus value), with new