December 24, 2006

Global capital still volatile, uneven, destructive

By Patrick Bond

This month we've heard some surprisingly sanguine views from elites celebrating the fall in the value of the dollar.

New York Times economics correspondent Daniel Altman: 'The dollar's decline could continue in an orderly and relatively benign fashion. The economy could see what, under the circumstances, would be the best of all possible worlds: a lower dollar helping to support American exports, while foreign money continues to rush into the country.'

The Economist magazine: 'The world economy could well benefit from a gradual slide in the greenback. It would help to reduce global current-account imbalances and, by shifting production into America's tradable sector, would cushion the United States' economy as its housing bubble bursts.'

The World Bank: 'A soft landing remains likely? even though it may take several years beyond our medium-term projection period (2006-08) before the US current account deficit reaches sustainable levels'.

Two years ago, in a ZNet commentary - 'Crunch time for US capitalism?' - I opened by suggesting that 'the prospect of the US economic empire stumbling, tripping, and maybe even crashing is welcome indeed.' There's really no reason to adjust the diagnosis, although Washington's crisis-management techniques have kept its empire from deteriorating as fast as desired.

Recall three central aspects of our concerns about global capitalism's underlying dynamics. First, the problem of 'overaccumulation' (excess investment in relation to the demand for output) - witnessed during the 1960s-90s by declining increases in per capita GDP growth and by falling corporate profit rates (net of interest) - was displaced and mitigated, but at the cost of much more severe economic tension in months and years ahead.

Second, the temporary dampening of overaccumulation through increased credit and financial market activity - especially aimed at real estate until this year, but at other speculative markets as well - goes far beyond the ability of capitalist production to meet the paper values in the foreseeable future.

Third, geographical shifts in production and finance continue to generate severe economic volatility and regional geopolitical tensions, contributing to unevenness in currency values and markets as well as pressure from capitalist markets to penetrate non-capitalist spheres of society and nature, in search of restored profitability.

I've spent the past week in the mountains of southern Malawi, teaching a course alongside poet Dennis Brutus, and working through these dynamics with a superb group of two dozen activists who specialize in food security, HIV/AIDS, water, urban development and local anti-corruption struggles.

One of the world's poorest countries, Malawi is under the thumb of Western donor governments - which pay much of the state's budget and cover the large trade deficit - and the Bretton Woods Institutions, which even gift the local finance minister a top-up salary.

For ordinary people there are no obvious improvements, we're told, in spite of reduced foreign debt levels, higher prices for some exports and lower prices for Asian manufactured imports, and the prospect of uranium exports after an Australian mining house, Paladin, began a project that it claims could boost GDP by 5%.

When the NGO groundWork and the Centre for Civil Society gave out the Southern African 'Corpse Awards' - an annual mock ceremony for big business - in Durban last month, Paladin took the 'Pick the Public Pocket' prize, thanks to a nomination from the Malawi groups Citizens for Justice, the Centre for Human Rights and Rehabilitation, the Foundation for Community Support Services, Karonga Development Trust and the Uraha Foundation Malawi.

According to the commendation (www.groundwork.org.za): 'In an extreme case of naked greed, Paladin is lobbying the Malawi government for a 16-year tax holiday. With the state's political support, Paladin has no hesitation in destroyed shrines of the local people. They have already started construction of the mine even without being granted a licence.'

It's this sort of Third World pillage that capital has increasingly turned to, a form of 'accumulation by dispossession' (as City University of New York professor David Harvey puts it) that extends far beyond ordinary market relations.

Aided by the burgeoning financial system and globalization, such processes of crisis displacement have been gathering pace over the past three decades. Trends during the most recent five years or so show the success - but also limits - of crisis management, especially in the US, Europe and Japan:

o an uptick in corporate profits, but accompanied by very sluggish corporate investments in new plant and equipment;

o a recovery in trade, foreign investment flows and stock market values after early 2000 downturns, but largely thanks to an overheating China and to merger and acquisition mania, not new productivity breakthroughs or markets;

o rising US and Japanese fiscal deficits, without which growth would have been anaemic;

o an unprecedented US trade deficit (especially due to increased Chinese imports);

o an upturn since 2002 in the prices of raw materials (especially energy and minerals/metals) but in a manner reminiscent of speculative bubbles;

o 'real' (after-inflation) interest rates below 1% since 2001, in spite of 17 small rate increases by the US Federal Reserve since 2004;

o a fast-rising household debt/asset ratio in the US;

o an 18% fall in the value of the dollar from its early 2002 high until now; and

o the ongoing role of emerging Asian economies, especially China, as the engines of world growth, accounting for half of the increase in global GDP since 2000.

One of the most unpredictable but formidable problems for the US is the real estate bubble, which peaked in 2005. By the third quarter of 2006, the adverse impact of housing on US growth was negative 1.1 percentage points, a huge swing from even the year before when it was 0.5 points, and from a still larger positive share during the early 2000s.

What do orthodox economists have to say about all this? Their explanations and justifications for the most obvious dilemma, US trade and budget deficits, boil down to four factors:

o the low US national savings rate, below 14% during the early 2000s;

o the positive implications of the 'new economy' for US investments, which have been stable at just lower than 20% of GDP during the 1990s-2000s, roughly equal to Europe and Latin America but lower than Japan's 25% and other East Asian countries' 33%;

o the argument that a 'global savings glut' - roughly 2% higher than 1990s levels - permits relatively low interest rates in the US in addition to capital inflows; and

o a 'Sino-American codependency' situation due to risk avoidance by Chinese and other Asian investors in the wake of the 1997-98 crisis.

Yet according to Barry Eichengreen of the Brookings Institute, 'these four sets of factors supporting the global imbalance and the US deficit will not last forever. There will have to be adjustment, the question being whether it will come sooner or later and whether it will be orderly or disorderly.'

Eichengreen is not even factoring in the adjustment that global financial markets and US-controlled institutions - especially the World Bank and International Monetary Fund - have forced upon others, elsewhere.

For example, South Africa, Turkey and Colombia suffered currency crashes against the euro of 25-33% this year alone, and over the last dozen years, other middle-income countries - Mexico, much of Eastern Europe, Thailand, Malaysia, Indonesia, South Korea, Russia, Brazil, Argentina - have had their economies pounded by global financiers, broadly to the benefit of the US and Europe. (Japan has mainly been mired in stagnation over the last fifteen years.)

Outside the US, there have been 'very long bouts of stagnant or even negative growth', admits the World Bank in its latest book, Global Economic Prospects 2007: 'The past 25 years have had numerous setbacks afflicting growth in the developing countries? [with] specific reasons for these periods of depressed growth ranging from Latin America's debt crisis in the 1980s, the Middle East and North Africa's (and, to a lesser extent, Africa's) energy decline, and Europe and Central Asia's emergence from its transition toward market-based economies.'

But lately, the Bank claims, progress is being recorded:

o more sustainable debt levels (at least for developing countries on average),

o more diversified economies with less reliance on volatile commodities,

o a much greater role for services (which tend to be less volatile),

o much improved production management with lower inventories (which tended to be a major factor in past business cycles), and

o better macroeconomic management, particularly monetary policy.

Such claims - quite dubious in many cases, and blithely ignorant of the downsides - have made men like Altman and the Economist editors a bit too smug. In contrast, more far-sighted imperial elites do worry about systemic power shifts in the wake of the ongoing financial and trade adjustments.

According to Menzie Chinn, in a paper commissioned last year for the Council on Foreign Relations, 'A cautionary note regarding America's current path is provided by Britain's loss of military and political primacy in the twentieth century; that development followed a shift from creditor to debtor status. Similarly, a prolonged decline in the dollar's value and increasing indebtedness will erode America's dominance in political and security spheres.'

Chinn continued: 'These trends threaten the dollar's role as THE global currency that facilitates international trade and finance, something the United States has gained immeasurably from over the years. A weaker dollar also reduces American leverage in international financial institutions such as the World Bank and IMF. Finally, a diminished US currency means that each dollar's worth of military and development assistance has less impact at precisely the time when the nation faces the greatest challenges. Those threats we ignore at our own peril.'

For those opposed to imperialism, such threats can only be made substantive if international resistance to US-centred neoliberalism intensifies more rapidly and decisively, corresponding to the Pentagon's coming defeat in Iraq and Afghanistan, the US neoconservative movement's overextension, the Latin American rightwing's loss of national power, the World Trade Organisation's recent slide into irrelevance, and the IMF's profound financial difficulties remaining one of the key global economic coordinators (in the wake of early repayment of loans by several large borrowers).

Not entirely upbeat, however, the World Bank's Global Economic Prospects identifies three downsides to globalization - 'growing inequality, pressures in labor markets and threats to the global commons' - which are not only 'evident in the current globalization' but 'are likely to become more acute. If these forces are left unchecked, they could slow or even derail globalization.'

The Bank observes that threats from 'environmental damage, social unrest, or new increases in protectionist sentiment are potentially serious', in part because 'returns to skilled labor will continue to increase more quickly than those to unskilled labor, extending today's natural wage-widening tendencies evident in many, if not most, countries'.

If so, 2007 is a crucial year to frighten the coalition of neoliberals and neoconservatives at the helm of the global institutions and most G8 national states. Excellent protests by Australians at last month's G20 group of leading finance ministers may well be repeated in a year's time in Cape Town, when South Africa's Trevor Manuel hosts the group.

In the meantime, European activists will shake the G8 in Germany in July. The IMF and World Bank return from their 2006 Singapore safe haven to Washington for annual meetings in September and no doubt renewed protests.

Demonstrations against war in the Middle East and Zionism will intensify. There will be ongoing fights for immigrant and youth rights, for jobs and economic justice, for access to medicines and for other decommodified public services like education, water and energy. Battles against racism and sexism will continue. Climate change is on all environmentalists' radar screens, with diminished patience for bogus mainstream strategies like carbon trading and offsets.

As Brutus told the Malawians, 'The World Social Forum in Nairobi next month gives us the opportunity to consolidate the hard work for justice, and as we take advantage of internationalism to defeat corporate globalization, we have to ratchet up our organizing at home, linking all these issues as best we can.'

Source: http://www.zmag.org/