

MARX: SO OFTEN READ, SO SELDOM UNDERSTOOD. Finance Capital, Monopoly Capital and Imperialism.

Iranian General Qasem Soleimani's assassination by the USA brings the issue of imperialism back to the fore. The General was not assassinated because he was planning future attacks. His fate was sealed on December 27th a week before his death. December 27th marked the beginning of the first joint naval manoeuvres between Iran, Russia and China, called "Indian Ocean Security Belt". After the 4 days of war games, Iran declared an end to US hegemony in the region. No hegemonic imperial power, especially one in decline, can ignore such a challenge, especially after it warned Iran to "think twice" before conducting these drills. Its response was to project its power by killing the Iranian Chief of Staff in an international airport in a foreign country.

The issue of imperialism and its dynamics has been at the controversial heart of Marxian analysis and discussion for over a century. Early theorists which include Kautsky, Luxemburg, Lenin and Hilferding belong to the classical group of Marxist theorists who focused on underconsumption, the emergence of monopolies within the nation state and the fusion of industrial and money capital into what came to be called, "finance capital". (Note 1.) For a detailed historical tour of the writings on Imperialism I recommend: *Rethinking Imperialism A Study of Capitalist Rule* by John Milios and Dimitris P. Sotiropoulos and published by Palgrave Macmillan.

The two theoreticians, hereafter referred to as the authors, are critical about the earlier writings on imperialism, though they are a bit more favourable towards Lenin's more complex position, which they themselves develop into their "imperialist chain" version of imperialism. However, in turn I find their interpretation of imperialism to be problematic, despite being closer to Marx's Critique of Political economy. As they have described the various historical interpretations and their authors comprehensively, I will refrain from doing so here.

Under-consumptionism.

The traditional representation of Imperialism is that it was a political response by capitalism to under-consumptionism. These early theorists turned Say on his head, now it was the case that supply did not create its own demand. This under-consumptionism leads to two developments. Firstly, within the nation state and later outside the nation state. In the first instance the crisis it unleashes leads to the centralisation of capital and the division of the economy into monopolies which dominate every industry. Later, and only once this is achieved, is there a concerted effort to expand beyond the nation state and divide up the world economy.

It is unlikely that Marx would have considered such a stagest approach had he had time to continue to add to his three books as he wanted to. Rather Marx's view of the world was not linear, it was full of zig zags representing the push and pull of the dominating forces and the counter-vailing forces at work. A truly dialectical presentation of the world. I pointed out this complexity in an article written in 2015 attacking the Theory of State Capitalism particularly as it applied to the USSR. The link to the article is: <https://theplanningmotivedotcom.files.wordpress.com/2015/05/expanded-article-on-state-capitalism.pdf>

There I try and do justice to Marx's understanding of the movement of capital to show that while Marx recognised the movement towards centralisation, what he called the centripetal forces in capitalism, he also pointed to the centrifugal forces unleashed as well, which mitigated and sometimes even reversed the centripetal forces. As I show in the article, the churn rate (that is the replacement of companies by newer competitors in the major indices such as the Dow Jones) has accelerated. This

phase, which we may call the renewal of capital, is of course predicated by the state of the world economy. During upturns, and globalisation beginning in the early 1990s was such an upturn, the capital threshold is reduced as market prices are governed by less efficient firms, courtesy of the level of demand. Of course that period is over, and now we find the shedding of capital, as industry faces deteriorating global market conditions.

Returning to the question of under-consumption. Marx did make a statement that in the end all capitalist economic crisis is reducible to the restricted consumption of the masses. And additionally, he spoke of the contradiction between the unlimited expansion of production and the limited purchasing potential of the market. What Marx meant, was that while this was true, it was true only at the end of the day, that is in the most general sense only. But before at the end of the day arrives, there are many daylight hours, each casting a different shadow and accompanied by differing temperatures, which require specific analyses and explanations.

All exploitative societies are based on producing a surplus which is alienated from its producers, the labourers who in their most developed form are waged proletarians. It is this surplus that needs to be investigated and should be our starting point. Why? Because in the final analysis, it is not the consumption of the masses that determines the rhythm of the industrial cycle, but the consumption of the capitalist class, i.e. the disposition of the surplus of society.

The capitalists can do one three things with this surplus besides wasting it as they are prone to. Firstly they can consume it productively as Marx said, or in today's parlance, they can invest it. Secondly, they can consume it unproductively, that is spend some of it on themselves and their luxury lifestyles. Finally, they can set some of it aside in order to speculate with. The capitalists only fail to consume the surplus of society if they fail to invest, or, fail to consume, or, they add to their speculative hoards.

I have previously shown for the first time the magnitude of the productive consumption of the capitalist class. Hitherto Marxist theoreticians have limited productive-consumption to the investment directed only into fixed means of production. I have shown this is incomplete and therefore wrong because it excludes circulating capital. Circulating capital has to be replenished at the end of each circuit, that is, it has to thrown back into production either in its existing form or an expanded or diminished form over and over again. This circulating capital in the non-financial corporate sector is one third larger than the personal consumption of goods, that is the total unproductive consumption by the capitalist class, as well as the consumption by workers of their necessary goods. Not only that, but the volatility found in the sphere of circulating capital is far greater than that found in the sphere of personal consumption. Finally, when we add the investment in circulating capital to fixed capital it amounts to about 60% of total sales in the economy or over three times what workers consume. We can therefore confidently say, based on hard data over a powerfully long period, that the issue of underconsumption lies in the realm of productive consumption and not in the restricted consumption of the masses. That debate is now dead.

The key question is this: what regulates the division of the surplus into the three revenue streams, which to repeat are productive-consumption, unproductive-consumption and speculation. The answer is the rate of profit and through it, the rate of interest. A rising rate of profit encourages the productive consumption element, that is investment. In turn rising investment tends to raise the rate of interest thereby discouraging speculation. It may even be the case that the capitalist class focuses on accumulation at the expense of raising their own unproductive consumption.

On the other hand a period of falling profitability which discourages investment tends to result in falling interest rates, and it is this fall in interest rates that encourages speculation. This diversion of

surplus value away from production and circulation and into speculation of course reduces the consumption of the surplus. However, this can be offset when speculators spend a part of their “capital” gains on consumption.

Every period needs to be examined concretely by taking into account the interaction between the general features and the unique features anchored in the period under examination.

Today's period is such a period. Here there is no generalised under-consumption issue. Indeed it can be argued that there is over-consumption, by this we mean, that whilst there is a global industrial and trade recession, consumer sales are still rising. And they are rising because of the bubbles in share and bond markets. So while the rise of inequality has made it unprofitable to invest in the production of articles of consumption for workers, this has been substituted by the production of luxury goods (Department 2B instead of 2A) for the capitalist class. This can be most clearly seen in the car industry where sales of the more expensive SUVs and light trucks expanded, while that of cheaper saloons contracted. The sales of the former rose 2.8% in 2019 while the latter fell by 10.9% (S&P Global Markets Intelligence Unit data).

It could be argued of course, that had inequality been more constrained, then the opportunities of investing in articles of consumption for workers would have been enhanced. Under these circumstances investment could have been stronger and interest rates therefore higher. But we leave speculation to the speculators. History is as it is, not as it should have been. Globalisation undercut wages worldwide creating a fountain of profit which overtook investment, causing interest rates to fall, while central banks stupidly added to the fall. These low interest rates became the cocaine stimulating speculation, or in the words of Marx, it was the equivalent of giving alcohol to an alcoholic or pork to a glutton.

Thus in the end, imperialism is not a question of under-consumption, because under-consumption is a product of investment and investment is a product of profitability. The rise in modern imperialism led by British colonialism in the 19th century was driven by profit. Here the authors present an interesting hypothesis. This crisis of profitability they say was caused in part by the shift in the balance of power between capital and labour. This shift began to set social and political limits to the absolute rate of exploitation, for example legislation which limited the working day and week.

However, before we move to considering the consequences of the focus on the relative rate of exploitation, there is another colonial aspect that needs to be considered. Theorists such as Rosa Luxemburg saw colonies as sources of untapped markets able to absorb the excess production of the metropolitan countries, but they overestimated their potential. The barrier to production is always money. The output of commodities needs to be converted into money for production to be absorbed socially and for profits to be realised. In this case universal money – gold – as described by Marx in Volume 1, Chapter 3, Section 3c. Thus if we are discussing equivalents then the use values found in these new markets originating from the “natural economy” has to first be converted into value via the medium of gold. Despite this being done at a rate which undoubtedly robbed the indigenous people of their labour, it was the scale of these exchanges that is in question, because they would have been marginal relative to the scale of over-production. In any case, the conversion of these use values into exchange values would have added to rather than reduced the commodities in circulation.

IN terms of the absolute rate of exploitation, the real benefit would have been indirect. The natural economy acted as a subsidy to capital through reducing the necessary or paid part of the working day, in a manner similar to domestic labour in general. It was no accident that South Africa produced the highest rates of profit in the global economy in the 1950s and 1960s. The natural economy, in what

was popularly called the “homelands” of South Africa, acted both as a subsidy to wages and a means of maintaining the labourer when out of work, as was the case with gold mining, where the brutal conditions meant workers could only work six months on followed by six months off to recuperate.

Due to overcrowding, the natural economy began to break down. It came to pass that it was no longer possible to find building material or firewood, and soil erosion disrupted the production of food. Consequently, wages at their traditional level were now insufficient to reproduce the rural working class with the result that one out of two children were now dying of malnutrition. This was the driver behind the wages struggles in the early 1970s as workers fought and unionised in order to increase remittances to their families struggling to survive.

Before it was disrupted it was this interaction between the natural economy and the capitalist economy, that propelled the rise in the rate of absolute surplus value and hence profits. It was not so much the conversion of use values into exchange values that made this possible, but the opposite, the reduction in the quantity of the exchange values needed to make up the basket of articles of consumption upon which the reproduction of labour power depended. The more use values the natural economy provided, the fewer market produced use values needed to fill this basket, the lower the wage could be and consequently the higher the profit.

Unlike the authors, I would argue the shift in exploitation in the motherland from absolute to relative would have been an unconscious one at first driven by competition. It would only become a conscious reflex later due to falling profitability. The movement towards raising the relative rate of surplus value is not a choice open to the individual set of capitalists. Competition forces them into it. If competitors invest in more advanced techniques of production that depresses the market price for their product, than clearly they can respond in one way only, to invest similarly to raise the productivity of their workers.

Unlike the biological limits set to the extraction of the absolute surplus value, the limits to raising the relative rate of exploitation is set by technology. The more that technology drives up productivity, and through so doing, cheapening production, the shorter can be the necessary part of the working day. And a reduced necessary part extends the unpaid part, the part during which the workers produce the profits of the capitalist class.

An international division of labour developed in which exploitation in the colonies would be based on the absolute extraction of surplus value while in the imperialist countries it would increasingly be based on the relative extraction of surplus value. The colonies would bear the burden of longer and harder work for less, while in the metropolitan country the emphasis would be on training workers to use more machinery including more advanced machinery, thus creating an enduring gap between the more productive workers exploited in the imperial countries who produced more value in a given time than did their less productive and over-worked brothers and sisters in the colonies. This is an interesting hypothesis by the authors, regardless of whether or not this was caused by the class struggle in the metropolitan countries, or it was simply due to the technical evolutions and revolutions that mark capitalist progress.

We should also add in, that the focus on raising the relative rate of surplus value, which by accelerating the increase in the means of production per worker raising the organic composition of capital, intensifies the tendency towards economic crisis. And the crisis of profitability always gives added impetus to finding profitable outlets globally when they are constrained locally. Accordingly, while it becomes increasingly expensive to employ workers in the metropolitan country because of the means of production socially necessary, it remains much cheaper to employ labour power in the colonies

because land and labourers are ample and there is a lower requirement for means of production. Thus the conditions of exploitation found in the colonies as they were then, provided a profitable outlet for surplus capital from the metropolitan countries to be profitably deployed there.

In addition, the current phase of globalisation has shown that the process can be reversed. In the United States in particular, the defeat of organised labour by Reagan has seen the growth of low-paid work at the expense of well-paid work. Thus there has been a growth in the absolute rate of exploitation within the USA at the expense of the relative rise, reversing a century old trend. This has not in any way made the USA less of an imperialist state. Nor, despite Trump's high hopes, has this led to a U-turn in investment, where investment, instead of flowing outwards, now flows inwards to take advantage of workers working harder and longer for less. If anything, since Reagan, the USA has been involved in more wars, occupations, assassinations, and regime changes than ever before.

The key is the fluidity of capital.

In the late 1980s, if our historical view had been trapped in Japan, the then leading industrial power (Sony, Toyota etc), we could have been forgiven for dusting off all those tracts which claimed that finance capital was the highest stage of capitalism. After all, the *Keiretsu* dominated Japanese industry exemplified finance capital. The *Keiretsu* to remind ourselves, represented constellations of interlaced major Japanese companies orbiting a large single bank which financed, if not, controlled them.

This arrangement which centralised and focused investment, appeared to a world beater. Japan had risen from the ashes of World War 2 for nearly 40 years. Its early revival was nurtured by the huge US military presence, particularly at the time of Korean and Vietnamese wars, which provided Japanese industry with a ready-made market and access to the world's reserve currency, the dollar. Similarly South Korea and Germany. Building on this, Japan created a formidable export machine and by the 1980s was challenging US technological supremacy. (As an aside, this is why Cliff's theory of the Permanent Arms Economy is baseless.)

So successful was the Japanese challenge that US entrepreneurs were questioning their free market economic models, while their corporations were having to adopt Japanese management methods to survive (which was ironic as these methods, such as just in time, had been developed in the USA during WW2 but then abandoned). Thirty years later, and with the benefit of hindsight, we can see how the success of the *Keiretsu* turned into its opposite, a fetter on the further development of the economy after the crash in 1990.

Could this have been predicted. Yes if one is familiar with Marx's Critique of Capitalism. When Marx described the laws of capitalism which made it dynamic, he insisted these laws were not optional, otherwise he would not have described them as laws. All these laws have one thing in common, they are based on capital being fluid, not fixed fast. The equalisation of the rate of profit around the average rate of profit, presumes the ability of capital to flow from industries with below average rates of profit to industries with higher rates in order to level the difference. In turn this adjustment to the movement of capital which alters production upon departure and arrival, acts on the law of demand and supply thus affecting market prices. This is what turns capitalism into a live and responsive system, this and this alone. Take it away and you have an economic corpse.

In the case of Japan, the *Keiretsu* system of investment acted as a barrier to the fluidity of capital. This in turn prevented the radical restructuring of its economy, compared to the ruthless restructuring that occurred in the USA during the 1980s, which led to the restructuring of the world economy to the detriment of Japan. As I pointed out in the linked article, Marx's observation in Volume 3 of the separation of ownership and management is pertinent. The greater the separation, the more ruthless

and international is the restructuring of capital. In Japan, familial and personal loyalties and ties, often to shareholders still playing an active role in these companies, handicapped Japanese managers from casting off redundant capital.

Thus anything which acts as an obstacle to the fluidity of capital is detrimental to the dynamism of capital. Unless the rate of profit rules, unless it acts as a compass directing investment, capitalism soon gets itself lost in the undergrowth of debt.

Imperialism.

This is how we should address the question of imperialism. Does the nation state which nurtured capitalism in its early years, freeing it from the barriers of feudalism, now act as a barrier to the fluidity of capital? That is the key question.

Before expanding on this question a conundrum. Competition is the great leveller. It tends to smooth differences even in the presence of monopolies. By monopolies we understand them purely in the Marxian sense as those corporations making additional profits courtesy of their technological advantages which are not readily copied. Here we are talking patents and Intellectual Property Rights.

Monopolies do act as a barrier. A recent article in the FT shows that innovation is being suppressed in the USA because companies like Amazon and Google are infringing patent law. In fact the FT article concludes, Intellectual Property rights are better protected in China than in the USA. Thus far from the state seeking to protect these monopolies, despite their lobbying muscle, they are better broken up, precisely to allow capital to flow and innovation to flourish. (FT 20th January 2020, *US innovation needs a level playing field*. <https://www.ft.com/content/502c8580-3935-11ea-a6d3-9a26f8c3cba4>)

Thus competition, which is the market reflex caused by changes in production and the flow of capital, should have a smoothing effect. But on a world scale, hitherto, the world economy is dominated by unevenness. A handful of imperialist economies lording it over the rest of the world. Clearly, there are obstructions to the global fluidity of capital that have to be identified. These obstructions are centred on a world economy still dominated by nation states. They can be separated as follows:

1. UNIVERSAL MONEY (see Marx, Volume 1, Chapter 3, Section 3c.)
2. UNIVERSAL MEANS OF PAYMENT
3. GLOBAL CREDIT MARKETS
4. TECHNICAL POSSIBILITIES
5. POLITICAL ENFORCEMENT
6. THE REGULATORY ENVIRONMENT
7. THE MOVEMENT OF LABOUR.

1. The conversion of individual labour into social labour on a world scale requires the medium of Universal Money as Marx termed it. In his day it was gold. Thus any balance of payment crisis involved the transfer of gold reserves. Until WW2, economic relations between individual economies were mediated by gold. The acquisition of commodities on a world scale via currencies depended on their gold backing. This was clearly detrimental to backward capitalist economies whose currency was only able to circulate commodities locally, and whose gold and foreign currency reserves were minimal impeding their access to the advanced output arising in Department 1. Access to universal money acted as a barrier to the cross-border movement of capital.
2. Money as means of payment is different to money as the medium of circulation. Throughout the history of capitalism, producers have sought to overcome the barrier of money by offering

credit to the buyer. That is offering deferred payment terms. Deferred payment carries risk and risk requires enforcement (legal) mechanisms and arbitration. This has always handicapped poorer countries, either because their legal systems were less developed or different. In the end, the decisive obstacle facing poorer countries was confidence in the sufficiency of their foreign currency to extinguish the debt on due date or at least, at a conversion rate not too far removed from the rate when the credit was first issued.

3. Global credit overlaps with 2. The recognition of the limits to commercial credit at the time of Bretton Woods led to an international lender of the last resort, the IMF. However, this institution was intended not to capitalise the poorer nations and ease their entry into credit markets alongside the World Bank, but to protect the interests of the major countries in the event of default or a balance of payments crisis. Thus international credit markets, even at the height of globalisation, continued to lubricate the movement of capital between the more developed capitalist world rather than lubricating the movement of capital into poorer parts of the world. To give capitalism its credit, it does recognise barriers and it does seek to overcome them as part of the process of homogenising production globally. Today the giant international banks offer their clients, particularly their large corporate ones, a seamless portfolio of services globally, which are transacted through offices based in virtually every country.
4. Technical advances. Technical advances tend to make the walls of private property more porous. While it deepens specialisation it also forces integration and increases reach. What was characteristic of the period of globalisation was outsourcing, that is the concentration of production and work in specialised firms at the expense of fragmented in-house production. Here we think not only clerical work (India) but also component production (China). The two technical means that encouraged this development was the advent of containerisation and the internet. Containerisation turned ships into sea going trucks and the internet allowed management to control and direct outsourcing in real time. It is unlikely that in the absence of these two pivotal technologies, globalisation would have taken the form it did, and, it is unlikely that China would have emerged as an economic giant. Had China opened up twenty years earlier, its story would have been different.
5. Capitalism is an exploitative system. It therefore requires political power for its enforcement. That political power is centred on the nation state. Projection of political power globally remains grounded in the nation state and is financed by the national treasury. No global power has replaced national power. For most of its life, the UN was the UNA, the United Nations of America, tolerating most of the US's violation of international treaties even when they were originally sponsored by the US itself, but it never replaced the US as the pre-eminent military power. Because political power is based on the nation state, the question of hegemony is vital. The US may have become the largest economy in the world by 1871, but it still operated as a continental power rather than an intercontinental power up to 1941. Its main act as an imperial power pre-war was to cut off the oil and metal products upon which Japan depended. In 1939 the US army totalled just 180,000 soldiers ranking it the 19th largest in the world sandwiched between Bulgaria and Portugal. After WW2 it never fell below 1.5 million soldiers. Just as important was the transformation of the State Department into a global state department during the course of the War. In 1940, the Department had only 1,128 domestic employees, with total expenditures of \$24 million. By 1945, the staff had more than tripled (3,767 employees) with a budget of about \$50 million. It was the 1943 reforms which escalated it from a national into an international department of state. *"Stettinius' (1943) reorganization marked the birth of the modern Department of State. His reforms ensured that the Department would participate effectively in shaping the nation's foreign relations in the*

postwar period. These reforms overcame a department that was localised in perspective. Finally a Policy Committee and a Committee on Postwar Problems were created to focus on long-range planning.” And of course it set up the forerunner to the CIA in 1945. <https://history.state.gov/departmenthistory/short-history/embarrassment> Today the State Department has 75,547 employees (2018), including 13,855 Foreign Service Officers and 49,734 Locally Employed Staff, whose duties are primarily international. Only 10,171 employees form part of the predominantly domestic Civil Service. Truly a global state department. The rise of the State Department was the political expression of the US emerging as the dominant economic global economy. It was instrumental in setting up Bretton Woods, the IMF, the World Bank and GATT which created a unipolar, but multi-lateral world economy overcoming the pre-war divisions and paving the way for the post war boom. The issue of a fracturing world economy has come to the fore once again with the rise of China and the end of Globalisation.2. This development will be looked at in greater detail in the section titled: Discussion.

6. CETA the trade agreement between the EU and Canada took 7 years to negotiate, comprises 30 chapters and many hundreds of pages of clauses and sub-clauses. And yet despite the reams of paper, it was characterised as a relatively simple trade agreement. It shows how enduring are regional differences between the economies that comprise the global economy. Differing regulatory environments once again acts as a barrier, as effective as tariffs, to the fluidity of capital. Here the authors make a good point. Regional differences represent in the main political differences, differences in the balance of class forces that result in differing standards around the world. In many ways, the EU has some of the most progressive standards, in contrast, the USA has markedly inferior standards. Brexit will allow Britain to abandon these standards and align itself with the USA, not because of the special relationship, but because a section of British capital seeks to align itself with the lower standards obtaining outside the EU in order to make extra profits in doing so. A socialist society of course will have none of this, all standards will be the highest obtainable. Much paper will be saved.
7. *“Tokyo Shoko Research counted 362 such bankruptcies during the year through November 2018, up more than 20% on the year. The total has already surpassed the full-year 2015 figure of 340, the highest since the research firm began tracking this data in 2013. The number of companies that had to shut their doors because they lacked enough employees to handle the necessary work jumped 66% to 53, while another 24 -- a 71% rise -- increased compensation to hold on to existing staff but could not bear the higher costs.”* <https://asia.nikkei.com/Business/Business-trends/Labor-shortage-drives-more-bankruptcies-in-Japan> From the point of view of the movement of labour, Japan is one of the most closed economies in the world despite its population having contracted by one million over the last five years due to falling birth-rates and an ageing population. The flow of labour presents yet another obstacle to smoothing the world economy, and, it has become the key political issue which divides workers because of the impact of austerity. The flow of capital, in so far as it moves from the exploiting countries to the exploited countries, has from the view of the employing class, the unfortunate consequence of raising wages in the exploited countries because of its effect on the demand side of the labour market. Conversely the movement of labour from the exploited countries to the exploiting countries has the opposite effect, it depresses wages in the exploiting countries. This is the undoubtedly lessons found in Britain and the southern states of the United States. Thus both the movement of capital and labour where it takes place, has the effect of homogenising wages, but in opposite directions. Of course the response by the international working class should be the struggle to homogenise wages upwards everywhere rather than to support immigration controls.

Discussion.

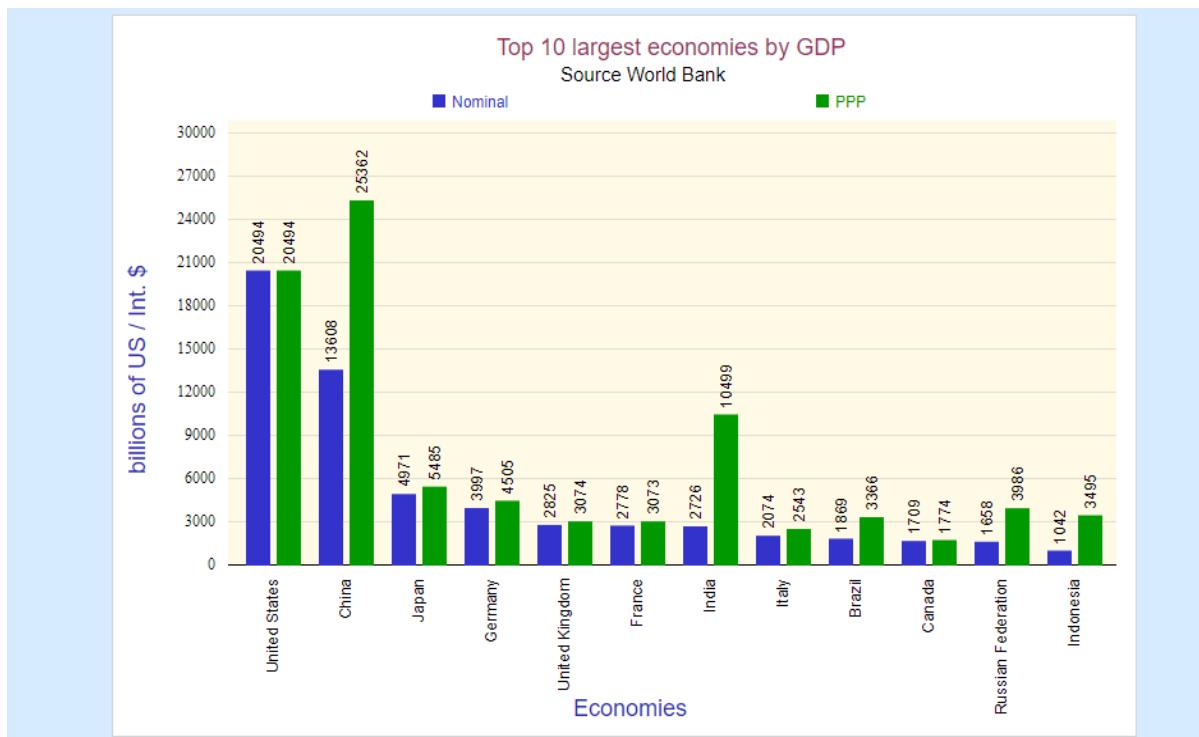
The above analysis seeks merely to pin-point the obstacles to the development of a smoothed world economy and the elimination of economic differences between nations. It does not pretend to be a detailed analysis. Nor does it substitute for the ruthless policing by the USA of the world economy to protect and advance its economic interests since WW2. Its importance lies in this, having identified the obstacles to the fluidity of capital, can they be overcome?

The global economy is changing though the dramatic pace achieved over the last two decades is slowing as economic stagnation sets in world-wide. For the first time in capitalist history, it could be argued that the share of global GDP produced by emerging markets has overtaken that of the dominant imperialist nations known as the G7 club. When measured crudely by PPP (Purchasing Power Parity) the share of GDP held by emerging countries is 60% compared to 40% for the G7. In terms of Dollars, it is the other way around.

As the graph below shows, much of the 2018 GDP measured by PPP is due to China and India. Together they account for nearly half of the 60% measure. The bulk of the contribution comes from China. Who would have thought that twenty years ago, China would emerge to become the dominant industrial economy in the world having accumulated capital faster than any other capitalist economy in history?

And yet, when we read the commentaries on imperialism prior to the Great Crash in 2008, there is no expectation of the emergence of a new economic giant about to disturb the world order. The rise of China poses a challenge to those who hold to the fixed division of the world economy. How is it that a colony, then a backward independent country can ascend to challenge the existing economic order, and, lead to what is effectively a transitional bi-polar world.

Graph 1.



<https://statisticstimes.com/economy/largest-economies-gdp.php>

In reality, there are eight rather than seven obstacles to the emergence of China as a world economic power. The eighth will be the focus of the expected book on Imperialism by Roberts and Carchedi examining the differential compositions of capital separating the exploiting countries from the exploited countries. In short, the monopoly of technology by the multi-nationals based in the USA, Europe, Japan and South Korea. The reason for this omission is that these monopolies affect the terms of trade or exchange not only between nations, but within the nation, and for this reason they are not exclusive to imperialism. <https://wordpress.com/read/feeds/313842/posts/2484192418>)

The US has maintained its domination of the world economy in a number of ways, militarily, politically, financially and technically. However without its monopolisation of key areas of technology, that domination would soon lapse. The strategic struggle between the US and China is not about trade, it is centred around technical dominance, who controls the commanding heights of the value chain. The recent Phase 1 agreement is merely a truce. The US has forced China to buy more US goods and China in turn has bought more time. But the US is undoubtedly preparing for war.

What needs to be addressed is how all of this has come to pass? How is it that China managed to escape the clutches of imperialism? How did it overcome the 7 barriers listed above, and will it fall at the eighth, the issue of technology?

The story begins with Hong Kong. Hong Kong had earned a reputation as a reliable and cheap source of manufactured goods by the time Deng Xiaoping had embarked on the programme of opening China and restoring the market under the slogan “to get rich is good”. For the merchants of Hong Kong, it was a short step to start investing and sourcing products from mainland China with its cheaper labour. In fact, the kind of labour exploited in the coastal regions was the most flexible, docile and under-paid of all labour, the migrant. There are similarities with South Africa earlier in the century. Here too, part of the cost of reproducing these labourers were reduced by village crafts and small plots of agricultural land in the hinterland.

It is therefore no accident that China’s economic miracle takes place in the province adjacent to Hong Kong called Guangdong containing much of the Pearl River Delta Economic Zone, today the world’s largest industrial area. The seminal moment occurred in 1978 with the Open Door Policy initiated by Deng Xiaoping. A year later, the 1979 reforms established the Pearl River Zone structured to encourage foreign investment and trade flows. The US reciprocated in 1980 when Congress temporarily granted China “most favoured status”. The timing could not have been better as it preceded the large scale destruction of manufacturing capital in the United States.

By integrating this zone into the world economy, China was able to step up exports to earn hard currency and draw in investment. The pace of industrial production and exports in this region was slow in the 1980s, but by the early 1990s, China had earned the reputation of being a reliable and highly profitable business partner despite being run by a so called Communist Party. By the mid-1990s it had risen to become the biggest recipient of FDI amongst the emerging countries.

The effect of inward investment followed by burgeoning exports, was to establish foreign capital in the coastal areas. By 2008, the Chinese Ministry of Commerce could announce that foreign invested enterprises accounted for over 50% of exports, earning them a 22% share of all industrial profits, which were produced by workers who were three times more productive than the average industrial worker. (These workers would have been six times more productive had all the value produced in China stayed in China, instead of only half, because the other half was appropriated by corporations in the USA, Europe, Japan etc through unequal exchange.)

In this way China overcame obstacles 1 – 3. After years of negotiations China was allowed to join the WTO which by deepening its integration into the world economy accelerated the outpouring of exports from that country. China had established itself as the workshop of the world built on the backs of tens of millions of migrant workers. It became adept at producing products tailored to the specific standards of the countries in receipt of its goods.

It is often said that corruption is endemic in China, but this misses the point. Yes, the privatisation of state assets in the 1980s and 1990s could only proceed through corrupt means, but this corruption was tolerated, if not encouraged, provided the proceeds were used for commercial purposes rather than for purely personal gain (to fund lavish lifestyles). This was the secret behind the rapid accumulation of capital; the corrupt proceeds from privatisation were put to productive use. Only those bureaucrats who diverted state property for the sole purpose of unproductive consumption, tended to be prosecuted, and, in that way China avoided the pitfalls of other countries who squandered their resources.

Secondly, the People's Bank of China decreed that all hard currency earned from exports, net of the repatriation of profits, had to be converted back into Renminbi. This foreign currency was then held by the central bank as a hoard to be used to purchase means of production or to finance foreign investments. These means of production were used primarily to expand Department 1 by state linked enterprises focusing on upstream investments in infrastructure, power, communications etc in order to fertilise downstream activities by the private sector such as manufacturing, residential construction and tertiary activities.

Here then lies the thirty year journey by China from a semi-colony to an imperialist country in its own right. No, China has not invaded nor occupied any foreign country, but it has economically penetrated many countries in its own interest. There is much talk that China is not yet an imperialist country, or even that it is some form of socialist state. This is reminiscent of the kind of talk that surrounded Stalin's USSR before and after WW2, when it was described as a glorious workers' paradise. The brutal conditions of exploitation found in China are replicated in those countries outside China where it invests, and, China's industrial growth is increasingly dependent on its foreign investments.

What is a more interesting discussion is what China is actually doing with its surplus capacity? It is avoiding the mistakes Japan made in the second half of the 1980s. Then Japan's excess capital, parked in the banks, was used unproductively to fund the most spectacular property speculation in history. What China is doing today with its "Belt and Braces" programme is putting that excess capital to productive use. Its two goals are to use these investments to break free from the territorial and military vice imposed by the USA, through drawing neighbouring countries into its economic embrace. Secondly by developing these economies, to create markets to absorb its industrial production.

In the Addendum I have provided some graphs which show the growth in China's exports, current account balances and inward Foreign Direct Investment. These graphs provide further evidence that globalisation proper began in the mid-90s and petered out by 2016.

*"What a difference two years can make. In 2018, PwC's Annual Global CEO Survey revealed a record level of optimism regarding worldwide economic growth. This year, as CEOs look ahead to 2020, we see a record level of pessimism... For the first time, more than half of the CEOs we surveyed believe the rate of global GDP growth will decline. This caution has translated into CEOs' low confidence in their own organisation's outlook. Only 27% of CEOs are 'very confident' in their prospects for revenue growth in 2020, a low level not seen since 2009". (23rd Annual Global CEO Survey called *Navigating the rising tide of uncertainty*.) www.ceosurvey.pwc*

And again

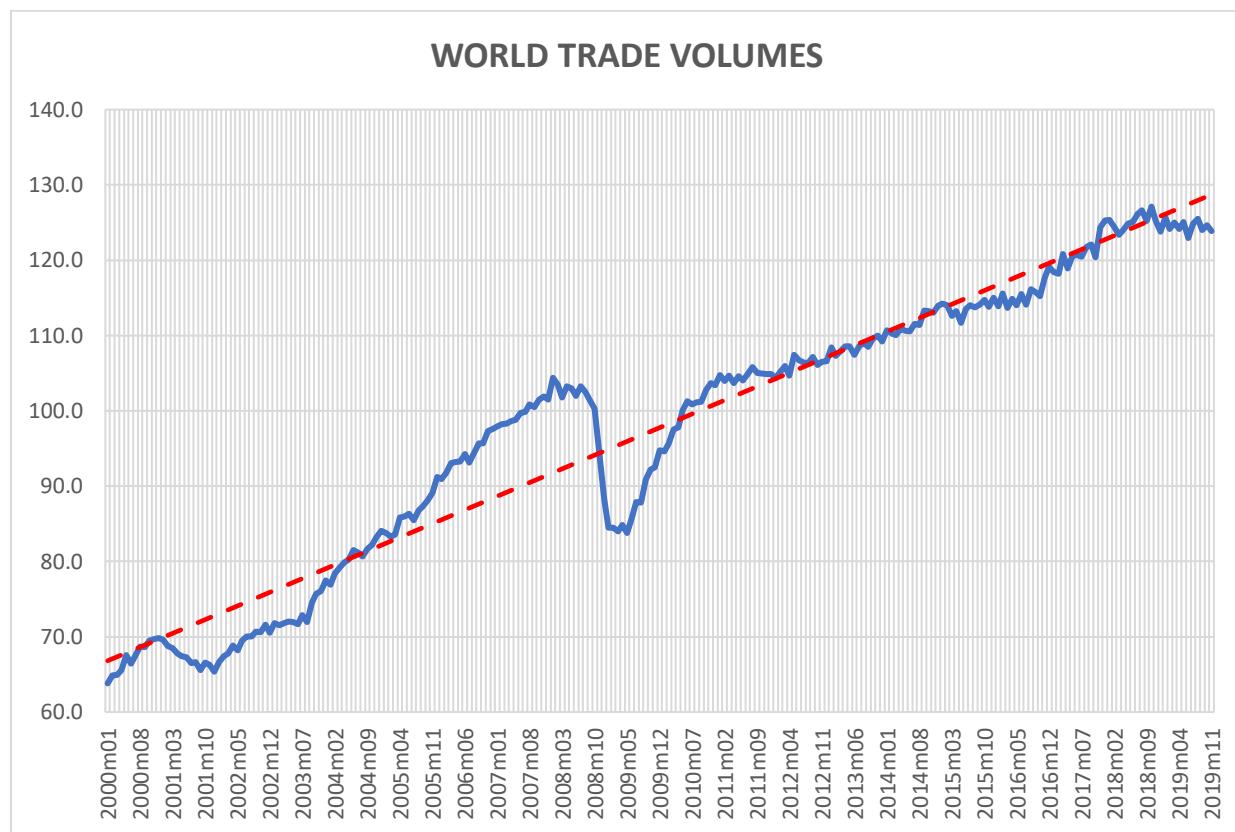
"I look at the pace of change; I look at the uncertainty in geopolitics; I look at the massive dislocation and rearrangement of global supply chains — there's no way anybody can predict what's going to happen in five years...The uncertainty we see today is unprecedented in the last 40 years. As a result, it's taking growth out of the global economy."

Spencer Fung Group CEO of Li & Fung, Hong Kong SAR, China

I repeat, it is not worth engaging in the sterile argument as to whether or not China is an imperialist state or not. What is a more important discussion is the economic consequences arising from the end of the current period of globalisation and the fracturing of the world economy. Capitalist investment may be driven by the rate of profit, but it is also influenced by market stability and the absence or presence of barriers.

This can be seen in the stagnation of world trade. Since the end of 2017, that is over the last two years, trade has not grown. In fact, trade has deteriorated further and faster than it did between 2015 and 2016. Since 2014 it has grown by 2% p.a. compared to the 8% peak growth between 2002 and 2008.

Graph 2.



<https://www.cpb.nl/sites/default/files/omnidownload/CPB-World-Trade-Monitor-November-2019.pdf>

The graph is based on monthly data. The reference given above contains a series of quarterly graphs prepared "CPB Netherlands Bureau for Economic Policy Analysis" which give a clearer picture of trends. They all show the same thing, non-existent growth in trade and global industrial production.

Conclusion.

The US is preparing for war. The 9.6% annual growth between the last quarter of 2020 and the last quarter of 2019, makes military expenditure the fastest growing item on the expenditure side of the US government's budget. (<https://www.cbo.gov/system/files/2020-01/55997-CBO-MBR.pdf>) To put this 9.6% increase in perspective, it is the equivalent of what France or Britain spends each year on their own military. The US is re-equipping its armed forces from top to bottom. From new assault rifles capable of penetrating the most advanced body armour at distance, to 15 more planned aircraft carriers, to a new and more invisible strategic bomber, to the space force, the US government is seeking to ensure its military is unassailable.

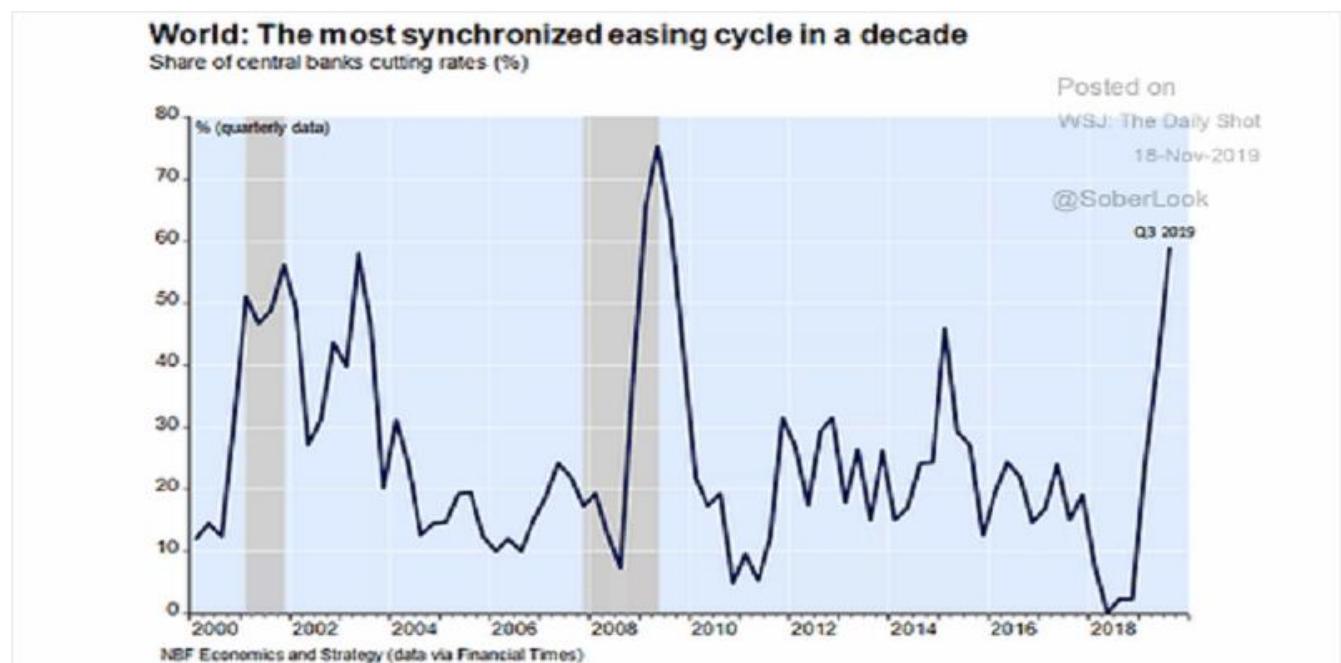
China on the other hand is the appeaser. But it is worth remembering that it was the appeasers and isolationists who were on the winning side in WW2. At present China has not entered into an arms race with the USA. Its annual arms spending increase remain in single digits rather than the 20 or 30% needed to catch up to US spending levels by 2030. But we should not forget that this is a country which can build megacities in under a decade, which pours five times more steel and concrete in one year than does the USA. Additionally, the Chinese State plays a direct role in the economy which places it in a strong position to focus production on any war effort.

Nor has the USA sought to impose any blockade on China yet. China is highly dependent on sea routes for its mineral and oil imports and is thus more vulnerable to interdiction than is the USA which has become virtually self-sufficient in oil production and has vast reserves of ores of various compositions.

It is unlikely that China will provoke the USA for the time being. In fact the biggest criticism Xi has had to endure, has been over his high profile support for "Made in China 2025" which was considered by some in the party as inflaming the relations with the USA. China is playing for time, which means the key question is, will the USA allow it this time.

The world economy hangs on by its finger-tips supported by the largesse of the world's central banks as the graph below shows.

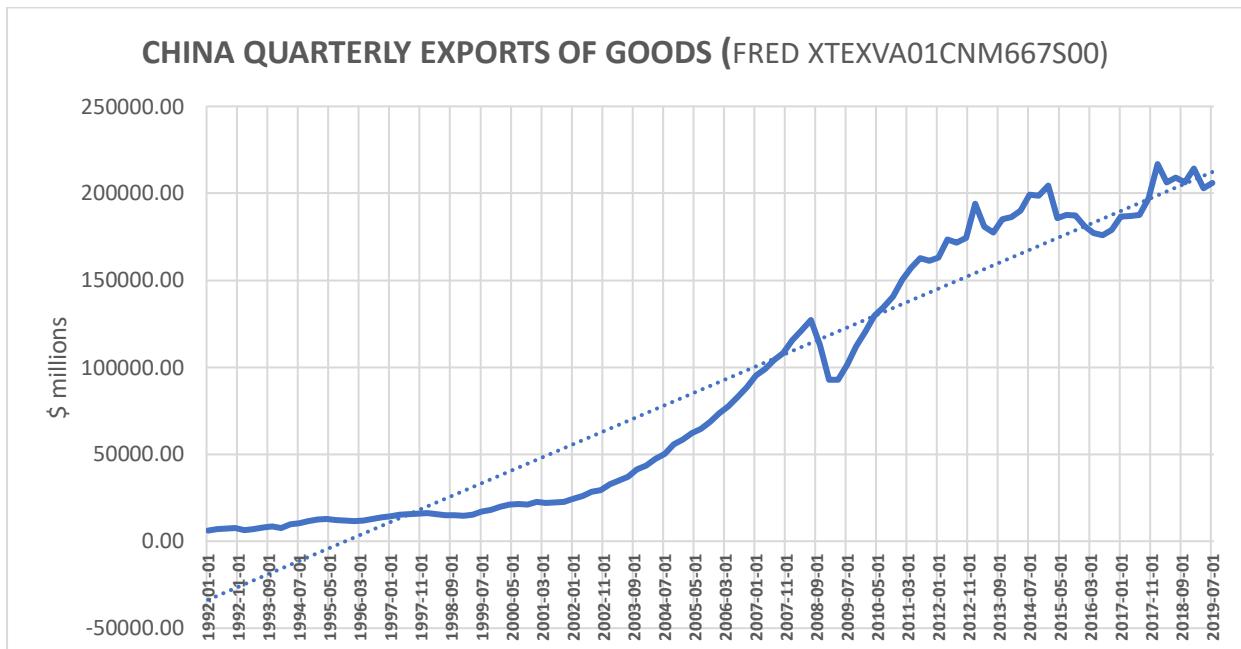
Graph 3.



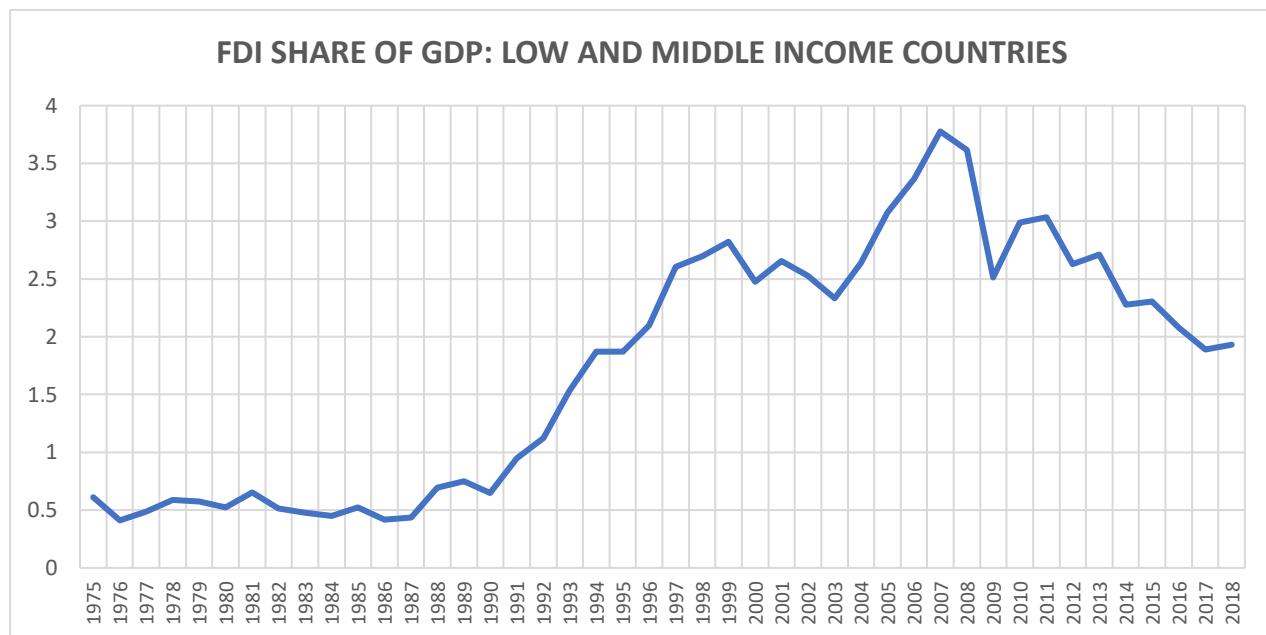
According to the latest data from *Central Bank News*: “Year-to-date 60 central banks have cut policy rates 113 times and by a cumulative 47.21 percentage points, easily rolling back rate hikes that totalled 43.40 percentage points in 2018.” www.centralbanknews.info/2019/10/central-banks-cut-rates-67-times-in-q3.html This was up to the third quarter of 2019. There were additional rate cuts by the major central banks in the fourth quarter as well.

Should the world economy crash, then it will be the case for the capitalists, not of sharing profits, but of avoiding losses. Under those circumstances inter-imperialist rivalries will be amplified, and competition will move from the economic to the political. The international working class is on notice. It is not only global warming that is an international issue, all the major political issues are.

Appendix.



(FRED TABLE CUAEEFCNA052N Current Account, Net for China, Dollars, Annual, Not Seasonally Adjusted.)



<https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS>

Note 1. There is no such thing as a permanent fusion between industrial and money capital called finance capital. When it exists it rarely endures because it violates the laws immanent to capitalism leading to loss of dynamism. If we are to approach the question dialectically, we are not dealing with thesis, antithesis, and synthesis, where finance capital is the synthesis of industrial capital and money capital which purportedly arises from it.

Rather, and, more mundanely, industrial capital and money capital are the unity of opposites. Two functionally distinct parts which play opposing but reciprocal roles in order to make the whole work. Capital divides into its industrial part and its moneyed part driven by the consideration if not force, the equalisation of the rate of profit. If the average rate of profit is higher in industry, capital will gravitate in that direction. If the average rate of profit is higher in finance, and here we exclude purely speculative activities in order to focus on banking proper, that is the lending of money to industry and others to earn interest, capital will gravitate to finance.

In this way capital apportions itself between the two great arms of the capitalist mode of production, industry and finance. It ensures that neither arm becomes too muscular at the expense of the other. This of course is the long term general case. There is thus a continuous process of repulsion and attraction between the arms, sometime fluid, often convulsive, but that is the nature of capitalism.

Unless the two arms remain distinct, capital becomes sticky, it cannot flow from areas where the rate of profit is below the average, to areas where it is higher. Finance capital where and when it occurs, robs the rate of profit of its vital and pre-determined role as the compass guiding investment. It blinds capitalism, hence the question of the loss of dynamism arises.

Finance capital, in so far as it exists to preserve profits, rather than to facilitate the movement of capital represents a cul-de-sac, a dead end, out of which capitalism is always forced to reverse as it has done..

The real negation of finance capital emerged with the second great period of globalisation beginning in the 1990s. Here we saw the emergence of international industrial capital, what came to be known as the global multi-nationals. Looking at the Fortune Global 500 in 1990, and then comparing it to the Global 500 in 2019, the differences are stark. There are multiple new entrants and departures. The range of industries is different, both in scope of size and mix. The country contribution is different, with the domination of US corporations

diminished. In many ways, over thirty years, the world economy would have been unrecognisable from the vantage of 1990.

The only common feature is that industrial profits reach far above financial profits. Industrial profits, at least up to 2014, far outgrew financial profits even taking into account the extra-ordinary profits generated by Chinese Banks. The period from the early 1990s to 2014, the period of globalisation proper must be defined as a period or extended phase of prosperity (one of the 6 phases defined by Marx and commonly agreed that define the industrial or business cycle).

For Marx, the relation between industrial capital and finance capital is shaped by the 6 phases of the industrial cycle. Each one influences the demand and supply of money capital and therefore interest rates. If we were to assume a fixed frozen finance capital, this shaping of the relation would be impossible and interest rates themselves would become artificial.

During the period of globalisation the domination of industrial capital was evident. The global multi-nationals were highly profitable and generated most of their investment needs from internal funds. When this was insufficient, their credit standing allowed them to bypass the banks and write bonds in the wholesale credit markets. Hence far from finance capital dominating, banking capital was forced into the retail market primarily non-commercial residential mortgages, and the result was the disaster of 2008.

Industrial and Financial Capital have competing interests. The borrower always seeks to obtain the lowest rate of interest on the most flexible terms. The lender seeks exactly the opposite. They do not have a unity of interests, and the outcome is determined as it always is, by the balance between supply and demand. If it transpires that financial profits appear to rise faster than industrial profits, this is only because the rise in industrial profits has retreated because of the cycle making it appear that financial profits are rising faster.

Brian Green, 28th January 2020.