Chapter 2 - Globalisation: a new form of capitalism?

Tue, 05/09/2006 - 10:50

Manufacturing was the dominant form of capitalist activity; it was small scale and usually family-owned. Banks were involved with industrial firms only to the extent of providing some finance to cover their operating costs until stocks were sold.

Trade was the main or exclusive form in which the international economy was knitted together. Colonies existed but it was their markets, not their potential to produce things, that were primarily exploited.

By the time the First World War exploded, capitalism had changed completely. It had expanded relentlessly in the 50 years before 1914 and drawn all nations into the market nexus.

The typical form of a leading firm was a monopoly, cartel or trust - with a few firms dominating each market. This gave them influence to set prices, control their suppliers and their channels to market; they were able to suppress innovation if it threatened their dominance.

This was a qualitative shift to a new kind of capitalism. The world became effectively divided up between a handful of powerful capitalist nations whose big firms had saturated the ?home market? and needed to capture foreign markets and sources of raw materials. Investment replaced trade as the main form of internationalisation of the world economy - though investment also boosted trade in its wake.

The previous relationship between production and finance was inverted. Banks ended their hands-off relationship to industry. They became the main suppliers of credit for investment. In many countries, banks and industry ?fused". Banks now sought power and influence as owners and shareholders to protect their invested capital. Finance now predominated in the relationship with production.

These new monopolistic firms needed a state that was also ?modern? - that is, prepared to build up a military and diplomatic machine geared to defending assets abroad from the claims of foreign rivals or national liberation movements.

Marxists dubbed this new global system ?imperialism".

Imperialism built conflict into its foundations; wars and revolutions were the inevitable result of this new form of exploitation and oppression.

During the course of the last century the world did not stand still. Some countries climbed up the league table of dominant powers and others fell down; some small states that wanted to join the top table did not. Some countries, impoverished and overwhelmingly agrarian 50 years ago, are highly industrialised nations today.

Industries that were pivotal at the start of the last century faded into second place by mid-century and still others, which had not made an appearance by 1950, dominate the profits and sales league tables today. The last 15 years have seen the completion of the development of the imperialist system first laid down 100 years ago.

But the essential structure of the capitalist system remains as before: a few hundred corporations and a handful of countries monopolise the world?s financial and productive resources and subject the lives of billions under their rule to repeated bouts of war, ethnic conflict, growing inequality and environmental despoliation. Growing speculative financial transactions destabilise the world as never before.

Globalisation, then, has not superseded imperialism as a stage in capitalism?s development.

While the concept rightly suggests a higher degree of integration of the world economy, it does so in a way that neatly avoids the form and manner in which this integration happened.

For example, it hides from view the fact that the integration is extremely uneven, with a handful of rich countries in the North monopolising the bulk of capital and trade, leading to a reproduction of the relationships of exploitation, inequality and oppression between the G8 and OECD on the one side and the rest of the 150 nations of the world on the other.

It obscures the fact that the transcending of the limits of national borders is leading to greater regionalisation of the world economy rather than globalisation as such ? that is, the creation of cross-border industry consolidation in the three big arenas: Nafta, the EU and Asia.

So globalisation represents an intensification of certain aspects of modern imperialism and not a whole new structure of capitalism.

But the changing form of this imperialist system is important since it has definite effects on the nature of the crises it experiences and on the shape of resistance to it.

We can summarise the key aspects of globalisation in this sense as follows:

? the power of the United States has insured that barriers to trade have come down and accelerated the speed and volume of foreign investment and international trade

? changes in the structure of international finance, which has powered further internationalisation of the economy, massively increased capitalist economic instability, hugely increased the role of debt and speculation in the operation of capitalism

? changes in the dominant business model employed by many leading multinational companies that have led to shifts in production processes towards less developed countries

International trade
The last ten years have witnessed an explosion in trade. During the 1990s, annual growth in world exports was three times that of the growth in output. At 6 percent a year it is double that of the years 1973-90. While the post war boom decades saw trade expand at around nine per cent a year this was only 2 per cent more than the expansion in output.

So, relatively speaking, more of what is produced is being traded on international markets than ever before.

The proportion of exports to output has steadily climbed throughout the century and has increased as much in the last 25 years as in the post-war boom years of 1950-70. The ratios of exports to global output were 9 per cent in 1913, 7 per cent in 1950, 11 per cent in 1973, 14 per cent in the early 1990s and over 20 per cent last year.

More than any other factor the lobbying of US corporations has led to this development. Since the mid-1980s the global multinational corporations (MNCs) have led a ferocious assault on barriers to their exports to the rest of the world. Under the agreement reached at the end of the Uruguay round of multilateral trade negotiations, average advanced country tariffs on imports of manufactures have been reduced to 4 per cent by 2001.

Import taxes set by the Third World fell, on average, from 34 per cent in 1987 to 14 per cent today. Between 1970 and 1997, the number of countries that eliminated exchange controls affecting imports of goods and services jumped from 35 to 137.

The US in particular has more than doubled the proportion of its goods and services that it exports over the course of the last ninety years, a trend that has been especially accelerating in the last twenty years. But all MNCs rely more and more on international trade to boost profits and mine the economies of scale that keep them ahead of the competition.

The reality for the Third World is very different. In volume terms there has been a sharp decline in the ?integration? of the Third and First worlds through trade since the 1960s when it was around 46 per cent of the total and had been for most of the 20th century.

It began to decline and by 1990 it was only 27 per cent of total trade. Moreover, the nature of the trade changed as tariff walls were torn down. Growing international trade may have boosted the balance sheets of the big MNCs but the effect on those in the South who have ?liberalised? their trading regimes has been generally devastating.

The prices of the commodities on which their exports depend have fallen sharply in the 1990s, exacerbating balance of payments crises. Domestic industries and employment have been savaged. Official aid has been cut on the grounds that increased trade will make up the shortfall in national income, but it has failed to do so.

Foreign investment
Japan is the world?s largest exporter of capital today as a proportion of its GDP. But it shifts far less than the 5 per cent of GDP that Britain exported as foreign investment between 1870 and 1913.

But here it not such much the ratio of foreign investment to GDP that is significant as the ratio of foreign investment to domestic investment and the ratio of capital export to commodity export.

In 1996, the global stock of foreign direct investment (FDI) was valued at $3,200bn. Between 1986-96 FDI grew twice as fast as fixed investment as a whole.

And FDI flows grew at 12 per cent a year between 1991 and 1996, while global exports grew at 7 per cent thus proving that the driving force of international economic expansion in the imperialist epoch remains now, as 100 years ago the export of capital.

In addition, the content of investment today is quite different from 100 years ago. Britain?s accumulated surplus capital, extracted from home and its huge empire, was mainly lent in the form of bonds as loan capital to foreign governments. The same was true for other ?big powers".

Today, stocks (part ownership of companies) are as important as bonds but fixed investment (FDI) in plant and equipment is far more important than either. Pre-1914, most FDI went into railways and mining. Today, it is across the board in manufacturing and ? increasingly ? in services.

Restrictions on investment flows have been reduced virtually everywhere in the 1990s. Around the world, there were 570 liberalising changes in regulations governing foreign direct investment between 1991 and 1997. Some 1,330 bilateral investment treaties involving 162 countries are now in effect, a threefold increase in half a decade.

Of course, the direction and volume of investment is under the control of the richest nations and the biggest corporations. Access to the capital markets for future investment is also controlled by those who already dominate these markets.

The smashing down of barriers to investment has led to a big shift in the 1990s in the reasons why companies move production overseas. The trend to build a number of regional or local plants to serve each market was a choice imposed on many MNCs because of the high tariffs that countries imposed on imports of finished goods.

For example, much of the Japanese investment in the US and the European Union was a response to protection against its exports. The same is true of investment in many Third World countries - in car and truck production, for example.

Additionally, fear of fluctuations in real exchange rates encouraged the spread of production capacity across frontiers in the 1970s and 1980s. But, in the 1990s, many countries in east Asia and Latin America pegged their currencies to the dollar. In Europe, the euro has eliminated exchange rate fluctuations for those in the eurozone.

More importantly, by the 1990s the average tariff on imports was about 7 per cent, less than a fifth of what it was in the 1950s, as a result of the intense pressure from the US and Europe to bring down barriers to imports and exports of their products.

This has meant that there is no need to build in every market: they can be provided for from overseas. For example, in 1987, when import taxes were 57 per cent Australia imported just 15 per cent of its cars sold. Now, tariffs are 22 per cent and more than half the cars sold are imports. Nissan was able to abandon car production in Australia as a result.

A consequence of trade liberalisation in the 1980s and 1990s has been to focus corporations? investment decisions once more on labour cost advantages ? which is why the electronic sector has shifted its plants from Hong Kong, to Taiwan and Korea and now to Indonesia and China.

The general trend is to focus on regions and build long term product development plants in developed countries and then have a series of low wage assembly operations that can be moved around the world fairly flexibly as the need arises.

Most high-tech investments, responsible for product development and hence the key to maintaining an imperialist club monopoly on high value-added processes and products, stays firmly within the North. This is why, in 1995, 75 per cent of manufacturing value added in the world was in the two dozen OECD countries, enabling them to keep and even widen the ?development gap? with the South.

Two-thirds of all FDI in the 1990s went to the OECD countries - down from four-fifths in the first half of the 1980s. But in the 1960s the Third World received half of all FDI. This small shift back to the South in the course of the 1980s and 1990s was due to inward investment in high labour intensive concerns, owned by, or doing contract work for, OECD based MNCs. A lot was poured into speculative construction projects.

This investment in the Third World in the 1990s was highly uneven with China receiving 20 per cent of all Third World FDI and the ten largest recipients getting a mammoth 88 per cent.

How much these investment flows aided the rounded development of the Third World could be seen when the Asian financial crisis hit in 1997. The overwhelmingly short-term character of these investments was dramatically illustrated as the funds fled the stricken region?s capital markets and banks and headed for the ?safe haven? of the USA and Europe. There it continued to fuel an extended boom while the Asian masses suffered mass unemployment and loss of savings.

The pattern of investment flows has led to globalisation taking the form of regionalisation. Most FDI flows take place within NAFTA, the EU or East Asia rather than between them.

Finance
Imperialism means the rule of financial capital. That fact is illustrated by the power of chief finance officers inside the modern corporations: the main concern of the ?bean counters? is to boost the share price and make a profit ? they are not concerned with the line of business itself.

As the head of Corus said on announcing the closure of the Newport steel plant in South Wales this year, ?We don?t make steel, we make moneyä.

The leading role of financial capital under imperialism is not new. It stems from the basic fact that by the 20th century banks were the only source of the large quantities of capital needed to finance long term fixed investments undertaken by the new corporate giants.

Rudolf Hilferding, the Austrian economist, in 1908 saw this leading role as a defining feature of ?finance capital? when he noted the tendency of banks to convert credit into ownership of the firms they lent to so as to protect the value of their loans.

But finance has tightened its grip and it is more complete now than ever. Indeed the fusion is more pronounced than it was 100 years ago.

The hegemony of finance capital can be seen in the trend to convert the debts of Third World companies into shareholdings allocated to the lenders, throughout the 1980s.

Over the last twenty years, large industrial MNCs have used their cash surpluses to engage in banking operations, issue bonds and engage in speculation via hedge funds ? the American giant GE being the most prominent example.

From the other side, financiers have consolidated their holdings of individual companies into huge ?funds? that can dictate even to large public companies changes in direction of management strategy. While company AGMs often see a collection of pensioners, protesters and middle-class shareholders turn up, the real dialogue in business is between the company boards and these major securities houses ? and it is usually one way.

The recent surge in the power and dominance of financial capital lies in the wave of deregulation that swept through the financial sector in the late 1970s. This removed many barriers to what banks wanted to do with their capital.

From the side of the big corporation, increasing uncertainty after the end of the long boom led many to seek to protect the value of their long term fixed investments from the vagaries of the business cycle and deep recession by spreading the risk in a series of new ?financial instruments? (options, swaps, derivatives).

It is, then, the search for stability and certainty by industrial capital that has led to the qualitative growth in financial operations. They are not the malign product of some conspiracy to harm the interests of industry, as some economists suggest.

Industrial capital ? if it makes sense at all to conceive of it so narrowly ? needs the services of the big investment houses like Goldman Sachs, JP Morgan and USB to tap the capital market for investment funds and to engineer mergers. It also needs the financial markets as a way of investing industrial profits in the stock markets and other high-risk, high reward financial vehicles, in order to compensate for the low industrial rate of profit ? squeezed by the savage competition that liberalisation unleashed.

But the growth of the financial sector has brought with it a deep tendency to destabilisation. Money capital has its own relative independence and compulsion to make money. From the 1970s it achieved this in two ways.

First, through the steady abolition of exchange controls which invited massive speculation on the movements of currencies. This, more than anything else, has ensured that most investments now are short-term as opposed to long term.

As a result, more than $1.5 trillion a day is traded in the world financial system, a figure far in excess of the value of trade in physical goods. The vastly destabilising nature of this form of licensed betting was seen with devastating effect in the Asian meltdown in 1997.

Second, financial capital thrives on debt. Through the process of ?securitisation? ? the creation of a massive array of ways of going into debt ? banks make vast amounts of money trading these. Naturally, they make even more money lending to impoverished Third World countries, safe in the knowledge - as with the Mexico peso crisis of 1994 - that an obliging puppet government is standing by to foot the bill if things go wrong.

The exponential growth of debt in the last 15 years is dangerous for capitalism. The US boom of the 1990s was largely financed by the growth of household debt ? individual overdrafts, mortgages and credit card balances - to unprecedented and unsustainable levels. And the accumulation of unpayable Third World debt provokes one social crisis after another.

But so powerful is the financial oligarchy that the global institutions cannot contemplate any meaningful steps to control or rein in the financial markets.

In the 1990s, the dysfunctional nature of the financial explosion came to the foreground time and again.

Taken all together, these developments have led even a globalisation sceptic like the Financial Times writer, Martin Wolf, to admit that: ?international economic integration has, on balance, probably gone further than ever before".

The point, of course, is that this integration has been uneven (marginalising hundreds of millions from economic activity) and enriched a handful of nations and a few hundred multinational corporations.
