Has globalisation changed the profit system fundamentally, or is it just a variant of 20th century capitalism?

One hundred and fifty years ago, capitalism looked very different from today. Just a few countries in North-West Europe and North America were capitalist, the rest were struggling out of various forms of agricultural pre-capitalist society. 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 form in which the international economy was knitted together. Colonies existed but it was primarily their markets and their raw materials that were exploited, not their productive potential.

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. Leading firms now typically took the form of monopolies, often organised into cartels or trusts, which dominated their market sector. This gave them the power to set prices, dictate to their suppliers and control access to markets. Although they were the product of competition within the market, they were now able to suppress competition and even prevent innovation if it threatened their dominance.

This was a qualitative shift to a new kind of capitalism. The world had been, effectively, divided up between a handful of powerful capitalist nations whose big firms had outgrown the limits of their domestic economies? and now needed to expand internationally. Increasingly, 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. The scale of the capital required for investments was now so great that individual firms could not supply it from their own resources. Instead, they had to rely on the banks which could extend credit based on the aggregated wealth of all their depositors. In this way, the previously distinct forms of capital, industrial and banking, were ?fused? into what became known as ?finance capital?. In order to protect their invested capital, banks now sought power and influence as owners and shareholders of the major firms. As a result, production came to be dominated by finance.

These new monopolistic firms competed with each other across the world and their success or failure became crucial to the stability of the countries in which they were still based. As a result, the state machinery in those countries had to be expanded and developed so that it could protect their trade routes and their overseas investments. Marxists adopted the term ?imperialism?, already used by other commentators to describe the expansion of European power through the creation of colonies, to denote this new form of capitalism. It was a global system which had conflict built into its very foundations; wars and revolutions were the inevitable result of this new form of exploitation and oppression.

The century that has passed since the emergence of the imperialist system has, of course, seen momentous changes throughout the world. World wars and national liberation struggles, catastrophic slumps and frenetic booms reflected the rivalries and changing fortunes of the various imperialist powers and the peoples they had conquered. For most of the century, more than one-sixth of the globe and more than one third of its population lay outside the control of the imperialists.

Although held back from realising their vast economic potential by the dead hand of bureaucratic command planning, the very existence of the Soviet Union and China placed huge limitations on imperialist power. As well as denying capital access to labour, raw materials and markets, they created a bipolar world in which some countries found enough
Today, the essential structure of the capitalist system remains as it has been for 100 years; 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.

Nonetheless, even if “globalisation” cannot be taken to mean a fundamental change in the nature of capitalism, a new stage of development that has superseded imperialism, it does refer to an extremely important development within imperialism. The collapse of the Soviet Union and the decision of the Chinese bureaucracy to dismantle planning opened the way to the imposition of capitalist relations of production in those countries.

This meant, above all, the increasing integration of these two huge working classes into the worldwide division of labour. At the same time, the triumphant imperialists, principally the United States, were able to force countries to lower tariffs and other protectionist measures and allow untrammelled access for the major banks and corporations. In this respect, the last 15 years have seen the completion of the development of the imperialist system first laid down 100 years ago.

This process has been neither uniform nor harmonious. The higher degree of integration of the world economy is extremely uneven, with a handful of rich countries in the North monopolising the bulk of capital and trade. This has extended and reinforced the relationships of exploitation, inequality and oppression between G8 and OECD countries on one side and the rest of the 150 nations of the world on the other.

Equally, although national borders are increasingly transcended as limits to economic integration, this is leading to greater regionalisation of the world economy rather than to the equalisation of economic development globally. In concrete terms, this means the creation of cross-border industrial consolidation in the three big arenas, North America, the European Union and Asia.

Globalisation, then, represents an intensification of certain aspects of imperialism rather than a whole new structure of capitalism. These internal changes, however, are important because they have definite effects on the tempo of development within imperialism and on the nature of the crises it experiences and the shape of resistance to it.

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

- The overwhelming power of the United States has ensured that barriers to trade have come down and this has accelerated the speed and volume of foreign investment and international trade
- Changes in the structure of international finance have powered further internationalisation of the economy, massively increasing capitalist economic instability and hugely increasing the role of debt and speculation in the operation of capitalism
- Changes in the dominant business model employed by many leading multinational companies have led to shifts in production towards less developed countries.

**International trade**

The 1990s witnessed an explosion in trade. Annual growth in world exports was three times that of the growth in output. At 6 per cent per year, it doubled the figure for the years 1973 to 1990. While the postwar boom decades saw trade expand at about 9 per cent a year, at the time this was only 2 per cent more than the expansion in output.

Relatively speaking, therefore, the 1990s saw more of what was being produced traded on international markets than ever before.

This is in keeping with the long-term trend throughout the 20th century. In 1913, the ratio of exports to global output was 9 per cent, in 1950, in the aftermath of the Second World War, it was only 7 per cent, but by 1973 it had reached 11 per cent and 14 per cent by the early 1990s. In the year 2000, the figure topped 20 per cent.
More than anything else this represents a victory for the US corporations. Since the mid-1980s, the United States has kept up 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 had been reduced to 4 per cent by 2001.

In the 1990s, import taxes set by the Third World generally fell. India, for example, reduced its tariffs from an average of 82 per cent in 1990 to 30 per cent in 1997. Over the same period, Brazil cut tariffs from 25 per cent to 12 per cent and China lowered them from 43 per cent in 1993 to 18 per cent 4 years later. Globally, such tariffs were reduced on average, from 34 per cent in 1987 to 14 per cent by the turn of the century. Between 1970 and 1997, the number of countries that had eliminated exchange controls affecting the imports of goods and services jumped from 35 to 137.

The United States has more than doubled the proportion of its goods and services that it exports over the course of the last 90 years and this trend accelerated in the last 20 years. The pattern, however, is true for all multinational corporations which rely more and more on international trade to boost their profits and exploit the economies of scale that keep them ahead of the competition.

The impact of changing trade patterns on the Third World has been 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 total, a figure that had been stable for most of the 20th century.

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

The prices of the commodities on which their export trade depends fell sharply in the 1990s, exacerbating balance of payments crises. As a result, domestic industries and employment was savaged. On top of that official aid was cut on the grounds that increased trade would make up the shortfall in national income, but this it has failed to do.

**Foreign investment**

The increasing importance of foreign investment, as compared to foreign trade, was the defining feature of the development of the imperialist system. Today, Japan is the world?s largest exporter of capital expressed as a proportion of its Gross Domestic Product but this represents far less than five per cent of GDP that Britain exported as foreign investment between 1870 and 1913.

However, it is not so much the ratio of foreign investment to GDP that is significant as the ratios of foreign investment to domestic investment and of capital export to commodity export. It is these figures that reveal the lack of investment opportunities in productive capacity in the ?home? economy which drives the export of capital.

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. While FDI flows grew at 12 per cent per year between 1991 and 1996, global exports only grew at seven 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.

The form of foreign investment today, however, is quite different from 100 years ago. Then 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 the other ?big powers?. Today, stocks (part ownership of companies) are as important as bonds but fixed investment in plant and equipment is far more important than either. Before 1914, most FDI went into railways and mining, reflecting the centrality of the extractive industries. Today, FDI goes into manufacturing and, increasingly, services.

Restrictions on investment flows were 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 are under the control of the richest nations and the biggest corporations. Access to the capital markets for investment funds is also controlled by those who already dominate these markets.

In the 1990s, the smashing down of barriers to investment led to a big shift in the reasons why companies moved production overseas. The trend towards building regional or local plants to serve each market was a choice imposed on many multinational corporations by the high tariffs 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 protectionist measures against its exports. The same was 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.

However, such factors are no longer so important. 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 euro zone. More importantly, by the 1990s, the average tariff on imports was about seven 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 now no need to build in every market; they can be supplied from overseas. For example, in 1987, when import taxes were 57 per cent, Australia imported just 15 per cent of its cars. 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.

One consequence of trade liberalisation in the 1980s and 1990s was to focus corporations' investment decisions once more on labour cost advantages. This is why the electronics 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 to build long-term product development plants in developed countries. Actual production then takes place through 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 higher value-added processes and products, stay firmly within the North. In 1995, for example, 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. Although this was down from the 80 per cent figure for the first half of the 1980s it has to be compared to the 1960s when the Third World received fully one half of all FDI. The 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 multinational corporations.

The investment in the Third World in the 1990s was also highly uneven with China receiving 20 per cent of all such FDI and the 10 largest recipients getting a mammoth 88 per cent. How much these investment flows aided the rounded development of the Third World could be seen from the Asian financial crisis of 1997. The overwhelmingly short-term character of such 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. In 1996, $93 billion flowed into East Asia, in 1997, $105 billion flowed out. The results were catastrophic: in Malaysia, 400 companies went bankrupt, in Indonesia, 20 per cent of the population, some 40,000,000 people, were forced below the official, low, poverty line. Meanwhile, the repatriated capital fuelled the so-called ?dot com? boom.

Overall, although there have been important investment flows into some countries of the Global South, the overall pattern of investment flows has led to globalisation taking the form of regionalisation. Most FDI continues to flow
within NAFTA, the European Union or East Asia, rather than between them.

Finance

In the decades after the Second World War, financial capital, that is capital held in the form of bonds, equities and loans, was used to support reconstruction and the resurrection of the world market through trade and investment. As a distinct form of capital its own development was relatively restricted by, for example, fixed exchange rates and, especially in United States, legal limitations which required financiers to choose between investment banking, commercial banking or insurance.

Beginning in the 1970s, but accelerating in the 1980s and 1990s, there has been a systematic removal of these restrictions through what became known as ?deregulation?. This was a response to the increasingly urgent needs of both financiers and the big industrial corporations. For financial capital, deregulation meant the right to speculate on exchange rate movements, to make loans internationally and to develop a whole new range of ?financial instruments? such as options, swaps and derivatives.

At the same time, big industrial corporations were facing lower rates of return on investments in productive industry and looking not only for bigger but, above all, quicker sources of profit. For them, these new financial operations offered a way out of their dilemma. They needed the services of the big investment houses such as Goldman Sachs, JP Morgan and USB to tap the capital markets for investment funds and to engineer mergers.

The growth of the financial sector, however, brought with it an underlying tendency towards destabilisation. The abolition of exchange controls invited massive speculation on the movements of currencies. As a result, from a daily average of $80 billion in 1980, trading in foreign exchange has now reached more than $1.5 trillion a day, a figure far in excess of the value of trade in physical goods. This, more than anything else, has ensured that most investments are now short-term as opposed to long-term.

In addition to this, financial capital thrives on debt. Freed from restrictions, banks were able to lend widely to sovereign governments as well as to companies and consumers. Banks often forced loans on reluctant borrowers as a result of political pressure from the World Bank, which tied ?development finance? to these loans. In 1995, world private (that is household and corporate) debt stood at $31 trillion and was growing at 9 per cent per year. Increasingly, the profits of finance capital are based on fictitious capital formation, that is, debt and debt creation. By these means, an expected cash flow in the future is converted into spending power now.

All in all, the ?financial revolution? after the 1970s qualitatively shifted the balance between FDI and trade, on the one hand, and financial instruments, on the other, in favour of the latter. Between 1980 and 1990, cross border transactions in equities increased by 28 per cent a year; between 1990 and 2000, they increased more than 40 per cent a year. International bank lending went from $324 billion in 1980 to $7.5 trillion 10 years later. The international bond market experienced a 537 per cent increase in business in the same decade. These rates of increase far outstripped that in trade in goods. Between 1982 1988, the annual increase in global stock of financial assets was $3.8 trillion compared to fixed capital formation of $2.3 trillion a year.

The exponential growth of debt in the last 15 years is dangerous for capitalism. The US boom of the 1990s, and its return to growth since 2002, was largely financed by the growth of household debt, individual overdrafts, mortgages and credit card balances, to unprecedented and unsustainable levels. Internationally, the accumulation of unpayable Third World debt provoked one social crisis after another. In 1997, ?developing countries? paid a combined $292 billion in debt service, that is, interest, while receiving only $269 billion in new loans. This means that the net transfer of wealth from the global South to the north was $23 billion.

The wave of deregulation has also led to a change in the forms of organisation of finance capital itself, above all in the USA. Until 1992, European banks undertook a broader range of activities than their US counterparts but in that year Clinton scrapped the Glass-Steagall Act which controlled US banking activity. The effects were immediate. In 1990,
the world’s top eight financial firms were Japanese banks, headed by the Industrial Bank of Japan with assets of $57 billion. 10 years later, seven of the top eight are based in the USA, headed by Citigroup with assets of $260 billion. The wave of mergers and acquisitions in the 1990s brought this about and established the leading US firms as truly world players for the first time.

Globalisation and growth

The neo-liberal economic transformation of the 1980s and 1990s utterly changed the model of global capital accumulation and the nature of international capitalist growth. As Robert Brenner puts it, in the 1980s:

?In the face of stagnant domestic markets, and further checks to deficit spending resulting from financial deregulation, growth in most of the advanced capitalist world came to depend increasingly on stepping up manufacturing exports. But the ever greater generalisation of export-dependent growth across the globe only exacerbated the underlying tendency to over-capacity in international manufacturing which, if left to itself, would ? sooner rather than later ? have led to the seizing up of the world economy.

?Against this background of system-wide stagnation, the impetuous growth of US debt, in combination with a soaring dollar, became the central motor driving the world economy. Simply put, since the early 1980s the system has moved forward by way of the expansion of the US current account deficit, leading to the piling up of ever greater US liabilities to the rest of the world on the one hand, and the increase of over-capacity in the international manufacturing sector on the other.? (The Boom and the Bubble)

The US multinationals in finance and manufacturing led the export-oriented drive and in the process massively extended their reach, wealth and power. Others were forced to emulate them. But in saturated markets and with declining real wages how can these goods and services be absorbed and the profits realised?

In a word, debt. The US consumer piled it high. Debt fuelled US domestic expansion drawing in goods and services from rest of the world. In the 1990s mounting consumer debt and growing US trade deficit have played the role that Keynesian state deficits played for national economies in 1950s, 1960s and 1970s.

But the collapse of the US stock market in March 2000 derailed all this. The 15 per cent fall in corporate profitability during 1997-2000 finally forced a violent correction in overvalued stocks and the price of shares fell 43 per cent during 2000-2002. In turn the collapse of stock market meant companies? valuations plummeted and with them the ability to borrow or refinance. So a recession took hold of the real economy and most sectors of the world followed. The engine of feverish expansion stuttered to a halt. Global capitalism had entered a period of economic stagnation.

In 2001 manufacturing dropped six per cent and capacity utilization by seven per cent. In 2002 and first half of 2003 output in manufacturing down by total of three per cent and investment cut back at annual rate of five per cent; three million jobs were lost in manufacturing between summer 2000 and October 2003.

Faced with the collapse of domestic demand, the Federal Reserve cut interest rates repeatedly. By providing cheap credit the Fed shifted the engine of growth from stocks to housing (driving down mortgage rates and pushing up house prices). The results have been spectacular; a 35 per cent increase during 2000-2003 in house asset wealth.

Debt exploded as homeowners released this new equity and borrowed more. Growth of household debt accounted for 70 per cent of all private non-financial debt between 2000 ? 2003. Households have used 50 per cent of this new money to increase consumer purchases.

As a result the increase in personal consumption accounted for all the USA?s GDP growth from 2000 through to the first half of 2003. Without this the decline in global output in 2001-2003 would have been even worse than it was.

Has globalisation peaked?

The desperate attempt to keep global growth going through bulging consumer debt and deficits in the US forced the
value of the dollar downward. The appetite of foreign governments and corporations to buy or hold onto declining dollar assets quickly diminished. Inward investment into the US effectively collapsed after 2000.

According to the publishers of an annual measurement of globalisation ? A T Kearney ? the 2003 index (based on data for 2001) depicted a global economy stuck in reverse, with most key indicators of integration losing ground amid a world economic slowdown?. But even worse, measured as a whole, the economic links that bind countries together grew even weaker in 2002, reducing the gains from the late 1990s economic boom and ? relative to the size of the global economy ? settling below levels recorded in 1998.?

And the chief reason for this deglobalisation was the collapse of international capital flows ? foreign direct investment. In 2001 FDI (four-fifths of which emanates from OECD countries) was down 40 per cent; it the fell a further 21 per cent in 2002 to a volume below that of 1998. Although the UK and USA accounted for a half of this fall the decline hit a total of 108 countries to one degree or another.

According to OECD figures this decline continued throughout 2003. Inward investment in OECD countries slumped a further 28 per cent that year and outward capital flows by two per cent. On average FDI inflows are down by 70 per cent from the 2000 peak and are at levels seen in 1990-95. Inward investment into the USA was 53 per cent down in 2003 and at $30bn was at its lowest level since 1991.

Since the OECD accounts for the vast majority of global output and investment, clearly the engine of globalisation has stalled. Some OECD countries are experiencing not merely a sharp decline in inflows but net disinvestment. In the first three months of 2004 alone, Germany ? the ?powerhouse? of the European Union ? experienced a net investment outflow of $30bn.

Trade flows have held up better than investment. After stagnating in 2001 global exports and imports recovered slowly in 2002 and 2003 but recording much slower growth rates than pre-2000. Trade and investment prospects were hit by the failure of the WTO to maintain the momentum behind multilateral trade agreements that tore down trade and investment barriers in the 1990s.

Starting with the spectacular collapse of the Seattle ministerial of the WTO in November 1999, the WTO failed to kick start the process with an agreement on a new ?development? round of multilateral trade negotiations in Dohar in 2002. The first major talks in Mexico collapsed the following year and a further round of talks in summer 2004 in Geneva averted disaster only by radically scaling down the objectives of the trade round.

And while many countries continue to adopt bi-lateral or unilateral trade, tax and investment liberalisation measures (e.g. 220 pro-liberalising measures in 2003, their numbers have been in decline since 2000.

Will we see a return to the rapid rates of growth in international trade and investment that characterised the 1990s? It is likely that as corporate profits improve in the OECD and stock market valuations edge up again there will be some revival in capital flows. But is very unlikely to reach anything like the scale of 1995-2000 if only because the bulk of this was to finance mergers and acquisitions based on easy money available from a global stock market in the throes of frenzied speculation.

But while investment remains stagnant the global economy remains utterly dependent for its dynamism on the ability of the US consumer and government to suck in goods from abroad by piling debts and deficits higher and higher. Like the stock market bubble before it, the housing market bubble and a ballooning current account deficit are unsustainable and a major correction is inevitable. A sustained and deep recession in the US would in turn deglobalisation from threat to reality.

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