STRUCTURE AND DYNAMICS OF THE WORLD ECONOMY

Alejandro Nadal
El Colegio de Mexico

OSISA and UKZN-CCS
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Outline

• Globalization and the world crisis: overview
• The evolution of the world economy after 1945
• The demise of Bretton Woods
• The Volcker recession
• The 1980s and 1990s: SAP’s, financial liberalization and the consolidation of neoliberalism
• The global financial crisis
• Perspectives on recovery and sustainability
Section I Origins of Globalization
“The History of Globalization” by a prestigious American university

• “Globalization is an historical process that began with the first movement of people out of Africa into other parts of the world

• “Travelling short, then longer distances, migrants, merchants, and others have always taken their ideas, customs, and products into new lands

• “The melding, borrowing, and adaptation of outside influences can be found in many areas of human life
The conservative view on globalization
Globalization: the rosy picture

- It’s as old as the human species...
- And it is the continuation of a natural process
- A process that culminates in our present day “Global Economy”...
- With access to ‘modern’ goods and services for all peoples...
- With its web of complex interdependencies and the embrace of modernity and democratic values by more and more people, etc.
- To summarize: globalization is the successful culmination of a natural process that started long ago and taken to completion by the forces of free markets
- Accelerated by extraordinary improvements in transportation and communications technologies that facilitate trade...
- **Summary: globalization is a success story. The culmination of a long and natural process**
Globalization: An alternative view

• What has been described as ‘globalization’ is part of the history of capitalism
• It can be described as a process of crisis, restructuring and discontinuous change affecting capital’s profitability space
• It is not the first time this happens in the history of capitalism
• In the past, these long processes of change and reorganization of the world (capitalist) economy resulted in new systems of capital accumulation at an ever growing scale
An alternative view

• **Globalization is not a success story**

• It is the result of the **failure** of world capitalism to maintain (what it perceives as adequate) profitability levels

• This led to three parallel movements in the struggle to keep profitability rates from falling
  – the transfer of industrial productive capacity to economic spaces with lower labour costs
  – the expansion of finance as a key economic space promising higher profitability at less risk
  – the expansion of extractive industries in LDCs

• These three aspects of ‘globalization’ are inter-connected
Globalization and the History of Capitalism

• Braudel-Arrighi-Wallerstein: systemic cycles of capital accumulation
• Passage from M-C-M’ to M-M’ in the evolution of these cycles
• M-M’ is a clear sign of a cycle’s twilight
• There have been four systemic cycles of K accumulation at a global scale
  – Genoan cycle: from XVth century to start of XVII century
  – Dutch cycle: end of XVIth till end of XVIIIth century
  – British cycle: second half of XVIIIth to end of XIXth century
  – American cycle: since start of XXth century
The origins of globalization

• Falling rate of profits in the 1960-1970s
• Changes in structure of the world economy as new players enter the global arena
• Two debates: what is the evidence and what were the causes for this behaviour of profit rates
• Notice: profit rates ≠ profits
• If profit rates go down, this means that total invested capital is increasing more than profit
  – Marx: tendency for organic composition of capital (c/v) to increase
• There are other causes for the fall in profit rates
  – Prices, competition, overcapacity (overinvestment)
More discussion on the falling rate of profit

• ‘Law of the tendency of the falling profit rate’ in Marx is related to capital accumulation as an inherent feature of capital: organic composition of capital tends to increase

• Recall that: \( ROP = \frac{s}{c} + v \)

• But the law of the tendency of falling ROP has countervailing forces:
  – Increasing the rate of exploitation (increasing surplus value)
  – Cheapening of cost of capital through technical change, lower wages, new sources of raw materials
• Countervailing investment strategies that stem the falling rate of profit expand capitalist social relations into new areas on the periphery of capital
• They don’t resolve the contradictions implied in the falling rate of profit, they merely displace these contradictions in space by bringing more people and spaces into the system
• Turbulent process: disequilibria are created in the fabric of capitalist space
• The eventual rise to economic power of some areas of the periphery has much to do with the current disequilibrium of international capitalist relations
Effects of falling rate of profit

- As a result of the falling rate of profit, US capital chose to cut labour costs
- The result was the stagnation of real wages
- What happens to aggregate demand (or, from a Marxist perspective, to the realization of surplus value)?
- **Wages stopped being the key reference for the reproduction of the labour force**
- Aggregate demand collapses
- Capital was able to artificially prop up demand through indebtedness (credit)
- Plus a lax monetary policy that allowed for episodes of inflation in the prices of various assets (especially real estate and stocks) artificially increasing aggregate demand and giving an impression of bonanza
Expansion of the Financial Sector

• In order to understand this expansion and dominance of finance, a short history of the expansion of the financial sector is useful.
• Three stages in the last sixty years:
• Stage I - 1966-1976: fall in rate of profit in real sectors in most developed economies makes financial speculation a preferred destiny for investors (greater mobility, liquidity and profits).
• Stage II – 1973: current account deficit of the US leads to demise of the Bretton Woods system of fixed exchange rates. Flexible exchange rates opens new spaces for speculation, but financial deregulation is required in order to have capital mobility.
• Stage III – 1976 onwards: financial deregulation, domestic and international levels.
Section II
Evolution of the world economy after 1945
The world economy in 1945

- The productive capacity of the European contenders and Japan had been destroyed
- Per capita GDP regressed: Germany (1890), France (1919), Italy (1905)
- The United States was the sole major contender with infrastructure and production facilities untouched by war
- International Bank for Reconstruction and Development (IBRD) was to lend money to European countries and Japan
- IMF provided short term loans to countries undergoing BOPs difficulties
- Marshall Plan: US $ 13 billion (1948-1952) aided recovery and reconstruction (in 2000 USD this is equivalent to 155 billion)
  - Not loans, but ‘gift’ so that Europe’s population could buy American goods
  - Contrast with Versailles Treaty: the ‘civilized’ path lesson was not to claim reparations
Reconstruction and ‘development’

The two most important priorities in economic policy after WWII
Bretton Woods system

• End of WWII – need to reorganize the world’s monetary, financial and trade system to avoid the mistakes that had led to the Great Depression and the rivalries with currencies and tariffs that had affected the world economy

• Bretton Woods conference 1944: two visions of the world clashed in this meeting

• John Maynard Keynes: capitalist economies are inherently unstable and capable of maintaining socially unacceptable levels of unemployment for very long periods of time; each country needs to design and implement its own macroeconomic policy to redress the problems of capitalism; free capital flows prevent this because of their impact on interest rates so a true international currency is required

• Harry Dexter White: an anti-cyclical macroeconomic policy can be implemented at the national level in the context of an international monetary system organized around the US dollar
Keynes’s view in Bretton Woods

• Capitalist economies unstable (aggregate demand insufficient)
• Where public investment is feared as a cause of inflation, the government can only be preoccupied by the interest rate and the foreign trade balance
• But with free movement of capital funds the government has no control over the rate of interest
• In this context, measures to increase the foreign trade surplus are the only direct means to promote investment and employment
• **This stimulus of employment is done at the expense of employment opportunities abroad:** employment advantages gained by export-led growth are liable to involve an equal disadvantage to another country
Keynes and the international economy

- In the absence of adequate macroeconomic policies to promote domestic full employment, export-led policies will absorb the slack in aggregate demand, but only at the expense of the trading partners.
- Keynes was well aware of the fallacy of composition involved in the pursuit of export-led growth by many nations.
- Trading partners will be forced to engage in senseless international competition (forcing down nominal wages or devaluing the currency) to the detriment of all.
- Competitive gains obtained by manipulating these nominal variables foster further stagnation as everyone attempts to do the same.
Keynes’s Plan

• Central components
  – A true international currency with acceptability between nations (bancors, held by central banks for international payments)
    • Avoid Triffin’s dilemma: if international currency is also a domestic currency, the supply of liquidity to the international community may enter in conflict with the ambitions/needs of the ‘core’ country
  – Automatic adjustment plan between surplus and deficit nations to prevent a global deficiency of aggregate demand (based on Clearing Union Plan of 1941). Creditor countries not allowed to sterilise their surpluses or charge punitive interest rates for lending them out. Surpluses automatically available as cheap overdraft facilities to debtors through the mechanism of a international clearing bank (whose depositors were the central banks of the union)
  – Fixed/stable exchange rates
  – Controls over capital flows
  – This would allow for independent domestic macroeconomic policies to counter the deficiency of aggregate demand
White’s Plan

- To maintain the US dollar as the cornerstone of the world’s monetary system
- Fixed exchange rates (allowance to fluctuate in case of BOP adjustments)
- Controls over capital flows
- Creation of the International Monetary Fund to monitor the system and intervene in cases where stabilisation was required and provide help in cases of BOP crises
- International Bank for Reconstruction and Development (IBRD)
- GATT
  - Emergency measures in GATT MOU in cases of balance of payments’ crises
Bretton Woods at a glance

- USD key international currency for reserve and settlement
- USD value guaranteed by US government at 35 USD per ounce of gold
- Dollar-gold standard
- Other governments pledged to maintain their currencies exchange rate with the USD at an agreed-upon parity
- In case of BOP disequilibrium, exchange rates could change with consent of IMF
- Countries were allowed to maintain capital controls in place
- Role of IMF
- IBRD
- GATT
## World Economy: 1945-1971

### GDP Rates of Growth (annual) 1950 - 1998

<table>
<thead>
<tr>
<th>Regional Groups</th>
<th>1950-73 (a)</th>
<th>1973-1998 (b)</th>
<th>% change (b-a)/(a)</th>
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Source: Angus Maddison and David Felix
## Exports, Investment and Growth 1959 - 2002

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<td>1998-2002</td>
<td>0.5</td>
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Source: David Felix (data from IMF and OECD)
Key factors behind rapid growth in the ‘Golden Era’

- Key factors in explaining rapid growth rates
  - reconstruction is great space for rapid growth
  - trained workforce
  - technologies were available (small entry barriers)
  - expectations for renewed expansion of aggregate demand led to rapid capital formation rates (investment)
  - profit rates and financial stability (low interest rates)
  - Marshall Plan was a ‘civilized’ response to the challenge of reconstruction
  - financial speculation under control (fixed exchange rates and capital controls)

- But...profit rates started to falter in the 1960s
Section III
The demise of the Bretton Woods system
The US Economy in the Sixties

• Losing its competitive advantages in the face of new competitors

• Best example is in machine tools: the US economy had been the absolute champion in the period 45-65 but the competition from Germany and Japan began to erode the US dominant position
  – Germany took the lead in the high technology end (numerical control machine tools)
  – Japan in mass production of cheaper but more resistant machine tools

• As a result, the US started to show chronic current account deficits
What happened to the Bretton Woods system of international economic governance?

- This system contained the seeds of its own destruction
- Gradually, the United States lost its competitive edge and began to experience chronic current account deficits
  - Rise of Germany and Japan as new industrial powers
  - Effects of military expenditures (Vietnam and arms race) on the US economy and the competitiveness of specific industries
- Central banks around the world began to worry: there were more greenbacks in circulation worldwide than gold in Fort Knox to meet US convertibility commitments
- First reaction was to accept the policy of ‘benign neglect’
- But that gave way to downright concern
- The US response: unilaterally close the USD-Gold window August 1971
The end of the Bretton Woods (BW) system

August 15 1971: Nixon instructs his Treasury secretary to close the window of dollar-gold exchanges

That day the history of international finance changed forever

John Connally: The dollar is our currency, but it’s your problem
Direct consequences of the destruction of Bretton Woods

• As a result of this unilateral action, the system of fixed exchange rates that characterized the world economy gave way to a regime of flexible (‘floating’) exchange rate

• This ‘privatized (Eatwell and Taylor) the risks surrounding exchange rate fluctuations’ and created new problems

• But it also opened new avenues for speculation and a new space for profitability
  – This was very good news for a world that was witnessing a systematic fall in the rate of profit
Two critical events

Two interrelated events mark the evolution of capitalism since 1960s:
A. Fall in the rate of profit of capital
B. Destruction of the Bretton Woods system of fixed exchange rates

Some direct effects:
   a) stagnant wages
   b) tendency to shift to M-M’
   c) increased speculation and expansion of financial sector

Two references come to mind: Keynes and Marx
Two references on speculation

• "Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done."
  Keynes, GT (page 159)

• “The dream of every capitalist is to own the hen of the golden eggs and go directly from M to M’. But production is a necessary evil as it is the essential link in the formula of circulation M-C-M’.
  Marx, Grundrisse
Evolution of ROP: the evidence

- Robert Brenner
- Gérard Dumenil and Dominique Levy
- Andrew Kliman
- Michel Husson
- Anwar Shaikh
- Michael Roberts
- Alain Lipietz
- Fred Moseley
- Simon Mohun (ROPs in the US and UK)

- What does their research show?
- First, measurement methodologies matter (big debate: current costs vs. historical costs)
- Second, basic agreement with respect to falling ROP between 1958-1978 and recovery in late 1980s-1990s
ROPs: USA, UK, Germany and France

Source: Michel Husson
US Profit Rates (according to Duménil and Levy)
Manufacturing Net Profit Rates
US, Germany, and Japan, 1949-2007

Source: Brenner
Profit Rates: US, Germany and Japan (Brenner)
Evolution of Rates of Profit

Source: INSEE
Brazil: evolution of rate of profit
A World Rate of Profit Index (100 = 1963)

Source: Michael Roberts
Fall in the rate of profit

• According to the French Institute of National Accountability (INSEE) the average rate of profit of the US economy from 1955-2000 declined more than 30% and in the period 2002-5 it fell more than 35%
• Further dissection of this statistic reveals that between 1954 and 1979 the rate of profit fell by more than 50%
• In the period 1985-97 there was an extraordinary recovery of around 20%, finishing with the years 1997-2002 which saw a fall of 21% from the peak of 1997, a fall which carried on until 2007.
Discussion

• A pattern emerges: drop in ROP between 1965-1980
• Then some recovery (see next slide)
• With interruptions in the 1990s
• The fall in the 1970s was not due to increased wages (the ‘profit squeeze’ theory is invalidated)
• The fall in the rate of profit in the USA is paralleled, even if the timing is slightly different, in all the major European countries (Britain, France and Germany)
Discussion on the recovery of the 1980s

- The long boom of 1982-97 is explained by the stagnation of wages (Shaikh) and also by the fall in interest rates that allowed the ‘profits of enterprise’ to rise.
- There was also a sharp fall in the organic composition of capital in that period as new technology cheapened the value of constant capital.
- Both a rising rate of exploitation (s/v) and a falling organic composition of capital (c/v) were relevant – indeed they are Marx’s key ‘counteracting influences’ to the TLFROP (Michael Roberts).
Analysis 1

• Plaza Agreements (1985): US forces Germany and Japan to revalue their currencies
• Kissinger and Saudi’s strike a deal: oil transactions payable in USD
• These two actions ensured that the dollar would continue as the main trading currency in all the world markets (92% of all trade was in dollars) and that fresh sources of capital would flow towards the US economy
• And: wages stagnate during the period
Analysis 2

• How is the fall in the ROP related to finance capital?
• Temptation to go from M – C – M’ directly into another form of valorisation: M – M’
• Examples of big corporations that resorted to ‘financialization’: Enron, Parmalat, General Electric, General Motors, etc.
• Difficulties in the real economy induce financial valorisation and set the stage for the financial crisis
• Financialisation has its own problems: volatility, but also...
• Surplus value and profits are generated in the real economy (non-financial sectors). In contrast, financial gain simply redistributes surplus value that has already been created. Thus, financialisation through speculation has objective limits that cannot be overcome without destroying the very fictitious capital which contributed to its creation. This explains the long series of severe crises in the stock exchange
Analysis 3

• Limits to this process impose the need to overcome all barriers to the circulation of capital, commodities and the procurement of strategic primary products and labour power at the lowest possible price

• The export of finance capital, the delocalisation of production, the intensive exploitation of the workforce at very low cost, are linked to the sluggish pace of valorisation typical of the advanced capitalist countries in this period
Recap: A bit of history now...

Time: the Sixties

Problem: falling rates of profit
Macroeconomic problem: Problema macroeconómico: economía Estados Unidos sufre desequilibrio externo y déficit fiscal
End of “Made in USA” golden era
Vietnam affects fiscal posture
Twin deficits appear
US gold reserves drop
In 1968 foreign central banks put additional pressure on US gold reserves
More ‘greenbacks’ in international circulation than gold in US stockpile
Development of euro-dollar offshore markets in Europe and North Atlantic (birth of the eurodollar)
Collapse of Bretton Woods system: some consequences

- End of the fixed exchange rate
  - Led to the ‘privatization’ of currency exchange rate risks
  - But also opened new opportunities for profits through arbitrage operations in the world’s foreign exchange markets

- To take advantage of these new opportunities, the global financial sector had to be deregulated

- Finance capital argued this was needed for hedging

End result: astronomical expansion of the world’s Forex market
Evolution of the financial sector

• Flexible exchange rate regime opens new opportunities for speculation
• In order to hedge exchange risks (and take advantage of speculative opportunities) the possibility of arbitraging needs to be open
• This means that controls over capital flows need to disappear
• The occasion to eliminate them came disguised as another...crisis!
Capital Flows

- Ashoka Mody and Antu Murshud (2002): “Our data show that the entry of capital in the 1990s was more ‘pushed’ towards developing countries than ‘attracted’ by an excess demand of financial investment. Thus, a great portion of the new wave of capital flows went to other uses, some of which were the direct result of those flows (reserve accumulation). (...) Our results show that either the lack of capital was not the problem (East Asia) or the capacity to absorb these capitals was limited, especially vis-à-vis flows of high volatility.”
Recap: Reasons behind the demise of BW

• The Bretton Woods system harboured in its core the seeds of its destruction.
• Exchange rates determined after WWII were based on the fact that the US was running balance of trade surpluses. When these surpluses vanished in the 1960s and the US experienced a current account deficit.
• At first European countries tolerated this ‘benign neglect’.
• Later it became clear that Triffin’s dilemma was valid: if a nation’s currency is also the world’s currency, that country needs to keep a current account deficit to provide liquidity for the global economy, but this leads to loss of credibility of that currency.
• By the end of the 60s the equivalent value of all US dollars in circulation in the world exceeded total US reserves of gold, so that the US was unable to honour its commitments under BW.
• The gold-USD convertibility window was closed in 1971.
• In 1973 European countries and Japan agreed to float their currencies vis-à-vis the dollar: the era of fixed exchange rates came to an end.
• For all the rhetoric about “governance”, today the world does not have an international monetary arrangement agreed by all countries.
Section IV
The Volcker recession
Volcker Recession

- 1970s: stagflation in the US
- Response by the Fed: spectacular hikes in the prime interest rate
- This caused hikes across the entire spectrum of interest rates worldwide
- Extraordinary increments in financial costs for all indebted countries
- This caused a worldwide recession
- Bringing down prices of commodities exported by developing and highly indebted countries (Mexico): incapacity to service debt obligations
Debt Crisis

- Mexico declares unilateral moratorium August 1982
- This provided the opportunity to dismantle what was left of the Bretton Woods system
  - Capital controls
  - Deregulation of domestic financial systems
- Reduce the role of the central bank as an effective regulatory agency and as an entity controlling money supply
Section V
The 1980 and 1990s: Consolidation of Neoliberalism
Stabilization and SAPs

• Intervention by IMF and WB during 80’s: conditionality and imposition of neoliberal policy package
• Loans and IMF conditionality after 1982: to ensure debt repayment and fresh access to financial markets
• Main characteristics of policy package:
  – Monetary policy: price stability is central priority
  – Deregulation of capital account of BOP
  – Deregulation of financial (banking and non banking) sector
  – Fiscal policy: balanced budget (primary surplus)
  – Trade liberalization
  – Massive privatization of public assets
  – No real industrial policy, very little agricultural policy
Global FOREX Daily Turnover
Global economic ‘governance’

- Evolution of the IMF and World Bank
- Uruguay Round and Marrakesh 1992
- Birth of the WTO
- Series of financial crises
- Mexico: reversion of capital flows
- ‘Emerging economies’ and BRICS
The main features of the world economy today: an overview
World Real GDP Growth
1950-2007

World GDP Growth = Weighted Average of Economies' Real GDP Growth
Weights = Shares of Economy in 2000 World Nominal GDP Converted to Dollars at Market Exchange Rates
Source: WTO
Five Features of the World Economy Today

• The Global Economic and Financial Crisis
• Inequality
• Concentration of Economic Power
• Overcapacity in Industry
• Debt
The Global Economic and Financial Crisis
Origins and Nature of the Global Crisis

• Generated at the heart of the private financial sector
• Not a crisis of profligate spending by irresponsible governments
• Not a crisis stemming from market failure
• This is a global macroeconomic crisis involving an entire economic model or logic
  – Not a problem of ‘policy failure’
• Roots of the crisis deeply entrenched in the real economy: global economic and financial crisis
United States: Real wages, productivity and household indebtedness 1945 - 2010

- Real Wages
- Indebtedness
- Productivity
United States: debt/income ratio for households
1959 – 2010
United States: productivity and hour-wages (1960-2005)

1959 = 100

Fuente: Palley
United States: average family income and productivity (1945-2005)

Fuente: Palley
United States: evolution of family income in high and low income strata (1945-2005)

Fuente: Palley
The global crisis in a nutshell (1)

• Sub-prime market: two questions
  – Why did regulators allow this to take place?
  – What are the causes of growing indebtedness?
  – Wages and profits since the 1970s

• Derivatives and ‘financial innovation’: planting the seeds of contagion
  – MBS and other ‘investment vehicles’, debt default swaps

• Loose monetary policy and global imbalances

• Instability of financial markets (as well as all markets)
The global crisis in a nutshell (2)

- First policy reactions: bailout the banks
- Contagion: as inter-banking lending freezes, Europe’s economy feels the brunt of the crisis and enters into recession
- Fiscal expenditures start to increase: bailouts, unemployment safety nets increase...
- ... while tax revenues contract
- The result: fiscal deficits increase and governments have to raise money in the financial markets
- Why did this happen? Because the governments had no capacity to finance their own deficits through their central banks
- In fact, because of monetary union, they had no control over their currencies
The global crisis in a nutshell (3)

• The Mediterranean countries are the weakest and soon enter into their deepest crisis in history, putting the monetary union in danger (‘Grexit’)

• The dictates of the financial system: fiscal austerity and monetary contraction

• As fiscal austerity further sinks the European economy into recession, the European Central Bank authorities in 2011 change the posture of the ECB (downright purchases of government bonds but in secondary markets)
Policy Response: Austerity

• The policy response that has been implemented is based on the same recipes that caused the crisis in the same place

• The same mythology is preserved: fiscal responsibility and the mantra of price stability provide the rationale

• Evidence:
  – Europe is getting deeper into recession as a result of the fiscal austerity policies dictated by the ECB, the IMF and the European Commission in Brussels (the ‘troika’)
  – The USA will get back into recession or mediocre ‘sub-par’ growth for the same reason
Present and Future of the Global Crisis

• The ‘smouldering’ crisis
• The conditions that generated the crisis are still in place
• Dodd-Frank regulation is too little, too late
• Basle (III) regulations totally inadequate
• Same macroeconomic policy package is being preserved
• What will happen to inequality?
• Environmental stewardship?
Inequality and Poverty
The (in)Glorious Years of Globalization

• Did inequality increase or decrease during the years of neoliberal globalization (before the 2007 crisis)?

• What about poverty?
  – Global indicators: the “poverty” and “extreme poverty” indicators of the World Bank

• The impact of China on global indicators of inequality

• Why there is reason to look at these indicators with disbelief
  – The macroeconomic perspective: what is the basic rationale behind fiscal and monetary policies and what it says about wages
  – What does economic performance tell us about employment
Inequality: the Gini Coefficient

45° straight line represents perfect equality in a society.

Curve is the Lorenz curve: the further away from the diagonal line represents higher levels of inequality.

The Gini coefficient measures the area between curve and 45° diagonal.

High Gini coefficients = high levels of inequality.

Small Gini coefficients = high levels of equality.

Gini coefficient = \( \frac{A}{(A + B)} \)
“The Gini is Out of the Bottle”

- Switzerland, Sweden, Canada, Japan all have Gini coefficients between 0.25 and 0.35
- Namibia, South Africa, Argentina, Mexico, Brazil all have Gini coefficients higher than 0.5
- Spain: from .31 to .34 between 2007-2011
- The United States had a Gini coefficient just below 0.5 before 2007
- Today it is probably at 0.5 or higher
- These are national averages: regional and social groups coefficients can be much worse
Gini in the US: historical trend and forecast
Inequality in the USA

real annual income of poor, middle class, and rich households, 2004 dollars, 1967–2004

1973–2004
- poor +9.8%
- middle +15.3%
- rich +72.9%

1999–2004
- poor –8.7%
- middle –3.8%
- rich –0.8%

middle 20%
poorest 20%
Gini Coefficient in the USA: the long view

INCOME INEQUALITY (Gini index), 1913–2004
Global Income Distribution

A visualization of the global distribution of income, 2005

Gross national income per head, by decile, SPPP

140,000

120,000

100,000

80,000

60,000

40,000

20,000

0

richer groups

poorer groups

poorer countries

richer countries
Poverty and the success of neoliberal globalization

<table>
<thead>
<tr>
<th>Region</th>
<th>1981</th>
<th>1990</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsaharan Africa</td>
<td>214</td>
<td>299</td>
<td>391</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>42</td>
<td>43</td>
<td>46</td>
</tr>
<tr>
<td>South Asia</td>
<td>548</td>
<td>579</td>
<td>596</td>
</tr>
</tbody>
</table>

Number of people living on less than US$1 a day (millions)
Inequality and Poverty: trends

• Inequality and poverty: increasing or receding
  – This is inherent to capitalism: its origin is marked by a history of massive/collective dispossession of the working people in Europe
  – This tendency was held back during the period 1945 – 1975: how and what were the effects?
  – Today we can ask: what does the macroeconomic policy posture do to inequality?
Wage Share in Developing Countries

DVP3 Mexico, South Korea, Turkey
DVP5 China, Kenya, Mexico, South Korea, Turkey
DVP16 = DVP5 + Argentina, Brazil, Chile, Costa Rica, Namibia, Oman, Panama, Peru, Russia, South Africa and Thailand

- DVP3
- DVP5
- DVP16
US: income share of the top 1%, 1913-2006

- [1] = including realised capital gains; and [2] = excluding capital gains. 3-year moving averages.\(^6\)
Causes of Bad Income Distribution

• The narrative from the establishment: technical change is the main determinant
  – Technologies that replace low productivity jobs were introduced
  – This devalued these jobs and skewed income distribution
  – This narrative not confirmed by data (moderate or negative effects)

• Another narrative: main causes of changes in income distribution come from other sources
  – Neoliberal macroeconomic policies based on wage suppression
  – In advanced economies (ADVs) financial globalization and welfare state retrenchment as main causes for decline in wage share
  – Developing economies: trade and financial liberalization have negative effects on welfare state
How to Improve Income Distribution

• Redefine macroeconomic priorities: nothing justifies making price stability the main or sole priority of macroeconomic policy

• Primary surplus

• Neoliberalism has given rise to debt-led or export-led growth regimes (Lavoie and Stockhammer 2012; Hein 2012).
  – Both rely on wage suppression
  – Both are economically unstable and socially unbalanced

• Explore macroeconomic potential of wage-led growth
  – Positive effects on demand (Onaran and Galanis 2012)
  – Positive effects on productivity (Storm and Naastepad 2012)

• To increase wage share: tackle financialisation and strengthen the welfare state (role of unions)
Market Power Concentration
Market Power Concentration

• Trends under capitalist competition
  – Concentration an centralization of capital
  – Capital can only exist as private spheres of accumulation (Marx)
• Greater concentration allows for less competition
• What does it do to investment patterns?
• What about change in technologies?
  – Implications for climate change and reducing carbon footprint?
• Should have been a priority in WTO agenda, UNFCCC and other agencies
<table>
<thead>
<tr>
<th>Industry</th>
<th>R4</th>
<th>IBIS World Leading Firms (number)</th>
<th>Leading Firms Concentration Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil Aerospace Prods. Mfg.</td>
<td>69.7</td>
<td>9</td>
<td>90.4</td>
</tr>
<tr>
<td>Investment Banking and Brokerage</td>
<td>66.2</td>
<td>4</td>
<td>66.2</td>
</tr>
<tr>
<td>Tobacco mfg.</td>
<td>60.4</td>
<td>6</td>
<td>73.2</td>
</tr>
<tr>
<td>Music production and distribution</td>
<td>56.2</td>
<td>4</td>
<td>56.2</td>
</tr>
<tr>
<td>Beer mfg.</td>
<td>48.3</td>
<td>8</td>
<td>58.3</td>
</tr>
<tr>
<td>Logistics and Shipping</td>
<td>48</td>
<td>8</td>
<td>69.6</td>
</tr>
<tr>
<td>Iron ore mining</td>
<td>43</td>
<td>5</td>
<td>45.2</td>
</tr>
<tr>
<td>Heavy duty truck mfg.</td>
<td>40.7</td>
<td>9</td>
<td>58.8</td>
</tr>
<tr>
<td>Cocoa, chocolate and sugar mfg.</td>
<td>40.4</td>
<td>9</td>
<td>58.3</td>
</tr>
<tr>
<td>Marine port operation</td>
<td>38.6</td>
<td>8</td>
<td>58</td>
</tr>
<tr>
<td>Toiletries and cosmetic mfg.</td>
<td>38.5</td>
<td>8</td>
<td>52</td>
</tr>
<tr>
<td>Military aerospace products mfg.</td>
<td>38.4</td>
<td>7</td>
<td>48.2</td>
</tr>
<tr>
<td>Consumer electronics mfg.</td>
<td>37.1</td>
<td>6</td>
<td>43.7</td>
</tr>
<tr>
<td>Spirits mfg.</td>
<td>33.8</td>
<td>5</td>
<td>36.6</td>
</tr>
<tr>
<td>Biotechnology</td>
<td>33.4</td>
<td>9</td>
<td>45.9</td>
</tr>
</tbody>
</table>

World Industrial Concentration Ratios
(Source: Verhorn, Kopf and Carnevale JIBS 2013)
<table>
<thead>
<tr>
<th>Industry</th>
<th>2013</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheese mfg.</td>
<td>33.3</td>
<td>8</td>
<td>47.6</td>
</tr>
<tr>
<td>Soft dring and bottled water mfg.</td>
<td>32.1</td>
<td>8</td>
<td>45.6</td>
</tr>
<tr>
<td>Automotive - light motor vehicle</td>
<td>30.4</td>
<td>10</td>
<td>52.8</td>
</tr>
<tr>
<td>Motor vehicle engines &amp; engine parts</td>
<td>28.8</td>
<td>11</td>
<td>48.6</td>
</tr>
<tr>
<td>Accountng services</td>
<td>28.6</td>
<td>4</td>
<td>28.6</td>
</tr>
<tr>
<td>Household appliances mfg.</td>
<td>28.3</td>
<td>10</td>
<td>48.7</td>
</tr>
<tr>
<td>Movie production and distribution</td>
<td>26.9</td>
<td>10</td>
<td>40.2</td>
</tr>
<tr>
<td>Internet service providers</td>
<td>24.8</td>
<td>4</td>
<td>24.8</td>
</tr>
<tr>
<td>Fertilizers and agricultural chemicals</td>
<td>24.5</td>
<td>10</td>
<td>43</td>
</tr>
<tr>
<td>Logistics - couriers</td>
<td>24.15</td>
<td>3</td>
<td>24.1</td>
</tr>
<tr>
<td>Wireless telecome carriers</td>
<td>24</td>
<td>8</td>
<td>36.5</td>
</tr>
<tr>
<td>Fluid and powdered milk mfg.</td>
<td>23.7</td>
<td>8</td>
<td>33.2</td>
</tr>
<tr>
<td>Civil ship and boat building</td>
<td>23.7</td>
<td>7</td>
<td>30.6</td>
</tr>
<tr>
<td>Fast-food restaurants</td>
<td>22.7</td>
<td>7</td>
<td>26.4</td>
</tr>
<tr>
<td>Logistics - airfreight</td>
<td>22.4</td>
<td>8</td>
<td>35.1</td>
</tr>
<tr>
<td>Advertising</td>
<td>20.9</td>
<td>4</td>
<td>20.9</td>
</tr>
<tr>
<td>Global reinsurance carriers</td>
<td>20.8</td>
<td>8</td>
<td>28.8</td>
</tr>
<tr>
<td>Casino and gambling</td>
<td>20.7</td>
<td>4</td>
<td>20.7</td>
</tr>
<tr>
<td>Computer hardware mfg.</td>
<td>20.5</td>
<td>10</td>
<td>29.9</td>
</tr>
<tr>
<td>Oil and gas exploration</td>
<td>20.3</td>
<td>9</td>
<td>30.6</td>
</tr>
<tr>
<td>Pharmaceuticals/medicine mfg.</td>
<td>20.2</td>
<td>7</td>
<td>29.9</td>
</tr>
</tbody>
</table>

Source: Vehorn, Kopf and Carnevale (JIBS 2013) with data from IBIS World
### Growth in Number of Firms 2007 - 2010, by industry

#### Most Concentrated Industries

<table>
<thead>
<tr>
<th>Industry</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Growth 2007-2010 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil Aerospace Products mfg.</td>
<td>3,787</td>
<td>3,819</td>
<td>3,817</td>
<td>3,815</td>
<td>0.7</td>
</tr>
<tr>
<td>Investment Banking/Brokerage</td>
<td>1,289</td>
<td>1,160</td>
<td>1,206</td>
<td>1,279</td>
<td>-0.8</td>
</tr>
<tr>
<td>Tobacco product mfg.</td>
<td>125</td>
<td>123</td>
<td>121</td>
<td>120</td>
<td>-4</td>
</tr>
<tr>
<td>Music production and distribution</td>
<td>44,251</td>
<td>43,675</td>
<td>42,060</td>
<td>41,237</td>
<td>-6.8</td>
</tr>
<tr>
<td>Beer mfg.</td>
<td>5,380</td>
<td>5,379</td>
<td>5,373</td>
<td>5,320</td>
<td>-1.1</td>
</tr>
<tr>
<td>Global logistics - shipping</td>
<td>10,881</td>
<td>10,939</td>
<td>10,690</td>
<td>10,569</td>
<td>-2.9</td>
</tr>
<tr>
<td>Global iron ore mining</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Heavy duty truck mfg.</td>
<td>447</td>
<td>480</td>
<td>379</td>
<td>369</td>
<td>-17.4</td>
</tr>
<tr>
<td>Cocoa, chocolate &amp; sugar confectionary mfg.</td>
<td>9,665</td>
<td>9,585</td>
<td>9,625</td>
<td>9,699</td>
<td>0.4</td>
</tr>
<tr>
<td>Marine port operation</td>
<td>1,547</td>
<td>1,565</td>
<td>1,584</td>
<td>1,596</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Average Growth</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-2.9</td>
</tr>
</tbody>
</table>

#### Least Concentrated Industries

<table>
<thead>
<tr>
<th>Industry</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Growth 2007-2010 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Footwear mfg.</td>
<td>98,200</td>
<td>99,100</td>
<td>98,200</td>
<td>99,000</td>
<td>0.8</td>
</tr>
<tr>
<td>Commercial printing</td>
<td>323,842</td>
<td>329,556</td>
<td>334,028</td>
<td>340,613</td>
<td>5.2</td>
</tr>
<tr>
<td>Engineering services</td>
<td>485,000</td>
<td>483,000</td>
<td>475,000</td>
<td>475,000</td>
<td>-2.1</td>
</tr>
<tr>
<td>Hotel and resorts</td>
<td>514</td>
<td>521</td>
<td>516</td>
<td>522</td>
<td>1.6</td>
</tr>
<tr>
<td>Global coal mining</td>
<td>20,000</td>
<td>19,000</td>
<td>19,000</td>
<td>18,750</td>
<td>-6.3</td>
</tr>
<tr>
<td>Cardboard container mfg.</td>
<td>20,512</td>
<td>21,890</td>
<td>21,540</td>
<td>21,622</td>
<td>5.4</td>
</tr>
<tr>
<td>Pension funds</td>
<td>643,691</td>
<td>647,819</td>
<td>669,453</td>
<td>689,951</td>
<td>7.2</td>
</tr>
<tr>
<td>Insurance brokers and agencies</td>
<td>1,532</td>
<td>1,544</td>
<td>1,497</td>
<td>1,504</td>
<td>-1.8</td>
</tr>
<tr>
<td>Plastic products</td>
<td>114,931</td>
<td>123,581</td>
<td>114,175</td>
<td>117,480</td>
<td>2.2</td>
</tr>
<tr>
<td>Global sale of motor vehicles</td>
<td>174,530</td>
<td>193,904</td>
<td>193,356</td>
<td>198,505</td>
<td>13.7</td>
</tr>
<tr>
<td><strong>Average Growth</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: Verhorn, Kopf and Carnevale (2013)
Market Power Concentration

• Agriculture: sector that has resisted the capitalist logic of accumulation
• Reason: agriculture poses important challenges to capitalist production because of risks involved (long time between sowing and marketing, climate, soils, pests and perishable produce)
• Full control of production process is important for K accumulation: acquiring control over seeds is a vital step
• Hybrids allowed for ‘biological’ control of seeds
• GMOs, UPOV and patents provide another approach to the question of control
• Patents: not an incentive for R&D or innovation, but critical for market segmentation and extension of monopoly rents associated with innovations
• Other industrial winners: inputs, machinery, lenders. As a result, farmers’ incomes have stagnated
Global seed market: market consolidation

- Key result: concentration changes competition patterns and channels, it also allows big firms to stabilize profits (less price cutting competition). Competition may become fierce in areas such as R&D, marketing channels, advertising.
- Role of patents: extend life of quasi-monopoly rents associated with innovation.
- Threshold: R4 above 40% means the industry is not competitive.
- Data from Philip Howard (2009): in a number of agricultural input industries this threshold has been exceeded in recent decades.
- Howard: the top four pesticide firms currently control 59% of the global market; top four seed firms control 56% of the global proprietary (e.g., brand-name) seed market.
Concentration of Market Power

• Past four decades witness a trend towards the concentration of market power in a reduced number of transnational corporations in the most important industries and products in the global economy
• Examples: shipping, seeds, banking, cement, glass, steel, aluminium, many key commodities
• Horizontal and vertical integration
• Process of mergers and acquisitions
• Cross-licensing
Market Power Concentration: the global seed market

- Transformation of world agricultural practices as the seed market consolidated in a very small number of large “agribusiness” firms
- Resulted in loss of control of production process in agriculture with vast economic and environmental implications
- Shift in agricultural R&D to more profitable proprietary crops and varieties, but away from needs of small scale farmers
- Decrease in number of farmers selecting and conserving their own seeds
  - In the US, between 1910 and 1975 ratio of purchased to self-generated inputs increased by 500%
Consolidation in the Global Seed Market

Source: Howard (2009)
Seed Industry Structure

Source: Howard (2009)
Sustainable agriculture: subordinating the production process to the logic of capitalist accumulation

• Long-term sustainability relies on the ability of farmers to produce food free from heavy reliance upon off-farm inputs
• Genetic resources variability is probably the most important technological asset small scale farmers worldwide
• Renewable agricultural practices of seed saving and replanting are endangered by the combination of corporate strategies of the global seed and input industries, as well as by government policies
• Their impact discourages renewable practices and environmental stewardship
• Genetic resources erosion is rivaled only by soil erosion as small scale farmers are put out of business through economic pressure
Sustainable agriculture: subordinating the production process to the logic of capitalist accumulation

- Market power also exercised via national and international regulations in ways that diminish the prospects for renewable agriculture. Examples: decreasing access to non-patented (and non-transgenic) seed varieties, genetically diverse germplasm, and innovative varieties
- Stronger intellectual property protections are tied to contracts that remove management decisions from farmers
- Seeds increasingly bound to agricultural practices that promote unsustainable topsoil depletion, monocultures, contamination of ecosystems, and high fossil fuel and water consumption
- Small scale agricultural production becomes more vulnerable
- Combined effect of market power and fiscal retrenchment generates enormous economic with vast implications for social well-being and the environment
Overcapacity
Why is capacity utilization important?

• Normally firms keep a margin of excess productive capacity to respond to fluctuations in demand and reply to competitors’ moves (inventories’ management is not the right answer). Small levels of excess capacity are not a problem, normally

• When capacity utilization decreases significantly this reflects the economy has problems in maintaining aggregate demand and/or that past investment decisions were too optimistic (typical of a bubble)

• This affects the cost structure of production: higher fixed costs

• To counter the weight of fixed costs, firms cut variable costs! Reducing work time and shifts, less people in the economy have full-time jobs and this further reduces aggregate demand (negative multiplier effect)

• Symptoms of deflation: if all firms have excess capacity there will be price-cutting competition, and this will affect investment decisions now

• Low levels of capacity utilization indicate high levels of spare capacity, there is little need to invest in capital to increase production and this will slow down the economy even more
Capacity Utilization

Capacity Utilization: Total Industry (TCU)
Source: Board of Governors of the Federal Reserve System

Shaded areas indicate US recessions.
2010 research.stlouisfed.org
Capacity Utilization: another measurement
Record low in US
Secular decline
Capacity Utilization in the USA

• The long-term trend in capacity utilization in the US shows a secular decline

• Also, after each major recession over the past 50 years, capacity utilization peaked at a lower level than after the previous recession. So far in the post-Great Recession recovery, this trend has not been violated, as the nation struggles from chronic excess capacity
Peak cap utilization

Peak capacity utilization following major recessions over the past 50 years

SoberLook.com
Capacity Utilization in China

Average Capacity Utilization
(In percent)

Sources: IMF staff calculations.
Debt Bomb
Debt burden and macroeconomic policies

• It’s called “debt management” and it is the most dangerous weapon in the arsenal of neoliberalism.
• Its real name: transferring public resources from the real economy to the financial sector.
• The process is presented as “obtaining a primary surplus”: income minus expenses net of financial charges.
• This “surplus” is used to pay debt management: the result is a public balance deficit.
Origins of the debt bomb

• De-colonization: initial debt burden and high interest rates
• The 1970s: recycling petro-dollars at a time of declining profit rates in the real economy lead to over indebtedness of most LDCs
• The Volcker recession in 1980 and the ‘Lost Decade’ (1980s)
• Negative terms of trade in the 80s and 90s
• Corruption and mismanagement: yes, but also co-responsibility
“Debt governance”

• Debt burden keeps rising
  – 1970 a group of sixty countries owed 25 bn, by 2002 this group owed 523 bn
  – Today for every dollar received as concessional loans (aid) third world countries pay 13 dollars for for debt service

• Remedies are not working

• Debt cancellation not taking place or movimng too slowly
  – One recent example: Brazil’s pledge of ‘forgiveness’ of 900 million to 12 African countries
A look into the future

• We’re looking at a protracted crisis lasting many years to come
• It is urgent that we change macroeconomic priorities
• We cannot afford not to talk in the language of macroeconomic policy (and theory)
• MDGs: not a bright picture
• But we are already talking about the post-2015 development agenda
• The big question: can we attain anything resembling sustainable development with the current macroeconomic policy framework?
Thank you