ECONOMIC GLOBALIZATION: CAPITALISM IN THE AGE OF ELECTRONICS

[The following is the Political Report from the April 19, 1997 meeting of the Steering Committee of the League of Revolutionaries for a New America.]

Every exploiting ruling class has had its global dimension and "global" aspirations. The level of the development of the productive forces and the economic relations of a society determine the form of this imperial oppression and exploitation. The Romans with their highly organized slave empire subjugated the world as they knew it and extracted taxes and slaves as their main source of wealth. Similarly, every stage and phase of development of capitalism has had a corresponding form of global activity.

At the beginning of this century, Lenin described the stage of the development of capitalism at that time as "imperialism." Developing from major technological breakthroughs like electric generators and motors, the internal combustion engine, new steel-making processes, the telephone and the radio, the 19th-century system of competitive, industrial capitalism gave way to a global form of monopoly capitalism.

This new stage of development of capitalism was characterized by the concentration of production such that monopolies controlled the economy; the emergence of "finance capital" as the decisive form of capital; the growing importance of the export of capital, as opposed to the export of commodities; and the territorial division of the world among the major capitalist powers.

Today, this system of imperialism is giving way to globalization - a new stage of capitalism characterized by electronics-based production; the desperate attempt to maintain value and surplus value production by whatever means possible; the internationalization of capital; and the replacement of productive capital with speculative capital as the dominant form of capital.

"Imperialism" was capitalism in the age of electro-mechanically based monopoly capitalism; "globalization" is capitalism in the age of electronics.

The End of Imperialism

World War I and World War II grew out of the struggle among the imperialist powers to territorially redivide the world. The end of World War II, with the European and Japanese economies in ruins, marked the beginning of the end of direct colonialism, a system which had seriously constrained the ability of capitalist countries to invest outside their own colonies. The process of the dismantling of direct colonialism lasted over the next several decades.

Led by the efforts of the United States, which had emerged as the economically dominant power by the end of the war, the agreements made at the Bretton Woods meetings in 1944 formalized the new international economic order. The U.S. dollar, fixed in relation to gold, was made the chief international currency. The United Nations was the political counterpart of the institutions made possible by the Bretton Woods agreements - the World Bank and the International Monetary Fund.

With the revival of the European and Japanese economies by the mid-1960s, the period of U.S. economic hegemony was over. The end of this period was signalled by the dissolution of the Bretton Woods agreement in the early 1970s. Capitalism is driven by the maximization of profit. The drive for profits requires both a constant advance in technology to cheapen production and eliminate competitors, and a constant expansion of the markets in which to sell the commodities. This demanded the ultimate expansion of the market to encompass the entire world, free of national barriers; and, at the same time, the lowering of the cost of production to the absolute minimum. This expansion demanded the end of a territorially divided world, which was accomplished by dismantling direct colonialism.

At the same time, the introduction of labor-replacing technology means the beginning of the end of productive investment capital. All value (and profit) comes from the exploitation of labor. Laborless production means valueless production - and hence, profitless production. With laborless production, capital can no longer be utilized to create more value and more surplus value. So, capital is being shifted into purely speculative investment. A critical portion of capital is no longer "exported" (in the sense of being invested overseas for the production of more commodities). It is merely shifted, moved, transmitted around a global roulette table.

Imperialism extended industrial production throughout the world. The introduction of electronics into capitalism is ending the stage of imperialism, and opening the new stage of globalization.

Electronics-based Production

The stages of development of capitalism are defined by specific developments in the productive forces; the microchip defines the current stage of the development of the productive forces. Introduced in the early 1970s, the microchip is a light, tiny, cheap device that can be widely deployed to control production processes. It was the result of an effort to satisfy the growing demand for devices to reduce production costs and to cheapen the cost of coordinating the growing world economy.

The microchip and its sister developments in electronics made possible practical robotics. It cheapened the cost of the instruments of scientific production, paving the way for breakthroughs in other fields like "smart" materials, biotechnology, and digital communications; and it dramatically reduced communication costs.

The introduction of the microchip threw a radically new quality into an already global economy. Twenty-five years after its introduction, the power of the microprocessor continues to double every 18 months. As chips develop, they infiltrate new areas of production, increasing output and replacing the need for living labor - workers - in production.

At the same time, as the British newsweekly The Economist noted, "by reducing the cost of communications, [new technologies] have helped to globalize production and financial markets. In turn, globalization spurs technology by intensifying competition and by speeding up the diffusion of technology through direct foreign investment. Together, globalization and [new technologies] crush time and space." Cheap transportation and communication have also created a global commodity market, including a global labor market.

Desperate Measures

Unless the market can absorb the constantly expanding output of capitalism, the economic system freezes up and enters a crisis. Ultimately, this crisis is a result of the introduction of advanced technologies that brings on a crisis in profitability, but it appears as a crisis of overproduction, the inability to circulate commodities that the market cannot absorb.

William W. Keller, director of the Office of Technology, has complained, “Capitalism everywhere is turning out to be too damn productive.” So, to out-compete the other capitalists on this world stage, each capitalist is compelled to seek out the cheapest labor and the most advanced technology.
The increased productiveness of capital has not been matched by a proportionate increase in markets. William Greider defines the “central economic problem of our revolutionary era [as] the growing, permanent surpluses of goods, labor and productive capacity inevitably generated by technological innovation and the free-running industrial globalization.” (Chicago Tribune, January 20, 1997.) These surpluses affect steel, auto, textiles, electronic appliances - virtually every industry, except those on the cutting edge today (like semiconductors or communications).

To maintain profitability, corporations must lower their break-even point, redeploying parts of the production process overseas, reducing fixed costs by selling plants and other assets, cutting out middle-level employees, converting jobs to temporary work. This results in reserves of idle people and unused production.

The problem is further complicated by the fact that some countries still have varying amounts of control over their markets.

The United States has tried repeatedly to break down market barriers in Japan.

China has been successful in limiting its home market, while benefiting from open markets, particularly in the United States. China's strategy is to build up high-cost, high-tech exports based on technology (gained from trading foreign technology for access to their markets), while producing cheap goods made by low-cost labor for its rapidly growing domestic market. Foreign goods enter

China under strict rules.

The Japanese feel particularly threatened by China's growth. As Harou Shimada, a Keio University economist, bluntly put it:

“China is a horror story for the rest of the world if it simply grows as an exporting nation. Overcapacity will have to be squeezed down. It will be increasingly unprofitable for companies to build new capacity in advanced nations. If the Chinese develop the technology and become productive without wages rising, then they will be a tremendous competitive menace against the rest of the world. If you bring in 1.2 billion workers at those wages, that can destroy the global trading system.” (Quoted in One World, Ready or Not: The Manic Logic of Global Capitalism by William Greider, Simon & Schuster, New York, 1997, p. 162.)

Already, high rates of economic growth in China coupled with low wages have produced a glut in the Chinese market, with goods worth $64 billion stockpiled, representing about one-fifth of China's total production. (“Bloom is Off China's Boom,” Chicago Tribune, February 4, 1997.)

At the same time, the United States is running up huge trade deficits as it attempts to soak up excess commodities. For the first time in a century, in the fourth quarter of 1993, the United States passed a critical threshold. The outflow of financial returns paid to foreign investors on the assets they held in the United States exceeded all of the profits, dividends and interest payments that American firms and investors collected from their investments abroad. In 1994, the annual outflow was negative for the first time since 1914. Trade deficits reached a record volume in 1995. (Greider, p. 201)

A Major Breakdown?

Many of the leading players in the global economy fear the system cannot continue indefinitely without a major breakdown.

Christopher Whelan, a conservative financial economist in Washington, predicts that, “We are headed for an implosion. If you keep lowering and lowering wages in advanced countries, who's going to buy all this stuff? You look around and all you can see is surplus labor and surplus goods. What we don't have is enough incomes. But the only way people find out there are too many factories is when they wake up one morning and their orders are falling. If this keeps up, we're going to face a lack of demand that's worse than the 1930s.” (Greider, p. 221.)

George Soros, a billionaire investor who is mentioned frequently on the front pages of the financial sections of the world's newspapers, foresees a general breakdown - the collapse of the global financial system and the trading system with it. He bluntly states: “I cannot see the global system surviving. ... In my opinion, we have entered a period of global disintegration only we are not yet aware of it.” (Soros on Soros: Staying Ahead of the Curve, quoted in Greider, p. 248.)

The Internationalization of Capital

The drive toward cheap production - cheap labor (whether it be at gunpoint, in prison, by children or slaves), lax environmental laws, low taxes - drives capital across the globe. With the internationalization of these markets in labor and commodities comes internationalized capital.
Even with the end of the Bretton Woods agreement, capital faced national constraints on its movement around the globe. While new technologies made the rapid movement of capital technically possible, the freeing of capital from national controls came from the growing power of the multinational corporations (MNCs). The intense concentration of productive capacity in a handful of corporations has carried forward from imperialism and grown more intense. William Greider estimates that the 500 largest MNCs produce one-third of the world's manufacturing, three-fourths of all commodity trade, and four-fifths of the trade in technology and management services.

These capital flows are not just from the former imperial powers to the former colonies. Foreign direct investment increased almost fourfold in the 1980s, with the largest part being invested in the United States. “Hong Kong” capital is invested in the United States, “U.S.” capital is invested in Russia, “Russian” capital is invested in who-knows-where. (Some $150 to $300 billion has left Russia in the past five years, according to one Russian government official - The Nation, March 31, 1997). It is silly to speak of this capital belonging to any nation anymore. The new global regime creates an international class of investors with no tie to countries, only to stable havens where money can be parked and from which it can be moved rapidly.

Under imperialism, capital was “national” in the sense that it was deeply connected to a multinational state. There was U.S. capital and German capital and British capital. This fed the recurring territorial conflicts. Under the new globalization, capital is transnational, or even supranational.

Capital has been increasingly successful in freeing itself from national restraints - from restricted markets, tariffs, taxes, environmental restrictions, and organized labor. Freedom from national controls allows this capital to roam everywhere - freely and quickly - in the search for the highest rate of return. Some $1.2 trillion flows through New York currency markets each day.

As Greider notes:

“[T]hese transactions are carried out by a very small community - the world's largest 30 to 50 banks, and a handful of major brokerages. ... The new communications technology has created a small, elite community of international finance - perhaps no more than 200,000 traders around the world who all speak the same language and recognize a mutuality of interests despite their rivalries.” (Greider, p. 245-246.)

The Emergence of Speculative Capital

One of the key features of this free-flowing capital is the change in the ratio of productive capital to non-productive (or speculative) capital. Lenin noted that one of the key features of imperialism was the emerging dominance of finance capital. Finance capital is the merger of industrial capital and bank capital, under the control of the financiers. It represented the domination of the financiers over the industrial capitalists. Nevertheless, this capital was destined to go back into production. The financiers invest it in order to produce more profit from the exploitation of human labor.

Today, the use of capital for productive purposes is being replaced by capital invested for purely speculative purposes - that is, the hope that its value will somehow rise in relation to other speculative adventures: Tokyo real estate versus baseball cards; or New York stock futures versus rare paintings. There are still significant amounts of finance capital seeking out profits. The World Bank estimates that between 1988 and 1995 some $422 billion was invested in new factories, supplies and equipment in select developing countries.

Many boats have been lifted by this tide. But the general, historical trend is such that for this capital to generate profits, it must plunge workers into slave (or near-slave) conditions. Thus, it cannot generate the purchasing power necessary to circulate commodities and hence sustain profits or the economy. Since sufficient returns cannot be made from electronics-based production, increasing amounts of capital seek returns from speculative adventures. The attempt to maintain the circulation of goods through the extension of credit is itself a speculative exercise, a maneuver done in the hope that consumers or debtor countries will eventually be able to pay off their mounting debt.

Noam Chomsky cites estimates that in the early 1970s about 10 percent of the capital in international exchanges was for speculation and about 90 percent of it was related to the real economy, for investment in productive capacity and for trade. By the 1990s, those figures were reversed - 90 percent was for speculation and never destined to be invested in raw materials, or factories, or transportation systems, or for trade. Chomsky also quotes David Felix's study for the United Nations Conference on Trade and Development which cites estimates “that by 1994 the ratio was about 95 percent speculative to about five percent real economy-related.” (Class Warfare: Interviews, Noam Chomsky with David Barsamian, p. 106)

According to Grieder:

“As capital owners and financial markets accumulate greater girth and a dominating influence, their search for higher returns becomes increasingly purified in purpose - detached from social concerns and abstracted from the practical realities of commerce. In this atmosphere, investors develop rising expectations of what their invested savings ought to earn and the rising prices in financial markets gradually diverge from the underlying economic reality. Since returns on capital are rising faster than the productive output that must pay them, the process imposes greater and greater burdens on commerce and societies - debt obligations that cannot possibly be fulfilled by the future and, sooner or later, must be liquidated, written off or forgiven.” (Greider, p. 227.)

A report on global capital by McKinsey & Company, a global consulting firm, estimated that the total stock of financial assets from advanced nations expanded in value by six percent a year from 1980 to 1992, more than twice as fast as the underlying economies were growing. The report estimated that by the year 2000 the total financial stock will triple the figures for the economic output of these economies. [These figures were adjusted for inflation.] (The Global Capital Market: Supply, Demand, Pricing and Allocation, quoted in Greider, p. 232.)

The chief concern of this new speculative capital is a stable currency to protect the value of its money. It demands of governments a deflationary policy - preventing inflation by keeping pressure both on wages and government spending by use of the interest rate.

We have seen the results of this policy in the United States - the growth of long-term unemployment (much of it not showing up in the statistics), the stagnation of wages, the dismantling of social programs, and the sharply growing inequality in incomes. This new, speculative capital is able to set the rules for the world economy because governments have little or no control over the actions of the speculative capital which determine their economies.

New Polarities, New Possibilities

The process of globalization is driven by the dynamics of capitalism. Capitalism's survival rests on the extraction of profit on a constantly increasing scale through the extension of production. While electronics has enabled the unification of the world commodity market (including the labor market) and the financial market - by dramatically cheapening communications and transportation - it also introduces a radical new quality - electronic production. This new element attacks the very foundation of capitalism - the extraction of surplus value from workers - by introducing laborless production.
To maintain profits, capitalists seek out the cheapest production costs (regardless of whether production is done by robots or by human muscle, or whether it takes place in Detroit or in Jakarta). So, as electronics extends throughout the global economy, workers around the world are compelled to compete not only with each other but with their electronic counterparts - robots and automated machinery of increasingly diverse types.

For a number of reasons, employment under these circumstances can actually increase while electronics is at the same time destroying the value of labor power. With electronics driving down the value of labor power, and therefore wages, more members of the household are compelled to enter the job market, or to work past retirement age, or to take on multiple jobs in unsuccessful attempts to maintain a slipping standard of living. Others are being driven to the bottom of the job market by the end of welfare. This is temporarily providing a cheaper alternative to technology.

The capitalist does not care if production is done by the “gratuitous labor of machines” or by the “free” labor of slaves. The critical indicator of the impact of electronics on production is not “employment” statistics, but the polarization of wealth and poverty. With the destruction of the value of labor power and wages, wealth polarizes and the economic center disappears. In this process, capitalism is compelled to destroy whatever social base it may have maintained in the old imperialist center.

A New Proletariat

During the period of imperialism, the main arena of class struggle was the struggle between the peoples of the earth and the imperialist powers. Under globalization, a new proletariat is emerging in the imperialist center, to join ranks with a proletariat in the former colonies - propertyless, with little or no permanent tie to the capitalist system.

This process is, of course, tremendously uneven, with some Third World countries emerging as “tiger economies,” with the standard of living improving for many workers. But overall, the pattern of deepening polarization is becoming clearer.

A U.N. Human Development Report in 1996 noted that even though the world's economy surged during the past three decades, 1.6 billion people (one-quarter of the world's population) are actually worse off than they were 15 years ago. (Chicago Tribune, July 17, 1996.) Thirty-two countries representing a half billion people are buried under unsustainable debt burdens. Richard Barnett estimates that two-thirds of the world's population has neither the cash nor the credit to buy anything of note in the global marketplace. (Global Dreams: Imperial Corporations and the New World Order, Richard Barnett)

This vast majority of the world's population stands opposed to 358 billionaires whose income is equal to the total income of the poorest 45 percent of the world's population. (This statistic was quoted in The Nation, July 15-22, 1996).

While capitalism looks to the electronically united world market to sell its prodigious output, it is at the same time compelled to destroy the world market by driving down socially necessary labor time and, as a result, the value of labor power - and ultimately wages - to the wage of the robot.

The economic middle ground is destroyed, resulting in a handful of international capitalists on one side, and a vast majority of marginalized or destitute proletarians, incapable of purchasing the flood of goods, on the other. Such is the inescapable dilemma faced by capital in the age of globalization.