**Universidad Nacional Autónoma de México**
**Instituto de Investigaciones Económicas**

# Contemporary globalization. The core countries

*Luis Sandoval Ramírez*

Ponencia presentada en el II Forum of WAPE, University of Shimane (Japón)

25 de octubre de 2007

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**Luis Sandoval Ramírez, luiss@servidor.unam.mx**
**IIEc-UNAM, November 2007**

Globalization is an elastic concept, to which everyone bestows the characterization that they wish. But there are also important currents of contemporary thought that agree in attributing certain characteristics to this phenomenon. In this brief essay I will try to refrain from dealing with this question, that is, by reviewing the world literature on the issue, in order to concentrate on my interpretation of globalization.

Globalization has been a generalized process involving the extension of trade and the capitalist socio-economic formation (with its historical base in Western Europe), with its structures, institutions, and values, to all the corners of the planet and the deepening of its different temporary modalities on a planetary scale, although in its initial stages this expansion coincided with the extension of pre-capitalist values and structures and institutions, mainly feudal, although also characteristic of slave-holding societies.

As such, it began in the $13^{th}$-14th centuries in the small Italian city-states and extended first throughout Western Europe and then later on a global scale, especially following the major geographical discoveries of the last quarter of the 15th century.

Globalization thus defined has involved the violent destruction of structures, institutions and values, as well the native populations of the territories conquered and plundered by the Western powers and the conversion of their inhabitants into slaves or serfs for the conquerors. Their territories became important sources of original capital accumulation. In fact, capital accumulation in the West would be unthinkable without the enormous wealth extracted from what would later be known as the Third World. The silver and gold of these regions, mainly Latin America, was the blood that moved international trade for several centuries and this situation, to some degree, still exists to the present day.

This process has not been lineal, but rather has been subject to economic cycles and other lengthy hegemonic periods of domination (100-150 years) and other processes that are also long, although involving lesser periods of time (Kondratiev cycles: 46-60 years and 22-30 years its phases A and B). That is, in these cycles, periods of expansion have alternated with those of decline or even setbacks of this secular process of the expansion of capitalism.

The general direction in which this process has moved is from the center to the periphery. In its initial stages, the center was comprised of empires and city-state or small states (Holland) and gradually it evolved toward a process of world hegemony involving a superpower, especially in the case of Great Britain (1815-1944) and the United States (1945-2007 -?). At the moment, there are at least five categories of countries in which the process of globalization is occurring:

1) The hegemonic country
2) Other central countries (Western European countries, Japan, etc.)
3) Countries of the semi-center (South Korea, Singapore, and two provinces of China: Hong Kong and Taiwan, etc.)
4) Semi-peripheral countries (Argentina, Brazil, Mexico, China, etc., and
5) Peripheral countries (Sub-Saharan Africa, etc.).

The current stage of globalization, which began at the beginning of the 1970s and has lasted until the present day (which, for the official mainstream thinkers is the true globalization), is marked by the following characteristics:

1.- The current stage of capitalism and globalization represents, as of the beginning of the 1970s, a long period of economic decline or phase B of the Kondratiev cycle. It is the end of a long phase that has its beginning in the last decade of the 19th century. It is, in fact, the decadence and extreme rationalization of the main features of this period -which were based on oil and the internal combustion engine as well as in electricity as the main motor forces, around which a techno-economic system was formed- which gradually replaced the system based on coal and the steam engine.

As of 1973 we have a long period of a falling tendency in the rate of profit of the productive activities and also a declining trend in the rhythm of growth of the GDP of the different countries that comprise the world economy (with their corresponding exceptions). The long-term saturation of the markets of the basically traditional products, has led to the emergence of this trend, as well as the permanency of considerable idle capacity and excess capital accumulation, which as of the 1970s increasingly shifted to the financial-speculative sphere. Starting from 1995-97, the problems of the world economy have intensified, giving rise to an international recession in the 2000-2003 period and to a subsequent weak recovery that is concluding in 2007. As of this year, as indicated in the recent annual report (2007) of the Bank for International Settlements (BIS), we could be slipping toward a deep depression of the type that began in 1929.

The reduced dynamism of the national economies as of the beginning of the 1970s, led them to increase their international trade to try to compensate for this loss in internal vitality.

**Declining Economic Dynamism:**

**Average annual per cent change**

| Chart 1 GDP | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1960-69 | 1969-79 | 1979-90 | 1990-95 | 1995-00 | 1990-00 | 2000-05 |
| US | 4.2 | 3.2 | 3.2 | 2.5 | 4.1 | 3.3 | **2.6** |
| JAPAN | 10.1 | 4.4 | 3.9 | 1.5 | 1.3 | 1.4 | **1.2** |
| GERMANY | 4.4 | 2.8 | 2.3 | 2.1 | 2.0 | 2.1 | **0.7** |
| EURO 12 | 5.3 | 3.2 | 2.4 | 1.6 | 2.7 | 2.2 | **1.4** |
| G 7 | 5.1 | 3.6 | 3.0 | 2.5 | 1.9 | 3.1 | |

| Chart 2 GDP per capita | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1960-69 | 1969-79 | 1979-90 | 1990-95 | 1995-00 | 1990-00 | 2000-05 |
| UNITED STATES | 3.3 | 2.5 | 1.9 | 1.2 | 2.9 | 2.0 | **1.4** |
| JAPAN | 9.0 | 3.4 | 4.0 | 1.5 | 1.7 | 1.6 | **1.3** |
| GERMANY | 3.5 | 2.8 | 1.9 | 2.5 | 1.9 | 2.2 | **0.8** |
| G-7 | 3.8 (60-73) | 2.1 (73-79) | 1.9 | 2.1 | 2.8 | 2.5 | **1.7** |

| Chart 3 Labor Productivity Total Economy (GDP/worker) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1960-69 | 1969-79 | 1979-90 | 1990-95 | 1995-00 | 1990-00 | 2000-05 |
| UNITED STATES | 2.3 | 1.2 | 1.3 | 1.4 | 2.0 | 1.7 | **2.2** |
| JAPAN | 8.6 | 3.7 | 3.0 | 0.8 | 1.3 | 1.0 | **1.5** |
| GERMANY | 4.2 | 2.5 | 1.3 | 2.8 | 2.4 | 2.5 | **1.5** |
| EURO 12 | 5.1 | 2.9 | 1.8 | 2.1 | 1.3 | 1.7 | **1.4** |
| G7 | 4.8(60-73) | 2.8(73-7) | 2.6 | 1.7 | | | |

| Chart 4<br>Real Compensation Total Economy (per employee) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1960-69 | 1969-79 | 1979-90 | 1990-95 | 1995-00 | 1990-00 | 2000-05 |
| UNITED STATES | 2.7 | 1.0 | 0.8 | 0.6 | 2.4 | 1.6 | **1.6** |
| JAPAN | 7.5 | 3.9 | 1.7 | 0.9 | 0.3 | 0.6 | **0** |
| GERMANY | 5.7 | 3.0 | 0.8 | 3.0 | 1.6 | 2.3 | **0.2** |
| EURO 12 | 5.8 | 3.2 | 0.6 | 1.2 | 0.8 | 1.1 | **0.4** |

| Chart 5<br>Unemployment Rate | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1960-69 | 1969-79 | 1979-90 | 1990-95 | 1995-00 | 1990-00 | 2000-05 |
| UNITED STATES | 4.8 | 6.2 | 7.1 | 6.5 | 4.6 | 5.6 | **5.4** |
| JAPAN | 1.4 | 1.7 | 2.5 | 2.6 | 4.1 | 3.3 | **5.0** |
| GERMANY | 0.8 | 2.1 | 5.8 | 7.2 | 8.3 | 7.7 | **8.7** |
| EURO 12 | 2.3 | 4.6 | 9.1 | 9.3 | 9.0 | 9.2 | **7.7** |
| G7 | 3.1(60-73) | 4.9(73-79) | 6.8 | 6.7 | 6.4 | 6.6 | |

| Chart 6<br>Non-residential Capital Stock | | | | | | | |
|---|---|---|---|---|---|---|---|
| (private business economy) | | | | | | | |
| | 1960-69 | 1969-79 | 1979-90 | 1990-95 | 1995-00 | 1990-00 | 2000-05 |
| USA | 4.5 | 4.0 | 3.2 | 2.3 | 3.8 | 3.1 | **2.1** |
| JAPAN (gross) | 12.5 | 9.4 | 6.2 | 5.4 | 3.6 | 4.5 | **2.8** |
| GERMANY (gross) | 8.4 | 4.9 | 3.0 | 3.2 | 1.7 | 2.5 | **1.6** |
| Industrial countries | 5.0 | 4.2 | 3.1 | 5.3 | 3.6 | 3.3 | **2.1** |

CD. *Historical Statistics, 1960-1995*, Paris, Table 2.15, 3., 3.2; “Statistical Annex” in European Economy; OECD, Economic Outlook Database, IMF, World Economic Outlook Database, Washington, D.C.
Andrew Glyn, “Imbalances of the Global Economy”, New Left Review 34 (July-August,2005)
Armstrong, et. al., Capitalism since 1945, p. 356, Table A6.
Taken from Robert Brenner, statistical appendix to “Prosperity and Crisis in the World Economy: Yesterday, Today and Tomorrow”. IIEc-UNAM, 24.05.07

2.- This long period (or wave) of decline of the international economic model based on oil has been called globalization by the neoliberals in order to try to emphasize its “positive” features and mask the negative. This is the second long period of decline of this model, the first having taken place from 1918 to

1945 (until 1939 in the United States and the rest of the Americas). Since the hegemonic power of this period was still Great Britain, immersed in deep decay, this first period of decline led to a growing protectionism and a reversal of some aspects of the previous globalization from 1873 to 1914.

For some countries notwithstanding, as the People´s Republic of China, the period had been one of rapid economic growth (9-10% of economic growth annually) and improvement of the level of living of its inhabitants.

The deepening of the contradictions of the above-mentioned model indicates that it is historically obsolete, that the transition to a new model is clearly underway, based on a new source of energy and its corresponding engine, namely, natural gas-hydrogen and fuel cell engines. But this transition will take place following one of humanity's greatest economic catastrophes.

The persistence of the trend toward a decline in the rhythm of growth of the world economy, which dates from the mid-1970s, following the long period of strong growth of 1945-1974 -the golden age of international capitalism- has translated into a situation in which although in the 1970-1979 period the international economy grew by 4.5%, in 1980-1989 the corresponding figure was 3.4%, which declined to 2.9% in 1990-1999[1] and to 2.7% in the 1997-2006 period, with a similar rhythm from 2000 to 2005, 2.6%. After the economies of the OECD member nations grew by 2% in 2003 and the world economy as a whole experienced a good turnaround of 5% in 2004[2] (in the U.S. electoral year), in 2005-06, growth was 4.9% and 5.4%, respectively, with a decline in this indicator expected in 2007 and a drastic reduction for 2008.

[1] IMF, several years, The World Bank 1998, 2000; Jorge Beinstein, **Capitalismo senil**, Buenos Aires, Argentina, 2001, Internet version, p. 62; Robert Brenner, **Declining Economic Dynamism**, statistical appendix to *“Prosperity and Crisis in the World Economy: Yesterday, Today and Tomorrow,”* Mexico City, 24.05.2007, p. 1.

[2] **World Economic Outlook**, IMF, Sept. 2003, P. 173

3.- Some of the other new elements of the international scenario, resulting from the crisis of the model, are:

- The deregulation of the financial, goods and services, money and capital markets. In reality, this deregulation began with the breakup of the Bretton Woods system in 1971. Since then diverse deregulation processes have been carried out in the different capitalist countries, especially in the 1980s.

- The extreme financialization of the world economy, with the corresponding rise of parasitism. The financial-speculative economy is divided into several segments and has reached a size that is twenty or thirty times that of the real or productive economy. Despite the declines posted in worldwide stock markets, mainly Wall Street, in 2001-2003 financial speculation still had not been abated and had assumed extraordinary proportions. While world GDP reached a total of $48 trillion dollars in 2006, the derivatives sector, according to the Bank for International Settlements, which in 1989 barely profiled with a notional value of $5 trillion dollars, in December 2002 reached a mammoth 141.20 trillion dollars, This contrasts with the value of world GDP, which at the time was slightly more than a mere 30 trillion dollars[3], that is, more than 4.5 times as much. But in June 2004, the derivatives sector had already reached the 220 trillion dollar level, that is, it increased six-fold during the 2001 to 2004 period. The growth rate for derivatives was more rapid in 2001-2004 than in the three previous years. But while in 2006 it had already arrived at the $532 trillion dollar mark (eleven times world GDP), between April and June 2007 it barely reached the figure of $536 trillion dollars[4], in doing so registering weak growth, practically halting its vertiginous rise and creating multiple problems, mainly for

[3] Derivative sources: Bank of International Settlements; on World GDP: **World Economic Outlook** (IMF).
[4] BIS **annual report**, 2007.

many of the banks and funds that its investors own, particularly Deutsche Bank and General Motors and Ford, among others.

The growth of this indicator has been accompanied by an innovation in financial products[5] that are much more structurally complex, such as the synthetic collateralized debt obligations.[6]

The excessive growth of these types of financial products has resulted in an intense discussion in both banking as well as official circles, for the first time leading the chairman of the New York Federal Reserve Bank, Timothy Geithner, to point out that already in 2005 “the explosive growth in structured credit products could have made some investors more vulnerable to losses in the event of an unexpected economic shock,” adding that “the growth of credit derivatives and other forms of risk transfer seem to have made the system more stable. But these gains may have come at the price of increasing uncertainty and potential losses if we end up in the 'tail' " - a bankers' term to describe the chance of a statistically rare event occurring.) Geither's comments take on special importance given the credit downgrading on bonds and therefore Ford and General Motors’ debt announced in recent months by Standard & Poor's. Rumors of losses in negative operations with CDO instruments, as well as due to the performance of GM and Ford stocks and bonds led to a fall in Deutsche Bank share prices on Tuesday May 10, 2005 and nervousness on hedge funds

[5] Remarks by Chairman Alan Greenspan. **Risk Transfer and Financial Stability**. The Federal Reserve Board, May 5, 2005, p.6

[6] CDOs

involving a high degree of risk[7]. It is valid to wonder if since then we have been witnessing the beginning of a halt to the frenetic rise of the derivatives market and what the consequences would be for the real economy if this were the case. The speculation in this sector had involved as well the price of oil, raising it to historical high points[8].

However, it is necessary to add that this financial segment, for being the most developed, is not the only one. Together with it, there are the foreign exchange market -also with a high rhythm of growth and an enormous size- and the capital market with its diverse segments, and the real estate or subprime market bubble (the largest in world history, according to *The Economist*) etc. All these segments together form a financial-speculative megabubble that is attracting, with its extremely high profits, the resources that otherwise would be invested in the "real" or productive economy. This is currently the greatest obstacle to economic development.

The speculative bubbles are becoming an increasing extended development in contemporary society. The bubble of computer and informational technology companies' stocks and securities (1995-2001), was followed by the enormous real estate bubble (2001-2007), which is seeing the beginning of its end this same year.

Among other trends of the period are:

- The restructuring of world industry with migration from branches with mature technology and low rates of profit in the traditional industrial centers toward countries with a cheap and docile workforce, undervalued currencies,

[7] Financial Times. Mexican edition-El Universal, p. B8. 12.04.05.
[8] Foreign Policy, Nov. 2007, Fadel Gheit, Seven Questions: The Price of Fear. www.foreignpolicy.com

abundant and low priced raw materials, state subsidies and protection, as well as political stability. The main forms of the world restructuring of transnational corporations are subcontracting and maquiladoras, as well as the installation of their subsidiaries abroad. In most of the cases, the corporations have met with the cooperation of the local governments to eliminate any obstacle to their international plans, but a trend that has begun to recently emerge is nationalization, state control, or the extreme regulation of company operations with the purpose of sharing the benefits of their activities with the host countries (Bolivia, Venezuela, Ecuador, etc.).

- The restructuring of the production of the transnational companies, which have resorted to a very broad international division of labor within their foreign subsidiaries as a whole in order to integrate their universal or regional end products.

In this context, the extreme rationalization of production and finances takes place within companies, with the aim of intensifying the use of capital and labor and to obtain greater profits.

Among its features are:

- Financialization of companies, which have increasingly resorted to the stock markets and the placement of paper and securities to obtain higher profits.
- Reorganization of the labor factor, with workplace flexibility, the intensification of labor, and the extreme rationalization of the Taylorist-Toyotist model, promoting the elimination of trade unions or separating the workers from their unions, as well as crushing, brutally in many cases, strikes and other forms of labor protests.

- World unemployment has increased, despite governmental programs to create temporary jobs. As illustrated in chart No. 5, both in the United States as well as in Japan and Germany, unemployment remained at high levels in the 2000-2005 (5.4%, 5% and 8.7%, respectively), while in the euro 12 region, joblessness declined 7.7%. But in 2006, the unemployment rate fell slightly in the United States (4.6%) and Japan (4.1%), as well as in Germany (8.1%)[9].

In the recent period, the long-term unemployment rate (12 months) remained stable in general terms, since in the 27-member European Union, in 2004, 2005, and 2006 this indicator clocked in at 4.2%, 4.0% and 3.6%, respectively, while in the UE 15, the figures were slightly higher, 4.0%, 4.4% and 4.2%. In the United States, unemployment is almost stable, according to data from the Department of Labor, which put the figure at 4.5% in June 2007, with it rising to 4.6% in July. In Japan, unemployment has dropped and in August 2007, joblessness stood at 3.8%[10]; however, if we examine the structure of employment, 26%-27% corresponds to part-time jobs, which grew considerably in comparison with the figures of barely a decade ago[11].

In Germany, unemployment has reached levels that have not been seen in the past seven decades, especially in the eastern part of the country, where about 2 million people had left the region (while at the same time wolves are returning to its forests). Several regions are losing population and some cities have a declining population, at the same time as the birth rate is falling, due to the

[9] IMF, World Economic Outlook Database, Oct. 2007. Report for Selected Countries. See too chart 5 of this essay.
[10] Japan Economy Watch, Sept. 2007
[11] Provisional Report on the Monthly Labour Survey, Aug. 2007

relocation of important numbers of workers. The number of unemployed in Germany reached 4.8 million in 2005 and fall slightly to 4.5 million in 2006[12].

- In Japan and the northern European countries at first and then in many nations, new forms of workplace management have begun to be established. These include a greater participation and responsibility on the part of workers in the organization of the workplace and the quality of the end product, as well as in some cases, in company management and leadership (quality circles, etc.).

- Government restructuring, with the sale of state owned enterprises in the economy and services ("thinning of the state"), a decline in the number of state employees, a reduction in social services, an increase in the public debt, and the rise in subsidies to companies. In the United States, is taking place a process of replacing the government activities by contracts for private companies.

- General rise in the Asian economies, first of all Japan, and subsequently the four Asian "tigers", afterwards Thailand, Indonesia, the Philippines, the oil producing countries (with the exception of Iraq and Afghanistan), China, and finally Vietnam, Cambodia, and India. The Chinese economy has managed to position itself in fourth place worldwide, immediately after that of Germany, with almost 2.67 trillion dollars (2006) of GDP and India that same year, whose product reached close to 906.27 billion dollars, higher than that of South Korea and Mexico. This rise in Asian economies has led some analysts to wonder if the future world hegemonic power will not come from its ranks, and many mention specifically to China. This situation contrasts with the general decline in

[12] ILO.Laborista Internet, Periodical Statistics, periodical data, Employment Office Records, Nov. 2007.

the Latin American economies (in the long term), with the corresponding exceptions (Venezuela).

- Revolution in shipping and transportation, with the massive use of containers and ships and planes that are increasingly larger and adapted for such uses, as well as railroad boxcars and specialized trucks. This has led to a drastic reduction in costs and a more rapid movement of cargo.
- The foreign and internal debt of countries increases year by year, as is also the case with the states' fiscal imbalances.

Nations' public debt has not stopped growing, especially in the case of the central countries. Special mention should be made of the U.S. national debt, which is growing on average by 1.47 billion dollars daily and is reaching an approximate level of 9.12 trillion dollars in November 2007[13], with the federal public debt at 5.6 trillion dollars and intra-governmental debt obligations at 59.1 trillion dollars (which includes Medicaid, Social Security, etc.). The public debt represents 64.7% of GDP.

Japan's public debt was equivalent to 198.8% of that country's GDP at the end of March 2003, equivalent to JPY 992.7 trillion[14] (gross debt) -with 7.7% of GDP[15] corresponding to the fiscal deficit- declining in 2006 to 184.8% and in 2007 to 170%, with the net debt reaching close to 90% and the fiscal deficit 6.7% of the product in this last year. In the words of an analyst: "Japan is now confronting a deeper public-debt crisis than any other nation in modern history."[16]

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[13] **U.S National Debt Clock**. www.brillig.com/debt_clock/, 24/11/07
[14] **Executive Summary: Consolidated Public Debt in Japan**. // www.analyticajapan.com/cpdj.html, 26/01/04 12:07.
[15] **Who´s Seeing Red in 2003?**.// The Globalist, 28/01/04/
[16] Gavan McCormack. **Romper el triángulo de hierro. //** New Left Review (in Spanish):**13**, March-April 2002, p.9.

Some European countries such as Italy and Belgium also had had a public debt/GDP ratio higher than 120%, while for 2006 they had 105.8% and 95.6% respectively, for the UE member states the corresponding figure is above 60%. In 1980, for G7 countries, public debt as a percentage of GDP barely was 41.6, in 1999 the percentage reached 73.2%, but in 2006 this indicator was already 85.5%[17] and for OECD nations the respective figures were 40.2%, 71.1% and 77.1%. In 2000, the public debt of the G7 countries reached close to 16 trillion dollars. Simultaneously, public spending as a percentage of GDP has not stopped growing. In the OECD countries, this indicator reached 36.5% in 1980 and by 1999 and 2006 had increased to 41.8% and 40.4%, while the corresponding figure for the G7 nations was 36.2% for the first year and 40.9%, 40.4% for the latter dates[18]. All this has led to persistent and increasingly larger public deficits, and in some EU countries they currently exceed 3% of GDP (2002 statistics), for example, Germany with 3.6%, France with 3.5%, and Portugal with 3.9%, although on the whole the EU figure is 2.3%. The time to implement adjustments to public spending has arrived in both Japan as well as in the European Union, although this is also the case in other parts of the developed world. We should remember the social incidents in Germany, the result of Schröder cutbacks.

World trade grew at a significant rhythm in the first stage of the long revised period, but in the second stage it constantly declined. World Trade Organization (WTO) negotiations on the trade opening are bogged down due to the refusal of the wealthy nations to eliminate subsidies to their agricultural production.

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[17] OECD. Economic Outlook No. 81, Vol. 2007, release 01.
[18] Ibid.

The rate of growth in international trade has declined. Indeed, international trade measured with the price deflator and in U.S. dollars in the 1985-94 period, grew at an annual rhythm of 3.0%, while the corresponding figure for 1995-2004 is 0.1%[19]. In 2005 "the yearly real growth of world merchandise exports averaged 6 percent"[20]. But in 2006-7 the tendency was again one of decreasing the rhythm of growth of world trade[21].

- The transnationalization of the economy, that is, the prevalence of the large transnational corporations in the economy is reaching a point in which the 500 largest corporations produce more than 40% of world GDP. This indicates the strenghtening of megacorporations and their domination of the world, not only on an economy level, but also in the political, cultural and social fields as well. The 77,000 transnational corporations and their 770,000 subsidiaries of the past few years represent a powerful universe in rapid expansion.

- Although in an initial stage of globalization (beginning of the 1970s until 1982), the flow of lending capital from the center to the periphery was the major trend, subsequently portfolio investment has become dominant for obtaining super-profits in the emerging markets, as well as the flow of earnings from previous loans. In the 1980s, capital flows mainly were earmarked to the states, corporations, and households of the developed countries, placing them in debt, and in the 1990s a part of this investment returned to the countries of the periphery. However, the Mexican crisis of 1995 and the overvaluation of the dollar as of 1995 drove away such investments, earmarking them mainly to the United States, which experienced then the peak of the speculative bubble in

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[19] Ibid, p. 201
[20] WTO. World Trade Report 2006.
[21] OECD International Trade Statistics. Slower growth in G7 merchandise trade continues in second quarter 2007.

computer and information technology companies' securities until the end of 2000 and of the real estate bubble from 2000 to 2007, which is now on the decline.

From 1995 until the present, the United States has increased its global parasitism, becoming an obstacle to world development. This country currently enjoys a privileged standard of living that allows it to have a gigantic trade deficit, of around 850 billion dollars with the rest of the world, financed by the placement of government securities and dollars, accumulated by the central banks of its main commercial partners (mainly, eastern Asia, Russia, and Mexico). The profits from loans and direct and portfolio investment, coming from the capitalist periphery represents a growing quantity of resources that contributes to increasing its degree of wealth.

The Department of Treasury of the US had estimated an increase of the amount of Treasury securities held by foreign and international investors to $ 2 220 billion as of June 30, 2007, or a 45 % of debt held by the public[22], up from about 36 % as of June 2003.

The following are some other persistent features of the world economy in the past three to four years:

Inflation in the European countries has remained stable, since in the Eurozone, the annualized growth in prices was 2.1% in March 2005[23], while in July 2006 the corresponding figure was 2.3% and in August 2007, 1.7%, with an increase expected for September 2007 to 2.1%. In Japan, as we know, inflation is very low, while in the United States during the first eight months of the present year the CPI-U indicated an annualized inflation of 3.7%, while in

[22] Financial Audit. Bureau of the Public Debt´s Fiscal Years 2007 and 2006 Schedules of Federal Debt. Report to the Secretary of the Treasury, November 2007, p. 3.

[23] Eurostat, Statistical Office of the European Communities, March 2005, Sept. 2007.

the same period of 2006, the corresponding figure was 2.5%. The main factors behind the increase were the rise in oil and food prices.[24]

For the 25 countries of the European Union, the external current account deficit reached 21.8 billion euros[25] in 2004, while the 13 member nation Eurozone posted a 4.6 billion dollar surplus on July 13, 2007, in spite of the devaluation of the dollar (7.6 billion dollars in June). But for the EU-27, as of late, the figures have not been good, since the trade balance was –13.8% in the red since July 2007. The countries posting the highest deficits are the United Kingdom (for this and subsequent examples, figures are from the January-June 2007 period), with –65.4 billion euros; Spain, -44.9 billion euros; and France with –19.3 billion euros, Meanwhile, the main countries posting a surplus are Germany, 97 billion euros in the black; the Netherlands, with 20.6 billion euros; and Ireland, with 15.6 billion euros

Oil prices have been oscillating, but on a rising trend since they were fluctuating around 30 dollars a barrel in 2003 and increased since 2004, varying at around 100 dollars per barrel at the end of 2007 (November), depressing world economic growth and contributing to the rise in inflationary pressures, especially in the United States. Some specialists predict that oil prices will increase to 100-150 dollars per barrel or even more in the near future, although they don´t discard a fall in the near future.

The impact of the increase in oil prices in the European Union has been less than in the United States, since these countries pay for the black gold in dollars and when this currency declines in value in relation to the euro, it partially compensates the rise in oil prices.

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[24] U.S. Department of Labor. Bureau of Labor Statistics, Sept. 19, 2007
[25] Ibid

**Economic decline in the United States**

In terms of Mexico's northern neighbor, the United States -with whom it conducts most of its economic transactions (in 2000, 88.7% of Mexican exports were earmarked for the U.S. market and 73.1% of the country's imports came from the United States, but the average of the trade between both countries in the ten years following the signature of NAFTA was 78.6%)- it should be pointed out that the end of the Vietnam war and the beginning of the long wave of economic decline that began during those years (1973-75), have led to the flight of industries and some services from that country, producing an economy excessively "tertiarized" and a diminished industry that barely reached the scale of its Japanese counterpart and in terms of per capita manufacturing output, is very much behind Japan, Germany, France, and Italy. Indeed, while U.S. manufacturing industry output reached 1. 06 trillion dollars in 1992, the equivalent figure in Japan was 1.02 trillion dollars[26]. In per capita terms, the 4,039 dollars in U.S. manufacturing industry output pales when compared to Japan's 8,171 dollars, Germany's 6,916 dollars, the 4,664 dollars registered by France, and even next to Italy's 4,332 dollars. Only Great Britain had a lower indicator, at 3,430 dollars.

The thus created services economy, within which U.S. financial services are of particular importance, depends in large part on the supply of industrial products from the rest of the world, establishing a symbiotic and parasitic relationship above all with China, Canada, Mexico, Japan and the Asian tigers. But aside from this phenomenon, it should be pointed out that the idle capacity in U.S. industry is considerable and persists over time.

[26] Beinstein, Jorge, op. cit., p. 118

Idle capacity in industry has increased with regard to the 1972-2004 average, when it was 19%. By December 2004, it had increased to 20.8% and in February 2005, it remained in the same range, at 20.6%[27]. But in the manufacturing industry, the situation is somewhat worse, since while the average from 1972-2004 was 20.2%, in March 2005 it was of 22% and in the finished goods sector, while the long term average was of 22.1%, in March 2005 idle capacity was 23.4%. These indicators show us that the competitiveness of U.S. industry leaves a lot to be desired, especially in the finished goods sector and that this excess capacity is a great obstacle for new investments in the sector and for increasing productivity.

The stock market bubble. Some trends showed a decline in the Nasdaq Composite Index, which is based on high tech companies, from 2,192 points in October 2004 to close to 1,900 at the beginning of April 2005[28], very far from the more than 4,500 points posted in March 2000, although on December 04, 2007 it rebounded a bit to 2,619.83. The Dow Jones Index also declined and in 2005 dipped to 10,000 points, under the 11,000 that it reached in August 2000, although it should also be noted that on December 04, 2007 it sprung back to 13, 248.

However, it should be pointed out that this recent bullish trend is temporary and that every time the cost of oil rises, share prices tend to fall.

The real estate bubble. The fall in interest rates beginning in 2001 made possible the growth in construction, home prices, and the refinancing of mortgage loans, in addition to the massive granting of new mortgages.

[27] Federal Reserve Statistical Release. G17. Industrial Production and Capacity Utilization. April 15, 2005, p. 3.
[28] Market Watch, 28.04.2005.

Thus was created a new bubble, in real estate, which replaced the stock market bubble, which was on the decline as of the second half of 2000. This real estate bubble helped to “soften” the recession 2001 and subsequently injected dynamism into the economy. From 2000 to 2004, the value of outstanding mortgages grew from 558.4 billion dollars to almost 1.18 trillion dollars, that is, a net increase of 111.2%. The annual growth in this sector 2005 and 2006 was rapid, reaching 12.3% and 10.9%, while in the first half of 2007 the rhythm began to subside, declining from 7.7% in the first three months of the year to 7.3 in the second quarter and exploding at the beginning of August. The most dynamic sector was home mortgages, which grew from 409.8 billion to 951.2 billion dollars, that is, a net increase of 132.1%[29]. However, the rise in interest rates as of June 25, 2003 –which were at 1%, gradually increasing a quarter of a percentage point on eight occasions until they reached 3% at the beginning of 2005- affected this sector, since mortgages decreased from more than 1.34 trillion dollars in the third quarter of 2004 to 1.14 trillion dollars in the final three months of the year, that is, an almost 15% decline, while home mortgages experienced a more pronounced drop, from almost 1.10 trillion dollars in the third quarter of 2004 to 882.0 billion dollars in the fourth quarter, a 19.62% fall. This reflected the first step toward the beginning of the end of the real estate bubble.

The trend was partially confirmed with the decline in consumer credit, which fell to 101.3 billion dollars in the fourth quarter of 2004, from 132.7 billion dollars in the third quarter, that is, a 23.67% drop. However, the most pronounced declines took place as of 2006 and 2007, since mortgage loans fell from more

[29] Data from the Federal Reserve Statistical Release, Z.1. Flow of Funds Accounts of the United States. March 10, 2005, p.48 and 49, Sept. 17, 2007.

than 1.36 trillion to 1.10 trillion dollars in the first quarter of 2007 and to 1.16 trillion dollars in the second quarter.

At the same time, it should be pointed out that U.S. GDP has exceeded the 13.2 trillion dollar barrier in 2006[30], thus maintaining a great distance from its nearest competitors, Japan -whose GDP reached 4.340 trillion dollars in 2006- and the German Federal Republic -with almost 2.91 trillion dollars in the same year[31].

In general, the fall in the rate of growth in U.S. GDP is very evident, despite periods such as 1992-97, when the product grew 2.8%, very much above the rhythm registered in the remaining developed countries, whose GDP rose 1.5% in the case of Germany and 1.2% for Japan. However after this period, a downturn occurred at the end of 2000 until the first half of 2003. Following a short recovery, in the first quarter of 2005 the economy grew 3.1%, the lowest growth in two years, declining slightly to 2.9% in 2006 and to 0.6% and 3.8% in the first and second quarters of 2007[32].

Trade deficit. Since1991, there was been constant growth of the U.S. trade deficit, which at the time reached 74 billion dollars, which increased by 1996 to 191 billion dollars and in 2000 to 340 billion dollars. In 2005 it rose to 600 billion dollars and in 2006 to more than 758.52 billion dollars, while in the period of January to August of the current year, it topped 471.85 billion dollars, with the rhythm of growth in the deficit decreasing in August, due to the devaluation of the U.S. dollar[33]. Nevertheless, the deficit has been decreasing slowly, in spite

[30] Market Watch. U.S. GDP slows to 3.1 in first quarter. April 28, 2005
[31] Data from World Development Indicators, World Bank, 01.07.2007
[32] Bureau of Economic Analysis. National Economic Accounts, 27.10.2007
[33] U.S. Census Bureau, U.S. Department of Commerce, Oct. 11, 2007

of the devaluation. In September 2007, it decreased to $ 56.5 billion dollars, from $ 56.8 billion (revised) in August[34].

The U.S. trade deficit is reaching mammoth proportions, representing 5% of GDP, with this figure increasing in 2004 - 2006. The United States has become a consumer nation that pays its deficits with Treasury bills, which benefits from the rest of the world due to the preponderant weight of its currency in the planet and the worldwide economic, political, and military panorama that is favorable to Washington. Japan and China are the countries that have shown the most proclivity for acquiring bonds and other paper issued by the U.S. Treasury Department, and in doing so, sustain the purchasing power of the declining superpower. If this were not the case, the United States could not produce its commodities and its economic activity would plummet. Washington needs almost one and a half billion dollars daily from abroad to maintain its economy.

Productivity. General company productivity grew by 1.5% in 2003 and in the case of non-farm business the increase was 2.5%. However, in the manufacturing sector this indicator reached 6.9%, with durable goods companies posting 4.9% growth in productivity and non-durable goods, 9.7%.

The general trend in labor productivity, despite periods such as the 1990s, is on the downside. If we take into account the long period from 1960 to 2000, we see a general decline from regions posting a 4% fall to those with a 2% decrease. It is clear that we are not referring to a uniform trend, but to temporary segments in which labor productivity declines, to subsequently increase and then decrease again (see chart No. 3). The trend that has been imposed in the past few years is not so much of a rise in productivity, but rather

[34] U.S. Census Bureau, November 09.2007.

increased intensification of work processes. In spite of this trend, the recent figures of the productivity in the manufacturing sector show a small rise of this indicator: on September 6, 2007, in the 3d quarter, it raised to 4.6%[35].

Company revenues and earnings. We are far from the 1985-95 period, when the profitability of U.S. industrial companies raised sharply. It is on the basis of that increase that the U.S. economy began to recover after 1993. However, “the recovery of U.S. profitability was based not only on dollar devaluation, but a decade of close to zero real wage growth, serious industrial shake-out, declining real interest rates, and a turn to balanced budgets. It therefore came very much at the expense of its major rivals, who were hard hit both by the slowed growth of the US market and the improved price competitiveness of US firms in the global economy. It led, during the first half of the 1990s, to the deepest recessions of the post-war epoch in both Japan and Germany, rooted in manufacturing crises in both countries.”[36]

However, company earnings were quite weak in the second quarter of 2004, when they grew a mere 1.6 billion dollars (a 0.1% quarterly increase), following a 36.5 billion dollar rise[37] in the previous three month period.

Fiscal deficit. The fiscal deficit that had been eliminated during the final years of the Clinton administration, reappeared with Bush Jr. in office and his frenetic campaign around public spending, which was to compensate the fall in private consumption and corporate expenditures. The fiscal deficit as a percentage of GDP was -5%, reaching 6% of the national product in October 2003 and according to the White House, was expected to hit 307 billion dollars in 2004, without counting the expenditures involved in the war in Iraq, which

[35] U.S. Department of Labor. Bureau of Labor Statistics, Sept.06, 2007.
[36] Brenner, Robert. New boom or new bubble? **New Left Review**, no. 25, Jan-Feb. 2004, p. 60.
[37] **Survey of Current Business**, Sept. 2004, vol. 84, no. 9. p. 1

would conservatively add an additional 80 billion dollars. But recent trends speak about a reversal of the trend, between 2003 and 2006 Q4 the deficit has been declining (from a –400 Bn to a –200 Bn), “the fiscal year 2007 budget deficit of $ 163 billion represents the third consecutive decline in budget deficits, down from last year´s deficit of $ 248 billion” [38]and some official sources indicate that in may 2009 would be an end of the fiscal deficit.

The signs of the weakening of the U.S. economy are constantly growing. Despite the weak recovery, 2.8 million jobs have been lost in the United States in two years, from 2003 to 2004, especially in the manufacturing sector, in what has been called a “jobless recovery.” For all the previously mentioned factors, listed synthetically in this essay, I feel that the recovery of the U.S. economy has reached its end and that the most likely variant is that in 2008 we will witness the second act of the 2001 recession, but this time with greater intensity (it could become a depression in subsequent years) and with major consequences for the world community.

The hopes that many had placed on the “new economy” and the “computer revolution”, viewing the latter as a universal revolution and not only as a revolution in the computer, information technology, and telecommunications sectors, have been dissipating. The technological innovations and the expensive investments in this sector, especially during the days of the stock market bubble of 1995-2000, were not sufficient to increase the rate of profit in the economy, which, in fact, declined in 1997, following a 70% increase of manufacturing profitability in the 1985-1995 period[39] (we recall that in this period the dollar strongly devalued with regard to the yen, the mark, and other

[38] Financial Audit, op. cit., p. 3.
[39] Brenner, Robert, op. cit., p. 59.

currencies; real wages stagnated, important industrial re-conversion took place, real interest rates declined, and in the Clinton administration the decision was made to balance the national budget), raising the general profitability of the U.S. private economy by 20% for non-financial companies[40]. What this overinvestment in the computer, information technologies and telecommunications sector left was, in fact, an increased excess of idle capacity in the industry and the collapse of many companies that had been created based on the illusion of permanent high profits in the “new economy.”

The policies advanced by George Bush Jr. and Alan Greenspan, chairman of the Federal Reserve Bank in dealing with the 2001 recession[41], in many ways almost worldwide in scope, consisted in the use of monetary, fiscal, and military measures to reactivate the economy. The “military Keynesianism”, utilized after September 11 to invade Afghanistan and Iraq, led to a strong increase in military spending. At the same time, it caused a raise of the value of oil, a decline in interest rates, which led to lowering the cost of credit, obtaining cheap money, and the refinancing of mortgages loans or the granting of new ones, in the process reactivating family consumption and some business sectors, above all, construction and the real estate, the retail trade, the health care sector, and education. Finally, there were tax cuts, which benefited the richest strata of society, increasing their consumption. Meanwhile, the dollar started to devalue against the yen, the euro, and other currencies, although in general terms its loss of value did not exceed 10% in relation to the other

[40] Ibid

[41] Defined by the National Bureau of Economic Research (NBER) as a recession that began in 2001 and concluded in November of the same year. In opposition to this view, analysts such as Robert Brenner use a broader concept, speaking of a downturn that began in the second half of 2000 and ended in mid-2003. See Brenner, Robert, op. cit., p. 55.

currencies as a whole, since many of them, especially in Asia, are tied to the value of the dollar, such as in the case of the Chinese yuan.

However, the devaluation of the dollar has had almost no impact on the U.S. trade balance, since imports, as we have already seen, continue to increase in annual terms. This is partially because an important part of U.S. imports come from Asian countries whose foreign currencies are tied to the dollar and that are not affected by a devaluation of the greenback. But the problems of the deficit in the trade balance and the fiscal deficit are nothing more than the tip of the iceberg, reflections of deeper problems that the U.S. economy has not been able to resolve, despite the efforts and resources that have been employed. One of them is that of the idle capacity of U.S. industry, which we have already commented on previously, another is the continuous overseas relocation of its industries.

**The current moment**

1) We are facing a complex scenario, in which the most probable variant is that the recession that is beginning in contemporary capitalism will become a deep depression, in a crisis of capitalist civilization, similar in several aspects to those of 1914-18, 1929-1930s, and 1939-45. This would imply the collapse and closure of countless companies, the growth of unemployment, the increase in social and political struggles, the rise in crime and violence and its possible corollary, an increased number of wars, both civil and international.

But this also implies a move toward the left and the center-left in the governments of many of the “emerging” countries.

We are at the beginning of the final stage of the Kondratiev cycle, in which the signs of irrationality, economic and social decay and imbalances of the system are multiplying, implying on the other hand, the need of greater rational and conscious participation by the organized population, with a clear program of progressive transformations that would eliminate the obstacles to the growth, the accumulated parasitism, crime, and insecurity at their very roots. Every fifty-sixty years this challenge is posed to society; in each such period it is necessary to act to renew the system, even within its own framework, by taking the process to new, different, and higher stages.

2. What is behind the current state of economic decay is the historical obsolescence of the techno-economic model based on oil. Most of the industrial branches that sustain the contemporary economy are based on mature technologies, with low rates of profit. The so-called computer revolution has not been able to demonstrate that it is a revolution, because it has not pulled the world economy as a whole along to a higher plane. It did not have enough energy and will be thrown into the trash heap of history (as a "universal revolution"), along with similar concepts such as "the new economy", neoliberalism, etc.

What is becoming increasingly clear is the need to move toward a new techno-economic model, toward a true techno-economic revolution that is based on natural gas-hydrogen and its fuel cell engines, which indeed would raise the world economy as a whole to a new plane, in boosting general productivity and creating new industrial branches, new sectors of the economy. Thus, the new period will be one of a prolonged economic rise, of 23 to 30 years in duration. This revolution will possibly be accompanied by a growing use of magnetism, super-connectivity, and automation, as the main forces of impulse.

On the level of the main institutions of capitalism, the trends reveal the strengthening of the mega-corporations, companies with the capacity to control the world economy. At least in large regions such as North America, the European Union, and eastern Asia, but also outside of these spheres, the shareholders of each of these conglomerates seem to be accelerating a process of purchasing stock in the rest of the companies, forming an incipient network of common multinational corporations.

Another important factor in the dynamic of important changes in the international economy is the appearance and rapid strengthening of investment funds, that is, pension funds and mutual funds, insurance companies, and life insurance. Their emergence and rapid development contradict some aspects of the capitalist principles of economic management, although they are still inserted in the dynamics of this system.

3. We are facing crisis of the financial-speculative capitalist system and of the monetary system based on the dollar. However, even though in the medium term the dollar might lose many of the advantages that it acquired with the Bretton-Woods system, it will still take several decades and some crises before the greenback definitively loses its predominant weight in the world.

4. In addition, we are facing a strong crisis of U.S. hegemony over the world. The crisis that we are entering will further weaken the United States on the economic level, but it will still take a few decades before its hegemony is seriously questioned. It should not be forgotten that in the past the transition from one to another hegemony has occurred through hegemonic wars, the advisability of which would seem impossible today due to the tremendous accumulation of atomic, biological, and chemical weapons, but it should not be

forgotten that in periods of major crisis, there is a rise in the irrationality and madness of the system and its spokespersons, and it can´t exclude an outburst of these in the near future.

5. Ecological crisis. The pillaging of the natural resources mainly by companies and the cities has reached scandalous proportions. The result of this process has been polluted rivers, lakes, lagoons, and oceans, forests stripped of their trees, a decline in water reserves, desertification of vast areas, including vital regions such as the Amazon rain forest and northern Russia, etc. This has contributed to climate change and the growing need to make companies assume the costs of conserving natural resources, among other points. However, ecological awareness in world society has not grown enough to put a halt to the current state of affairs that is deteriorating with no end in sight.

6. Crisis of the alternatives and alternatives to the crises. The recent fall of European state socialism seemingly presupposes the end of this alternative to capitalism, but some recent events (Venezuela) indicate that it´s not completely cancelled. In the other hand, the search for alternatives to the capitalist system has not stopped occurring in the world, from the growth of the cooperative movement to workers recovering companies and factories in countries that have experienced strong crisis, such as Argentina, and the increased participation of workers in company management is many parts of the world, etc.