Growing concern over the outlook for capitalism

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When the present decade began the air was filled with noisy declamations that the capitalist market had triumphed, socialism was buried forever and Marxism had become a dead letter. The historian Francis Fukuyama even suggested that, with the collapse of the Soviet Union, history itself had come to an end. Society would now operate according to the unfettered and automatic laws of the market.

The picture is somewhat different as the decade and the century draw to a close. Growing concerns are being voiced that the outlook for world capitalism is becoming extremely stormy.

Some of these fears were voiced by US economist David Hale in his keynote address to the Australia Unlimited Round Table Conference organised by the Murdoch-owned newspaper the *Australian* in Melbourne last week.

Hale, who is one of the world's most frequently cited economic pundits, had an historical warning for the conference delegates. The previous period of international economic integration at the turn of the century, he said, was a "golden age of globalisation" but had been destroyed by World War I.

"Even though we are on the verge of new breakthroughs in terms of the level of global economic integration ... we should not take anything for granted. The fact is we have made this mistake before and we can make it again."

The last decades of the 19th century and the first years of the twentieth saw an ever more complex economic integration as trade, investment and financial flows unified the globe as never before.

But rather than World War I arising as some kind of "accident" or "mistake," which then disrupted this process, as suggested by Hale, it was the increasing global integration of economic activity which set the stage for its eruption.

As Leon Trotsky explained in his brilliant pamphlet *War and the International*, the war revealed that the productive forces developed under capitalism had outgrown the limitations of the national state.

"The whole globe," Trotsky wrote, "the land and the sea, the surface as well as the interior has become one economic workshop, the different parts of which are inseparably connected with each other. This work was accomplished by capitalism. But in accomplishing it, the capitalist states were led to struggle for the subjection of the world-embracing economic system to the profit interests of the bourgeoisie of each country."

Herein lay the origins of the war. The imperialist powers sought to overcome the economic limitations of their own national state by seeking to establish their global economic and political hegemony, thereby setting in motion a bloody conflict of each against all.

It is worth recalling that World War I exploded in the face of predictions that the growing economic interdependence of the major nations would make such a conflict impossible. In fact, it was this very international economic integration which produced the heightened tensions and conflicts.

And the same processes are again at work. As globalisation has proceeded at an accelerating rate throughout the decade of the 1990s, so international political affairs have been marked by rising tensions.

Conflicts have developed between the United States and the European powers over Iraq and the Balkans. The conflict between Japan and the United States has flared on a number of occasions, first over trade imbalances, then over currency values, and now over the US and European claims that Japan must do more to stimulate its depressed economy.

The European powers, for their part, are promoting the single currency, the euro, as a global rival to the US dollar. But even as they do so, old antagonisms threaten to re-open as witnessed by the public brawl between

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Germany and France over the appointment of the first head of the European Central Bank.

Fears of depression

While the danger of war was raised at the Australia Unlimited Conference, that other nemesis of 20th century capitalism — global depression — was on the agenda at another conference halfway across the world.

Organised by the Economic Strategy Institute, and attended by US vice-president Al Gore, World Bank president James Wolfensohn and US Secretary of State Madeleine Albright among others, the very title of the high-level gathering — "Whither Globalisation?: A World in Crisis" — reflected the change in mood of considerable sections of the bourgeoisie.

Dominating the discussion were mounting concerns that the financial crisis in Asia is going to become much worse, with deepening international ramifications.

Massachusetts Institute of Technology economics professor Rudi Dornbusch, who has previously warned that Japan stands on the brink of a "1930s-style collapse of financial institutions, confidence and economic activity," told the conference that the situation in Asia could only be described as a "depression".

Dismissing hopes of a financial "turnaround" along the lines of Mexico, he said: "It's not going to happen. Mexico was a special case. It had the US umbrella. That worked miracles. But the centre of Asia, Japan, is dead. There is no umbrella. A turnaround in Asia is not in sight."

The chief strategist with Deutsche Bank Capital Markets, Kenneth Courtis, a long time observer of Japan, warned that the economic situation there would be worse in 12 months time.

"Confusion in Japan's economic policy and the unwillingness and inability of this country to change course is the biggest issue," he said.

Other speakers warned that in the face of mass unemployment resulting from the "restructuring" and privatisation of state-owned enterprises, the Chinese government could be forced to devalue its currency in an attempt to boost exports and investment. The combined effects of the devaluation of Chinese yuan in 1994 and the 50 percent depreciation of the Japanese yen from March 1995 to mid-1997 on the exports of the East Asian "tigers" played a central role in triggering the financial crisis.

And new fears have been raised that the real state of the Japanese economy is much worse than has so far been admitted.

According to a report in the May 18 issue of *Business Week* magazine, Japan is now caught in a "debt trap" which involves "the banks, households and corporations of the whole nation."

"The problem is not just the reported $600 billion in bad loans that plague the nation's banks. It involves hundreds of billions of dollars of debt that lurk off the balance sheets of government bodies and corporations. It includes millions of families struggling to pay off mortgages on houses that have lost 70 percent of their value. It encompasses billions of dollars in pension liabilities that no one wishes to acknowledge and $700 billion in offshore liabilities of Japan's banks and corporations."

The report pointed out that the aggregate debt of bankrupt companies was some 3 percent of Gross Domestic Product — higher than the ratio incurred by the US during the Great Depression — and that the economy was passing through the worst credit crunch it had ever experienced as banks refuse to lend money to companies desperate for loans.

Business Week warned that another "bomb" was about to hit: the corporate sector debt was dwarfed by the gross debt of Japan's central and local governments — estimated at $11 trillion, or 250 percent of the country's output.

The only "bright spot" in the affairs of world capitalism appears to be the US economy. The official jobless rate is at a 30-year low, inflation is being held in check and the stockmarket is surging to record levels, prompting assertions that a new economic paradigm has been born, which has conquered the vicissitudes of both the business cycle and stockmarket collapses.

But anyone inclined to believe these assertions should recall that such claims have been made before. Ten years ago, at the height of the Tokyo stockmarket bubble, it was claimed that Japan was a "new economy" about to conquer the world. Today, the economic collapse in Japan threatens to drag the world into the deepest financial crisis of the post-war period.

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