

Coronavirus & the Great Capitalist Climacteric

John
Smith

'Climacteric': a watershed, a turning point, a critical period or event.

ferguson

Coronavirus and the Great Capitalist Climacteric

‘Climacteric’: a watershed, a turning point, a critical period or event.

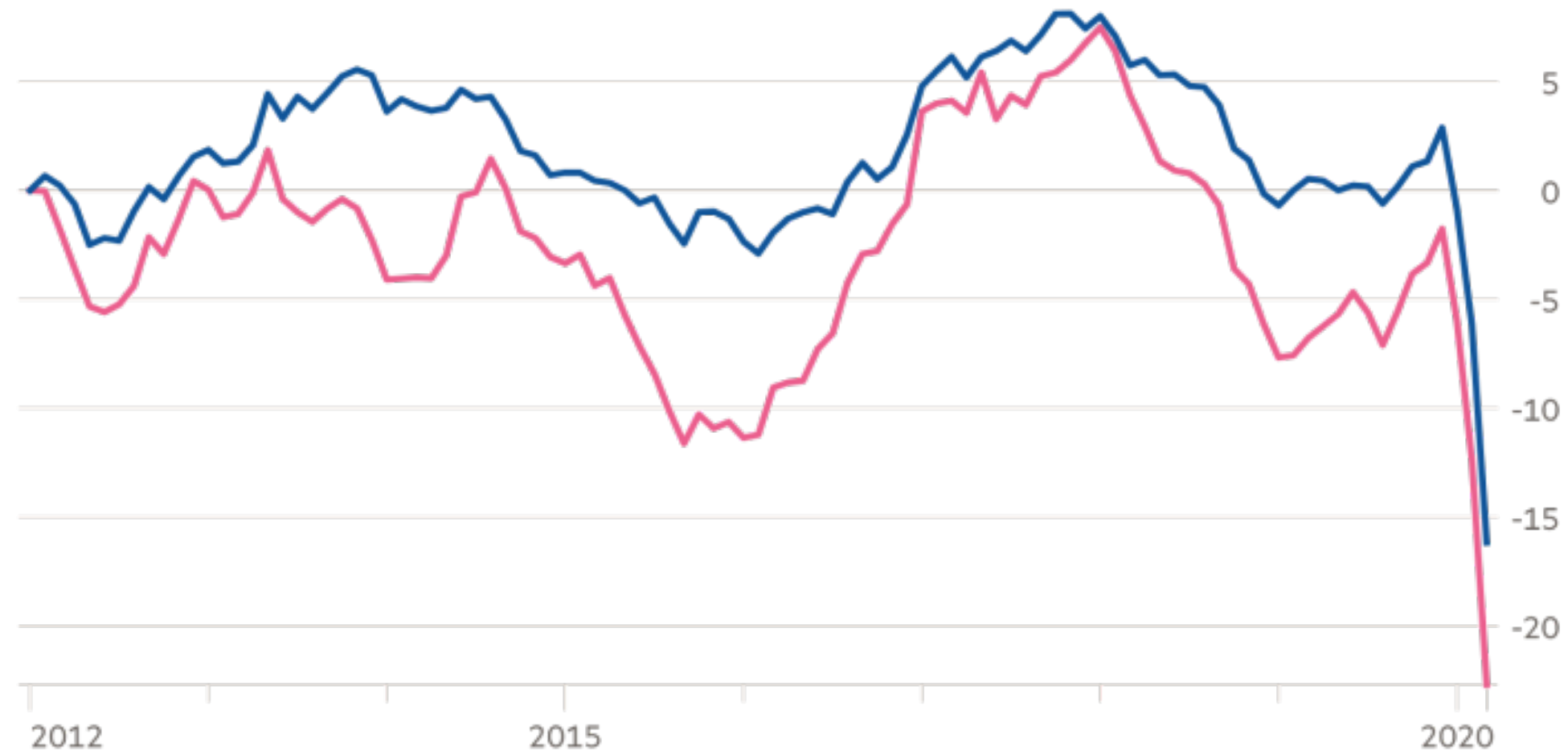
“the Great Capitalist Climacteric... refers both to the objective necessity of a shift to a sustainable society and to the threat to the existence of *Homo sapiens* (as well as numerous other species) if the logic of capital accumulation is allowed to continue dictating to society as a whole.”

John Bellamy Foster, 2015, The Great Capitalist Climacteric – Marxism and "System Change Not Climate Change" <https://monthlyreview.org/2015/11/01/the-great-capitalist-climacteric/>

A global economy on the cliff edge

Composite index of relative strength of a range of indicators

— Advanced economies — Emerging economies



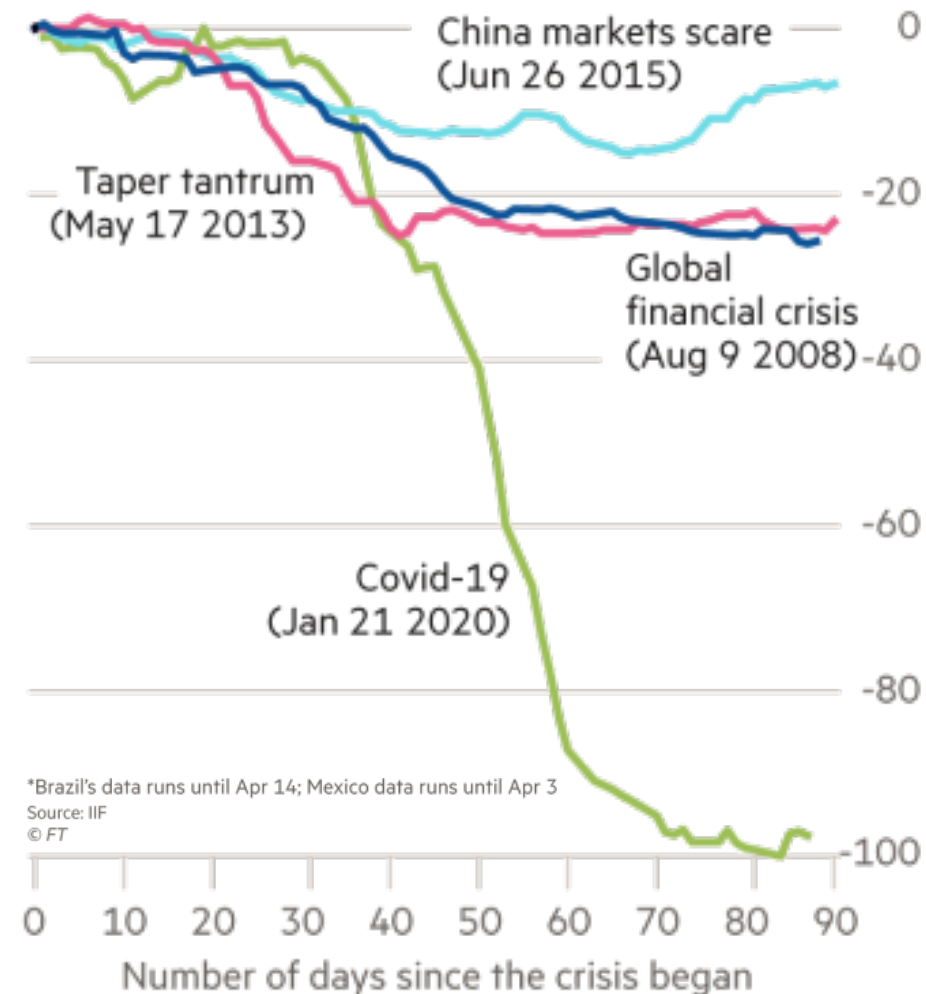
Source: Brookings Institution

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Investors have fled emerging markets at an alarming pace ...

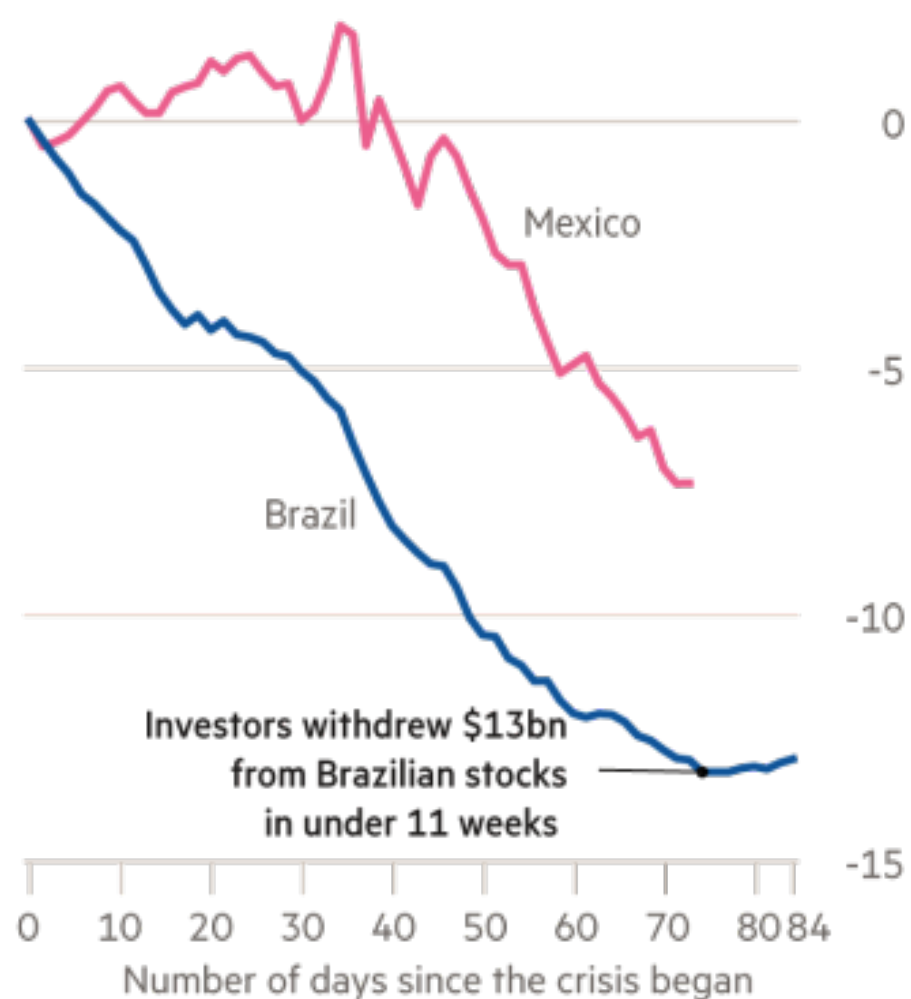
Accumulated non-resident portfolio flows to EMs

Since indicated date (\$bn)



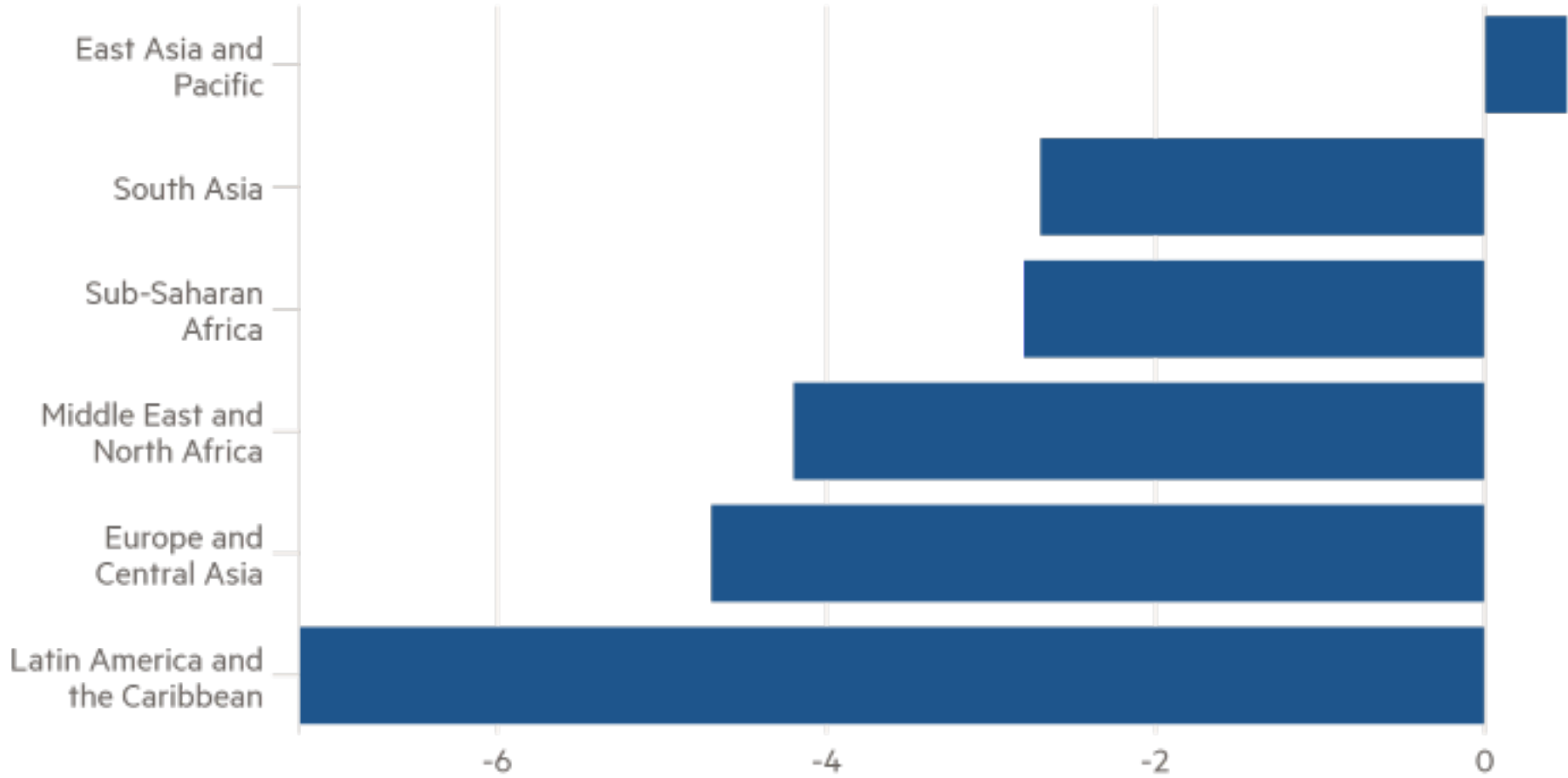
... with Brazil and Mexico hit especially hard by outflows

Since Jan 21 2020 (\$bn)*



Developing economies face varying hit from coronavirus pandemic

Forecast change in GDP in 2020, by region (year on year, %)



Source: World Bank
© FT



Megan Greene, senior fellow at Harvard Kennedy School, July 2 2020

“Just as EMs looked as if they were heading full speed into a brick wall, spreads on their dollar sovereign bonds narrowed. Yields on developed country bonds fell towards zero. EM governments that could, took advantage, issuing... \$131bn so far this year, 42 per cent more than in 2019.

“Major central banks have unleashed unprecedented amounts of liquidity in response to the coronavirus crisis. This has compressed borrowing costs in all markets, so a hunt for yield has driven investors into EM assets.”

‘Investors are too complacent about emerging market risks – Abundant global liquidity has only papered over EM’s debt problems and will not last’ *Financial Times*, July 2 2020

“The great reversal” The Economist May 23rd 2020

“Rich countries have spent a stunning \$8trn on supporting their own citizens during the pandemic...So far the IMF and World Bank have lent [!] about \$20bn and \$6bn respectively [to poor countries].”

That's 300x, or 1200x in per capita terms!!!!

‘Poor countries need latitude from creditors’ – Financial Times editorial 21/4/20

“G20 countries have frozen [!] official loan payments from low-income countries until the end of 2020. The IMF has made \$100bn available to developing economies... **Private creditors, however, are resisting calls altogether for a voluntary standstill to loan repayments on commercial sovereign debt.**

“This position is untenable. It raises the unseemly possibility that poor countries **will receive debt relief with one hand only to pay it out to private creditors, including banks and hedge funds, with the other.**”

“The ILO... estimated that in the first month of the crisis, the income of informal workers fell 60 per cent globally, with a drop of more than 80 per cent in Africa and Latin America, which will exacerbate already high poverty rates in poorer nations. ‘We all have to think of the human suffering, the human need that stands behind that extraordinary figure,’ said Guy Ryder, the ILO’s director-general.”

‘UN warns more than 1bn informal workers face poverty’, *Financial Times*, April 29 2020

“What no country in the region will escape is the devastating economic impact. Latin America was the world’s slowest growing region even before the coronavirus crisis.

“Now, Covid-19’s impact on commodity prices, tourism and remittances is hurting the region particularly hard. Fragile public finances and massive capital flight limit governments’ room for fiscal responses.”

Virus lays bare Latin America’s many woes Financial Times editorial 19/5/20

‘World Bank piles pressure on private creditors’

“There is a direct connection between debt service, which takes money away from countries, and the urgent need for resources to address health, education and investment... These countries are a potential source of future income and the right thing is to look to debt relief. I’m frustrated that commercial creditors have been continuing to take very large payments from the poorest countries.” — David Malpass, World Bank Director General

‘World Bank piles pressure on private creditors for EM debt relief’ *Financial Times*, 16/9/20

It's amazing that the only thing the imperialist G-7 has offered countries in Latin America, Africa and Asia is that the poorest amongst them, so-called 'Least Developed Countries', can *postpone* interest payments on official debt (most is owed to private creditors, and is not affected) *until the end of 2020 - !*

And they must pay interest on this extra delay!

And they must ask for this – but even to request a delay in debt servicing is to signal you're a potential credit risk, so the more you need this paltry generosity the less you can access it!

‘World Bank piles pressure on private creditors for EM debt relief’ *Financial Times*, 16/9/20

The World Bank has piled pressure on commercial lenders to defer debt repayments owed by emerging economies as the impact of the coronavirus pandemic threatens to plunge them into a “lost decade”.

David Malpass [World Bank’s managing director] said he was “frustrated” that some countries could cut back spending on health and education to meet debt repayments.

INTERNATIONAL

Coronavirus | 'Cancel debt of developing countries'



SPECIAL CORRESPONDENT

NEW DELHI, JULY 20, 2020 22:31 IST

UPDATED: JULY 21, 2020 10:58 IST

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Anti-debt group issues statement.

The burden of debt on the developing countries that amounts to over \$11 trillion should be cancelled in view of the COVID-19 pandemic, a group of global notables has demanded.

Led by former Brazil President Dilma Rousseff the group says the debt should go in meeting the public health requirements in these challenging times.

Cancel debt of developing countries

The full text of the statement:

"By all accounts, developing country debt now stands at over US\$11 trillion. In the remainder of 2020 itself, the debt servicing payments on this debt will amount to US\$3.9 trillion. ...

"Austerity has become a permanent condition, which is what weakened the public health systems of so many countries and left them vulnerable to this global pandemic...

"Debt suspension or postponement does not provide a foundation for the necessary development of these countries. It merely puts off the reckoning.

"It is time for the cancellation of these odious debts, which cannot...

"Both public and private creditors took a risk with their investments. They exploited the needs of developing countries by lending money with obscene interest rates; it is time that they paid the price for the risk that they took rather than force countries with meager resources to pay out precious capital."



Cuban
doctors
hold an
image of
Fidel
Castro
during a
farewell
ceremony
before
departing
to Italy



A series of graphs showing key data,

- interest rates on 10 year U.S. Treasury bonds,
- productivity growth,
- capital expenditure, i.e. *investment*
- GDP per capita
- global debt
- corporate debt

All are going in the wrong direction

Treasury yields close at new lows

10-year US Treasury yields, %

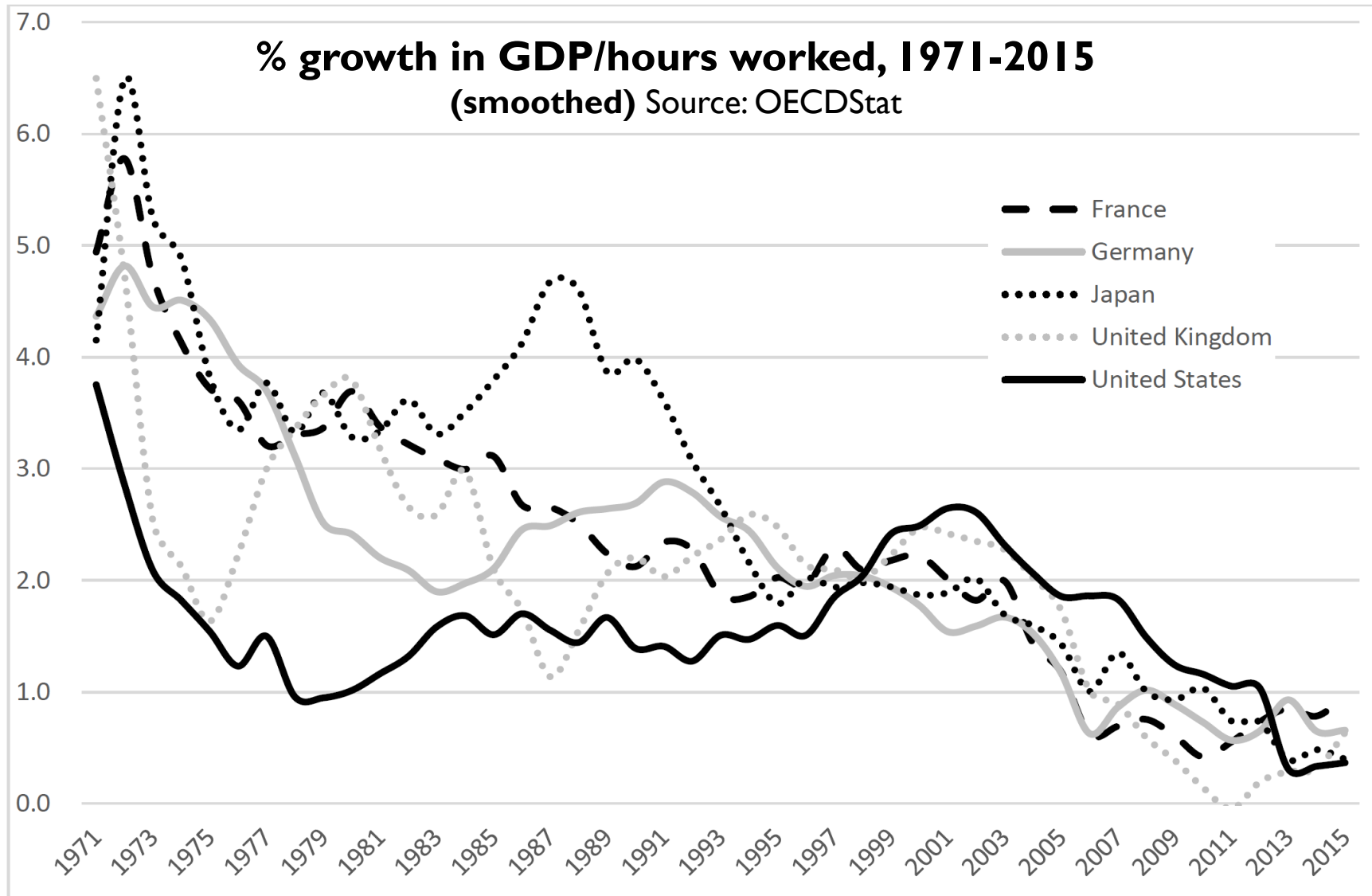


Source: US Treasury daily closing calculation

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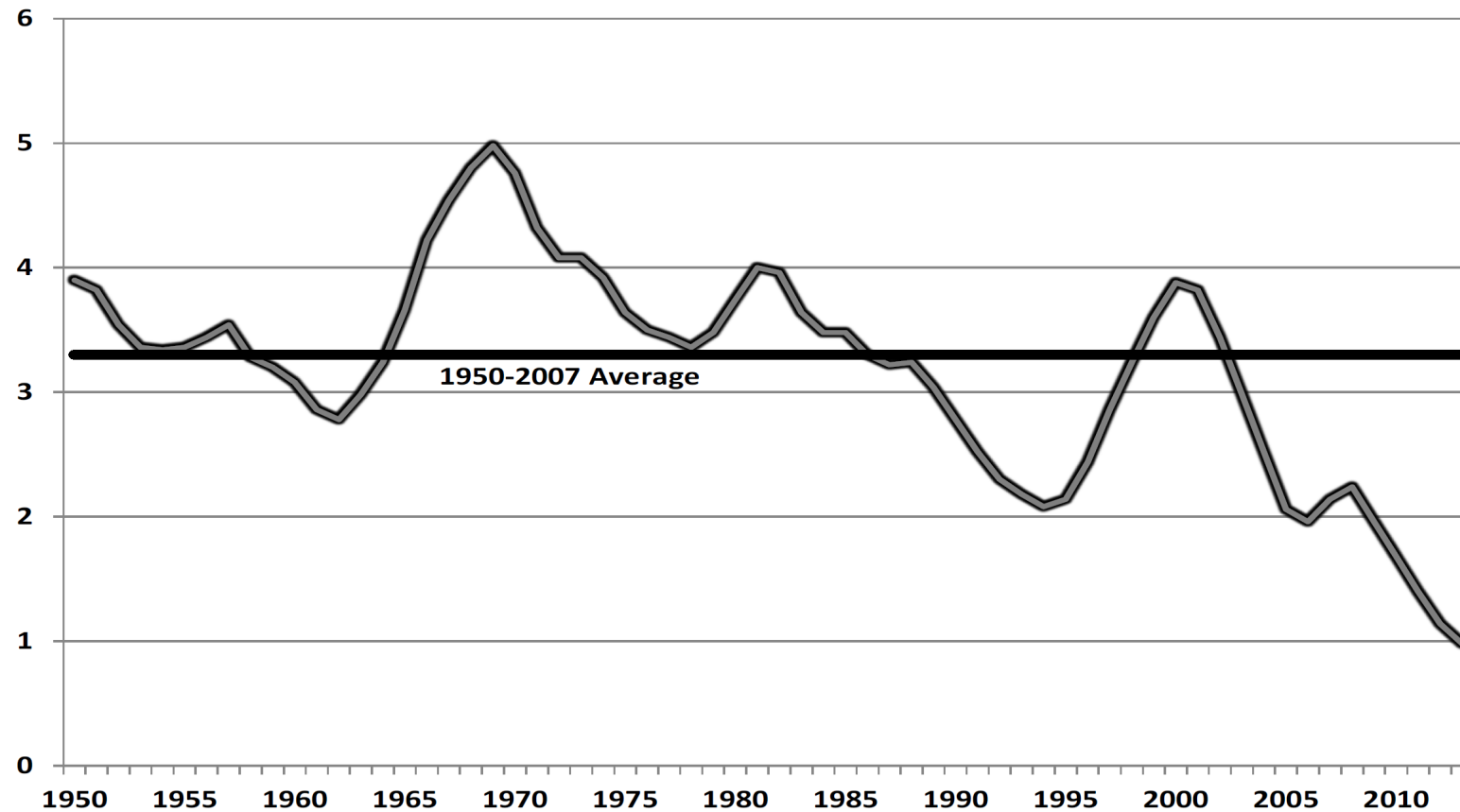


The great productivity slowdown



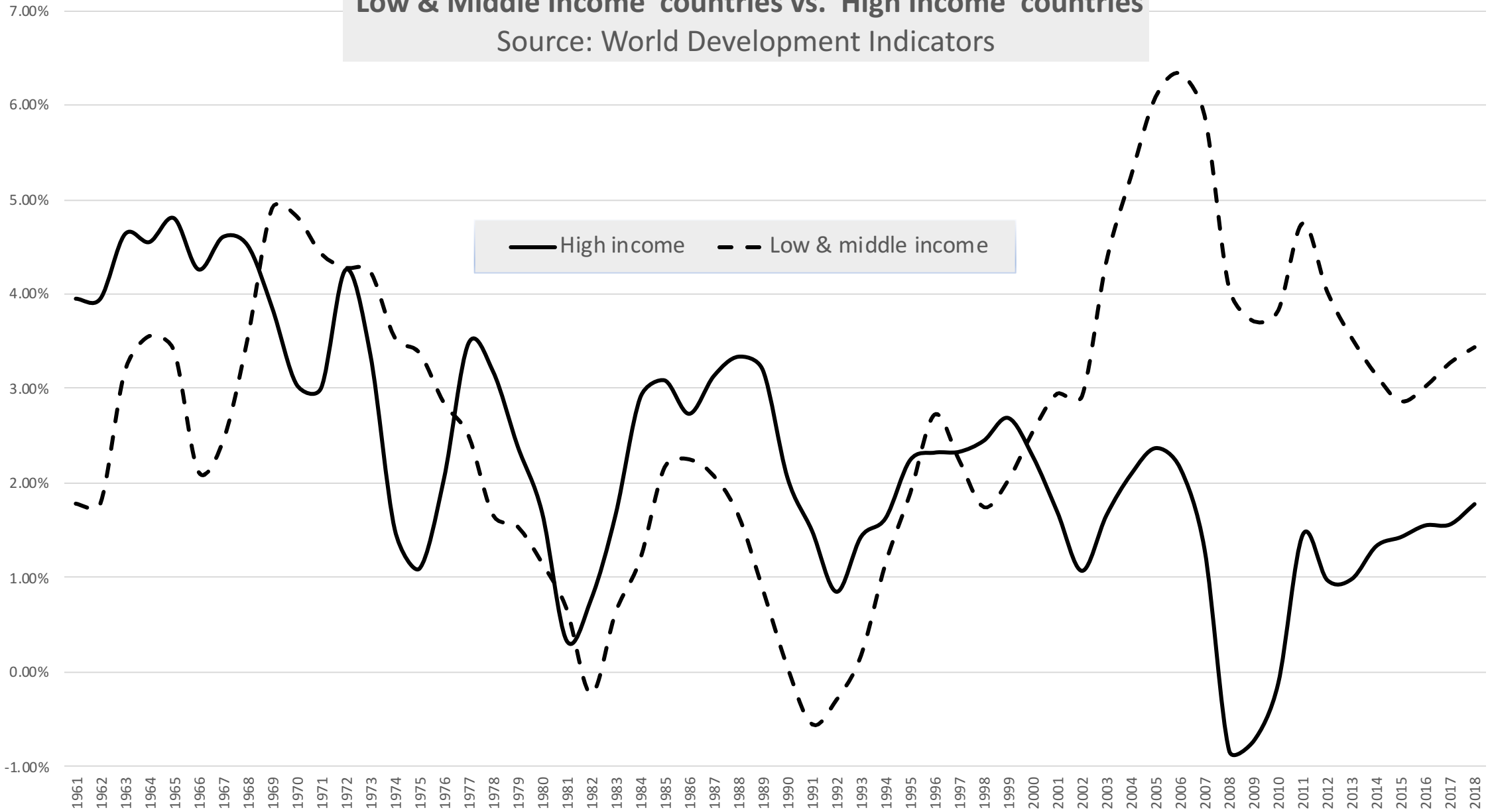
Five-year moving average of ratio of net private business investment to private business capital stock, 1950-2013

Figure 4 - Five-year moving average of ratio of net private business investment to private business capital stock, 1950-2013



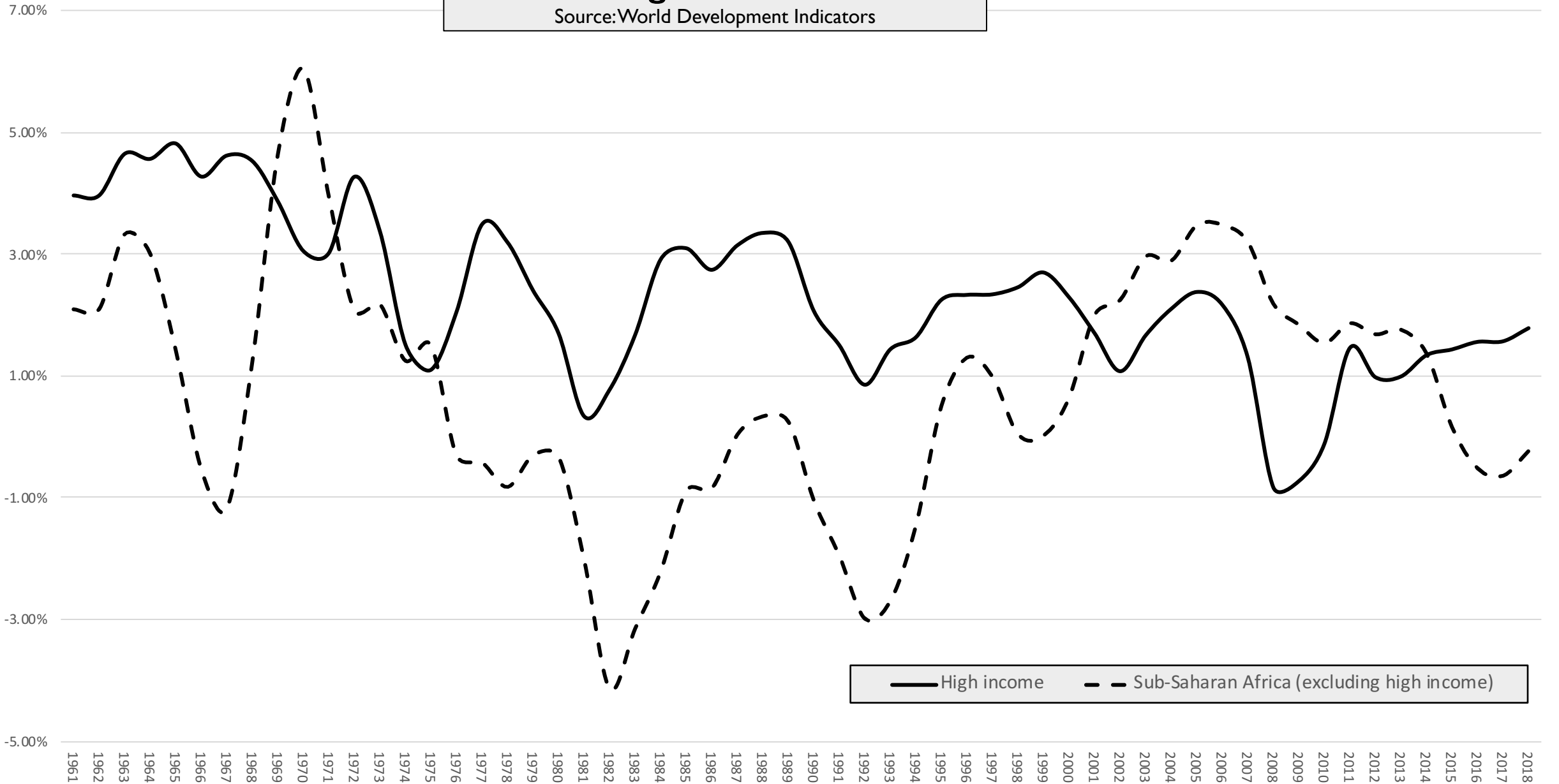
Source: "Secular Stagnation on the Supply Side: U.S. Productivity Growth in the Long Run"
Robert J. Gordon, 2015, *Digiworld Economic Journal*, no. 100/4

GDP per capita growth 3yr rolling average
'Low & Middle Income' countries vs. 'High Income' countries
Source: World Development Indicators

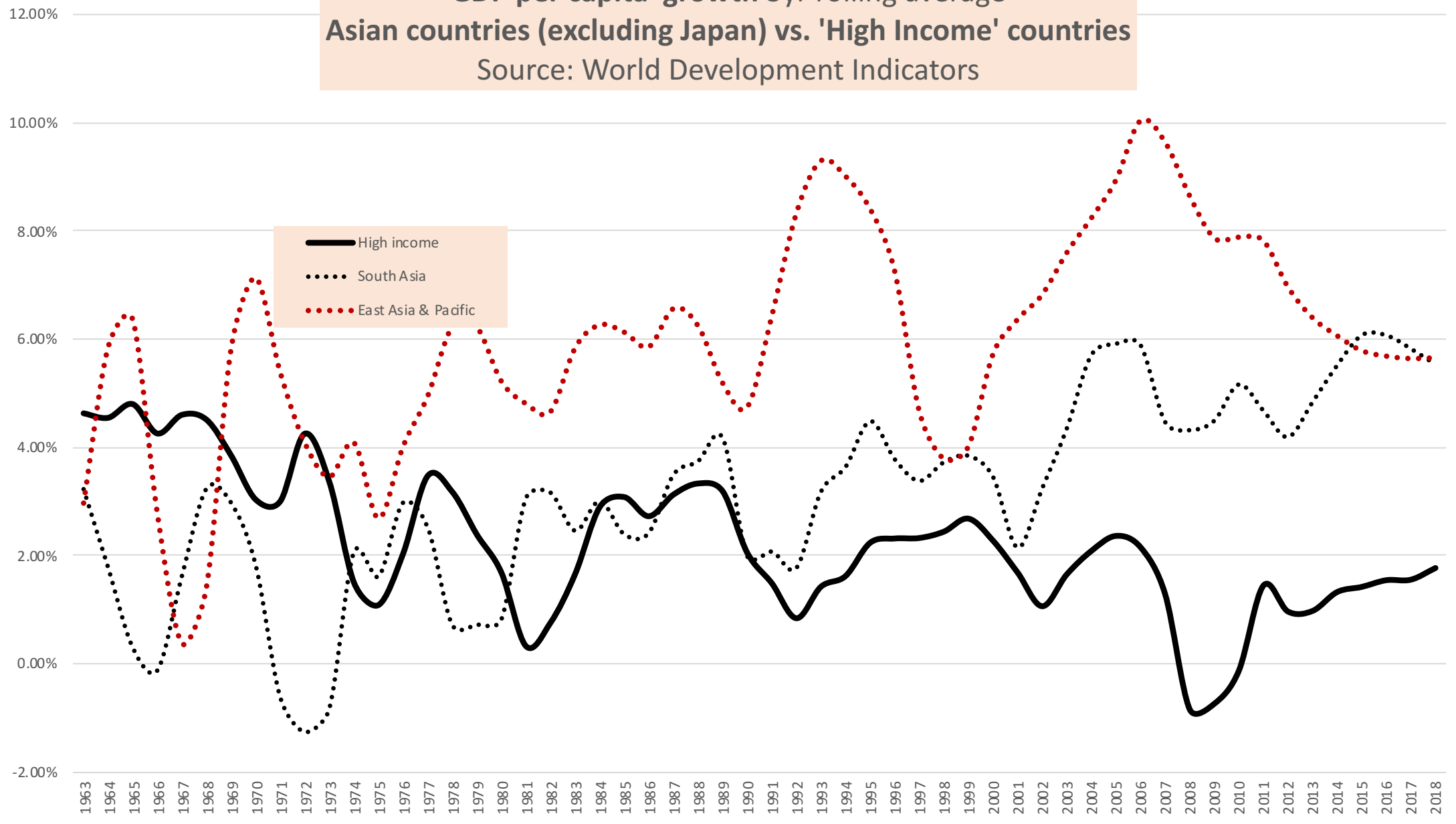


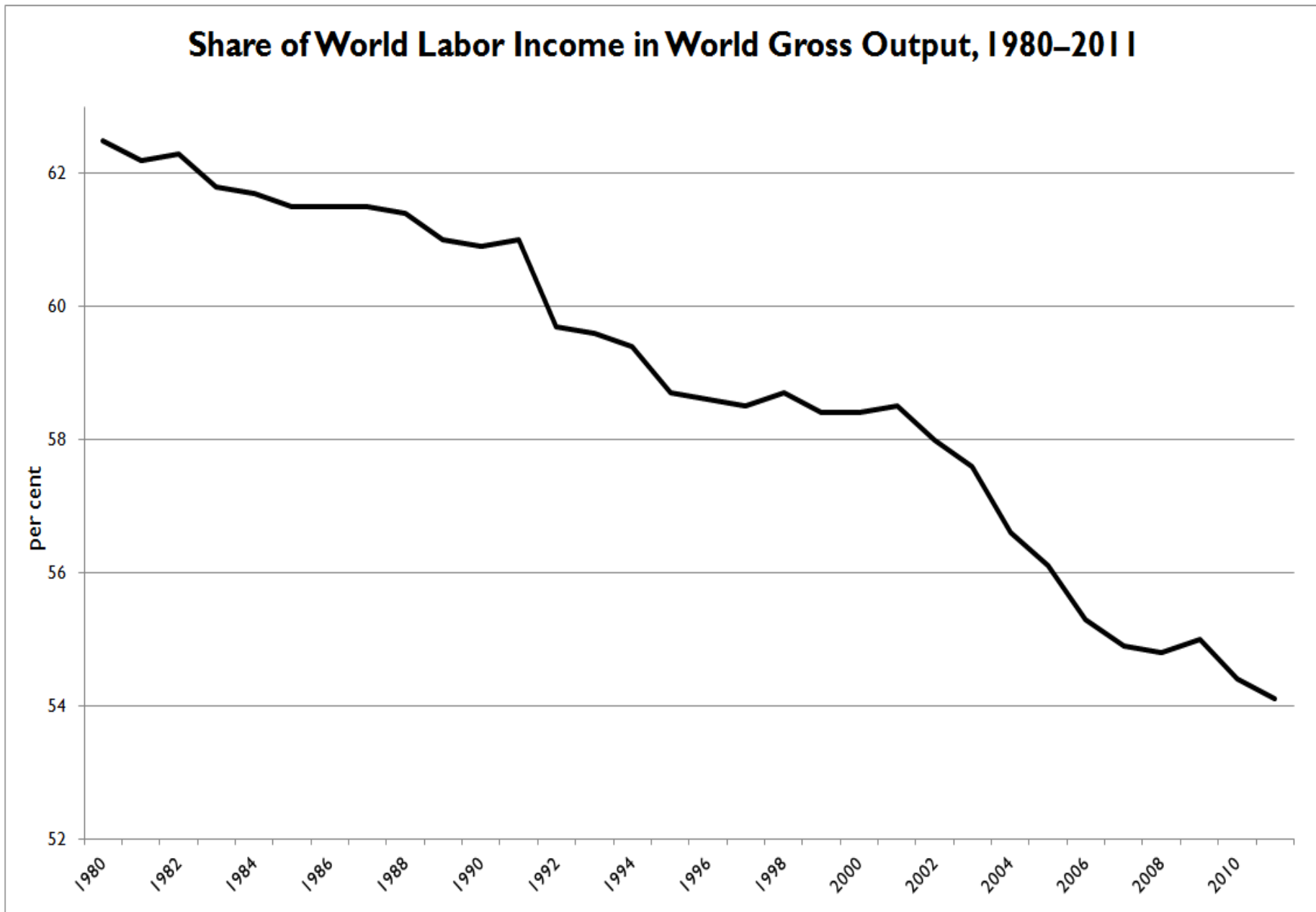
GDP per capita growth 3yr rolling average Africa vs. 'High Income' countries

Source: World Development Indicators



GDP per capita growth 3yr rolling average
Asian countries (excluding Japan) vs. 'High Income' countries
Source: World Development Indicators





Source: UNCTAD, *Trade and Development Report 2013: Adjusting to the Changing Dynamics of the World Economy*, Figure 1.4.

Treasury yields close at new lows

10-year US Treasury yields, %



Source: US Treasury daily closing calculation

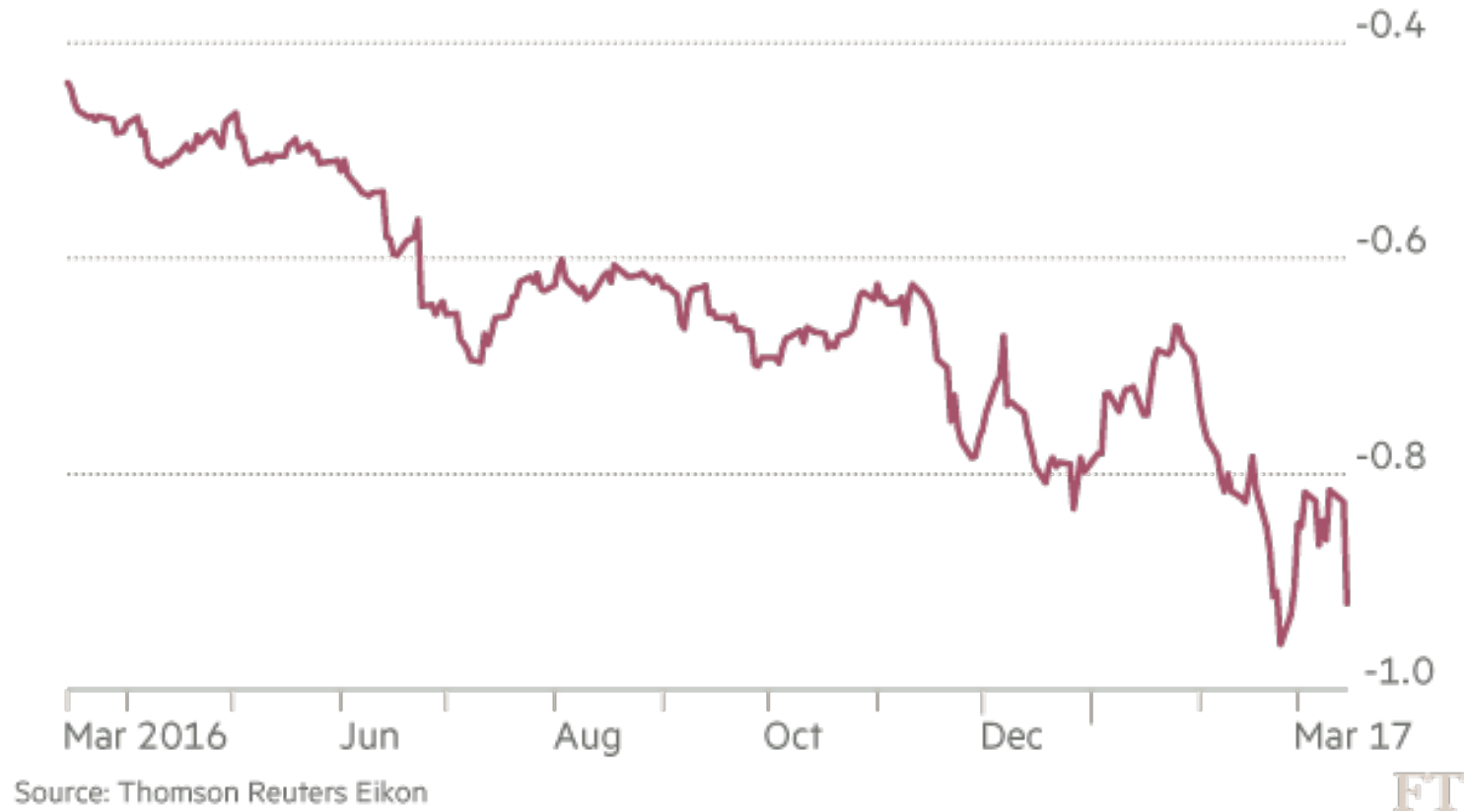
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“Global yields lowest in 500 years of recorded history....This is a supernova that will explode one day” Bill Gross, quoted in *Financial Times*, 9 June 2016

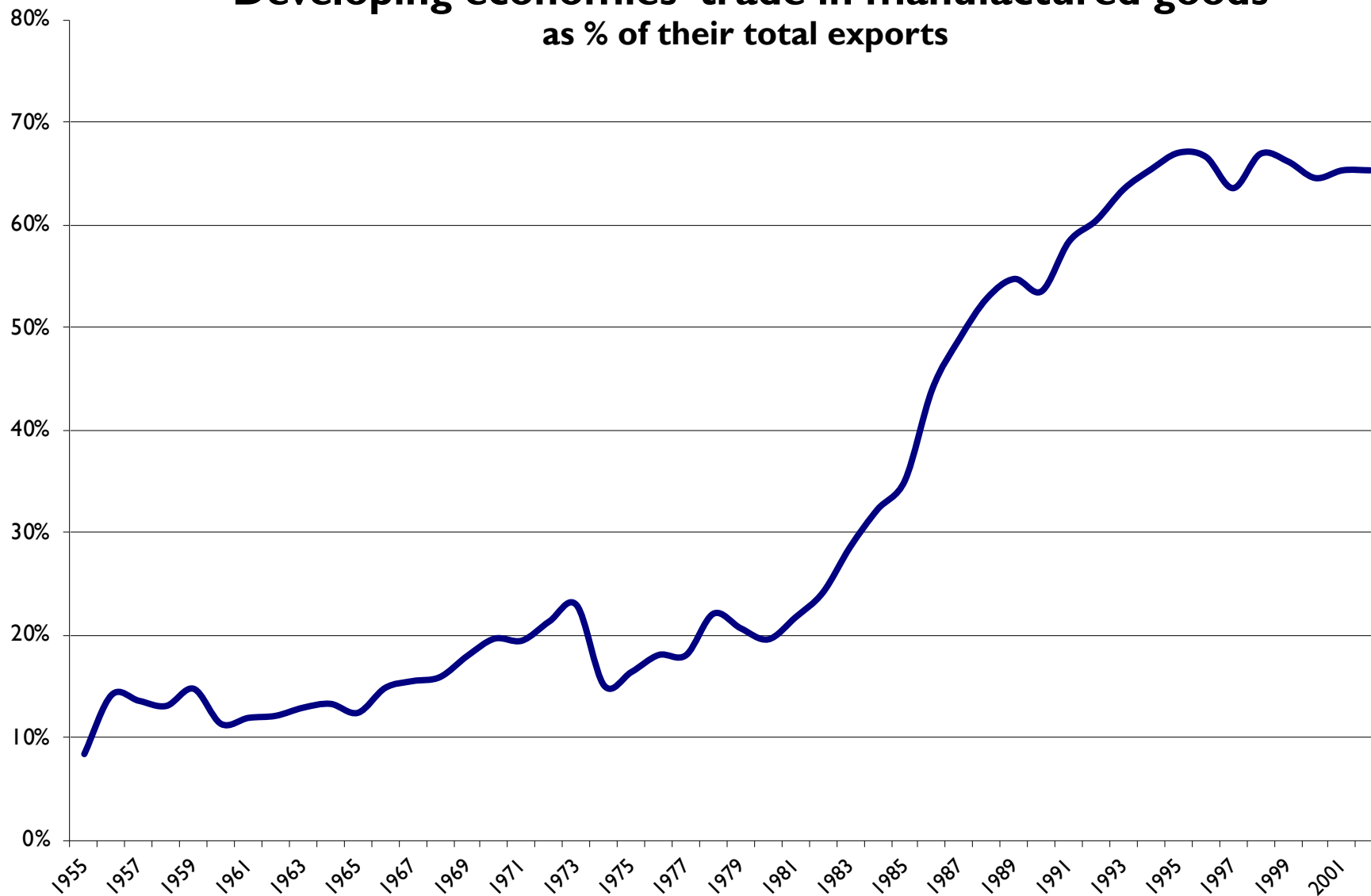
German 2-year debt yield

Per cent



Memo: subtract 2.1% Eurozone inflation for the real interest rate!

'Developing economies' trade in manufactured goods as % of their total exports

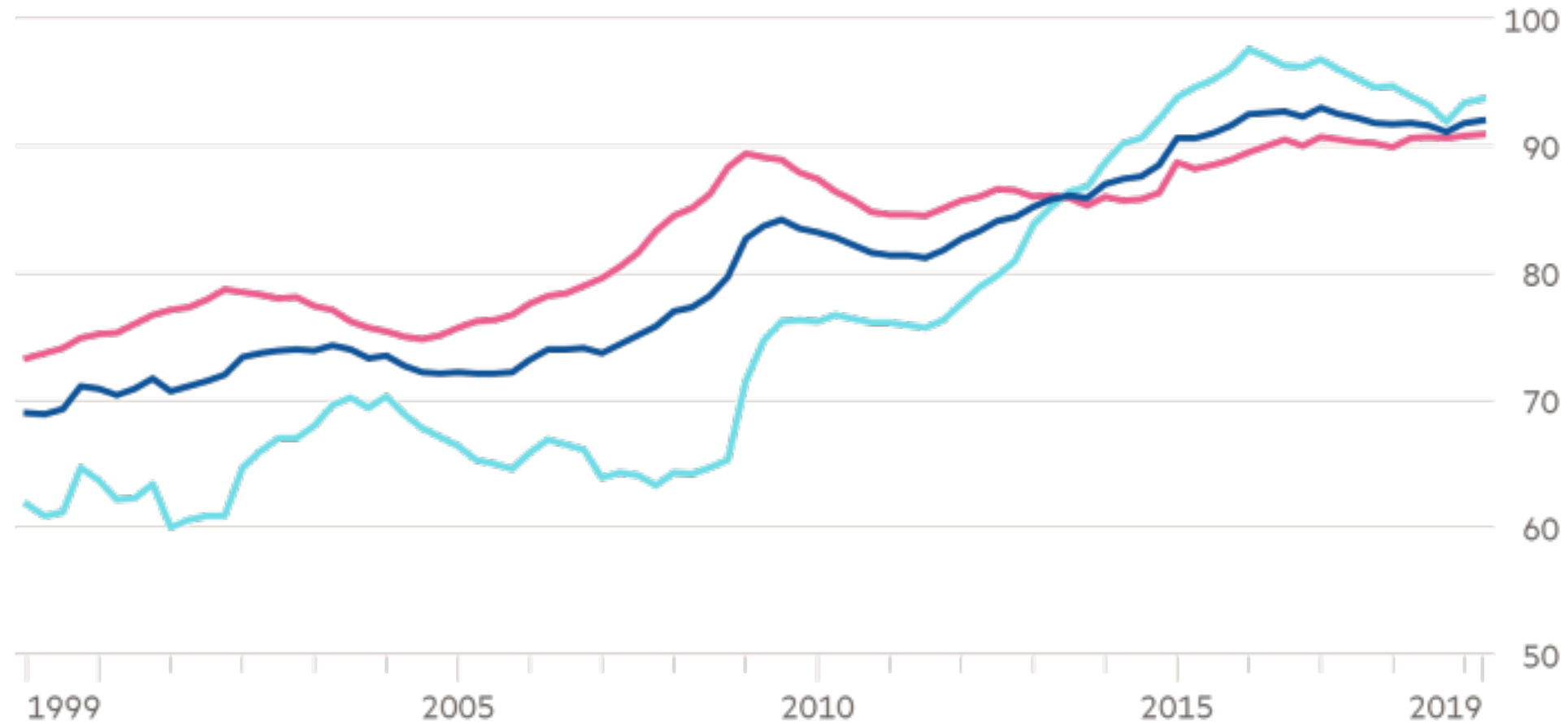


The next slide deconstructs this graph for different regions for the period 1980 - 2012

Global non-financial corporate debt has soared

Non-financial corporate debt as a % of GDP

- World (over world GDP)
- Mature markets (over mature-market GDP)
- 30 Emerging markets (over emerging-market GDP)

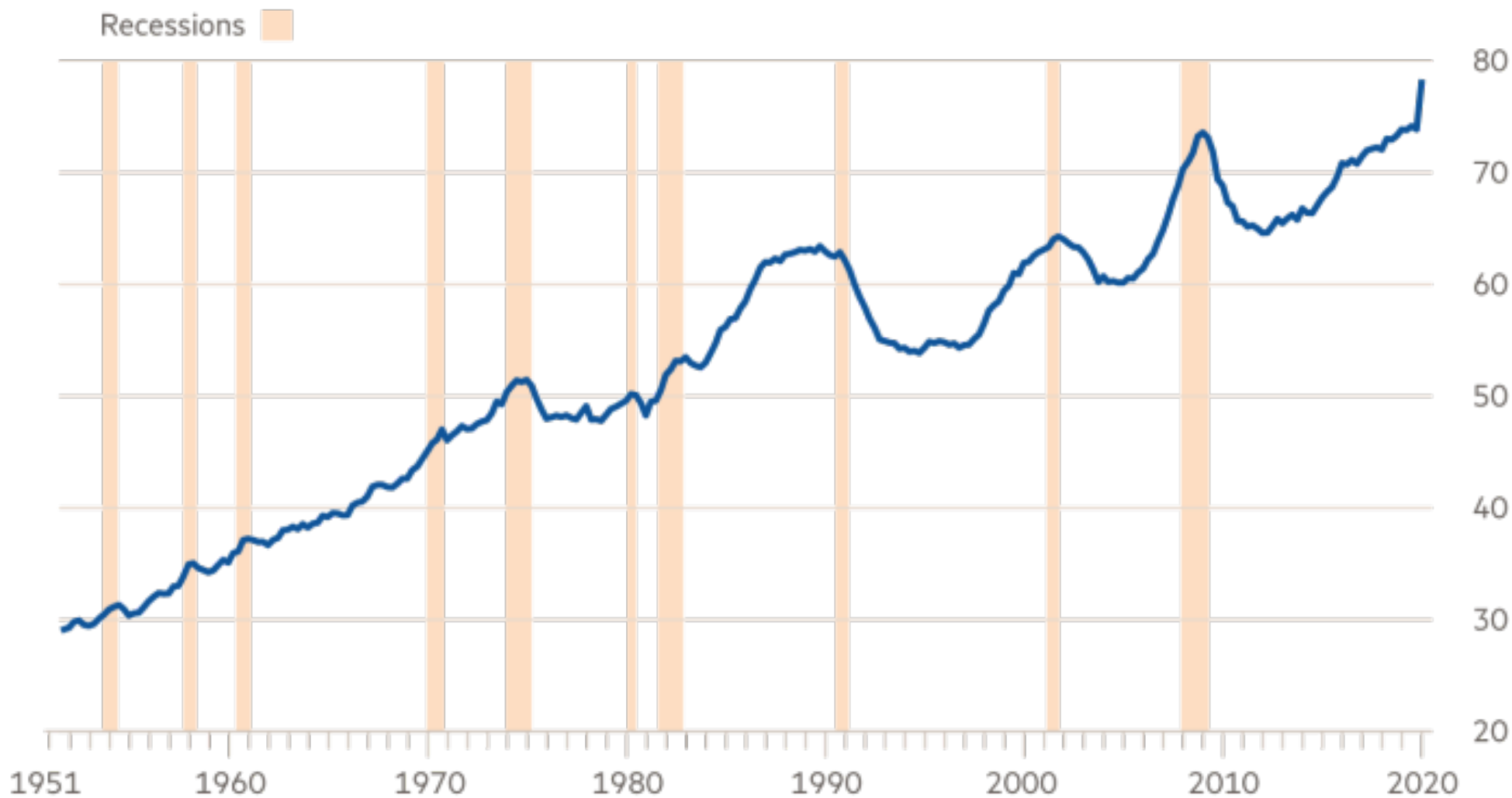


Source: Institute for International Finance

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Business borrowings have soared in the US

Non-financial business debt (as % of GDP)

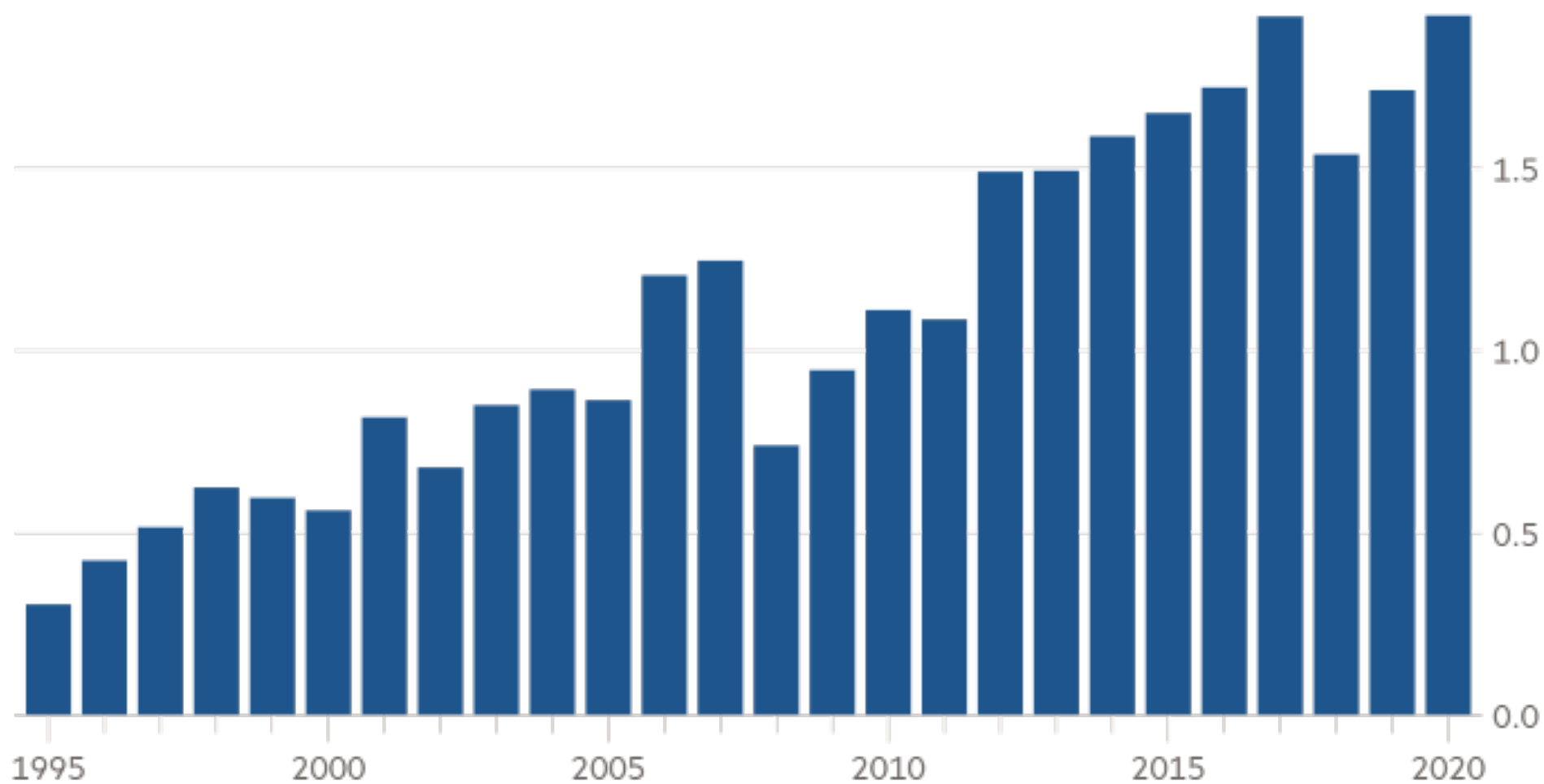


Sources: Bureau of Economic Analysis; Federal Board of Governors

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US corporate bond issuance sets a new record

■ Annual issuance (\$tn)



All years are through to December 31 except 2020 which is through to September 1

Source: Refinitiv

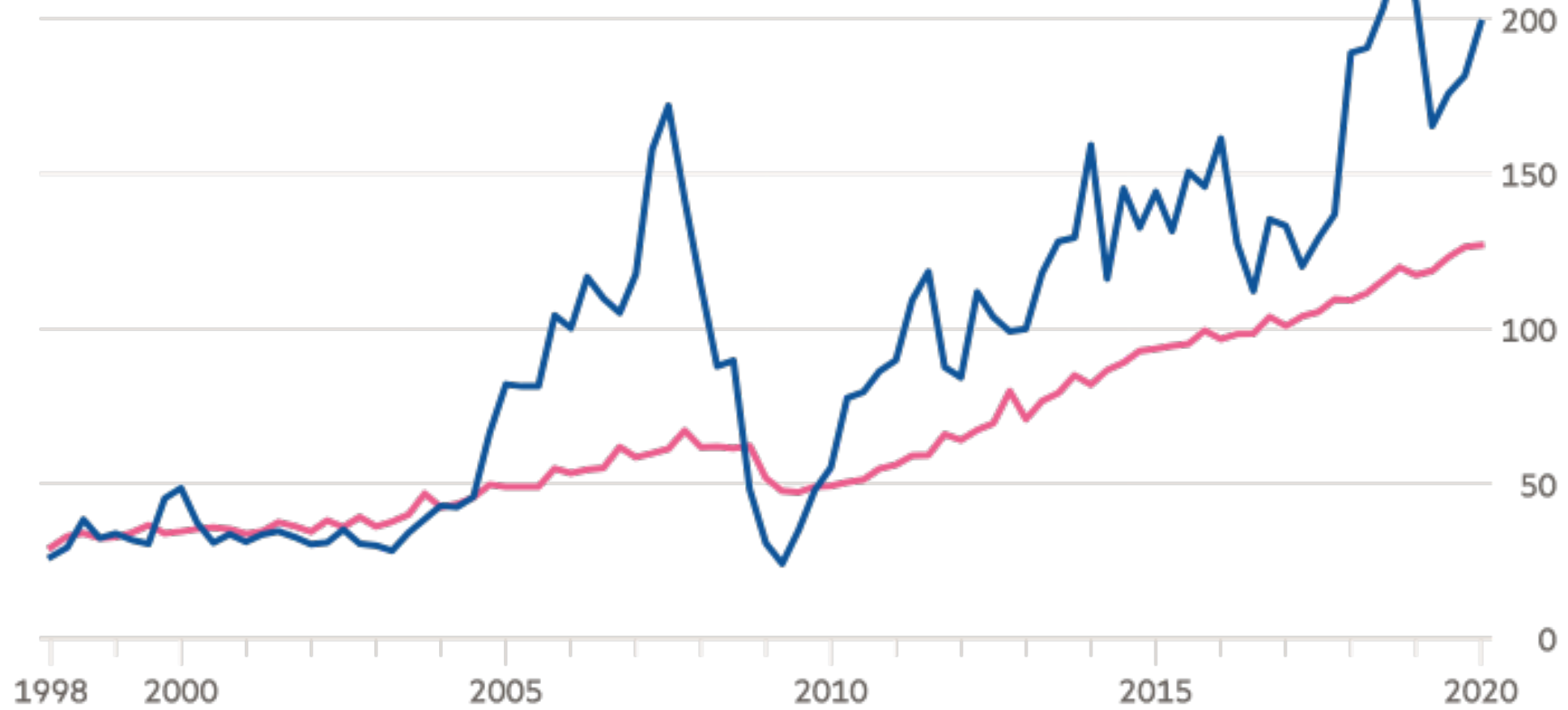
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Companies favour buybacks over dividends

Quarterly S&P 500 totals (\$bn)*

— Buybacks — Dividends

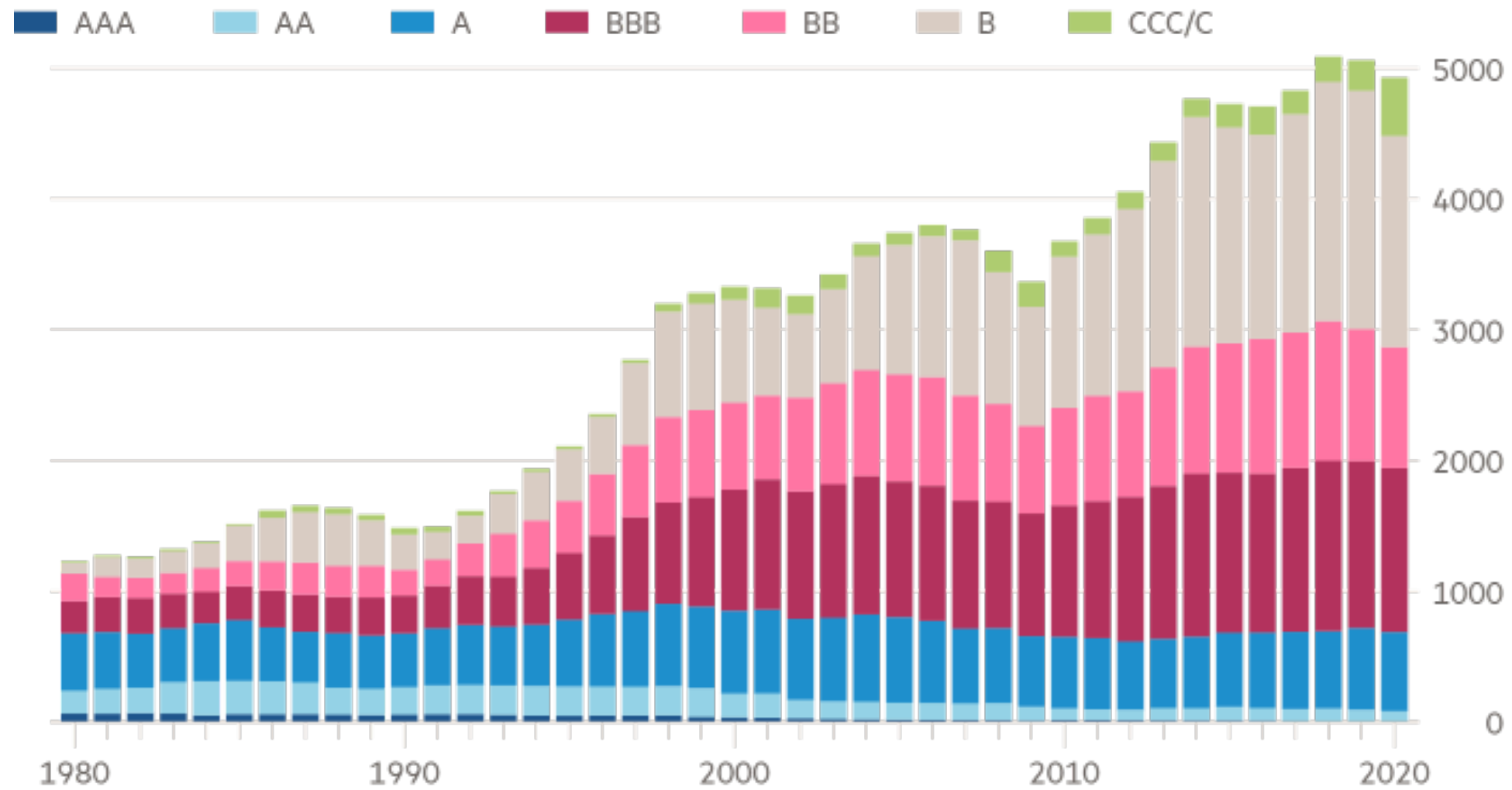


Source: S&P Dow Jones Indices

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Global creditworthiness has been eroding for four decades

Number of S&P non-financial credit ratings, by grade

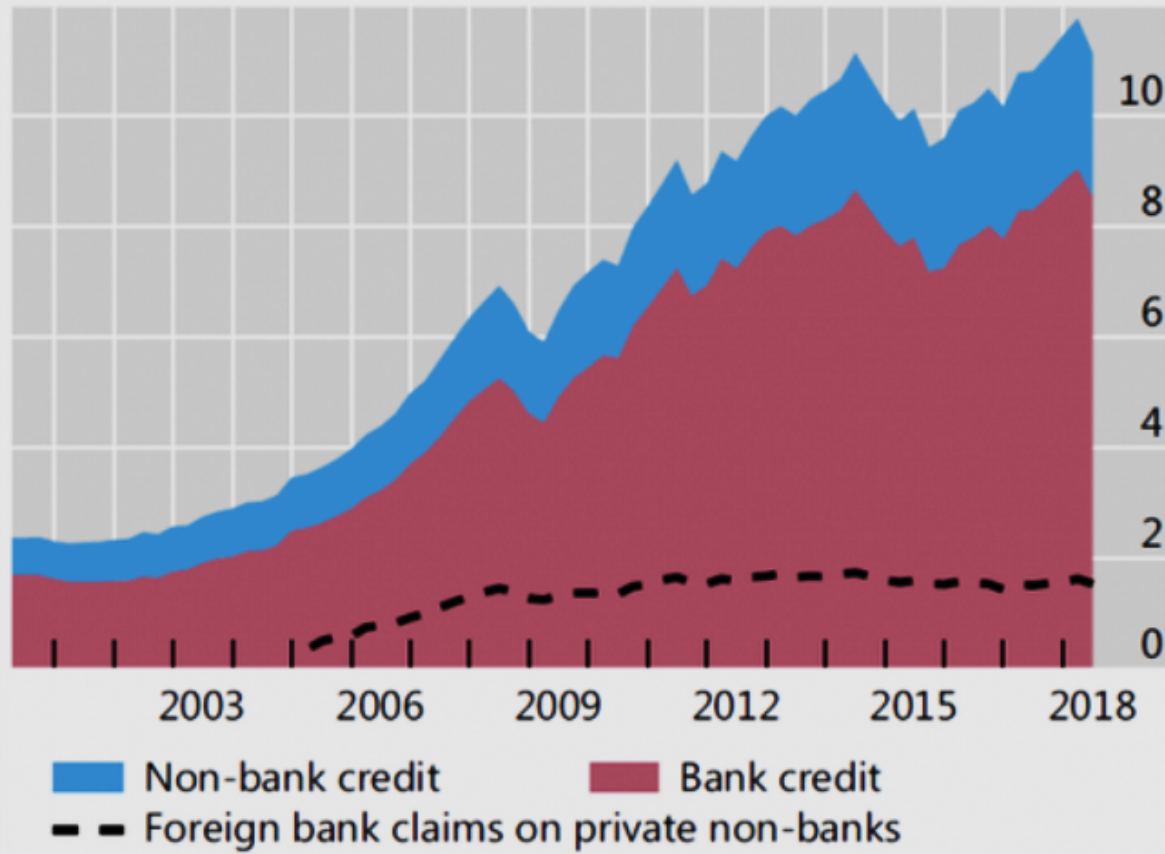


Source: S&P Global

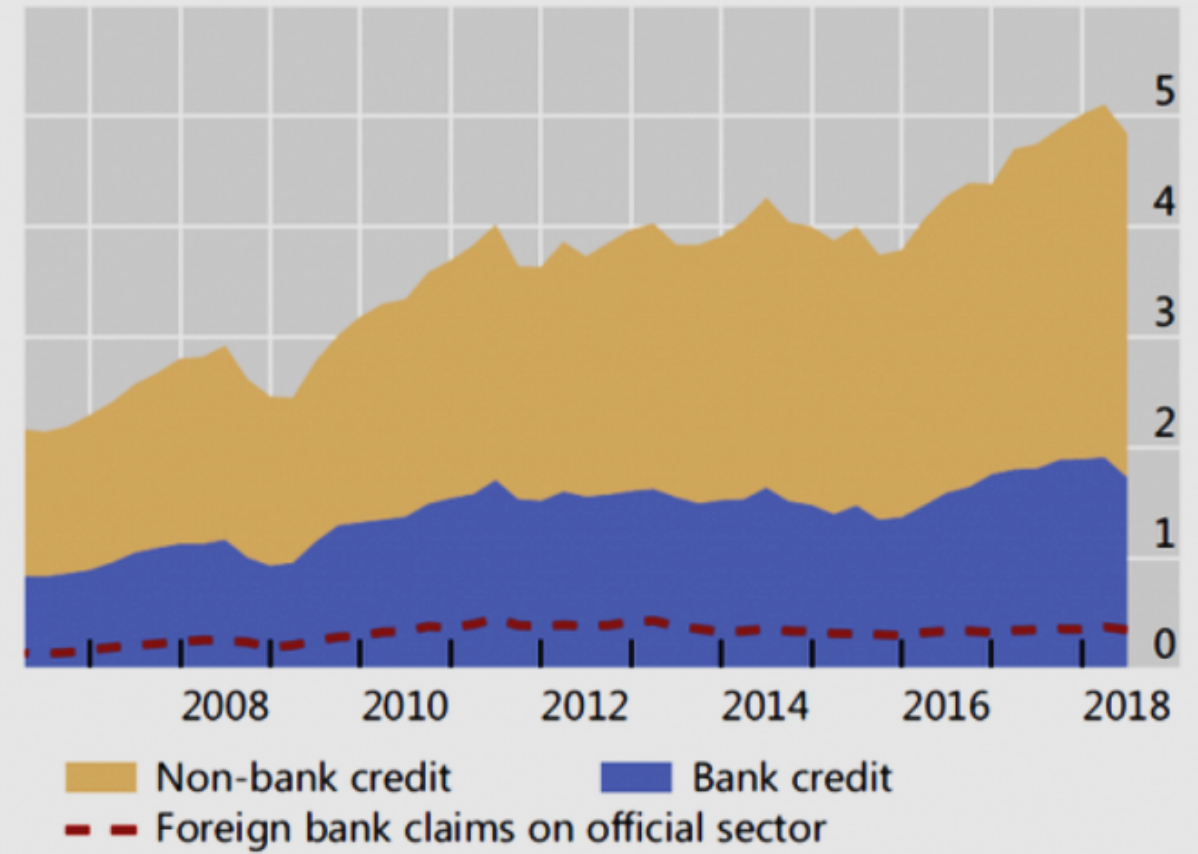
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Credit to private non-financial sector^{1, 2}

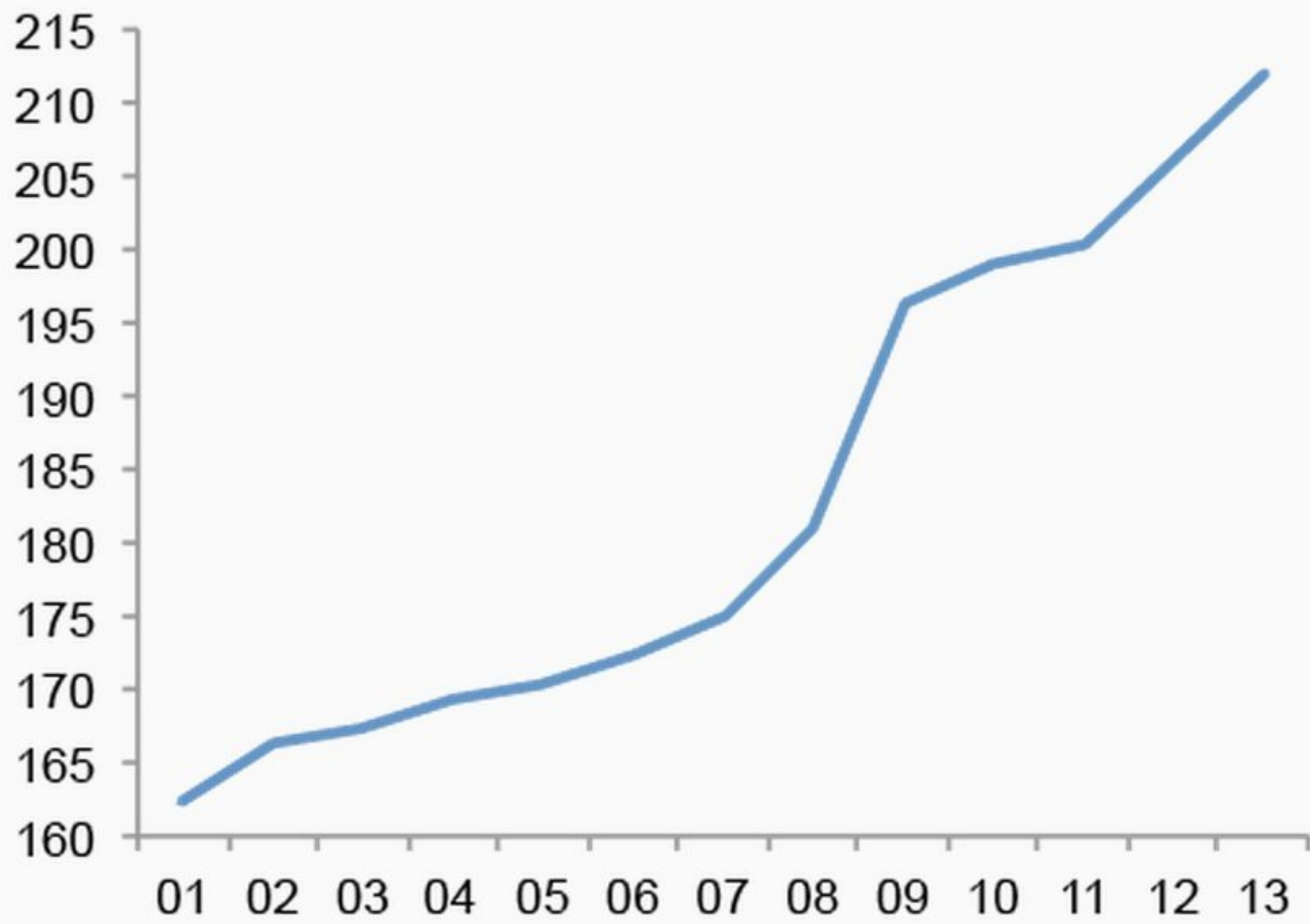


Credit to government^{2, 3}



Foreign currency debt of EM companies rose from \$900bn to \$4.4tn in the decade to mid-2015, while local currency debt rose from the equivalent of \$4.5tn to \$20.0tn

Global debt-to-GDP ratio, 2001-13



Black Lives Matter, George Floyd and the youth rebellion on climate change show how, in times of crisis, large sections of youth are drawn towards revolutionary ideas and solutions.

The left has embraced BLM, along with all manner of liberals, and wants to show its awareness of the legacy of 19th & 20th century imperialism – *but what about 21st century imperialism?*

The plunder of living labour and nature in continues before our eyes, unabated; in fact on a scale never before seen, yet colonialism and neocolonialism are talked of as if they took place long ago.

It is widely believed that, during the neoliberal era, labour has become weaker and capital has become stronger.

But only if class struggle is reduced to the economic struggle to improve our position within capitalism—as opposed to the political struggle to overthrow it—can workers’ loss of agency be considered a fact.

In every other respect this belief is false. When uprisings against corrupt plutocracies, worldwide mobilisations sparked by George Floyd’s murder, youth rebellions against the capitalist destruction of nature, struggles of millions of women for reproductive rights are seen for what they are—expressions of class struggle—it becomes clear that transition to socialism is not only necessary, it is also possible.

From *The Platform of the Communist International*, adopted at founding congress in 1919:

In the largest “civilised” nations... capital bribed its wage slaves at the expense of the plundered colonial peoples, thereby forging common interests between exploiter and exploited with respect to the oppressed colonies—the yellow, black, and red colonial peoples—and shackling the European and American working class to the imperialist “fatherland.

But continuous bribery, the very technique that made the working class patriotic and enslaved it psychologically, was transformed by the war into its opposite. Physical annihilation and utter enslavement of the proletariat; enormous hardship, suffering, and degradation; worldwide famine—these were the final payoff for the “civil peace.”

Guyanese revolutionary Walter Rodney, in *How Europe Underdeveloped Africa*, “*ever since the mid-19th century, Marx had predicted class collision would come in the form of revolution in which workers would emerge victorious... However, imperialism introduced a new factor into this situation—one that deferred the confrontation between workers and capitalists in the metropolises*”

Yes! – imperialism has deferred the confrontation between workers and capitalists—to *now!*, i.e. to the decades-long era of crisis, war and revolution that has now begun.

Walter Rodney, ([1972] 1981) *How Europe Underdeveloped Africa* Washington DC: Howard University Press, p.199.

As Marx and Engels explained in the *Communist Manifesto*, was developed further by Lenin and others of his generation, and verified by every genuine emancipatory struggle, victorious or defeated, in the century since then: *there can be no peaceful coexistence between capitalism and socialism, no sharing of power.*

Whatever credibility such illusions had when capitalism was expanding, as in the decades following World War II, the onset of neoliberalism in the 1980s and of its systemic crisis in the 2000s has dispelled them.

Che Guevara's words ring even more true today than when they were uttered more than 50 years ago: *“the indigenous bourgeoisies have lost all capacity to oppose imperialism—if they ever had any... There are no other alternatives. Either a socialist revolution or a caricature of a revolution.”**

* Ernesto Che Guevara, [1967] 1987, “Vietnam and the World Struggle for Freedom (Message to the Tricontinental),” in *Che Guevara and the Cuban Revolution: Writings and Speeches of Ernesto Che Guevara* (Sydney, Pathfinder), 351–52.

PAUL M. SWEEZY–PAUL A. BARAN MEMORIAL PRIZE WINNER

IMPERIALISM IN THE TWENTY-FIRST CENTURY

Globalization, Super-Exploitation, and
Capitalism's Final Crisis | JOHN SMITH



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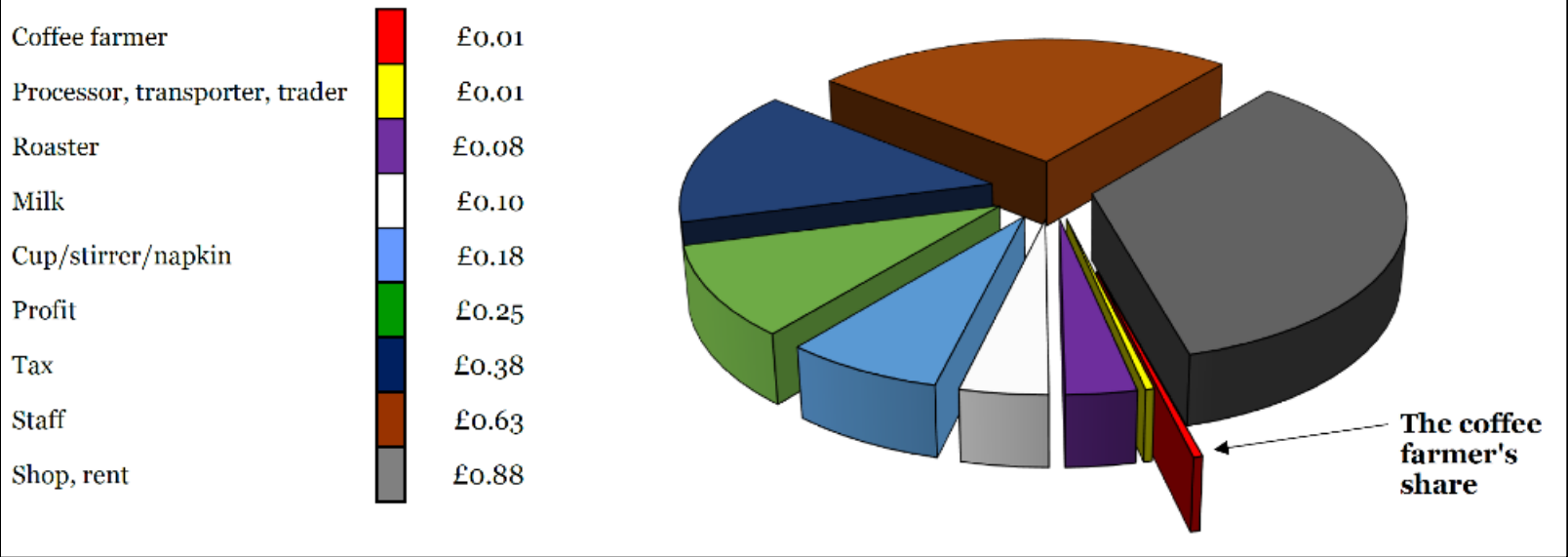
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2. Outsourcing, or the Globalization of Production
3. The Two Forms of the Outsourcing Relationship
4. Southern Labor, Peripheral No Longer
5. Global Wage Trends in the Neoliberal Era
6. The Purchasing Power Anomaly and the Productivity Paradox
7. Global Labor Arbitrage: The Key Driver of the Globalization of Production
8. Imperialism and the Law of Value
9. The GDP Illusion
10. All Roads Lead into the Crisis

<http://monthlyreview.org/product/imperialism-in-the-twenty-first-century/>

GDP assumes that the prices paid on world markets for poor country's exports are a fair and objective measure of their value.
But is it?

Cost breakdown of a £2.50 cup of coffee

Source: 'From bean to cup, what goes into the cost of your coffee?' Chelsea Bruce-Lockhart and Emiko Terazono, Financial Times, 4 June 2019



From *Imperialism in a coffee cup* <https://www.opendemocracy.net/en/oureconomy/imperialism-coffee-cup/>

A £2.50 cup of coffee consumed in a café in the UK ***expands the U.K.'s GDP by £2.48, and it expands the GDP of the coffee-exporting country by just 2p – with just 1p received by the farmer.***

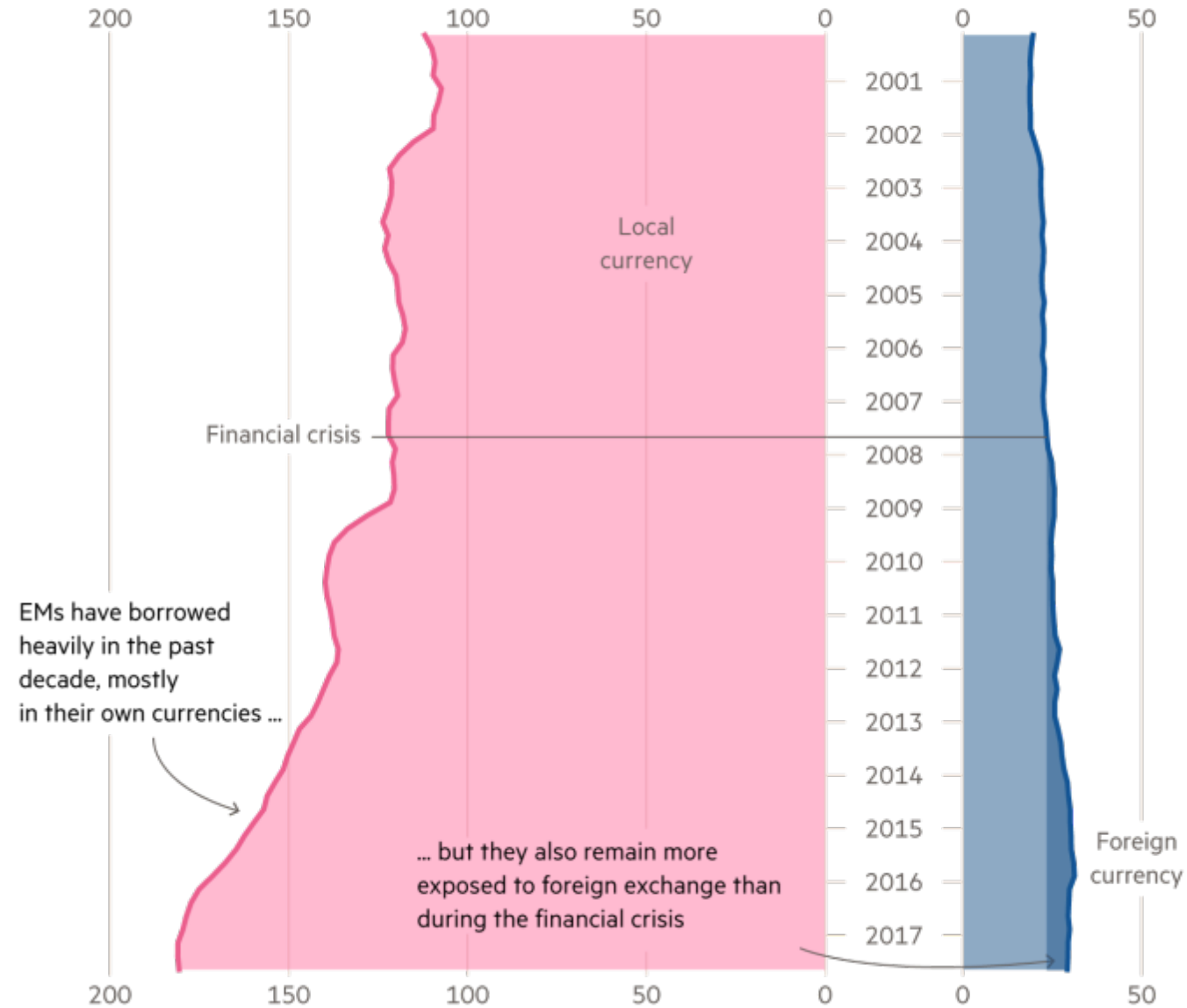
What's true of coffee is, to varying degrees, also true of our clothes, gadgets, kitchen appliances and much else.



Workers at the Vila Formosa cemetery in São Paulo, Brazil, are convinced the virus has claimed more casualties than official statistics suggest

Emerging markets have turned to local debt while continuing to borrow in foreign currencies

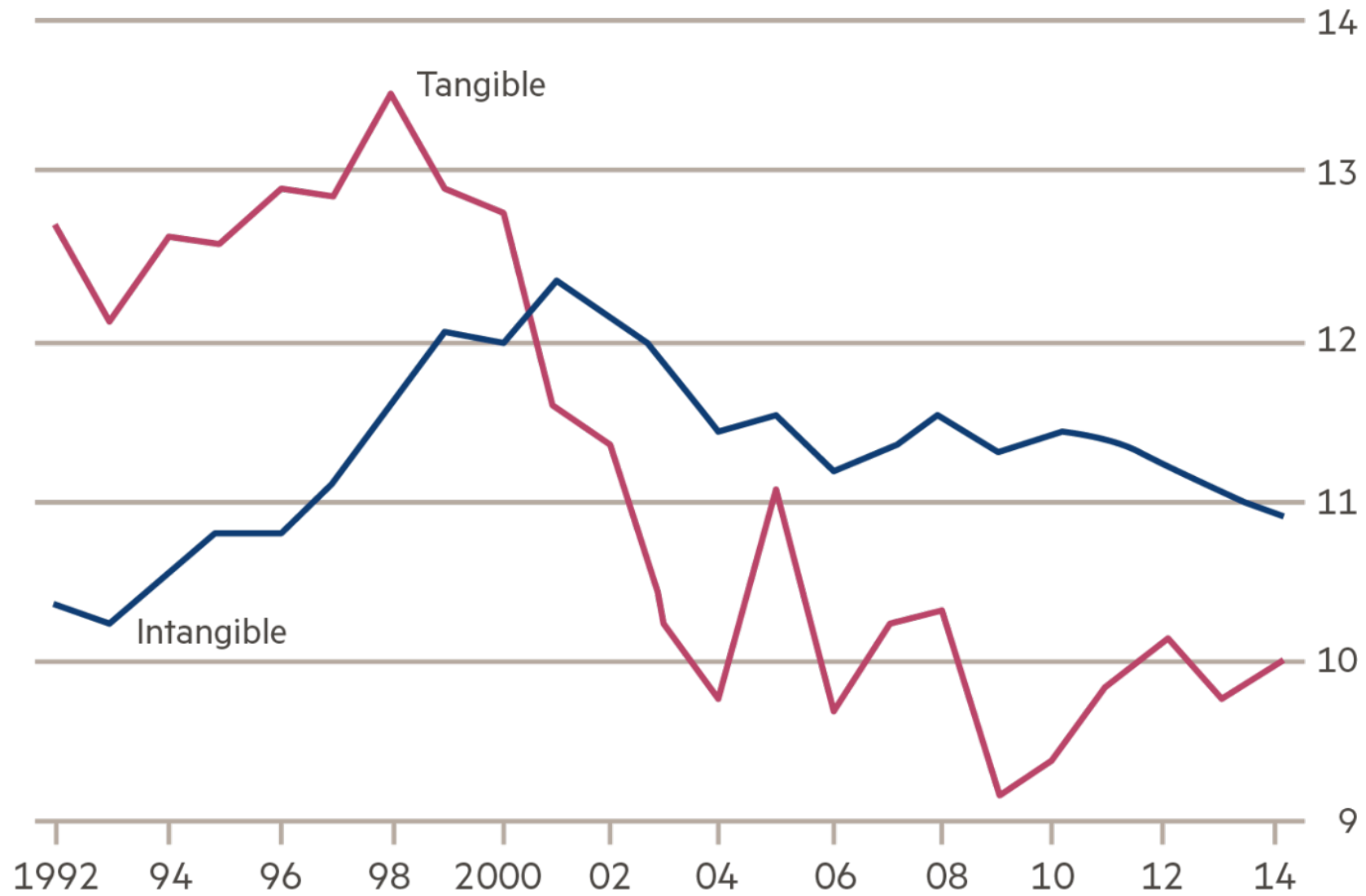
EM debt as a % of GDP



Source: IIF global debt monitor database

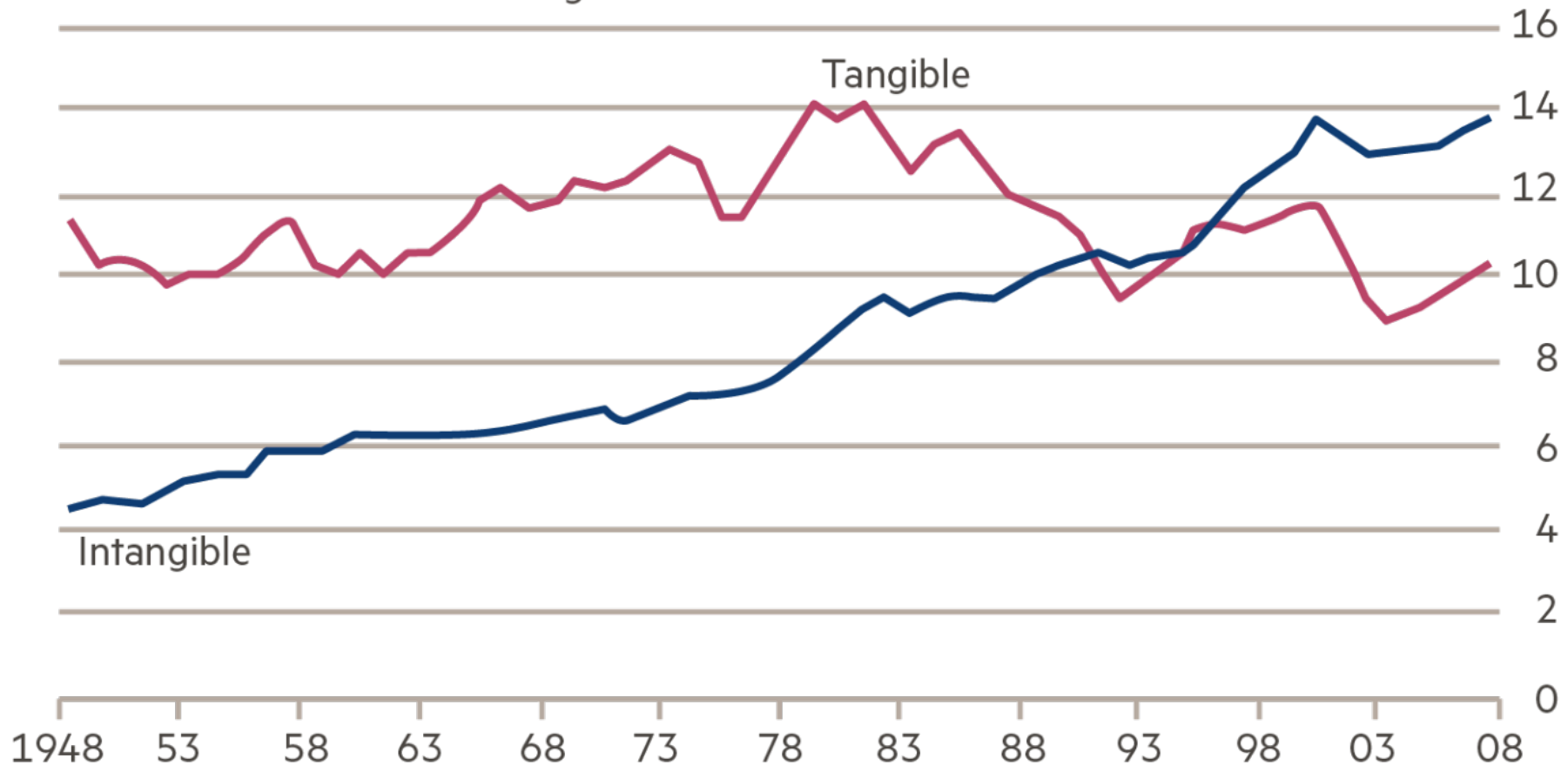
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Investment as a share of sector value added - UK



Intangible assets have soared in the US ...

Investment as a share of sector gross value added - US



Source: 'Capitalism Without Capital - the Rise of the Intangible Economy'

Haskel & Westlake (Princeton University Press, 2017)

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*In a much-discussed chapter in Capital III, Marx considers six counteracting factors that mitigate the tendency of the rate of profit to fall. One of them, **'The Reduction of Wages Below their Value'**, is dealt with in just two short sentences:*

*“Like many other things that might be brought in, it has nothing to do with the general analysis of capital... **but has its place in an account of competition, which is not dealt with in this work. It is nonetheless one of the most important factors in stemming the tendency for the rate of profit to fall.**”*

Marx, Capital, vol. 3, 342

Throughout *Capital* Marx assumes perfect competition among capitalists (equalising the rate of profit) and among workers (equalising wages).

In *Capital Vol 3*, when discussing ground rent, Marx relaxes the first of these assumptions and asks how monopoly (in this case, over more productive land) results in differential profits. ***But nowhere does he consider the effect of restrictions on the free movement of labour on wages and on the rate of exploitation.***

As he explains, “important as the study of frictions [impeding equalization of wages] is... they are still accidental and inessential as far as the general investigation of capitalist production is concerned and can therefore be ignored.” *Capital*, vol. 3, 241–42.

Not only did Marx leave the reduction of wages below their value to one side, he made a further abstraction that must also be relaxed if we are to analyse capitalism's current stage of development:

“The distinction between rates of surplus-value in different countries and hence between different national levels of exploitation of labour are completely outside the scope of our present investigation.”

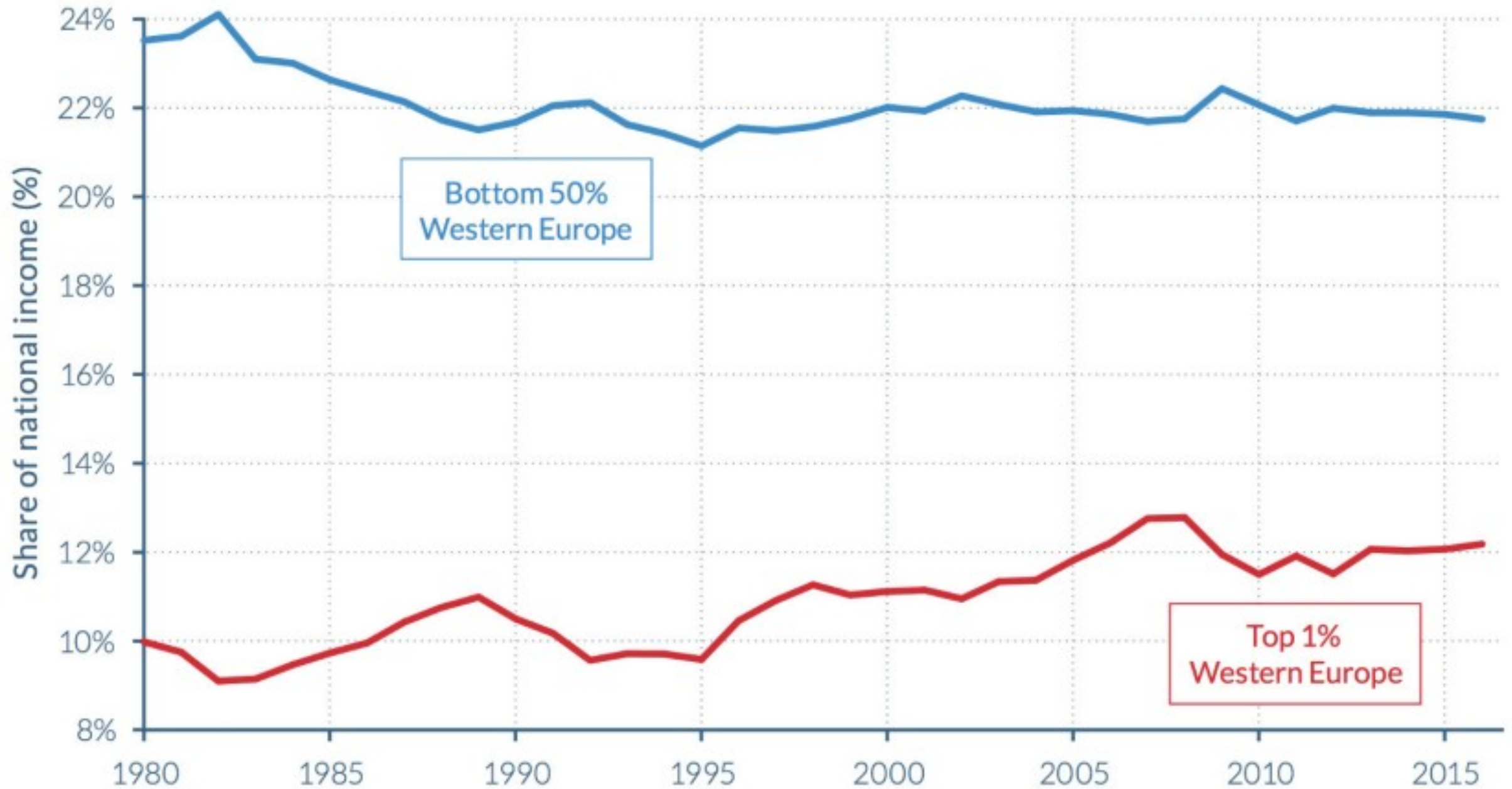
Capital, vol. 3, 242

From the conclusion of the World Inequality Report 2018:

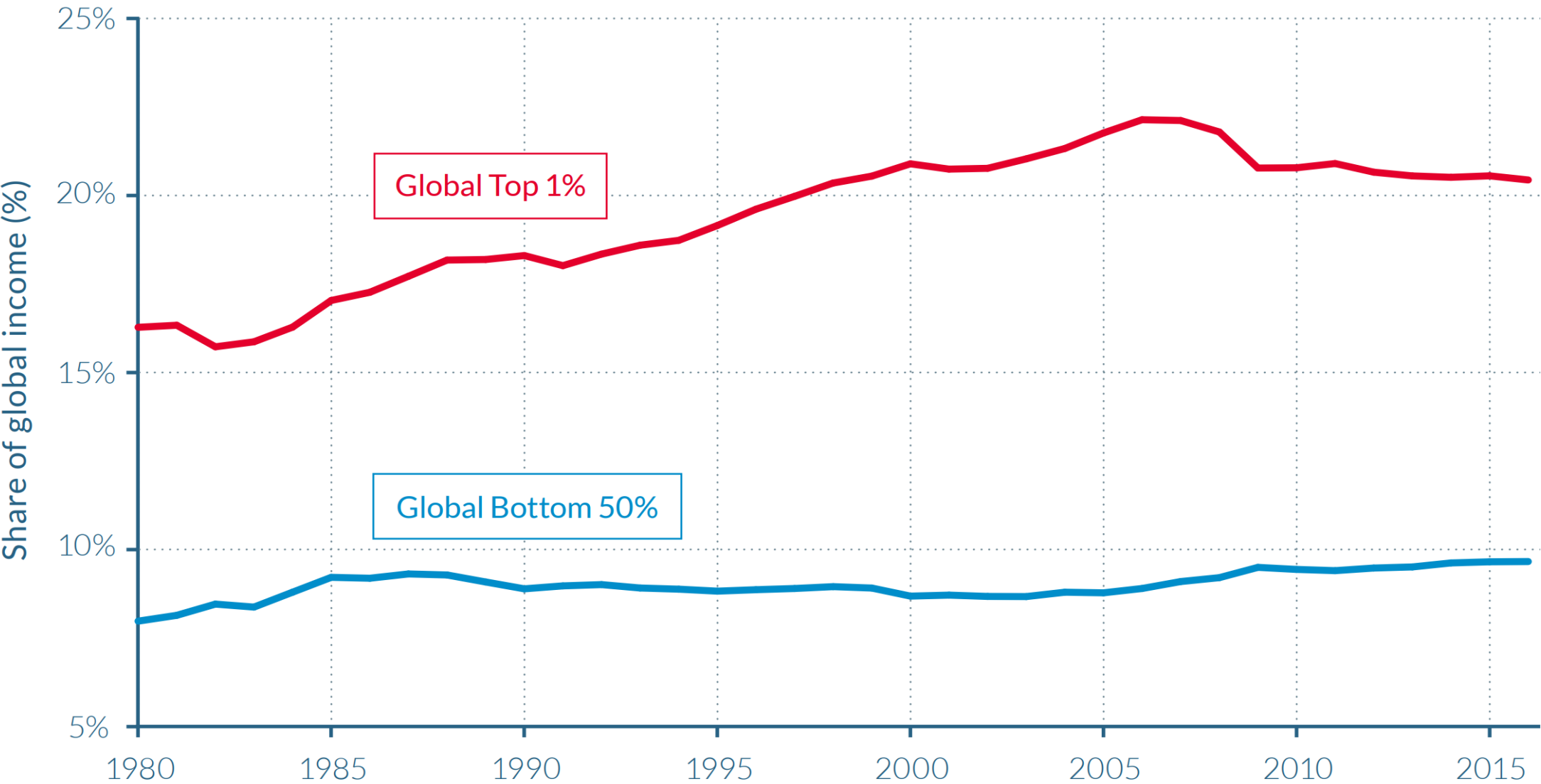
Increasing income inequality, and the **large transfers of public wealth to private hands...** have led to a rise in wealth inequality among individuals. At the global level—represented by China, Europe, and the United States—the top 1% share of wealth increased from 28% in 1980 to 33% today, while the bottom 75% share oscillated around 10%. Large rises in top wealth shares have been experienced in China and Russia following their transitions from communism toward capitalist economies. (pp. 286-287)

<https://wir2018.wid.world/files/download/wir2018-full-report-english.pdf>

Western Europe



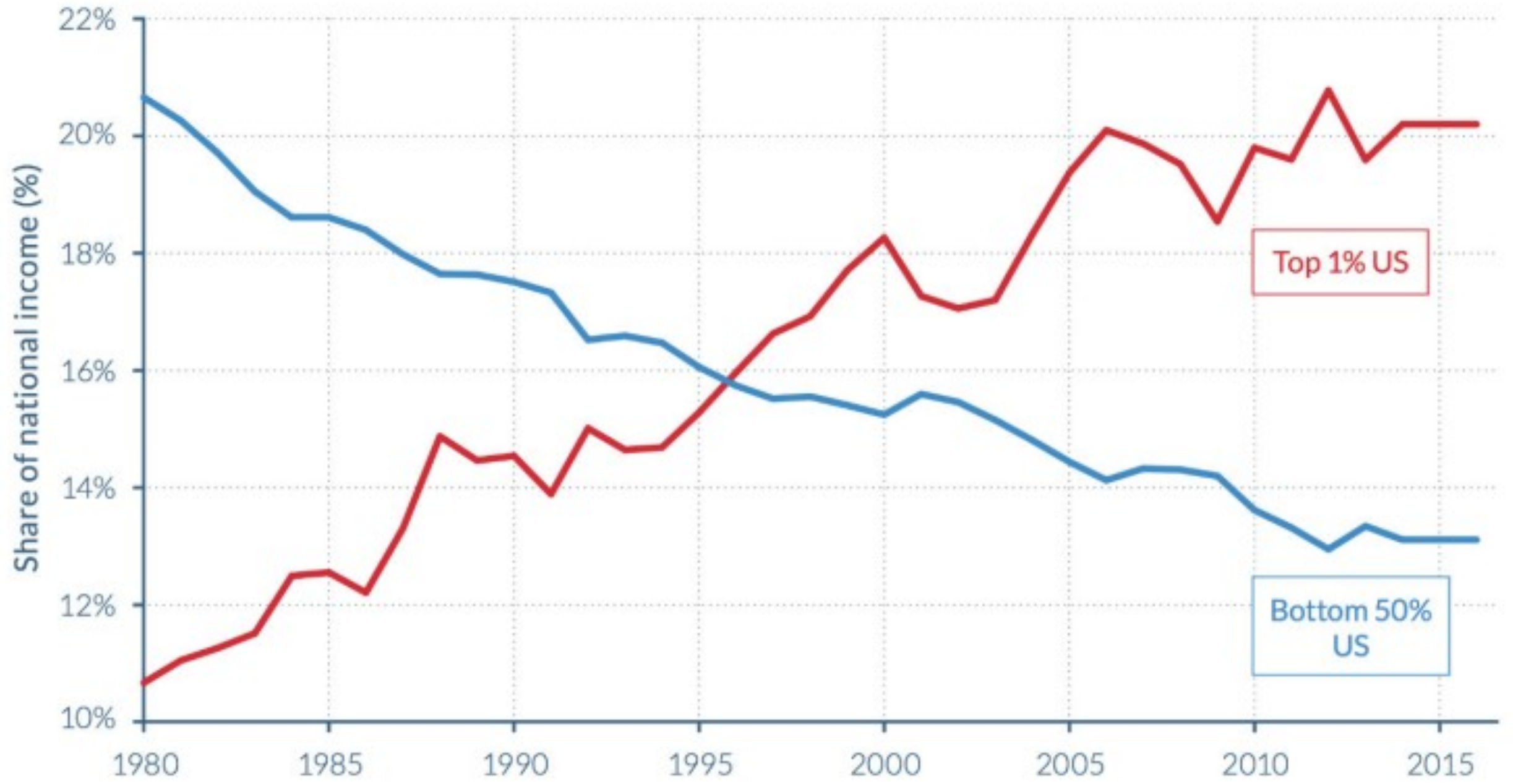
Global Bottom 50% and Top 1% income shares, 1980-2016



Source: WID.world (2017). See wir2018.wid.world for data series and notes.

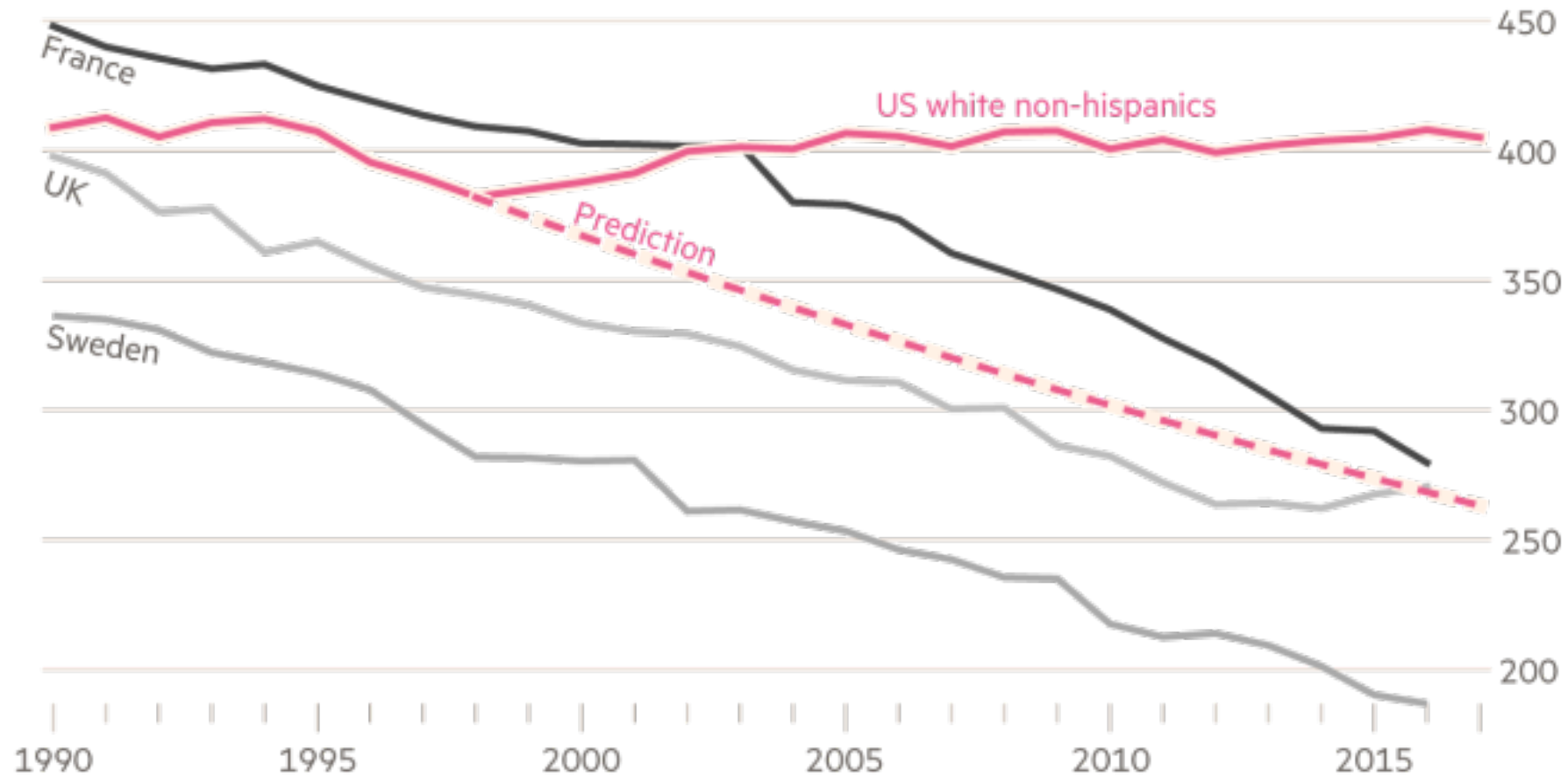
In 2016, 20% of global income was received by the Top 1% against 10% for the Bottom 50%. In 1980, 16% of global income was received by the Top 1% against 8% for the Bottom 50%.

US



The US mortality rate has not followed its expected path

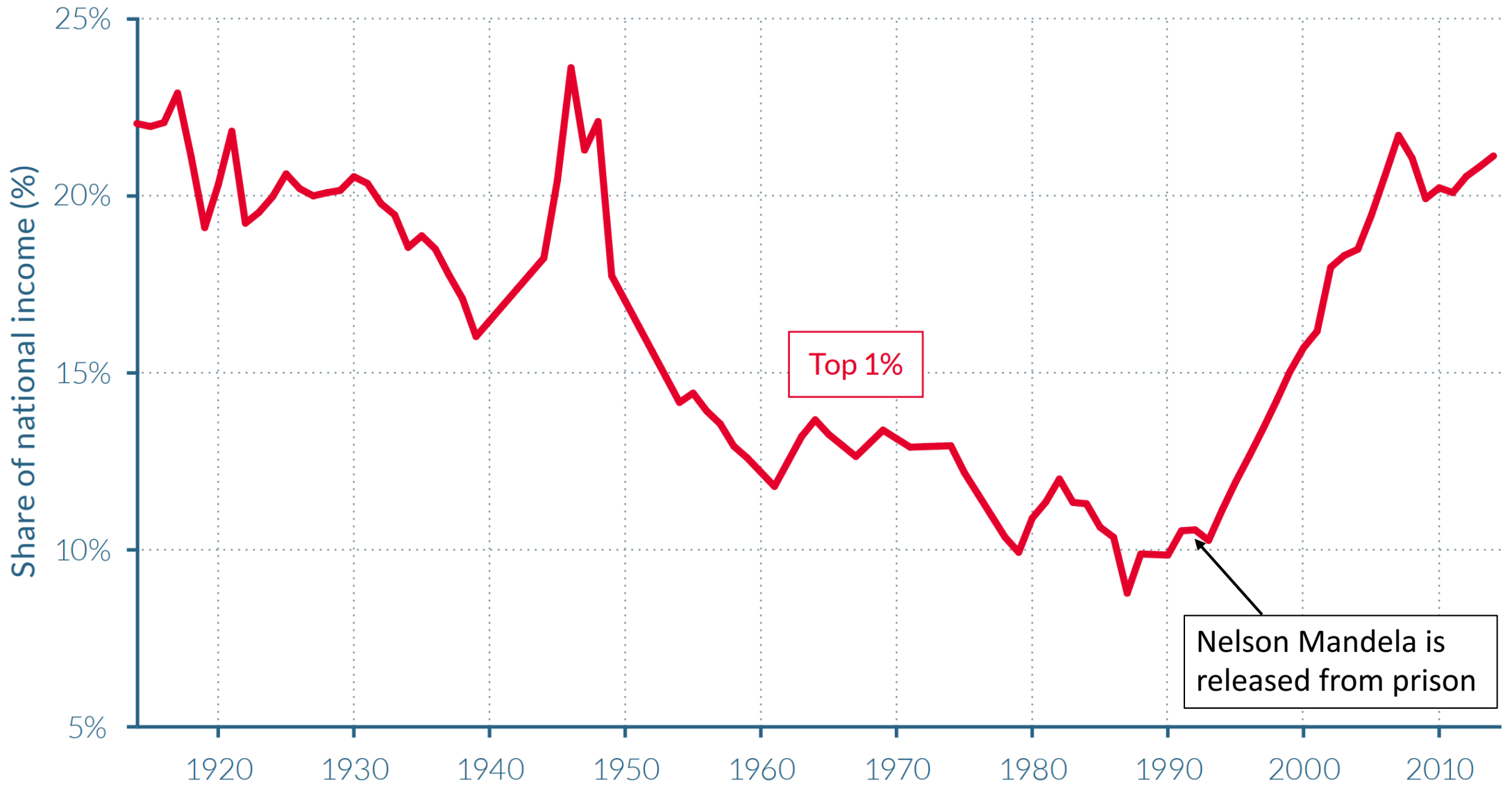
Deaths per 100,000 people



Source: "Deaths of Despair and the Future of Capitalism" by Anne Case and Angus Deaton

© FT

Top 1% income share in South Africa, 1914-2014



Source: Alvaredo & Atkinson (2010). See [wir2018.wid.world](#) for data series and notes.

In 2014, the Top 1% share of national income was 21%.

Rosa Luxemburg, quoting Friedrich Engels,

“Bourgeois society stands at the crossroads, either transition to socialism or regression into barbarism.” What does “regression into barbarism” mean to our lofty European civilization?... The triumph of imperialism leads to the annihilation of civilization. ...

Today, we face the choice exactly as Friedrich Engels foresaw it a generation ago: either the triumph of imperialism and the collapse of all civilization as in ancient Rome, depopulation, desolation, degeneration – a great cemetery. Or the victory of socialism, that means the conscious active struggle of the international proletariat against imperialism and its method of war.

The Crisis of German Social Democracy (a.k.a. "The Junius Pamphlet," 1915) https://platypus1917.org/wp-content/uploads/readings/luxemburg_junius.pdf

Megan Greene, senior fellow at Harvard Kennedy School, July 2 2020

“Just as EMs looked as if they were heading full speed into a brick wall, spreads on their dollar sovereign bonds narrowed. Yields on developed country bonds fell towards zero. EM governments that could, took advantage, issuing... \$131bn so far this year, 42 per cent more than in 2019.

“Major central banks have unleashed unprecedented amounts of liquidity in response to the coronavirus crisis. This has compressed borrowing costs in all markets, so a hunt for yield has driven investors into EM assets.”

‘Investors are too complacent about emerging market risks – Abundant global liquidity has only papered over EM’s debt problems and will not last’ *Financial Times*, July 2 2020

From the conclusion of the World Inequality Report 2018:

Since 1980, income inequality has increased rapidly in North America and Asia, has grown moderately in Europe, and has stabilized at extremely high levels in the Middle East, Sub-Saharan Africa, and Brazil. The poorest half of the global population has seen its income grow significantly thanks to high growth in Asia (particularly in China and India). (p.286)

Increasing income **inequality**, and the **large transfers of public wealth to private hands...** have led to a rise in wealth inequality among individuals. At the global level—represented by China, Europe, and the United States—the top 1% share of wealth increased from 28% in 1980 to 33% today, while the bottom 75% share oscillated around 10%. Large rises in top wealth shares have been experienced in China and Russia following their transitions from communism toward capitalist economies. (pp. 286-287)