

2014: A TURNING POINT IN THE ECONOMIC AND GEOPOLITICAL SITUATION

Abstract: Geopolitical and economic drivers have been closely intertwined in 'globalisation' since the early 1990s. The situation of both has seriously deteriorated in recent months.

1) The hypothesis laid out in this paper is that a new turn in the international economic and geopolitical situation took place in the last months. On the economic side, not only it appears that the finance capital's social and economic power has not been seriously dented by the new regulatory framework under way in different countries, but that it goes on thriving on the global bleak macroeconomic situation. Through the last years, mainstream economists' main concern was EU deflation, a code name for depression. Their mood has now become more pessimistic and they warn that the world economy risks heading to 'secular stagnation'¹. Even the IMF uses these words four times in its preparatory document to G-20 Finance Ministers and Central Bank Governors Meeting September 20–21, 2014.

Indeed, it appears that industrial investment, the engine of economic growth, has not reached its pre-2008 levels yet. This is not only the situation in the EU, or even in developed country economies. Also, « *Emerging market capex (capital expenditure, C.S.) appears to be facing a case of serious indigestion* »². Confirming that economic meltdown is a global problem plaguing in different ways both developed and emerging countries, it is estimated that the top world 2000 Transnational corporations's capital expenditures fell have fallen in real terms by 1.5% in 2013 and worse in 2014 with a fall of 5%. As this 'indigestion' of industrial capital is unchallengeable, its cause can be seen as resulting from insufficient profitability – as most Marxist would argue - or from a too low level of aggregate demand – as it is proposed by Keynesians.

On the geopolitical side, the sweeping changes that occurred in recent years can hardly be underestimated. Looking for an epoch-making comparison, Deutsche Bank, went so far to write that the "*number of geopolitical problems that have flared up in recent years*" is so important, "*that there is a case to be made that taken together these issues are as significant a period of geopolitical turmoil as the world has faced since the fall of the Berlin*"³.

Still, everyone understands that the current global economic and political context and *their combination* are quite different from the early 1990s, when expectations by free markets' believers were so high. At that time, the breaking apart of the 'empire of evil', according to mainstream thinkers, promised opening a long and prosperous way to what I called 'PDF-format globalization' (PDF stands here for peace-democracy and free markets). At odds with this otherwise version of the 'end of history' resulting from the fall of the Berlin wall, 'really-existing globalization' – even within the EU –

¹ The debate was initiated by an A. Hansen 's 1939 paper, a prominent Keynesian, discussing the causes of the 1937 recession. His analysis of the downward trends in capitalism trajectory triggered an intense debate, with Schumpeter strongly criticizing Hansen 's thesis. In my view, the revival of this discussion is not so much interesting because of the arguments put forward by mainstream economists as because Hansen and others were concerned that, years after the big 1929 crisis, the large Roosevelt stimulus package fell short of putting the US economy out of the structural crisis and massive unemployment after the 1933-37 recovery.

² Standard & Poor's Ratings Services, "Global Corporate Capital Expenditure Survey 2014", 2014, p.13.

³ Deutsche Bank AG/London, "Long-Term Asset Return Study : Bonds : The Final Bubble Frontier ?", 10 September 2014.

happened to be a highly uneven economic and social process, with intractable armed conflicts. According to PRIO's database and methodology, in 2014 they were 33 'intrastate conflicts', of which 9 of them were 'internationalised', and the number of conflicts did not decline throughout the 2000s⁴. The perception is growing that capitalism cannot deliver on its promise.

2) Against this economic and geopolitical background, it is obvious that the new world (dis)order cannot be managed, even by the more powerful countries. The US, despite their military overwhelming domination - what Kees van der Pijl calls the "*competitive advantage*' of its military machine"⁵ - has neither the willingness nor the ability to rule the world on their own. Note that this was already the case in the early 2000s, when US unilateralism was at its climax. Hopes or fears of the advent of an empire bound to rule over the world for decades have been dismissed. Instead, the contemporaneous 'Global governance' is dominated by a "*hierarchical transatlantic bloc of states*", at the center of which one finds the US, supported by its long-standing allies in Europe and in Asia⁶.

A decade-plus after its launching, the 'permanent war on terror' is alive and well, but it is now carried out in a collaborative way, as major armed conflicts in Maghreb and Middle-East directly involve - through NATO or not - the 'transatlantic hierarchical bloc of states' in military operations. The transatlantic bloc has to cope with the challenges raised in particular in Maghreb and Middle-East by the 'Arab spring' which triggered both the crumbling of old states apparatus and the resistance from ruling elites supported (in Egypt) or not (in Syria) by the western countries. Suffice to remind that Iran has become a key player in the Middle-East 'thanks' to the 2003 Bush's war to understand the geopolitical stalemate plaguing the US and their allies. The US and their allies are not staying inactive.

- On the geopolitical side, the transatlantic bloc relies on NATO. In the 1990s, far from winding up, NATO transformed to become a global organization, moving from collective defense to 'crisis management' objectives (article 4), from military purposes to the preservation of alliance security interest which clearly include economic threats⁷, from focus on Europe to out-of-area beyond Europe⁸. Fifteen years or so after, using similar words to those articulated by people challenging the free-market ideology, NATO's thinkers stress that "*The economic architecture of the modern world rests on assured access to the Global Commons*"⁹, that is international waters and airspace, outer space, and cyberspace¹⁰. Here ends the (misleading) analogy of NATO's claims with alterglobalists. For NATO's experts, the threat to global

⁴ http://www.pcr.uu.se/research/ucdp/datasets/ucdp_prio_armed_conflict_dataset/

⁵ "The Financial Crisis and the War for Global Governance", <http://peripherization.blog.rosalux.de/>

⁶ Serfati, Claude. 2004. 'American Military Power—Global Public Good or Competitive Advantage?' in K. van der Pijl, L. Assassi, and D. Wigan eds. *Global Regulation. Managing Crises After the Imperial Turn*. Basingstoke: Palgrave Macmillan. The Transatlantic area is a geo-economic space which has been politically built over decades.

⁷ North Atlantic Council, Strategic Concept, 24 April 1999, paragraph 24.

⁸ It is widely admitted that out-of-operations launched since the end of the 1990s helped to justify the alliance's ongoing utility. As said by the then French NATO Ambassador the 'conceptual debate on NATO's "out-of-area" operations stopped with the collapse of the Twin Towers.

⁹ SDA report, "Protecting the Global Commons", September 16, 2010, Brussels, p.4.

¹⁰ The 'discovery' of NSA surveillance reveals not only the real meaning of the use of 'global commons' by the US, but also that "GCHQ [the UK intelligence agency] and European spy agencies worked together on mass surveillance" (*The Guardian*, 1st November 2013), and at times in concert with the NSA, as revealed by *The Guardian* and *Le Monde* in a series of papers based on documents leaked by the former US intelligence contractor Edward Snowden.

commons is not a privatization of them, but the eventuality that "*serious upsets to the global commons exist, especially in the uncertain motives of the rising BRIC states and the fragility of the globalised economy*"¹¹.

- On the economic side, financial and industrial links and networks between the USA and their European and Asian allies are highly dense and account for the bulk of the world economy. An agreement on TTIP - dubbed "an economic NATO" by some, a formula endorsed by the NATO's General Secretary¹² - will further anchor the US-EU close historical nexus. At odds with what is sometimes claimed, 'pivoting' to Asia never meant for the US Administration any distancing away from EU. Instead, it should be made clear that, as plainly stated by a close observer, "*The unstated aim of the TPP is a deal to bar the second-largest economy*"¹³.

By and large, the building of an "integrated Transatlantic Community" will be an outcome of economic and geopolitical drivers, a point U.S. Secretary of State Hillary Clinton made it very clear¹⁴. As also said by USTR Michel Froman, TTIP is "*a key part of building an economic relationship to go along with our very strong partnership and military alliance there*".

2) WARS AND FINANCIAL MARKETS

As it would be mechanistic to correlate the economic and the geopolitical situation through a direct causality relation, it would be naïve as well to dismiss any links between both. The separation of the economic sphere – where the process of labour takes place – and the political sphere does not mean their independence. Indeed, even if we leave aside the process of *violent* appropriation of value and wealth (in the so-called 'resource wars' or through a physically coercive labour process), 'free markets' if they are to work, require a 'visible hand' to enforce and protect property rights: 'globalization' needs a military arm¹⁵.

It has been traditionally argued that financial markets do not like wars. K. Polanyi was influential in this analysis when he credited *Haute Finance* for supplying the instruments for an international peace system during the *Pax Britannica* (1815-1914). This is not the place to challenge this view on the role of finance capital in 19th and 20th century world wars. What is obvious is that over the last two decades, defense companies stocks have been permanently overperforming the standards US (Dow Jones, NASDAQ) and European (STOXX50) stock market index¹⁶.

Skilled mainstream economists are searching explanations for what they call an "*obvious paradox*": "*From Hong Kong and the Middle East to the crisis in Ukraine [T]he markets seem to be taking political upheaval in their stride [...] Markets have remained buoyant, if not downright bubbly*"¹⁷. Others observe that in the past, financial markets, after some fall following the beginning of wars, have well responded in middle-term.

¹¹ J. Dowdal and B. Hasani, "Protecting the global commons", *SDA Report*, 16 September 2013, p.9.

¹² Speech by NATO Secretary General Anders Fogh Rasmussen at the Conference "A New Era for EU-US Trade" - Confederation of Danish Industry, Copenhagen 08 Oct. 2013.

¹³ David Pilling, "It won't be easy to build an 'anyone but China' club", *Financial Times*, 22 May 2013.

¹⁴ The Brookings Institute, "The Transatlantic Partnership: A Statesman's Forum With Secretary Of State Hillary Clinton", Washington, D.C. Thursday, November 29, 2012. (March 18, 2014).

¹⁵ Claude Serfati, *La Mondialisation armée*, 2001, La Discorde, Editions Textuel, Paris.

¹⁶ GRIP, *Dépenses militaires, production et transferts d'armes- Compendium 2014*.

¹⁷ Nouriel Roubini, "The Rational Complacency Of Financial Markets", *The Guardian*, 1 October, 2014. See also, Barry Ritholz "Military conflicts in Syria, Iraq, Gaza and Ukraine are an unending source of concern [but]None of this seems to matter to Mr. Market", *Reuters*, 27 August 2014.

Understanding why the conventional belief which associates financial markets and fear of armed conflicts is misleading requires factoring in:

a) The incredible economic and social power taken on by finance capital and its agency, confirmed in what has been happening since 2008. As a whole, finance capital (institutions, households) are more powerful to-day than they were in 2006. You cannot see growth anywhere, except in the revenues of finance capital¹⁸;

b) How financial markets are functioning. As J.M. Keynes demonstrated, markets are based on *conventions*, whose essence, because "*Our knowledge of the factors which will govern the yield of an investment some years hence is usually very slight and often negligible [...] lies in assuming that the existing state of affairs will continue indefinitely, except in so far as we have specific reasons to expect a change*"¹⁹.

As it has been proposed one decade or so ago, 'financial markets' (in reality the investors, analysts, traders, etc. making up the institutional 'financial community') may have 'internalized' within their behaviour the inevitability of wars and military operations. They may, in fact, be forging a sort of 'unlimited warfare' convention in which the discretionary use of armed force by the United States and their allies becomes their new horizon²⁰. All the more with the persisting chaos plaguing different parts of the world.

Claude Serfati, 13 October 2014

¹⁸ The Consulting BCG, at odds with the recession-like world situation, observed a strong growth in 2013, still it was the one of the global private financial wealth, growing by 14.6 percent to reach a total of \$152.0 trillion, Boston Consulting Group, *Global Wealth 2014: Riding a Wave of Growth*.

¹⁹ John Maynard Keynes, *The General Theory of Employment, Interest and Money*, chapter 12.

²⁰ Luc Mampaey and Claude Serfati, Mampaey L., Serfati C. (2006), "Galbraith and Institutionalist analysis : An assessment based on transformations of the U.S. military-industrial system in the 1990s", in *Innovation, Evolution and Economic Change. New ideas in the tradition of Galbraith* (ed. by B. Laperche, J.K. Galbraith, D. Uzunidis), New Directions in Modern Economics series, Edward Elgar, 2006