



*Nodari Simonia, Anatoly Torkunov*

# Globalization,



# Structural Crisis, and World Leadership Myths and Reality

**2013**



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**Globalization,  
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(Myths and Reality)**

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## FOREWORD

The kaleidoscopic, almost phantasmagoric, flood of events in the past few years has shaken the world community, no less. Many world players seem to have swapped roles - the shining image of the United States, until recently the undisputed world leader, has faded, and the nation has turned into the world's biggest debtor stooping under the weight of whatever deficits can come to the mind (budgetary deficit, current balance of payments deficit, and trade balance deficit), plagued by the highest-ever unemployment rate in its history and an accelerating trend toward gaping social inequality, with a thinning middle class, and doing a balancing act on the cliff of default and fiscal (budgetary) plunge. In contrast, a group of emerging market-type economies are registering record GDP growth rates, their government coffers overflowing with hard cash and gold, and are prominent on regional, and even world, markets, the raging world crisis only having a glancing effect on them, if at all, and only indirectly, as a backwash of the mess and recession in developed capitalist countries of Europe and North America.

These developments have set off numerous broad-ranging discussions of what fate has in store for capitalism. The world's leading economic publications, the *Financial Times*, *Bloomberg BusinessWeek*, and *The Wall Street Journal* among them, have joined in recently. By some irony, the *Financial Times* started publication of a series of articles under the general heading "The Future of Capitalism" as the crisis was just taking off, and replaced it, three years later, with "Capitalism in

Crisis” and a logo next to it as a picture of a barcode, some of its bars slanting in opposite directions or bending down to give the impression of falling to the ground. As to the articles, they did not, in their great majority, stand out for the depth of analysis, or even admit that a structural crisis had arrived. Little surprise, though. Many of their authors had held high positions in the establishment (up to Fed Chairman in the U.S. and Chancellor of the Exchequer in the United Kingdom) and had a hand in stoking up the world crisis (Alan Greenspan, George Osborne, and Lawrence Summers). Nor was the article by Martin Wolf, the *Financial Times* chief economist commentator, any different - it reeled off numerous errors made by governments, experts, and captains of business, to be set right immediately for capitalism to last. Martin Wolf did not appear to be certain his recommendations would be heard and acted on, and he added at the end of his article he was convinced that, its imperfections and current crisis regardless, capitalism had innate flexibility, responsiveness, and innovation, and was “humanity’s greatest creation” all-around.<sup>1</sup>

Many Davos watchers took note that the crisis of capitalism replaced staple mouthings about the boons globalization conferred upon the world’s nations at the Davos forum in Switzerland in January 2012. Curiously, Edward S. Miliband, member of British Parliament and Labor leader, writing in the Editorial Opinion column of the *International Herald Tribune* while the Davos meeting was on, gave his view that the Davos conferees discussed an issue uncommon for the forum - is 20th century capitalism fit for 21st century society? His own answer to this question was it was not as much whether capitalism was fit

for modern-day society as could politicians dare challenge the existing flawed economic model. He believes, with childlike gullibility, that managing capitalism by different rules is like having a different government. He reminded the readers that his Labor Party had come out a short time back for “a more responsible capitalism”.<sup>2</sup> (Ed Miliband

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appears to forget that Tony Blair led his party to power in 1997 with “Third Way” emblazoned on its banner, and that for over a decade the ruling Labor Party had no guts to challenge the “flawed model of capitalism,” and was bending itself over backward to help all U.S. administrations to reinforce the framework of the Anglo-Saxon model of “liberal capitalism.”

The discussion that heated up drew in Paul Krugman, a famous 2008 Nobel economist who wrote, together with Richard Layard, a professor at the London School of Economics, “A Manifesto for Economic Common Sense” for the *Financial Times* in an attempt to give the “true answer” to the question about the causes and underpinnings of the crisis.<sup>3</sup> Whoever had the chance to read Krugman’s tome “The Conscience of a Liberal,” a persuasive and well-reasoned criticism of many structural changes in U.S. socioeconomic development that lead him to conclude that the country had reverted, over the past three decades, to the inequality of the worst years of early industrialism and that the benefits of economic growth had been picked up mostly by the richest minority,<sup>4</sup> will be disappointed reading the lean “Manifesto” that contains, in a nutshell, a criticism of the tandem (private big business and governments

on both sides of the Atlantic) in its pursuit of an austerity policy by trimming investment activity, deficit, and debt.

True, some commentators who had written for the Capitalism and Crisis column contrived to say virtually nothing about the structural crisis of capitalism that is gathering momentum these days. A paragon of ill-disguised evasion of the key subject was provided by John Ph. Key in an article “When Capitalism and Corporate Self-Interest Collide.” The author confined himself to discussing “creative destruction,” a proposition advanced by Joseph A. Schumpeter (an American economist and an ardent apologist for monopolies), and to backing up this proposition with recent examples of innovations eroding the business foundations of many large corporations. To give weight to his arguments, John Key turned back to Schumpeter who, even falling out with Marxism over capitalism, subscribed to K. Marx’s conviction that “creative destruction was at the heart of capitalism”.<sup>5</sup> (Indeed, Marx wrote in the section “Historical Tendency of Capitalist Accumulation,” at the end of the first volume of his “Das Kapital”: “But capitalist production engenders, with the inevitability of a natural process, its own negation. It is negation of the negation.” “Centralization of the means of production and socialization of labor reach a point where they become incompatible with their capitalist shell. It explodes. The hour of private property strikes. The expropriators are expropriated”.<sup>6</sup>

Incidentally, K. Marx is back in vogue in many developed capitalist countries today. *Bloomberg Businessweek*, of all likely sources, did a two-page article on K. Marx in a September 2011 issue, with a picture of K. Marx in a modern outfit for an

illustration. The article is prefaced, probably to give its readership no reasons to have suspicions about the editors' unpalatable preferences, by this phrase, "The economic crisis has made the philosopher's ideas relevant again, but the world must not forget that K. Marx erred".<sup>7</sup> The author begins with a reminder that there has never been a dictatorship of the proletariat. This

*"You don't have to sleep in a T-shirt with Che Guevara's picture on it or pelt McDonald's with stones" to acknowledge that K. Marx's ideas are worth studying and maybe even drawing on to meet the challenges facing us*

statement is hard to deny. K. Marx was a great political economist, but he died before capitalism entered its phase of monopolism, and long before the age of modern progress in science and engineering. The reality of his time gave him no hint as yet of prospects for the rise of a social class our contemporaries call the "creative class".<sup>8</sup> (More about this and other errors of K. Marx below.) Vogue is for following it, and Peter Coy, the author of the article, admits, his tongue in the cheek, that K. Marx now has a new legion of "admirers." As a diversion from Coy, the Vatican's official periodical, *L'Osservatore Romano*, carried an article giving the Marxian analysis of social inequality its due. Back to Coy, surprisingly, he goes on, "you don't have to sleep in a T-shirt with Che Guevara's picture on it or pelt McDonald's with stones" to acknowledge that K. Marx's ideas are worth studying and maybe even drawing on to meet the challenges facing us. Many famous advocates of capitalism did that before - Joseph Schumpeter in the past and Nouriel Roubini, an economist of New York University, today, or George Magnus, chief economic counsel at the London office of the biggest Swiss bank, UBS. In

conclusion, Coy sounds an optimistic note: each time capitalism blundered into its successive crisis, talented people turned up (John Maynard Keynes in the United Kingdom and H.P. Minsky in the U.S.) and made the right diagnosis - and capitalism was back in good health. “Time has come for another flare-up of the Renaissance,” Peter Coy concludes.<sup>9</sup>

In the flurry of this agitation in the Western press and discussions of the destiny of capitalism, the late and superficial reaction in the Russian academic community leaves a depressing aftertaste\*. To our mind, one of the chief reasons for its slow feedback is *politico-economic analysis of system development*, one of the numberless sacrifices suffered by Russian fundamental science over the past two decades. Mikhail L. Khazin, a renowned Russian economist and president of the Neokon consulting company, who gave a remarkable interview to the *Mir i Politika* [The World and Politics] magazine, said in response to the question about any theoretical research he knew of going on into the crisis gathering speed before our eyes: “If you have theories in mind, there are none but ‘generalities.’ This is really the greatest problem of the modern ‘economic mainstream.’ ...Anyway, ‘economic mainstream’ definitely has nothing to do with science.” M.L. Khazin put us in a nostalgic mood by reminding us of what followed up: “Adam Smith invented the term ‘political economy’ in the 18th century, and from that time on, right up to Karl Marx, scientific thought developed along these lines. K. Marx

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\*Followers of “critical Marxism” and a few members of the academic community who had been doing in-depth studies of modern capitalism long before the current crisis (See, for example: A.V. Buzgalin and A.I. Kolganov, *Global'niy kapitalizm* [Global Capitalism], Moscow, 2004 and 2007; *idem*: *Predely kapitala* [The Limits of Capital], Moscow, 2009, and “*Ekspluatatsiya XXI veka* [Exploitation in the 21st Century] in *Svobodnaya mysl'* [Free Thought], No. 7-8 and No. 9 are a rare exception.

was really a great economist who made a unique contribution to the evolution of political economy. ... [But] following the collapse of the U.S.S.R., every effort was made in the former ‘socialist camp’ and democratic, market-bound Russia to strike political economy out of research and education. In the 1990s, nearly all Russian high-education institutions that had taught political economy were given hefty grants to write ‘economics’ courses. The grants were well-spent, and ‘economics’ exactly was soon taught everywhere”.<sup>10</sup>

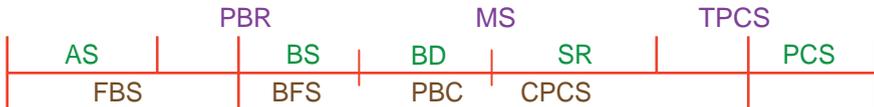
*The absence of scientific schools and “unrestrained freedom of creation” give an incentive to the production of ample chaotic and do-it-yourself pseudoscientific output.*

Why could political economy as a science be buried so easily in “independent” Russia? We all remember well that the Higher Attestation Commission’s attempt to strike philosophy off the list of postgraduate exams set off furious polemics in the press, and philosophers won the day, their science untouchable. Again, in the case of political economy, at least two factors, to our mind, tilted the scale: first, a compelling aversion to the Stalinist “political economy of socialism,” a parody and unabashed distortion of the Marxian thought, and second, the muscle-flexing bureaucratic bourgeoisie needed an analysis of capitalism in the terms of political economy, in general, and a study of its own parasitism, in particular, least of all. These and a few other circumstances explain, to a large extent, our wanderings on the surface, without digging deep underneath, in search for reasons behind the changes happening in the world in the balance of strength or understanding the implications of structural transformations in

developed and developing countries in every corner of the world.

The absence of scientific schools and “unrestrained freedom of creation” give an incentive to the production of ample chaotic and do-it-yourself pseudoscientific output. In consequence, the terms (globalization, modernization, innovation, and a string of others) are used either haphazardly or, the reverse of it, in a ritualistic litany without, more often than not, an understanding of the concepts that stand behind them. Both use patterns that have brought us face to face with a *conceptual crisis*, with no tool at hand for communication in the scientific community, and hold the community together, for that matter. To break the deadlock, we want to convey, before we put forward our views on structural changes in world capitalism and the nature of the extensive crisis that has clamped its grip, above all, on developed capitalist countries, our ideas about globalization, its scale at this point in human history and the real balance of economic power in the world economy, and provide a general theoretical chart illustrating development of the capitalist system and our comments on it. Of course, we do not claim monopoly on truth. We only want to stake out a platform and a framework for an intelligent, productive, and rewarding discussion of the dramatic problems of the modern world and perhaps purge our conceptions of them of all sorts of myths spun in the last few decades in foreign countries and our own, too. As time races on, many people in this country are asking themselves the question: Where are we heading for? What strategy do we have for social development? Too many influential forces, though, want to prevent discussion of answers to these questions.

# GENERAL THEORETICAL CHART OF CAPITALIST SYSTEM DEVELOPMENT



## Legend

- AS - absolutist statehood;
- A - agony;
- FBS - feudal-bourgeois synthesis (inception of capitalism);
- PBR - political bourgeois revolution;
- BS - Bonapartist statehood;
- BFS - bourgeois-feudal synthesis;
- BD - bourgeois democracy;
- PBC - private business capitalism (developed capitalism);
- MS - monopolistic statehood (demise of capitalism);
- SR - social reformism;
- A - agony;
- CPCS - capitalist-postcapitalist synthesis;
- TPCS - transition to postcapitalist society;
- PCS - postcapitalist society.

## Comments

1. The capitalist system was conceived in the third phase of feudalism, after feudal democracy, with its fragmentation and ceaseless feuds, was replaced with absolutist statehood. The replacement gave society political centralization, raised a regular army, and placed the feudal lords under the king; what is more, it brought socioeconomic centralization by creating *conditions* for future capitalist development - an internal market, a single (national) currency, regular foreign trade, and much else besides. A “third estate,” members of an emerging capitalist system still huddled within its feudal shell, arose alongside the old class-conscious antitheses of feudal lords and peasants. At the final leg of this phase, though, the absolutist power took fright of the third estate’s growing strength and influence and started setting up all manner of barriers to its continued development (agony of feudalism at its high point).\* In the end, a political revolution to sweep away these barriers becomes an objective necessity. All these developments are analyzed in considerable detail in K. Marx’s manuscripts and later publications. What is more, the general idea of a new system *ripening* within the bowels of the old one was the ultimate conclusion to be derived from his “Das Kapital.” And yet, for reasons known but to himself, K. Marx passed over another pattern followed by succeeding systems - not a single of the oppressed classes in an old system (slaves or peasants in feudal

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\*This interpretation of “agony” as a dialectically controversial phenomenon at the final stage of system development when society’s productive forces are going up to a peak in parallel with the system’s slow “demise” is surprisingly hard for a majority of Russian scholars and experts to digest (probably under the deep impression of comparisons between this country and the Western world).

bondage) had (nor could it) become the hegemonist of the new system as it arose and developed. Marx and Engels made the proletariat the sole exception. It may only be assumed that they were swayed in their about-face by two circumstances. First, they were revolutionaries as well as scholars. They established the First International and had a prominent part in its activities. Second, they had no other social force but the working class movement to lean on in their time. (In correspondence with their most trusted followers, though, they admitted openly how immature it was and unready to assume political power.)

2. A successful political revolution was followed by a long phase of *formation* when capitalism just out of the bowels of feudalism and trying to stand up firmly on its feet had to transform the legacy it inherited from feudalism and remake society, from top to bottom, in its own image. To say it more simply, this phase of early capitalism and primary accumulation was actually a mix of the bourgeois and the feudal, now, though, with the capitalist trend on top. The state, too, was of an interim, *Bonapartist*, type. The name is certainly a makeshift, and the old regime could at times be restored, but at the bottom line it was a dictatorship playing up on the confrontation of two opposites and pressured by circumstances to keep, in its own way, the road for capitalist development free and clear. K. Marx and F. Engels described and analyzed all these tribulations excellently in their numerous works and publications. It is very important, though, for the purposes of this publication, to highlight an aspect of political economy in the fundamental analysis of capitalist system development

that has a direct bearing on modern capitalism but very frequently overlooked by Soviet political economists (to say nothing of present-day economists) - "directly social labor." In particular, Marx traces in his "Das Kapital" the expansion of direct social labor over the history of the capitalist system developing from cooperation and manufactory to factory and ultimately to monopoly production.

3. The second phase only signals the final victory of private business capitalism and, on this basis, the birth (very slow as well) of parliamentary democracy, to be fine-tuned until the onset of the third phase. This historical fact also is enough to make the policy of *Westernization* foisted insistently by the West on developing nations and countries in transition a futile effort. It took England 180 to 190 years after its great bourgeois revolution to put parliamentarianism, more or less full-fledged, in place. France, with the English experience to learn from and the Paris Commune crucible on its own turf, managed to cut the nearly two centuries to 80 years. As if oblivious of its own history, the West took to demanding catching-up countries to have "normal" capitalism and political democracy patterned on the Western model. Western politicians, economists, and sociologists pretty soon forgot a significant historical fact - as factory floor production started in Europe, the surging industrial revolution demanded regular supplies of raw materials from overseas and large markets to sell its products on. Merchant ships and trading posts gave way to colonial wars and colonial systems (a peculiar industrial internationalization of worldwide production

and marketing). Eventually, political bourgeois democracy was fine-tuned in colonial powers along with increasing exploitation of natives in their colonies and semi-colonies.

4. In the third phase of the capitalist system, the national integrity of the capitalist social and production organism breaks up and its “uniformity” is destroyed because of competition, concentration, and centralization of capital inherent in every type of capitalism. *Monopolies* (further expansion of the direct social labor framework) cropped up alongside traditional private capitalist businesses. This new development called for the state to be given greater relative independence that degenerated into open-ended authoritarianism. Civil society was definitely more developed than it had been in the previous phases, and the state, too, was learning to disguise its growing authoritarian core behind the screen of parliamentarianism. At the early stages of the third phase, the ruling quarters realized that unrestrained growth of monopolies could soon end up in oligopoly, the rule by a small group of individuals, in a situation fraught with destabilization and upheavals in society. To prevent this development from happening, they passed antitrust laws, set up regulatory commissions, and generally pursued a policy of social reforms. They also encouraged growth of the middle class as bedrock of democracy. All together, the *state kept interfering methodically* with capitalist system development, no matter what official propaganda and liberal experts said.

At the later stages of the third phase, the signs of “agony” showed up with greater clarity, not unlike

they did at the end of the third phase of feudalism (certainly at a different level of historical development), in particular, some of the innate attributes of traditional capitalism were turning into their opposites. The financial system ceased to fulfill its function of meeting the needs of the real economy and instead engaged in derivatives speculation, stock exchanges caved in under the pressure of speculative over-the-counter transactions, actually out of the regulator's control, and financial capital speculators merged closely, in practical terms, with the top segment of the bureaucratic establishment, and so on. (More about this in the section on the structural crisis of U.S. capitalism.) The state no longer had a hand in the rapid erosion of the middle class, and mass protest campaigns erupted under the "Occupy Wall Street" banners, the first time ever. This was all happening at a time when entirely new productive forces of the innovation technology (IT) lifestyle were emerging and a *creative class*, a variety of the third estate, was rising up as a forerunner of a future new society.

Unlike changes in all preceding phases of the capitalist system, emergence of new productive forces and IT lifestyle is specific in a way - having surfaced in any one country (in the U.S. in our example), it is not a sign that another breakthrough into new society in the future will occur in that country again. The reason is that unlike industrial productive forces, the IT lifestyle can, because of its nature and innate *globalism* (modern-world information technologies can hardly be locked in within a national monopoly), offer opportunities for direct social labor to be organized within the traditional framework, even if

as enclaves within the world industrial economy.\* Internationalization of the world industrial market, of which K. Marx wrote on many occasions, has merged nowadays with a new stream of global internationalization (or simply globalization). The IT lifestyle spills over national borders through *outsourcing* (used extensively in recent years) and IT transfers by international corporations to their subsidiaries in other countries thousands of kilometers away to manage manufacturing and help deal with emergencies on the shop floor in *real time*. Understandably, these transnational direct social labor structures have not become commonplace or fail-safe. They are not secure from geopolitical risks or natural calamities (a tsunami in Northeast or Southeast Asia can delay delivery of chips or spares to assembly factories in Europe or the U.S.).

And lastly. National liberation movements and revolutions spreading in the wake of World War II were followed by decades of efforts to dismantle the colonial system that resulted in dozens of politically independent countries arising in the world. Independence, though, could not alter the old division of labor overnight. During the period of transition aptly called neocolonialism, monopoly capital in developed capitalist countries established multinational corporations, or MNCs. Until the rise of the IT culture in the 1970s-1980s and the adoption of information technologies by the MNCs they remained industrial companies because they set up branches using

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\*Regrettably, the term "globalization" popping up all around in hundreds and thousands of national and foreign publications distorts the substance and real scope of this phenomenon. In fact, globalization is only making its first steps.

industrial productive forces in developing countries. This significant distinction between the old MNCs and the TNCs (transnational corporations using information technologies) is frequently ignored in studies into international corporations and, as a result, the international activities of major (for example, Russian) corporations in other countries are reported to have a greater value than they are worth.

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<sup>1</sup>*Financial Times*, January 23, 2012.

<sup>2</sup>*International Herald Tribune*, January 28-29, 2012.

<sup>3</sup>*Financial Times*, June 28, 2012.

<sup>4</sup>Paul Krugman, *Kredo liberala* [The Conscience of a Liberal], Europe Publishers, Moscow, 2009.

<sup>5</sup>*Financial Times*, January 25, 2012.

<sup>6</sup>K. Marx and F. Engels, *Sochineniya* [Works], Moscow, 1960, p. 773.

<sup>7</sup>*Bloomberg Businessweek*, September 19-25, 2011, p. 10.

<sup>8</sup>*Svobodnaya mysl'* [Free Thought], No. 7-8, 2012, p. 139.

<sup>9</sup>*Bloomberg Businessweek*, *op. cit.*, p. 11.

<sup>10</sup>*Mir i Politika* [The World and Politics], No. 6, 2012, p. 9. Overall, this viewpoint is echoed in the assessment of the situation given by Nikita Krichevsky, another acknowledged economist, in the Free Choice column of *Moskovsky komsomolets* (September 25, 2012): "For starters, we actually do not have an economic school of our own (unless the political economy of socialism is rated as such). Besides, the country forfeited many potential scientists in the mess of the 1990s or the consumption binge in the 2000s. On top of this, ... many so-called economists (by training, not appointment) on hand are, if put to an endurance test, regular *raconteurs*, or fill government or corporate orders, or entertain the uninitiated public with 'alarmist' pep talk."

## STRUCTURAL CRISIS IN THE UNITED STATES

The current crisis in the U.S. is not just another “ordinary” cyclic crisis of capitalism. Here it is something totally new - a *structural crisis* at the last stage of the third phase of capitalist system development in that country. Given, though, that the U.S. is the leading power in both the Anglo-Saxon model and the world capitalist economy, its crisis has global implications. In the U.S. itself, the crisis is a sign that it has entered the Agony stage (consult the chart in the Foreword). Agony, may we repeat, is a word substitute for a system formation stage that does not begin and end overnight; rather, it may drag on indefinitely precisely because it is unfolding in the world’s most advanced country. With the latest in science, engineering, and the establishment to fall back on, the nation’s elite possesses subtle skills in manipulating public opinion and drawing on long-lived stereotypes to put off indefinitely the time when the country starts sliding into the formative stage of a new, postindustrial economy\*.

What signs of that remote formative stage do we see in modern-day America?

Briefly, a concise answer is that critical watershed changes have taken place in the U.S. socioindustrial organism and put the country’s administration, big business, and society’s elite face to face with challenges so great that they are still fumbling for an adequate response. The most significant of these changes are examined below.

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\*Predictably, a real breakthrough to postindustrial society and a step-at-a-time liberation of direct social labor could be effected at the fringes (as this happened with feudalism or capitalism itself), and probably in North European countries (like Scandinavia), rather than at the epicenter of the old system.

A new *information technology culture* (IT culture) based on computer and Internet technologies maturing within the bowels of the country's traditional highly industrialized socioindustrial organism is the chief factor of the formative stage that is behind all successive momentous changes in the United States. The year 1971 when the Intel Corporation developed an integrated circuit or a computer chip that kicked off a global spread of information technologies can in this sense be considered a symbolic point of reference. The IT culture caught on in the U.S. in several stages. At the *inception* stage (the post-WWII years up to the early 1970s), it was a "culture onto itself," an enclave (geographically, the Silicon Valley, as well) fenced off from the main body of the highly industrialized American economy. As one of the most vibrant industries of the U.S. economy, already in the *growth* stage, the new culture was (beginning in the 1970s) working its way rapidly first into the most convenient, open, and receptive services - communications, finance, and commerce. The going was the hardest in manufacturing burdened with heavy capital investments. When the IT culture rose to its full stature and even was topped by a virtual superstructure - NASDAQ (National Association of Securities Dealers Automated Quotation), America was overwhelmed (as it had always been) by a wave of nationwide euphoria. Many economists and the media had no other adjectives than "new" and "postindustrial" (which is still an exaggeration even today) doing their studies and writing their headlines. In the 1990s, the nationwide jubilation was inflating a huge bubble on the NASDAQ's virtual trading floor that blew up in 2001 without doing much harm. It was an in-house IT, not national economic crisis, not yet. Far more important and dangerous was the trend towards greater inconsistency and *dualism* of

American society's socioeconomic structure, or, more specifically, differences between the new IT culture and the now traditional industries. The inconsistency was of a *dialectical* variety - on the upside, the inception, growth, and expansion of the IT culture was the hallmark of progress in the American system, while on the downside, progress was attended by degradation of traditional industries, with many millions of Americans employed in these industries and their families finding themselves on the sidelines of civilized and dignified life. It was *deindustrialization*, a name by which it goes now.

*A new IT culture based on computer and Internet technologies maturing within the bowels of the country's traditional highly industrialized socioindustrial organism is the chief factor of the formative stage that is behind all successive momentous changes in the United States.*

Significantly, deindustrialization started stirring and growing long before the current crisis. As much as 31%, or around six million members of the work force in manufacturing, have been laid off over the past 12 years, and the input manufacturing industries are making to the U.S. GDP tumbled down to 12.2% in 2011 from 22.7% in 1970.<sup>1</sup>

Had the IT culture expanded by swallowing up the traditional industries only, the dualist structural inconsistency would have certainly fizzled out very soon. The fact is, though, that the IT culture needs neither of the old productive forces (physical assets and manpower) and that the rapid gains in productivity could be achieved by, first, slimming down the workforce and, second, attracting white-collar professionals. A curious man-made paradox that has arisen in the U.S. today is that while millions of people are out of work, the country is desperately in need of skilled hands. Big corporations do not care a bit where they get the skills they need - in or beyond the nation. One

more observation, a key role in deindustrialization has been played by “liberation” of capital itself with the rise of the IT culture. In the age of traditional industrialism, major factories and monopolies were always preoccupied with maintaining secrecy about their technologies and sought to have supplies from their subsidiaries and acquire control over related companies. Manufacturing costs certainly rose because of their zeal, but watertight secrecy of technologies, security, and uninterrupted operation made extra costs immaterial. The IT culture (even if it still looks reasonably well after its technological secrets) cares more about manufacturing cost reductions by *outsourcing* that suggests inevitable expansion of direct social labor within the national framework and beyond.

Outsourcing is a way for big capital to resolve its staffing problems by moving out to wherever labor is cheap and/or has no safeguards whatever. A few examples will bear this out. The famous carmaker, General Motors, sells more cars in China than at home. Its factories in China employ 32,000 full-time workers and only 52,000 in the U.S., a sharp contrast with the 468,000-strong work force that the corporation employed in 1970. GM invested \$250 million to set up a modern technological center in China to put out electric batteries and alternative power sources.<sup>2</sup> Three years ago, General Motors filed for bankruptcy and, *The Economist*, UK, wrote financial assistance from the federal authorities saved GM from the scrapheap. A dramatic restructuring exercise brought the corporation’s finance back into decent shape. Besides, scared by the prospect of bankruptcy, the UAW (United Automobile Workers) local backed off from its tough stand, something it had never done before, and signed a four-year wage settlement

agreement with the GM management that gave the corporation freedom to hire thousands of new second echelon workers who were paid half the wages drawn by the old work force. The GM management also offered a majority of the old work force (any of its 48,500 workers) an option of \$5,000 in lump sum and around \$4,000 more in four-year installments on early retirement on pension. The next round of negotiations is to be held in 2015 to review the wage agreement. These manipulations slashed the average pay rate of GM workers (the highest among the three American auto giants) from \$70 or over an hour in 2007 to a tad over \$50 (below Ford's shop floor wages) in 2011.<sup>3</sup>

*The IT culture cares more about manufacturing cost reductions by outsourcing that suggests inevitable expansion of direct social labor within the national framework and beyond*

One more example is General Electric, another American industrial giant. In 2010, the corporation made \$14 billion in profit, of which \$5.1 billion only it earned in the U.S. A major scandal was raised in March 2011 in the country over an article published in the *New York Times* alleging that the corporation was given, also in 2010, \$3.2 billion in tax deductions. To add fuel to the fire, the *White and Bloomberg News* had just completed its survey that reported, among its other findings, that the federal government set an effective tax rate for General Electric at the lowest threshold among the world's 33 largest industrial companies. The press came down on the corporation for having reduced its work force in the U.S. by 20% in 2002, even though its total profits had since grown to \$92 billion from \$15 billion.<sup>4</sup>

Not to be outdone by high-tech industrial corporations that had become part of the IT culture, IT core

corporations, too, have set their eyes on overseas driven by the desire to optimize their business by outsourcing on a promise of cheap skilled hands and access to extensive markets for their products. In 2000, the costs of wage hikes flying out of control in the IT industry and healthcare costs\*, and the opening of China's economy to the world after its admission to the WTO, tempted American IT corporations to outsource some of their manufacturing processes and even a segment of their engineering to Taiwan and then to mainland China. This move was followed by the closure of 49 chip factories in the U.S. in 2000 and reduction of the work force in computer production in 2010 to around 166,000, significantly smaller than it was in 1975 when the first personal computer, MITS Altair 8800, came off the assembly line. In the meantime, a computer manufacturing industry employing 1.5 million arose in Asia. Certainly, those were not indigenous factories, in the strict sense of the term. Rather, they were parts of the global direct social labor system making components for major Western IT corporations - computers (for Dell and Hewlett Packard), cellphones (for Nokia), and other items for Microsoft and Intel. In China, 250,000 workers, many times more than in the U.S.,<sup>5</sup> are employed to manufacture computer elements for Apple Corporation.

The Apple paradox is that the corporation is rated the biggest company in market capitalization in the U.S. Its factories in the U.S., though, employ 43,000 workers, with 700,000 around the world in Apple's employment, delivering supplies to the corporation.

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\*Andrew S. Grove, Senior Adviser to Intel Corporation and its one-time executive manager or chairman in 1987 to 2005, figured out that creating one job in the early years of the Silicon Valley cost the corporation a few thousand dollars, and now it is several hundred thousand dollars (*Bloomberg BusinessWeek*, July 5-11, 2010, p. 51).

Unfortunately, says Paul Krugman, American Nobel economist, almost none of these people lives in America.<sup>6</sup> Nor are all of them employed at Apple's foreign branches either. (Similarly, not all outside suppliers of other American IT corporations are their branches). Krugman's lamentations have an easy explanation - the 21st century *comprador*, by analogy with early colonial-age *compradors*. Indians and Taiwanese working for Intel and Microsoft in the Silicon Valley and having close ties with them returned eventually back home to set up IT service centers. (Also called "Silicon Valleys" wrongly.) One of the earliest companies in this class in Taiwan, Hon Hai Precision Industry Co. (better known today as Foxconn), has developed into a major world corporation turning out electronic devices and building its factories in many developing countries setting up their own modern industries. After China joined the WTO and particularly after mainland China opened up for Taiwanese investments, Foxconn put up several chip-making factories on the mainland, turning China into the second most important chip producer after Intel. Another Taiwanese company, Semiconductor Manufacturing International Corp., was established in 1987 and specialized in computer chip production.<sup>7</sup>

India has become an unchallenged world hub providing services within the framework of worldwide outsourcing business. Its first two Silicon Valleys, Infosys and Wipro, arose near Mumbai (former Bombay), to be joined later by TCS (Tata Consultancy Services), a subsidiary of Tata, one of India's biggest monopolies, and soon outstripped both. Today, the three companies have a total work force of 500,000 drawing wages equivalent to 40% of the trio's \$157 billion in service sales. They expect to earn \$200 billion in receipts on 1,000

contracts they have entered into for the next five years. These companies, though, are typical enclaves without close ties to the Indian economy. The U.S. and Europe buy 80% of all services provided by these companies. Infosys, for one, earns 64% of its incomings from the U.S. and only 2% from India. Half of TCS company's outsourcing revenues flow in from foreign customers.<sup>8</sup> Cheap labor involved in outsourcing certainly has a time frame - as the outsourcing business grows, the situation changes on the labor markets of both India and China, local employees are given wage hikes, and international corporations taking the enormous geographic spread as given are gradually shifting their outsourcing focus to Vietnam, Bangladesh, and Pakistan, and the Philippines was already ahead of India in a variety (of a lower order) of outsourcing in 2011.

Far from all outsourcing is about relationships between international corporations and developing countries bent on having their own advanced industries. In situations where, in the first place, transfer of technologies and know-how is objectionable for geopolitical reasons, corporations may be shrewd enough to find loopholes to outsource their manufacturing contracts at home. Take Boeing, for example, an aircraft corporation running operations in Seattle, Washington, northwestern U.S. In early 2011, the corporation filed for starting up a branch operation in Charleston, South Carolina, on the U.S. Atlantic coast, now employing a work force of 4,000. South Carolina has 18.3% of its population living below the poverty line and had an 11.1% unemployment rate in 2011 against the nationwide 9.1%. It was not concern for the welfare of the state's population that forced the Boeing management's hand to have an operation there; rather it was lack of social safeguards for the employed class in South Carolina that is in a

group of states, most of them in the South, having antiunion laws.<sup>9</sup>

In summer 2012, Airbus, the European aircraft-manufacturing consortium, had a go at this loophole as well in Alabama, in the same class with South Carolina. Airbus announced plans to build a branch factory in Alabama (the corporation has A-320 producing operations in Germany, France, and China).<sup>10</sup>

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These target states have outsourcing precedents in the automobile industry - BMW, Toyota, and Mercedes-Benz have their operations in both, in competition with the Detroit Big Three (General Motors, Ford, and Chrysler).

As an offshoot of the IT culture, outsourcing shares its dialectical inconsistency. In formal terms, outsourcing is progress giving greater scope for direct social labor on the national turf and across borders by, among other benefits, involving developing economies in modernization. Otherwise, outsourcing is feasible within private capital confines. In the Anglo-Saxon liberal model, unless a strong government regulator keeps TNCs from straying into excessive self-serving cosmopolitanism, outsourcing has a destructive socioeconomic fallout in the U.S. economy. Making much of their earnings offshore, the TNCs conceal their profits from the American taxman, spending or investing their monies into assets that have lost much of their value during the years of crisis. In *Bloomberg's* reckoning, American *non-financial* corporations on the Standard & Poor's 500 Index have racked up \$780 billion from their offshore operations. Over a

period of seven months in 2011, they squandered \$174 billion on foreign assets. *Bloomberg* compares the American IT corporations' offshore and home assets amassed in 2010, some of which are shown below (in billions of U.S. dollars):<sup>11</sup>

<b>Corporation</b>	<b>Offshore cash assets</b>	<b>Home assets</b>
Apple	47,6	28,6
Microsoft	45,0	7,8
Cisco	38,8	4,6
Oracle	20,4	8,4
Google	18,8	20,3
Qualcomm	14,6	5,6
Dell	12,9	2,3

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<sup>1</sup>*Bloomberg BusinessWeek*, September 10-16, 2012, p. 14.

<sup>2</sup>*International Herald Tribune*, July 30, 2010.

<sup>3</sup>*The Economist*, September 24, 2011, p. 77.

<sup>4</sup>Interview given by General Electric CEO Jeffrey R. Immelt to Russian *Vedomosti* newspaper, published on August 11, 2011.

<sup>5</sup>*Op.cit.*, pp. 50-54. See also: *Financial Times*, January 28, 2011.

<sup>6</sup>*International Herald Tribune*, January 28-29, 2012.

<sup>7</sup>*Bloomberg BusinessWeek*, July 9-15, 2012, p.32.

<sup>8</sup>*Financial Times*, January 25 and 26; June 26, 2012.

<sup>9</sup>*Bloomberg BusinessWeek*, October 24-30, 2011, p. 32.

<sup>10</sup>*Wall Street Journal, Europe*, July 5, 2012.

<sup>11</sup>*Bloomberg BusinessWeek*, August 15-28, 2011, p.20.

## **SOCIAL FALLOUT OF THE STRUCTURAL CRISIS IN THE U.S.**

Deindustrialization has had painful effects on the *social* structure of American society, including chronic unemployment, blurred class lines and poverty, stratification of the middle class and its lowermost layer among traditional industries' workers actually falling out to the bottom, and growth of inequality across-the-board, to name only some of them. Unemployment, though, is the Obama administration's worst headache.

Growing unemployment threatening to become a chronic affliction was looming long before the world was sucked into the current global crisis. In fact, the traditional industries in the U.S. have been lingering in a slump for several decades already. In the last 12 years, manufacturing industries have trimmed their work force by 31%, or six million.<sup>1</sup> Average wages started dwindling as far back as in 1970. True, the impact of thinning pocketbooks was cushioned by more married women with children joining the work force. Inflation of the mortgage bubble helped maintain the welfare illusion for a time, and when the bubble blew up, millions of men, an overwhelming majority in construction, were given the boot. Overall, the work force (including full- and part-time workers) plunged to 63.3% of the working-age population in 2009 (statistically, the lowest level since 1948).<sup>2</sup>

Until recently, the average American had been nursing a dream about the "American way of life"

maintained by cheap bank loans and still cheaper consumer goods from China. It was a cover-up, though, for the undercurrent of a gathering structural crisis and intractable unemployment that broke to the surface in 2007 to 2009 as an undisguised mortgage, financial, and economic crisis and dashed the illusion of welfare. American experts hold different views on the nature of unemployment. Official experts in the service of federal authorities insist on its cyclic pattern guided by their ideas about the cyclic nature of crisis. Experts of the scientific community and some of their Wall Street counterparts argue, with good reason, that dramatic changes have occurred in society and that unemployment has structural underpinnings.<sup>3</sup> The former fall back on traditional economic models and offer no explanation for the strange behavior of unemployment that still holds while the profits of major IT corporations have been growing for some time already. Indeed, as economic growth rebounded previously after a traditional cyclic crisis employment recovered as well. Robert B. Reich, a former U.S. Secretary of Labor and author of the book “Aftershock: The Next Economy and America’s Future,” wrote an article for the *International Herald Tribune* prefaced with an idea first in his mind: rising profits no longer pull up employment. (The preface refers to the most significant change in the labor market that is nearly completely ignored by the Federal Treasury and its experts and is not registered in their monetary policy.) Reich writes in his article that the American corporations had recovered by mid-2010 nearly 90% of the losses they had suffered during the crisis and were sitting on

a huge pile of cash.\* In the second quarter of 2012, the 500 biggest nonfinancial companies had around a trillion dollars among themselves, and this amount kept growing, while no dint had been made in real unemployment. Reich names three reasons why unemployment does not fall. The first reason is that corporations are investing overseas where they earn a major part of their receipts. The second reason is, Reich believes, that where corporations invest in the U.S. they do so in labor-saving technologies to boost productivity, not raise wages. The third reason is that, the crisis regardless, corporations use their profits to pay dividends and buy back their own stock as a way to send their prices up.<sup>4</sup>

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To give justice where it is due, official statistics gives unemployment figures in the U.S. during the tenure of the last eight presidents since 1972. We chose this period because it coincides approximately with the rise of the IT culture. In 1972, during Nixon’s term of office, unemployment standing at 6% started falling and dropped below the 5% point, but shot back up toward the end of Nixon’s presidency. It crept up for most of the first half of Ford’s term to just above 9%, rebounding again to below 8%. Under Carter’s Democratic presidency, unemployment continued to slide and

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\*Since Reich wrote his article, the corporations built up the cash pile significantly. In mid-September 2012, Bloomberg wrote that close to two trillion dollars had been added to the corporations’ assets that year and their fixed assets had reached levels unknown since the crash of the Lehman Brothers Holdings and Bear Stearns Companies (*Bloomberg BusinessWeek*, September 17-23, 2012, p. 45).

retreated to about where it started near the end of Carter's term. The uptrend was inherited by Reagan during the first half of his first term of office when unemployment peaked to hover between 10% and 11%. The peak was followed by a slide to 5%. President Bush, Sr., presided over another round of unemployment growth to above 7%. Unemployment continued to fall during the next two terms of President Clinton (D), descending to below 4%. During the presidency of Bush, Jr., that followed next, unemployment edged up to just over 6% at the start of his tenure, then turned back down, and up again at the beginning of Bush's second term that happened to commence with the rumblings (mortgage crunch) of the current crisis. Last, Obama had his hands full with both the raging crisis and employment peaking again to nearly 10% in March 2009. In 2010 through 2011, every effort was made to bring unemployment down to 9%, and then to 8.6% in November 2011.<sup>5</sup>

It appears then that a downtrend has set, at least in percentages. Percentages, though, stood for different real numbers from one presidency to the next. In the early 1970s, 1% unemployment in the total work force (excluding farmers) was at least a half of what it was in 2008 in the number of people out of work. In 1975, for example, 1% stood for around 800,000 jobless and 1.4 million in 2008 (the 9% peak during Ford's presidency was equivalent to 7.2 million unemployed, and the 10% peak in Obama's term of office was 14 million).

Official unemployment figures falling in the last 18 months is no cause for joy, though. As tempers heated up in the run-up to the presidential election, tampering with unemployment statistics intensified, too, as

if reminding an unbiased observer of the standing joke of lie, big lie, and statistics. A sporadic flicker in unemployment statistics, no matter how insignificant, was taken by the opponents for a major improvement either way. It was more than coincidence that *Bloomberg BusinessWeek* carried, hours before the election, an editorial feature cautioning the voters against electing a president on the basis of statistics.<sup>6</sup>

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There are many ways to give a wrong picture of the labor market. The official figure of 14 million unemployed does not include another 11 million underemployed - part-time or temporary workers. The unemployed can only stay on welfare for a specified time, and unless they find a job by a fixed deadline, they are taken off the unemployment register, still out of work. In January 2012, for example, 1.2 million of them just vanished from the welfare database.<sup>7</sup> Another group of unemployed who have lost hope of finding jobs in their fields have stopped applying for welfare and subsist on chance earnings they pick up here and there. By some estimates, these two groups have around 6.6 million dropouts.<sup>8</sup>

Existence of structural chronic unemployment in the U.S. is revealed by the sudden steep climb in the average length of the jobless spell that was 17 weeks in 2007 and shot up to 40 weeks in 2011. In 2001, the unemployed out of work for 27 weeks or more accounted for only 10% of the total, while there were 44.4% of them in 2011.<sup>9</sup> These figures give some experts in the U.S. reasons to claim that the

employment ratio has reached 63.7% of the working-age population, the lowest percentage in the last three decades, and that official unemployment statistics gives a rosy picture of what things really are.<sup>10</sup>

And again, the point we want to make is that chronic unemployment started going up and wages down with the rise of the IT culture and the onset of IT-related restructuring of the U.S. economy. In their early decades, both events were concealed and cushioned by two domestic factors - first, the growing number of working women with families who helped plug the hole in family budgets and second, coming later, inflation of a mortgage bubble to sustain employment in the construction industry in which most of the work force were men. The bubble burst eventually, blowing away millions of jobs. The structural crisis and chronic unemployment trailing in its wake led to growing social inequality. Paul R. Krugman, a professor at Princeton University and winner of the 2008 Nobel Prize in economics, we already wrote about, published a book, "The Conscience of a Liberal," in which he describes persuasively many structural changes in the United States' socioeconomic development.<sup>11</sup> Krugman believes that over the past three decades the country has been thrown back to the level of inequality it had in the worst period of early industrialism and that most of the boons of America's economic growth have been picked up by the richest minority, with the majority pushed to the sidelines of economic progress.

The growing social inequality in the U.S. in the years of crisis made headlines in self-respecting media in the U.S. and the United Kingdom. In January 2012, to give an example, the *Financial Times* published an article

about immense funds accumulating in the balance accounts of nonfinancial corporations in the U.S. that make the weight of corporate profits in the country's GDP greater than at any time since 1950.<sup>12</sup> In 2011, 1% of the richest Americans owned a third of the national wealth against 2.5% of it belonging to 50% of their poorest countrymen.<sup>13</sup> Many experts in the West write

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that protracted unemployment is especially damaging to the development prospects of the U.S. economy and to American society in general. It pushes a significant segment of the work force out of its class framework, and leads to the loss of professional skills, blunts willpower and desire to work, and intensifies depression and total marginalization on the labor market. Thousands upon thousands have hit the bottom. Some experts qualify these adversities as *loss of human capital*.<sup>14</sup> Others write that *more jobs and a larger share of national manufacturing capacities* have been lost to the ongoing crisis than to any recession in the past fifty years.<sup>15</sup> IMF experts, on their part, are deeply worried over the steep rise in unemployment among young people in Western countries. In 2011, for example, the proportion of jobless under the age of 25 went up to 17.1% in the U.S. It is held at the IMF that there is a risk of a lost generation as well as of a lost decade.<sup>16</sup>

Poverty has been rising at an unprecedented rate in the rich U.S. over recent years. In 2000, the country had 31.5 million of its citizens living below the poverty line, and ten years on, in 2010, the number of poor Americans rose to 46.2 million, or more than 15% of its population. In this respect,

the nation had thrown a half-century back. Also in 2010, 45 million Americans lived on food stamps.<sup>17</sup> In May 2012, the municipal authorities in New York, the country's largest financial, economic, scientific, and cultural center, opened ten poorhouses and had plans to open another five by year end. There are now 46,000 homeless New Yorkers, 14% of all homeless Americans. Perhaps the worst hit were old industrial centers, including, of course, Detroit, once a major engineering city, now a standout again - this time, at the brink of collapse. According to census returns published in early 2011, a quarter of Detroit's population, middle class families (both White and Black) among them, left their hometown in the previous decade. Families were breaking up, and crime was on the rise. Of those who stay put, 38% live below the poverty line today.<sup>18</sup>

The "middle class" is a subject that merits special mention. It is an issue Russian "liberal" economists are prone to refer to in vindication of their economic policy as a cornerstone of democracy and economic prosperity in developed capitalist countries. At the outset of the agony stage, the middle class was stratified or eroded, particularly after IT transnational corporations and transnational banks started outsourcing their routine jobs to computer operators, copyists, and other office workers in developing countries. Outsourcing struck a heavy blow at white-collar workers in America. In August 2012, the *Financial Times* wrote, with reference to a report from the Princeton University Research Center, that the decade just passed was the worst period for the middle class in the post-WWII years: its earnings (and social status, we may add) slumped significantly, and, still worse, it started

contracting rapidly. In 1971, it comprised 61% of America's adult population, and only 51% in 2011.<sup>19</sup>

The middle class could take its worsening situation, to a point. According to Albert Edwards of Société Générale, its patience was cultivated by the policy of central banks that fueled a real estate boom and caught middle class members in their lending snares

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to create an illusion of prosperity and consumerism and restrain the middle class from rebelling.<sup>20</sup> When, though, the crisis shattered the illusion, a protest movement arose. People have reasons to be angry, wrote *The Economist* in October 2011. Protesters took to the street everywhere, from Seattle to Sydney. No matter what motivated them to protest, the "Occupy the Wall Street" movement in New York or the *indigados* (indignant) in Madrid, they are fired by indignation over the economic mess and injustice when the poor have to pay for the rich bankers' sins and, at times, for the wrongs of capitalism itself.<sup>21</sup>

It is not unlikely that unemployed workers and middle class victims joined in the protest movements. Judging by the radicalism and forms of the protest movement, and the slogans on its banners, the awakening middle layer of the middle class, rather than the proletarian masses, had the decisive role. The proletariat is a class that is an integral part of the capitalist system. Strikes, rallies, and marches for higher pay (or against pay cuts), better working conditions, and shorter working hours, or "normal" (in the workers' minds)

capitalism, are its principal weapons within the framework of developed capitalist countries' system. With the onset of the formative stage of the capitalist system's agony, the proletariat behaves in almost the same way as the peasantry did at the twilight of absolutism. Rather than fight against feudalism, peasants protested against their "bad" and "unjust" feudal lords when they failed to meet their obligations in matters of land and law. (Royalist risings of French peasants in Vendée during the great French bourgeois revolution are an appropriate example.)

At the current agony stage, the middle layer of the middle class is more revolutionary-minded and more sensitive, because of its members' better education and awareness, to the loss of their old illusions and relative welfare they enjoyed previously. True, as the middle class is sliced into layers, a new layer of people with a higher education that has been able to adapt itself to the changing situation and fit closely into the IT culture, has come into being. The new layer is often called the "creative class" or creative workers of the new culture (a "third estate" of sorts, now in between capitalists and the proletariat). It is not yet a class - it is a *protoclass*. The more forward-looking executives of the IT transnationals grasped the potential of this protoclass. They realize now that labor organization must be changed in principle to match up to the different nature of the new creative productive force. Google's management, for example, has introduced a new work schedule under which its employees are allowed to use up to 20% of their working hours at their discretion. The new schedule has had a very positive effect on productivity, initiative, and innovation drive of

people having an inventive streak from birth. The IT corporative community received Google's innovation with skepticism, and even bewilderment. As the innovation started paying off, many skeptics made an about-face to learn from and improve the new system that they labeled "freedom and responsibility".<sup>22</sup> (This system is more akin to the reflections K. Marx and F. Engels engaged in about the form of labor under communism beyond, of course, the scope of corporate bosses' private interests). As the IT culture expands far and wide, a mature creative class will sprout from the creative protoclass to become the hegemonist at the formative stage of a future new economy and future society.

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Meanwhile, as it was about to go into a new year, 2013, America was confronted with a real "fiscal cliff"\* threat arising because of sputtering in the political power model, convincing evidence that the formative stage of agony has begun - no political consensus and no political leader to impose consensus with the weight of his prestige. Still, President Obama managed to reach a brief compromise and put off a long-term and realistic resolution of the fiscal cliff problem. Relief of the tax burden for the middle class at the center of the compromise is indication that there certainly is

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\*The fiscal cliff problem arose over numerous tax benefits passed during the presidency of Bush, Jr., that are to end on January 1, 2013. There is apprehension, though, that the enormous tax burden and government spending reductions demanded (reasonably) by the Republicans will make the current financial crisis still worse for the U.S. (and much of the world).

realization of the significance of this class for the existing political power remaining in place.

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- <sup>1</sup>*Bloomberg BusinessWeek*, September 10-16, 2012, p.14.
- <sup>2</sup>*Op. cit*, August 29-September 4, pp. 26-28.
- <sup>3</sup>*See: Bloomberg BusinessWeek*, July 19-24, 2011, pp. 12-13.
- <sup>4</sup>*International Herald Tribune*, July 30, 2010.
- <sup>5</sup>*The Economist*, September 10, 2011, p. 44; September 17, 2011, p. 72; December 3, 2011, p. 92; December 10, 2011, p. 12; December 31, 2011, p. 68.
- <sup>6</sup>*Bloomberg BusinessWeek*, November 5-11, 2012, p. 10.
- <sup>7</sup>*Izvestiya*, February 8, 2012.
- <sup>8</sup>*Bloomberg BusinessWeek*, February 20-26, 2012, p. 14.
- <sup>9</sup>*The Economist*, September 10, 2011, p. 13; *Bloomberg BusinessWeek*, July 18-24, 2011, p. 13.
- <sup>10</sup>*Bloomberg BusinessWeek*, February 20-26, 2012, p. 15.
- <sup>11</sup>Paul Krugman, *Kredo liberala* [The Conscience of a Liberal], Europa Publishers, Moscow, 2009.
- <sup>12</sup>*Financial Times*, January 30, 2012.
- <sup>13</sup>*Moskovsky komsomolets*, October 11, 2011.
- <sup>14</sup>*See: The Economist*, September 17, 2011, p. 90; *Bloomberg BusinessWeek*, June 4-10, 2012, p. 6, and July 2-15, 2012, pp. 27-28.
- <sup>15</sup>*Bloomberg BusinessWeek*, August 29-September 4, 2011, p. 15.
- <sup>16</sup>*The Economist*, October 22, 2011, p. 13; *Financial Times*, July 3, 2012.
- <sup>17</sup>*Vedomosti*, September 15, 2011; *Moskovsky komsomolets*, October 11, 2011.
- <sup>18</sup>*Izvestiya*, October 11, 2012; *The Economist*, October 22, 2011, pp. 57-58.
- <sup>19</sup>Quoted in: *Vedomosti*, August 24, 2012. *See also: The Economist*, Special Report “The Future of Jobs,” September 10, 2011, pp. 5 and 7; *Bloomberg BusinessWeek*, January 23-29, 2012, pp. 102-103.
- <sup>20</sup>*Wall Street Journal*, August 10, 2011.
- <sup>21</sup>*The Economist*, October 22, 2011, p. 13.
- <sup>22</sup>*The Economist*, Special Report. September 10, 2011, pp. 12 and 13.

## THE FINANCIAL ASPECT OF THE STRUCTURAL CRISIS OF THE ANGLO-SAXON MODEL

At the agony stage, precisely thanks to the emergence of the IT culture that penetrated and permeated the financial sector of the U.S. and British economy, the structural crisis of the advancing globalization age displayed its most deep-laid, sensitive and even shocking features. Nearly every mechanism and institution of the financial sector turned into their opposites. It all started with computerizing the financial sector. Nothing portended disaster, it seemed. Moreover, hundreds of millions of people across the world enjoyed the benefits of that computerization. However, in the wake of the 2007-2011 crisis it became abundantly clear that in conditions of the Anglo-Saxon liberal model, a computerized financial sphere became a formidable weapon of mass financial and economic destruction that was transforming the financial sector into a powerful *self-sufficient entity* that completely *lost touch with real economy*. One of the institutional victims of blanket computerization was *commodity and stock exchanges*. Those once useful tools that made the commodity and money turnover considerably easier and more extensive as capitalism progressed, ultimately started to break out of any reasonable control and regulation while postindustrialism was taking root in such countries as the United States and Great Britain.

The loss of contact between exchanges and real economy got increasingly obvious, as did their transformation into a mechanism of independent increment of speculative capital. What exchanges were mostly engaged in now was not sales of actual

goods, but conclusion of futures deals on various *derivatives*. The brokers and dealers, at that, as well as hedge funds, investment banks and even pension funds, justify their vigorous exchange speculations by the need to hedge their profit against fluctuating exchange rates, prices of raw materials, or interest rates on loan capital, but refuse to officially fix deals turning over backwards to keep them untransparent. However, electronic trade has itself built up considerable hurdles for normal control and state regulation, particularly given the recent trend of snowballing short-sale operations.

Indeed, computer software *automatically creates millions of derivative contracts by the second, which use the minutest price changes to make money*. This type of financial system, on the one hand, allows *managers* to make enormous fortunes (for themselves, not for the company), and on the other, rules out any chance of interfering in the process of deal conclusion for corporation owners, i.e. shareholders. This constitutes yet another major unhappy transformation in the workings of financial capital at the agony stage. Shareholding owners are becoming passive onlookers, while the managers they have hired at exorbitant salaries take decisions virtually at their own discretion and then carry them out as they see fit. This type of financial system is no longer an organic component of national economies, becoming as it does a species of malignant growth on the body of economics that is metastasizing into other parts of the organism.

After all, some nonfinancial companies and corporations also yielded to the temptation of exchange gambling. All those negative financial processes originated precisely in the countries built on the Anglo-

Saxon model. In July 2009, *The Financial Times* printed an interesting chart of how hedge and stock funds (funds investing in other investment funds) were distributed about the world by the second quarter of 2009 (the figures in brackets show the relative share of regions).

**Distribution of Hedge Funds and Stock Funds about the Countries and Regions of the World**

USA	4442 (45,2%)	Offshore centers	684 (7%)
Great Britain	2208 (22,5%)	APR	419 (4,3%)
EU (minus UK)	849 (8,6%)	Americas (minus USA)	275 (2,8%)
Switzerland	821 (8,4%)	The rest of the world	126 (1,3%)

The United States and Great Britain alone (not counting offshore centers) account for 67.7 percent of similar funds, while in mainland Europe Switzerland taken singly is almost comparable to the entire EU.

The moment of truth came with the global crisis. No derivatives, no hedging with specialized software could prevent the crashing downfall of the financial system that had gone haywire. It would be a naïve simplification to try and look for individual culprits or specific institutional financial organizations responsible for the calamity (although all of them did their bit to bring the situation about).

The trouble was that the historically formed financial system (under the aegis of Wall Street and London City) saw to it that the state forsook for a while the discharge of its vital control and legal functions, especially at the most difficult time of transition to a new economy. It was not exactly that the United States had no exchange regulation bodies whatsoever. Over there way back under

Roosevelt's New Deal, after he came to power on the crest of the Great Depression of 1929-1933, the Securities and Exchange Commission (SEC)\* was set up in 1934. Years later, in the wake of the energy shock of the early 1970s, the Commodity Futures Trading Commission (CFTC) was likewise set up in 1974. Yet in the difficult conditions of exchange computerization then under way these commissions not only failed to discharge their chief functions properly, but actually connived at increasingly uncontrolled exchange activities (possibly because a second edition of Franklin D. Roosevelt never materialized). A serious trial for these commissions came in mid-July 2008, at the oil-price shock peak (when prices skyrocketed to \$147 per barrel), and the subsequent dramatic plunge to \$35 per barrel by the end of the year.

That was the time when presidency of the United States started to be fiercely contested. President Bush whose family was closely connected with oil business tried to get Congress to back his decree which lifted the shelf-deposit tapping moratorium, citing as grounds the fact that the United States was increasingly dependent on oil imports, and from countries hostile to America, to boot. The Democrats parried that there was no need to start large-scale development of new deposits in the United States; as for the price, it was being pushed up by uncontrolled activity of exchange gamblers. At the time the CFTC echoed Bush saying that the gamblers were neither here nor there, as everything

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\*It was supposed that the SEC should be an independent expert commission, free from home-policy leanings. Among its leaders are two members each of the Democratic and the Republican Parties, but the commission chairman is appointed by the country's President, and as experience showed, that was what tipped the scales during decision making.

depended on the demand-supply asymmetry.<sup>1</sup> Nevertheless, the Democrats who held majority in Congress demanded that the commission take tougher measures and restore order at the NYMEX (New York Mercantile Exchange).

A number of suits were initiated, but most importantly, the Democrats engaged independent experts who, having analyzed the way things developed in the first half of 2008, presented to Congress a report, “Speculators Drive Prices Up and Down,” where they showed that prices had rocketed precisely when speculators inundated the exchange with their investments. But when Congress started to exert pressure on the futures commission and elaborate legislation against exchange abuse, speculators lost no time in withdrawing up to \$40 billion and knocked prices down. The Report also noted that during the first six months of 2008 oil reserves throughout the world roughly remained flat, while demand and supply were reasonably well balanced and could not affect in any noticeable way the ups and downs of oil prices.<sup>2</sup>

Incidentally, the conclusions of independent experts were also indirectly borne out by the dynamic statistics of monthly futures contracts. For example, whereas the number of WTI oil contracts made in 2003-2006 hovered between 70,000 and 100,000, the number of those made in 2007 and the first half of 2008 soared to 260,000 to 340,000.<sup>3</sup> On the eve of the crisis years 2007-2008 the derivatives market was among the largest in the world. By the estimates of the Bank for International Settlements in Basel, the nominal value of contracts within the world system was then worth more than \$636.4 trillion. But a mere

3.4 percent of that sum passed through exchanges. The remaining \$614.67 trillion, which was ten times the entire world's annual gross product (!), traded on private markets directly between buyers and sellers in the form of nonexchange derivatives.<sup>4</sup> It can be, therefore, stated that *the bulk of the world's financial market at the time had practically left the halls of traditional exchanges for computer networks.*

It took a truly ear-splitting peal of thunder, a global crisis, to induce U.S. Congress and the Presidential Administration to pass a resolution on Exchange Reform in July 2010. Both the SEC and the CFTC were tasked with drafting an act by July 2011 (an obviously unrealistic deadline) that would regulate the activity of exchanges and protect the consumer.

It would certainly be wrong to say that President Obama did absolutely nothing to curb the disastrous tendencies building up in the financial sector. Shortly after the tremendous row over the Bernard L. Madoff affair, in whose pyramid some investment companies lost billions of dollars and which the SEC had blithely overlooked, the leadership of the commission was replaced. Mary Shapiro was appointed its chairperson in January. Under Ms. Shapiro the SEC launched several dozen lawsuits. The biggest of those was a suit against Goldman Sachs, which in 2010 had to pay \$500 million to settle accusations of investor swindle in share-issue placement. When in May 2010, the U.S. stock market lost a trillion dollars at one fell swoop, the SEC hired technical specialists to cope with market supervision.

The commission spent two years working on the behavior code for brokers who were told to put the clients' interests before their own. There appeared a new form of hedge-fund accounting to the SEC that ran

into over a thousand questions on 42 pages with the deadline of August 29, 2012. So the managers of the funds, for the first time ever, had to spend summertime in their offices instead of attractive holiday places filling in the forms and worrying lest they let out too many of their business secrets.<sup>5</sup>

*The loss of contact between exchanges and real economy got increasingly obvious, as did their transformation into a mechanism of independent increment of speculative capital*

Still, Ms. Shapiro failed to secure support even in her own commission on the matter of toughening regulation for the money market funds with their \$2.6 trillion worth of assets. Small wonder, given the whistle blowing by Darcy Flynn. That veteran attorney of the SEC revealed to the world that for at least 17 years the Commission had been steadily shredding documents marked MATTERS UNDER INQUIRY (MUIs) that referred to supposedly wrongful acts by Wall Street firms. Flynn turned to Republican Senator and Senate Judiciary Committee member Charles Grassley who, accordingly, sent a query to the SEC, which Mary Shapiro ignored.

But shortly afterwards the press started printing critical remarks about the SEC's overly hand-in-glove relations with Wall Street, and in May 2011 a POGO (Project on Government Oversight) Report was published. It said that from 2006 through 2010, 219 of the former SEC officials submitted to the Commission letters of agreement to represent the interests of business clients in the SEC. The press judged all this to be sufficient grounds for doing away with the SEC with its annual budget of a billion dollars and for setting up a new commission on a new basis. In 2012, the rebukes intensified, and eventually Ms. Shapiro had to tender her resignation.<sup>6</sup>

Meanwhile, in the course of 2011-2012, the elemental forces of the global crisis gave the financial sector a sound battering. Both the hedge funds and the stock funds that fed the former ended up considerably the worse for it (with a possible exception of the Big Guys who had known what was coming and even cashed in on the insider information).<sup>7</sup> *The Economist* thus described in December 2011 the state the hedge fund management was in, “Those managers liked to think of themselves as visionaries who artfully foresaw where the markets would move. But today they are gazing dully at the LCD displays of their PCs trying to understand where they went wrong.”<sup>8</sup>

What had a truly devastating effect on the manager community was the crash of the world’s third largest hedge fund Paulson & Co with assets to the tune of \$35 billion. On average hedge funds fell by nine percent in 2011, which was a sinister reminder of the 19 percent collapse in 2008. Within the first six months of 2012, 424 hedge funds expired, a 14 percent increase on 2011. Moreover, fund liquidation continued until the end of 2012.<sup>9</sup> To add insult to injury, throughout the year 2012 a series of resounding scandals kept breaking out on the financial horizon; and their exposure uncovered the extent of depravity in the financial system.

On June 27, Britain’s second largest bank, Barclays, confessed that between 2005 and 2009 its management had been doctoring on a daily basis the London Interbank Offered Rate (LIBOR). In actual fact, that was the world’s benchmark of money value, and according to the U.S. CFTC, on a global scale that was the basic rate for financial instruments (bank loans, mortgage and student credits, etc.) worth \$500 trillion,

including \$350 trillion worth of interest rate swaps and \$10 trillion in credit.

According to the U.S. Comptroller of the Currency, in that country alone at least 900,000 loan subscribers are reimbursing LIBOR-

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tied credits granted in 2005 through 2009. The debt on those totals \$275 billion. So the minutest upward or downward

movement of the rate entailed a loss or gain of vast sums of money, which the leaders of unscrupulous banks made good use of, as it transpired later (the investigation involved some 20 banks).<sup>10</sup>

Basically, LIBOR and its twin Euribor should supply information to banks about the value of the loans they get and the size of mortgage payments. On the other hand, they are indicators of the soundness of the banking system. But since the data gathered to this end are not based on real transactions, there is potential room for manipulation.

And that was the sin Barclays had to expiate by paying \$455 million in late June 2012 to the financial regulators of the United States and Great Britain under the amicable settlement between the Financial Services Authority (FSA), U.S. Options Floor Trading Committee (OFTC) and the U.S. Department of the Treasury. Barclays had to part with its top management - Board of Directors Chairman Marcus Agius and Chief Executive Robert Diamond. However, Agius was kept for the time being to supervise (!) selection of the candidate for the job of Bank Director General. *Bloomberg* reported the news in a piece subtitled "Heads Must

Roll.” The journal staff concluded that the LIBOR case pointed to something being rotten in the banking culture of today.<sup>11</sup>

Ever since, phrases about the rotten, unseemly or irresponsible banking culture became commonplace on the pages of the Anglo-Saxon press. The fact that the financial system of the United States or Great Britain is pretty rotten and is giving off miasma throughout the world will hardly make serious people wonder, but there is the impression that both the staff of the esteemed *Bloomberg BusinessWeek* journal and other experts contributing to Western editions make out that any goings-on in the financial system are merely the result of incompetence or infrequent cases of abuse by a group of persons, a certain deviation from the norm in today’s capitalism.\*

In this connection we would like to quote a passage of over 150 years old from the *British Quarterly Reviewer* borrowed from the first volume of K. Marx’s *Capital*:

“Capital abhors the absence of profit or a profit that is too small, as Nature abhors a vacuum. But with adequate profit, capital is very bold. A certain ten percent will ensure its employment anywhere; 20 percent will produce eagerness; 50 percent, positive audacity; 100 percent will make it ready to trample on all human laws; 300 percent, and there is not a crime at which it will scruple, nor a risk it will not run, even to the chance of its owner being hanged.”<sup>12</sup>

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\*Here is a sample of this kind of gullible view from an item by FT observer Philip Stephens: Mr. Diamond’s departure from Barclays makes possible real changes in the City culture and practices. Profit and honesty do not have to be mutually exclusive (*Financial Times*, July 6, 2012).

Doesn't this observation from the past sound like something from the present? With one important difference, though; that mode of behavior was displayed by capital at the early stage of capitalist industrialization in Europe, while today's tableaux illustrate the overripe capitalism at the final stage of its system development. And doesn't the clamoring for more state control and regulation in the very mass media that for decades fought for liberal ideas suggest, albeit indirectly, a radical shift in those countries' public mood?\*

But let us go on with the inventory of 2012 abuses and scandal.

In July 2012, the U.S. Senate announced that in 2001 through 2011 Great Britain's biggest international banking group HSBC had subjected the U.S. financial system to risks involved in money laundering and terrorism funding. The Senate had been checking the bank's operations with clients from Mexico, Iran, the Cayman Islands and Saudi Arabia.

The Senate report talked of the utterly unscrupulous culture in the HSBC. Meanwhile the entity in question was a major transnational bank, whose capitalization (at the London Stock Exchange) reached 114 billion pounds (\$182.1 billion), and whose assets amounted to almost \$2.72 trillion. The

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\* Graphic proof of that is Gallup polls; in 1980, 60 percent of American pollees said they definitely trusted the U.S. banking system. In the year 2007, on the eve of the crisis, this index dropped to 41 percent, and already in June 2012 it plummeted to 21 percent. (*Bloomberg BusinessWeek*, August 27 - September 2, 2012, p. 32). True, another survey, on the matter of state regulation for business, conducted by the noncommercial firm of Edelman in late 2011, showed 31 percent of Americans convinced that the state was overdoing regulation (chiefly thanks to Republican votes - 55 percent against the Democrats' 16 percent). Still, more than 37 percent of the pollees declared themselves unhappy about the state doing too little regulation (this time there was an overwhelming Democrat majority of 52 percent against the Republican 19 percent). (*International Herald Tribune*, January 28-29, 2012).

HSBC branch network ran into more than 6,900 offices in 84 countries of the world. The regional makeup of this leviathan's assets (as of June 30, 2012) was as follows: Europe (47.4 percent), North America (17.3 percent), Hong Kong (16.8 percent), the APR (11.6 percent), and South America (4.8 percent). In early November 2012, the HSBC management acknowledged that it was negotiating with the U.S. authorities an amicable settlement of the money laundering charge and was accumulating reserves of up to \$1.5 billion to this end, but experts predict that eventually the payment may reach two to three billion dollars. (In August 2012, one of the Bank offices, Standard Chartered, already agreed to pay \$340 million in settlement of the charge of violating the U.S. anti-Iran sanctions raised by the State of New York financial regulator).

But the most piquant thing about the whole situation seems to be its British aspect. The HSBC likewise increased its reserves by \$350 million (to \$1.36 billion) to cover possible compensations to British clients who bought mortgage insurance from it. According to regulators, banks sold policies to the clients who did not need them, and the clients were not always aware of having purchased this policy.<sup>13</sup>

The latter story made us wonder really seriously about the origins of that sin; was it that the Britons and their colleagues mimicked the mores of some of our corrupt businessmen and officials, or were our folks really quick to learn from the Western tycoons? But in any case all of that can be written down to globalization outlays.

And finally, in mid-December 2012, one more giant, the Swiss transnational UBS, admitted to a

fraud connected with interest rate juggling (LIBOR again), and agreed to pay \$1.5 billion in fine (second biggest fine for banks so far). Negotiations are under way with the authorities of the United States, Great Britain and Switzerland. That bank had been manipulating the LIBOR rate since 2005 to calculate the prices of credits and contract to the tune of some \$550 trillion for the period between 2006 and 2010. The U.S. authorities also intended to charge a fair number of UBS bankers before Christmas 2012 for taking part in manipulations with the Japanese TIBOR rate. UBS Securities Japan is expected before long to plead guilty to TIBOR manipulation since 2007.<sup>14</sup>

*As for nowadays, we are witnessing practical merging of the section of the state apparatus with a handful of major transnational banks in the United States. That was graphically revealed from the very first days of the global crisis*

All that remains to be done is provide an answer to the cardinal question: so why, despite obvious corruption shenanigans by major banks, the latter get away with mere fines that amount to a tiny proportion of the capital and profit gained by dishonest means?

The way we see it, the main reason for this state of affairs is basic changes in the nature of interaction between major TNBs and top officials in the state financial apparatus (the Federal Treasury with its dozen or so offices across the United States, with the Department of the Treasury and various financial companies and departments).

At the early stages of the third development phase, that of monopolism, the state was still discharging the function of social auditor relatively independently, and that included protection of

small, medium and even big business from the destabilizing effect of monopolism that was rapidly going from strength to strength. On the initiative of the executive authorities Congress passed Antitrust Acts (the Sherman Act, the Clayton Act), and Presidents Theodore Roosevelt (a Republican) or Woodrow Wilson (a Democrat), adhering as they did to the for-business-but-against-trusts principle, spearheaded the fight for curbing monopolies' appetites, not stopping even at exposing a few (an excellent case in point is the protracted struggle against Rockefellers' Standard Oil).

But that is now a thing of the past. As for nowadays, we are witnessing *practical* merging of the aforementioned section of the state apparatus with a handful of major transnational banks in the United States. That was graphically revealed from the very first days of the global crisis.<sup>15</sup>

Indeed, as soon as the crisis of 2008 capsized that veteran bank of the United States, Lehman Brothers, and the turn of Bear Stearns was to come immediately afterward, the U.S. authorities rushed to the rescue of the financial sector. The assistance was both organizational and financial. They subsidized the joining of Bear Stearns to JPMorgan Chase, and when Goldman Sachs and Morgan Stanley found themselves on the brink, the Federal Treasury lost no time in saving those, letting them rebrand as ensured borrowers. Merrill Lynch, in turn, entered the Bank of America. Thus did the state authorities further the process of bank concentration.

So, whereas in 2009, five biggest banks in the United States were virtually in control of 80 percent of

the derivatives issued in that country, today 94 percent of them is accountable to just four banks - JPMorgan Chase, City Group, the Bank of America and Goldman Sachs.<sup>16</sup> Even more impressive and extensive (almost global) was the financial support of both U.S. and certain major banks abroad. At the height of the 2008-2009 crisis, the U.S. Federal Reserve System rendered emergency assistance to these banks amounting to \$16 trillion. (The auditors' secret report on these episodes was made public by Senator Bernie Sanders and published by *The Washington Post*).<sup>17</sup>

When two U.S. Treasury secretaries and FRS head Ben Sh. Bernanke were pumping the banking sector with money, they hoped, *Bloomberg BusinessWeek* believes, to see liquidity flow along the banking system and revive the economy.

But that was not the case; this policy benefited none but Wall Street.<sup>18</sup> The result of that charity was over \$8.5 trillion in assets in the possession of five banks - JPMorgan Chase, the Bank of America, City Group, Wells Fargo and Goldman Sachs - by June 2012, which, according to the FRS, equaled 56 percent of the entire U.S. economy. Even Richard W. Fisher, President of the Federal Reserve Bank of Dallas, called that policy dishonest subsidizing. This manner of subsidizing saved the banks some 120 billion dollars. That, moreover, in 2010 alone.<sup>19</sup> To justify the policy the authorities invented a special excuse - too-big-to-fail.

Ever since the word *bailout* has been a household notion discussed in all the Western media. The bailout, naturally, extended only to the chosen few, which predictably were not

bound by the Dodd-Frank Act that ordered the practice of bailouts to be discontinued. The bankers apparently knew that should they wake a congressman in the dead of night and inform him that the end of the world was nigh, help would follow without fail, as the piece in *Bloomberg BusinessWeek* suggested. Being confident of this is worth a king's ransom.<sup>20</sup> And commercial banks value it all right. According to the Center for Responsive Politics, these banks spent \$36.1 million on lobbying their interests in Congress and on regulators in 2006, but in 2011, the sum was nearly twice that amount, \$61.4 million.<sup>21</sup>

It may be worth noting that with regard to monopoly capital both the Republican and the Democratic administrations invariably pursued *two-party policy*. At the early stages of the third phase of capitalism the policy was antitrust, while today it is promonopoly. And this time round the object is different; the industrial-type monopolies have been replaced by TNBs. The most recent addition has been insider criticism, which sheds light not only on the quantitative aspect of bailouts, but also on *how exactly* that was done.

In March 2011, the White House saw the last of Inspector General of the Troubled Asset Relief Program Neil Barofsky. The Program budget was \$700 billion, and Barofsky was a tireless critic of bailouts. In his final report he singled out two faults, in particular: one, allocating money to major banks the Treasury made no effort to make those banks accountable, and two, the terms of the aid package looked suspiciously like a corruption deal.<sup>22</sup>

Lately, the United States and other Western countries (especially the Bank for International Settlements in Basel) approved resolutions on a structural banking reform, on separating investment activity (as extra-fraught with risk) and commercial banking proper (the reform was proposed by the Vickers Commission in Britain), and okayed the Volcker Rule, a specific section of the Dodd-Frank Act; while the Third Basel Accord recently approved a demand of raising the reserve capital minimum in banks to eight percent, etc., etc. But first, these documents still offer lots of loopholes for banks, and second, banks insist that in the crisis situation they have neither the means (insufficient demand by investors in the event of new emissions) nor the time to build up the reserve fund to the required minimum. And judging by the reports of a delay in the start of carrying out the Basel III resolutions, from 2015 to 2019, that appeared in January 2013, it would be overly optimistic to count on a full-scale banking reform in the immediate future. However, for all the wailing and complaints of the banking community, Wall Street managers en masse favor the status quo in relations with the state, which give them two advantages: cheap financing in the shape of state deposits and low interest rates of private loans, as investors believe that the bigger Wall Street banks have the government behind their backs.<sup>23</sup>

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<sup>1</sup>For more about the debate, see *The Wall Street Journal, Europe*, 24 July, 2008; *Financial Times*, July 5, 2008; *Kommersant Business Guide*, August 25, 2008, p. 18.

- <sup>2</sup>*Oil and Gas Journal*, September 22, 2008, pp. 36-39.
- <sup>3</sup>*Kommersant*, July 24, 2008; *Oil and Gas Journal*, May 19, 2008, p. 29.
- <sup>4</sup>*Financial Times*, August 12, 2010; *Bloomberg BusinessWeek*, May 24-30, 2010, pp. 52-55.
- <sup>5</sup>*Bloomberg BusinessWeek*, August 27-September 2, 2012, p. 36, and September 17-23, 2012, pp. 48-49.
- <sup>6</sup>*Vedomosti* [Gazette], November 28, 2012; *Bloomberg BusinessWeek*, September 5-11, 2011, pp. 8-9.
- <sup>7</sup>*Financial Times*, August 6-17, 2011.
- <sup>8</sup>*The Economist*, December 3, 2011, p. 72.
- <sup>9</sup>*Financial Times*, August 6-7, 2011.
- <sup>10</sup>*Vedomosti*, July 31, and October 16, 2012; *Financial Times*, June 29, 2012.
- <sup>11</sup>*Bloomberg BusinessWeek*, July 9-15, 2012, p. 8; *Vedomosti*, July 3, 2012.
- <sup>12</sup>See, Karl Marx, Friedrich Engels, Works, Moscow, 1960, p. 770 (translated into Russian).
- <sup>13</sup>*Vedomosti*, November 7, 2012.
- <sup>14</sup>*Vedomosti*, December 17, 2012; *Kommersant*, December 20, 2012.
- <sup>15</sup>One could commiserate with the author of the piece “Woodrow Wilson Knew How to Deal with Behemoths,” senior official at the Council on Foreign Relations and contributing editor of the *Financial Times* Sebastian Mallaby, who, exasperated by fruitless discussions about the need to change banking culture, advised the authorities to follow the principles of Theodore Roosevelt and Woodrow Wilson and destroy the behemoths (for which read, TNBs) (*Financial Times*, July 6, 2012).
- <sup>16</sup>*Mir peremen* [World of Change], Issue 3, 2012, p. 24.
- <sup>17</sup>See, *Moskovsky komsomolets*, September 17, 2012.
- <sup>18</sup>*Bloomberg BusinessWeek*, August 29 - September 4, 2011, p. 41.
- <sup>19</sup>*Bloomberg BusinessWeek*, July 9-15, 2012, p. 11.
- <sup>20</sup>*Ibid.*, p. 12.
- <sup>21</sup>*Bloomberg BusinessWeek*, August 27 - September 2, 2012, p. 33.
- <sup>22</sup>*Bloomberg BusinessWeek*, July 16-22, 2012, p. 26-27.
- <sup>23</sup>*Bloomberg BusinessWeek*, September 10-16, 2012, pp. 47-48.

## GLOBALIZATION AND WORLD LEADERSHIP

The precipitous collapse of the bipolar pattern of international relations had at least two important consequences that for a long time remained uncomprehended and/or consciously unrecognized by many parties to these relations. First, that was the loss of rationale, of the objective need for the existence of the superpower status that had emerged and lived through the period of ideological standoff between the two systems or, in the parlance of the time, two camps. Second, the trend toward molding a multipolar world that was born under the guise of bipolarity became overt. The trend is still in the making, a process likely to take a number of decades, but it has been steadily gathering momentum, although initially the whole thing was pooh-pooed by many skeptics. For a long time they denied the trend was there at all, citing various arguments against what they alleged was the idea of multipolarity. But far from being a mere idea, the multipolarity that was taking shape was solid objective reality. So, not surprisingly, the idea of a monopolar world advocated by the Americans and their supporters in other countries (including in Russia) was soon laid to rest.

And then, especially once the global crisis was under way, it became trendy to talk and write of bipolarity revival, but this time around it was China instead of the U.S.S.R., as the former was rapidly building up economic muscle and military might, and responded to the world crisis by nothing more drastic than a slight drop in economic growth indices (from 10% to 7.5%-8%). Moreover, the talk

now was of a new-type capitalism that challenged Western capitalist countries quickly overtaking them one after another; as for China, having outstripped economic power number two, Japan, it is trying to crowd out the United States and take the first position. Actually, few members of the expert community doubt at present that it will make it, including those employed by the UN and other international organizations.

What we have here, therefore, is yet another myth devoid of any serious scientific basis. Indeed, one can hardly accept as scientific analysis the superficial and purely technical comparison between such statistical GDP indices, and even the GDP per capita share, that seems to assume that the world is homogeneous, whereas today's world is not global (contrary to what some Russian experts allege), but is a *symbiosis* of some two hundred dissimilar countries at varying levels of structural, i.e. social and economic, development. To compare countries that make up the world ignoring this symbiotic quality is akin to calculating the average temperature in a hospital whose patients suffer not just from different but monstrously dissimilar disorders. After all, each country that is a constituent of the world community pursues its own geoeconomic and geopolitical interests, and nominal UN membership does not make them homogeneous components of the community. It is precisely the symbiotic nature of the world that for decades has been hampering accord at the Doha negotiations, or say, adoption of a new workable document to replace the Kyoto Protocol at the annual UN climate conferences.

The world symbiosis may be strictly conventionally divided into several large groups (conventionally, because each of these groups displays considerable individual distinctions):

1. *Industrialized capitalist countries*. Most of these countries have already passed the stage of industrialism, and are having postindustrialist structures emerge within them (the IT culture);

2. *Developing countries undergoing industrialization*. Within the framework of the catching-up model they are trying, along with modernizing their industry, to partake, in one way or another, of the first group's achievements in the area of postindustrialism;

3. *Early-capitalist developing countries* that constitute the majority in Latin America, Africa and, to some extent, Asia at present;

4. *Underdeveloped developing countries* struggling to survive;

5. *Failed states* that did not manage to create a statehood of any degree of stability.

It is perfectly obvious that what interests us here is the first two groups of countries, which most of the world's experts view as claimants to individual or collective leadership in global economy and the world community at large. We will cite here just one of the more interesting recent publications on the subject, which attempts at substantiating the said situation. The piece was penned by Foreign Relations Council official Joshua Kurlantzick.<sup>1</sup> It opens with the following assertion: "Over the past five years, as much of the developed world has staggered through crisis, a new type of capitalism has emerged as a challenge to *laissez-faire* economies.

Across much of the developing world, state capitalism in which the state either owns companies or plays a major role in supporting or directing them is replacing the free market.”\*

Among other things, he cites China as an example; in that country the state assets of 121 biggest state corporations that in aggregate amounted to a mere \$360 billion in 2002 had grown to \$2.3 trillion by the end of 2010. Kurlantzick warns that it would be wrong to underestimate the innovation potential of state capitalism. In his further analysis of the Chinese record the author gives neither facts nor statistics on China’s innovation achievements, but merely says that despite the excessive overspending in some sectors of state economics, interference by the Chinese government proved an effective stimulus for theoretical research and a boost in advanced production branches.

After that the author dwelt in considerably more detail on the experience of Brazil. Unaware that he was again contradicting his own point at the start of his article, Kurlantzick is telling us that 30 years ago the Brazilian government subsidized aircraft construction with the result that the Brazil’s Embraer jet occupied the main niche in the world market of this type of regional airplanes. The author also goes over numerous other achievements of that country. Admittedly, Brazil is a shining example of industrial success in a developing country. It only

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\*Already this reference to “the past five years” Kurlantzick is making points to a superficial approach. State capitalism (in its various forms) was originally the basis of the Japanese miracle, later reenacted (on the Japanese pattern) by the Republic of Korea, and eventually copied by Singapore and some other Southeast Asia countries.

remained to be said that the basis for that had been laid under the 1964-1985 military dictatorship, when three generals replacing one another in power in Brazil made their contribution to the country's industrialization.

At roughly the same time another military dictator in another country, namely, Park Chung-hee in the Republic of Korea, was

*Once the global crisis was under way, it became trendy to talk and write of bipolarity revival, but this time around it was China instead of the U.S.S.R.*

about to accomplish the Korean industrial miracle, largely copying Japan's historical practices. State capitalism (in the entirety of its forms and manifestations) is not only nothing unusual in the process of catching-up development in lots of countries of the world, but is in fact a logical condition of this very development.

When a small group of countries embarked for the first time on the road of capitalist development, surrounded as they were on all sides by numerous countries on a lower development level, it was not pressed for time, and so it traveled unhurriedly along its centuries-long way of evolution from simple cooperation via the stage of factory production to the monopolist stage. But the countries of catching-up development simply cannot afford to act in this fashion that the West imposed on them under the slogan of Westernization.

Also, the role of the state in the foremost capitalist countries was greatly belittled or simply hushed up by the champions of the Anglo-Saxon model. Meanwhile, their own relatively recent past provides at least two graphic examples.

When oil and gas deposits were at long last discovered in the North Sea, the Norwegian government lost no time in setting up Statoil, a *state-controlled oil*

*company*, which combined production tasks with the function of regulating the foreign companies allowed into the Norwegian upstream. Later Statoil (under extreme pressure from the European Union) was repackaged as a public joint-stock company, but with the state still in command.

Another, earlier example. In the wake of the World War II Italy established the state oil company Eni, which tried for years to join the Anglo-Saxon oil consortium known as the Seven Sisters. It was denied the privilege, but despite the impediments, Eni managed to become a major player in the world's oil business.

Going back to the subject of challenge by the second group countries, allegedly “issued” to the highly developed countries, it would be wrong to abstract oneself from the following question: What does this challenge rest on, and how high is the structure standard of their GDP? After all, a mere statement that GDP is large *tells us precious little about its makeup and quality*, and extensive economy does not have to be advanced or structurally forward. Let us look more closely at these aspects on the example of Number One Contester of the world's economic leadership, China, that most of the world's experts named as the world's second economy shortly to become the first.

Many talk of this prospect, differing only in the time when this goal will be achieved. Some calculate this by PPP (purchasing power parity), others by the dollar exchange rate. However, some experts add to the basic index one of the second order (which appears more significant, but also little suited to substantiating the structure forwardness - e.g.,

certain rich but socially backward oil countries of the Gulf that in purely statistical terms are in the \$60,000 per capita income bracket can hardly hope to contest world leadership).

Well then, China. The World Bank believes that in 2011 China's GDP was \$10 trillion by

*The Chinese leadership has for a long time (at least since the 1980s) been aware of the value of information technologies in tackling ambitious plans of the catching-up development strategy*

PPP, against the U.S. \$14.6 trillion, and that the per capita GDP there accounts for just 16 percent of the U.S. average per capita income. It follows from this that it might take decades to close this gap.

The author of the paper who cites these statistics tries to allay the fears of those concerned about China's rising might by advising them to visit the Huizhou Province, an impoverished area in the country's west where the income is one-fortieth of the U.S. figure. "You'll feel a lot better," the author says soothingly.<sup>2</sup>

Indeed, the per capita GDP of China's 1.3 billion population was a fairly modest sum of \$3,700. This is more than in India (\$1,030), but far less than in Brazil (\$8,200) and Russia (\$8,700), and infinitely less than in Japan (\$39,700), Germany (\$40,900) and the United States (\$46,380).<sup>3</sup> So this target will take quite some time to achieve, like as not.

China's leadership (in the report at the November 2012 Congress of the Chinese Communist Party) sets itself the task of having the people's per capita income doubled by 2021, when Chinese GDP will have exceeded that of the United States.<sup>4</sup> These are more moderate figures than the calculations by *The Economist* made in December 2011. The

weekly's expert computed the forecast on the basis of numerous data (from steel and energy consumption to car and cell-phone sales), also taking into account the fact that over the next decade China's economy is to grow by 7.75 percent annually, while the U.S. economy will grow by 2.5 percent. Given also the factor of inflation rate changes, etc., the result of all this expert analysis was the conclusion that should the PPP index be employed, China's GDP would outstrip that of the United States in 2016, while going by the market exchange rate, that would happen in 2018. But in the latter case the per capita income in China will be one-fourth of the American.<sup>5</sup>

A curious and original picture of how the dominant economic role of the world's three foremost countries would change was supplied by Arvind Subramanian, Professor at Peterson Institute for International Economics, in his book *Eclipse: Living in the Shadow of China's Economic Dominance*, who incorporated three factors in his analysis - the share in world GDP, trade and capital export. *The Economist* published a detailed abstract of the book in one of its September 2011 issues, even furnishing colorful graphics to go with it. Below is a simplified version of the chart from that publication.

**Domination in World Economy (%)<sup>6</sup>**

2010	USA - 13,3	China - 12,3	Japan - 6,9
2030 (prognosis)	USA - 10,1	China - 18,0	India - 6,3

If we are to take on trust the author's view, it will be China that will lead the world economy, but apparently aware of the degree of conventionality of this leadership, Mr. Subramanian calls the China of 2030 a precocious superpower. The weekly adds that some people favor the attribute *premature* to go with the word *superpower*, as China will have become "big" before it can get "rich."<sup>7</sup>

*"Over the past five years, as much of the developed world has staggered through crisis, a new type of capitalism has emerged as a challenge to laissez-faire economies. Across much of the developing world, state capitalism in which the state either owns companies or plays a major role in supporting or directing them is replacing the free market*

Still, what is the current makeup of China's GDP, what are its essential structural characteristics?

The following data and facts provide unambiguous answers to this question.

1. China is still an insufficiently urbanized country; its urban population accounts for 51 percent, while 48.7 percent of the people live in the country. There is a vast gap between the per capita incomes of these population groups; in the cities the per capita income is \$3,434 a year (21,810 yuan), while in the country it is \$1,000 (6,977 yuan). Moreover, the updated statistics say that 128 million people in the country get a mere \$361 a year (2,800 yuan).<sup>8</sup>

2. Small and medium-sized enterprises manufacture two-thirds of industrial products and provide half of the tax revenues. They employ 80 percent of the work force (according to the Ministry of Industry and Information Technologies).<sup>9</sup>

3. When there is talk of the outpacing growth of energy consumption in the Chinese People's Republic as an argument in favor of its superiority over

developed capitalist countries, it is necessary to bear in mind that the “modest performance” of the United States, and particularly that of Germany and Japan is mostly thanks to those countries’ spectacular success in energy saving and efficient use.

Here we have practically reached the point of defining the chief criterion that helps judge the leadership chances in the course of further formative stage of capitalist system’s development under globalization, i.e. formation of directly social labor (DSL) structures on the basis of information technologies. There are actually two such criteria - the level of the IT culture taking shape within the state framework, and the scale of positive effect from this culture on the formation of DSL global transnational structures.

The Chinese leadership has for a long time (at least since the 1980s) been aware of the value of information technologies in tackling ambitious plans of the catching-up development strategy. After protracted discussions, China apparently opted for the model of the country’s openness to the world market (WTO), intensive technological cooperation with foreign transnational corporations, creation of research centers for high technologies, and maximum use of the Greater China area resources, i.e. of Hong Kong and Taiwan, as well as of the Chinese communities in Southeast Asia (Singapore, Malaysia, Indonesia) and across the world (but especially in the U.S. Silicon Valley).

The biggest technology centers were set up at Langfang, Beijing’s satellite city (Zhongguancun Science Park), in Shanghai (Zhangjiang Hi-tech Park in the LPudong New Area), and in the Shenzhen Special

Economic Zone (on the border with Hong Kong). These centers are integrated research and production clusters encompassing several universities, research institutes and IT manufacturing enterprises. For example, the Beijing ZGC comprises 7,100 IT companies, 39 universities, and 200 research institutes.<sup>10</sup>

*The biggest obstacle on the way of developing and transitional countries attempting to build the IT culture is reforming the traditional education system*

The major contribution to the successful startup of high-tech production and exports initially belonged to Hong Kong, and after that, once Taiwan business was given access to the mainland, it were Taiwanese IT companies that took over. IT companies in Taiwan were originally founded, with government support, by those Taiwan nationals who had studied and worked in the Silicon Valley and still had ties with the transnational companies over there; back home, they established companies that copied the products of those transnationals. The innovations they introduced into their business were marginal, mostly to do with design, adjustment to the local markets, speedier production and delivery to the market, but nothing basically new. Even so, some of them achieved regional or even international recognition of their brands. The Taiwanese market was soon filled, the cost of labor went up as well, and at the first opportunity that business rushed to develop the mainland market. In each technopark and in many major cities of China's southeast sea coast, they set up enterprises of their own, dominating not just the local markets, but also computer, cell-phone, and microprocessor chip exports. According to the Taiwan Institute for Information Industry, some

80 percent of Taiwanese hardware was manufactured in China; and up to 60 percent of the value of China's hardware was provided by Taiwanese business in the mainland.<sup>11</sup> The phenomenon was even christened Silicon Triangle, a colorful name that, however, bore little relation to reality; its three components were the Silicon Valley, Hsinchu-Taipei region of Taiwan, and Shanghai.

If a triangle it was, it was certainly not equilateral. The bulk of the profit went to the first component that was the source of technologies; quite a bit of the profit and fame were appropriated by the second component, and what remained of the profit plus reduced tax revenues constituted the share of China, the supplier of cheap labor. However, transnationals are doing quite well in China even without intermediaries; 480 of the world's 500 biggest transnationals set up their branches in China, including 90 of the 100 IT corporations.<sup>12</sup> But one has to bear in mind that in the latter case the enterprises merely assemble the finished products. The software components (chips with microprocessors, TV panels, hard disks) come from Japan, the United States, the Republic of Korea, and selfsame Taiwan.

Although China became the world's second biggest exporter of electronic goods (after the United States), with \$342 billion worth of products, 75 percent of those exports included preliminary imports of components. The result was that the actual added value in China itself amounted to a mere \$85 billion.<sup>13</sup> The sources cite a "striking" example of the China-made new product Apple iPod. Production costs per product

unit were \$150, but the added value in China itself was a measly \$4; meanwhile, in the United States and other countries the retail price of iPod devices was \$299. Apple, therefore, received the lion's share of the profit.<sup>14</sup>

China's companies are as yet focused on peripheral products. The same goes for Indian IT corporations set up by returnees from the United States where they used to work for U.S. transnationals. These companies shy away from risky IT projects and take up research jobs only on order from Western TNCs.<sup>15</sup>

*The Chinese leadership is clearly aware of the need to staff the future IT sector with a generation of people who could think new. To fill this gap, it has worked out a whole system of patronage and attraction of Chinese students and postgraduates studying abroad*

China or India did join the globalization process controlled by TNCs, but only as a second or third marginal link. This is an imitation model, and innovations are also imitational; it is possible to make a product that would be better, prettier, more user-friendly, and even turn out more production units in shorter time, but it would still be the same product requiring no risky spending on research or new equipment, and no efforts to create something fundamentally new.

In structural terms, China is wholly at the catching-up development stage (to say nothing of the latent contradiction between the communist political superstructure and the rapidly expanding capitalist basis).

The biggest obstacle on the way of developing and transitional countries attempting to build the IT culture is reforming the traditional education system. The industrial miracle in such countries as

Japan, the Republic of Korea, Taiwan, Singapore, or China relied in no small measure on a synthesis of modernity (borrowed from the West) and the traditional Confucian heritage with its specific social guidelines. But forming a proper national IT culture proved impossible without extensively and profoundly reforming the traditional system of social relationships in society that fettered the flight of creative thinking, which is the basis of innovative IT economy.

Japan and the Republic of Korea took decades to wake up to the idea. It turned out that it was impossible to just borrow and copy models from someone else's practice. The Chinese leadership is clearly aware of the need to staff the future IT sector with a generation of people who could think new. To fill this gap, it has worked out a whole system of patronage and attraction of Chinese students and postgraduates studying abroad. According to Chinese statistics, there are some 600,000 experts in science and technology of Chinese extraction working and studying in other countries. In the United States alone there are 450,000 of them.<sup>16</sup> Obviously, not all of them are willing to go back, but this is still a considerable source of the necessary new human potential buildup.

It ought to be said that the Chinese leadership are concerned about the weakness of their national innovation system (NIS) and are injecting considerable amounts of cash in the R&D. As a result, China's share in the global R&D expenses has grown tangibly and is now 12.9 percent, while the United States accounts for nearly 34 percent.<sup>17</sup> But the trouble is that apart from lagging behind statistically, there is

also the qualitative side to the NIS to be considered; whereas the U.S. NIS has constantly been fed top-notch experts from all over the world, China has to build its NIS on the basis of local research and academic forces. So we can readily agree with I.A. Nasibov who says that “despite the obvious success, the Chinese economic model still cannot be described as innovative,” and that “innovations, above all the country’s own, are limited and are not of a systemic nature.”<sup>18</sup>

*China’s leadership (in the report at the November 2012 Congress of the Chinese Communist Party) sets itself the task of having the people’s per capita income doubled by 2021, when Chinese GDP will have exceeded that of the United States*

To all intents and purposes, China’s leaders feel somewhat disheartened by the results of their former policies of fairly broad openness for foreign investment. Western investors, while earning a good deal of their profit by outsourcing in China, were in no hurry to share with that country their technological secrets. Also instrumental must have been the fact that, given the quickly rising cost of labor in China, foreign companies took to moving their outsourcing business elsewhere, to Indonesia, Vietnam, Pakistan, etc.<sup>19</sup> Besides, there are now concerns about the mammoth U.S. debt to China in connection with the critical financial and economic position of the United States. After all, 70 percent of the \$3.2 trillion foreign-currency reserves in China consist of dollar assets, including the \$1.1 trillion worth of treasury securities.<sup>20</sup> Be that as it may, China has recently changed its tactics. Now one can increasingly often hear foreign companies complain that they no longer get the erstwhile hearty welcome in China, but are instead subjected to fairly tough

treatment. But the main difference is that nowadays Chinese business is heading for the West, chiefly the United States. And while as recently as 2006 China's investment in the United States ran into a modest \$200 million, by the end of 2010, it had reached \$5 billion.<sup>21</sup> Moreover, the point of this invasion was not only developing the capacious U.S. market, but also acquiring the know-how and high technologies on the spot, as it were. Remarkably, some companies actually set up research centers over there hiring local experts.

The crisis encouraged this investment. Assets in the United States got cheaper, and companies suffered from a serious liquidity deficit. (Not because that liquidity was in short supply in America, let us observe in passing, but because the banks sitting on mounds of cash, as we have pointed out earlier, were reluctant to take risks in the troubled crisis times). Characteristically, along with Chinese companies manufacturing television sets, automobiles, etc. the United States also attracted such major Chinese producers of telecommunication and other electronic equipment as Huawei and ZTE. In 2012, Lenovo, the biggest PC maker, that in 2005 had bought from the U.S. giant IBM a unit producing those personal computers, must have exhausted the innovation development resource and decided to return a portion of production to U.S. territory (apparently, for "recharging").<sup>22</sup>

But the companies that displayed altogether exceptional vigor were the Huawei and ZTE corporations, which had started their business in the United States by making deals with transport companies to deliver their cheap smart phones.

Huawei was founded in 1987 by a former technician of the Chinese People's Liberation Army, but is now doing its utmost to turn into a transnational corporation. In the United States itself the company HQ has a R&D budget of \$2.5 billion. It has hired tens of thousands of engineers in the United States. This HQ is connected with another center in Texas, and also with research centers in Mexico, India, Vietnam, Thailand, Bangladesh, Chile, Sweden, and 13 more places (it has a total of 110,000 people working for it across the world). Celebrating its tenth anniversary in the United States, in April 2011, it opened a research center in the Silicon Valley, no less (Santa Clara, California).<sup>23</sup>

*The major contribution to the successful startup of high-tech production and exports initially belonged to Hong Kong, and after that, once Taiwan business was given access to the mainland, it were Taiwanese IT companies that took over*

But all this success notwithstanding, according to *Bloomberg BusinessWeek*, Huawei's reputation in the United States is getting worse rather than better. The reason is that there is suspicion of connection with China's military circles; there are charges leveled against the company of misappropriating intellectual property (in particular, from U.S. Cisco), etc. Especial concern with regard to Huawei has been expressed by U.S. Congress. In October 2012, the Congressional Committee on Intelligence concluded that what Huawei and ZTE were doing posed a threat to U.S. security.<sup>24</sup>

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<sup>1</sup>*Bloomberg BusinessWeek*, July 2-8, 2012, pp. 4-5.

<sup>2</sup>*Bloomberg BusinessWeek*, October 17-23, 2011, pp. 14-15.

- <sup>3</sup>*Mezhdunarodniye protsessy* [International Developments], Issue 3, December 2010, p. 24.
- <sup>4</sup>*Kommersant*, November 9, 2012.
- <sup>5</sup>*The Economist*, December 31, 2011, p. 57.
- <sup>6</sup>*The Economist*, September 10, 2011, p. 78.
- <sup>7</sup>*Ibid.*
- <sup>8</sup>*Kommersant*, November 9, 2012, and December 25, 2012.
- <sup>9</sup>*Bloomberg BusinessWeek*, August 15-28, 2011, p. 14.
- <sup>10</sup>*Greater China's Quest for Innovation* (Ed. by H.S. Rowen, M.G. Hancock and W.F. Miller), Stanford, CA, 2008, p. 159-160.
- <sup>11</sup>*Ibid.*, p. 147.
- <sup>12</sup>*Svobodnaya mysl'* [Free Thought], Issue 8, 2010, p. 35.
- <sup>13</sup>*Greater China's Quest for Innovation*, p. 9. According to China's Finance Ministry, 55 percent of the country's export total comes from companies with foreign participation, and 22 percent of the overall tax takings is provided by foreign companies. Enterprises with foreign participation also contribute substantially to solving the problem of the skilled staff deficit. These enterprises employ 45 million people. (*Finansoviye izvestiya*, November 11, 2010).
- <sup>14</sup>*Ibid.*
- <sup>15</sup>*Ibid.*, pp. 198, 345, 359.
- <sup>16</sup>*Far Eastern Affairs*, Issue 5, 2010, pp. 86-100.
- <sup>17</sup>*World Economics and International Relations*, Issue 10, 2012, p. 80.
- <sup>18</sup>See, *Ibid.*, p. 82.
- <sup>19</sup>*The Economist*, September 24, 2011, p. 8.
- <sup>20</sup>*Wall Street Journal* and *Financial Times*, August 9, 2011.
- <sup>21</sup>*Bloomberg BusinessWeek*, June 4-10, 2012, pp. S1-S4.
- <sup>22</sup>*Vedomosti*, October 3, 14 and 26, 2012.
- <sup>23</sup>*Bloomberg BusinessWeek*, July 30 - August 5, 2011, pp. 19-20; September 19-25, 2011, pp. 74-75.
- <sup>24</sup>*Vedomosti*, October 9, 2012.

## AFTERWORD

All of the above prompts the conclusion that at present and in the foreseeable future China is and will be facing, first and foremost, the historical tasks of catching-up development, and its leadership will not be able to claim the role of the world leader.

Plans to achieve by 2021 the same amount of GDP as in the United States (even if they were to be realized) will not create grounds for global leadership. This slogan is reminiscent of Nikita Khrushchev's promise to have communism built in the Soviet Union by 1980. At the same time, the United States, too, has lost its superpower status, and in an attempt to artificially keep this status, often resorting to futile power methods, merely exacerbates its enormous social and economic problems.

We have already said earlier on that the critical situation in the United States is dialectically contradictory, namely, the structural crisis in the United States is a consequence of the structural changes in U.S. capitalism.

So crisis or no crisis, but the objectively progressive IT culture has been vigorously developing throughout this period.\* This crisis assumed so acute a form primarily because of the sociopolitical factor, because the U.S. political elite proved unable to overcome their puny squabbles and concentrate on devising and implementing

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\*According to UNCTAD, consumption of software and IT services in the United States was worth \$514.4 billion, while software exports were estimated at \$13.4 billion. The corresponding statistics in China look a lot more modest - \$50.3 billion and \$9.3 billion, respectively. (*Kommersant*, January 29, 2012).

a program of a Marshall Plan caliber, which one-time U.S. leaders carried out to save Europe from Stalin's communism.

But what is needed today is a similar program for saving a considerable portion of U.S. public, by harmonizing the transition from traditional industrialism to the new economics. America has two ways to achieve this transition: a conscious harmonious transition guided by the political will, and one that is traditionally conservative and fraught with suffering and death of millions of Americans. In the latter case the United States will provide ignominious proof of Karl Marx's prediction made way back in the mid-1800s. "It will not be until the great social revolution has taken possession of the achievements of the bourgeois age, the world market and modern productive forces and has subjected those to general control on the part of the more advanced nations, that human progress will cease to resemble the revolting pagan idol that refused to drink nectar other than from the skulls of the slain".<sup>1</sup>

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<sup>1</sup>Karl Marx, Friedrich Engels, Works, Vol. 9, p. 230.