Editorial

Back to the Future

As US President Trump’s trade war with China shows no sign of easing, the bond markets are sending a clear message that significant sections of the world economy are moving into a recession, if they are not already in one. Every national economy, whether big or small, seems to be locked in a perpetually escalating cycle of economic warfare – US sanctions against Iran, Russia, Turkey, and Venezuela; and US trade wars with China, the EU, Canada, and Mexico. These acts of economic warfare, reminiscent of the inter-war period, are not only affecting the countries directly targeted, but indirectly also affect a long list of other countries that have close economic links with these targeted countries. For instance, Chinese producers buy iron ore for steel from Australia, Brazil, India, Iran, South Africa, and Ukraine, and bauxite for aluminium from Australia, Brazil, and the poor West African nation of Guinea. All are being affected, some very seriously.

“Five of the world’s biggest economies are now at risk of a recession – and the spillover effect could eventually drag the US economy down, too”, reported CNN on 14 August 2019. Germany, the world’s fifth largest economy, reported that its economy shrank in the second quarter. The United Kingdom economy too contracted in the second quarter for the first since 2012. Italy, Brazil, and Mexico all slipped into recession in the second quarter (BBC News, 4 September 2019, https://www.bbc.co.uk/news/business-49578410; CNN Business, 14 August 2019, https://edition.cnn.com/2019/08/14/economy/recession-risk-economies/index.html).

The US’s “aggressive unilateralism”, which first emerged in the 1980s under Reagan, is now pushed to its limits. Trump is not some bizarre abnormality, but rather the genuine face of the vital interests of a declining superpower that is prepared to initiate a major crisis and huge devastation worldwide in order to stop its eventual decline. Trump’s coming to power itself is but an epiphenomenon of the deeply embedded structural and historical changes and trends taking place in international political economy and the global system of power.

“All such shifts are the results of an increasingly more volatile and chaotic international situation, which is the direct consequence of a process that Giovanni Arrighi, drawing from Gramsci, called hegemonic transition. During that period, systemic chaos is rather unavoidable. The late twentieth century saw renewed great power rivalry, system-wide financial excesses, and bursting bubbles centred on the declining superpower, the United States, and the emergence of new loci of power in Eurasia, in particular China and India. So, the core logic of this shift can be analysed properly within the context of major global structural changes and re-distribution of power, which have been affecting the world system for the last 30 years or so.

When the authority of a global superpower is on the wane, this affects the entire world order and leads to instability. Even though the United States still represents the largest and strongest economic and military power in the world, it is nevertheless struggling with severe weaknesses resulting from low economic growth and the protracted decline of its industry. The most important structural transformation that took place in the US-led global economic system after WWII was a massive crisis in manufacturing manifesting itself as stagflation. Falling profitability and weakening competitiveness led to the erosion of the
production-led mode of accumulation in the United States. When the productive power (and capacity) of the US started to decline, financial speculation began to play a major role in order to compensate the loss of profit rates in production and trade, explained in detail by Peter Gowan in his seminal *Global Gamble* (Verso, 1999). One of the most striking features of the US economy has become the rise of the rentier and the money capitalist. This was further reinforced with the massive upsurge of the US bond markets and, from the late 1980s in particular, of the junk bond market. This vast financial sector expansion greatly advanced speculation.

The decline in productive capacity and the ever-widening gap between productive and financial accumulation led to recurrent financial and economic crises in every corner of the world. The global chain of extreme financialisation and speculative profiteering broke in 2007–09, only to be transplanted into the euro-zone via the over-leveraged banking sector.

**2020: A New Global Crisis?**

All this is a clear manifestation of the fact that the world is currently going through a dangerous *interregnum*, a period where one arrangement of hegemony is waning, but prior to the full emergence of another. The world is poised between inward-looking old hegemonic powers, and reluctant new emergent ones. The United States is a declining superpower, with a crumbling infrastructure and a shrinking share of the global economy. The weakness of the US economy is indicated further by the fact that more than 16 percent of American companies are said to be zombie companies, which means that they are already insolvent (not able to make a profit), but banks are still giving them credit to stay in business, so that they will not have to go bankrupt and create a crisis (*Business Insider*, 29 October 2018).

China, on the other hand, is an ascending superpower, with a burgeoning industrial and technological infrastructure, a growing share of world trade and increasing self-confidence, but not ready yet to lead the world. The post-WWII arrangements that centred power on the Euro-Atlantic hub and Japan under the primacy of the USA were shattered first by the *stagflation* of the 1970s and then by the global financial crisis of 2008, and currently are fast losing ground in the midst of economic nationalism, trade wars, and sanctions. This is what forces the ruling elites in many countries to adopt unconstrained economic and political nationalism and authoritarianism.

Today, power continues to shift relatively away from the primacy system of hub-and-spoke neo-imperialism of the United States in conditions of severe crisis and austerity for the entire political economies of the core (e.g. United States, Britain, Germany, Italy) and the peripheries that are forced to function within the disciplinarian austerity policy of the core (e.g. Greece, Portugal, Spain). US elites have understood this and have begun taking some protectionist measures circumventing WTO (World Trade Organisation) rules. Current US trade policies are driving not only China and Russia, but Europe and other previous US allies out of the US orbit.

The current situation of continuing crisis and uncertainty has not come out of the blue. It is the direct result and outcome of the structural changes and deep-seated contradictions that have occurred within the global system since the collapse of the Bretton Woods system in the late 1960s. This is what we call the Global Shift: a shift in the hegemonic structures of the world economy, a shift away from North America and Western Europe to the emerging economies of, primarily, Asia, but also of South America and South Africa. In particular, Frank’s 1998 thesis in *Re-ORIENT: Global Political Economy in the Asian Age* offers broad analytical tools that have proven their value in anticipating what is now increasingly acknowledged as a primary shift in the global system towards China and India as dominant emerging powers in the world. This is at the roots of the disarticulation of the “hub-and-spoke” system of global imperial governance built under the hegemony of the
United States, binding together Europe, North America, and Japan/Australasia, and this is a process that began in the late 1960s (Fouskas and Gökay 2005, 2012). Firstly, US power had been eroded with the decline in gold stocks and competitive trade, and US corporate profits in the face of the fierce economic competition of (West) Germany and Japan during the Cold War, when both Europe and Japan experienced very high rates of growth during the so-called Golden Age of Capitalism. This as a result undermined the dollar-gold parity, worsening the balance of payments for the United States and turning it into a debtor. Secondly, the United States’s hegemonic position came to be undermined by the rise of India and China, especially after the end of the Cold War. Other than being a triumph of free market capitalism over oppressive communism signalling an “end of history”, the end of state-led socialist regimes in the Soviet Union and Eastern Europe brought about far more headaches in the US-led Western system of power: the frenzy of neoliberal financialisation that began in the wake of the collapse of the Bretton Woods system in 1971 got out of hand in the 1990s during the Clinton presidency, only to blow-up in 2007–08 with a massive financial and banking crisis that brought Western markets to their knees. But this long and protracted period of hegemonic transition from the Euro-Atlantic core to Asian economies, especially China and India, like every period of hegemonic transition and instability in which “the old is dying and the new cannot be born”, as Antonio Gramsci famously put it, creates “morbid symptoms”. In both Europe and the United States, new forms of authoritarianism have for some time now been witnessed by “liberal-democratic” executives, imposing severe austerity measures upon societies, thus cultivating racism and xenophobia. This new authoritarianism stems from the declining power centre of the USA and spreads, especially through international organisations and bilateral agreements, across the globe. The new authoritarianism is a morbid phenomenon in itself, and it is at the roots of other authoritarian and morbid phenomena that grow from below. The coming to power of far-right governments in the United States, Brazil, the Philippines, India, Hungary, Italy, and now in the UK is generally accompanied by a turn to right-wing terror. Labour MP Jo Cox, known for her work in promoting community tolerance, social justice, and support for Syrian refugees, was murdered on 16 June 2016 by neo-Nazi Thomas Mair in a politically motivated terror attack during the EU referendum campaign. In Germany, Christian Democratic politician Walter Lübcke was killed on 2 June 2019 by a known neo-Nazi after speaking out in defence of refugees.

The 1920s All Over Again?

When he was writing in his *Prison Notebooks*, “The crisis consists precisely in the fact that the old is dying but the new cannot be born; in this interregnum a great variety of morbid symptoms appear”, Antonio Gramsci was preoccupied with the breakdown and collapse of the liberal order following WWI, and was writing about an era of economic depression, rising fascism, and increasing possibility of a world war. There are currently many indications that the contemporary world is going through a dangerous interregnum again. The world is beset by all the economic, social, and political contradictions, and more, that existed during the 1930s. We have been witness to a number of “morbid symptoms” corresponding to this period of interregnum. Ruling elites, one after another, all over the world are turning to the right, facilitating and encouraging the emergence of fascist and far-right forces. And, as in the years preceding the last world war, WWII, the major powers, with the United States in the lead, are building up their military in preparation for a major global war. Fears are growing that all these dangerous and self-centred steps could eventually explode into armed conflict that could someday erupt into the third world war in which hundreds of millions would perish.

Keele, August 2019