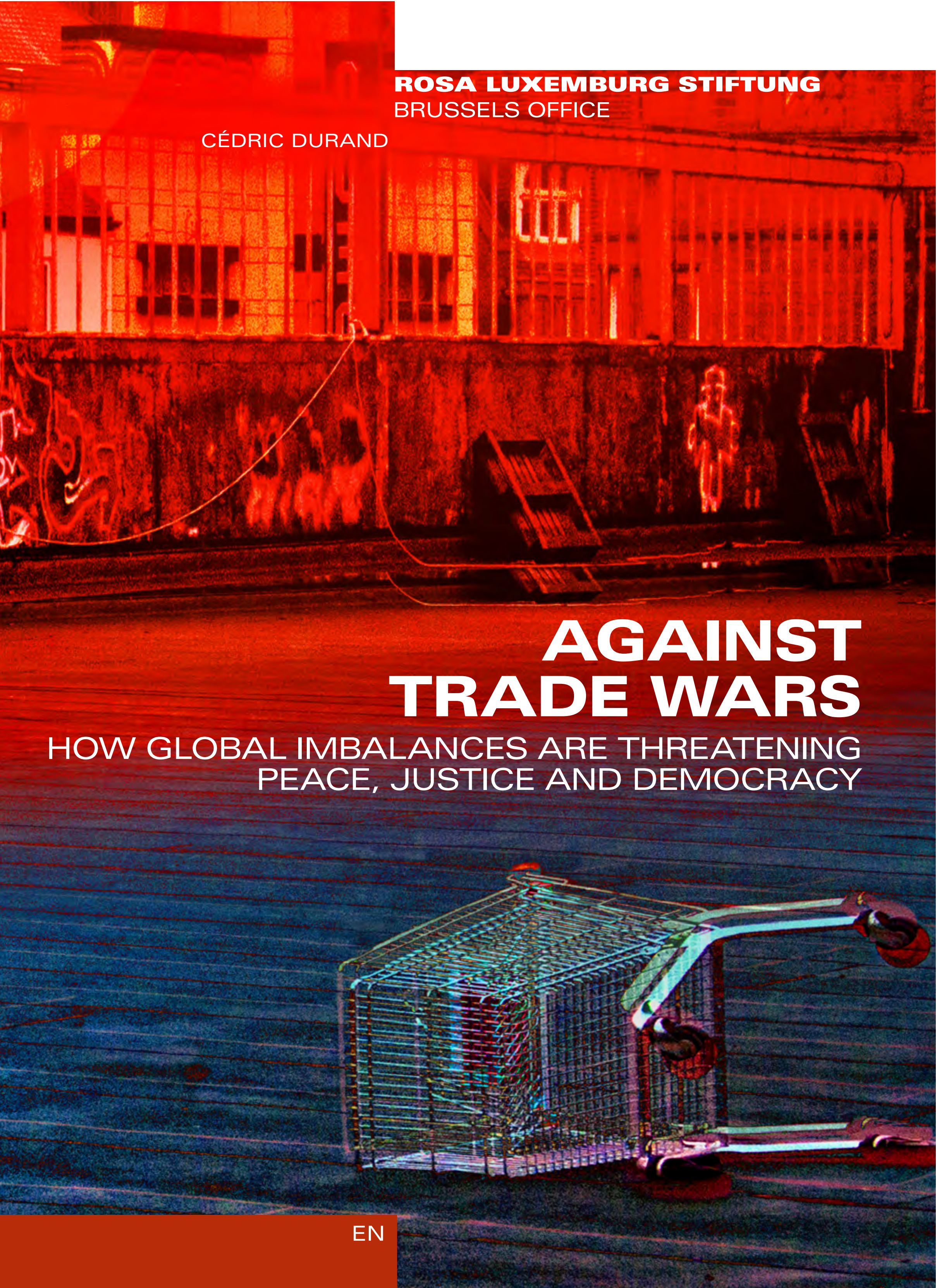

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AGAINST TRADE WARS

HOW GLOBAL IMBALANCES ARE THREATENING PEACE, JUSTICE AND DEMOCRACY

EN

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CÉDRIC DURAND

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His most recent book, *Le capital fictif*, was published in his native French by Les Prairies Ordinaires in 2014, with translations into English (*Fictitious capital: how finance is appropriating our future*, published by Verso) and Spanish (published by Ned Ediciones) appearing in 2017.

INTRODUCTION

Like the 1930s or the 1970s, the 2010s are a pivotal period. At first, it seemed like neoliberal globalisation had absorbed the shock waves of the major 2008 financial and economic crisis. The rise of the G20 and the main powers' commitment to pursuing free trade buoyed hopes that globalisation had a future. At the dawn of the 2020s, it is clear that it does not. When Donald Trump and his protectionist agenda arrived in the White House, a trend reversal already apparent in international trade statistics also burst onto the political scene, signalling the end of an era that saw national economies rapidly drawn into globalisation. While we are not yet experiencing deglobalisation, in trade and financial terms the progress of globalisation has come to a halt. However, the global imbalances that had built up before the crisis remain and are fuelling mounting geopolitical tensions.

Faced with these circumstances, there are two opposing positions. On the one hand, there are those who support pursuing the neoliberal agenda of the 1990s, entailing a new generation of free trade agreements which would enable much closer integration, particularly in terms of rules and regulations, between economies. This position, held by former US President Barack Obama's administration, remains dominant in Europe but is now severely weakened. The Trump administration has made protectionism its characterising feature; opposing the internationalist agenda of much of the business community, it exhibits an unbridled nationalism which is being echoed by a growing number of governments around the world. The situation is evolving so fast, especially with a hardening confrontational atmosphere between the United States and China, that there is an increasing likelihood that the world economy will fragment into rival blocs that are relatively isolated from each other. In Europe, this issue is manifesting itself differently. Against the backdrop of a cataclysmic decade for European Union integration, far-right forces who are critical of this process are making headway.

With such polarisation between the nationalism and internationalism of capital, sometimes the attitudes of the left are having trouble being heard. How can the denunciation of free trade and the rejection of nationalism be reconciled? How can international solidarity be promoted while challenging an agenda guided by the interests of multinationals and the financial sector? How can the social aspect of the economy be consolidated without succumbing to the risk of turning in on ourselves? These questions must be asked. This publication does not intend to answer them directly, but rather provide a few avenues for further reflection, taking as a starting point a key dimension of the problem, namely the issue of global financial and trade imbalances.

Standing as they do at the crossroads between economics and politics, global imbalances are the main point of friction in fashioning a world market. This is the point at which the shared interests of capital to expand opportunities for trade and investment clash with the temptation for individual capital to delve into state resources for the means to take advantage of their benefits. This is also the interface where the various national social compromises impact on each other. In a nutshell, this is the dangerous place where the national convergence of these cold monsters, the State and capital, can transform geo-economic rivalries into open conflict. In the course of the following, I will try to outline a perspective from the political left regarding this issue.

Any left-oriented view of international imbalances in essence comprises two components. First, there is the adoption of an internationalist approach, i.e. an analysis in which the effects of the economic policies adopted in a given country are also considered in terms of their repercussions for other countries. Second, there is its aspiration to replace the capital-based rationale with that of social justice, environmental renewal and the fulfilment of people's needs, in other words a desire to put policy in control. For the left, the problem is that of the external constraint to which so many governments have succumbed.

We start off by providing various clarifications. These show that the drive for greater competitiveness is a zero-sum game, with some people's gains being others' losses, and that mounting surpluses lead to the crystallisation of unequal economic relationships.

We then go on to present the notions of imperialism, Keynesian self-sufficiency and globalisation, thus broadly covering the main models that characterised the world in the 20th century. The following section reports on the growing instability resulting from neoliberalism, with the proliferation of financial crises in developing countries and the sharp increase in current account imbalances starting in the 2000s, helping pave the way for the crisis.

This is followed by an analysis of how today's imbalances mirror one another, focusing on the world's leading economies, which are also those with by far the largest surpluses: the United States, China, Japan and Germany. The complementary nature of their growth regimes and the resulting tensions are examined. The final section focuses on the issue of internal imbalances in the euro zone. As a strategic illustration, the question of external economic constraint on Greece's Syriza party in summer 2015 is addressed. The causes of the German surplus and the urgent need to reduce this, both in the interests of the country's population and with a view to establishing a climate of cooperation, are also discussed. The conclusion reveals the shared yet unequal responsibility of the various respective countries in the rise of international imbalances and points to strategies to consider with a view to bringing about an international order that is both cooperation-oriented and pro-democracy.

The world is not a commodity.

GLOBAL IMBALANCES: DEFINITIONS AND MECHANISMS

‘Global imbalances’ is used to refer to two key concepts. The first is the balance of payments, setting out the balance of cash flows for any given year, while the second is foreign assets, detailing the stock of international investments. Let us look at these one after the other.

THE BALANCE OF PAYMENTS: A ZERO-SUM GAME

An economy’s presence on the world market is manifested by its trade in goods and services and its financial and income flows. All trading is recorded in the balance of payments which provides a regular (monthly, quarterly or annual) picture of the results of these flows (Table 1).

By definition, the balance of payments as a whole is always balanced. However, this does not necessarily apply to the sub-balances of the various accounts within it. For example, a country exporting more goods and services than it imports will have a trade surplus. Similarly, any country accruing more income than it pays to the rest of the world will have an income balance that is in surplus. Together, a country’s balance of trade and its income balance make up its current account balance. If the current account balance is in surplus, i.e. if there is a positive balance of traded goods and services and income payments and receipts, the country will have to export capital, in other words lend money to the rest of the world. If the opposite is the case, so if its current account is in deficit, the country will have to borrow. Therefore, any change in the current account (covering goods, services and income) must be offset by an opposing change in the financial balance. To be able to spend more than it earns, a country will have to borrow the value of its current account deficit from the rest of the world – conversely, if its expenditure is less than its earnings, it will have to make loans equivalent to its current account surplus to other countries.

This is a key point because its corollary is that one country’s trade surplus is another’s trade deficit. In other words – and this boils down to the same thing – one country’s capital exports are another’s debts. The drive for greater competitiveness may be a valid strategy for an individual country; the challenge, then, is to improve its relative ability vis-à-vis other economies to sell its goods and services on the world market. However, from the point of view of the world economy as a whole, this drive for increased competitiveness is a zero-sum game. As all exports take place within the confines of the world economy, the competitiveness gains of some are the losses of others – a situation that is the antithesis of cooperation.

BREAKDOWN OF THE BALANCE OF PAYMENTS[1]

CURRENT ACCOUNT*	balance of trade = balance of traded goods and services + balance of income paid and collected (wages, dividends, interest, etc.)
+ FINANCIAL BALANCE	balance of direct investment, portfolio investment, purchases and sales of derivatives, other investments and changes in central bank reserves
=	0

We should immediately point out that the balance of payments is an essential, but also problematic accounting tool. It is essential because it presents the economic viability conditions for growth. For example, growing trade deficits leading to increasing foreign debts are among the possible early signs of a financial crisis or long-term weakness. It is well known that external constraint has crippled many countries, such as Yugoslavia and France in the early 1980s, or Venezuela and Brazil when raw material prices slumped in the 2010s.

While from an economic policy perspective, the balance of payments is an essential and extremely sensitive tool, it also poses problems for analysis. This is because national accounts are inherited from a period, following the Second World War, when national economies were much more self-sufficient than today. Two differences between then and now are particularly significant. The first is the emergence of global value chains, which means that nowadays large multinational companies are applying business strategies that challenge national borders. The fact that they manipulate intra-group trade prices and concentrate their profits in tax havens to minimise their tax burden skews the actual status of their external accounts. For example, Philippe Askenazy has proposed that half of France's trade deficit with Germany is a statistical artefact resulting from the overestimation of the price of imports by multinationals and the underestimation of their exports in the context of intra-group trade[2]. As he points out, reliable statistics in all areas are

1 To simplify the discussion, the capital account, which in most countries plays a marginal role, is not addressed here. This corresponds to the balance of purchases and sales of non-financial assets such as patents as well as capital transfers (e.g. debt forgiveness).

2 Askenazy Philippe, *Faut-il pleurer sur les marges?*, www.lemonde.fr/economie/article/2014/02/17/faut-il-pleurer-sur-les-marges_4367845_3234.html, 17 February 2014, viewed on 28 May 2019; Askenazy Philippe, *Capital Prices and Eurozone Competitiveness Differentials*, s.l., CEPREMAP, 2013.

vital to ensuring a sensible democratic discussion and making appropriate political decisions. Unfortunately, when it comes to international trade, the available statistics make no clear distinction between tax optimisation strategies and economic processes that reflect the more fundamental strengths and weaknesses of economies.

Last but not least, it is worth pointing out that these days, trade in goods no longer dominates current accounts to the exclusion of anything else. Other factors such as the income derived from foreign direct investment and trade in services are playing an increasingly important role. For example, in 2017, Japan had a current account surplus of four per cent of gross domestic product (GDP), mainly due to the revenue from foreign direct investment, accounting for 3.6 per cent of GDP. Meanwhile, the United Kingdom partly offsets a very substantial trade deficit for goods with a trade surplus for services, mainly in the financial services sector, which represented 5.4 per cent of GDP in 2017.

The balance of payments reflects how a national economy fits into the overall world economy. Viewed from this holistic perspective, it is a zero-sum game, with some countries' surpluses always being offset by other countries' deficits. But these imbalances between countries also reflect imbalances at home. Various factors, whether excessive savings or unrestrained consumption, inequality or a housing bubble, may cause short-term imbalances, similar to the role played by demographics or the type of specialisation in the long term.

FOREIGN ASSETS: THE CRYSTALLISATION OF UNEQUAL RELATIONSHIPS

While the balance of payments is all about cash flows, there is another accounting instrument that is concerned with stocks, namely the external financial position (Table 2). This is made up of an economy's external financial assets and liabilities. On the one hand, we have the financial assets of a country's residents, namely claims on non-residents (shares, bonds, loans, derivatives, monetary gold, etc.) and on the other, we have residents' liabilities to non-residents (shares, bonds, debt securities, derivatives and so on held by non-residents).

These assets and liabilities are the result of the build-up of the national economy's financing needs and capacity over time. However, assets and liabilities do not balance one another out, like the balance of payments does. The result (i.e. the net foreign assets) is the difference between the value of the assets held by residents that are claims on non-residents and the liabilities representing the financial securities with which residents acknowledge that they have commitments to non-residents.

BREAKDOWN OF FOREIGN ASSETS[3]

ASSETS	Direct investment, portfolio investment, financial derivatives, other investment and reserve assets held by residents as claims on non-residents
– LIABILITIES	Direct investment, portfolio investment, financial derivatives and other investment held by non-residents as claims on residents
=	NET FOREIGN ASSETS

Economically speaking, net foreign assets are important because they generate income streams, such as dividend payments, interest and even debt repayments. Therefore, having positive net foreign assets as a rule ensures incoming flows into the balance of payments, whereas negative net foreign assets place a burden on the balance of payments.

3 To simplify the discussion, the capital account, which in most countries plays a marginal role, is not addressed here. This corresponds to the balance of purchases and sales of non-financial assets such as patents as well as capital transfers (e.g. debt forgiveness).

However, we should not just look at net but also gross foreign assets. Financialisation has seen the big global banks and financial institutions accumulating these assets to such an extent that in many cases, they amount to several times the GDP of the country in which the banks and institutions are operating. In normal times, as long as there are no sharp fluctuations in incoming and outgoing flows, these sums stay off the radar. Global vulnerabilities only emerge in times of crisis, such as when in 2008, interlocking debts between the two sides of the Atlantic led the world economy to the brink of chaos. Another problem is the sheer scale of efforts to conceal wealth for tax evasion purposes. According to Gabriel Zucman, eight per cent of the world's household financial wealth is held in tax havens[4]. For the European Union, this percentage is even higher, at around elven per cent. Moreover, three quarters of these assets are not registered. This means that here again, global financial accounts do not show the full picture.

4 Zucman Gabriel, *The Hidden Wealth of Nations: the Scourge of Tax Havens*, translation from the French into English by Teresa Lavender Fagan, Chicago, University of Chicago Press, 2017 (French version: Zucman Gabriel, *La richesse cachée des nations: enquête sur les paradis fiscaux*, new revised and expanded edition, Paris, La République des idées, 2017, 125 pp.).

There should also be other ways, but physical ones this time, of measuring international trade and changes in stocks of natural resources. Energy, CO_2, the exploitation of material resources, biodiversity, waste and more generally the ecological footprint must be the subject of ecological accounting, of a substantivist approach to economics: these variables not be considered solely from the perspective of operations performed in the context of the national economy; rather, account should be taken of resources actually imported from and exported to the rest of the world[5]. This area is still in its infancy but will be decisive in efforts to ensure that the ecological transition policies being discussed in high-income countries do not have the effect of outsourcing environmental destruction to the world's poorest countries. Unfortunately, there are no institutions currently matching the level of statistical standardisation offered by the International Monetary Fund (IMF) for trade and financial exchanges. As in the case of the data on trade within multinationals, the weakness of the statistical apparatus when it comes to international ecological exchanges poses a major obstacle to democratic debate and the development of public action.

In a nutshell, in the age of globalisation and financialisation, external accounts are an imperfect reflection of economic interdependencies. They help to reify national economies, yet national economies are no longer necessarily the appropriate level for dealing with groups operating internationally, whose most powerful players are risking everything in a bid to maximise their income. Furthermore, they disregard the ecological interdependencies between economies. In spite of these problems, the balance of payments and foreign assets figures are omnipresent. For governments that depend on domestic taxation for their funds, these external accounts remain a key factor, enabling them to gauge the room for manoeuvre available for them to conduct their economic policy successfully. Therefore, it is essential to pay close attention to these. In addition, these international accounts show the interaction between the various national economies. In this context competing capitalist dynamics may be reflected in state action and turn into geopolitical tensions.

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5 Bonneuil Christophe and Fressoz Jean-Baptiste, *The shock of the Anthropocene: the earth, history, and us*, translation from the French into English by David Fernbach, Brooklyn, New York, Verso, 2016, 320 pp., Chap. 10.


CAPITALISM
WORKING

WAR AND PEACE IN CAPITALISM

The relationship between the international dynamics of capitalism and geopolitics is one of the most fiercely debated issues in the history of economic thought. Traditionally, liberals support Montesquieu's stance that "*peace is the natural effect of trade*"[6]. First of all, international economic relations provide the springboard for an improved knowledge of various cultures and thus establish the basis for mutual understanding or even moral solidarity between countries. More fundamentally, the development of international trade and investment creates economic dependencies, such that entrepreneurs and investors are materially interested in peace.

This traditional position was challenged in the early 20th century by the development of the theories of imperialism and then by Keynes – according to whom international openness only promotes peace and prosperity when full employment in the domestic economy is achieved – and finally, more recently, by theories that are critical of globalisation. At the heart of these discussions is the chequered development of trade in the world's political history.

As shown in Figure 1, international trade has gone through three distinct periods since the 19th century. First, there was the initial first expansion of international trade up to 1913, when exports accounted for 14 per cent of global GDP. The second period saw a decline in trade in the aftermath of the First World War and its collapse in the Great Depression to a level that systematically remained low (less than ten per cent of GDP) until the 1970s. Finally, the third period, that of globalisation, culminated in 2007 in world exports representing more than 25 per cent of global GDP. The three periods characterising the past two centuries can be seen even more clearly in the figures for net foreign investment (Figure 2). Whereas before the First World War the imperialism of the United Kingdom, France and, to a lesser extent, Germany was expressed in the extent of their property and claims abroad, the two World Wars and the 1929 crisis dramatically weakened their positions. After the Second World War, the net positions were close to zero, meaning that foreign assets and liabilities of the diverse national economies tended to balance each other out. It was not until the 1980s that the positions again started to diverge, but then in a radically different direction from classical imperialism before 1914.

6 Larrère Catherine, Montesquieu et le "doux commerce": un paradigme du libéralisme, *Cahiers d'histoire. Revue d'histoire critique* [online], 123/2014, uploaded on 1 January 2014, viewed on 12 June 2019, http://journals.openedition.org/chrhc/3463.

VALUE OF EXPORTED GOODS AS SHARE OF GDP 1827-2014
(FOUQUIN AND HUGOT, CEPII, 2016, OUR WORLD IN DATA)

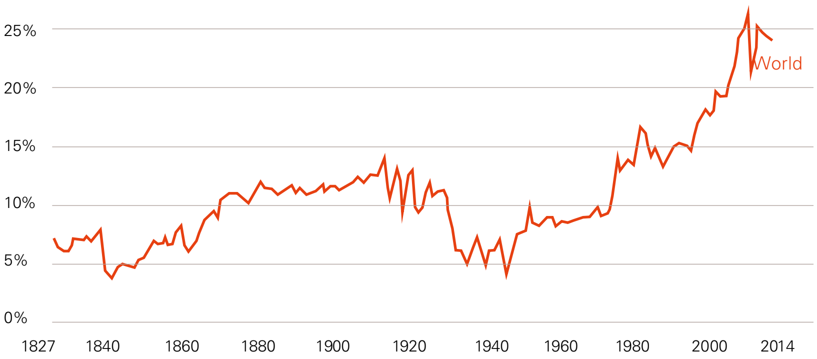

FIGURE 1

NET FOREIGN ASSETS SINCE 1810
(HTTP://PIKETTY.PSE.ENS.FR/EN/IDEOLOGY, FIGURE 7.9)

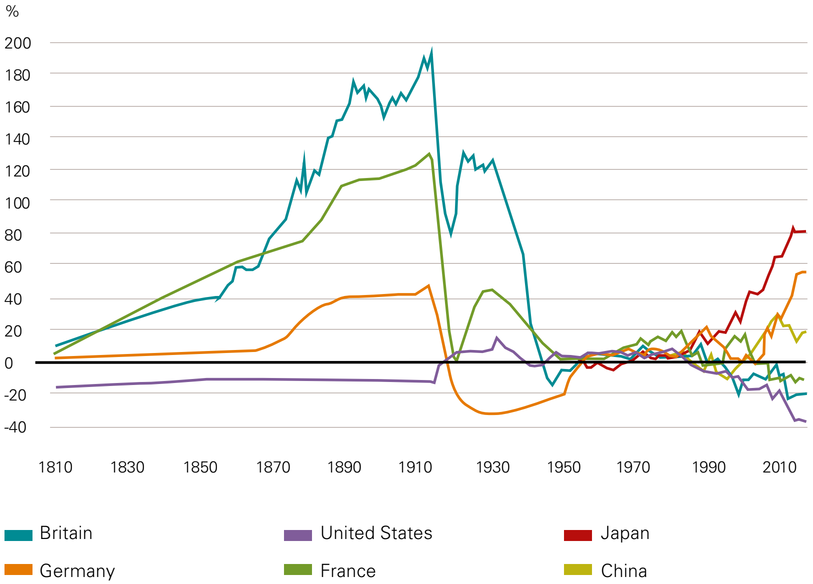

FIGURE 2

THE ROLE OF INEQUALITIES IN FOMENTING THE FIRST WORLD WAR

Branko Milanović, the great expert in global inequalities, and his co-authors recently highlighted the solidity of the traditional philosophy of imperialism in explaining the march towards war in the years leading up to 1914[7]. Developed first by John Hobson in 1902 and subsequently repeated in various ways by the Marxist tradition linking together Lenin, Bukharin, Luxemburg and Hilferding, the idea of imperialism runs completely counter to the liberal philosophy of soft trade. The general argument is as follows.

Early-20th century capitalism was marked in most countries by extremely high levels of inequality. However, inequalities have two macroeconomic effects which may compound one another: insufficient consumption and excessive savings. Since the poorest classes have a higher propensity to consumption than the wealthy classes, the weakness of the purchasing power of the poor and middle classes reduces their ability to spend. By contrast, the concentration of income in the coffers of the wealthiest classes prompts them to increase their savings. The overall outcome is underconsumption vis-à-vis production capacity, coupled with excessive savings in the domestic economy. These two trends encourage, respectively, a drive to find external outlets for surplus domestic production and a move towards investment abroad of capital for which there is no sufficiently profitable use in the domestic economy. In brief, being short on prospects for internal development and with no sufficiently profitable option for domestic investment, the accumulated capital needed an outlet to continue its expansion.

Colonialism was an expression of state support for this expansionist tendency of capital. The colonies were required to receive investment and import products from their 'mother country', but they were not allowed to export manufactured goods that could have competed with their colonial power's exports. Away from the colonies, capital exports could take two forms: either loans to governments in the form of purchases of public debt securities, or foreign direct investment. However, either of these operations was risky: far from home, property rights are much less secure than in the major capitalist countries. After all, no-one is immune to the risk of expropriation or unilateral debt cancellation. Thus, to guarantee the

7 Hauner Thomas, Milanović Branko and Naidu Suresh, "Inequality, Foreign Investment, and Imperialism", Stone Center Working Paper, 2017; Milanović Branko, *Global inequality: a new approach for the age of globalization*, Cambridge, Massachusetts, The Belknap Press of Harvard University Press, 2016, 299 pp.

security of their operations abroad, the capitalists of the advanced countries appealed to the power of the state. The possibility of military intervention served as insurance against the risk of debt cancellation or expropriation or the desire to protect their domestic market. For instance, British and French troops looted the Summer Palace of China's Qing Dynasty in October 1860 during the Second Opium War, the aim of which was for these powers to gain increased access to the Chinese market to level out their balance of trade.

In short, inequalities resulted in economic expansionism, which led in turn to militarism. The competing needs for outlets for surplus goods and capital yielded a clash between the interests of the richest powers. This established narrative is backed up by recent econometric analyses. For the pre-1914 period, these point to correlations between, on the one hand, a country's income and wealth inequalities and its net foreign assets as a percentage of its GDP, and, on the other, the scale of its military expenditure.

NATIONAL MACROECONOMIC MANAGEMENT AS THE PRIORITY FOLLOWING THE SECOND WORLD WAR

In the years after the World War II, the most influential economist was John Maynard Keynes. The vision of macroeconomics developed in his work *The General Theory of Employment, Interest and Money*, published in 1936, establishes a new type of economic policy: by working on two levers, public spending and the level of interest rates, capitalist countries' governments managed to maintain full-employment growth until the mid-1970s. The desire to safeguard countries' national room for manoeuvre in terms of economic policy was Keynes' main objective when it came to international economics.

Contrary to the traditional free-trade stance he had held in the early 1920s, Keynes would become increasingly sceptical about the virtues of foreign trade and would go so far as to advocate national self-sufficiency for goods and finance in the 1930s[8].

The reason for this shift was his belief in the need for a free hand regarding public spending and interest rates so as to conduct an expansionary economic policy, which he considered absolutely essential to combat the economic crisis and accelerate the return to full employment. Thus the authorities must have free rein to control public spending and lower interest rates without fearing trade deficits and capital flight, a situation that could be achieved through financial and trade protectionism. Moreover, he no longer believed in the philosophy of soft trade and instead grew ever more convinced by Hobson's arguments that economic internationalism was in fact inimical to peace. In this spirit he wrote: "*it does not to-day seem obvious that a great concentration of national effort on the capture of foreign trade, that the penetration of a country's economic structure by the resources and the influence of foreign capitalists, and that a close dependence of our own economic life on the fluctuating economic policies of foreign countries are safeguards and assurances of international peace. It is easier, in the light of experience and foresight, to argue quite the contrary.*"[9]

8 Markwell Don, *John Maynard Keynes and international relations: economic paths to war and peace*, Oxford, New York, Oxford University Press, 2006, 294 pp., Chap. 5.

9 Keynes John Maynard, "National Self-Sufficiency", in: *Studies: An Irish Quarterly Review*, 86/22, 1933, pp. 180–181.

Keynes held that the defence of a country's interests abroad and the desire for expanded markets lead to economic imperialism, supporting forces hostile to peace. He also argued that a growing gap between property rights and economic activity, i.e. the empowerment of financial relations vis-à-vis the social context, was damaging the quality of relations between human beings and generating tensions and feelings of hostility. Furthermore, in a speech in Dublin, he gave the example of the relationship between Britain and Ireland: "*if you owed us no money, if we had never owned your land, if the exchange of goods were on a scale which made the question one of minor importance to the producers of both countries, it would be much easier to be friends*."[10]

In the final few pages of his *General Theory,* Keynes writes: "*under the system of domestic laissez- faire and an international gold standard such as was orthodox in the latter half of the nineteenth century, there was no means open to a government whereby to mitigate economic distress at home except through the competitive struggle for markets. For all measures helpful to a state of chronic or intermittent under-employment were ruled out, except measures to improve the balance of trade on income account.*"[11] Therefore, his approach offers governments the means to achieve full employment through their domestic policy alone, so that "*there need be no important economic forces calculated to set the interest of one country against that of its neighbours.*" This concern would lead him to join the negotiations culminating in the establishment of the Bretton Woods system at the end of the Second World War. While the plan adopted instead of his enshrined the hegemony of the United States around the dollar standard, he did have a major bearing on the outcome of the negotiations. Therefore, there was no question of a general return to free trade, as mechanisms were introduced to enable exchange-rate adjustment and the movement of capital remained strictly regulated. Thus, for several decades, the forces of international trade and investment would remain subordinated to the imperatives of national macroeconomic dynamics.

10 *Ibid.*, p. 181.

11 Keynes John Maynard, *The General Theory of Employment, Interest and Money*, London, Palgrave/Macmillan, 2018 [1936], 339 pp.

GLOBALISATION: THE INFORMAL EMPIRE

Even though in Marx's time only a small part of the population was directly involved in international trade, given that global transport and communication systems were still in their infancy, he nonetheless anticipated modern-day globalisation when he wrote that *"the tendency to create a world market is included in the concept of capital itself"*. From the late 1960s onwards, the international dynamics of capital appreciation would gradually regain strength, taking advantage of all the remaining loopholes to free themselves from the strictures of the rules and regulations introduced just after the Second World War.

While capital does have expansionary tendencies, there is nothing improvised about the makeup of its organising institutions. Facing renewed social struggles in both wealthy and Southern Hemisphere countries, the Northern Hemisphere's ruling classes would end up choosing to support this movement, given that while Keynesian macroeconomics opened up the possibility of ensuring full employment, opting for greater internationalisation was also a way of instilling fresh discipline into the world of work through the revitalised competition this brought about.

This new phase was very different from pre-1914 traditional imperialism insofar as the cooperation between capitalist countries instituted after 1945 as a counterpoint to the communist states continued. Globalisation is the idea that the internationalisation of economies can lead to a positive-sum game where asymmetrical cooperation between major powers is preferred to direct confrontation. It was this particular configuration that was of interest to Canadian political scientist Leo Panitch and his co-author, trade unionist and economist Sam Gindin[12]. They argued that globalisation was an essentially political phenomenon that could not simply be characterised as the expression of a historical pattern, as evidenced by the period of national isolationism in the wake of the First World War and the 1929 crisis. As such, globalisation was the blueprint for the establishment of a new world order, led by the United States, after the Second World War – a project that reached maturity as the result of a series of adjustments based on encountered opportunities and obstacles. This informal empire differs from earlier empires in that it does not seek to assert legal territorial control; the objective is rather to co-opt the ruling classes around the world to bring about a global capitalist order to which the various countries contribute while maintaining some degree of autonomy.

12 Gindin Sam and Panitch Leo, *The making of global capitalism: the political economy of American empire*, London, Brooklyn, NY, Verso, 2012, 456 pp.

After US President Richard Nixon put an end to the convertibility of the dollar into gold in 1973, individual capitalist states stepped up their involvement in the collective management of the global economy. The late 1970s saw the strengthening of the United States' hegemony after a period in which its position had weakened. This was reflected on the one hand by the reaffirmation of the centrality of the dollar and the strong resurgence of finance following the sharp rise in interest rates decided on by the US central bank, the 'Fed', in 1979, and on the other by the densification of the network of international institutions responsible for managing global capitalism. While this increased international institutionalisation was the consequence of the French authorities' insistence on formal rules,[13] there is no doubt that the United States was and still is the predominant influence in the IMF, the World Bank, the G7, the G20, the Bank for International Settlements and the World Trade Organisation (WTO), if only because of the dollar's place in the international monetary system. The management of the financial crises that have proliferated since, China's integration into the mechanisms of globalised capitalism and the absence of any immediate nationalist reaction in the aftermath of the major crisis of 2008 are all signs of the vitality, until the early 2010s, of this informal empire in which the United States plays a leading role.

13 Abdelal Rawi, *Capital rules: the construction of global finance*, Cambridge, Mass., Harvard Univ. Press, 2009, 304 pp.

So far so good.

INCREASING INSTABILITY AS A RESULT OF NEOLIBERALISM

The 1970s were a pivotal period. In both Northern Hemisphere and developing countries, post-war growth mechanisms reached their social, political and economic limits. For the ruling classes, this was also a time of great fear: social movements were progressing, and the economic sphere was being contaminated with democratic demands.[14] In the case of the United States, this fear coincided with the anguish of a sudden economic slump, against the backdrop of the Vietnam fiasco.

It was in this context that the neoliberal counter-offensive was launched, its main goal being to restore the hegemony of finance.

THE ROLE OF EXTERNAL CONSTRAINT IN THE EMERGENCE OF NEOLIBERAL RESTRUCTURING

After several decades of financial repression, one of the first consequences of this sudden shift was the debt crisis hitting developing countries. With the rise of the dollar and increasing interest rates, Southern Hemisphere countries faced an increase in the cost of repaying their loans. At the same time, the recession in Northern Hemisphere countries in the early 1980s depressed demand for commodities, leading to a collapse in prices, with a reduction in export revenue and an increase in international repayments. The debts became unsustainable.

Latin American countries were the most severely affected[15]. Since their efforts to develop their industry and produce domestic alternatives to imports were not far enough advanced, they continued to depend on other countries for a substantial portion of manufactured products. When crisis broke out, these countries were financially suffocated. They were faced with massive capital outflows and were forced to quickly release trade surpluses to pay off their debt. The repeated devaluations required to make the adjustment translated into a spike in inflation. All this resulted in a complete destabilisation of the region's growth mechanisms. The balance sheet at the end of the decade was absolutely catastrophic: per-capita income had fallen by nine per cent, investment had been cut by two thirds, unemployment had skyrocketed and drastic cuts were being made to public services, while more than half of the population in most countries was below the poverty line.

14 Chamayou Grégoire, *La société ingouvernable: une généalogie du libéralisme autoritaire*, Paris, La Fabrique éditions, 2018, 326 pp.

15 Palma Gabriel, "Latin America during the second half of the twentieth century", in: *Rethinking development economics*, 1, 2003, p. 125.

Latin America was not the only region affected – far from it: the economies of the Eastern bloc countries were also destabilised. For example, Yugoslavia's external debt ratio rose from 5 to 45 per cent of national product between 1979 and 1983[16]. In France, the Union of the Left (Union de la Gauche) was severely affected by the new economic situation[17]. Declining global demand depressed exports, while the rising cost of the dollar made imports, especially energy, more expensive. This climate drastically impacted the stimulus policies initiated at the start of President François Mitterrand's time in office. In the absence of the will to strengthen state control over the economy, this situation led to the 'austerity watershed', or introduction of austerity policies, of 1983. In the face of outside pressures, the choice was made to prioritise restoring profits through a policy of moderating wages and limiting public spending. This was a complete renunciation of the initial ambitions of social transformation and a decisive milestone in the Socialist Party's conversion to neoliberalism.

During the 1980s, interventionist development models would be abandoned just about everywhere in favour of a dual approach centred on liberalisation and stabilisation. Often, this would occur through a direct intervention from the IMF and the World Bank, while at other times it would be done to ensure the convergence required to achieve EU integration, and at yet other times due to a sudden political break with the collapse of the Eastern bloc. Every time this new approach was applied, the pressure of major external imbalances and the difficulties in financing them played a decisive role in its adoption.

16 Podvršič Ana. "From Socialism to Peripheral Capitalism: The Political Economy of the Double Transition in Slovenia." Thèse de doctorat, Univ. v Ljubljani et Paris-13 SPC, 2018.

17 Amable Bruno, *Structural Crisis and Institutional Change in Modern Capitalism: French Capitalism in Transition*, Oxford, New York, Oxford University Press, 2017, 304 pp.; Fonteneau Alain and Muet Pierre-Alain, *Reflation and Austerity: Economic Policy under Mitterand*, slightly updated and translated from the French into English by Malcolm Slater, New York, Berg, 1990 (original French version: Fonteneau Alain and Muet Pierre-Alain, *La Gauche face à la crise*, s.l., Les Presses de Sciences Po, 1985).

ACCELERATION AND TRANSFORMATION OF TRADE

In the new world order of the 1990s, capital was far freer than it had been before. This was a time when trade was accelerating dramatically (Figure 3). The elasticity of the ratio between international trade and GDP growth was more than two from 1992 onwards and even peaked at around three in the late 1990s[18]. This means that at that time, international trade was growing three times faster than global GDP.

There were two main reasons for this. The first was a series of technological developments that drastically reduced distance-related costs and helped to change the very nature of international trade by extending global value chains. The second reason was a shift in policy that substantially facilitated the movement of goods and capital.

GLOBAL MERCHANDISE TRADE

(PERCENTAGE OF GLOBAL GDP) 1975–2017 (WORLD BANK DATA)

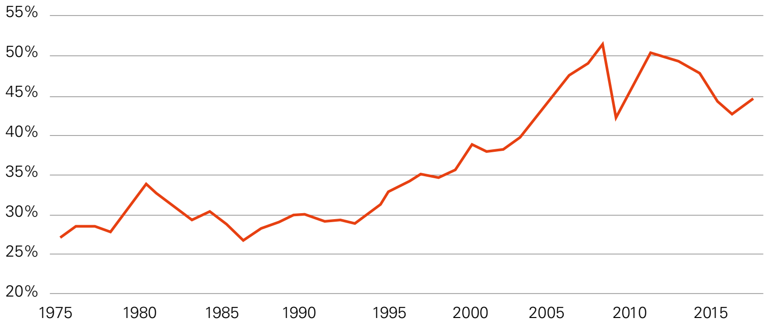

FIGURE 3

From a technological perspective, it is first necessary to point out the considerable progress made in transport and logistics, especially with the widespread use of containers. At the same time, new information and communication technology made remote coordination much easier. This brought about a qualitative transformation in international trade: whereas it had previously been dominated by the trade in finished products, intermediate products now became preponderant.

18 Escaith Hubert, Lindenberg Nannette and Miroudot Sébastien, "Global value chains and the crisis: Reshaping international trade elasticity?", in: *Global Value Chains in a Postcrisis World: A Development Perspective*, Washington, World Bank, 2010, p. 73.

Richard Baldwin termed this the second unbundling of the world economy[19]: while the first unbundling had been about the separation of production and consumption sites, the second involved a geographical separation between planning and execution. Now that information technology was facilitating remote management, the work process could be split geographically without losing its coherence. Notwithstanding the painful nature of this change, the rise of information systems closely tracked the internationalisation of productive processes in global value chains.[20] The fragmentation of productive processes along these global chains went hand in hand with an uneven distribution of value, benefiting the leading companies handling design, integration and marketing.

While technological developments played a key role in the emergence of globalisation, the decisive force was that of institutional change. With the integration of China, India and the former Soviet bloc countries into the world economy, the global labour force available to investors doubled from 1.5 to 3 billion in the space of a decade[21]. At the same time, the World Trade Organisation was created, and there was a proliferation of free trade agreements. In Europe, the free movement of goods, persons, services and capital was introduced on 1 January 1993, creating the largest open market in the world.

In this phase of globalisation, the internationalisation of productive capital took place in tandem with financial integration.[22] The free movement of capital enabled foreign direct investment flows to intensify and in particular financial markets to be interconnected, thereby imposing their rules on governments, companies and workers while offering multinationals a range of financial services to support the internationalisation of their operations.

In the context of a global oversupply of labour and surplus production capacity in key industries[23], this situation is characterised by the weakening of the world of

19 Baldwin Richard E., *The great convergence: information technology and the new globalization*, Cambridge, Massachusetts, The Belknap Press of Harvard University Press, 2016, 329 pp.

20 Bair Jennifer, "Les cadres d'analyse des chaînes globales. Généalogie et discussion", in: *Revue française de gestion*, 201, 2010, pp. 103–119; Durand Cédric, Flacher David and Frigant Vincent, "Étudier les chaînes globales de valeur comme une forme d'organisation industrielle", in: *Revue d'économie industrielle*, 163, 15 September 2018, pp. 13–34.

21 Freeman Richard, "The Great Doubling: The Challenge of the New Global Labor Market", in: *Ending Poverty In America: How to Restore the American Dream*, New York, New Press, 2007.

22 Chesnais François, *La mondialisation du capital*, Paris, Syros, 1997.

23 Brenner Robert, *The economics of global turbulence*, London, Verso, 2004.

work and vertical stratification between differing levels of capital profitability. For the populations of the Southern Hemisphere overall, the impoverishment associated with urbanisation was not halted, with the notable exception of China, whose unique trajectory was as much a matter of scale as it was due to the strategic power of its Communist Party. In the countries of the Northern Hemisphere, profits stacked up but were not invested, fuelling a trend towards stagnation, under-employment and the flight into financial assets in the form of fictitious capital.[24]

THE DESTABILISING ROLE OF CAPITAL FLOWS

In the mid-1990s, globalisation stood triumphant. With the fall of the communist regimes and the opening-up of China, market democracy seemed to be with us to stay. But the ideological context would evolve very quickly, particularly as a result of the calamitous consequences of the policies based on the Washington Consensus and the resistance they provoked.

On balance, the structural adjustment plans in their various forms resulted in 20 wasted years for development in Latin America and much of Africa. In the majority of the former socialist countries of eastern Europe, shock therapies quickly introduced by Western experts produced an economic collapse from which, with a few exceptions, these societies have still not recovered 25 years on.[25]

Above all, the world discovered the face of globalised finance: not only the multinationals dramatically increasing their foreign direct investment but also speculative capital, which started to circulate very rapidly. Almost immediately, this new context was mirrored in repeated financial crises in emerging countries: Mexico in 1994, Southeast Asia in 1997, Russia in 1998, Brazil in 1999 and Argentina in 2001.

24 Durand Cédric, *Fictitious capital: how finance is appropriating our future*, translation from the French into English by David Broder, London, Verso, 2017 (original French version: Durand Cédric, *Le capital fictif : comment la finance s'approprie notre avenir*, Paris, Les Prairies Ordinaires, 2014).

25 Milanović Branko, *For Whom the Wall Fell? A Balance Sheet of the Transition to Capitalism*, www.theglobalist.com/for-whom-the-wall-fell-a-balance-sheet-of-the-transition-to-capitalism/, 7 November 2014, viewed on 25 November 2017.

These repeated disasters and the reforms ordered to address them would seriously undermine the authority of the international institutions and the neoliberal dogmas even within these institutions.[26]

In Asia, the IMF's brutal interventions targeted unorthodox policies that had led to these countries making up some industrial ground in the preceding decades. As a result, not only did the populations directly affected throughout the region rise up against them, but some of the elites in developing countries openly sought to extricate themselves from the influence of Western experts. To escape the grip of the IMF in the event of a new crisis, governments engaged in neo-mercantilist policies with the aim of guarding against the destabilising effects of international finance through the accumulation of foreign exchange reserves. China, which was more resilient than the rest of the region, would draw a definitive lesson from this that the resilience of its development crucially depended on its ability to control capital flows and as such, it maintains a robust capital control system to this day.

By the year 2000, the market-friendly euphoria that arose following the fall of communism in the countries of the former Soviet bloc had completely subsided. Meanwhile, Asia's adoption of neo-mercantilism would contribute to substantially increasing global imbalances until the 2008 crisis.

GROWING IMBALANCES AND THE MARCH TO THE 2008 CRISIS

The geography of the 2008 crisis is complex. However, it was definitely a crisis of the North Atlantic countries' making, caused by the excesses of liberalised finance radiating from the closely intertwined financial centres of London and New York. The gradual deterioration in liquidity and its total disappearance at the time of the collapse of Lehman Brothers in September 2008 revealed the sheer scale of the big banks' international balance sheets and the significance of the resulting interdependencies. We cannot understand otherwise how the rise in defaults in a marginal segment of US finance – namely mortgages for the poorest households – could have triggered such a storm. Similarly, there was no other explanation

26 Fine Ben, Lapavitsas Costas and Pincus Jonathan, *Development policy in the twenty-first century: beyond the post-Washington consensus*, s.l., Routledge, 2003; Rodrik Dani, "Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank's *Economic Growth in the 1990s: Learning from a Decade of Reform*", in: *Journal of Economic Literature*, 4/44, November 2006, pp. 973–987; Stiglitz Joseph E., *Globalization and its Discontents*, New York, Norton, 2002, Vol. 500/*Ibid.*

why the financial difficulties of the Greek economy, accounting for one per cent of Europe's GDP, managed to shake the very foundations of the European project.

The crisis of 2008 and then the European sovereign debt crisis were not classic bank runs, where savers flock to their banks to withdraw their cash. It was a mega bank run of a new kind, in which the institutions, which had suddenly stopped trusting each other, triggered a cumulative spiral of depreciation of their assets which would have led to general bankruptcy if it had not been for the mass intervention of governments and central banks.

The extraordinary dynamics of this crisis in some ways echo previous financial shocks – for example, the subprime bubble was to some extent similar to the dot-com bubble in the 1990s. In other respects, though, it was completely unprecedented, especially with regard to the sophistication of debt chains in shadow banking. However, while the loss of control was driven by a relatively autonomous financial situation, in the background there was an increase in global imbalances, in the form of massive financial flows that abruptly dried up as the crisis took hold (Figure 4). Underlying these, global trade imbalances had been accumulating in the years immediately preceding the crisis, rising from 2.7 to 4.3 per cent of global GDP (Figure 5) before almost instantly dropping back to their initial levels. In Europe, there was the same trend of a parallel increase in international financial flows and trade imbalances in the lead-up to the crisis[27], indicating the link between trade imbalances and financial instability.

27 Stockhammer Engelbert, Durand Cédric and List Ludwig, "European growth models and working class restructuring. An International post-Keynesian Political Economy perspective", in: *Environment and Planning A*, 3 May 2016.

GROSS TOTAL CAPITAL INFLOWS FOR ADVANCED AND EMERGING ECONOMIES

(PERCENTAGE OF GDP) [28]

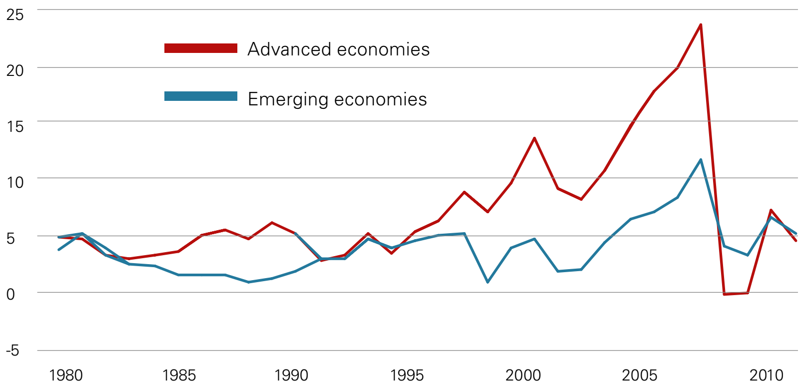

FIGURE 4

GLOBAL TRADE IMBALANCES

(SUM OF THE ABSOLUTE VALUES OF SURPLUSES AND DEFICITS, PERCENTAGE OF GLOBAL GDP, IMF)

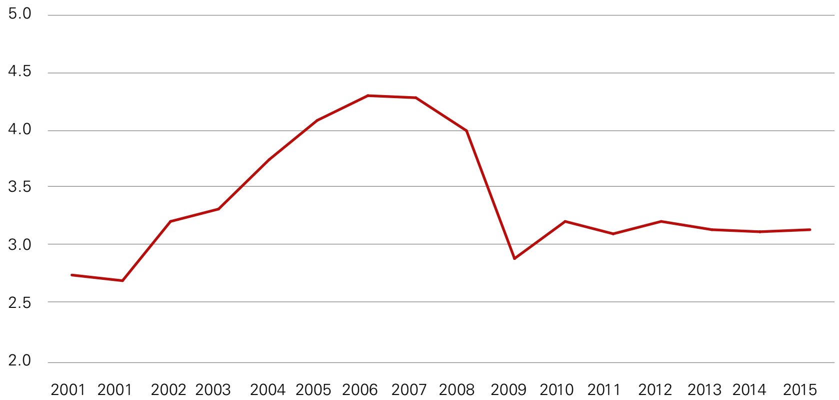

FIGURE 5

28 Bluedorn John C., Duttagupta Rupa, Guajardo Jaime et al., *Capital flows are fickle: anytime, anywhere*, s.l., International Monetary Fund, 2013.

THE RELATIONSHIP BETWEEN GLOBAL IMBALANCES SINCE THE START OF THE 21ST CENTURY

Following the increase in financial instability in emerging countries in the 1990s, the 2000s saw the situation spiralling completely out of control, culminating in the crisis of 2008. This upheaval, which was on a scale the world had not experienced since the 1930s, had its centre of gravity in the wealthiest economies. To understand this series of events and the precarious position of global capitalism today, we need to look more closely at how the main centres of the world economy interact.

After a general examination of the main trends in internationalisation before and after the crisis, we will study in greater detail the international integration of the United States, China, Japan and Germany before focusing on the specific case of the internal dynamics of the eurozone.

THE FAILURE TO ACHIEVE REBALANCING AFTER THE CRISIS

As illustrated in Figure 6, the three economies with a globally massively significant balance of payments surplus are Japan, China and Germany. In 2017, this surplus came to 300 billion US dollars for Germany and around 200 billion US dollars for China and Japan. As for the countries in deficit, the United States leads the way, with a deficit of more than 400 billion dollars in 2017. This amount is the same as in the early 2000s, but it is half the level it reached at its peak just before the crisis, when it came to more than 800 billion dollars.

As well as this bipolarity between the US deficit on the one hand and the Japanese, Chinese and German surpluses on the other, we see that the scale of the surpluses increased considerably in the period preceding the 2008 crisis, but over the past decade there has been some rebalancing. Mirroring the decline in the US deficit, which has been reduced to almost two per cent of GDP as opposed to four per cent at its height, China's surplus has been dramatically reduced. In terms of percentage of GDP, it has been hovering around two per cent since 2012; this compares with ten per cent in 2007 (Figure 7). In contrast, the German economy's level of dependency has continued to worsen, with the surplus exceeding eight per cent of GDP since 2015.

TOTAL BALANCE OF TRADE OF THE WORLD'S LEADING ECONOMIES 2000–2017 (IN BILLIONS OF US DOLLARS; IMF)

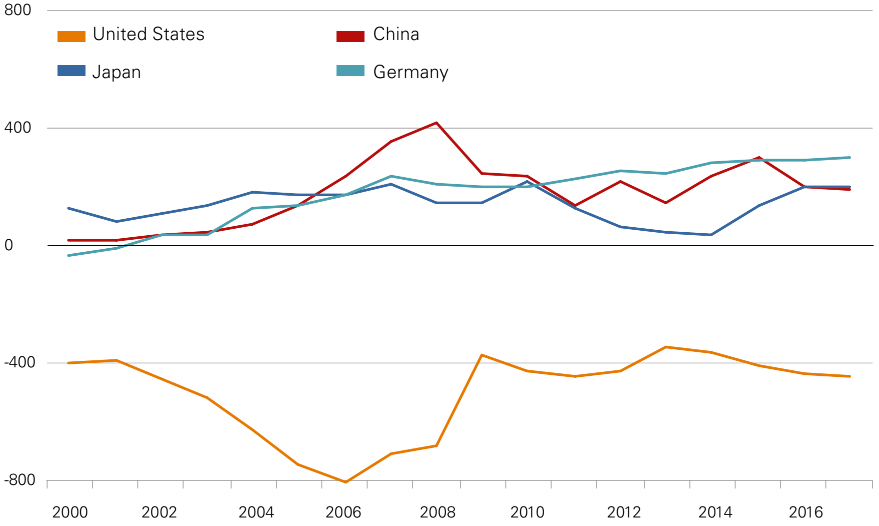

FIGURE 6

TOTAL BALANCE OF TRADE OF THE WORLD'S LEADING ECONOMIES 2000–2017 (PERCENTAGE OF GDP; IMF)

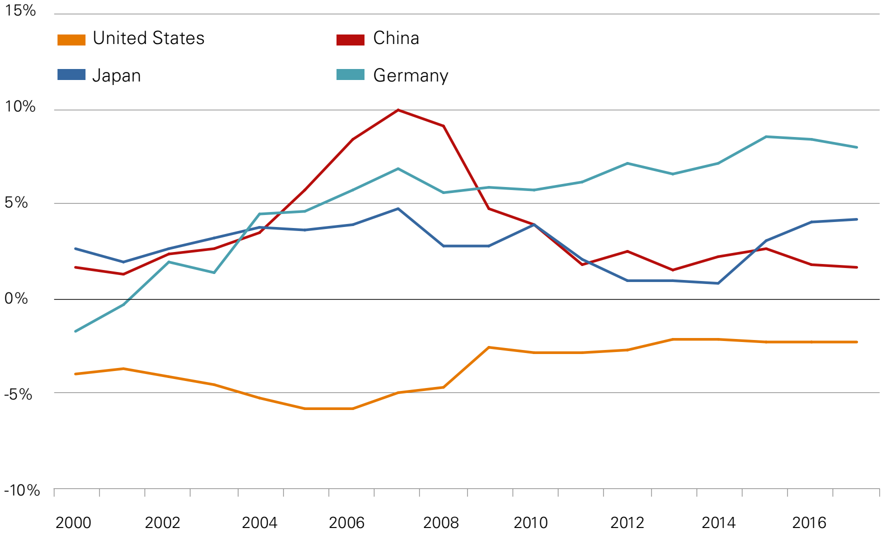

FIGURE 7

Although there has been significant rebalancing of current accounts since 2008, it would be wrong to conclude from this that the vulnerabilities that built up in the preceding years have simply vanished. Countries with a current account surplus export capital and acquire assets abroad, while countries that have a deficit import capital and therefore accumulate liabilities. Year on year, these assets and liabilities have mounted up, becoming ever more significant. On top of this, there is the fact that the increase in international balance sheets is not limited to these compensatory transfers.[29] The gross flows, which accelerated dramatically in the period preceding the crisis (Figure 5), have also resulted in asset acquisitions and debt simply because of the financial strategies of the relevant economic agents. As such, when the free movement of capital reaches a certain level, asset and debt trading increases, abandoning the rationale of levelling out the balance of payments. For example, pension funds are internationalising their assets in a bid to diversify the risks facing them and multinationals are planning their investment drives based on their growth objectives. Both of them are pursuing their own international investment goals without any regard for financing the balance of payments.

The relationships between Europe and the United States before the crisis show this disconnect between the dynamics of trade and the dynamics of financial transactions. In the 2000s, the imbalances in the transatlantic balance of payments were smaller. However, this did not prevent the intensification of financial relations. Before the crisis, the European banking system had become a type of mega hedge fund, indulging in short-term borrowing on the US money markets and in long-term loans on real estate. At the time of the crisis, there was a considerable temporary mismatch between assets and liabilities in European banks' dollar balance sheet, amounting to some €1,200 billion. The only reason that the entire euro zone was not hit by a serious crisis like those which struck the Russian rouble in 1998 or the Thai baht in 1997 was that the US authorities decided to include foreign banks in financial system rescue plans and, above all, to grant the Frankfurt-based European Central Bank (ECB) unlimited access to dollars through swap exchanges. This allowed the ECB to draw on its usual refinancing channels to supply dollars directly to cash-strapped European banks. Alone, it would never have been able to contain the capital flight and stabilise the euro again. As historian Adam Tooze says, *"there was a presumption that collaboration would*

29 Cecchetti Stephen G., "Global imbalances: current accounts and financial flows", s.l., Citeseer, 2011.

be forthcoming, and in an emergency the Fed would provide Europe, and London in particular, with the dollars it needed."[30] In other words, before the crisis, the European authorities had in fact relinquished any type of monetary sovereignty, accepting that they would need to rely on the United States to cover the financial risks facing the region, unlike China or other Asian countries who had decided not to do this, following in particular the 1997 crisis and the pain of the IMF intervention. The European banking system's dependency on this dollar lifeline is proof positive of the very deep-rooted and at the same time totally asymmetrical nature of transatlantic integration.

Figure 8 shows the accumulation of international financial interdependencies. The stock of international assets and liabilities of the world's six leading economies tripled from 2000 to 2007, from 50,000 billion to 150,000 billion dollars, compared with approximately 10,000 billion for flows. Since then, it has continued to grow gradually.

The size of these stocks must be borne in mind, given that total trade, income and financing flows account for around 60 per cent of the relevant countries' GDP, while these stocks represent 350 per cent. As a result, any fluctuation in their value is likely to produce extremely powerful reactions in the respective international chains. Thus, looked at from this perspective, the legacy of the runaway international flows in the pre-crisis period is still very much alive.

If we now look at net foreign assets, i.e. the difference between the stock of international assets and liabilities, the deterioration of the imbalances after the crisis is even more apparent. In 2018, the sum of net surplus positions stood at nearly 19 per cent of global GDP, compared with 15 per cent at the time of the crisis and just eight per cent in the early 2000s[31]. In other words, there has been a substantial increase in the gap between international assets and liabilities, which, if we heed the warnings of Keynes and the imperialism theorists, could potentially fuel very severe geopolitical tension.

30 Tooze J. Adam, *Crashed: how a decade of financial crises changed the world*, New York, Viking, 2018, 706 pp., p. 90.

31 International Monetary Fund, *External Sector Report, July 2018: Tackling Global Imbalances amid Rising Trade Tensions*, Washington D.C., International Monetary Fund, 2018, p. 10.

TRADE, INCOME AND FINANCIAL FLOWS AND STOCK OF INTERNATIONAL ASSETS AND LIABILITIES FOR THE WORLD'S SIX LEADING ECONOMIES[32]

(IN BILLIONS OF US DOLLARS; IMF)

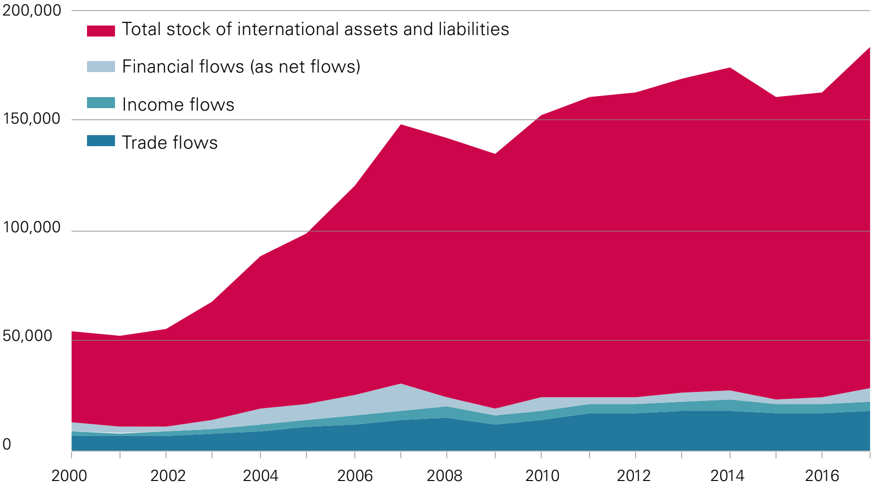

FIGURE 8

DIVERSE INTEGRATION PROCESSES OF THE WORLD'S FOUR LEADING ECONOMIES

THE UNITED STATES: A DEFICIT YIELDING DIVIDENDS

The United States' situation is a very special one. Its accumulation of deficits vis-à-vis the rest of the world is resulting, as one would expect, in a steady deterioration of its foreign assets, from -1,500 billion dollars in the early 2000s to -7,700 billion in 2017. Yet despite being a net debtor to other countries, owing quite considerable sums, the United States receives a positive net income from the rest of the world (Figure 9). In other words, at the aggregate level, the country is paid to borrow. This unusual situation can be explained in two ways. The first is that the United States' assets and liabilities have different makeups. In particular, liabilities consist largely of treasury bills – i.e. US public debt securities – whose very low yields are of very little value to international investors, who hold them as a precaution, for example to protect themselves from currency risks, rather for

32 United States, China, Japan, Germany, United Kingdom, France.

their actual return. Conversely, in terms of assets held in the rest of the world, there is a higher proportion of direct investment by multinationals. These, which by their very nature involve a higher risk, pay more than the treasury bills. The second reason is the dominant position of US corporations. Specifically, even if only foreign direct investment is considered, the United States' income from the rest of the world remains well above the income derived by the rest of the world from its direct investment in the United States. The major US corporations' clout is reflected in the fact that their ability to capture and repatriate global value is greater than that of companies in the rest of the world to capture value in the United States and export it.[33]

THE UNITED STATES' FOREIGN ASSETS
AND INTERNATIONAL INCOME (BILLIONS OF US DOLLARS , IMF)

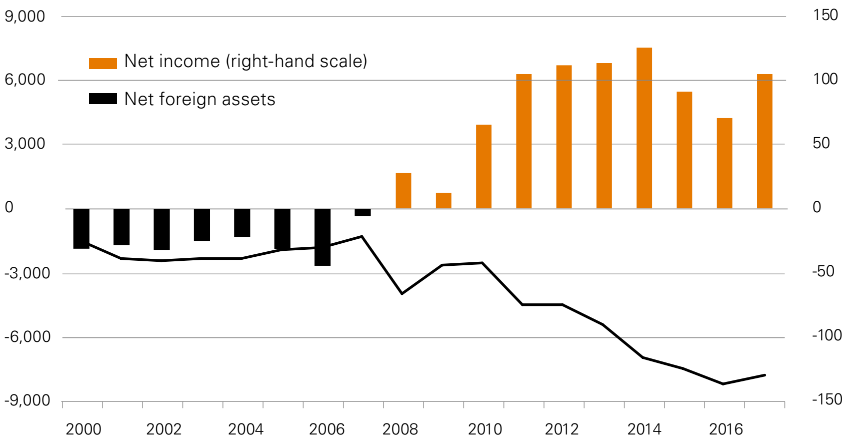

FIGURE 9

33 Ali Mona, "Dark matter, black holes and old-fashioned exploitation: transnational corporations and the US economy", in: *Cambridge Journal of Economics*, 4/40, 2015, pp. 997–1018.

CHINA: A COSTLY SURPLUS

China's situation stands in complete contrast to the United States' position. Since the early 2000s, the country has accumulated trade surpluses, which has allowed it to build up a very strong net foreign asset position of more than 2,000 billion US dollars (Figure 10). From the government's point of view, the country's total accumulated assets (approximately 7,000 billion US dollars in 2017, including 3,000 billion of central bank reserves) are the best guarantee against the risk of destabilisation through capital flight, especially since control measures are still in place.

But this very high level of foreign-asset surpluses does not derive solely from a precautionary approach. The country has had a double-pronged catch-up strategy since the 1990s, focusing on the development of export markets and the receipt of foreign direct investment. In both cases, the idea is to ensure that China's industrialisation pathway is based on international performance standards and allows the country's production facilities to gradually move closer to the technological frontier.

CHINA'S FOREIGN ASSETS AND INTERNATIONAL INCOME

(BILLIONS OF US DOLLARS, IMF)

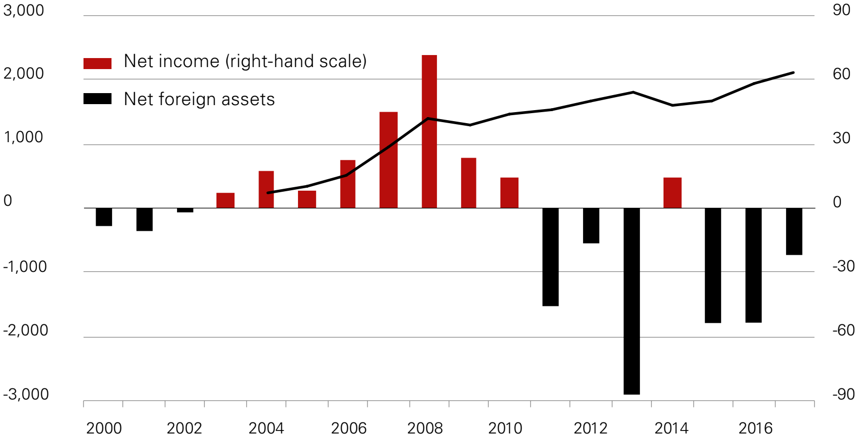

FIGURE 10

From an accounting point of view, export-led industrialisation combined with an influx of foreign investment means inflows of capital. This means something is needed to balance these out. The solution has been provided by the Chinese central bank, the People's Bank of China, who itself bought a large share of the foreign exchange obtained from exports and investments and converted this into US treasury bills. This arrangement has made it possible to avoid an overly rapid appreciation of the currency, which has helped to maintain the country's export competitiveness. However, the returns obtained on foreign assets are extremely poor, meaning that at the aggregate level, and despite its very substantial positive foreign-asset position, China is paying out more than it receives.

JAPAN AND GERMANY: RELATIVELY PROFITABLE SURPLUSES

Unlike the United States and China, Japan and Germany are on a more conventional international integration pathway (Figure 11 and Figure 12). As their trade surpluses have accumulated, their net foreign-asset positions have strengthened, and at the aggregate level, these countries have earned substantial income from their foreign assets. This is particularly the case for Japan, which has had positive net foreign assets for a long time: in 2017, these stood at 3,000 billion US dollars and generated an income of 150 billion dollars, or more than three per cent of GDP, each year, which is pretty substantial. Germany's foreign assets have only been clearly positive since the second half of the 2000s. However, in 2017, they stood at more than 2,000 billion US dollars and generated an income of just 36 billion dollars, or roughly one per cent of GDP.

JAPAN'S FOREIGN ASSETS AND INTERNATIONAL INCOME
(BILLIONS OF US DOLLARS, IMF)

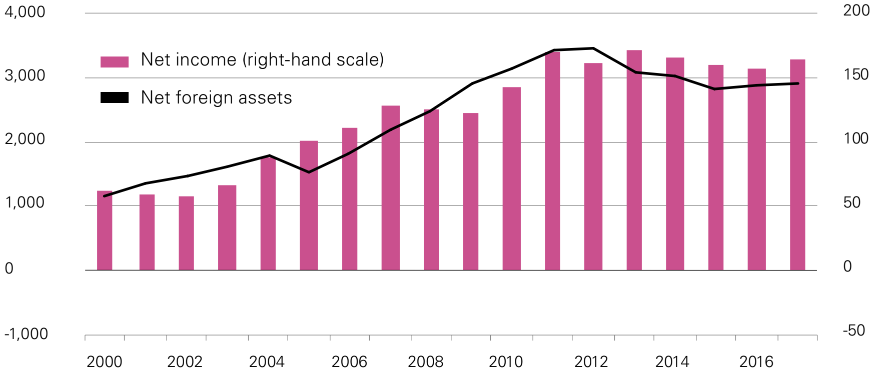

FIGURE 11

GERMANY'S FOREIGN ASSETS AND INTERNATIONAL INCOME
(BILLIONS OF US DOLLARS, IMF)

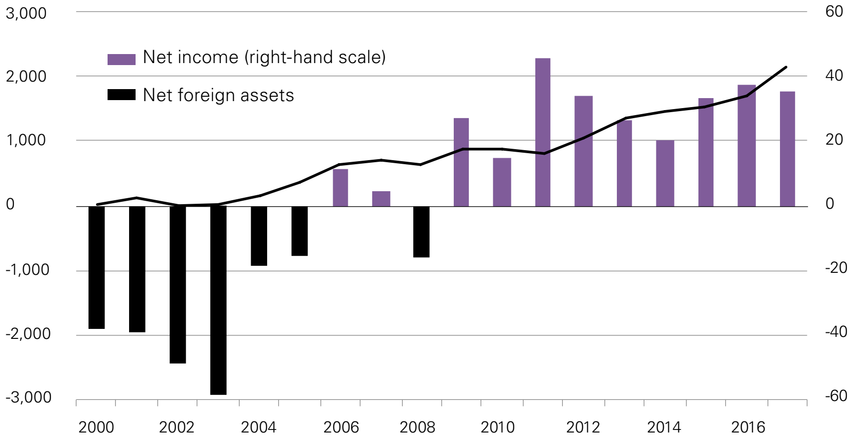

FIGURE 12

In the end, this examination of the world's four leading economies reveals a more complex picture than a simple contrast between three surplus countries and the United States, whose deficit ultimately absorbs excess global production. While this polarity in the balances of payments is the main structural foundation of world economy, there is a second foundation linked to foreign assets and income, as these major countries' differing economic clout is reflected in their differing abilities to obtain a return on their foreign assets (Figure 13). The United States and Japan have an average return on their assets that has systematically exceeded their liabilities by around one percentage point in recent years. In contrast, Germany's return on assets is slightly lower than on its liabilities. This disadvantageous discrepancy is far greater in the case of China, being more than two percentage points in recent years.

Although the Chinese economy has been very successful in making up ground, it and, to a lesser extent, its German counterpart have rather unfavourable investment positions. While it has reduced its dependency on exports in recent years through a proactive policy of refocusing on its domestic market, China remains extremely dependent on the dynamics of external markets, foremost among them the United States. In recent years, Germany for its part has benefited from Chinese and Southeast Asian industrialisation by exporting its machine tools to this region. This makes it vulnerable to US demand drying up for not only its direct but also its indirect exports. Even more worryingly, Germany is now exposed to competition from China, which can now produce much of the industrial equipment in which Germany specialises. The risk here is that of a gradual erosion of the competitive advantages Germany has patiently established over the years.

In the case of Japan, given that the country's companies are at the very heart of Asia's value chains, since the second half of the 20th century there has been 'flying geese' industrialisation of the region: the newest country arriving on the scene takes care of the least sophisticated activities, increasing its skill levels as other countries are integrated. As long as investments are protected and there is no obstruction to the movement of goods, Japan derives a substantial and regular revenue stream from its companies' foreign operations. However, like the rest of the region, it is very much exposed to the level of dynamism of US demand.

DIFFERENCES IN THE RETURN ON INTERNATIONAL ASSETS AND LIABILITIES FOR THE WORLD'S FOUR LEADING ECONOMIES

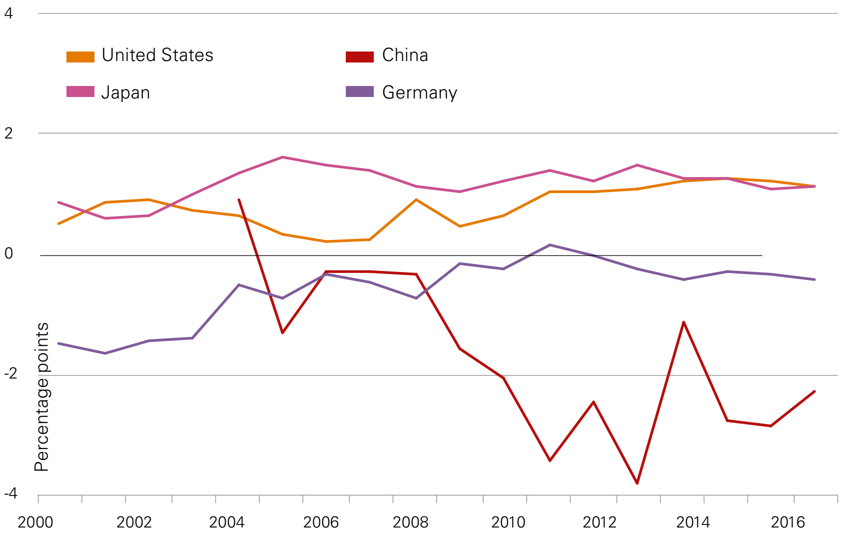

FIGURE 13

FOSTERING UNEQUAL DEVELOPMENT THROUGH THE EURO-ZONE

Following the signing of the Maastricht Treaty on 7 February 1992, the introduction of the euro as the single currency of the euro zone in 1999 represented a major qualitative advance in European integration. This new milestone was all about achieving the unification of the internal market. The rationale in European circles and the business community was that the anticipated benefits of the single market in terms of optimal resource allocation, economies of scale and support for competitiveness would be enhanced by Economic and Monetary Union (EMU), which would banish the uncertainties associated with exchange-rate fluctuations and eliminate the associated transaction costs. Complete freedom of movement of capital would increase the liquidity of supposedly efficient financial markets, thereby encouraging investment and facilitating the growth of new industries due a lower cost of capital. In the end, the idea behind the single currency was to deliver faster growth, increased employment, greater profitability and eventually higher wages.

AN ARCHITECTURE RIDDLED WITH BIAS AND INSTABILITY

However, this new architecture cannot be characterised simply as a tool to boost the movement of economic resources. Instead, it is nothing less than a complete transfiguration of the macroeconomic framework. EMU led to monetary policy being taken out of the sphere of democratic deliberation and to the strict regulation of fiscal policy. Through the EU treaties, the free movement of capital justified by the assumed efficiency of the financial markets and the fight against the inflation caused by monetarist syncretism acquired constitutional status. In the final analysis, the objective was the de-politicisation of financial and monetary issues and the neutralisation of macroeconomic room for manoeuvre. With the disappearance of exchange rates, the establishment of a uniform monetary policy and the absence of a European budget capable of making significant transfers, labour became the only variable that could be used to adjust national economies to shocks and shifts in dynamics[34]. This rationale was presaged by the 1989 Delors-Report, which indicated that in the context of monetary union,

34 Replacing any exchange-rate adjustment with a price, wage and employment adjustment is extremely slow and costly in terms of unemployment and lost growth. See for example Duwicquet Vincent, Mazier Jacques and Saadaoui Jamel, "Désajustements de change, fédéralisme budgétaire et redistribution: Comment s'ajuster en union monétaire", *Revue de l'OFCE*, 127, 2013, pp. 57–96. Also see Chagny Odile, Husson Michel and Lerais Frédéric, "Les salaires aux racines de la crise de la zone euro?", *La Revue de l'IRES*, 73, 2013, pp. 69–98.

"[w]age flexibility and labour mobility are necessary to eliminate differences in competitiveness in different regions and countries of the Community"[35].

The idea that it is possible to create a single currency without this being backed up with the political power of a national government, that is to say without powerful budgetary control mechanisms being provided by the public authorities, is very problematic. That was the conclusion the EU Commission reached in the 1970s. At that time its view was that only a common budget allowing fiscal transfers to compensate for asymmetric shocks could make the single currency viable. The shock wave of the 2008 financial crisis proved the accuracy of this analysis. From 2010 to 2015, the European Union would be the weakest link in the world economy, demonstrating the euro's fragility with its procrastination and divisions.

The immediate cause of the crisis was a feedback effect whereby the private banks' financing difficulties impacted the peripheral countries' public finances. However, this reveals an imbalanced internal development inherent to the single currency.

In the 2000s, the disappearance of foreign exchange risks and the discipline imposed by EMU would cause the financial markets to dramatically reduce the interest rates charged in the peripheral countries. Since the inflation rates were higher than in Germany, the euro zone's leading economy, the peripheral countries could borrow very cheaply, which would buoy a boom in the real estate sector and more generally non-exchangeable activities such as trade. This debt-driven growth served as a major stimulus for imports. Conversely, the relatively high real interest rates in Germany were an incentive to save, depressing domestic demand.

As well as this financial mechanism being established, the possibility of exchange-rate fluctuations disappeared. The inflation differential translated into increased competitiveness for Germany, which benefited from a currency that was under-valued vis-à-vis its performance, while the peripheral economies, where inflation was higher, were disadvantaged by an excessively high exchange rate.

35 The Delors Report (Report on economic and monetary union in the European Community), presented April 17, 1989, available online at Archive of European Integration (AEI), University of Pittsburgh: http://aei.pitt.edu/1007/1/monetary_delors.pdf, viewed on 28 May 2019.

THE ASYMMETRY OF RESTRUCTURING IN EUROPEAN ECONOMIES

Underlying these macroeconomic developments, the balance of power between capital and labour and productive developments is different across the regions[36].

Industry has caught up in the central European countries as a result of their integration into industrial value chains governed mainly from Germany, facilitating a quick rise in initially low wages. Germany's competitiveness skyrocketed because of these new sources of low-cost intermediate products, but also because of wage stagnation resulting from an increased segmentation of wage labour, entailing the impoverishment of substantial swathes of tertiary workers. At the same time, the countries of peripheral southern Europe have experienced phoney expansion due to the abundance of financial flows. Activity in the non-tradable goods and services sector has been boosted by indebtedness, increasing employment and wages and safeguarding social security.

These contrasting trends are evident in the development of wages, public welfare spending and trade union density at the centre and periphery of the euro zone. Thus, in the pre-crisis period between 2000 and 2008 (Table 1) the situation evolved in a way that was quite favourable to wage labour in southern Europe, with a significant increase in wages and social security as well as the relative stability of union density, while Germany suffered a quasi-stagnation of wages, a significant decline in social security provision and accelerated de-unionisation. For eastern European countries – most of them outside the euro zone – wages largely caught up, but trade unions were eroded extremely rapidly and social security provision remained poor.

36 Stockhammer Engelbert, Durand Cédric and List Ludwig, "European growth models and working class restructuring. An International post-Keynesian Political Economy perspective", art. cit.

CHANGES IN WAGES, SOCIAL SECURITY PROVISION AND TRADE UNION DENSITY IN VARIOUS EUROPEAN REGIONS (2000–2008)

	CENTRAL EUROPE	SOUTHERN EUROPE	EASTERN EUROPE
	Germany	Greece, Italy, Portugal, Spain (average)	Czech Republic, Hungary, Poland, Slovakia, Slovenia (average)
REAL WAGES (change as a %)	1.8	9.1	28.2
SOCIAL SECURITY PROVISION (change in public spending as a % of GDP)	-1.2	3.7	-0.45
UNION MEMBERSHIP (change in % of workers)	-5.6	-1.4	-9.5

In the absence of the possibility of exchange-rate fluctuations or a mechanism for fiscal transfers, the influx of financing into southern Europe and wage austerity in northern Europe were reflected in the external accounts. Having been in deficit at the start of this period, from 2007 onwards the German balance of payments had a surplus of over €200 billion, while the deficit of other major economies (plus Greece) was growing, especially in the case of Spain where it exceeded €100 billion from 2005 onwards (Figure 14). In terms of value, Germany bore the bulk of the imbalances. As a proportion of GDP, the imbalance remained at a very high level. This contrasted with the situation of Italy and France, which had a balance that was close to being on an even keel throughout this period. Conversely, the trend experienced by Spain, and even more so Greece, revealed itself to be unsustainable with deficits nearing 10 and 15 per cent of GDP respectively in 2007–2008 (Figure 15). The financial crisis, followed by the euro zone crisis, would make rebalancing essential. All the relevant countries then converged towards a neutral balance of payments with the rest of the world, with the notable exception of Germany, as we have seen previously.

TOTAL CURRENT ACCOUNT BALANCE FOR THE EURO ZONE'S LEADING ECONOMIES AND GREECE

(IN BILLIONS OF US DOLLARS; IMF)

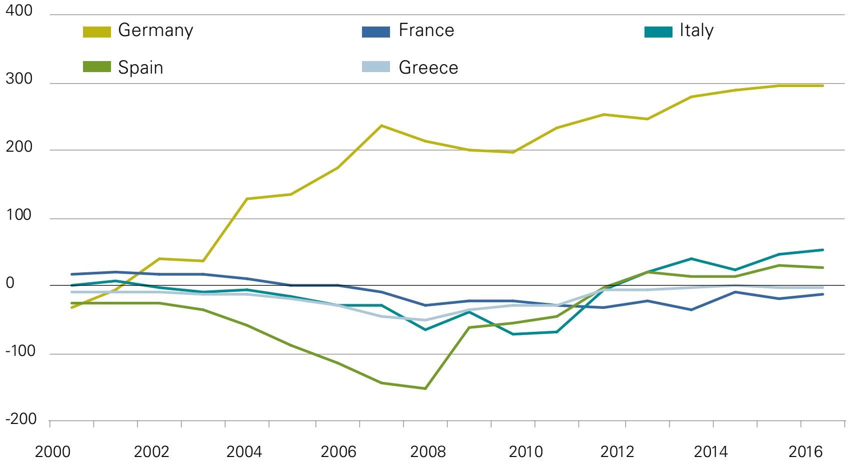

FIGURE 14

TOTAL CURRENT ACCOUNT BALANCE FOR THE EURO ZONE'S LEADING ECONOMIES AND GREECE

(PERCENTAGE OF GDP; IMF)

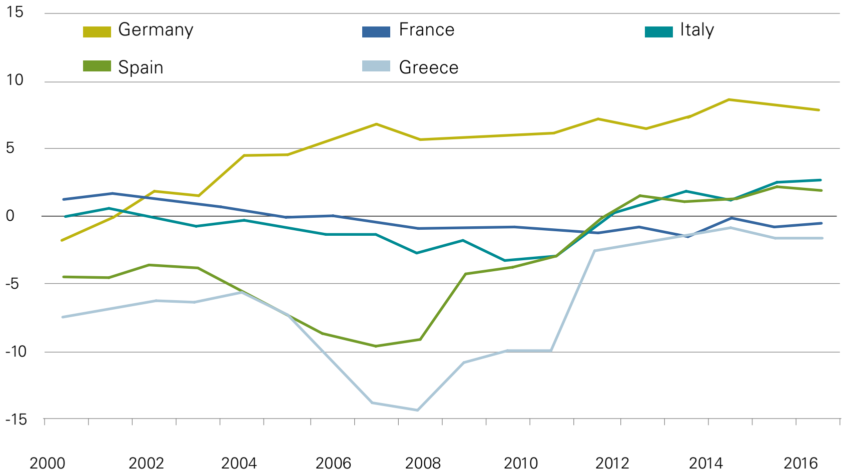

FIGURE 15

For the deficit countries, while an adjustment was made in the euro zone, this came at a high price. The drying-up of credit and then the austerity measures imposed more or less directly by the troika of the IMF, the European Commission and the ECB trampled internal demand, generated mass unemployment and caused many skilled young people to leave their home countries. It also starkly revealed the illusory nature of the income convergence witnessed in the first decade of the euro's existence. The peripheral countries suffered a protracted recession and a deterioration of their social indicators, while Germany enjoyed a swift recovery, which this time partially benefited wage labour and allowed the central European countries that were directly dependent on German industry to sustain their momentum, albeit at a slower pace.

Compared with the previous period, these were rather good years for German wage labour, with a sharp increase in wages (+9.7 per cent), social security provision remaining at much the same level and a less steep decline in trade union density (Table 2). In contrast, the situation took a major turn for the worse for workers in the peripheral countries. The adjustment during the euro crisis was mirrored in a very significant drop in wages, a decline in social security provision and accelerated de-unionisation.

Therefore, across the period as a whole, there was an increase in intra-European polarisation, at least between central and southern Europe. Not only were the relative income gains wiped out, but moreover the industrial base and, more broadly, productive capacity took a long-term hit from two decades of financialisation and then crisis. Viewed from a more general perspective, growth in the euro zone was relatively sluggish compared with the world's other major economies. In particular, the post-crisis adjustment meant that within the euro zone there was no longer any counterbalance to the German surplus. As such, the region became the main contributor to global imbalances.

CHANGES IN WAGES, SOCIAL SECURITY PROVISION AND TRADE UNION DENSITY IN VARIOUS EUROPEAN REGIONS (2009–2016)

	CENTRAL EUROPE	SOUTHERN EUROPE	EASTERN EUROPE
	Germany	Greece, Italy, Portugal, Spain (average)	Czech Republic, Hungary, Poland, Slovakia, Slovenia (average)
REAL WAGES (change as a %)	9.7	-6.9	8.7
SOCIAL SECURITY PROVISION (change in public spending as a % of GDP)	-0.2	-0.6	-0.8
UNION MEMBERSHIP (change in % of workers, until 2013–2015 by country)	-1.8	-1.6	-4.4

EXCURSUS: SYRIZA'S FAILURE IS NOT THE RESULT OF EXTERNAL CONSTRAINT

The main reason driving much of the European left to support the Greek government's decision in July 2015 to sign the Third Memorandum of Understanding and therefore renege on its pledges to break with the austerity plans, was external constraint. The prospect of Greece leaving the euro zone was viewed as an economic apocalypse. It was felt that the impact of the change in monetary system would have led to a debacle that would have been even more catastrophic for the working classes than the Troika's plans.

Technically speaking, reviving a national currency requires quick, resolute action and a certain degree of forward thinking, but it is not impossible[37]. The second problem is the ability of the state to pay officials and its suppliers. Of course, any country's withdrawal from the euro zone would spark an immediate moratorium on public foreign debt, meaning that the relevant government could no longer rely on external funding. In this connection we should point out Greece's sound budgetary position under the Syriza government. As a document published by the think

37 The organisational costs of such a transition, while by no means insignificant, are not huge. The main challenge would be to ensure control of actual capital and the public takeover of the banking system to see to the smooth operation of the new payment system and of the relevant funding channels. Aglietta Michel, *Zone euro: éclatement ou fédération*, Paris, Michalon, 2012, 187 pp.; Flassbeck Heiner and Lapavitsas Costas, *Against the Troika: Crisis and Austerity in the Eurozone*, s.l., Verso Books, 2015.

tank Bruegel says, "*Greece recorded a primary surplus of 1.9 billion euros over the first five months of [2015], against an expected primary deficit of 1.2 billion euros. In cumulative terms, the state primary balance has therefore exceeded its target by 3.1 billion euros*"[38]. While it did break its debt commitments, the Greek government had no problem honouring its other obligations, which meant that it did not have to borrow or issue currency to finance its current expenditure and could set aside any use of these instruments for stimulus measures.

The other issue was the ability to stabilise foreign trade. Here too, we note that Syriza was in a pretty good place. Four years of extreme pressure on domestic activity had had a crushing effect on imports and, as a result, helped to restore balance to the current account. While in 2015, Greece was dependent on other countries for energy and some of its supply of agricultural and manufacturing products, it still continued exporting significant volumes of goods in these two areas. Moreover, the country massively exported services, including transport (shipowning) and tourism. In addition, it is worth highlighting that Greece is one of the most economically self-sufficient countries in Europe. WTO data for 2011–2013 show a trade-to-GDP ratio of 54 per cent for Greece compared with 61 per cent for France, 98 per cent for Germany and 188 per cent for Ireland. A comparison with Portugal (78 per cent), which is roughly the same size as Greece, indicates the latter's relatively limited vulnerability to import price shocks.

Last but not least, exports, starting with tourism, enjoyed the full benefit of the devaluation, largely offsetting the rise in the price of imports. Following a recession, the economic benefits of a devaluation are quite substantial and could have given a valuable boost to the breakaway led by Syriza. The mechanism is as unsophisticated as it is powerful: a devaluation means a rise in the price of imports (in local currency) and a fall in the price of exports (in foreign currency), promoting domestic activity. For a country like Greece, which has suffered a long period of reduced activity, the result would be a rapid recovery, a drop in unemployment and an improvement in external accounts.

Obviously, these few observations do not fully encapsulate the challenges involved in any withdrawal from the euro zone, in particular with regard to debt restructuring-related matters. However, they do show that the specific situation of the Syriza government in 2015 meant there was no external budgetary or commercial

38 Merler Sylvia, "Greece Budget update", Bruegel, 16 July 2015, http://bruegel.org/2015/07/greece-budget-update, viewed on 28 May 2019.

constraint justifying the fear of a major disaster. Instead, there were substantial economic and political advantages to the withdrawal option, as the government's newfound freedom to act and the prospect of rapid improvements could have mobilised entire sections of the population.

EXCURSUS: THE UNSUSTAINABILITY OF MOUNTING GERMAN SURPLUSES

For the past 15 years, the German economy has been generating considerable trade surpluses. As far as creditor countries are concerned, it is the main contributor to global imbalances both in Europe and worldwide, continuing to consolidate its surplus until 2016. The dynamism of exports is the main source of growth for the country's economy and the reason why it has virtually full employment. Yet on closer examination, these massive surpluses pose major questions about the sustainability of German growth and point to serious vulnerabilities both domestically and beyond.

It is well known that the German trade surplus has a whole range of causes. First, there is the fact that the country's economy is specialised in industrial equipment and high-end vehicles. This is the result of an effort taking many years to build a production base that was hyper-competitive at international level because of the quality of the manufacturing. This system is based not only on the accumulation of industrial capacity over a long period but also on an on-going drive to train workers and the use of co-determination with the trade unions in the export sector, which encouraged skills development and ensured that workers' experience was retained. The comparative benefits built up in this way have fully capitalised on Asia's fast-paced industrialisation in recent decades and, to a lesser extent, the growth in the number of extremely wealthy people worldwide, as for this segment of society, luxury cars are a prestige asset forming an integral part of their social status.

The second factor is of a historical nature. Following the Second World War, an anti-inflationary policy of 'internal discipline' (*innere Disziplin*) was adopted at the instigation of West German Minister of Economic Affairs Ludwig Erhard. This was based on two pillars, namely on the one hand, the moderation of trade union demands for wage increases and on the other, the independence of the central bank, whose task was to ensure the strength of the German currency. In an international framework of set exchange rates like the Bretton Woods system, low inflation is a highly effective way of enhancing competitiveness.

This same rationale continued, but taken to extreme levels, with the single currency, given the inflexible exchange rate, similar in its premise to the gold standard. Against this backdrop, the German economy benefited from an exchange rate that was based on the status of the euro zone as a whole rather than its own characteristics. For Germany, this exchange rate was very undervalued, namely by about 14 per cent in 2015, entailing an implicit subsidy of around five to eight per cent of GDP to this economy from the rest of the euro zone based on the chosen calculation assumptions[39]. Therefore, the German export sector has a direct interest in maintaining the euro zone, given the euro zone's very positive impact on German competitiveness through the exchange rate.

The third factor is demographic. Germany is an ageing country that is trying to build up a buffer of precautionary savings vis-à-vis the rest of the world to hedge against the economic repercussions of its declining population. According to OECD data, German households' level of savings was 10.6 per cent of GDP in 2015, more than double the average for EU Member States (5.2 per cent), Japan (4.5 per cent) and the United States (4.1per cent). By accumulating external surpluses, Germany is acquiring debts vis-à-vis the rest of the world from which it expects to derive a return that will enable it to maintain the standard of living of future generations. Here again, as a creditor country, Germany has a very direct interest in protecting the euro zone. This is because if we maintain the hypothesis that in the context of the German economy, the euro is undervalued by 14 per cent, Germany leaving the euro zone would lead to a devaluation of its international assets and therefore a decrease in the country's net financial wealth of around 15 per cent of GDP[40].

Specialisation, the benefit of an undervalued euro and precautionary savings: these three well-known causes of the German surplus should not draw attention away from the weaknesses in this growth-oriented system. The first of these weaknesses is the political fragility of a model whose success depends largely on a monetary architecture that favours Germany much more than most of its neighbours. Without significant restructuring of the euro zone, in the long run this

39 For an assessment of exchange-rate overvaluations in 2015, see Durand Cédric and Villemot Sébastien, "Balance Sheets after the EMU: an Assessment of the Redenomination Risk", in: *Documents de Travail de l'OFCE*, 2016–31, 2016. For an assessment of the implicit subsidy for an exchange-rate misalignment of ten per cent, see Mazier Jacques and Petit Pascal, "In search of sustainable paths for the eurozone in the troubled post-2008 world", in: *Cambridge Journal of Economics*, 3/37, 1 May 2013, pp. 513–532.

40 Durand Cédric and Villemot Sébastien, "Balance sheets after the EMU: an assessment of the redenomination risk", in: *Socio-Economic Review*, 30 January 2018.

situation can only fuel national resentment and undermine the rapprochement between countries that had been going on for several decades, while also eroding Germany's economic and financial position. Another political weakness is that the country is particularly exposed to the protectionist tensions developing in the United States.

The second weakness lies in production. German exporters' successes are increasingly failing to mask the extremely low levels of private and public investment. In other words, Germany's economy is eating up its capital. Not only are German surpluses having a negative impact on the world economy, but they are also the result of an investment pattern that will affect the future of the country. When it comes to industry, the low level of investment is due to companies preferring to keep their cash or distributing it to shareholders or even investing it abroad. However, with one of the lowest investment rates by non-financial companies in Europe, the country is likely to experience an erosion of its industrial base, against a backdrop where the dynamism of Asian markets is no longer a racing certainty. China's, in particular, has caught up to such an extent that it is increasingly able to produce the tools it requires to ensure regional growth.

In terms of public investment, Germany shot itself in the foot by adopting a constitutional 'golden rule' in 2009 banning the German regions from having deficit budgets and limiting the federal government's structural deficit to 0.35 per cent of GDP. The result of this never-ending austerity was disastrous for the German economy and for the rest of the world. Turning to the German economy first: while public finances generate a surplus, the country has the lowest rate of investment in infrastructure of all the major wealthy economies. The situation has deteriorated to such a point that the poor condition of schools, bridges, roads and the internet has become a major concern[41]. For the rest of the world, this rule also means that if households choose to have substantial savings and companies are reluctant to invest, other countries are the only outlet remaining for surplus German production. As such, other countries find themselves in a situation where they have to soak up the German economy's internal imbalances.

41 Chazan Guy, *Cracks appear in Germany's cash-starved infrastructure*, www.ft.com/content/a98f7b30-776a-11e7-90c0-90a9d1bc9691, 4 August 2017, viewed on 28 May 2019; *Understanding (the lack of) German public investment,* Bruegel, http://bruegel.org/2018/06/understanding-the-lack-of-german-public-investment, viewed on 28 May 2019.

The third weakness is social in nature. Although the German economy has almost full employment, it is leaving a growing proportion of its population behind. With 12.5 million people, or 15.7 per cent of the population, living below the poverty line, the German growth model is based on a substantial base of poor workers. The labour market reforms of the early 2000s and the collapse of collective agreements contributed to depressing the wage share, although it has partially recovered in the years since. As regards income distribution, Germany has not escaped a sustained rise in inequality. Between 1995 and 2013, the share of overall income held by the wealthiest ten per cent of society rose from 32 to 40 per cent, while the share held by the poorest 50 per cent fell from 25 to 17 per cent.[42] Finally, the highly decentralised nature of public spending helps to exacerbate geographic inequalities. The rise in household savings, which is one of the macro determining factors for the current account surplus, must be viewed in conjunction with this substantial and multidimensional increase in inequality. The pressure on the lowest incomes reduces households' tendency to consume, thus reducing, through a result of a ricochet effect, the incentive to invest in the domestic economy. Thus the weakness of domestic demand and the rise in saving are two sides of the same problem, namely the inability of an inequality-riven German economy to generate balanced growth.

42 Alvaredo Facundo, Chancel Lucas, Piketty Thomas et al., *World inequality report 2018*, s.l., Belknap Press, 2018, p. 104.


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CONCLUSION: FOSTERING COOPERATION AND DEMOCRACY

Financial instability is not the only consequence of rising imbalances since the end of the 20th century. The legacy of this period is an uneven level of international development, where export growth for some countries means growing debts for others. In addition, the stock of accumulated international investment creates long-term asymmetric relationships in which some countries have to pay income to others. These imbalances are not conducive to harmonious relations between countries. We can see this playing out today in the growing international political tensions in Europe, and even more so between China and the United States.

Against this backdrop, countries have shared but varying responsibilities. China experienced rapid industrialisation thanks to trade surpluses, but these were largely driven by US multinationals' operations in that country. Moreover, at macroeconomic level, the United States suffers no ill effects from its deficit, given its ability to obtain income from the rest of the world despite being a debtor overall. In addition, over the past decade, imbalances have partly subsided on both sides. The rising tensions today are first and foremost a result of China's endogenous industrial development being perceived as a threat by Washington. As such, the US government is seeking to regain control by trying to tighten its grasp on the technologies developed by US firms and derive more revenue from them. The idea behind this is both to consolidate US corporations' control over knowledge and, more importantly, to hinder the rise of the Chinese economy. This is of course by its very nature unacceptable to China and poses a very real threat to peace.

The United States' advantageous international position is also shared by Japan and Germany, but in a very different form. These two economies have a current account surplus, a substantially positive foreign-asset position and income streams from the rest of the world. Germany has a special responsibility here for two reasons. Firstly, it is the only country not to have started refocusing in the aftermath of the crisis; instead, it has stubbornly stuck to an austerity policy that has severely impacted much of its population due to major inequalities and a level of domestic investment that was too weak to secure the economy's future. Secondly, since the euro zone has been a boon for the German economy, it forces other countries to accept a macroeconomic system in which workers and public services are the main adjustment variable. Moreover, Germany is the largest economy in the euro zone and its creditor status risks fuelling tensions on the continent in the long term. In the absence of any true fiscal integration, which would demonstrate political solidarity, income flows into the German economy from peripheral countries can only be regarded as a type of neo-colonial taxation.

In general, a leftist policy line favours eliminating global imbalances, given that these are detrimental to both peace and democracy. In the short term, the accumulation of surpluses has adverse effects on other countries, as to deal with them, they have to either accept an increase in unemployment or resort to borrowing and expose themselves to the risks of financial instability. This is how the rise in trade imbalances in the decade leading up to the 2008 crisis fuelled the financial bravado of that period. In the longer term, the problem is the crystallisation of a global hierarchy of economies. In any case, dependency on other countries, either for exports or in the form of indebtedness, is an obstacle to democratic economic decision-making.

There needs be a will to remedy these evils, i.e. to create the economic conditions for harmonious relations but also to give economies the leeway they need to successfully conduct an autonomous policy. Following the Second World War, Keynes' proposal to establish a clearing system involving the 'Bancor' was intended to do precisely that by preventing the accumulation of deficits and the crystallisation of unequal financial positions. With economic imbalances once again feeding geopolitical tensions, this ambition has lost none of its relevance today.

At national level, the fight against inequalities is also a factor promoting balanced endogenous development. Just as it was before 1914, the rise in inequalities is currently one of the main factors behind the emergence of global imbalances.

Finally, with control over knowledge and data becoming an increasingly critical part of the ability to capture wealth, there is an urgent need to set the stage for a major international agreement between high-income countries and developing countries. While the former have an interest in protecting their social and environmental standards, the latter need free access to expertise and knowledge, in particular so that they can get involved in the ecological transition as soon as possible. Countering the competitive logic of free trade and intellectual property rights, the principle of limiting the movement of goods by instituting social and environmental standards in exchange for free access to technology could form the basis for a consistent internationalist economic policy.

Today's rise in nationalism is the product of the neoliberal globalisation of previous decades, and in particular of the global imbalances whose accumulation sets countries against one another. Facing the return of these dangers, the left's response is based on international solidarity. It involves promoting more self-sufficient, ecologically sustainable paths of economic development rooted in social fairness. It is not goods or finance that will form the basis for genuine cross-border solidarity, but rather the free movement of ideas and personal and cultural exchanges.

ROSA-LUXEMBURG-STIFTUNG

The Rosa-Luxemburg-Stiftung is an internationally operating, left-wing non-profit organisation providing civic education. It is affiliated with Germany's 'Die Linke' (Left Party). Active since 1990, the foundation has been committed to the analysis of social and political processes and developments worldwide. The Stiftung works in the context of the growing multiple crises facing our current political and economic system.

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The Rosa-Luxemburg-Stiftung works towards a more just world and a system based on international solidarity.

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Any left-oriented view of international imbalances in essence comprises two components. First, there is the adoption of an internationalist approach, i.e. an analysis in which the effects of the economic policies adopted in a given country are also considered in terms of their repercussions for other countries. Second, there is its aspiration to replace the capital-based rationale with that of social justice, environmental renewal and the fulfilment of people's needs, in other words a desire to put policy in control. This publication takes such a perspective. We start off by providing various clarifications. These show that the drive for greater competitiveness is a zero-sum game, with some people's gains being others' losses, and that mounting surpluses lead to the crystallisation of unequal economic relationships.

We then go on to present the notions of imperialism, Keynesian self-sufficiency and globalisation, thus broadly covering the main models that characterised the world in the 20th century. The following section reports on the growing instability resulting from neoliberalism, with the proliferation of financial crises in developing countries and the sharp increase in current account imbalances starting in the 2000s, helping pave the way for the crisis. Then, an exploration of how the imbalances between the world's leading economies (the United States, China, Japan and Germany) mirror one another identifies the reasons behind their complementary characters and the resulting tensions.

The final section focuses on the issue of internal imbalances in the eurozone. As a strategic illustration, the question of external economic constraint on Greece's Syriza party in summer 2015 is examined. The causes of the German surplus and the urgent need to reduce this, both in the interests of most of the country's population and with a view to establishing a climate of cooperation, are also discussed.

The conclusion reveals the shared, yet unequal, responsibility of the various respective countries in the rise of international imbalances. It also points to strategies to promote more harmonious global economic integration.