Europe/USA : a stable disequilibrium
Michel Husson[1], *International Viewpoint* n°356, February 2004

The world economy is currently characterized by paradoxes and misunderstandings. Rather than dealing with the conjuncture as such, this article will attempt to throw light on the contradictions of an increasingly unstable configuration.

Paradox of the euro

The whole conception of European construction rested on the postulate that the single currency could only be created as a strong currency, but in fact the opposite happened. The decade devoted to alignment with the Maastricht criteria began in 1992 with a crisis of monetary speculation, which did not prevent the euro, or rather the basket of equivalent currencies, from strengthening in relation to the dollar; in 1995 the value rose to $1.31. However, at the time of its introduction in January 1999 the euro was worth only $1.18. And it would continue to fall until a low point of $0.90 in 2001, equivalent to a de facto devaluation of 30%.

What happened? There is no indication that the European authorities planned to devalue the euro and the slide was greeted with surprise and a degree of concern. In reality, it was not the euro that fell, but rather the dollar that rose. It benefited from a virtuous circle thanks to the high returns offered by the US economy, which served as a refuge for capital repatriated from other countries hit by successive financial crises (Mexico, then Asia, then Russia). The dynamism of the US, based on the charms of the "new economy", largely made up for the growth of its trade deficit, which was then easily financed through this permanent inflow of capital.

On the European side, the experience of the 1997-2001 upturn, boosted by the fall in value of the euro, allowed a retroactive appreciation of the ravages wrought by the policy of so-called "competitive deflation", which became the new norm in Europe. It was possible to verify the extent to which European exports responded to variations in exchange rates. Thus a study by the French ministry of industry[2] shows that a variation in exchange rates of 10% in relation to the dollar "after three years has significant effects on the production of certain sectors, of the order of 2-3% for a vast sector like electrical equipment, up to 8-10% for smaller sectors like clothing or shoes". Moreover, a rise in the value of the dollar is favourable to activity in those sectors providing the most employment. It is not thus surprising that the fall in the value of the euro boosted European exports overall and assisted economic recovery.

It seems then that something of an operational division of labour has been established between the US and Europe. US growth is transmitted to Europe through foreign trade on the basis of strong demand on the one side and high competitiveness on the other. You could even talk of a triangular game that also involves Japan; the latter is mired in stagnation, partly because of the overvaluation of the yen. It continues to run up significant trade surpluses, no longer because of the competitiveness of its exports but because of a virtually zero internal growth rate. These surpluses are equivalent to outflows of capital to the US and the "new economy", Europe and the rest of the world stepping in to complete the financing of the US deficit. This schema was already broadly unbalanced, but few commentators were worried, for great hopes were held out for the "new economy", at least from the time when it registered significant increases in productivity. It was argued that its generalization to the world economy would give a tangible basis to the prevailing exuberance.

---

[1] Michel Husson is an economist and a member of the Scientific Council of ATTAC in France.
[2] "L'impact sectoriel du taux de change du dollar", *La Lettre du SESSI*, number 81, Ministère de l'Industrie, September 1997. http://www.industrie.gouv.fr/biblioth/docu/4pages/pdf/4p081.pdf

The limits of the "new economy"

The concept of the "new economy" appeared during a specific conjunctural phase (of short duration, from 1996-2001) that apparently contradicted a number of economic laws. Falling unemployment did not seem to stimulate wages, stock market growth could be indefinitely prolonged regardless of any link with the real economy and the US economy seemed to have found the secret of sustained growth. This configuration certainly allowed the US to register a growth rate clearly superior to that of Japan and Europe and re-establish its hegemonic situation in two strategic areas, technology and weapons production. This configuration was however contradictory from the beginning, because it was accompanied by what British economist Wynne Godley (in a quite premonitory article[3]) called the "seven unsustainable processes". To sum up briefly, these are:

1. The fall in private saving into ever deeper negative territory
2. The rise in the flow of net lending to the private sector
3. The rise in the growth rate of the real money stock
4. The rise in asset prices at a rate that far exceeds the growth of profits (or of GDP)
5. The rise in the budget surplus
6. The rise in the current account deficit
7. The increase in the United States' net foreign indebtedness relative to GDP

There was indeed no escape from basic accounting; for any given country, net borrowing and the capacity for financing it should balance and no "new" economy can get around this rule. The needs of private saving should be covered by entries of capital from the rest of the world or by a budget deficit.

The configuration of the US during the new economy can be summed up thus:
1. a strong increase in investment;
2. a regular fall in household savings to the point where households were consuming 100% of their income;
3. a federal budget surplus which was not enough to cover the needs of private saving;
4. a growing trade deficit, with as its counterpart massive inflows of capital.

The "new economy" does not concern only supply (productivity gains and technical progress) but also demand; any economy would record good growth figures with such a dynamism of consumption which grew more quickly than income, at nearly one point every year between 1995 and 2000. The relatively sustained US growth of the 1990s was based on two key factors; growth in household consumption and an investment boom. However, in the absence of internal financing, this equation could only be resolved by a tendential growth of the trade deficit, at a rate of nearly one per cent of GDP each year.

That amounts to saying that the accumulation of capital and household indebtedness has been to a great degree financed by regular inflows of capital, originating from Japan and Europe, but also from emergent countries after the financial crisis. This movement of capital was so powerful that it contributed to the strengthening of the dollar, in spite of the deficit that should have weakened it. As we have seen, this appreciation of the dollar boosted European exports and was one of the (paradoxical) conditions for the success of the euro. It seemed that a relatively cooperative arrangement had been arrived at which allowed Europe to embark on renewed growth. There were even some economists who said that the European Union, now equipped with the euro, could become the new locomotive of the world economy, if only it was to invest in the new technologies. Over-hasty theorists of the new economy, like Michel Aglietta[4], ignored its fundamentally asymmetric character which was an obstacle to any extension to the rest of the world. All the talk about an alleged backwardness in the area of the "knowledge economy" ignored the reality; European capital had invested in high technology,

---

[3] Wynne Godley, *Seven Unsustainable Processes. Medium-Term Prospects and Policies for the United States and the World*, Levy Economics Institute, 2000, http://guesde.free.fr/godley02.pdf

[4] Michel Aglietta, *Le capitalisme de demain*, Note de la Fondation Saint-Simon, 1998.

but on the other side of the Atlantic. Tongue in cheek, it might be said that the US would not be allowed to join the EU should they ask to do so, for they are far from meeting the criteria the European countries have inflicted upon themselves.

The second obstacle that the "new economy" came up against relates to the most classic determinations of the rate of profit. This latter began to fall, only one year after the beginning of the "new economy"; the cost of high tech investment led to an increase in the organic composition of capital, and the share of wages grew. Despite the favourable conditions in relation to financing, it was then a very "old" constraint on profit that provided the rock on which the mini-wave of the "new" economy came to crash. In short, what could not last did not last, and falling stock market prices brought a brutal end to all the illusions.

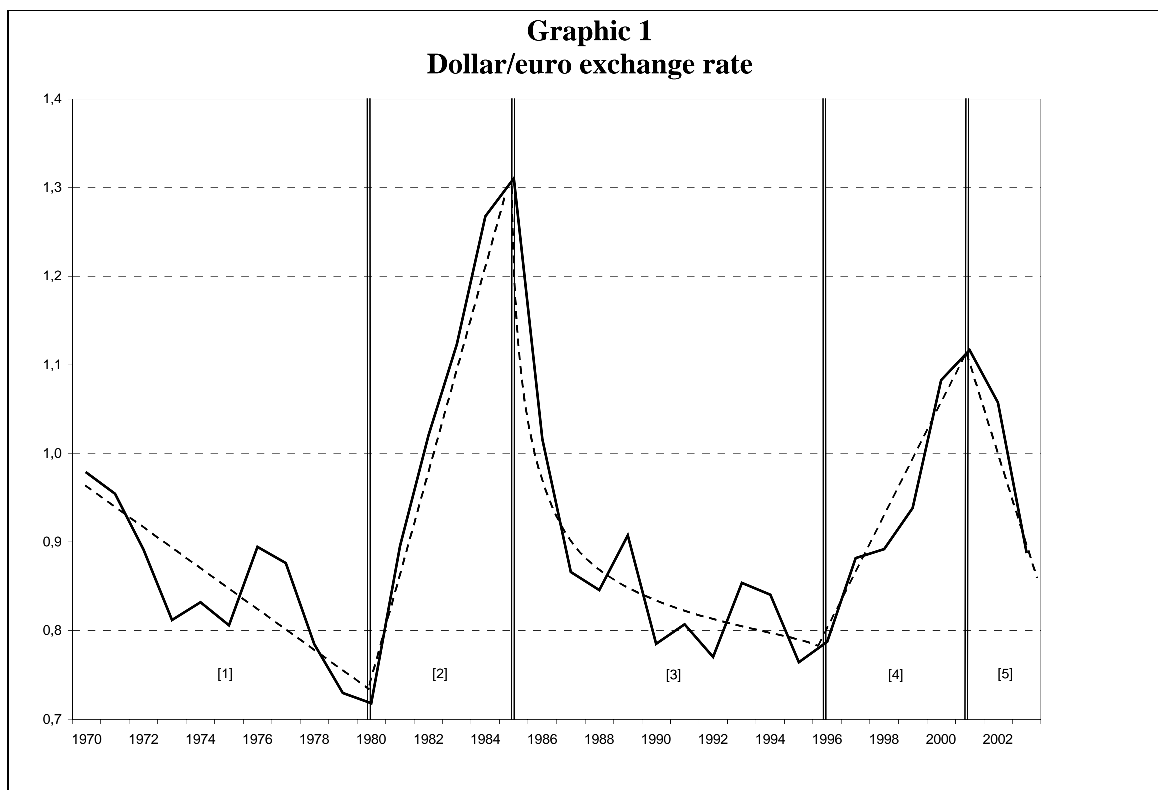
Decline of the dollar

Taking September 11 as its pretext, the Bush government took a whole series of measures in order to avoid a catastrophe resulting from by an unprecedented degree of indebtedness. It marked a significant turn towards a new strategy centred on one sole objective, to preserve at any price the conditions of US growth, even if it meant exporting recession to the rest of the world. A whole series of decisions illustrated this new orientation. First, there was the rejection of the Kyoto protocol, on the clearly stated basis that the interests of the US economy came before any other consideration. Just as unilaterally, and in flagrant contradiction with the free tradeism imposed on others, the US took typically protectionist measures on steel imports – which they finally revoked – and increased anew subsidies to agro-business. Budgetary policy then took a radical turn with the acceptance of a deficit which grew rapidly, partly because of increased military expenditure but primarily because of a considerable tax reduction biased towards the rich (for example, dividends were exempted from income tax). At the monetary level a clear decision was also made; the dollar was to fall in value in relation to the euro. In other words, the US chose a trade offensive so as to reduce (in part) their deficit through the dynamism of more competitive exports.

The rate of exchange between the dollar and the euro (or, retrospectively, a basket of equivalent currencies) has gone through some very broad fluctuations in the course of the last 30 years. We can distinguish five main phases[5] :

1. The first phase opened with the crisis of the dollar in 1971; after having been detached from gold, the dollar fell in value throughout the 1970s;
2. The second phase, from 1980 to 1985, was marked by a strong appreciation of the dollar to the detriment of the European currencies;
3. The third phase began with the Plaza Accords of 1985, which agreed a forced appreciation of currencies other than the dollar, principally the yen and the mark. Once this de facto devaluation of the dollar had taken place, its exchange rate experienced strong fluctuations, but remained at a rather low level;
4. The fourth phase began in 1996 and saw a sharp appreciation of the dollar in relation to those European currencies that were to enter the euro. This tendency was not reversed by the creation of the euro on January 1, 1999;
5. The fifth phase began in early 2002, when the dollar began to fall in value. Between February 2002 and October 2003, the euro rose in value by more than a third in relation to the dollar.

[5] Jérôme Teïletche, "Le taux de change euro/dollar. Une perspective de long terme", *Revue Économique*, March 2003. http://lare-efi.montesquieu.u-bordeaux.fr/pdf/Cahier24_Teiletche.pdf



Graphic 1
Dollar/euro exchange rate

The rise of the euro and the revenge of "Club Med"

After having lost up to 30% of its value in relation to the dollar, the euro then began to rise. Was this a sign of the good health of the European economy? For devotees of the strong currency, that much is obvious, since a strong euro offers protection against imported inflationary tensions. However, if we take a step backwards, the situation is very uncertain, as a strong currency does not imply a strong economy. The revival of the euro coincides with a slowing up in the European economy, which threatens to become recession.

All the efforts made so that the euro could be created were justified by the expected benefits of the single currency. It would at last be possible, it was said, to develop a real European macro-economic policy, which would lead to growth and employment. You might have the impression that this was working, given that 10 million jobs were created in the EU between 1997 and 2001. However, this was an optical illusion, to a great extent the fruit of the fall in value of the euro that stimulated European exports. It was as if Europe as a whole had applied that policy of "competitive devaluation" which was being denounced as an aberration for each of the member countries. This very particular period thus gave the false impression that it was possible to simultaneously accept the logic of the convergence criteria and follow policies more favourable to employment.

Faced with the new US trade offensive centred on the fall in value of the dollar, a gaping vacuum was apparent in the process of European construction; there was a single currency, but no exchange rate policy. What is the desired level of the euro in relation to the dollar? The Central Bank keeps a beady eye on the 2% inflation target, but, incredible as it might seem, nobody knows what its objectives are in terms of exchange rates and this little detail is not dealt with in any of the founding treaties. That might be seen as an indication that the main function of the euro was not really monetary and that it was, rather, conceived as an instrument for disciplining wages. In any case, if it is to become a real international currency, capable of competing with the dollar, a coherent policy is needed in the area of exchange rates and interest rates. In other words, what is needed would be a European discourse that is autonomous in relation to the monetary (and other) injunctions of the US.

Inside Europe, the current turn brings to light an enormous paradox, that it is the listlessness of the German economy which is helping to cloud the conjuncture for the whole of Europe. During the years preceding the introduction of the euro, sections of the financial bourgeoisie were concerned about currencies that would weaken its credibility coming into the euro. It was argued that the countries of southern Europe (Spain, Italy, Portugal, Greece) contemptuously referred to as "Club Méditerranée" should be kept out of the euro zone, which should initially be constructed around the franc-mark hard core. This option was very seriously envisaged before the fall of the dollar, when the European conjuncture was still sluggish. Critics of the euro centred around defence of "national sovereignty" argued that the future European Central Bank was no more than a European projection of the Bundesbank.

In reality the decline of German hegemony had largely begun at reunification. The latter event led the German economy to recentre itself on the internal market, in such a way that the staggering industrial surpluses of the past have tended to melt away and, with them, the foundation of the supremacy of the German economy. It was precisely this relative weakening that allowed the "Club Med" countries to enter the euro zone from its establishment. And today, Germany is the first victim of the monetarist logic that it helped to impose on its neighbours. Its exchange rate has been fixed for eternity at too high a level and without being able to play on this variable, it is obliged to brake in its economy and revise its social model, in the hope of adjusting its real costs. This logic of competitiveness extends the climate of quasi-recession to all neighbouring countries for which Germany is an important client.

The manner in which the rate of exchange has been frozen inside the euro can then be read as an amoral fable, in any case if one takes monetarism as a criterion of virtue. In general, the bad pupils practicing devaluation, like Spain and Italy, have emerged rather better from the viewpoint of market shares than the good pupils advocating a strong currency. They entered the euro with a rather advantageous exchange rate whereas Germany and to a lesser degree France, suffered from an overvalued exchange rate. And as the relative position of Germany gets continually worse from the point of view of growth and surpluses, the tension exerted by an overvalued exchange rate is increasingly felt. In other times, it would have been judicious to devalue the mark, even if the symbolic impact would have been particularly strong. In any case, with the euro, this path of adjustment is excluded. It is necessary then to slow down the already mediocre relative growth of the German economy, or reestablish its competitiveness on the basis of a significant drop in wage costs. This is precisely the point of Agenda 2010, a radical programme of counter-reforms proposed by the German SPD-Green government which represents a profound degradation of the German model.

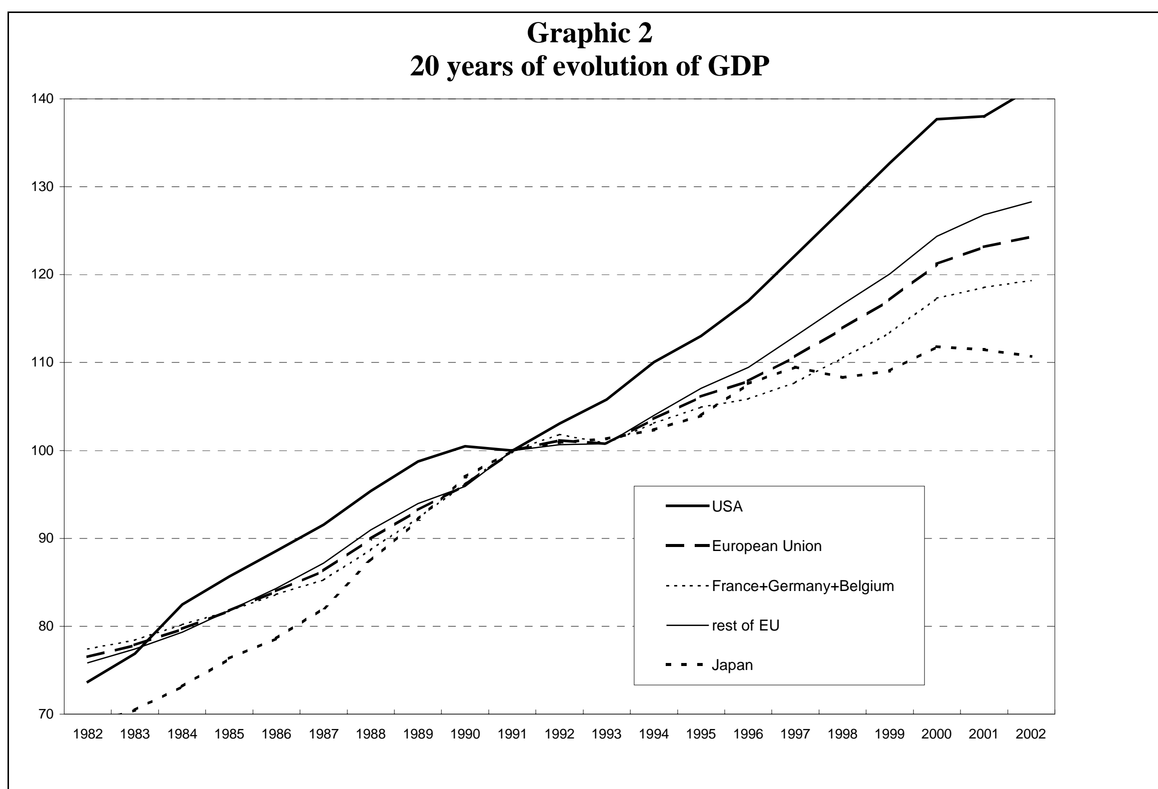
Two trends were apparent throughout the 1990s. On the one hand, US growth became clearly higher (more than one per cent higher) than that of Europe, while the rate of growth was similar in the 1980s (table 1). On the other, a second differentiation can be observed within Europe. During the last decade, average growth has been 2% for European countries overall. But this has been clearly less marked (1.6%) for the "franc-mark zone" (France, Germany, Belgium, Luxemburg) than for the rest of the European Union (2.3%) and in particular for a group of countries (Spain, United Kingdom, Ireland and Finland) which have enjoyed an average growth of 2.8%, close to that of the US.

Table 1. 20 years of GDP

	1981-1991	1991-2002
United States	2,9	3,2
European Union	2,8	2,0
- France + Germany + Belgium + Luxemburg	2,7	1,6
- Rest of European Union	2,9	2,3
Japan	4,1	0,9

Rate of annual average growth - Source: OECD

Japan's trajectory has followed a similar chronology. Until the early 1990s, its rate of growth was clearly superior to that of the two other poles of the world economy. From that date onwards, the Japanese economy entered a decade of quasi-stagnation and became completely detached from the average progression of the world economy. The early 1990s represented then a huge turning point; before that, growth was much more homogeneous between the US and Europe, and inside Europe. Since then, the US/Europe divergence has deepened and there has been a polarization of European growth which had until then been relatively homogeneous. Graphic 2 illustrates this development, which is undoubtedly the basis of the crisis that has just led to the de facto abandonment of the Stability Pact.



Graphic 2
20 years of evolution of GDP

The destabilization of the Pact, or the bourgeois impasse

Faced with the growing cleavage inside the EU, the specific interests of each state, with their particular class relations, tend to carry the day over their collective interests, whose management is delegated to the Commission. This is the key to the current crisis of the Stability Pact. The point of departure is the economic and political inability of France and Germany to respect the rule that budget deficits should in no circumstances exceed 3% of GDP. These two countries, which represent nearly 40% of European GDP, have obtained from the majority of the other governments exemption from the sanctions explicitly laid down by the Pact. This decision obviously arose the ire of the Commission, whose legitimacy and autonomy stem in great part from its function as guardian of the Stability Pact.

The crisis runs still deeper than its technical aspects and challenges the essential modalities of the process of EU construction. It could be said that the inconveniences of the euro tend to outdo the advantages. Certainly, there is still a profound agreement between the European bourgeoisies around a neoliberal orientation and notably the necessity of disciplining wages and enlarging the field of the commodity by privatizing public services and social protection. The budget deficits in France and Germany do not result from any desire to apply a policy of Keynesian reflation. They are the mechanical product of the coincidence of a bad conjuncture

and a dogmatic policy of lowering taxes for the rich. Pact or not, the project is to recover equilibrium by reducing social expenditure, as shown by Agenda 2010 in Germany or the freeze on civil service pay in France. We are a long way from a real alternative, which would involve increasing taxation on incomes from capital.

This crisis is moreover sharper because the contradictions are not strictly economic; whether we are talking about the intervention in Iraq or the institutional architecture, the Franco-German duo tends to oppose itself to the rest of the Union. The trial balloons on a "Union" between the two countries reflect this and relate to older projects of a two speed Europe, with a hard core and a periphery of associated countries. However, it should be stressed that this has nothing to do with the defence of different social models; the French and German governments are pushing through very systematic counter reforms that seek an accelerated alignment (never rapid enough, from their point of view) on a standard neoliberal model. It represents a return to national interests or rather a national management of class interests, hence the difficulties concerning the draft Constitution and the Intergovernmental Conference. The cohesion of the European bourgeoisie is today greatly depleted.

This note of crisis is connected to the logic of EU construction. Unlike, say, the German model of the 19th century, it does not involve the formation by addition of a new national economy. One of the reasons is that, each with its own specialization, the European countries are already part of the world market. The phase of internationalization began at the end of the 1960s and the constitution of the single market and the single currency cannot be analysed as the prior condition of such a movement. So there is a particular lack of synch between the European base and the world strategic horizon of the big groups. The single market is not the main outlet as such but the rear base for a broader offensive. For some branches, EU construction nonetheless follows an "aggregative" logic of the constitution of European "champions" according to a schema that sort of extends to the European scale the De Gaulle-Pompidou model of national champions. But this orientation, rather characteristic of financial sectors like banks and insurance, is far from representing the dominant strategy, which is to build transcontinental alliances so as to accede directly to all areas of the world market. The interpenetration of capital leads to the formation of a "transatlantic economy" to use the title of a recent study[6] ; it has already reached such a degree that it is difficult to speak of the US and EU as two separate and competing entities.

In these conditions, the big groups have some specific expectations in regard to EU construction, and their conception of the single market sheds light on their priorities. It might well have been thought that the single market would be more or less protected from international competition. In this case, the objective would have been to remove all internal obstacles to the circulation of commodities and capital, while maintaining, indeed reinforcing more or less open forms of protection in relation to the rest of the world. The French model could have served as a reference, with a very strong synergy between public orders and structuring of big industrial groups, in the framework of an active European industrial policy. Instead, another road was chosen with the Single Act of 1986. This was not content with lifting internal "rigidities" but went further in making a decisive choice, that of opening the public markets to competition without any "European preference". This choice is consistent with the free market positions of the Commission, in particular its Directorate-General for Competition, which rejects any principle of an industrial policy and any intervention in this area.

In other words the single market is a market open to the winds, because the big groups that set the tone in building the EU have their eyes on the world market. This point is very important because it allows us to better understand the subordinated character of the social aspect of EU construction, inasmuch as the project of the most powerful sectors of the bourgeoisie is not to construct a genuinely structured and integrated whole. It's possible to go further and raise fairly systematic doubts as to the real need for a single currency. If the intention were to construct the

[6] Joseph P. Quinlan, *Drifting Apart or Growing Together ? The Primacy of the Transatlantic Economy*, Center for Transatlantic Relations, 2003, http://guesde.free.fr/quinlan.pdf

European market as an integrated entity, then the single currency would have been absolutely necessary to manage the interface between a compact European zone and the world market. But since the single market in question is conceived as being open, the necessity of a single currency is much less obvious.

The main virtue of the passage to the single currency undoubtedly does not reside in its function as monetary tool but rather that of disciplinary instrument. It was in the name of the imperious necessity of a single currency that we had to rein in public expenditure and 'moderate" wages, in short implement a typically neoliberal programme. This project allowed the unification of the various neoliberal programmes and gave them legitimacy, invoking the demands of the economy and the European ideal.
Some years later, we find that the Stability Pact is "stupid" and the bourgeoisies note that they have underestimated their own degree of cohesion. The Stability Pact is perfect from a neoliberal viewpoint, in that it presupposes a level of coordination between economic policies that is in no way assured. Everything is happening here as if the bourgeoisies were carried away by their own discourse and had forgotten the elements of fragility of their own plans. That leads to a new paradox[7] in relation to the degree of laxity of budgetary policies. Since budget deficits are accounted for in a single currency, they are in one sense the responsibility of all the countries in the euro zone, who should deal with any deviations from the norm though higher interest rates on state borrowing. Before the euro, the financial markets could exercise a constraint by demanding a risk premium or putting pressure on exchange rates. Today, impunity is guaranteed to the extent that the Stability Pact does not rest on a real political will. It has bent at the first storm, quite simply because its functioning postulates a community of interest between the bourgeoisies which does not exist and which cannot be politically constructed in the absence of an adequate institutional crucible.

The different national economies all have a specific insertion in the world economy; the various countries are more or less responsive to price competitiveness, more or less well placed to capture world demand, more or less capable of attracting capital. The recent debate on the "decline" of the French economy is certainly a caricature, but it points to a real problem, namely the persistence of national imperialisms that still constitute still the framework for social interests. One of the main elements of crisis undoubtedly stems from this. Once neoliberal deregulation has been applied, a certain number of rules and constraints which allowed its introduction now present more inconveniences than advantages.

The polarization in Europe stems essentially from strategic-economic considerations. Differentiation is taking place in a relatively homogeneous manner as a function of two criteria, price elasticity and the acceptance of the predominance of the United States. Such is the basis of the opposition between the Franco-German pole and the other big countries of the EU, mainly the UK, Italy and Spain. These latter countries have less need of a compact institutional integration, an industrial policy, a structural competitiveness, or even the euro in the British case. The UK plays a specific role with a very specific model of integration, similar enough to the US from the viewpoint of its need to attract capital and its ability to do so[8]. This polarization is evident over many points, for example over the modalities of enlargement to the east, but the most striking example is the Iraq war. Even if this cannot be reduced to a divergence of economic interests it is in any case worth pointing to the coherence of these diverse positions.

[7] Pierre-Antoine Delhommais, "Les multiples paradoxes de l'euro", *Le Monde*, May 8, 2003.
[8] "Coasting on the lending bubble both in the UK and in the US", Wynne Godley and Alex Izurieta, Annual Meeting of the Society of Business Economists, London, June 25, 2003. http://guesde.free.fr/godley03.pdf

The world economy: an unstable configuration[9]

Capitalism needs a structuring of the world economy adequate to its current mode of functioning. Globalization poses this demand in relatively new terms and it is perhaps useful to take up the typology proposed around 30 years ago by Ernest Mandel[10]. He distinguished three possible configurations - ultra-imperialism, super-imperialism and the pursuit of inter-imperialist competition.

The first hypothesis, that of ultra-imperialism, should be clearly rejected. Such a scenario, already envisaged in his time by Kautsky, would correspond to a configuration where, as Mandel puts it, the international interpenetration of capital has advanced to the point where decisive divergences in interests of an economic nature among owners of capital of various nationalities have completely disappeared. We are manifestly very far from such a situation and we should draw the lessons of that. The illusion of a condominium balanced between the three poles of the "Triad" (US, Europe, Japan) was floated at a time when the talk was of "Toyotaism" and a "new model of work" and there was ecstasy over the new means of productivity of Japanese industry. It was thought that the US would witness a slow erosion of the very bases of its domination without reacting.

This was also the thesis of "Empire" advanced by Michael Hardt and Antonio Negri[11] which is currently undergoing an enormous practical refutation. It is enough to recall the kernel of their thesis, summed up thus by Negri: "In the current imperial phase, there is no longer imperialism - or, when it survives, it is a phenomenon of transition towards a circulation of values and powers at the scale of Empire. In the same way, there is no longer a nation-state; the three substantial characteristics of sovereignty – military, political, cultural – are absorbed or replaced by the central powers of Empire. The subordination of the former colonial countries to the imperialist nation-states, like the imperialist hierarchy of the continents and the nations disappear or wither; all are being reorganized as a function of the new unitary horizon of Empire."[12]

Hardt seeks to maintain the thesis of Empire. In a recent article, he insists on the common interests of the "elites" of the US and those of other countries, in particular in the economic sphere: "Business leaders around the globe recognize that imperialism is bad for business because it sets up barriers that hinder global flows. The potential profits of capitalist globalisation, which whet the appetites of business elites everywhere only a few years ago, depend on open systems of production and exchange. This is equally true for the captains of capital in the US. Even for the US industrialists drunk on oil, their real interests lie in the potential profits of capitalist globalisation."[13] Hardt goes so far as to present "Empire" as an alternative to US imperialism while denouncing the elites who are "incapable of acting in their own interest". After having preached to the world's powerful, Hardt then has some advice for the anti-war movement[14]. Certainly, he says, its anti-Americanism is fed by the unilateralism and anti-Europeanism of the Bush administration. Nonetheless it is a trap which leads to a world view which is too bipolar, or worse still, nationalist. Hardt opposes this narrowness of view to the clairvoyance of the global justice movement, which has succeeded in not approaching politics on the basis of "rivalries between nations or blocs of nations". This dissociation has no basis, and Hardt's attitude shows an astonishing theoretical voluntarism that consists in denying a reality that is today very palpable, the return of inter-imperialist contradictions.

---

[9] I take up here some themes from a text published under the title "Une configuration nouvelle de l'impérialisme, une hégémonie qui n'est pas sûre d'elle-même", *Carré rouge* number 25, April 2003.
[10] Ernest Mandel, *Late Capitalism*, Verso, London, 1999.
[11] Michael Hardt and Antonio Negri, *Empire*, Harvard University Press, 2001.
[12] Toni Negri, "L'Empire, stade suprême de l'impérialisme", *Le Monde Diplomatique*, January 2001.
[13] Michael Hardt, "Folly of Our Masters of the Universe", *The Guardian*, December 18, 2002.
[14] Michael Hardt, "A trap set for protesters", *The Guardian*, February 21, 2003.

What of the scenario of super-imperialism? In this configuration, as defined by Mandel, a single great imperialist power exerts a hegemony such that the other imperialist states lose all real autonomy in relation to it and are reduced to the status of minor semi-colonial powers. Even if the EU can obviously not be characterized as a "minor semi-colonial power", this schema seems to correspond well to the hierarchy that has been reaffirmed between the imperialist powers, which gives the dominant role to the US in all sectors - economic, technological, diplomatic and military.

However, it does not account for two striking features of the contemporary world economy. The first is the fragility of US domination. The dominant imperialism is not an exporter of capital and its supremacy rests on the contrary on its capacity to drain off a permanent flow of incoming capital to finance its accumulation and reproduce the technological bases of this domination. It is then a predatory, rather than parasitic, imperialism whose great weakness is not being able to propose a stable regime to its vassals.

The second novelty stems from the degree of transcontinental integration of capital achieved today. It would render necessary the constitution of a US/Europe condominium, a G2 to take up the formula recently advanced by the German Finance Minister, Caio Koch-Weser[15]. To regulate such an integrated economic area, a political coordinating body becomes effectively an objective need, from the viewpoint of the well-understood collective interests of the bourgeoisie. But, to paraphrase Jaurès, capitalism carries competition in itself as the storm clouds carry rain, and globalized inter-imperialist cooperation is a mirage. In the absence of a super-imperialism armed with sufficient supremacy to impose it, it is then towards the third configuration that the world is heading, that of inter-imperialist competition. The definition given by Mandel sums up the current situation well: the international interpenetration of capital is advanced enough for a higher number of big independent imperialist powers to be replaced by a smaller number of imperialist superpowers, but it is so strongly hindered by the unequal development of capital that the constitution of a global community of the interests of capital founders. The unresolved contradictions between Europe and the US will continue then to weigh on a durably unbalanced world economy.

The world economy : flying on one engine

This expression was coined by Lawrence Summers, US Treasury minister under Clinton, and was recently the title of an important dossier in *The Economist*[16]. One figure sums up the asymmetric functioning of the world economy; since 1995, nearly 60% of world growth is attributable to the US, which represents "only" 30% of the world economy. The general thesis of *The Economist* is that "the world cannot continue indefinitely to rely on American spending".

Nearly all economists who consider the question believe that the mode of growth adopted by the US since the beginning of the "new economy" is not sustainable. Updating his previous study, Wynne Godley[17] shows that if nothing changes, the trade deficit, already 5% of GDP, will continue to grow to reach 6.4% of GDP, to which we should add the growing mass of interest that the US should pay on its foreign debt. He estimates this net flow of interest at $200-300 billion, which will be equivalent to 8.5% of the current account deficit as a whole. If the private sector shows new capacities for saving, accounting equilibrium will require a significant growth in the budget deficit. To simply stabilize the trade deficit, it would be necessary anyway to reproduce constantly the attractiveness of the US for foreign capital. Instead, the instability of the global situation risks discouraging it. It was attracted by the dynamic of the productivity of labour and high levels of profitability, but these favorable perspectives are today challenged.

---

[15] C. Fred Bergsten and Caio Koch-Weser, "Restoring the Transatlantic Alliance", *Financial Times*, October 6, 2003. http://guesde.free.fr/bergsten3.pdf
[16] "Flying on one engine", *The Economist*, September 18, 2003. http://guesde.free.fr/1engine.pdf
[17] Wynne Godley, *The US Economy. A Changing Strategic Predicament*, Levy Economics Institute, February 2003. http://guesde.free.fr/godley3.pdf

Economist Catherine Mann[18] argues that "At some point… global investors will reach, or even go beyond, the desired proportion of U.S. assets in their portfolios". It will then be necessary to rely on a fall in the value of the dollar to reduce the current account deficit.

However, it might be asked whether this is possible without major recession. The path of devaluing the dollar is indeed sown with dangers. To significantly reduce the deficit, specialists argue that a devaluation, of the order of 40% would be necessary, which will bring the dollar to an unprecedented low. While possible, such a scenario comes up against several obstacles. The first is that this devaluation reduces the value in euros of assets held in dollars; their foreign holders could then be tempted to sell these assets to limit the loss. These sales would unleash a new downward movement that could only be dealt with by a hefty rise in interest rates that would affect growth. An aggressive devaluation of the dollar could lead to the opening of a trade war. The US trade deficit can be partly absorbed, but to the detriment of its main partners, namely the EU and Japan. In this case the US would export its recession only for it to return like a boomerang if it was sufficiently profound to break the dynamic of the world economy, or if it unleashed retaliatory protectionist measures from other imperialisms. This is the economic basis of the tensions to come.

[18] Catherine L. Mann, "Perspectives on the U.S. Current Account Deficit and Sustainability", *Journal of Economic Perspectives*, summer 2002. http://guesde.free.fr/mannrep.pdf