

Trans-Regionalism and Fictitious Capital

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Abstract—This article analyzes the role of the United States in the formation of trans-regional trends as opposed to globalization under the rules of the WTO. It is shown that the mechanism of cross-border expansion of fictitious capital in the conditions of inefficiency of American economy is a way of transmitting inefficiency to world financial markets. Trans-regional trade in conditions of inefficiency and loss of performance of the national economy of the country which is the world financial center makes it impossible to make a new technological breakthrough due to the lack of resources for its implementation. Trade and sanction war launched by Western economies led by the United States becomes, as a result, not just a form of protectionism, but a form of artificially promoting fictitious capital to liquid European markets, as well as a way of channeling this liquidity to financing the restoration of inefficient structure of American industry.

Keywords—US economy structure, fictitious capital, world financial system.

I. INTRODUCTION

The current change of emphasis in the global financial and economic arena is a reversal of the American economy from economy based on neoclassical synthesis to more complex forms of political economy. This situation arouses increasing interest because its ideological inspiration is the Republican capitalist who occupies the chair of the US president. This is not the first time that American policymakers have been selective about the application of free market ideas to the economy, but it seems that first-ever since the time of Smoot-Hawley laws that contributed to the development of the Great Depression in the United States, protectionism in foreign trade reached such a high level. Furthermore, transnational companies that are not capable of manufacturing products on their own may get under the blow of such protectionism, remaining at a given scale of prices for these products. However, the capital of the president himself (real estate, hotels, and casinos) is unlikely to suffer from his decisions, since they mainly bring profit.

It is also not the first time that the United States has played a national security card to solve their economic problems. Tough policy of the American president in the DPRK and Iran allowed increasing the negotiating power in the dialogue with China which is much more dependent on the policies of these states. The toughening of sanctions against Russia and the forcing of a negative attitude on the construction of the second branch of the Nord Stream on Germany are obviously aimed at providing a preferential treatment for some American goods in European markets.

Summarizing what has been said in the introduction to this paper, let us highlight the key points. The USA are betraying

the ideas of a free global market by introducing restrictive duties on Chinese imports to halve the trade deficit, and being ready for retaliatory measures from China (perhaps even anticipating it). In addition, American politicians led by their president are putting pressure upon the European countries to free their markets from Russian energy sources (as earlier – from Iranian ones). All this happens in the context of lobbying for a weakening of influence of China and Russia throughout the Eurasian space. With regard to US domestic policy, having somewhat muffled the voices of “green marketers” advocating for the environment, organizational measures are being taken to support energy companies in order to increase their production (generation) with minimal additional investments (for example, permitting exploration and production of oil in the national reserve in Alaska).

The first question is, why, at the same time, high-tech companies, for example, threadbare Apple company can be “finished off”, but rental industries – Americans for so long have been accusing developing countries of their dependence on rental industries – are in a much better position? Maybe because the rent according to the assurances of mercantilists, can be turned to anything, unlike other sources of income?

The second question is why the US authorities were not afraid of China’s response to trade barriers.

II. METHODS

The article is based on the method of descriptive analysis using deductive-inductive techniques and identifying systemically significant relationships in the socio-economic phenomena considered in the literature. Empirical basis of the study includes processing statistical arrays of information, grouping data obtained from different sources, and comparative analysis. Conclusions are based on performing discriminant analysis – defining features that are most comparable for subjects distributed into one group and most different for different groups, the distribution is based on the application of variance sum law.

III. RESULTS

It seems that there can be two answers to the questions posed in the introduction. First of all, there is a version that companies supplying technological equipment are currently on the verge of production capabilities, and increasing the export of Boeings to China is either impossible or economically impractical, since it requires serious capital investments. In favor of this version, we have the statements of American politicians about the technological espionage by Chinese and the need to limit high-tech exports. The second version is that the Americans chose another “battlefield” with

Chinese economy: united European markets on which China depends heavily. Implementation of the agreements on the creation of Transatlantic Union will allow American goods, according to Prof. R. Rosecrans, “dragging the growing protocapitalist states into its spider web” [1]. As a “spider web” in the cited work, a global market on both sides of the Atlantic is considered from which cheap Chinese goods will

obviously be pushed out. It seems that it will be easier for American goods to compete in the markets of expensive Europe while benefiting for their own trade balance. However, another question arises. Currently on-trend concept of “deficit of added value” states that the stages of production and circulation of goods according to the level of created added value are distributed as follows (Fig. 1).

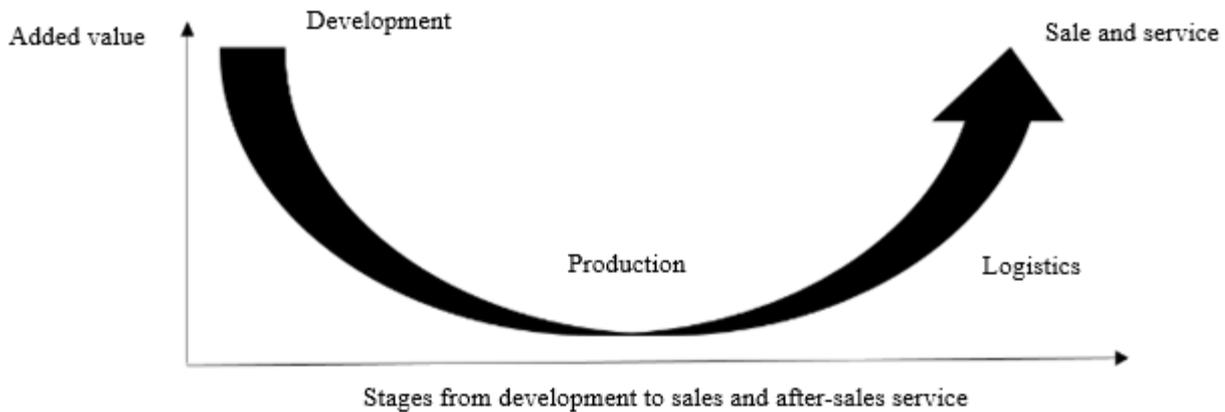


Fig. 1. Process of creating added value according to the WTO [2]

Moreover, if we review the WTO report on the movement of added value with trade flows, then the difference from the model developed by experts for Germany is striking: the graph is completely different; the production of goods in Germany corresponds to a higher added value than their development or logistics.

Despite the obvious controversy of the above illustration and the materials of WTO report as a whole, one can trace the answer to one of the questions we are interested in, namely, why extractive industries were chosen for trade expansion. In the production (extraction) phase, rent is created in these sectors, that is, no conflict of added value can arise. The production of minerals due to external factors also cannot be transferred to another region of the world. Therefore, formally, these are perfect products to eliminate the so-called deficit of added value.

However, returning to the objectives of our study, let us consider the possible consequences of US policy on more familiar balance that characterize the excess or deficit of resources in the country. There is nothing secret about the huge US trading (\$ 586 billion, most of which is related to operations with China) and budget deficits (\$ 670 billion for 2017), as well as federal and private debts that exceeded \$ 70 trillion; even on the capital account, net inflows from direct foreign investments and equity financial assets in the US are negative, at \$ 8 trillion of net deposits of foreigners in debt assets issued in the United States. In other words, all possible US budget surpluses today can be called passive. From the point of accounting, such situation is impossible, since the equality of assets and liabilities cannot be achieved, at least in the long term, when financial resources are required to pay off for liabilities. At the same time, it is obvious that it is impossible to just print dollars, since in this case the interests of rentiers who receive their fixed incomes will be at threat, and, as we have already seen, American government cannot allow this happen.

For this reason, the appearance of debt servicing is created; in this regard fictitious capital is actively used which is distributed worldwide through the banking channels of expanded American transaction sector. However, it seems that the neoliberal model has forced itself into a corner: through the active spread of banking risk trading, a fictitious capital trap was formed which seems to have sprung at present; it is the powerhouse of the aggressive policy of recent months and a reversal towards post Keynesianism.

The fact is that with the active use of credit for the economy as a whole at a certain point in time, the so-called Minsky Moment (by the name of economist Hyman Minsky) arises when finances transfer from the speculative phase into Ponzi scheme phase (that is, they become a financial pyramid when new debts are attracted for servicing earlier ones). In fact, this situation is obvious when considering US balance system: if there is not a single source within the country for servicing debts, then at some point in time the debts start servicing themselves [3].

However, this scheme is not so simple. The fact is that the abovementioned risks which currently are independent objects of sale, and it increases the financial leverage of the American economy, have different impact on investments. Here we should make a reservation that there are two approaches to the assessment of investments, in English terminology they are designated as “value” and “cost”. The difference in these approaches to investment is mentioned by H. Minsky in his book “Stabilizing an Unstable Economy”. The term “value” means the assessment of an investment by the discounted value of future income from this investment which corresponds to the income approach; the term “cost” is closer to the labor theory of value and can be either socially necessary labor costs, or the sum of production costs and certain profit. Formulas for calculating these values in accordance with International Financial Reporting Standards are given below:

$$value = \sum_{t=0}^n \frac{CF_t}{(1+r)^t}$$

where CF_t – cash flow generated by the investment in the year t , r is the discount rate, n is the period of investment project.

$$cost = I_0 + K - TV$$

where I_0 – initial investment volume, K – additional capital investments in the project, TV – liquidation (or terminal project cost is the value of a new business that arose as a result of the implementation of a large investment project and which is subsequently allocated to an independent company or a branch of an existing company) project cost.

The fact is that cost level will be affected by credit risks through the interest rate at which crediting takes place, while value level will be affected by market liquidity risks, that is, the ability of this investment to quickly change form and bring a certain amount of cash to its owner.

Thus, the interest of market agents in investments will depend on the relationship between liquidity risks and credit risks of *bank crediting the company*. And then, when market liquidity risks are realized, Minsky Moment arises in an economy with fictitious capital. Credit risk, of course, can be transformed into liquidity risk through the system of bank balances.

As a result, the higher the difference between value and cost, the higher the incentive to invest, however, if the growth

of value breaks away from cost, then the system of bank balances will become balanced over time resetting the fictitious component of value. An additional source of risk is that depreciation, in fact, is included in the added value, that is, artificially increases value.

Moreover, if you look at value formula and remember that cash flow includes profit, depreciation and net working capital increment with the opposite sign, we get that investment incentives depend on depreciation and payables to the same extent as from profit.

P. Sraffa’s work gives a slightly different interpretation of the same mechanisms: “the higher the rate of return on investments, the greater the ratio of the residual value of the fixed assets to its replacement cost” [4]. In other words, the higher the return on investment, the longer the cost of investment remains, that is, the more financial resources can be attracted to secure these assets despite gradual depreciation. Therefore, the greater the difference between value and cost over time, the longer Minsky Moment does not arise, and the longer financial resources can be attracted under old technologies, gradually removing them from the real sphere of value creation directly – through bank balances, or indirectly – by derivative market.

A methodological digression was necessary to clarify the further logic of our analysis. In a first approximation, we consider the relationship between value and cost at the level of the ratio “growth rates of investments in fixed assets and labor costs that create value to market capitalization” (Fig. 2).

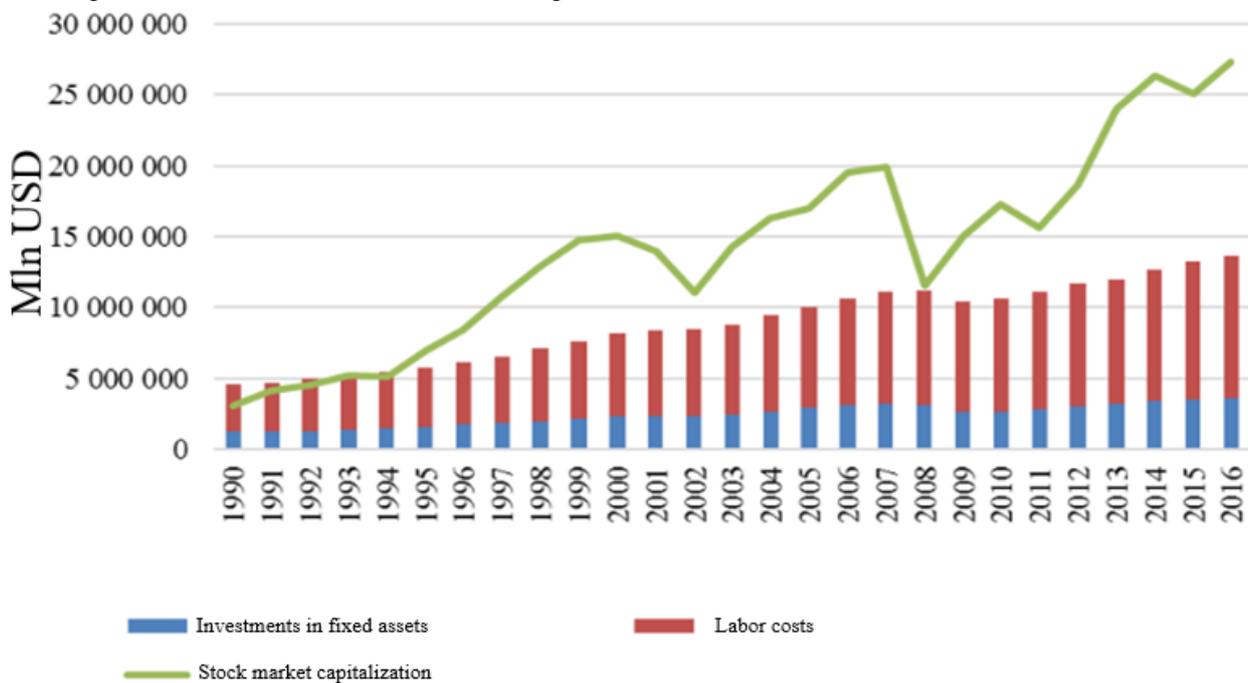


Fig. 2. Ratio of investments in fixed assets, labor costs and stock market capitalization.

A growing gap is obvious that indicates the approach of Minsky Moment, but this conclusion does not require a detailed study; a quick look at the state of US balances is enough to understand that it is time to turn the hegemony into panic, especially in the face of growing global competitors [5].

In our opinion, searching for industry dependencies that will confirm or refute our conclusions about the current paradigm shift in US geopolitics, is of much greater interest. To solve this problem, the authors carried out calculations for 30 sectors of American industry.

Based on the publicly available statistics, we calculated the relationships between value and cost as the difference between the sum of the increase in the value of fixed assets and intangible assets and accrued depreciation (based on cash flow formula) and the value of net investments in fixed assets and intangible assets. A positive value of the difference between parameters means that investments made increase expectations on the level of investment yield, and negative one means that investments are actually made to cover the level of impairment of assets. Most likely, there are “imaginary” improvements in equipment productivity that are actually not able to increase investment return.

Further, in accordance with the methodology of post Keynesian analysis, on the basis of the calculations, the correlation coefficients between obtained “value - cost” parameters and the rate of return on invested capital are estimated. If the obtained value for the period correlates with the level of profitability of fixed assets (and intangible assets), then this indicates a high potential for maintaining investment attractiveness and the possibility of attracting financial resources for old technologies, as well as, importantly, the possibility of ensuring economic return on invested funds. If the correlation is negative, this indicates required external subsidizing of industry in order to maintain the ratio between parameters, and, therefore, that the industry cannot independently reinvest financial resources what is a sign of fictitious capital. Based on the analysis, US industries were grouped by the possibility of attracting investments in obsolete technologies without their significant depreciation.

Results of the analysis can be summarized in Table 1.

TABLE I. GROUPING OF US INDUSTRIES BY THE ESTIMATED POSSIBILITY OF ATTRACTING INVESTMENTS IN OUTGOING TECHNOLOGY

Industries that can attract investment and provide return on invested funds	Industries where investments are heavily impaired
Mining of oil and gas	Hunting and fishing
Mining-related industries	Provision of utility services
Building	Electrical engineering
Metallurgy	Production of electrical equipment
Oil refining	Manufacture of food, beverages and tobacco products
Manufacture of plastic and rubber products	Textile, clothing and leather products
Wholesale trade	Chemical industry
Publishing activity	Retail
Agriculture	Air transport services
Water transport services	Railway transport services
Building	Trucking
Other transport services (including logistics and forwarding)	Movie industry
	Mining, other than oil and gas
	Production of wood and wood products
	Engineering
	Automotive
	Provision of processing services

Consideration of industry structure in the light of the relationship between the two types of value sheds some light on US foreign policy: industries where the US lost the competition to China are a potential source of increasing deficit and vulnerability of US economy, they need to constantly raise funds, but the cost for these financial resources can no longer be created. In the light of performed analysis, our conclusion on the absurdity of the provision that the smallest part of added value is created in production is confirmed. If this were true, then the American economy would not have felt the need to subsidize a number of branches of its industry [6].

Subsidizing is carried out in the following forms [7]:

- 1) direct provision of funds, most often in the form of grants for research and development,
- 2) provision of tax benefits (most often, for “innovative” industries),
- 3) providing guarantees to large corporations and banks,
- 4) government purchases at prices above market,
- 5) stock market operations aimed at increasing the capitalization of systemically important banks and corporations.

The main recipients of subsidies today, despite a direct violation of WTO rules, remain the export sectors of American economy, as well as industries associated with transportation by all means of transport [8], that is, those industries that are protected by US protectionism in foreign trade. Also, according to available data, it can be concluded that the growth of domestic consumer spending is subsidized, mainly by tax incentives.

In addition, it should be noted that subsidies are provided through financial capital distribution channels, that is, most support measures for American industries with their outdated equipment are also aimed at accelerating financial capital turnover and, consequently, at expanding speculation and increasing financial bubbles in stock and housing markets.

Data on the total amount of subsidies in American economy are shown in Figure 3.

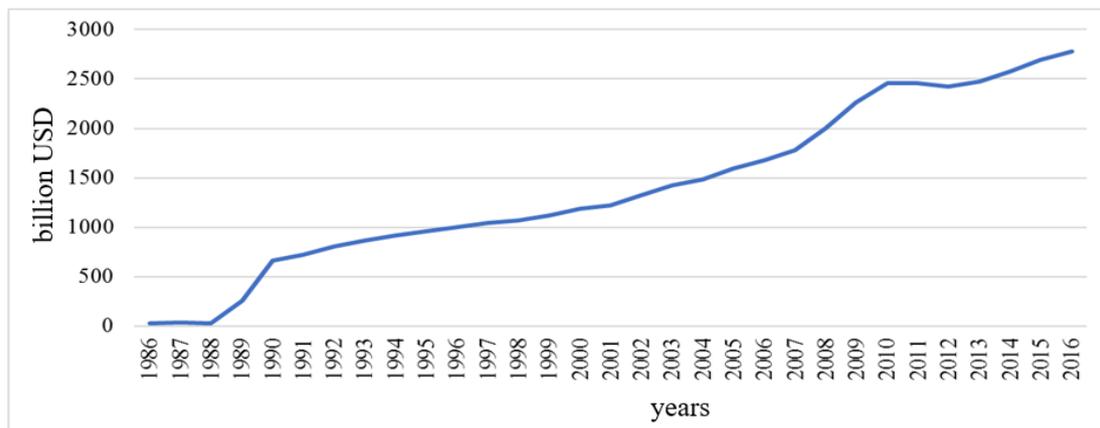


Fig. 3. Dynamics of subsidies to the US economy [9].

Table 1 explains the priorities of American foreign policy: industries located in the left column are able to attract and service financial resources, Minsky Moment is relatively far for them (after all, production is concentrated mainly in the country!) what results in possible positive impact on US balances despite the level of financial dependence. From here, the attempts of American expansion to the corresponding markets look quite logical.

Organizational measures aimed at promoting the American economy's primary industries to international markets and protecting industries that are not able to attract financial resources can allow America to "delay" unpopular political decisions by slightly reducing the superelasticity of money supply without compromising the interests of rentier (or with the possibility for safe disinvestment before the collapse of the next financial bubble). Speaking about the high elasticity of money supply, that is, the high level of correlation between bank balances and liabilities of the private sector, one cannot help but recall S.S. Dzarasov's brilliant phrase about the insolvency of "the mythology of monetarism" which states the neutrality of money, that is, the absence of a direct relationship between money supply and interests of industrial enterprises.

IV. CONCLUSIONS

In conclusion, we should say that the measures taken by the United States will not allow for a long delay in the next crisis that, presumably, will be the beginning of the transition of the world finance center back to the Eurasian continent. Therefore, a change in geopolitical management methodology in the context of past power looks like a panic of the American

government associated with the failure of method for appropriating the "imperialist" rent of transnational companies and the impossibility of technological progress due to exclusively intangible assets.

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