



### Summary

*There has been a common belief that COVID-19 pandemics and the war between Russia and Ukraine had crucial impact on the world economy and recent national and international reports supported this idea. Although both cases have negatively effected the world economy to some extent, it should be kept in mind that global financial meltdown was happened between 2008-2010 and the great stagnation started thereafter has been continuing since then. Thus, the existing economic crisis can only be analyzed in the framework of "world system analyses" which was developed by some prominent scholars after the Second World War rather than short term data.*

### Contemporary Global Economic Crisis a World-System Approach

*Prof. Ruslan DZARASOV*

"World economic outlook", published by IMF in July 2022, calls the perspectives of the global economy "gloomy and more uncertain". The report argues that "a tentative recovery in 2021 has been followed by increasingly gloomy developments in 2022 as risks began to materialize". Indeed, downturns in Russia and China, underperformance in of consumer spending in USA, growth of inflation worldwide, including US and European economies, contributed to contraction of the global output in the second quarter of this year. There is a strong temptation to explain the current problems and gloomy perspectives of the global economy by negative effects of COVID-19 pandemic processes and by the recent eruption of the Ukraine crisis.

Definitely both of these factors have their negative consequences for the world economy. However, one should remember that the global financial meltdown happened in 2008-2010 and in its aftermath so called 'Great Stagnation' started which lasts up to now. Moreover, the forecasts predicting new wave of the global slump appeared as early as 2019 on the eve of the pandemic crisis. The data on the rate of profit in the global corporate sector demonstrate steady decline of this variable crucial for corporate investment and economic growth. And the huge decline started in the 2010s anticipated the current slump in result of anti-coronavirus measures. If we consider the weighted average of global corporate profits, then we can see again that it went down before the coronavirus problem. These and some other facts show that preconditions for the second wave of the global slump reappeared in the world economy, creating conditions very close to those, which prevailed earlier in 2008-2010. So, this assumes that the world economy is hit by something much deeper and much more organic for the world capitalism than the coronavirus problem and geopolitical clashes.

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Frank, Giovanni Arrighi. Despite their many differences they are focused on unequal and unequivocal exchange between the core of the world economy, which is represented by the developed capitalist nations, and the periphery, which is represented by developing countries. People like Wallerstein focused also on so-called semi-peripheral countries, which are situated somewhere in between the core and periphery, to which I believe both Turkey and Russia belong. And these are the systemic factors that characterize the world capitalism from the very beginning. Historians think that capitalism appeared somewhere around 1500 in Mediterranean, in the form of the great Italian trade City-States. From the very start of their history capitalist economies accumulated capital on a global level through unequal relations between the core and periphery. And a number of ways was developed by world capitalism allowing them to control the periphery and extract additional income from its unfortunate population.

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The legacy of a brilliant Latin American economist – Raul Prebisch (1901-1986) – is very elucidating on this account. He suggested the idea of the 'dependent development' which was focused on price disparity. This notion reflects the fact that, according to his calculations, index of prices of raw materials and agricultural products in the world economy on average fell behind the index of prices of manufacturing products by 40%. And he believed that this means that developing countries every year have to sell more and more of their products in order to buy the same number of products suggested by transnational corporations from the core countries. This

causes dependent development of the nations, which economies are embraced by such unequal relations. However, he treated this problem as a technical issue which can be solved by so-called input substitution. If the nations suffering from the price disparity developed their own production of manufactured goods and cut their import, they will stop losing incomes. Such a strategy when applied in Latin America, in fact, failed and further stimulated development of world system analysis.

A number of insights into the unequal relations between the core and periphery, on which the global accumulation is based, followed. I would like to single out the concept of 'development of undevelopment' suggested by the brilliant American intellectual of German origin Andre Gunder Frank (1929-2005), who was an economist, historian, and sociologist deeply understanding the problems of development, especially of Latin America, and Asian countries. In a number of books he examined the global accumulation of capital, focusing on the fate of Latin America, China, India and Africa. He arrived at the conclusion that so called problem of the social economic backwardness is by no means a natural phenomenon of the world history. On the contrary, it is of artificial creation. Frank demonstrates in his works that many 'developing' nations, China and India being the most vivid examples, had relatively developed and diversified economies at the moment of history when capitalism suddenly broke in their histories in the form of violent colonialism. Indeed, China and India dominated the world trade in Medieval times. Culture of these ancient civilizations were much older than of the European countries while literacy and life expectancy of their population were greater than that of Europeans. There is no way to deny that their production was based on the manual labour and their population periodically suffered from hunger and diseases. Nevertheless, they more or less managed to supply their population with the basic commodities. Countries of the core took over these countries by military force and ruthlessly changed their economies and social structure. Colonizers reduced their economies to a few industries producing commodities for the industries of metropolis. On the other hand, Westerners deprived the peasantry from access to land, converting it into cheap labour force, and raised comprador bourgeoisie from



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This proposition is supported by modern data. The structure of export from the countries with low and medium per capita incomes to the countries with high per capita incomes give a good insight into the problem. In the 1980 the bulk of this value – as much as 80% - was represented by agricultural products and raw materials, while manufacturing products amounted to only 20%. In 2003, we have exactly the opposite picture: now, 80% of exports are represented by manufacturing groups, and only 20% are comprised from raw materials and agricultural products. This is an enormous shift. If one thinks that this means that the problems of development are solved at last and that developing countries now achieved the aim of industrial development and, then such an optimistic picture would be premature. In fact this enormous change of the very character of international trade appeared in result of a truly global shift of production from the global North to the global South. It dominated the last 3-4 decades starting, from the 1980s. Essentially this fateful process was the response of the world capitalism to the so-called Stagflation crisis of the early 1970s, which put an end to the golden age of capitalism after the Second World War. In the 1950s and 1960s, Western countries enjoyed higher rates of economic growth and social welfare states, high rates of technical progress, and some people argue that capitalism solved all social problems which socialism and developing countries tried to solve. However, stagflation undermined this optimistic understanding, and corporate

profits went down. It is very important to take into account how world capitalism reacted to this.

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The global shift of production was the response to stagflation, and of course, it had an aim to benefit from cheap labor in the periphery. Such a conclusion inevitably follows from the data on the relation between wage rates in the core countries and in the periphery. The difference is enormous. The average real wage rate in the Chinese industry, is only 1/10 of the average real wage rate in American industry even now after wages started growing in China. And probably this is the reason why Donald Trump failed to fulfill his pledge to return production to America. Cheap labor of the periphery was the prime source of growth of incomes of Western transnational corporations in the last decades. However, this exploitation of the labor of the periphery enriched TNCs, in the end of the day it has enormous adverse consequences for the world. First of all, the global economy experienced shock expansion of the global workforce. In the 1980s, the global workforce amounted to nearly 1.5 billion workers. In two decades, on the eve of the new millennium, it grew to more than 3 billion people, and now it is greater than 3.15 billion. For the first time in history the share of workers in the global population exceeds the share of peasantry operating based on manual power. It is important to note that shock expansion of the global workforce took place not based on technical progress and greater productivity, but mainly on the basis of labour-intensive production processes.

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The global capital labour ratio decreased in recent 30 years by 55-60%, which means that the world followed the way opposite to technical progress, and this resulted in a number of very important other consequences. Last 30 years the world economy suffers deficiency of aggregate demand at the world scale in relation to aggregate supply. Indeed, industrialization of China, India, Mexico and many other countries following the export-led model of growth led to enormous growth of production capacities. Deficiency of the world aggregate demand had led to decline of profitability of productive assets, cut in investment expenditure, which caused decline of real GDP growth rates long before the world financial meltdown.

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Now we see that the global investments and savings as the share of world GDP in the last 50 years declined considerably again following this global shift of production from the global north to the global south. This had led to financial meltdown of the 2008-2010. The American domestic market, for example, was growing due to the growth of consumer debt and in a situation of stagnant wages and stagnant real incomes of hired labor. This led

to the famous mortgage crisis of 2007, which precipitated this global slump. Currently, these problems still affect the world economy. I believe that this inadequate aggregate demand, which is a result of low real wages in the world economy, is the main reason why the world suffers the current Great Stagnation. Before the pandemic crisis, as the data demonstrates, some dimensions of the global financial crisis, which lead inevitably to a global production slump, again reached the same levels which were present before the 2008-2010 financial meltdown. Even after we overcome the pandemic and geopolitical crisis, we will again be embraced by the same distortions and by the same disproportions of the world economy caused by this global shift of production from the North to the South.

#### **About the Author**

Ruslan Dzarasov, a professor of Political Economy at the Financial University under the Government of the Russian Federation, completed his BA in Economics at Lomonosov Moscow State University in 1985 and his PhD at Staffordshire University School of Business (UK) in 2007. His research is oriented towards Post-Keynesianism, globalization and center-periphery relations in the world economy, capital accumulation and growth in the modern Russian economy. He is the author of *"The Conundrum of Russian Capitalism: The Post-Soviet Economy in the World System."* (2013)



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ABOUT THE PROJECT

### Imagining A Common Horizon for Humanity and the Planet

The world is passing through an extremely troubled period in its history, with a seemingly new challenge encountered at every turn. Serious economic, social, cultural, environmental and political crises at a global level are exacerbated by those being felt in individual countries. The challenges we are facing take a variety of forms, from financial collapses to climate change, from international terrorism to regional conflicts, and from the refugee problem to xenophobia.

All of these crises are being aggravated by the impact of the pandemic, revealing the inability of humanity to tackle them collectively, and invalidating the romantic discourse of globalization. As history continues its march, we are reminded that the answer to the common problems of humanity cannot be found by becoming more introverted, polarized or prejudiced. No matter how severe our problems, our destiny should not be seen as unchangeable. The problems we experience are primarily a result of human activity, and can be overcome only through human effort, but we should remain aware that there are many different hurdles to be passed if we are to rid ourselves of the crises being experienced in many parts of the world.

Only through conscious, patient and collective effort can we overcome the problems of humanity. Now is the time for dignified people from the different cultures and geographies of the world to come together in solidarity. It is time to speak with full respect of human dignity, setting aside the importance we place in our individual identities. An alliance of people who see truth and justice as the major pillars of our kind, will be able to open the door to a new era of solidarity for humanity. A dignified future is possible. We believe that Turkey holds a special, if not privileged, position, based on its geographical, historical and cultural characteristics, and can serve as a host to this joint effort of humanity.

Our goal within the scope of this project is to bring together the leading thinkers of the world, to create an international intellectual platform that draws its strength from human dignity, and that aims to build for the future of humanity and the planet with a holistic synergy with a view to offering humanity a common horizon. As Cappadocia University, our vision in this regard is to provide an academic platform from where esteemed intellectuals from around the world can share their visions for a common future of humanity and our planet, and to comment on the challenges and opportunities they envisage.

You can find detailed information about the Project at <https://commonhorizon.kapadokya.edu.tr/en/>

Cappadocia University (<https://kapadokya.edu.tr/en/>) is a young foundation (private) university in central Turkey, Cappadocia. The main goal of the university is to raise generations of opinion leaders who can read the 21st century realistically, and whose views therefore carry weight and significance – go-to men and women who are highly knowledgeable in their fields, who are happy to share their knowledge, and who will thus be respected and trusted by others. Cappadocia University is home to a highly successful dual-pronged system of academic and vocational programs that act in support of each other.

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