STRUCTURAL SUPPLY SHORTAGE OR TSUNAMI PREPARATION?

Capitalists are sympathetic to moderate inflation. Sustained price rises represent for them the prospect of buying at one price today and selling tomorrow at a higher one. This is their mythological explanation of profit: prices magically rise and the accumulation of capital goes in full swing (especially when the price of labor power - the wage - lags behind).

Individual capitalists are less sympathetic to rampant inflation because it subjects them to a roller coaster ride in which it may be difficult to acquire their raw materials and may cause them to sacrifice part of their profit through the convulsive mismatches between supply and demand. But the capitalist class as a whole benefits from the delay with which the rise in the price of the commodity labor power follows the rise in the price of the other commodities, and thus the crisis is ultimately dumped on the backs of the working class.

Deflation offers gloomier prospects. It signals on the horizon the inexorable fall of the rate of profit, the nightmare of the bourgeois class ever since its most serious representatives such as A. Smith realized with horror about this tendency, although they did not know how to understand and explain it. The stubbornness of prices to fall means that what has been bought at one price today is sold for less after a time.

This seemingly capricious behavior of commodities is due to the very dynamics of capitalism of which every capitalist is an unwitting agent: *"Now, since relative surplus-value increases in direct proportion to the* ***development of the productiveness*** *of labour, while, on the other hand,* ***the value of commodities diminishes in the same proportion****; since one and the same process cheapens commodities, and augments the surplus-value contained in them;* ***we have here the solution of the riddle: why does the capitalist, whose sole concern is the production of exchange-value, continually strive to depress the exchange-value of commodities?"*** (Capital, Volume I, Chapter X, K.Marx).

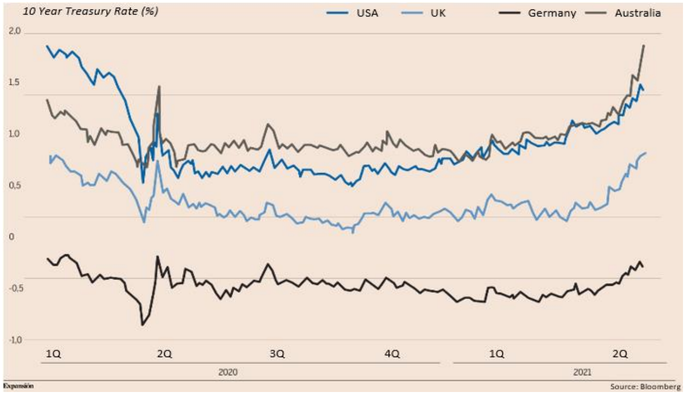
Evolution of bond yields

The bourgeois press has begun to speculate on rising bond yields in the U.S. and, to a lesser extent, in Europe. Some already see the light at the end of the deflation tunnel, but what does it mean that bond yields have risen?

Bonds have a nominal price for which a fixed dividend is determined, they are a fixed income debt. Therefore, a rise in yield only means that their nominal value has fallen. It means no more and no less than speculative capitalists have lost a part of their investment.

Let's take an example. A capitalist has bought a fixed income bond with a price of $1,000 for which he is going to get a return of $1,005: a dividend of $5. Five divided by 1,000, yield of the bond: 0.5%. Now, the nominal price of the bond drops from $1,000 to $500 and therefore: the yield has doubled to 1%! The capitalist who bought the bond for $1,000 sells it for $500: a net loss of 50%. But the second speculator will get a $5 dividend on his $500 investment, and the capitalist class can take comfort in the thought that the bond yield has doubled...

"Investors lose 1.5 trillion dollars with the debt storm. (...) In these three months, the interest rate on benchmark U.S. debt - with a 10-year maturity - has risen from 0.9% to 1.68%." (Expansión, 05-04-2021).



Another question is whether this return to positive profitability is sustainable over time. The bourgeoisie base their analysis on the period in the chart above and some are rushing to announce a return to inflation and speculators are starting to get excited, but... what is the general trend of the 10-year U.S. treasury bond yield?

10 Year Treasury Rate

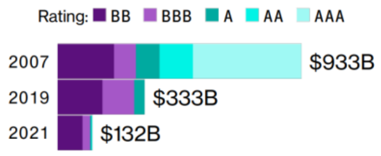
Falling debt bond prices have partly reduced the volume of debt with negative dividends: *"According to Bloomberg data, the volume of negative-yielding debt has plummeted globally by more than six trillion euros from the highs it set in the first weeks of December. The amount of negative-yielding bonds now stands at $12.3 trillion, levels not reflected since August. These bonds have not volatilized, but rather their yields have moved upwards to the point where they have crossed the 0% threshold."* (Expansión, 21-05-2021).

In other words, at least one-third of fixed income speculators have suffered an undeniable loss, selling bonds below the price at which they bought them. A bond with a negative yield is an investment with a guaranteed loss, an investment with an assured negative return. The materialization of this loss in the fall of its nominal value is a completely logical result that suddenly confirms the initial forecast.

In any case, bonds worth around $12.3 trillion remain in negative yield, including more than a third of the debt with high credit ratings: *"According to Philippe Berthelot, head of fixed income and money markets at Ostrum AM, "more than a third of all highly rated debt continues to have negative returns.""* (Expansión, 21-05-2021).

In the present scenario, bourgeois economists find themselves considering "with high credit certification"... an investment with a sure loss! ... as long as it does not entail the complete loss of the initial investment.

This has been the evolution of debt issued in the U.S. with a yield equal to or above 5% from 2007 to 2021. Not only has it shrunk to one eighth, but it is mainly composed of bonds with doubtful ratings.



Fuente: Bloomberg

Why has the nominal value of bonds fallen?

Once it has been clarified that the rise in bond yields is only a mirror image of the fall in their nominal value, let's look at why this fall has occurred.

A number of bourgeois economists attribute this fall to the prospect of inflation in the U.S., which in turn is attributed to the $1.9 trillion aid plan: *"The consumer price index in the United States rose 0.8% in April, bringing year-on-year inflation to 4.2%, the highest since 2008."* (Expansión, 15-03-2021).

However, this increase in the CPI is mostly explained by the comparison with the previous year's collapse situation and by transitory imbalances between supply and demand resulting from it.

There is something more tangible that explains the immediate drop in bond prices: *"Last year, with the outbreak of the pandemic, large U.S. banks bought large amounts of U.S. bonds to provide investors with the liquidity they demanded. JPMorgan, Goldman, Citi and Co. raised their holdings of sovereign debt by $350 billion under cover of the Fed's easing of certain regulations on bank liquidity ratios.*

This exemption, which allowed them to inflate their balance sheets to absorb the shock, comes to an end on January 31st and, if the Fed does not remedy it, they will have to regularize their situation (...) the banks are already releasing large amounts of sovereign debt. (...) the U.S. giants are reportedly adding fuel to the fire by unloading nearly $60 billion in U.S. bonds." (Expansión, 13-03-2021).

The fall in the nominal value of U.S. Treasuries was driven by the immediate sale of $60 billion in bonds and the prospect of unloading another $290 billion soon, as a spillover effect of the Fed's decision.

The (lower) fall in the nominal value of European bonds is due to the slowdown in the repurchase of bonds by the ECB: *"The European Central Bank revealed yesterday that the volume of bonds it purchased between February 26th and March 3rd amounted to €11.9 billion, which is well below investors' expectations of around €20 billion."* (Expansión, 09-03-2021).

Maintenance of capitalism injections for an addicted capitalism

The removal of the injections to the capitalist economy addicted to capitalism are only possible through an enormous withdrawal syndrome that takes the form of the bursting of the speculative bubble, through the massive destruction of speculative capital: *"**At the same time, an enormous quantity of these bills of exchange represents plain swindle, which now reaches the light of day and collapses;** furthermore, unsuccessful speculation with the capital of other people; finally, commodity-capital which has depreciated or is completely unsaleable, or returns that can never more be realised again."* (Capital, Volume III, Chapter XXX, K. Marx).

This is why U.S. capitalism maintains the injections: *"The monetary agency [the Federal Reserve] will continue to buy 120 billion euros per month in bonds and leave interest rates at the minimum level of between 0% and 0.25%."* (Expansión, 29-04-2021). From this perspective, it is necessary to evaluate the impact that the sale of bonds held by banks can have when the Fed is buying 120 billion euros worth of bonds every month.

The ECB has also reversed the experiment of March: *"The ECB increased its purchases of euro zone debt in April to €80,118 million, compared to the first three months of the year. It has so far purchased bonds for 1,017.841 billion."* (Expansión, 09-03-2021).

This is the injection of capital that global capitalism has injected itself during 2020 alone:

"JPMorgan Asset Management estimates that central bank and government stimulus measures totaled $20 trillion (€16.7 trillion) last year, or more than one-fifth of global GDP." (Expansión, 08-03-2021).

This huge injection of capital into injection-addicted capitalism also easily explains what has surprised many bourgeois economists: that the fall in bond values has not led to a bigger fall in the stock market.

We have already seen that for the capitalist who had invested in bonds, the devaluation of the bonds represents a net loss, but for a second capitalist it may be the opportunity to make an investment with a higher return. If the devaluation of the bonds increases their profitability and does so to the point that it exceeds the profitability of the investment in the stock market, this second capitalist will sell shares to buy bonds, thus lowering the price of the shares in the stock market. But, in a context in which Central Banks and governments systematically inject an enormous amount of capital that finds no place for productive investment, keeping interest rates at 0%, all this injected capital exerts an upward influence on speculative capital that far exceeds the effect of the devaluation of bonds.

Competition between doped economies

Competitors are each driving a car towards the precipice but cannot be the first to brake. The withdrawal of injections by one of them would mean a loss of competitiveness with regard to the other. Their own companies would even move to the other side for financing at a lower cost:

"Last year, the volume of these operations (known as reverse yankees in market jargon) stood at €65 billion, somewhat below the historical level of 2019.

Between January and April 2021, placements by U.S. firms in the Old Continent total €36 billion, with JPMorgan, Fedex, Goldman Sachs, Coca-Cola, Blackstone and Morgan Stanley among the issuers.

ING analysts believe that there will be a record year, with €80 billion in reverse yankees, around 10% of all the debt to be brought to market this year by U.S. corporations." (Expansión, 12-05-2021).

At the same time, these injections make it possible to keep alive a whole series of companies that the bourgeoisie itself does not hesitate to describe as "zombies": *"The institution chaired by Christine Lagarde states that before the pandemic, the percentage of zombie companies was 4%. After the pandemic, this percentage could have doubled, with up to 8% entering the new crisis at the gates of what is considered a living dead in corporate terms."* (Expansión, 22-05-2021).

If the competitor gives direct aid, there is no other option but to do the same: *"The European Systemic Risk Board (ESRB), created after the last crisis to warn of major threats to financial stability, is once again raising its voice. The institution headed by Christine Lagarde, also president of the European Central Bank, yesterday published its latest report in which it calls for direct aid* *to companies in order to avoid a wave of defaults."* (Expansión, 29-04-2021).

And if the competitor makes a macro investment in infrastructure renewal, there is no alternative but to follow the same path: *"In order to be able to match the U.S., Lagarde said, Europe must deploy its 800 billion fiscal plan as soon as possible, (...) without further delay."* (Expansión, 23-04-2021).

The same can be said of the corporate debt that both the ECB and the Federal Reserve have been gobbling up in increasing amounts: *"(…) the Federal Reserve, (…) announced on March 23, 2020 that it would take the unprecedented step of buying corporate bonds to support the market. (…)"* (Expansión, 07-04-2021).

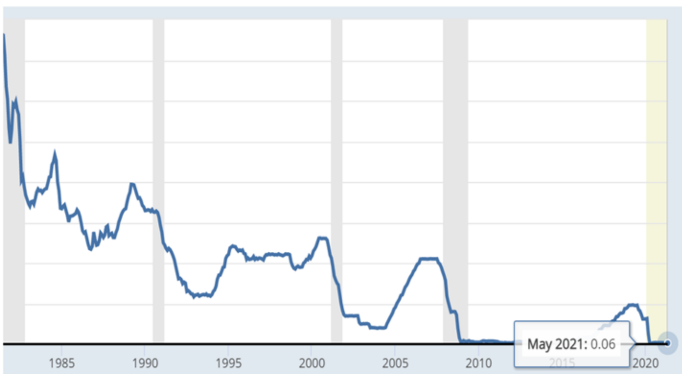
Where does all this injected capital go?

In the review El Comunista nº65 we demonstrated how this continuous injection of capital that does not find a productive investment ended up swelling the world stock market (which broke the threshold of 100 trillion dollars), accumulated in excess liquidity in European banks (3.06 trillion euros) or in the U.S. (2.8 trillion euros). In the EU, excess liquidity has since reached €4.18 trillion (Bloomberg, 02-06-2021). We will take the opportunity in this issue of the review to track this overproduction of capital in three other places: foreign exchange reserves in Asia, the so-called "household savings" and the bitcoin bubble.

Before turning to that, we will see that part of this excess liquidity, this overproduction of capital, is going to end up... back where it came from, at the Fed itself: *"the amount channeled into the deposit facility, where banks temporarily park liquidity, has soared to the highest levels since 2017, topping 369 billion last Friday."* (Expansión, 25-05-2021). This is driving down the effective federal fund rate, which is the rate at which U.S. banks lend liquidity to each other: *"The federal funds rate stands at 0.06%, well below the central bank's target range of 0% to 0.25%."* (Expansión, 25-05-2021). This index is the equivalent of the European EONIA or EURIBOR which have been negative since September 2014 and since February 2016 respectively.

"The Fed has already expanded access to the repo program and increased the cash limits that financial institutions can park at the central bank from $30 billion to $80 billion. The goal is to drain liquidity from the system and slow the downward trend in short-term interest rates. A next step could be for the Fed to increase the interest it pays banks for the reserves they keep parked in their coffers. Another would be to raise the rate it pays on its repo program." (Expansión, 25-05-2021).

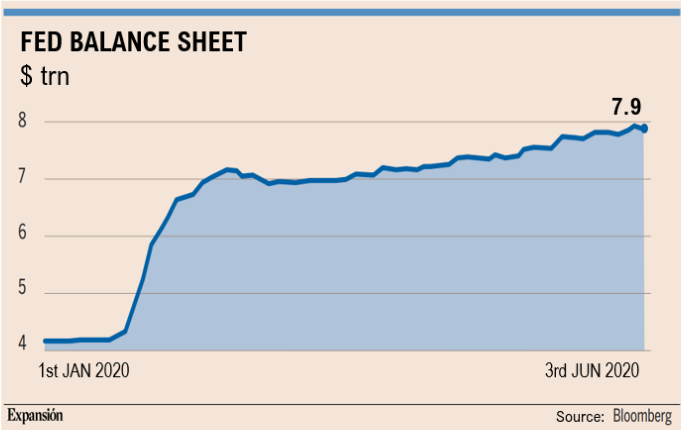
Fed effective fund rate



Source: Board of Governors of the Federal Reserve System US

Special mention should be made of the repurchase program. The Fed sells bonds at a certain price to banks with the commitment to repurchase them at a higher price the following day. It is as if the banks lend money to the Fed with the bond as collateral, under the appearance of a purchase and sale (and repurchase). This has the effect of temporarily draining reserves from the banking system (excess liquidity), but this temporary drain has the end result of injecting more liquidity into the system because the Fed buys back the bonds at a higher price.

In the meantime, the Fed announces a "shift" in policy: *"This decision will bring nearly $14 billion to the market, divided into $8.6 billion in fixed income ETFs and $5.2 billion of specific bond issues."* (Expansión, 04-06-2021). Anyone can ponder what it means to sell $14 billion in debt with one hand, while buying $120 billion a month with the other... and also what effect it can have considering that the Fed's balance sheet is $7.9 trillion (i.e. $7,900,000,000,000,000,000).



The Fed acts as a fireman-pyromaniac (and for the moment we can state that the monetary PYROMANIAC facet clearly prevails) maintaining a purchase program of 120 billion dollars per month and interest rates at 0% while on the other hand it gesticulates to try to drain the excess liquidity generated by its own actions. This illustrates very well the classic characterization of the Manifesto of 1848: *"Modern bourgeois society, with its relations of production, of exchange and of property, a society that has conjured up such gigantic means of production and of exchange, is like the sorcerer who is no longer able to control the powers of the nether world whom he has called up by his spells."* (Manifesto of the Communist Party, 1848).

The growth of foreign exchange reserves in Asia

Asian capitalism has already gobbled up $8 trillion in foreign exchange reserves since 2000. The adjustment in the following chart for Chinese capitalism takes into account that the sale of foreign exchange by the Central Bank has been offset by an increase in the purchase of foreign exchange by its private banks.

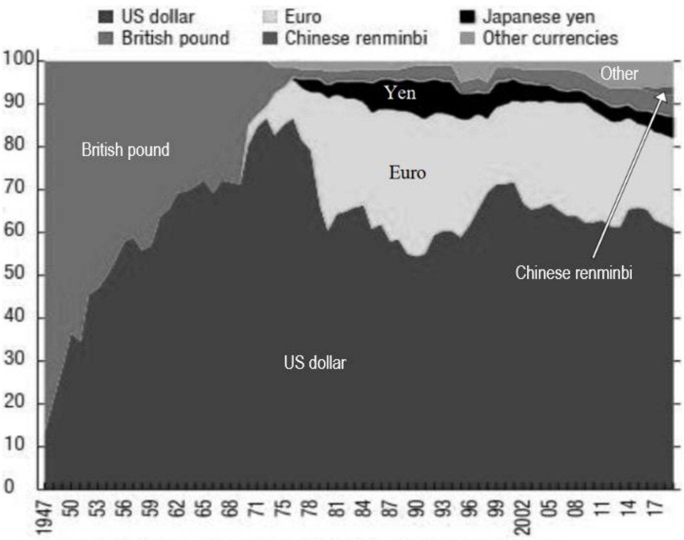
Asian bourgeoisies are forced to buy foreign currency to avoid the revaluation of their currencies (which would have a negative impact on their exports) or, in other words, to compensate for the devaluation of the dollar due to the massive issuance of this currency.

"In Vietnam, for example, exports grew by 6.5% last year. With its currency, the dong, loosely pegged to the dollar, much of those trade receipts went into official foreign exchange reserves (the central bank issues dongs to buy excess dollars from commercial banks at a quasi-fixed exchange rate)." (The Economist, 23-03-2021).

Dialectically, this level of currency accumulation is an accumulation of power over hoarded currencies. The Asian bourgeoisies are accumulating enough reserves to be able to counteract and even reverse any monetary policy decided by the Fed. For example, a massive sale of these reserves could blow them up or put them in serious trouble. But at the same time, this would mean a net loss for the bourgeoisies that would massively sell off these currencies, a revaluation of their own currencies and the loss of a necessary market for the export of their goods. It is for this reason that these bourgeoisies are pushed for the moment to continue buying the dollars and euros issued by the ECB and the Federal Reserve, allowing European and American capitalism to continue sucking a part of the surplus value extorted by world capitalism through the mere printing of paper. But this will not last forever.

Composition of world foreign exchange reserves

The first of the following graphs shows how the U.S. dollar overtook the British pound sterling as a reserve currency in just 10 years from the end of World War II, having completely displaced it after only 20 years.



Sources: IMF, Currency Composition of Official Foreign Exchange Reserves (COFER) database; and IMF staff calculations.

This chart shows the European currencies together prior to the birth of the euro and with continuity with the euro.

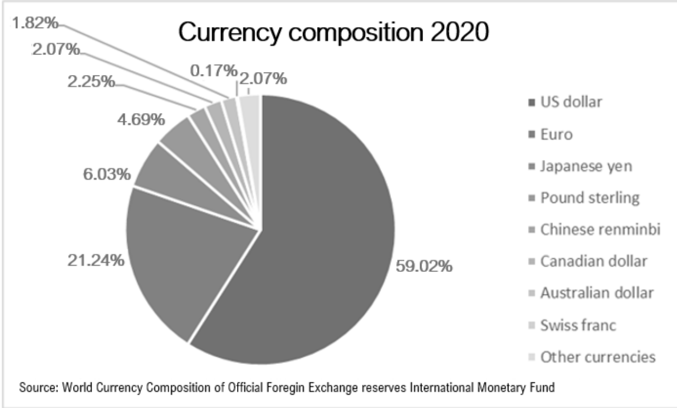
In the next table we see how one currency in particular managed to gain ground on the dollar from 1.95 in 1970 to 12.1% in 1984: the German mark, the embryo of today's euro.

Currency reserves global composition 1970-1984

	1970	1972	1976	1980	1982	1983	1984
US dollar	77.2	78.6	76.6	67.2	68.4	68.5	65.8
Deutsche Mark	1.9	4.6	8.8	14.8	12.4	11.2	12.1
Japanese yen	–	0.1	2.1	4.3	4.6	4.7	5.4
Swiss franc	0.7	1.0	2.2	3.2	2.7	2.3	2.0
Pound sterling	10.4	7.1	1.9	2.9	2.4	2.6	2.8
French franc	1.1	0.9	1.6	1.7	1.3	1.1	1.0
Other currencies	8.7	7.7	6.8	5.9	8.2	9.6	10.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BIS Economic papers, n°18, 1986

From its 78.6% position in 1972, the U.S. dollar fell to 65.85% in 1984 and has continued to fall to 59.02% at the end of 2020, while the euro has reached 21.24% and the Chinese yuan (renminbi) is showing its ears with 2.25%.

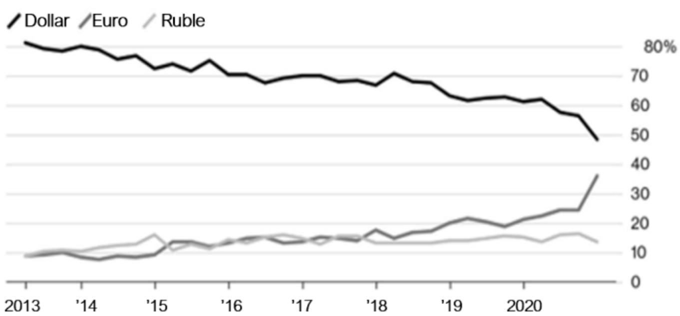


We have seen how quickly the dollar first overtook and then displaced the pound sterling and this time the process may even accelerate further, when it is clearly unleashed. The current dollar is supported by a hyper-indebted state with the world, with a notorious inability to win any of the wars it has embarked on since the defeat in Vietnam, which subsists on the monthly issuance of billions of dollars with which it continues to gobble up debt in excess of the current 7.8 trillion dollars , with enough of that currency in the hands of foreign capital to launch an attack that would dwarf the attack against the European monetary system that forced out the pound sterling, the Italian lira and the Spanish peseta in 1992 but crashed against the french franc in 1993.

But the establishment of the dollar as reserve currency was not a coincidence of fate. It had a material cause: the U.S. victory in the Second World War, the destructive power shown in the atomic assassinations of Hiroshima and Nagasaki that followed the criminal bombings of Dresden and Hamburg. The division of the world carried out at Yalta and Potsdam no longer correspons to reality. The United States have proved powerless to halt its decline, but the fall of the dollar as the world reserve currency would place the American bourgeoisie before the unavoidable dilemma: die killing or die agonizing.

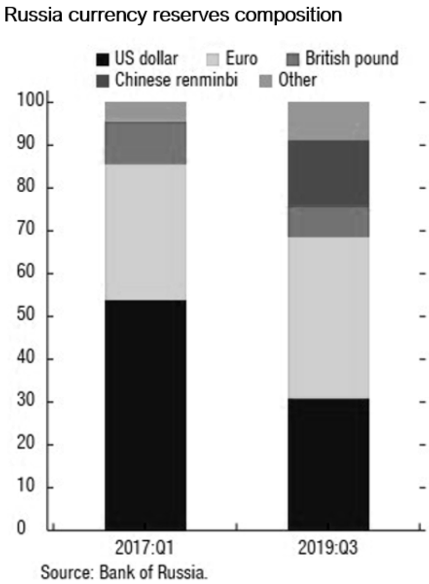
This is the threat that Russian imperialism threw at U.S. imperialism when Gazprom announced in 2015 that it would make all sales to China in yuans and when Rosneft decided in 2019 to switch to making all sales in euros (a decision that by the way cost the life of the criminal Saddam Hussein when he implemented it for the export of oil from Iraq). Since then Russian imperialism has been actively trying to reduce the use of dollars in its exports. Dollar has dropped to less than 50% of its exports from more than 80% in 2013.

Currency used in Russian exports



Source: Bank of Russia

Along the same lines, Russia is reducing its dollar reserves and increasing its gold and Chinese yuan reserves. This is not an action with great direct consequences due to the relative size of the Russian economy, but it is a path that, if followed by a whole series of other countries, could represent a hard blow for the dollar.



Let us remember that *"gold circulates because it has value, banknotes have value because they circulate."* (Marxist Theory of Currency, 1967). The role of hoarding is closely related to that of a means of circulation and payment. U.S. dollars are hoarded because they serve as a means of international circulation of goods, as a means of international payment. They are hoarded in order to be able to meet these payments. At the same time, insofar as they are hoarded, these dollars do not circulate and thus do not devalue the dollar: the U.S. can continue to issue dollars and pay with them without its currency becoming a dead letter. But if the dollar substantially reduces its role in international exchanges, the U.S. bourgeoisie may run out of the mechanism by which it makes the rest of the world bourgeoisie pay a bribe. The effects, however, would not be limited to U.S.A. capitalism: *"It should be noted in regard to imports and exports, that, one after another, all countries become involved in a crisis and that it then becomes evident that all of them, with few exceptions, have exported and imported too much, so that they all have an unfavourable balance of payments. The trouble, therefore, does not actually lie with the balance of payments. For example, England suffers from a drain of gold. It has imported too much. But at the same time all other countries are over-supplied with English goods. They have thus also imported too much, or have been made to import too much."* (Capital, Volume III, Chapter XXX, K. Marx).

Digital currencies by Central Banks

Central Banks are announcing one after another the preparation of digital currency issuance. This is closely related to the functions of reserve currency. It also has to do with trying to maintain or conquer the privileges held by those currencies that fill the channels of circulation and impose themselves as a means of payment.

Before proceeding further, it is important to distinguish between the various elements that can be called digital currencies or cryptocurrencies.

On the one hand, we have Bitcoin and its peers (Ripple, Ethereum, Monero, Litecoin, etc.). The general excess of liquidity finds in this type of assets an (illusory) escape. They are speculative elements that have no backing (not even theoretically) and that cannot function as a means of circulation or as a measure of value due to their excessive volatility: *"It only takes the purchase of bitcoins for 92.5 million dollars (less than 80 million euros) for the price of the cryptocurrency to rise by 1%. To move by the same percentage the price of gold (an asset that is often compared as a safe haven for investors if an era of high inflation arrives) it takes investors to buy ounces for about 2 billion dollars, twenty times more."* (Expansión, 18-03-2021).

It was enough with the announcement by Tesla that it would allow purchases with bitcoins for its stock market value to skyrocket, and it was enough with the announcement of the opposite and China's measures against this type of assets for the bitcoin's stock market value to plummet, dragging with it the others.

Then there are the so-called stablecoins. Stablecoins are backed by reserves but have a limited scope of application for certain transactions. To get an idea of its "stability", let's look at the largest among them: *"Tether, the $60 billion stablecoin, was fined $18.5 million in New York for reserve manipulation."* (Expansión, 21-05-2021). *" The Tether operator does not hold $62 billion in cash or low-risk U.S. Treasury bonds. The company has clarified that its reserves hoard less than 3% in cash."* (Expansión, 03-06-2021). It must be said that this is exactly the same thing that banks do, beginning with the central banks....

Finally, we have the digital currency projects of the Central Banks, of which only that of the Central Bank of China, the digital yuan, is operational (do not count on the Venezuelan petro, "backed" by an economy in free fall). In this case the currency will be a digital equivalent to the paper banknote, digitally signed by the Central Bank and with the digital equivalent of its serial number. In the same way as banknotes, it will fulfill the basic functions of currency: 1) measure of value, 2) means of circulation, 3) money in the strong sense: hoarding, means of payment, world currency. (Capital, Volume I, Chapter III, K. Marx). It will have the same backing as banknotes: NONE!, beyond the forced course since the Banking system lends without coverage. As a legally enforced currency, wherever it is issued it will circulate compulsorily. But in a digital environment the physical boundaries of buying and selling are completely blurred. Especially if there is no alternative, the first currency to effectively fill these channels will occupy a position difficult to dislodge if it effectively establishes itself as a global hoarding currency and means of payment in the digital realm.

"The Fed is the last of the major central banks to openly declare to be analyzing the possibility of creating a digital format of its currency. (...) Yesterday, the Central Bank of Brazil also made the same pronouncement. (...) For the moment, China is clearly in the lead in terms of launching a digital currency. The People's Bank of China (PBOC) is already distributing its digital yuan in small volumes for field experiments." (Expansión, 25-05-2021).

Money as a specific social function constitutes a social monopoly within commodities: *"The particular commodity, with whose bodily form the equivalent form is thus socially identified, now becomes the money commodity, or serves as money. It becomes the special social function of that commodity,* ***and consequently its social monopoly, to play within the world of commodities*** *the part of the universal equivalent."* (Capital, Volume I, Chapter I, K.Marx) and when two currencies coexist, one tends to displace the other: *"All historical experience in this sphere simply shows that, where two commodities function as legally valid measures of value, it is always one of them only which actually maintains this position."* (Contribution to the Critique of Political Economy, K. Marx, 1859).

Thus, the fever of central banks to issue digital currency is not due to the existence of private cryptocurrencies, nor because of the use that fraud or organized crime can make of them, but because of the struggle to remain as a global reference currency and not to wake up one day and see how consumers in Europe and the U.S. use as currency for their digital purchases... the DIGITAL YUAN!

The only issue is that while China is already distributing its digital yuan, albeit in small volumes, the other imperialisms have to start doing their homework: *"The introduction of the digital euro, a project on which the European Central Bank (ECB) will take a formal decision in the coming months, could occur in 2026 at the earliest, the Italian executive of the institution, Fabio Panetta, warned yesterday."* (Expansión, 27-05-2021).

The "savings" of "the world's consumers"

Part of the bourgeoisie is placing its hopes of escaping the deflationary dynamic on the supposed savings of "the consumers of the world". This is how the press echoes it:

"Consumers around the world have saved $5.4 trillion (€4.5 trillion) more since the pandemic began (...) Global households accumulated the excess - defined as additional savings compared to the pattern of spending in 2019, and equivalent to more than 6% of global gross domestic product - at the end of the first quarter of this year, according to estimates from ratings agency Moody's. (...) Moody's estimates that, in the U.S. alone, households have accumulated more than $2 trillion in additional savings. And that's before counting the gigantic transfers from President Joe Biden's $1.9 trillion stimulus program (...)." (Expansión, 20-04-2021).

The outline of their reasoning: the world population has not been able to spend because of the effect of the lockdowns and this has led to savings. Once the restrictions are lifted, this would lead to unbridled spending of these savings which in turn would lead to a general rise in prices, an inflationary effect.

But this reasoning has a flaw. The working class as a whole has not only failed to save but has lost its job or has been collecting allowances and subsidies that have represented a serious loss of its already low purchasing power. Therefore, this supposed saving is circumscribed to the bourgeois social class and to certain segments of the petty bourgeoisie and the working aristocracy: *"(…) a Goldman Sachs economist, estimates that nearly two-thirds of excess savings in the U.S. belong to the richest 40% of the population."* (Expansión, 20-04-2021). This admission by representatives of the bourgeoisie has a rationale: it is the fruit of a concern. If this money corresponds to an increase in liquidity that finds no outlet, their hopes that it will be transformed into spending (with the expected inflationary consequence) would be in vain, as a sector of the bourgeoisie itself admits:

"Adam Slater, chief economist at Oxford Economics, explains, "If excess savings are held mainly by the wealthiest households and are treated as an increase in wealth rather than an increase in income, one would expect a much lower level of [additional] spending."." (Expansión, 20-04-2021).

In fact, a large part of this "savings" will inflate the speculative bubble. This is the portrait of the future losers in the coming stock market crash:

"Small investor activity accounted for an average of 23% of equity trading volume in the U.S. in 2021, more than twice as much as in 2019. (...) respondents said they planned to allocate on average 37% of the grant money they received from the government to invest in equities. This could amount to as much as $170 billion (€142 billion) in total. And if the stock markets collapsed, they would not pull out, but invest more money in it (...) they started allowing investors to buy and sell fractions of shares, meaning that with $50 they could buy a piece of an Amazon share, which currently trades at $3,000. (...) Getting a loan is also easier, such as the collateralized loans granted by trading platforms, which amounted to a record $799 billion in the U.S. in January." (Expansión, 15-03-2021).

In his categorization of investors with less capital, we see a confirmation of Lenin's thesis: *"The "democratisation" of the ownership of shares, from which the bourgeois sophists and opportunist so-called "Social-Democrats" expect (or say that they expect) the "democratisation of capital", the strengthening of the role and significance of small scale production, etc., is, in fact, one of the ways of increasing the power of the financial oligarchy. Incidentally, this is why, in the more advanced, or in the older and more "experienced" capitalist countries, the law allows the issue of shares of smaller denomination. In Germany, the law does not permit the issue of shares of less than one thousand marks denomination, and the magnates of German finance look with an envious eye at Britain, where the issue of one-pound shares (= 20 marks, about 10 rubles) is permitted* ***Siemens, one of the biggest industrialists and "financial kings" in Germany, told the Reiclistag on June 7, 1900, that "THE ONE-POUND SHARE IS THE BASIS OF BRITISH IMPERIALISM". This merchant has a much deeper and more "Marxist" understanding of imperialism*** *than a certain disreputable writer who is held to be one of the founders of Russian Marxism and believes that imperialism is a bad habit of a certain nation..."* (Imperialism, the Highest Stage of Capitalism, Lenin, 1916).

Moreover, these investments are based on borrowed money (collateralized credits) with the culminating recipe of capitalism: CAPITALISTS WITHOUT CAPITAL or, in the words of our current: MAKE THE NAKED INVEST!

The mismatches of supply and demand in the anarchy of capitalist mercantile production

While the relative overproduction of capital and commodities pushes towards deflation (through the tendency to fall of the unit value of commodities, the tendency to fall of the rate of profit and the tendency to fall of the interest rate deriving from it), there are a series of factors that can act in the opposite direction and generate inflationary and hyperinflationary processes in certain periods and in certain zones. In addition to the unrestrained issuance of currency that effectively reaches circulation and the loss of confidence in their currency by local bourgeoisies, leading to a continuous sale of such currency to buy foreign currency, there are factors linked to imbalances between supply and demand and to the disruption of supply chains.

These disruptions in supply chains and supply-demand imbalances can be caused by obstacles in the usual routes (such as a ship stuck in the Suez Canal), the deliberate closing of borders (due to a virus that forces the population to be isolated and to not import products from highly contagious areas), by making certain products more expensive (through tariff barriers), by blocking or destroying certain productive or extractive facilities (through embargoes and military conflicts), etc. We should not be surprised if in the future we see these and similar events bursting onto the scene with a certain frequency, as they have been and continue to be used to influence the price of oil.

The sequential closure of a whole range of industries during the years 2020 and 2021 has produced a halt or slowdown in the production itself in these sectors but also in those industries that provide the raw materials or semi-finished or auxiliary products that are needed.

As explained in Section I of Volume II (Chapter VI) of Capital: *"The commodity-supply must be of a certain volume in order to satisfy the demand during a given period. (…) The* ***stagnation of commodities thus counts as a requisite condition of their sale****. The volume must furthermore be larger than the average sale or the average demand. Otherwise the excess over these averages could not be satisfied. (…)*

But as soon as the commodities lying in the reservoirs of circulation do not make room for the swiftly succeeding wave of production, so that the reservoirs become over-stocked, the commodity-supply expands in consequence of the stagnation in circulation just as the hoards increase when money circulation is clogged. It does not make any difference whether this jam occurs in the warehouses of the industrial capitalist or in the storerooms of the merchant. ***The commodity-supply is in that case not a prerequisite of uninterrupted sale****, but a consequence of the impossibility of selling the goods.* ***The costs are the same, but since they now arise purely out of the form, that is to say, out of the necessity of transforming the commodities into money and out of the difficulty of going through this metamorphosis, they do not enter into the values of the commodities but constitute deductions, losses of value in the realisation of the value****."* (Capital, Volume II, Chapter VI, K. Marx).

Therefore, the storage costs of stocks of commodities are only incorporated in the value of the product when they are in line with the socially necessary average to ensure uninterrupted sales under normal conditions. Otherwise, they represent losses and deductions to be borne by the individual capitalist. Regardless of the cases in which they represent a loss or deduction of value, we have seen above how each individual capitalist is pushed by the competition to diminish the value of its own commodities in order to be able to sell them and dislodge competitors. Thus, even when storage is incorporated as part of the value of the commodity, the tendency is to reduce it as much as possible in order to reduce the cost (value) of the commodity, giving rise to such fashionable names as just-in-time production. The general historical tendency of capitalist production is - for both reasons - to reduce and minimize the stocks held to ensure uninterrupted sales.

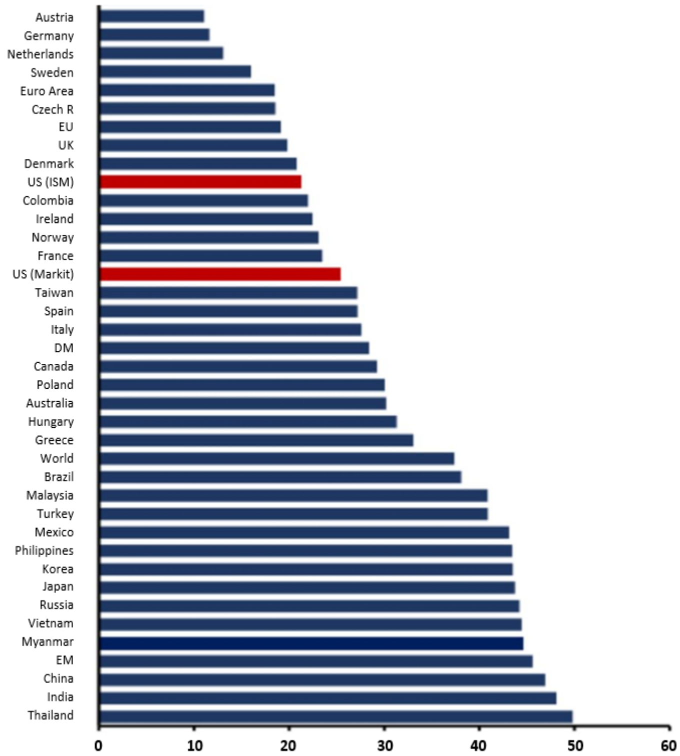
The sequential interruption of production generated a sharp drop in demand and the consequent interruption of circulation, with the overcrowding of stocks and the stoppage/reduction of the production of raw materials and semi-finished products..

When the resumption of production has been put on the table, no one has paused to think whether the rest of the links in the supply chain would be ready. No one paused to think in what order they should be set in motion so that the materials produced in one industry would be effectively available for the next industry that requires them. And even if someone had bothered to think about it, the result would have been the same: the COMMERCIAL PRODUCTION ANARCHY is impossible to plan because each agent competes with the others for a market that any of them cannot control. *"* ***It is only where production is under the actual, predetermining control of society that the latter establishes a relation between the volume of social labour-time applied in producing definite articles, and the volume of the social want to be satisfied by these articles.****."* (Capital, Volume III, Chapter X, K. Marx).

The unsynchronized resumption of production has generated an abrupt increase in the demand for these products. This demand cannot be satisfied in the short term: stocks are reduced to the minimum and the scale of production is adjusted to satisfy a continuous demand distributed over time and not to the sudden accumulation of the same volume of demand in a short time.

As an example, here is the situation of Italian packaged tomato manufacturers: *"We cannot find cans. Big multinationals are defaulting on their contracts and the price of cans has increased by more than three times," said Natasha Linhart, chief executive officer of Atlante, which supplies Italian fine-food retailers in several markets including the U.S., U.K., India, Japan and Canada (…) Demand for cans is being absorbed by China, which saw its economy recover sooner that the rest of the world. This means steel suppliers from India, like Tata Steel, but also from Italy, like Ilva, are not immediately able to deliver to their Italian customers."* (Bloomberg, 09-06-2021).

Suppliers delivery time – May 21
Inverted index (100 – PMI index)



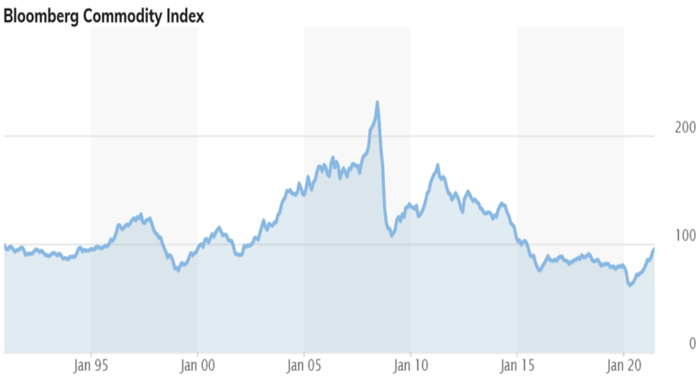
Source: Deutsche Bank, IHS Markit, Datastream

The above graph shows the bottlenecks, the delays, produced by the convulsions of the start-up of the different productive sectors which, rather than a resumption, looks like a gigantic epileptic attack of the capitalist productive organism. The graph is shown with the index inverted so that the values below 50 represent increases in the delays in the provision of supplies. It is clear that Asia (except - significantly - Taiwan) is almost exempt from this effect while delays are accumulating in the European Union and the U.S..

Additionally, the need to stay ahead of competitors, to avoid losing market share, to ensure that at least part of the necessary supplies will be available, etc., leads to a spiral in which the effects of the initial mismatch are multiplied.

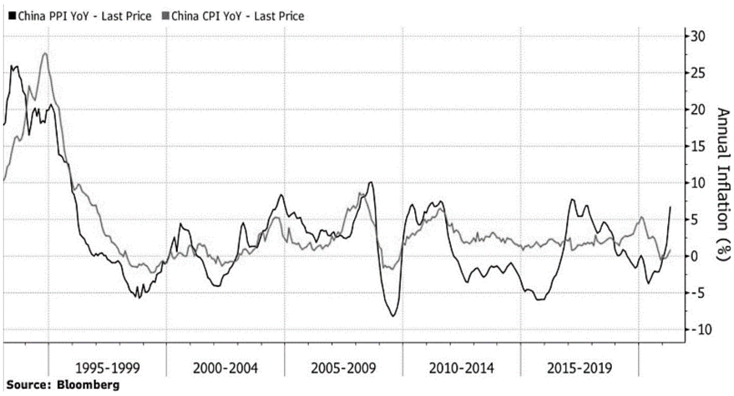
All this has led to a rise in the price of raw materials, including oil for these same reasons, over the past year:

Before we continue, let's look at this index with a little more perspective to see that at the moment we are neither at the 2001-2008 nor the 2009-2014 levels:



The Production Volcano

An important fact for Marxists to follow is the difficulty with which the increase in cost prices translates into an increase in final selling prices. The following graph shows the evolution of industrial input prices in China and retail prices.



In Marxist language, a part of the cost increase in constant capital is failing to be passed on in the selling price, because of overproduction. Thus, not all the surplus-value extracted can materialize in profit. For simplicity we will represent it on the basis of *value*, although it would be equivalent on the basis of *cost prices* and *prices of production*.

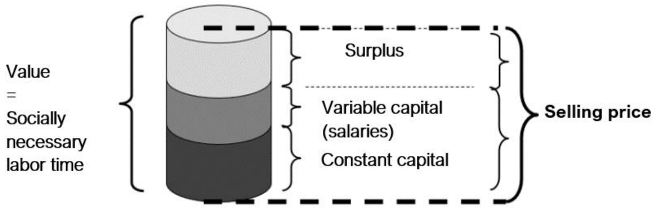


Fig. 1 – Before the increase of the cost of the constant capital

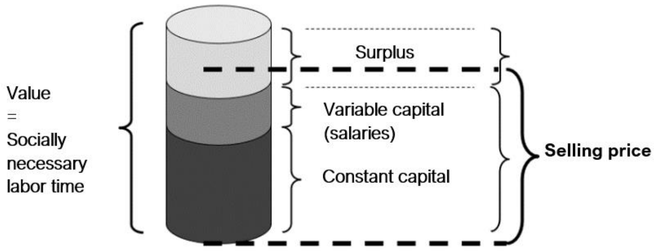


Fig. 2 – Situation if the increase of the constant capital price does not translate into an increase of the commodity price

Another way of grasping this effect of overproduction is to start from an aspect of the determination of the value of commodities by socially necessary labor time (which is often forgotten) that is clearly stated in Capital: *"However, there exists an accidental rather than a necessary connection between the total amount of social labour applied to a social article, (…) on the one hand, and the volume whereby society seeks to satisfy the want gratified by the article in question, on the other.* ***Every individual article, or every definite quantity of a commodity may, indeed, contain no more than the social labour required for its production****, and from this point of view the market-value of this entire commodity represents only necessary labour,* ***but if this commodity has been produced in excess of the existing social needs, then so much of the social labour-time is squandered and the mass of the commodity comes to represent a much smaller quantity of social labour in the market than is actually incorporated in it****."* (Capital, Volume III, Chapter X, K. Marx).

The productive excess capacity and the consequent overproduction of certain commodities cause them to represent, as a whole, a mass of labor time that exceeds the socially necessary labor time, although each individual commodity has been produced without using more than the socially necessary time, with the result that each commodity ends up falling below its individual value.

An example of this can be found in the Spanish agri-food sector where *"total food expenditure fell by 3.2% to 102,082.72 million euros, while volume grew by 4.4% to a total of 34,766.95 million kilos. On the other hand, per capita spending contracted by 7.2% (183.8 euros) and consumption grew by 2.1% (19.1 kilos)."* (Expansión, 04-06-2021). It is in this context that the rise in commodity prices takes place, motivated by the mismatch explained above. The subjective will of the capitalists is manifested in the following way: *"A study by the consulting firm Simon-Kucher indicates that 41% of Spanish manufacturers intend to raise prices, most of them in the 1% to 5% range."* (Expansión, 04-06-2021). Note that the percentages are low compared to the increase in cost prices and that only 41% are considering it. Will they be able to do so? What is certain is that they will encounter serious difficulties. The retailers have been able to expand their market share with the forced closure of bars and restaurants, which has increased consumption at home, although overall consumption has declined. They can only try to maintain their overall position and their relative positions through fierce competition on retail prices: *"Lidl and Aldi initiated hostilities. The former announced in February permanent price cuts of up to 50% on more than 360 products (15% of its assortment). Aldi reduced the price of all its products by 0.75% in 2020 and is stepping up the pace in 2021, with a further 0.98% cut already implemented. (...) Carrefour put more than 1,000 products on sale at 0.99 euros per unit and Carrefour currently has 3x2 on more than 5,000 references. Mercadona has been more restrained, lowering the price of 100 items -although some are its star products-, while Dia has also reacted to the promotional spiral (...)."* (Expansión, 04-06-2021).

It is interesting to stop and analyze the supply chain of the chips, to see the actuality of the reproach made by K. Marx to J. Weston in the discussion on wages, price and profit within the First International: *"It only expressed his perplexity at accounting for the laws by which an increase of demand produces an increase of supply, instead of an ultimate rise of market prices."* (Wages, Price and Profit, K. Marx, 1865).

The buffoon Elon Musk gives the following description of the situation: *"Fear of running out is causing every company to overorder – like the toilet paper shortage, but at epic scale."* (Bloomberg, 02-06-2021). This does not prevent Tesla itself from doing exactly what it criticizes: *"The carmaker is studying advance payments to chipmakers and setting up a plant of its own."* (Expansión, 28-05-2021). Here we have a graphic example of the anarchy of production in which each agent is pushed to run forward, even if their running reproduces and multiplies the problem they are running away from.

They are certainly not the only ones trying to secure their supply: *"UMC said it would add capacity for manufacturing 20,000 wafers a month at 28 nanometres, one of the process technology nodes worst-hit by the global chip shortage, at an existing fabrication plant, or "fab", in Tainan.*

The investment will drive up the company's capital spending for this year by 53 per cent to U.S.$2.3bn, but is made under a deal that commits several of UMC's largest customers to pay deposits upfront and guarantee certain orders at a fixed price." (Financial Times, 28-04-2021).

"Last month, six semiconductor design companies struck a deal with United Microelectronics Corporation (UMC) in Taiwan, under which the world's fourth-largest contract chipmaker would expand its production capacity for mature technology in exchange for financial deposits." (Financial Times, 27-05-2021).

This type of agreement is out of the usual pattern in the chip industry, but the need to obtain liquidity to face new investments, as well as the spread of it among the competitors, could force the most recalcitrant ones to surrender.:

"For TSMC, the world's largest contract chipmaker, whose gross margin is over 50%, profitability depends on the ability to juggle among its many customers. TSMC has long resisted requests to reserve exclusive capacity for any one customer. It only made an exception in 2014 to limit Qualcomm's risk after the U.S. chip designer frequently shifted orders to rival Samsung." (Financial Times, 27-05-2021).

In view of the economic shortage, announcements of multi-billion dollar investments have been accumulating both in the field of processing chips (dominated by TSMC) and in that of memory chips (where Samsung dominates the market): *"Taiwan Semiconductor Manufacturing Co. said last month it plans to increase production of microcontroller units by 60% this year to help relieve carmakers."* (Bloomberg, 02-06-2021).

"TSMC said this month it would invest U.S.$100bn in new capacity over three years. Intel recently announced a U.S.$20bn investment program under which it wants to challenge TSMC in offering contract chipmaking services." (Financial Times, 28-04-2021).

"Nanya Technology, Taiwan's leading memory chip maker, on Tuesday announced plans to build a $10bn plant in the country to alleviate the shortage and capture growing demand for 5G-related components." (Financial Times, 25-04-2021).

We are not only in front of a reaction to the shortage of a simple accessory product. This is the preparation of a true global competition for the capacity to produce critical components for modern industry, in which major imperialisms are clearly lagging behind: *"South Korea manufactures 26% of the world's chips, compared to 12% for the U.S. and China separately. Only 2% comes from Europe."* (Expansión, 25-05-2021).

In this situation, U.S. and Chinese imperialism are trying to improve their positions: *"Biden has proposed a $50 billion (€41 billion) plan for chip manufacturing and research, while Xi has pledged to spend more than $1 trillion on the high-tech sector, with a particular emphasis on semiconductors."* (Expansión, 25-05-2021).

However, South Korean imperialism has a very firmly established trench in this war: *"South Korea unveiled ambitious plans to spend roughly $450 billion to build the world's biggest chipmaking base over the next decade"* (Bloomberg, 13-05-2021).

For its part, Japan, the once dominant player in the semiconductor sector (until the drastic intervention of the U.S. with the contingency, the requisitioning of supercomputers and the payment of the first Iraq war) is trying to recover its position but depends on others to do so:

"In Japan, Sony is looking at spending $9.2bn together with Taiwanese foundry TSMC to build a Japanese chip plant, but it will probably only go ahead if the government provides necessary support." (Financial Times, 27-05-2021). *"Japan's share of global semiconductor sales dwindled to just 10% in 2019, down from 50% in 1988. The country still has 84 chip factories, the most in the world, but they're not producing enough high-end products. As a result, Japan now has to import 64% of its semiconductors. (...) The country's most advanced chip factories now produce chips using 40-nanometer technologies, well behind the cutting edge now pushing into the single-digit nanometer scale."* (Bloomberg, 08-06-2021).

European imperialism has a very clear Achilles heel in digital technology, which manifests itself in both operating systems and large digital platforms. Chips and semiconductors are not an exception: *"The European Union is particularly vulnerable and has set a goal to produce at least 20% of the world's supply on a value basis by the end of the decade. (...) Robert Bosch GmbH opened a 1 billion-euro ($1.2 billion) factory that should gradually help alleviate supply constraints and herald broader efforts to make Europe less dependent on imports from Asia or the U.S (...) Bosch's highly automated Dresden factory employs about 250 people and will eventually have 700 staff. The site covers about 14 soccer fields and can churn out 300-millimeter silicon substrate wafers with structural widths of up to 65 nanometers."* (Bloomberg, 07-06-2021).

We are therefore seeing a reaction to the imbalances in the supply chain that produce a cyclical shortage and, at the same time, a major episode in the trade war. In order to weigh up the relative position of the imperialisms mentioned, we can compare the size of the chips they are capable of producing with the most advanced ones: *"Right now, the most advanced manufacturers in the industry, such as Intel, Samsung and TSMC, are working* *on sub-10 nanometer (nm) nodes. (...) Companies such as Taiwan's TSMC have announced that they will start operating their first 3nm manufacturing plants by the end of this year."* (Expansión, 03-05-2021). This is how a representative of the European bourgeoisie consoles himself: *"every chip is a good chip."* (Bloomberg, 07-06-2021). Today they will be able to place their outdated chips thanks to the general shortage of supply, but, as soon as the emerging production overcapacity materializes, all these industries will be out of the game.

What interests us here above all are the medium to long-term consequences: the result of this global competition will be a huge increase in the production capacity of semiconductors and chips, with all this investment today preparing the gigantic overproduction of tomorrow.

As in a **TSUNAMI**, in which the preamble of the enormous wave that will flood the market with commodities manifests itself first under the appearance of a backward movement of supply; or as a **VOLCANO** preparing its eruption, as our current defined it when critically demolishing the "study" with which Labriola would have wanted to condemn the Marxist theory contained in Capital. Labriola in his thesis saw instability in production and the regulating element of agreement and universal solidarity in mercantile exchange. Dialectically inverting this thesis, our current declared: *"**Production** against **exchange**! **Struggle** against **social pacification**!*

***Volcano that promises the upcoming social eruption**, against **the stagnant waters that would swamp the revolutionary force in the mercantile muck.**"* (Production Volcano or Market Swamp?, il Programma Comunista no. 16/1954).

All this PRODUCTIVE OVERCAPACITY and this relative OVERPRODUCTION of capitals and commodities forms the great VOLCANO OF PRODUCTION which cannot be absorbed by the MARKET SWAMP and shakes the bourgeois relations of production to the core, maturing the material conditions for the **WORLD COMMUNIST REVOLUTION** which will abolish private property, wage labor and the mercantile and corporate regime!

THE SUEZ BLOCKAGE AND THE COMPETITION BETWEEN TRADE ROUTES

Suez Canal Blockage

On March 23rd, 2021, an unprecedented event occurred in the more than 150-year history of the Suez Canal: "*The MV Ever Given, one of the freighters with the highest load-bearing capacity in the world, heeled over (…) blocked since Tuesday one of the busiest shipping lanes in the world and can cause long delays in the supply of raw materials and oil.*" (La Vanguardia, 25-03-2021). According to the official version, a "gust of wind" diverted one of the largest freighters in the world, but not the rest of the ships, leaving it stranded in the middle of the Suez Canal.

Canal traffic accounts for between 12% and 13% of international maritime trade, one million barrels of oil per day and 8% of the world's natural gas (La Vanguardia, 25-03-2021), in addition to 2% of the Egypt's GDP according to Moody's (BBC, 29-03-2021).

The freighter in question bore the names and surnames of the anti-Chinese bloc: Panamanian flag, Japanese property (Shoei Kisen Kaisha) and Taiwanese operator (Evergreen Marine Corp). The freighter blocked the canal for a whole week until it could be removed, leading to daily losses for the canal of about 15 million dollars and the blocking of a quantity of goods estimated at 9.6 billion dollars a day, or 400 million per hour, or 6.7 million per minute (BBC, 29-03-2021). The same sources indicate that the German insurer Allianz analyzed that the global cost would be between 6,000 and 10,000 million dollars per week of blocking for all world trade, even reducing annual world traffic by up to 0.4%.

Causality vs. chance

When episodes of this type happen, there are always those who remember *chance*. According to this approach, the events of humanity are explained by *chance* when not by fate or the will of illustrious men. To *chance*, we Marxists have a duty to oppose *causality*.

In several languages these words are very similar and by changing the place of one letter you change from one to the other, but the consequences are devastating.

CHANCE leads to IDEALISM and AGNOSTICISM, to the denial of the possibility of knowledge postulated by the already reactionary bourgeoisie. **CAUSALITY** leads to DIALECTICAL MATERIALISM and ECONOMIC DETERMINISM, leads to the foresight of the overcoming of capitalism at the hands of the proletarian class, to the communist revolution.

The vindication of materialism and determinism is a fundamental point of Marxism, as Marx, Engels, Lenin and the Communist Left have demonstrated in their defense of it. Without them, the whole construction of our doctrine crumbles and, for this reason, this is the target at which the bourgeoisie is generally aimed: *"If a general knowledge of nature and history, or part of it, is possible, it includes, inseparable from itself, the investigation of the future: **any well-founded polemic against Marxism can only be on the grounds of the denial of human knowledge and science**."* (Utopia, Science, Action; Property and Capital, Prometeo, 1952).

Lenin drew this conclusion from the uproar caused by the publication of the work of the naturalist E. Haeckel: *"brought out, on the one hand, the **partisan character** of philosophy in modern society and, on the other, **the true social significance of the struggle of materialism against idealism and agnosticism*** (Materialism and Empirio-criticism, Lenin, 1909).

This revindication of determinism should not be confused with a return to mechanism that would lead to a fatalistic vision of history and, therefore, to a devaluation of the Party organ and its historical function: *"it should be noted that the final solution to the posed question **is not an immanent formula** according to which, once this universal key has been found, it is possible to say that, if economic phenomena are allowed to develop, a foreseen and established series of political events will be determined with certainty.*

Our criticism amounts to a complete and definitive depreciation, not so much of the action of each of the individuals, even presented as protagonists of the historical facts, but of the intentions and perspectives with which they believed they could coordinate such