

From Welltop to Laptop?

Shimshon Bichler and Jonathan Nitzan

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In '[Dominant Capital and the New Wars](#)', an article that we wrote in October 2002 and later published in the *Journal of World Systems Research* (2004), we argued that the global regime of accumulation was undergoing a major change. Instead of the mergers and acquisitions that fuelled the breadth phase of the 1980s and 1990s, dominant capital was moving toward a depth phase of stagflation and crisis. The new wars in the Middle East were part and parcel of that transition. Their role, whether intended or not, was to kick-start inflation by jacking up the price of oil.

Back then, our prediction and reasoning were greeted with indifference. The general mood was deflationary, and the experts preferred to analyze the post-invasion dismantling of OPEC and the coming of dirt-cheap energy. But the times, they are a'changin', and the pundits are quick to adjust. With crude petroleum hovering around \$125 per barrel and raw material and food prices having doubled, even the backward-looking IMF now feels it safe to cry inflation.

So far, though, soaring commodity prices have had a relatively minor impact on the *overall* level of prices, at least by historical standards. Whereas oil is twelve times more expensive now that it was in 1999, consumer prices in industrialized countries are only 20 per cent higher.

The question, therefore, is why the sluggish response? What is it that prevents rapid inflation from taking hold? One important reason lies in the nature of *profit expectations*. As we explained in '[Dominant Capital and the New Wars](#)',

. . . rising inflation is not very different from an investment-led boom. There is little to prevent any individual firm from building new capacity. But for firms to actually go ahead and install new factories, they need to believe that this new capacity will increase profit in the future; and that belief is most likely to trigger action when it is commonly shared. In other words, it is only when *many* firms begin to view green-field investment favorably that *individual* companies begin to spend money on new plant and equipment. Once the process is set in motion, increases in production, income and spending make these profit expectations self-fulfilling, but the initial spark usually requires a change in the *broad outlook of companies*.

A similar process unfolds when inflation begins to accelerate. As more and more firms start raising prices, and as income begins to be redistributed

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from workers to firms . . . and from smaller to larger ones . . . expectations for differential inflationary profits are 'validated,' leading to even more price hikes. But like with investment, here, too, in order for the process to begin, there needs to be a common expectation, a shared view among the dominant groups in society, that inflation will boost their differential profit. (2004: 297)

By early 2003, the imperative of inflation was already clear, at least at the apex of the accumulation structure:

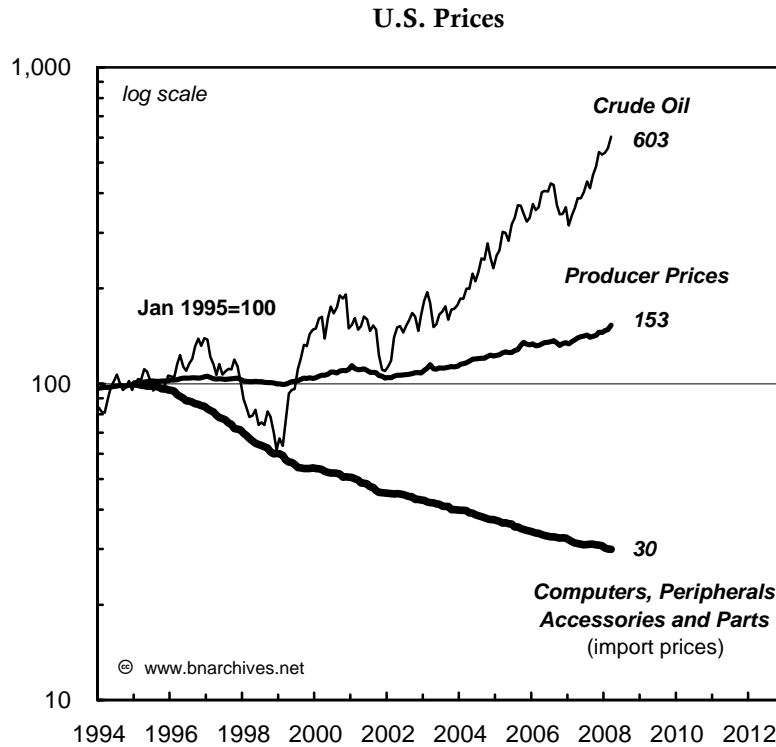
'Greenspan must go for higher inflation,' insist Bill Dudley of Goldman Sacks and Paul McCulley of Pimco in a recent *Financial Times* article. 'Inflation is too low, rather than too high,' they warn, and 'the Fed should welcome a modest rise in inflation' . . . And it is not as if the Fed has not been trying. Over the past two years Alan Greenspan has cut interest rates to levels last seen in the happy 1960s, making money cheaper and cheaper. Fear of deflation is finally creeping into the Fed's own statements. In a recent announcement, Greenspan warned of 'unwelcome substantial fall in inflation' . . . That is probably the first time since the Great Depression that the U.S. central bank has said that lower inflation is 'unwelcome.' And a few days later, Treasury Secretary John Snow extended another invitation for inflation when he suggested that his government would abandon its eight-year 'strong-dollar policy.' Clearly, the circumstances have become ripe for a regime change. The only thing missing is a 'spark.' (2004: 297-298)

The spark was lit by the U.S. invasion of Iraq. The war pushed the price of oil to historic highs and helped pull up inflation from its historic lows. But these were merely the first steps.

Whereas leading strategists were quick to grasp the need for a pro-inflation outlook, rank-and-file executives fighting in the business trenches were still locked in a different mood. Most corporate officers under the age of 50 have come of age in a world defined by the experience of *disinflation*. Shaped by this backdrop, their common belief is that profit depends on *cutting* cost and *lowering* prices. And it is this widespread outlook that needs to change for inflation to start in earnest.

Inflation started to decline as the globalization of ownership began to gather momentum in the early 1980s. The process was driven by two related transformations: (1) a shift of manufacturing from developed to developing countries, where wage costs are significantly lower; and (2) rapid technical change – particularly in the areas of computing, telecommunications and information technology – which in turn contributed to the progressive cheapening of equipment and consumer goods.

The consequences of this dual transformation are illustrated in the enclosed figure. The chart shows three price series: the U.S. producer price index, the price of



NOTE: All series are expressed in \$U.S. and rebased with January 1995 = 100.0.

SOURCE: Global Insight (series code: L76AA&Z@C001 for crude oil, WPINS for the U.S. producer price index, JPMEU213COMNS for computers, peripherals, accessories and parts).

crude oil and the U.S. import price index for computers, peripherals, accessories and parts. All three series are expressed in \$U.S. and are rebased by setting their January 1995 values equal to 100. For ease of interpretation, the data are plotted against a logarithmic scale, so that the slope of each series is indicative of its rate of change.

As the data show, since January 1995 the price of crude oil rose by a factor of six (and by much more from its 1999 low). The average level of producer prices, however, increased by only 53 per cent. The reason for this limited response is suggested by the shape of the bottom series. In contrast to the soaring price of oil, the price of computers and related equipment dropped precipitately – by as much as 70 per cent during the period. This ongoing deflation, typical of many imported manufactured commodities, has worked to counteract the soaring cost of energy.

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But now the writing is on the wall. Last week, a *Financial Times* article titled [‘Laptop Retail Prices Forced Up’](#) (May 8, 2008) reported an ominous development: the negotiation of a new ‘profit sharing’ agreement between the leading Taiwanese laptop producers, like Quanta, Compal and Wistron, and their brand-name buyers, such as Hewlett-Packard, Dell and Acer. The declared purpose of the negotiations is an *orchestrated price increase*. The costs of raw materials and Chinese labour are rising, and both sides of the negotiations, says the article, recognize that the ‘entire supply chain is clamouring for price rises’.

The language is certainly new. It suggests that ‘high-tech’ companies, the white knights of the ‘new economy’, are now openly talking about – not to say colluding over – price increases. Furthermore, their deliberations concern commodities whose prices have *always fallen*. If there is a sign that dominant capital is finally gearing toward inflationary profit, this must be it. And if this shift proves significant enough, the wrath of inflation may still be upon us.