

# THE STATE STRIKES BACK.

*Just a few years ago, at the height of globalisation, International Trade Treaties that were being negotiated included laws binding on participating countries with enforcement devolved to offshore havens. Failure to comply would entail facing unavoidable financial penalties set offshore. This was the ultimate goal of neo-liberalism, to strip national governments of their tax and legal powers rendering them supplicants to the multi-nationals and international finance.*

As capitalism edged towards a unified world economy basking in the glow of globalisation and corseted by global supply chains, it sought to modify the political superstructure hitherto dominated by the nation state. The (2010) Transatlantic Trade and Investment Partnership (TIPP) negotiated at first in secret, exemplified this. Behind the banner promising output increasing by \$310 billion, freeing up one third of global trade and creating 0.4 million new jobs in Europe, TIPP was in fact undermining national sovereignty, lowering standards and pitting European workers against American workers. As Martti Koskeniemi Professor of International Law at Helsinki University put it: *“the planned foreign investor protection scheme within the treaty, similar to World Bank Group's International Centre for Settlement of Investment Disputes (ICSID), would endanger the sovereignty of the signatory states by allowing for a small circle of legal experts sitting in a foreign court of arbitration an unprecedented power to interpret and void the signatory states' legislation.”* (Quoted in Wikipedia) It was in fact a Charter for the large multi-nationals particularly US ones. Under confidentiality agreements access to the results of negotiations was highly restricted, mainly to governmental bodies and certainly not public bodies.

Using the concepts of base superstructure and forces and relations of production, it could be argued the development of a global economy was calling forth a political response which sought to harmonize the new economic reality with a reformed political superstructure which involved sloughing off (ecdysis) the skin of the old nation state which had now become constrictive. But trying to overcome the nation state is a bit like capitalism trying to overcome private property, try as it may to batter down the walls, it is repelled over and over, broken and humiliated by its attempts.

2014 did indeed mark the high point of globalisation. Until then global profitability was soaring, the economies of countless countries were being integrated into supply and assembly chains, the capitalist class was becoming more international both in substance and outlook, finance capital was lapping into new corners of the world economy, the class struggle was in the toilet, and a sense of optimism about the future, even after 2008, permeated capitalism. Then it all changed.

After 2014 the global rate of profit reversed as the cost benefits of the first phase of globalisation centered on China were exhausted. The rising composition of capital world-wide had caught up with and overtaken rising profit margins forcing corporations to reconsider their business models. The multi-nationals found that their new investments were yielding a lower return.

Against this background, China was no longer willing to remain a subordinate contract manufacturer. Workers in the US were no longer willing to work for peanuts in an industrial wilderness with a dearth of services. The result was an assertive Xi and a populist Trump. The Uni-polar world was beginning to split wide open.

There was another factor. The consequences of the neoliberal doctrine were also becoming clearer, the very doctrine that the Trade Deals sought to enforce. The mantra of a small state thanks to low taxes (that is on the rich and their corporations) together with deregulation was leading to societies riven by inequality and rendered unhealthy. Worse the activity of professional lobbyists was fracturing the state

giving rise to sectional interests which worked against the general interest of the capitalist class. The old maxim that what is good for capital is bad for society rung true once more and it was having political repercussions in the form of the rise of populism and growing restlessness.

Then along came a pandemic to expose just how dysfunctional governments had become. It was not so much that capitalist governments had hollowed out the state and were complicit in preparing the conditions in society which empowered the virus, it was their inept initial response above all to the pandemic that was so revealing, mainly due to their futile attempt to circumvent the state so that private enterprise could benefit from dealing with the virus. Those countries which sought to use private enterprise to best shield society, such as Britain and the USA, fared worst. Those who fell back on state intervention fared best.

The pandemic was not solely responsible for reshaping the view of the state from being seen as a problem to being a solution, but it did accelerate a process which was already under way. Neo-liberalism had been in play for nearly 40 years and its dysfunctional consequences were already obvious. Having pillaged the state and society, the very fabric of society was beginning to fray. It is often said that politicians direct the state. This is a one-sided misinterpretation. More to the point, it is senior civil servants who nurture politicians in matters of state. Senior civil servants are the true political mentors of politicians.

The attempts by politicians to replace unelected professional civil servants by unelected opportunistic political advisers and consultants has more or less ended in failure. Remaking the state is a fool's errand, as it embodies the continuity and experience of capitalist rule. The eviction of the braying Dominique Cummings is testament to this. The reluctance of Johnson to hold a public enquiry into his government's handling of the pandemic is another example because he knows this will lay bare the mishandling of the pandemic, how disasters and huge costs were caused and incurred by the sidelining of government departments in favour of private enterprise, cronyism at its worst, and how success finally came from reversing course and relying more on experienced government departments who were equipped to deal with the various crises. In the hands of inexperienced private companies Track and Trace turned into Crap and Waste compared to experienced local health departments who had been dealing with these issues for decades.

### **Discussion.**

A small or reduced state is predicated on two conditions. Firstly, a subdued class struggle and secondly, the absence of heightened inter-imperialist rivalries. Following the defeat of the organised working class beginning in the 1970s, and the subsequent collapse of the USSR, these two conditions were met. Though the USSR was not an imperialist state, its demise together with Japan's implosion in the 1980s once again re-established a unipolar world dominated by the USA, but in contrast to the post-war period, it was a world in which the balance of forces mightily favoured capital.

The election of Trump and a number of other populists around the world was a wakeup call. Their emergence was a barometer for the discontent thrown up by neo-liberalism. It was not only inequality and the export of jobs that led to a feeling of abandonment, but also the absence of a supportive state. This was particularly true after 2008 when government services and departments were cut back to repay the debt and to continue to fund tax giveaways to the rich.

It must be understood to begin with, that neo-liberalism is not an aberration. It is the pure incarnation of capital, an incarnation which of necessity is uncivilized. This is the context for this discussion. The state is not merely the organised body of armed men and women needed to protect capitalist private property against the producers of this property, the working class. It has three additional tasks, firstly its ballast is the general interest of the capitalist class, secondly it needs to reproduce the source of capitalist wealth

– workers, and thirdly it needs to maintain the condition of society allowing capital to optimally extract profits.

The general interest of the capitalist class is one where no section of capital should be allowed to disadvantage other sections of capital. This can be seen at many levels. At the level of monopoly profits state's have often intervened to break them up or to levy special taxes on them. Or it may be the case that the fuel industry or the food industry is imperiling the environment or the health of the nation raising costs for either the government or other groups of capitalists. In the Biden and even the Johnson governments we see moves towards re-asserting the general interest of the capitalist class through more regulation and targeted investment by a more interventionist state.

Secondly, when the pandemic first hit, with the exception of the forgotten Trump, governments said never again. When confronted by the lack of societal resilience due to poverty, ill-health, overcrowding and lack of worker protection, they pledged to use the state to overcome these deficiencies. While this discussion is ongoing in the USA, Johnson has gone quite on this issue no doubt intimidated by the size of the public debt and a currency which is no substitute for the dollar.

Finally societal stability. In the modern welfare state, the standard of living of workers is not only supported by their wage or salary, but additionally by the services governments provide. Simultaneously driving down wages and services is a recipe for social instability. It breeds resentment and anger alongside desperation. It also erodes that vaunted wish on the part of the exploiter; that the exploited should be made to feel they have a stake in the system.

All of this is in play as the excesses of neo-liberalism are reversed by a state which is becoming more assertive out of necessity, which is intervening more in the economy and society, and which is increasingly willing to entertain redistributive policies by taxing the rich and their corporations. What is interesting is not that this is happening, but that it is happening so quickly.

### **The West comes together.**

In the face of the rise of China and the decline of the USA, for the first time, governments around the world are willing to entertain tax measures which reverses the race to the bottom. Some of the initiatives are coming from the USA in the form of Yellen and Biden. From being obstructive the USA is not only being accommodative it is even adopting a leading role. There are two options on the table at the OECD, one is to raise the rate of corporate taxation to a minimum of 21% around the world, and secondly, to enable governments to tax profits earned in their countries by digital monopolies such as Amazon, Google, Facebook and the like.

I do not intend to go into detail about these measures and their progress. There is an excellent overview of these developments in Wednesday's *Financial Times*. The article is titled *International Corporate Tax Deals Edges Closer*. Here is a summing up. "Talks on how to make it difficult for international companies to shift profits round the world to minimise tax have been stuck at the OECD for years, but are now progressing rapidly, according to several governments." <https://www.ft.com/content/35ce8c9d-d28a-49ad-b278-e7c49e06d7f9> There is another good article in Friday's edition titled: *Biden's Global Tax Plan Calls on Multinationals To Pay Local Taxes*.

These new tax arrangements if enforced, will impact mainly cross border digital monopolies such as Facebook, Google and Amazon. A number of Marxists have referenced Marx in saying that many monopolies emerge not only through scale but through erecting technical barriers to entry. They are difficult and costly to mimic. However in the case of High Tech today with the exception of actual manufacturers such as Apple and Microsoft, this view needs to be qualified. These monopolies have

derived their monopoly profits not so much through technical expertise but through tax expertise, that is being able to avoid local and national taxes which their competitors are forced to pay.

Nowhere is this more true than in the case of Amazon. History will look back at this disrupter company and ask how a basically bankrupt company was able to destroy the high street while elevating its owner to become the richest man on this planet. It avoided taxes, that is how. The fact of the matter is that it is more costly, as the figures below show, to pay someone to pick, box, invoice and deliver, compared to a customer going shopping who does all these tasks for free. See Amazon's operating expenses below which at 33.6% are nearly two thirds higher than Walmart's. (All figures in Billions of \$s)

	AMAZON 2018	AMAZON 2019	WALMART 2019
Revenue	280.5	386.1	
Operating income	14.5	22.9	
Income share of Revenue	5.2%	5.9%	
Revenue (less AWS*)	245.6	340.7	524
Operating Income (less AWS)	5.3	9.4	21.5
Share of revenue	2.2%	2.8%	4.1%
Tax paid	2.4	2.9	4.3
<b>Tax share of income</b>	<b>16.6%</b>	<b>12.7%</b>	<b>20%</b>
Cost of Sales (% of Revenue)		60.4%	75%
Expenses (share of revenue)		<b>33.6%</b>	<b>21%</b>

(\* AWS stands for Amazon Web Services whose most profitable segment is its cloud services.)

<https://ir.aboutamazon.com/news-release/news-release-details/2021/Amazon.com-Announces-Fourth-Quarter-Results/>  
[https://s2.q4cdn.com/056532643/files/doc\\_financials/2020/q4/Earnings-Release-1.31.2020-Final.pdf](https://s2.q4cdn.com/056532643/files/doc_financials/2020/q4/Earnings-Release-1.31.2020-Final.pdf)

I have separated out AWS in order to determine the revenue and income from Amazon's sales and deliveries of goods in boxes. In turn the resulting Amazon data is compared to Walmart. It should also be remembered that folded into Walmart's expenses are the local and sales taxes paid by that company some of which is not paid by Amazon. Nevertheless, despite this Walmart's margins at over 4% are still half as much higher than Amazon's. At between 2 and 3%, Amazon's margins are wafer thin. No wonder Amazon has to work its workers so hard to stay afloat. Further, whereas Walmart's effective tax rate on operating income was 20%, that of Amazon's was over one third lower at 12.7%.

While Amazon is the corporation most vulnerable to international tax changes, all the other High-Tech corporations are vulnerable to a certain degree. Their free ride is over. Could this be what lies behind the recent fall in their share prices? Lower monopoly profits all round. Cheers.

Of course this inter-governmental collaboration has its limits. These limits were exposed by vaccine nationalism, where a number of countries, including Britain, the US and now India have monopolised vaccines to inoculate their citizens first. In the case of Britain, their antagonising of the EU over this issue will come at a price in the future.

### **Conclusion. Recalibrating politics.**

Rejoice, we are back in the realm of reformism. Sure, the far left like the SWP will continue to talk up the far right. And sure, the myopic will still rate Trump. But even in the USA, where the better governance by the Biden administration becomes more apparent by the day, there is a tectonic shift away from the Trump enthralled Republican Party. With a 9% lead, a recent Gallup Poll has shown the widest support for the Democratic Party over the Republican Party in a decade, which is bound to widen. <https://eu.usatoday.com/story/news/politics/2021/04/07/gallup-survey-shows-largest-increase-democratic-party-affiliation-decade/7114860002/> When Trump left office his gap between approval and

non-approval was a negative 25%, Biden's approval rating is a positive 22% and rising. Trump is a dead politician walking, but he and his family have still not faced up to this. Reformism has become mainstream despite the best efforts of the sclerotic Republican Party.

The view of the state has been rehabilitated. The pandemic has shown how the state can support society and the economy, and what a disaster it would have been had it not intervened. Johnson's government, presenting itself as a reforming party is likely to do well in the May elections because of a successful vaccination programme, but his popularity is bound to be less enduring than the immunity these vaccines confer. Biden may have the heart of Bernie Sanders and Johnson may have plagiarized Jeremy Corbyn, but the substance of their policies will be a programme to curb the excesses of capital which have undermined society and the economy.

Of course the left reformists will interpret this as a programme aimed at benefiting the working class because curbs on capital always and without exception benefit society. They will seek to push parties harder to extend these reforms in order to build back fairer. Thus, the biggest obstacle to revolutionary politics in the here and now, is not the far right, it is the resurgence of reformism and its model of using the state to further the interest of the working class. The state will be presented as plastic as malleable. On the outer reaches of reformism there will be those who once again present the state as straddling capitalism and socialism. The proposed leading role of the state will once more be heard.

Thus we need to recalibrate our politics to focus on reformism. In this we will be helped by economic conditions. Should the vaccines reverse and corral the pandemic, then in the second half of the year, it is likely that the needs of profit will restrain the hands of the state. Some of what was given will need to be clawed back, and the state previously supportive will begin to show its true face, the money collector and enforcer of capital.

In the meantime we need to prepare workers for this change of direction. Their support for the state and the parties promoting largesse will make them vulnerable for what is to come. A case in point is the forthcoming May elections in Britain. However, behind the scenes, though sometimes in full view, laws and agencies of repression are being built up. After ruling for nigh on 300 years, the capitalist class knows that they can only fool some of the workers some of the time when the lack of profits keeps peeling away their masks.

Brian Green, 9<sup>th</sup> April 2021.