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Inflation and the Circulation of Capital

Inflation is a generalized increase in prices of goods and services. It affects all economic agents but is felt most acutely by low-income workers for two reasons. The immediate reason is because their wages start losing their purchasing power and, as a result, their consumption falls, which in turn threatens their reproduction since today food is among the products that have seen the greatest price increases. The second reason is the medium-term impact on unemployment, as businesses start taking measures to cut costs, among them reducing their personnel.

Central bank managers have tried to control the surge in prices by raising interest rates, because their theoretical frameworks prescribe it as a means of restricting money in circulation to control the inertia of rising prices. However, such measures may have negative consequences in the area of investment.

The aim of this article is to explain the origins of inflation during the Covid-19 pandemic and the current inflationary spiral from the perspective of a critique of political economy, analyzing the global capital cycle on the one hand and power relations on the other.

Inflation as the Result of Obstacles in Circulation

Various media outlets have shared opinions and reflections on the effects of factors like the pandemic, the trade war between the United States and China, and the war in Ukraine, in the latter case primarily due to the sanctions the United States has imposed on Russia. All these factors have impacted global supply chains in the globalized economy. Economists like Noemi Levy and Joseph Stiglitz concur in their diagnosis,[1] [2] affirming that some of these events are responsible for the current spike in prices and

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that therefore raising interest rates will not be enough to resolve it.

Stiglitz states, for the European case, that some companies that supply electricity at low cost or operators that purchased electricity at lower costs before the war have benefited because the price is determined by the marginal cost of the most expensive source of production. In this context, Stiglitz proposes taxing them, given that electricity prices have doubled and as a result their profits have increased.

Michael Roberts affirms that central banks have no way of controlling the rate of inflation because the price increase has not been caused by "excessive demand,"[3] but rather by weak supply due to blockages in production and transport (due to the pandemic but also to logistical issues), or as a result of economic sanctions the United States has imposed in reprisal for the Russian invasion of Ukraine, which has affected the supply of energy. However, he adds that the most serious underlying cause is loss of productivity in the leading economies, an issue that should be studied in the sphere of production and not only in circulation of products.

Let's outline now the capital cycle to use it as a tool to examine the problems described thus far.

The Capital Cycle

If we follow the analysis of the cyclical process of capital presented by Karl Marx in the second volume of Capital, we can understand how shutdowns of economic activities during the Covid-19 pandemic in recent years and the war in Ukraine today have created obstacles to the continuity of the capital cycle, causing prices to rise. For example, we saw the "container crisis" due to the closing of activities deemed non-essential and the growth of demand for goods distributed by home delivery companies, which had repercussions in the areas of logistics, transport, and infrastructure for a demand experiencing exponential growth.[4]

In short, we can say that the capital cycle works as follows: entrepreneurs, the owners of capital, have the express and unequivocal goal of increasing it. They start a business with a sum of money, D_1, and their aim will be that, after a time, or as Marx would say, after a rotation, the money invested is recovered, or, above all, increased, with D'_2 being equal to $D_1 + d$, where d is an additional sum of money generated by the enterprising business. This idea is expressed in the general formula of capital: $D_1 – M – D'_2$. We can expand this formulation to illustrate the different issues that arise in each of the three stages of the money-capital cycle.

Stage one: An entrepreneur has capital in the form of money and uses it to purchase goods known as means of production (machinery and raw materials) and labor; at this point, the capital is circulating. The act of buying allows capital to shed the form of money and take the form of productive inputs; in other words, capital undergoes a transformation and enters the modality of productive capital. Here we enter the *second stage* of the cycle, where capital stops circulating and remains, for a time, in a facility where goods are produced, which is expressed in the equation with ellipsis points (D – M…P).

Next, the entrepreneur will obtain goods and transition to the *third stage* of the cycle, where they must sell them all so that their capital recovers its monetary form, and as a result the capitalist can clearly see the increase of his money capital. The formula for the capital cycle is as follows: $D_1 – M…P…M' – D'_2$

The transition from D_1 to D'_2 necessarily means that money capital is transmuted into different forms. The transformation from one form of capital to another, and from one stage of the cycle to the next, faces various complications. We locate the origin of today's inflation, and that seen during the pandemic, in the third stage of the cycle, when goods must be moved from the place of production to the point of sale.

Today, productive processes have become globally fragmented as businesses have sought mechanisms to reduce their costs. They have moved companies to countries where workers do not have a tradition of unionizing like they do in the United States. As a result, many U.S. companies have their production plants in countries like Mexico, China, or India.

Currently, the container crisis is being resolved; indices like the Baltic Exchange Dry Index,[5] which measures the cost of moving primary raw materials by sea, show that costs have returned to pre-pandemic levels. For its part, in July 2022 the specialized publication *The Logistics World* reported delays affecting supply chains due to congestion at ports.[6] Although setbacks are less and less severe, the issue continues to generate costs for businesses, which have had to improve logistics in their distribution centers, and such costs are invariably added to the final price of their goods.

Inflation as a Product of Power Relations

In relation to the war in Europe, the sanctions the United States has imposed on Russia for its invasion of Ukraine, exercising its economic and military power, have affected not only Russia but other nations, which, in the opinion of Serguéi Glazyev,[7] are under pressure from Washington.

In Glazyev's telling, European consumers are forced to purchase more expensive energy, which the United States sells them, and manufacturers have lost the Russian market. The European Union's total losses as a result of the sanctions are estimated at US$250 billion.

From Alonso Aguilar's perspective, inflation is not a purely economic problem, it is also "a political problem and an expression of class struggle."[8] I agree, because in the case of the U.S. sanctions against Russia, we can observe power relations, as U.S. producers have seized control of a market not by being competitive but by leveraging their hegemony. In so doing, they have driven Russian producers out of the market, with the resulting impact on European consumers.

Conclusions

Analyzing the monetary capital cycle helps us explain how setbacks in any stage of the capital cycle have repercussions for the creation and accumulation of capital. Adversities in the third stage of the cycle, in the sale of mercantile capital, have caused the prices of some goods to rise.

The most recent setbacks, in the last two years, are caused by the pandemic and by the U.S. sanctions against Russia, which have caused increases in the prices of certain strategic goods like fuel and food, all of which, taken together, have caused high inflation.

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Considering that increased costs of circulation of finished products can cause inflation, we find some other economic policy approaches that the current administration in Mexico has implemented to control it –which go beyond raising interest rates– interesting. These include policies to boost production for self-consumption and produce food locally so as not to depend on globalized distribution circuits.[9]

Notes

1 Noemi Levy Orlik, "¿Combatir la inflación o reordenar las cadenas globales de producción?" *El Universal* ("Opinion" section, September 29, 2022), https://www.eluniversal.com.mx/opinion/noemi-levy-or lik /combatir-la-inflacion-o-reordenar-las-cadenas-globales-de-pro duccion.

2 Joseph Stiglitz, "Las guerras no se ganan con economías de tiempos de paz," *La Jornada* (October 19, 2022), https://www.jornada.com.mx/notas/2022/10/19/economia/las-guerras-no-se-ganan-con-eco nomia-de-tiempos-de-paz-joseph-e-stiglitz/.

3 Michael Roberts, "¿Se reducirá la inflación mundial?" *La izquierda diario* (August 23, 2022), https://www.laizquierdadiario.com/Se-re ducira-la-inflacion-mundial.

4 For several months in 2021, thousands of shipping containers were stuck in ports worldwide; the problem has gradually been resolved, but even today delays continue to plague shipping. This caused scarcity of products and a surge in transport costs, which naturally affected the prices of goods. See https://www.gaceta.unam.mx/la-crisis-de-contenedores-y-su-gran-efecto-mariposa/.

5 This index is published daily and provides a reference on the behavior of the price of moving the most important raw materials by sea. Based on historical records, today prices are close to pre-pande mic levels. Available at Baltic Exchange Dry Index-2022.Data-1985-2021.Historical-2023 Forecast-Price (tradingeconomics.com).

6 The Logistics World is available at https://thelogisticsworld.com/comercio-internacional/crisis-de-contenedores-estatus-y-analisis-en-julio-2022.

7 Serguéi Glazyev is a scholar at the Russian Academy of Sciences; here I cite his article "Sanctions and sovereignty," published February 25, 2022, https://expert.ru/2022/02/25/sanktsii-i-suverenitet-column/.

8 Alonso Aguilar, *La crisis del capitalismo. Ensayos* (Mexico City: Nuestro Tiempo, 1979).

9 See https://lopezobrador.org.mx/temas/plan-contra-inflacion/.