World Recession Set to Worsen*

Prabhat Patnaik

More than seven years after the world capitalist crisis began, not only is there no sign of any recovery from it, but the prospects appear even bleaker today than ever before. In fact, while the advanced capitalist world continues to remain mired in crisis, it is now spreading across the globe, even to countries like India and China that had appeared initially to have escaped its impact. India's GDP growth rate is slowing down; what is more, the manufacturing sector continues to witness almost absolute stagnation. The 2.3 percent growth rate in manufacturing in 2014-15, meagre though it was, had marked an improvement over the -0.8 percent in 2013-14, and was generally projected as a turnaround, but the growth rate in May, the latest month for which we have figures, is again 2.2 percent (over the corresponding month a year ago). In China too, the GDP growth rate is slowing down; so is the growth rate of its industrial sector which had been witnessing phenomenal expansion for long. And since China had emerged as a major buyer of raw materials, including from Latin America, a slowing down of its industrial growth rate entails a significant drag on several third world economies whose fortunes had looked up because of the Chinese boom.

The crisis in short is getting generalized across the globe, even as there is little improvement in the economies of the advanced capitalist countries. The situation with regard to the Eurozone is well-known: the entire southern Europe, and even France, is hit hard by the crisis. And Britain continues to suffer from the draconian "austerity" measures imposed by the Cameron government.

The United States gives the impression of being an exception to this phenomenon; but this impression is misleading. While the unemployment rate in the U.S. has come down to 5.3 percent in July 2015, which is much lower than the post-crisis peak of about 10 percent, there has been a significant drop in the size of the work-force. Such a drop is a common occurrence during recessions and expresses what is often called the "discouraged worker" effect. The decline in unemployment rate is explained, partly at least, by this drop, rather than a revival of the economy.

A very simple calculation would show that, notwithstanding whatever improvement the U.S. economy may have experienced of late (on this more later), the actual unemployment rate continues to remain very high. Just before the crisis, the unemployment rate in the U.S. was about 5 percent, and the employment to population ratio was 63.3 percent, which gives a work-force to population ratio of 66.6 percent. Let us accept this figure (which means accepting the questionable official estimate of 5 percent unemployment rate on the eve of the crisis). The employment to population ratio in July 2015 stood at 59.2 percent. With the same work-force to population ratio as prevailed just before the crisis, this would mean an unemployment rate of 11 percent! The fact that instead of an unemployment rate of 11 percent we have an unemployment rate of only 5.3 percent in the United States, is because a number of workers have simply dropped out of the work-force; and they have done so not because they have got engaged meanwhile in some other worthwhile activity, like getting an education, but because of the bleak prospects of getting employment. The U.S. economy, in short, even though it may have experienced marginal improvement, continues to be afflicted by crisis. And this is so despite the fact that the U.S. Fed has kept its key interest rates close to the zero level for nearly seven years by now.

Since fiscal policy aimed at stimulating the level of activity is eschewed, under the hegemony of finance capital, even in an economy like the U.S. which does not have any "fiscal responsibility" legislation, and whose currency being "as good as gold" provides its

government with a degree of freedom to act with impunity in fiscal matters (since it is most unlikely to face any capital flight), monetary policy becomes the sole instrument for reviving the economy. And the U.S. Federal Reserve has done as much as it possibly could with this instrument. (It could, logically of course, have negative nominal interest rates through the imposition of a tax on the holding of money balances, but this is clearly not a practical proposition). Yet, remarkably, there are no signs of any noticeable recovery.

Even the marginal improvement that has occurred in the U.S. economy is because of the fall in oil prices. The main source of the improvement has been private consumer spending, not government expenditure or private investment. And this larger private consumer spending has been stimulated by the fall in oil prices, which, for an automobile-dependent economy like the U.S. with substantial private oil consumption, is a bonanza for private households. They have used this bonanza for increasing their purchases of a variety of domestically produced goods and services, the increased demand for which has brought about some increase in output.

What is remarkable however is the fact that this increase in output has not caused any stepping up of private investment, which suggests that the capitalists have little confidence that this increase will persist. We are therefore in a situation similar to what, according to Harry Magdoff, had prevailed in the United States in the late 1930s, when the consumption goods sector's output had recovered owing inter alia to larger government spending under Roosevelt, but the capital goods sector had remained saddled with massive unutilized capacity because of the capitalists' lack of confidence in the continuation of the recovery. It is only the preparation for war under the shadow of the Nazi threat, which gave rise to larger military expenditure, that pulled the capital goods sector of the U.S. out of the crisis (since much of the military hardware is produced in that sector). While the situation in the U.S. today is somewhat reminiscent of that period, with some revival in consumption expenditure but none in private investment, no such war clouds exist on the horizon (mercifully) that could cause a full recovery in employment and output.

A point should be noted about the rise in consumption expenditure in the United States. We saw that it was linked to the decline in oil prices, which in turn tends to be correlated with the movements in other primary commodity prices. Since non-metropolitan economies are net exporters of these commodities, what this means is that even the limited revival that has occurred in the U.S. economy has been associated with the shifting of a burden, in the form of a commodity price drop, to these other economies.

In Comintern theorizing in the thirties, this idea, of the advanced countries passing on the burden of the crisis to the economies of the periphery, had played a big role. But, with the "Keynesian Revolution" and the emphasis on aggregate demand, it tended to recede to the background, since the two questions, namely the question of the terms of trade movement between manufactured goods and primary commodities, and the question of aggregate demand in the metropolis, could not be properly linked theoretically. The present conjuncture however reveals a link between these two questions: a shift in the terms of trade against primary commodities in today's context causes ceteris paribus an increase in aggregate demand for the advanced countries, via a larger consumption expenditure directed by their consumers towards their own goods because they have to spend less on oil and other primary commodities. Even the limited current revival of demand in the U.S. in short, has as its counterpart a larger burden on primary commodity producers.

But even this limited revival in the U.S. is unlikely to last long. The question of an interest rate hike in the U.S. has been on the cards for some time. This is not because the U.S. has got engulfed inflation; indeed far from it. The global fall in primary commodity prices just mentioned, removes inflation from the list of immediate concerns in the U.S. And even by the standards of finance capital, which shuns even mild inflation as it erodes the real value

of the financial assets it holds, the current inflation in the U.S. is far from “worrying”: the current inflation rate of around 1.5 percent falls well below what the Federal Reserve considers the “inflation target”, which is 2 percent. Even so, finance capital’s aversion to zero or near-zero interest rates is pressurizing the Fed to raise these rates. It has put off the decision till September, but is likely to effect some increase in rates at that time. And when that happens, the world recession will become even more accentuated.

The strengthening of the dollar, already underway, will gather further momentum and worsen the U.S. current deficit on the balance of payments which will lower aggregate demand in the U.S. This will add to the lowering that the higher interest rate would cause anyway via reduced expenditure owing to higher borrowing costs. And even while the U.S. recession worsens, the rest of the world too would experience such a worsening because it would have to raise interest rates in response to the American rates. True, a relative fall in the value of the rest of the world’s currencies vis-à-vis the dollar, should be increasing their net exports with the U.S.; but the inflationary upsurge associated with the depreciating currencies would force their governments to cut back expenditures, whose demand-reducing effects would more than offset any demand increase that the currency depreciation might bring about.

And there would be an additional factor working in the same direction, which is the non-availability of dollar inflows in the event of an increase in the U.S. interest rates. Such inflows at present sustain the current account deficits of countries like India, but if they are no longer available then these countries would be forced to cut back on their aggregate demand and adopt “austerity” measures to curtail their current deficits.

In short, world capitalism seems poised for a worsening of the crisis. Even after seven years since it first appeared, the crisis persists, despite U.S. interests being driven down to zero throughout this period. And as these rates increase, which they are on the brink of doing under pressure from finance capital, the crisis can only get worse. Capitalism today appears far more engulfed in crisis than most people, including even many on the Left, imagine it to be.

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