The Gathering Clouds of Recession*

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The world capitalist economy has been mired in stagnation and high unemployment ever since the 2008 financial crisis. Many were predicting that a turnaround was about to occur, partly because of the fact that the U.S. economy last month showed larger job creation than of late, and also because it had grown at 3.5 percent last quarter which is higher than for some time now. But, far from recovering, the world capitalist economy now appears to be sliding into a new downturn.

A recession is defined to be a situation where an economy fails to grow for two successive quarters, and by this definition Japan is already in a recession. Since the Japanese economy had experienced a big drop in GDP in the April-June quarter, it was expected that it would show a large growth in the July-September quarter, at least as a rebound from the trough. But it has further contracted by as much as 1.6 percent in the July-September quarter. Since Japan is the third largest economy in the world, this is a serious development. And taken in conjunction with the fact that the Eurozone countries continue to experience virtual stagnation, it portends ill for the capitalist world capitalist economy.

The somewhat larger figure of job creation in the U.S. last month has been attributed to a spurt in military expenditure. This does not necessarily represent an enduring step-up, and hence may not be sustained. Besides, the Japanese recession is likely to have an impact on the U.S. economy as well, so that the U.S. too is unlikely to keep up its recovery. In short there are gathering clouds of recession over the world economy as a whole.

The Japanese GDP drop, arising from a fall in both investment and consumption expenditure, has been attributed in the media to a sales tax hike. But this is misleading since it suggests that mere tax-hikes cause recession. It is not the tax hike per se but the hike combined with no increase in government expenditure, i.e. the pursuit of the so-called “fiscal rectification” measures which results in a net withdrawal of purchasing power from the economy, and hence underlies the Japanese recession.

Capitalist States in other words, instead of injecting demand into the economy to combat the current crisis and stagnation, are busy contracting aggregate demand in the name of fiscal rectification. This is particularly ironic in the case of Japan because its Prime Minister Shinzo Abe had come to power promising an expansionary monetary and fiscal policy, and his promise had appealed to the electorate because Japan had already experienced two decades of virtual economic stagnation. But expansionary fiscal policies are always an anathema for finance capital, since any form of State activism that by-passes finance capital, i.e. does not take the form of “incentivizing” finance capital as a means of stimulating the economy, but rather seeks directly to increase the level of economic activity, undermines the social legitimacy of finance capital. Hence in the era of globalized finance when States have willy-nilly got to obey the demands of finance capital, an expansionary fiscal policy for directly stimulating demand gets ruled out. An expansionary monetary policy on the other hand, though it does not get ruled out in a similar manner, is of little help in a situation when the capitalists’ so-called “state of confidence” is low. So, Mr. Abe’s expansionary proposals have been nipped in the bud.

Japan has traditionally been a country with large fiscal deficits and it ran these fiscal deficits at a time when it was among the fastest growing capitalist economies of the world, when in other words, everyone was talking of the “Japanese miracle”. Ironically, fiscal “prudence” is being thrust as the correct policy on what was once the most successful capitalist economy in the world that owed its success in no small measure to the expansionary fiscal policy it pursued.

The fact that world capitalism is sliding into a recession should come as no surprise. Capitalism in the era of hegemony of international finance capital cannot, for reasons already mentioned (namely the need of the system to act always in a manner that makes finance capital appear to be socially necessary), rely on Keynesian "demand management" to stimulate its level of activity; the only stimulus available to it therefore is the formation of "bubbles" in asset prices that can give some boost to the level of aggregate demand. These "bubbles" however get formed only if there are "exuberant expectations"; but in a situation of crisis such as now the prospects of such exuberant expectations getting formed are remote. Hence the world capitalist economy has no alternative but to remain mired in stagnation and to keep "bumping along the floor", with occasional minor upturns being followed by recessions.

Whenever there is such a minor upturn, bourgeois pundits ecstatically proclaim an end of the crisis, until the next recession brings them back to earth. The recession that looms at present is an instance of this dynamics, whose essential feature is that the hegemony of finance capital has brought the system to a protracted crisis.

The period of the 1930s had also seen such a protracted crisis, which had finally ended with the second world war. That crisis had to do with the fact that the "benefits" of encroaching on colonial markets (and of exporting capital to the "colonies of settlement" in the "New World") had got exhausted. John Maynard Keynes in a bid to stabilize capitalism, because he knew that "the world will not much longer tolerate the unemployment which… is associated… with present-day capitalistic individualism", had suggested that State intervention in demand "management" should be resorted to. This idea, originally stoutly resisted by financial interests, finally got accepted only in the post-war scenario when the threat of socialism became even more alarming for the system. With that threat temporarily receding at present, finance capital's opposition to "demand management" has not only resurfaced, but has acquired an overwhelming effectiveness because finance capital has become international while the State remains a nation-State.

The new prop for the system that Keynes had suggested has thus ceased to operate, and capitalist States at present, even in the midst of stagnation and crisis, are busy pursuing "fiscal rectification" and "austerity" (whenever the fiscal deficit is considered to be "too high"), rather than boosting demand. Capitalism consequently does not have at present any prop other than merely waiting for a new asset price "bubble" to overcome its crisis, which is why the crisis is likely to be a protracted one. And even when perchance it is overcome for a while through the appearance of a new "bubble", the bursting of that "bubble" will again plunge it into another crisis of prolonged duration. We have in short a system that, in terms of its economic operation, has reached a dead-end.

This is not to say that it will "collapse" on its own; it will necessarily have to be overthrown. But precisely because it is wary of the possible political challenge that it faces in the context of the protracted economic crisis, the system becomes particularly ruthless, vicious and aggressive vis-à-vis the working class, and vis-à-vis its opponents in general.

The impact of this new accentuation of the ongoing economic crisis is already visible on the Indian economy. India's exports in October 2014 were $26.09 billion, lower by 5.04 percent compared to October 2013. Since imports increased from $38.08 billion in October 2013 to $39.45 billion in October 2014, the trade deficit widened between the two dates from $10.59 billion to $13.36 billion. And this occurred despite the fact that the oil import bill has come down between the two dates by nearly $3 billion owing to the decline in oil prices. The world crisis in other words, while lowering oil prices and thereby giving some relief to the Indian balance of payments (which may not however last very long if OPEC decides to cut production), has affected India's non-oil trade deficit quite substantially, increasing it by almost $6 billion between October 2013 and October 2014.

Whenever India's trade deficit begins to widen, gold imports into the country surge, because, in anticipation of a decline in the rupee, speculators move to gold; and this in turn widens the trade deficit further. This is what had happened in 2013, and is beginning to happen again. Together with the fact that "quantitative easing" by the U.S. Federal Reserve, which had sustained India's balance of payments until now by making possible a large inflow of dollars, is likely to end soon (and is already tapering off), the country is going to face serious problems in the coming days. These would exert a downward pressure on the rupee and hence impart an upward thrust to inflation.

Quite apart from the balance of payments problem, however, the decline in exports in October which has been pervasive, affecting most export sectors such as engineering (9 percent decline in exports between the two periods), drugs and pharmaceuticals, gems and jewellery, cotton and man-made yarn and carpets, will have a recessionary impact on the economy.

The neo-liberal chickens in short are coming home to roost. When the world economy was booming on the basis of the US housing bubble, India achieved a high GDP growth rate riding on this boom, and aided also no doubt by its own "internal bubble" in asset markets. Now that the world market has run into a crisis, not only has the growth rate come down, but, with balance of payments problems looming large, its further curtailment is imminent. And this curtailment will continue into the future, since, as suggested above, world capitalism, to which our economy is yoked under the neo-liberal regime, has entered a protracted period of crisis.

During the 1930s several underdeveloped countries, notably in Latin America, delinked themselves from the world capitalist economy, by imposing protectionist measures, and experienced impressive "import substituting industrialization". Such delinking in turn, required as its pre-requisite, significant political changes, whereby the old alliance of comprador bourgeoisie, landlords, and foreign capital, was overthrown. Periods of crisis in other words have witnessed major economic and political changes within the structure of world capitalism. The present crisis too is likely to be a harbinger of major changes.

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