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World Economy

Controlled slowdown or early depression?

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While some economists claim that the world economy is heading towards long-term stagnation, others claim that what we are seeing is a short cycle. Analysts of the world economy are divided between those who foresee a recession and those who think it is just a question of controlling a slowdown. There is another, underlying, debate: are we seeing long-term stagnation or are the conditions of a new wave of expansion already foreshadowed? [1]

The dynamic of capitalism as a system rests on its capacity for innovation and continuous improvement of labour productivity. Since the early 1970s, this improvement has slowed down. If, until 2010, labour productivity grew at a rate of 2.5 per cent per year, only increased by 0.6 per cent per year from that date until 2017.

Low growth

Despite these mediocre advances, capital, globally, succeeded between 1970 and 2010 in maintaining the rate of profit and restoring the overall profitability of the system. This was possible because from the global crisis of the 1970s, capital launched a process of restructuring its productive spaces and services (relocation and concentration of enterprises, technocentric model of production) accompanied by a strong offensive against labour (structural reduction of wages, changes in working conditions, introduction of new technologies, capital-intensive investments).

However, despite this maintenance of the rate of profit, the growth of the global economy has been very weak. Although, until the crisis of 2008, growth averaged 5.5 per cent a year, mainly thanks to the contribution of so-called emerging countries, subsequently it did not exceed 3.7 per cent, despite an improvement in the American economy. This growth resulted in a strong concentration of wealth and an increase in inequalities around the world.

Two visions

On the basis of this stagnation of productivity, because we have been witnessing a long period of insufficient demand and because the world economy is unable to give a strong impetus to wages and employment, many analysts believe that the global economy is stagnating in the long run.

In one way or another, they are rediscovering the thesis of structural stagnation that Keynes' disciple, Alvin Hansen, put forward in the late 1930s and that the former secretary to the US Treasury, Lawrence Summers, took up again several years ago.

Others, on the contrary, argue that what we have been seeing lately is really the end of the super cycle of indebtedness. According to them, the countries of the centre are absorbing the monetary expansion that they were forced into in order to end the crisis in 2008 (the United States is raising interest rates and the European Central Bank is reducing the purchase of bonds and withdrawing the cheap money released by the crisis). The possibilities of a new expansive wave are thus being prefigured.

The conjuncture

In 2018, uncertainty dominated the global economy, characterized by a deterioration of commercial relations, strong market volatility and rising interest rates, with on top of that the Chinese slowdown and problems in Europe, especially the resurgence of extreme right nationalism.

The IMF estimates that in 2018, global GDP grew by 3.7 per cent, a lower percentage than in the period prior to 2008 (5.5 per cent) but higher than in the years following the crisis. It is in the advanced countries (2.4 per cent as against 3 per cent previously) that this trend is the most marked. However, according to the analyst Jorge Castro, "US production increased by 3.5 per cent in 2018 under conditions of full employment (3.7 per cent unemployment, the lowest rate in three decades), with an increase in real wages of 3.2 per cent (the highest in ten years), 1.8 per cent inflation and productivity increasing by 2.5 per cent". The fact that the tax cuts decided by the Trump administration resulted in the repatriation of capital worth \$7 billion, of which – according to Jorge Castro – part went to Wall Street, but also part to productive investments, is not unrelated to this table.

Despite the importance of the US economy, the world economy is weakening. The IMF has recalculated downwards its estimates for this year to 3.5 per cent, and 2.5 per cent for the United States, the slowdown taking place "at a faster pace than was foreseen". According to the OECD, "global expansion has reached its apogee", while the WTO has just predicted that "world trade will continue to contract in the first half of this year". In fact, Germany and Japan have reduced their growth rates during recent months and the Chinese economy, with the slowest growth in nine years, is slowing more quickly than had been foreseen.

In this situation, how important is the conflict between the United States and China, which is not only trade dispute with rising tariffs on both sides, which have affected trade, but which also has a strategic character aimed at determining who will control the fourth industrial revolution that is underway.

A new tariff escalation – that is Donald Trump's threat if an agreement that satisfies him is not concluded – would push the economy directly into recession, but there are indications of a possible agreement, after the truce concluded in Buenos Aires during the G20 meeting. But it is not just the dispute between the United States and China that exerts an influence. There are also indications of the possibility of a recession in the United States. And of its global impact. The meeting in Davos concluded on the conviction that "the global economy is not on the point of collapse, but the risks are increasing".

Are we at the dawn of a new world financial crisis?

We have noted that the world economy was entering a period of defining its long-term prospects. The way the present conjuncture is solved will influence this definition.

One of the distinguishing features of this situation is the uncertainty resulting from both political and economic unknowns. Among the first figure Brexit, extreme right-wing nationalism in Europe, the tense relations of the United States with China and Korea ... and also the case of Venezuela. Among the latter are the deterioration of commercial relations, the high volatility of markets, rising interest rates and the Chinese slowdown.

In the risk zone

According to economist and former Portuguese MP Francisco Louça, there are three indicators of possible risks for 2019:

- a) neoliberal deregulation spreads throughout the world, which makes nation-states increasingly vulnerable;
- b) speculative centres are still stimulated, financial capital and the concentration of accumulation continue to be privileged;
- c) the accumulation of debts (public, private or business) continues; debts already exceed 300 per cent of world GDP.

For their part, analysts Oscar Ugarteche and Alfredo Ocampo stress four specific points of the North American economy:

- 1) Between 2008 and the third quarter of 2017, GDP grew below its potential, but from that last date, its growth has been greater than this potential (nearly 5 per cent in the third and fourth quarter of 2018, with an annual growth rate of 3.7 per cent). According to them, this cannot last any longer, because it would overheat the economy, with foreseeable consequences.
- 2) The unemployment rate remained below its natural level throughout the years 2017 and 2018. They note that something similar happened in the moments preceding the three recent recessions: 1990, 2001 and 2008, more or less a year before.
- (3) There are differences in bond yields of ten- and two-year Treasury bills. There is less risk in long-term bonds than in short-term bonds. This is an anomaly that has already manifested itself in recent recessions, anticipating them by more or less a year.
- 4) For the first time since 2008, the interest rate is positive.

For these authors, these four points indicate the possibility of an overheating of the US economy that would result in further interest rate hikes and appreciation of the dollar, which would increase the trade deficit. In addition, a stronger dollar would attract new capital from emerging countries and reduce commodity prices, especially in Latin America.

A recent Citigroup report indicates that a "slowdown in the United States would affect global growth and its impact would be more important than during the previous financial crisis". According to this report, Argentina, Mexico, Canada and Taiwan would be the most exposed countries.

Continuity of the crisis

It turns out that the main causes that led to the crisis of 2008 have not disappeared. Large multinationals have continued to accumulate profits despite the weak growth of the world economy. This accumulation is not the result of greater productive activity, but of financialization, speculation or appropriation of natural resources and commons,

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which as a whole operate as a support for capitalist accumulation but at the same time, because of their overdevelopment, accentuate the contradictions of the system.

Because this phase of the internationalization of capital that we know under the name of globalization has ushered in a new mode of domination. This model has strong political and social implications:

• concentration of wealth;

• increased social inequalities;
• worsening of the climate crisis;

• localized wars and strengthening of the world debt system.

These are the products of the generalization of neoliberal policies.

However, this new order has not yet been completely realized. Its completion requires dismantling of all the governance architecture that was built in the aftermath of the World War II and replacing it by another, founded on a new balance of power between the great powers, especially between the United States and China. Are we in the preliminary stages of a new global finance, while this new balance has not yet been completed?

From contraction to recession?

Commercial deterioration, market volatility, high indebtedness, speculative bubbles. The risk of a new world recession is increasing. Is another 2008 coming?

Data showing that the world economy has entered a zone of risk, without a solution of continuity, is accumulating. IMF Director Christine Lagarde has just declared that everything is worse than expected for the global economy and that "70 per cent of the global economy is slowing down." For his part, the Director of the World Trade Organization added that "Trade cannot fully play its role of engine of growth" and predicted that global GDP growth and trade will be lower than in 2018.

Weakening in the United States ...

At the beginning of this year, the US Federal Reserve (FED) indicated that it could change its monetary policy. A few weeks ago it made this announcement effective with an abrupt modification: not only the bank rate of reference will not be raised throughout the current year, but the policy of absorption of market liquidities will also be limited.

All of these measures indicate that the US economy is showing signs of weakening. In a way, this confirms what we have already indicated: American growth has recently exceeded its potential and at the same time we can observe an anomaly – a lower risk of long-term bonds, as against short-term ones – what we call an "inversion of the curve". Everything seems to indicate that the momentum given to the economy through Donald Trump's tax reform and the tax breaks that helped repatriate some \$7 billion has come to an end. The experience of other crises indicates that all this can lead to overheating of the US economy, which would lead to further interest rate increases of interest and an appreciation of the dollar, increasing the US deficit.

With the aforementioned FED decision, the increase in the interest rate is cancelled for this year, 2019. But the deficit is the most important in ten years: of the order of \$621 billion (of which \$419 billion are owed to China and \$110 billion to the EU). The appreciation of the dollar is reversing the flow of speculative capital, which leaves the so-called emerging countries to take refuge in the greenback, thus causing a strong devaluation of their currencies (the Brazilian real, the Turkish pound and the Argentine peso ...).

... and not only

In the most industrialized countries, growth and investment remain very low and their economies are contracting. China has just reduced its forecast of growth for this year to 6 per cent, the lowest rate in 25 years. Germany has done the same, going from 1.8 per cent to 0.8 percent. Turkey went into recession after almost a decade of strong growth. In Japan, after years of expansionist monetary policy, they have come to the conclusion that there is a strong probability that the economy is shrinking. Russia estimates its growth at only 1.3 per cent, while among the other BRIC members, only India records an annual growth rate of 7 per cent.

Available data indicate that the current slowdown of the world's major economies could be transformed into a global recession in the not-too-distant future. And the central banks could not do much because rates of interest are already at zero or negative in the European Union and in Japan. According to the FED, they have also limited their policies of monetary absorption policies.

Towards another 2008?

In the United States, the Trump administration has continued deregulation and the easing of controls over the banking system. Moreover, the fact that the FED decided to limit monetary absorption – with which it partially conjured up the 2008 crisis – means there will be more money in circulation, while banking deregulation will facilitate the granting of credit without additional requirements. All this is going to stimulate growth ... while speeding up the journey towards recession.

But for some analysts, the risk is greater – it is enough just to look in the mirror of 2008 to see why: neoliberal deregulation threatens to spread again globally, making nation states increasingly vulnerable. The financial centres where speculation reigns and which favour accumulation in the hands of a small number – are prospering again while global indebtedness, whether state, private or corporate, already exceeds 300 per cent of world GDP. The stock market and real estate bubbles complete the list of threats. As if something was missing in the conflicts between China and the United States, the Brexit labyrinth, the rise of European nationalisms and a trail of geopolitical conflicts add uncertainty to a situation where financial capital and speculators investing in the short term move around like fish in water.

Nobody knows if this acceleration of the slowdown will end in a global recession, but fears are growing.

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[1] This article brings together 2 pieces written by Lucita in the Argentine daily *La Arena*, on March 1 <http://www.laarena.com.ar/opinion-hacia-donde-va-la-economia-mundial-2042552-111.html>, March 8 <http://www.laarena.com.ar/opinion-nos-acercamos-a-unanueva-crisis-financiera-global-2043686-111.html> and April 5, 2019 <http://www.laarena.com.ar/opinion-of-the-contracción-ala-Recesion-2048441-111.html> .