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Economy

The coming crisis and the rise of “national liberalism”

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The world's main political and economic leaders expect and are preparing in one way or another for a sharp slowdown in economic growth that could be coupled with a financial crisis.

The theme of the “crisis” is everywhere: in the press and in a host of economic analysis texts, but often without specifying what exactly it is about. Sometimes, reference is made to what various economists have called “secular stagnation”, a state of exhaustion of growth with periodic recessions - one version of this emphasizes that the “digital revolution”, despite appearances, does not generate significant productivity gains. [1] Among Marxists, this analysis sometimes overlaps with the long-wave theory of capitalism developed by Ernest Mandel, one of the essential propositions of which is that the history of capitalism is marked by a succession of long periods, with specific characteristics, which alternates expansionary and recessionary phases. [2] We would on this understanding be in such a recessionary phase, marked by globally weak and chaotic growth. The idea has also been developed that capitalist production is now confronted with barriers that it cannot overcome, particularly in the destruction of the balance of the ecosystem, notably of the biosphere. This important thesis has been supported by François Chesnais. [3]

These two questions are serious and decisive, especially the second, but this text focuses on the immediate: the analysis of the “coming” crisis in the sense of a net slowdown in GDP growth possibly accompanied by a fall in the financial markets. This type of crisis, which periodically returns under capitalism, can be more or less serious.

Where is the global economy going?

Schematically, there could be 3 scenarios:

– Slower growth (possibly accompanied by a fall in stock markets);
– A financial crisis and a one-off recession (i.e. negative growth in a significant number of capitalist countries;
– A financial crisis with a deep recession.

The global economy is already in situation 1: all indicators mark a contraction in growth. The question is whether situations 2 and 3 can arise from this conjuncture. We can “understand each concrete crisis only in the relation which it maintains with the development of global society.” (Paul Mattick, “Crises and theories of crises”, 1974, quoted by François Chesnais). It is therefore insufficient to repeat dogmatic truths about the fact that crises are inevitable under capitalism, or to be content with scrutinizing the variations in the rate of profit (even if it is essential to try to grasp them). A fortiori, contrary to what the media do day by day, it is not a question of focusing on finance, nor of attributing the slowing down of growth to Trump's protectionist initiatives alone.

Trump is not a bull devastating an otherwise flourishing china shop. Cumulative processes leading to slower growth mark the movement of the global economy. Last July, the IMF (International Monetary Fund), for the fourth time in a year, again revised its forecasts downward. On September 19, 2019 the OECD (the Organization for Economic Co-operation and Development, the other major world capitalist observatory) went in the same direction and now expects global growth of 2.9% this year and 3% next year. This is, to quote the report, the “weakest growth since the financial crisis with risks that continue to rise”.

The US situation is uncertain, but pessimism is growing. The Eurozone globally is static or even on the brink of recession (i.e. the move to negative growth). Industrial production fell 1.6% in June 2019 compared to June 2018 and the downward trend continues. Germany is particularly affected with a decline in GDP of 0.1% in the second quarter of 2019. Italy is also in a difficult situation. In France and Spain, growth is weakening but remains positive. In China too, growth is slowing despite repeated measures to support the economy. Brazil remains in the doldrums and Argentina is in net recession.

Only some countries in a catch-up situation (such as India or Vietnam) are maintaining growth (and Indian growth is slowing) with relatively few clouds (other than inequality and environmental damage). International trade is also experiencing a marked slowdown: growth in the volume of trade is expected to fall from 3.7% in 2018 to 2.5% in 2019.

Overproduction is obvious in the iron and steel industry. ArcelorMittal estimates the decline of the European steel market in 2019 at between 1 and 2 %. The automotive industry remains the most important industrial sector of global capitalism and its developments are significant of the general trend. A decline of around 3% in global automotive production is expected in 2019. Then there will be a period of lethargy that will only allow a return to production above that of 2018 in 2022. China, the world's largest market, would fall to less than 25 million vehicles in 2019, a decrease of 6% from its 2017 peak. The profit rates of recent years do not seem to have returned to their 2007 level.

The increase in the rate of exploitation is today the main instrument of capital's struggle to safeguard profits. Wages are stagnating (except for the higher categories and niche industries) in developed economies (including those with low unemployment rates like Germany and the US). States also play their role as "crutches" in the United States (and other countries), corporate tax cuts have supported (after tax) profits, and for the most recent quarters the profit rate appears to have fallen in the US This will weigh on investment which, in any case, will suffer the consequences of the uncertainty of the economic and geopolitical climate (US-China trade dispute, Brexit and so on).

Corporate profits have been used extensively for merger transactions, share buybacks and dividend distributions, or remain in liquid investments, while private investment remains limited. Public investment is constrained by austerity policies. Capitalism is more than ever financialized. Financial assets continue to grow after the shock of 2007-2009. Share prices appear disconnected from actual corporate performance. Currently the financial markets are tossed about at the mercy of US announcements and international uncertainties. Interest rates are now clearly downward or negative. Today, these rates show an apparent irrationality: they have plummeted, and medium-to-long-term rates tend to be higher than rates for short-term securities.

Return to 2008-2009

To understand this situation, we must go back to 2008-2009. Central banks have for the last ten years poured free or almost free liquidity into the banks. Indeed, once past the nadir of the crisis, it is they who have ensured the "steering" of the economies. In fact, three factors made it possible, in 2008-2009 and after, to avoid the collapse of the banking system and the economies of the major capitalist countries:

As a first step, states either incurred expenditures (support for banks, businesses, some social measures) or did not compensate for revenue losses or increased expenditures - see unemployment benefits - through additional tax levies. This resulted in an increase in the public debt.

But very quickly, in most capitalist countries, it was time for fiscal rebalancing: in the Eurozone (within the framework of the treaties again reinforced in 2012) while in the United States the Republicans blocked all budget initiatives under the Obama presidency.

Central banks lowered interest rates and pursued quantitative easing (QE) policies, by buying public debt securities or debt securities from banks. QE aims to encourage banks to more easily make new loans to boost production and employment. QE thus increases the amount of money in circulation which in theory has the effect of reviving the economy and avoiding any risk of deflation (an uncontrolled fall in prices).

These policies prevented the collapse, that is to say a “purge” of the system by many bankruptcies of banks and companies. But the capitalist economies did not really get out of the quagmire and the “cure” had a cost in terms of creating the conditions of financial bubbles: the sums poured in fuelled stock market speculation.

Finally, another factor played out in support of the economies of OECD countries: China, whose imports grew strongly and where outsourcing and investment operations helped sustain the profits of OECD firms. Between 2007 and 2018, Chinese imports doubled, a much faster increase than world trade. US exports to China increased by 86% in ten years, and during the same period, exports to the rest of the world grew by only 21%.

At the same time, the world was shifting: China increased its exports and reduced (unequally according to the sectors) its relative technological backwardness. Today, the slowdown of the Chinese economy affects the global situation and more specifically certain countries: Germany among OECD countries, and exporters of primary products.

A financial system at the mercy of the economic situation

Since 2015, central banks have sought timidly to restrain the policies followed since the crisis (low interest rates and quantitative easing) but that did not last because the capitalist economy is in a way drugged by low interest rates and liquidity discharged by central banks. In 2019, faced with the economic slowdown, many central banks around the world lowered their rates. The Fed did it on July 31 and the ECB on September 12. The resumption of QE was also announced. The financial system is fragile. The indebtedness of the states and especially of the non-financial companies has gone up again. The global amounts outstanding of bonds issued by non-financial corporations reached a record high, close to $13 trillion, at the end of 2018; this is double what it was before the 2008 crisis. The bonds (debt securities) issued by the companies are of variable quality, which could lead to an increase in repayment defaults in the event of an economic downturn.

Since 2008, there has been a proliferation of what the international organizations call “zombie companies” that survive only by indebtedness and taking advantage of low interest rates: their share is 6% on average in the 14 main developed countries. The main element of fragility of the system is therefore now probably the debt of companies that could unleash a banking crisis in case of prolonged economic slowdown. Finally, what is called “shadow banking”, that is, finance not subject to banking regulation (which does not mean that it is necessarily conducting illegal operations) is growing, especially in China. At the end of 2017, it represented 14% of global financial assets.

An additional illustration of the fragility of the financial system was given in mid-September: on Tuesday, September 17, 2019, the US Federal Reserve injected $53 billion into banks because the interest rates on the Interbank market (the market on which banks lend each other money on a day-to-day basis) had risen sharply to 10%. It continued on the following days and thus dumped $300 billion. What is most striking is that Fed officials are examining the roots of this outbreak of fever. This type of intervention is reminiscent of the month of September 2008 when the big banks in disarray stopped lending each other money (which led to the bankruptcy of Lehman Brothers) and had to call on the central banks.

Capitalism disarmed in the face of a new crisis?

So, not only is there a sharp slowdown in the economies, but there are elements of a financial crisis. Many economists argue that if a new financial crash occurs, states would have less resources than in 2008 to cope: public debts are already high (which would prohibit plunging into budget deficits) and bank rates can only fall marginally further. [4] This assumption of state powerlessness is questionable: if a crisis seriously endangered economic stability, we can think that the states and central banks would not hesitate to overcome these constraints, however displeasing it would be to the more neoliberal, and develop “heterodox” solutions. Moreover, the wind is in the sails of questioning and debate, even among orthodox economists, academics and advisers of international economic organizations. Ideas are flourishing BlackRock, a US asset management giant with $68 trillion invested in companies, has proposed that central banks create support funds that distribute money to businesses and individuals (through zero-rate perpetual loans). [5]

We are also witnessing a return of hitherto marginal ideas, notably with “modern monetary theory” which professes the possibility of freedom from debt constraint on public spending, notably with the objective of financing expenditure and creating jobs (hence its vogue on the US Democratic left) [9]. These ideas are a symptom of the search for room for manoeuvre. In the immediate future, as we have seen, central banks are on the alert and have returned to lower interest rates and securities buyouts. As for China, it has announced several measures to support the economy since the beginning of the year. In terms of the budget, the situation has changed in the USA with Trump, who has massively lowered the taxes of the rich and enterprises, hence a rise in the deficit now accepted by the Republicans. Last July, with the presidential blessing, a consensus budget between Republicans and Democrats was adopted that increases military spending and further widens the US budget deficit and its huge debt. Trump maintains a perfectly neoliberal course on social and fiscal issues, but on other grounds, he does not hesitate to disregard what has been economic orthodoxy for about four decades.

He relativizes the preoccupation with balanced budgets. Not only did he weigh in for a budget to increase the deficit, but in mid-August, his administration suggested that further cuts in taxes and social security contributions are being considered in the event of an economic slowdown.
He despises the independence of the central bank and does not hesitate to admonish it publicly to encourage it to lower interest rates further.
He challenges the rhetoric about the benefits of free trade and trade multilateralism. The key objective is to limit the US trade deficit, curb the transfer of US technology to China, and continue to demonstrate US military might in the Asia-Pacific region. Finally, Trump has a competitive view of monetary policies. He keeps making accusations against China and even the Euro zone and demands that the Fed fight back.

Is there still a pilot on the world plane?

The current developments in the United States do not correspond to Trump's simple fads and his desire to win the next presidential election: they are basically the expression of a rejection of the relative decline of US imperialism in relation China. But another question arises: is there still a pilot on the world plane to launch coordinated actions? A few decades ago the American economist Charles Kindleberger provided an interesting analysis of why the crisis of 1929 was so long and deep: for him, this was due to the hesitation of the United States in taking the lead of the world economy when, after the First World War, Britain could no longer assume that role. For Kindleberger, the capitalist world economy needs a stabilizer, a pivotal state. [6]

In the wake of Kindleberger, other economists have defined the characteristics that such a state should have: the ability to create international standards and to enforce them, the will to do so, and economic, technological, and military predominance. It should be noted that Trotsky also emphasized the importance of international relations in 1921 in his “Report on the World Economic Situation”: “International relations obviously play a very important role in the life of the capitalist world… The grave crisis, arising from the constriction of the world market acts to aggravate extremely the struggle between the capitalist states, depriving world relations of any kind of stability. Not only Europe but the whole world is being turned into a madhouse! Under these conditions there is hardly any necessity to speak of the restoration of capitalist, equilibrium.” [7]

The United States has played a stabilizing role in capitalism since the Second World War (and has taken advantage of it). Today, Trump is making every effort to defend the status and interests of American capitalism. Sometimes it recedes or delays, but the climate of uncertainty is increasingly clear. It is therefore doubtful that, in the event of new financial turmoil, the United States will have the opportunity and the will to assemble the other capitalist states under its leadership, and it could even prevent attempts at cooperation. It could be (as was the case in 1929, and without wishing to assimilate the two situations) an important factor in deepening the crisis. “Global cooperation is deteriorating,” BenoÃ®t Coeuré, one of the most influential members of the Executive Board of the European Central Bank, said in early July. He added: “The type of coordinated action we saw in 2008, would be much more difficult to implement today. I'm not saying it would be impossible, but it would be harder.” [8]

“The future belongs to patriots”

The coming crisis could be that of the end of the world of multilateralism and the end of the so-called harmony resulting from globalization. After the crisis of 2007-2008, bourgeoisies and rulers stuck with neoliberal globalization at the economic level (while reinforcing the security and anti-immigrant aspects of the management of the social order). Today, they are changing, unevenly and differentially across states. In a book published in 2017, JF. Bayart proposed the concept of “national-liberalism” to characterize the framework in which a large part of today’s leaders act, whatever their differences and their conflicts: they claim to identify with both global economy and national sovereignty and try to mask the contradiction with muscular speeches. [9] “The future belongs to patriots,” Trump told the UN on September 24; he is not alone in taking this posture. A “de-globalization” is probably not on the horizon, but states will be a factor again and geopolitical parameters will weigh more heavily on international trade and investment.

However, the structures of production and exchange, the levels of economic interdependence, will not return to what they were before the beginning of the 1990s. Companies are always looking to reduce their costs by manufacturing where it is cheaper, less restricted, less environmentally friendly. Value chains (that is, how companies organize the steps of an activity to compete and maximize their profits) have for the moment been reorganized only marginally (with, for example, transfers from China to Vietnam). Finally, as has been widely emphasized elsewhere, geopolitical risks of all kinds are growing: nationalisms; rejection of immigrants; resumption of the arms race; reinforcement of authoritarianism, the bourgeoisies clinging to the defence of “social order”; beyond Brexit, the prospect of a paralysis and a possible return of the European crisis and so on. [10]

To conclude:

– A significant slowdown in economic growth is underway and it will have implications in terms of rising unemployment and redoubled attacks on workers' rights and social gains in general;

– Financial crisis is likely on a fairly short horizon;
– Major transformations of the international “rules of the game” and states are underway.
– It is obvious that, as always, the course of events will depend on social and political resistance.

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[1] “Stagnation séculaire ou croissance numérique?” Michel Husson, Analyses et Documents Économiques number 122, June 2016, http://hussonet.free.fr/ade122.pdf

[2] *Long Waves of Capitalist Development - A Marxist Interpretation*, Ernest Mandel, Verso 1995.

[3] “Le capitalisme a-t-il rencontré des limites infranchissables?”, François Chesnais. *A l’Encontre*, February 2017.

[4] Also, the concentration of the banking system has grown since 2008 in the US as in Europe. Banking leviathans have developed. Saving these banks would involve mobilising considerable resources.

[5] BlackRock is the biggest shareholder for one out of five US companies. In 2016, it was a shareholder in 18 companies of the CAC 40.

[6] Charles Kindleberger, *The World in Depression, 1929–1939*, University of California Press, 2013.

[7] https://www.marxists.org/archive/trotsky/1924/ffyci-1/ch19b.htm

[8] “Le repli sur soi entame les marges de manÅ“uvre des banques centrales”, *Les Échos*, July 2, 2019.

[9] Jean-François Bayart *L’impasse nationale-libérale – Globalisation et repli identitaire*, La Découverte, 2017.

[10] “Capitalist globalization, imperialisms, geopolitical chaos and their implications”.

