https://internationalviewpoint.org/spip.php?article7864

Economy

The Crash after the Sugar Rush

- IV Online magazine - 2022 - IV573 - October 2022 -

Publication date: Sunday 30 October 2022

The world economy is mired in a crisis of stagflation not seen since the 1970s. Economies are slowing or in recession, central banks are jacking up interest rates in an attempt to control inflation, and workers and oppressed people are yet again bearing the cost of the crisis and alleged solutions to it. *Spectre*'s Ashley Smith here interviews Michael Roberts about the global slump, mainstream and Marxist explanations for it, and what the left should be demanding and fighting for today.

* * * * *

The mainstream media is filled with stories about inflation, stagnant growth, and the danger of global recession. What is the state of the world economy from the advanced capitalist ones to the developing and underdeveloped ones?

The major economies are slowing down fast after post-COVID "sugar rush" recovery of 2021. They are now heading towards a new slump in 2023, caused by falling profitability (record profit margins in 2021 are now heading south). This will reduce investment growth. At the same time, global supply chain blockages still remain much higher than before the COVID slump. That means inflation that took off after 2020 and was accelerated by Russian invasion of Ukraine and sanctions by Western states will not subside to anywhere near pre-COVID levels for some time, if ever.

Central banks in their attempt to control high inflation by hiking interest rates and tightening money supply are causing a collapse in property prices, increasing corporate and public debt servicing costs and so will induce an investment slump. The strong dollar is spreading that collateral damage to the rest of the world, in particular to the poor underdeveloped economies of the so-called Global South, which now face rising dollar debt costs, falling revenues, and collapsing currencies.

Adam Tooze recently wrote an op-ed in The New York Times that described the crisis of global capitalism very well. But he seemed to have little explanation for it. What is causing the current stagflation? Is it just the result of Covid and disruptions of supply chains, or something deeper?

This is crucial. It is not enough to know how a crisis in capitalist production has developed, but most important, why. Otherwise, we cannot gauge what will happen and whether another can come along. Capitalism as a mode of production is failing to develop the productive forces necessary to meet the needs of billions on this planet, and yet is also cumulatively beginning to destroy the ecosystem of the planet itself.

Investment growth in better technology, public services, and basic goods and services has been slowing for decades. Indeed, since the global financial crisis the major economies have been in what I have called a Long Depression, characterized by low investment and productivity growth, driving stagnant real wages for the majority. Only the very rich have gained (hugely) from the speculative booms in financial asset and property that has replaced productive investment.

But those bubbles are now beginning to burst. The COVID slump damaged the major economies irreversibly: trend growth since COVID is lower than before the pandemic, and in turn, the ten years before the pandemic had slower growth than before the global financial crash. There is what economists call hysteresis in the major economies, or if you like, an economic long COVID.

The brief economic recovery in 2021 is quickly fading and economies are returning to a slump that would have happened in 2020 without the pandemic intervening. Only this time, the recovery has been accompanied by accelerating inflation to 40-year highs. So, only a severe slump will cap and reduce inflation rates. Central banks seem determined to apply the shock therapy of tight monetary policy to achieve this.

Specifically, what is the Marxist explanation for inflation and inflation today? How does it differ from other explanations?

The mainstream economic explanations are basically two-fold. The first is that too much money is chasing too few goods; to use monetarist Milton Friedman's aphorism; "inflation is always a monetary phenomenon." The second is that rising inflation is caused by rising costs, in particular when labor markets tighten so workers can force up wages. Then a wage-price spiral ensues. This is the Keynesian explanation. The monetarist theory blames money and central banks, the Keynesian blames workers. But both theories are wrong theoretically and empirically.

Throughout the period from the 1990s to 2019, inflation rates stayed very low and even fell and yet money supply and credit growth rocketed. That is the lie to the monetarist theory empirically. Rising inflation in the last two years is not due to rising money supply growth–on the contrary, the latter is falling. The monetarist theory makes a fundamental theoretical error is assuming that money drives prices, whereas it is the other way round.

The wage-cost theory has also proved empirically incorrect. In the 1970s, unemployment rose and workers lost bargaining power, but inflation rocketed. The so-called Phillips curve that supposedly found a correlation between low unemployment and high inflation was falsified. It is the same now. Many economies have had very low unemployment (at least officially) and yet up to the COVID slump, inflation was also very low. Indeed, central banks struggled to get inflation rates up to their targets.

So, what is the Marxist explanation for inflation? It must start with looking at what is happening to value in a commodity. The price of a good or service is made up of the use of machinery and raw materials (what Marx called constant capital) and creation of new value by labor in production. Capitalists are engaged in the accumulation of capital (profits), so they are continually trying to reduce the costs of labor (wages) by the introduction of technology that is labor-shredding.

But in so doing, that tends to lower the growth of new value relative to the total price of a commodity. So, price inflation tends to slow over time. But other factors come into play. First, the prices of raw materials can rise sharply (that has happened now). And second, the monetary authorities can vary the amount of money supply in an economy. The latter can counteract the tendency for slowing new value growth to lower inflation rates and increase money prices.

What that tells you is if economies go into a slump, new value growth will slow to zero or fall—so deflationary. And if the monetary authorities also continue to tighten, then inflation rates will drop away. We shall see.

In your explanation of the current crisis, you argue that it is the product of an underlying crisis of profitability, a drop in the rate of profit, which leads to low investment in the real economy. This sometimes confuses people who point to the fact that corporations are sitting on large amounts of money. Others claim that this is the result of price gouging that boosts corporate profits. What is the difference and relationship between profitability, the mass of profits, and price gouging today?

Huge profits have been made by very large companies, particularly in energy, tech, and media. And there has been what some call "price gouging" by companies that have monopolistic power like the energy majors and utilities. But for the vast majority of companies, competition is fierce in their markets and the rising costs of raw materials and now interest rates are eating into their profitability.

So, when we read about the huge profits of energy, tech, and media companies, particularly in the US, these are the minority. Average profitability (relative to capital invested) is near seventy-year lows. Already some fifteen to twenty percent of companies do not make enough profits to cover their debt servicing costs —we can call them “zombie companies,” the living dead of corporate capital.

It is most important not to assume that inflation and profit rises are primarily due to price gouging or monopoly fixing, as that suggests that if we capped prices and broke up monopolies, capitalist production could proceed smoothly and inflation-free. Such measures like price caps may appear temporarily beneficial to working people, but capitalist crises would not disappear, and the cost of living crisis would continue.

Only public ownership and control, not just of “natural” monopolies but also of the major strategic companies and financial institutions, within a plan for investment, employment, and climate control, can achieve the end of inflation without a slump.

One of the points Tooze makes is that the uncoordinated hikes in interest rates are putting the world at risk of a major recession. How much of a danger are we in? And could a more coordinated approach to monetary policy avert that danger? Is such coordination even possible?

Uncoordinated hikes? So, it would be okay if they were coordinated? I think not. Rising interest rates globally, driven by falling bond prices and central bank interventions is in a sense already coordinated as each country must follow the other or see a collapse in their national currencies.

A recession would not be avoided by coordinating monetary policy unless it were to stop and reverse these rises. The so-called Plaza Accord in 1985 where it was agreed to reduce the strength of the dollar had little effect on the economic growth of the major economies. And such an accord is not very likely now.

If there were to be coordination, it should be over a global plan for investment, climate control, and poverty reduction. And there is no chance of that.

How are the interest rate hikes impacting different sections of the world economy? What are they causing in the advanced capitalist countries? What impact will they have in the Global South, especially the most indebted ones? Are we headed for massive sovereign debt crises yet again?

Many underdeveloped “emerging” economies are already heading into debt distress and default (Sri Lanka, Zambia, Pakistan). The IMF is expecting lots more of their credit to be dished out over the next year, putting many poor countries deeper into debt and under the fiscal discipline of the IMF.

This can only mean even more austerity for these countries. But such a situation is also likely to apply to advanced economies as governments cut back on post-COVID spending and try to reduce rising debt levels, both private and public.

You have argued that we are in a long term global depression characterized by recessions and weak recoveries followed by weak recoveries. One of the reasons for this is how states have propped up uncompetitive corporations, the so-called zombies, with low interest rates and bailouts. In the late 1970s,

Paul Volcker's sharp interest rate hikes eventually tamed inflation and triggered the long neoliberal boom but at an enormous price of bankruptcies, unemployment, and a massive debt crisis throughout the Global South. Could the central banks do that again and through such so-called "creative destruction" open a new round of capitalist growth?

The "creative destruction" or "shock therapy" of the Volcker kind in the late 1970s was avoided in the global financial crash of 2008. Indeed, the then-Fed chair Bernanke adopted the opposite policy of expanding money supply and credit to the capitalist sector to bail them out (he has just been honored with a so-called Nobel prize for this).

After that, companies were drip-fed near zero interest credit alongside low inflation to enable them to grow—but grow very slowly. A long depression replaced "creative destruction." By 2019, a new recession was pending. Now, in 2022, credit injections are not on the agenda; on the contrary, given high inflation. Instead, central banks are looking to apply "shock therapy" to inflation.

It seems like the structures of global capitalism that have developed under the hegemony of the US during the neoliberal period are coming undone. Both problems in global supply chains exposed by Covid and increased geopolitical tensions, especially between the US and China as well as Russia, are leading to states and companies retreating from globalization as we have known it. Is this true? Is the drop in world trade temporary or is there an emergent pattern of blocification of the world economy developing?

Mainstream economists are divided on whether "globalization" is over. By this term, they mean expanding world trade without tariffs and quotas and increased financial investment globally. But since the global financial crisis, world trade in goods has grown slower than GDP growth (which has been slow enough), while capital flows globally, particularly to emerging economies, have dropped off.

Some argue that globalization of services trade will replace this and so globalization is not dead. I don't find any evidence that the much small services trade sector can replace declining goods trade, especially with the US-China tensions and trade barriers increasing and sanctions against Russia and Iran etc. likely to accelerate not decline.

The Great Moderation and period of globalization look over. That means more intense rivalry and conflict, not just in trade and investment. Aa Marx said, capitalists act like brothers against labor, but like hostile and squabbling brothers among themselves.

But globalization in another sense is alive and kicking; namely, the imperialist bloc led by the US is applying new measures to weaken any resisting forces and nations that oppose the interests of the bloc. The imperialist bloc is coming up against increased opposition from resisting powers that are not prepared to accept US hegemony. But I am not sure that this will mean a coordinated opposition bloc. The opposition still seems very disparate.

Finally, the most powerful states and their central banks' policies will have a devastating impact on workers and oppressed nations. This seems like class war and old fashioned imperialism. What should labor movements and oppressed nations be demanding now? What should the left be agitating for in the short term and long term?

In the short term, we must fight against the rising cost of living. We must support trade union battles, the only defenders of workers in their workplaces. We must fight for a decent living wage and for wage rises to meet inflation rates to sustain real incomes at the very least. We need to oppose all interest rate rises and further measures to cut government spending on services and welfare and/or raise taxes for the majority.

Inflation can be controlled and reduced if we have control of the banking sector and strategic sectors of the economy. We need to replace the market in energy etc. with democratic state planning for social need, for climate control, investment in technology and proper jobs.

We need to end all the destructive wars that we have seen in the Twenty-First century in Iraq, Afghanistan, Ukraine, sub-Saharan Africa; and more to come perhaps in central Asia. Not only does this mean the loss of lives and livelihoods of hundreds of millions, but it is also a massive waste of resources and a huge hit to the environment.

So: no cuts in living standards; no cuts in government spending for the people; no more wars; for a planned publicly owned world economy democratically controlled by the institutions of the people and not by profit-making billionaires and the capitalist market.

28 October 2022

Source: ***Spectre***.

PS:

If you like this article or have found it useful, please consider donating towards the work of International Viewpoint. Simply follow this link: Donate then enter an amount of your choice. One-off donations are very welcome. But regular donations by standing order are also vital to our continuing functioning. See the last paragraph of this article for our bank account details and take out a standing order. Thanks.