The global economy: a brief history

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Global Recession

- Sub-prime mortgage crisis?
- Asset bubbles?
- Collateralised debt obligations
- Toxic debt?

- What's it all about?

Macroeconomics as story telling: a story about the global economy since WW2

- 1945-1975: the ‘long boom’ (and trickle down)
- 1975-85: stagflation
- 1975 onwards
  - looming threat of ‘over-production’ (post Fordist crisis) and rise of neoliberalism
  - continuing dynamic of the ‘long boom’ (in China particularly)
- 2007-09:
  - US sub-prime mortgage crisis
  - global recession

The long boom (1945-1975)

- The post-WW2 environment
  - need for reconstruction (huge demand)
  - increasing productivity (motor vehicles and cheap oil)
- The boom
  - capital and labour brought together to make things and services that people need and are able to pay for
  - increasing productivity (associated with new technology) frees up labour to make new things and to recycle wages as consumption (hence more profit, investment and sales)
  - some ‘trickle down’ to the poor (associated with Keynesian policies) and to the Third World (benefiting from trade opportunities associated with rapid growth)

1975-85 - Stagflation and the failure of Keynesianism

- Recession (cyclical slowdown on top of structural over-production)
  - growing imbalance between productive capacity and market demand;
  - emergence of ‘jobless growth’; weakening role of employment in recycling wages as consumption
- Emerging inflation
  - goods and services for the Vietnam war sourced from outside the USA paid for in dollars (because of the international status of the dollar) flood the world with dollars (increase of global money supply) lead to inflation and depreciation of the dollar (leads to rejection of glold standard in 1972)
  - increasing price pressures as different players seek to defend against price increases fought out through various forms of monopoly power (oil with OPEC, labour with strong unions, brand names and protected technologies)
  - Keynesian counter-cyclical policies deployed to contain the slow down; ineffective (because slow down structural, not cyclical) but contribute to inflation because increase money supply and inflation without boosting employment and local business but at the cost of budget deficits and inflation

Ascendancy of monetarism

- Monetarism defeats Keynesianism
- Monetarism argues for sole reliance on interest rates to control the business cycle
- and argues for 'fight inflation first' (because of the costs to business of uncertainty)
- but increased interest rates used to control inflation further slows the economy at a time when it was already in recession

The Debt Trap

- The trap set
  - 1973: OPEC price rise; oil producers flush with cash; deposited in banks
  - Banks send salesmen around the world lending money at low and negative interest rates (negative after taking inflation into account)
    - lending to corporations (but with government guarantee) in South America
    - lending direct to governments in Africa
- The trap sprung
  - 1980: interest rates escalate (peaking at 17% in the US in 1981) at a time of recession, imposing repayment and servicing burdens that many poor countries could not carry
  - the 1980s as ‘the lost decade’
  - 1984 global resource flows reverse

From 1980 to 2005

- Two parallel dynamics
  - the continuing dynamic of the long boom (eg China and India)
  - the continuing threat of post-Fordist crisis (jobless growth, structural over-production)
- Further concerns
  - climate change
  - peak oil

The threat of ‘over-production’ (and ‘post-Fordist’ crisis)

- Where expanding (capital intensive) productive capacity (with stagnating employment growth) exceeds ‘demand’ owing to
  - saturated (‘mature’) markets and/or
  - markets with real needs but limited purchasing capacity
- ‘Compensatory’ mechanisms which exacerbate the damage from ‘over-production’
  - understood in the corporate world in terms of reduced profitability
  - understood in the policy world as falling growth rates
  - eliciting a range of corporate strategies and policy responses
  - many of which exacerbate the risk of crisis

Corporate and policy responses

- Exacerbate the over-hang of productive capacity over effective demand
- Postpone the crisis for the rich world (and rich classes)
  - but exclude poor classes and countries from participation in global economy
- Other unintended adverse consequences
  - destabilise global environment
  - increase unemployment and inequality
  - weaken family and community
  - decay social infrastructure
  - transfer value from South to North
  - two worlds stratification (unified global bourgeoisie but fragmented global proletariat)

Reduced profitability: compensatory corporate strategies

- New markets, new products and better marketing (incl commodification of family and community)
- Externalise costs (including to labour and to the environment)
- Increase market power (and capacity to increase prices)
- Consolidate production and increase market share through mergers and acquisitions*
- Reduce wages (union busting, relocation)*
- Replace well paid labour with technology*
- *These strategies will further reduce demand (reduce the role of employment in recycling wages into consumption)

Slowing growth: compensatory policy responses

- Outsource and privatise public sector service provision (new market opportunities)
- Deregulate environmental controls (converting natural capital into recurrent revenue)
- Force repayment of debt from TW countries*
- Force TW countries to open their markets and economies (under the slogan of free trade and open markets)*
- Cut taxes (in particular, reduce corporate and executive tax burden) to compete for new investment*
- Labour market deregulation (union busting) to reduce labour costs*
- *These strategies further reduce demand

So what prevents the crisis from engulfing the economy globally?

- The situation is already critical for millions of poorer people (in rich and poor countries)
  - trading regime which enforces the flow of value from poor to rich countries
  - policy regime enforces the divide between those who participate in the new global economy and those who are excluded
  - for these latter groups the crisis has already arrived
- However, continued growth globally (albeit slower) is supported through
  - growth in China and India
  - commodification of family, community, government functions (including health care)
  - unsustainable exploitation of environmental ‘services’
  - intensified transfer of value from periphery to centre (from South to North)
  - role of debt in sustaining demand (recycling capital as consumption)
  - global support for US consumption (supporting an over-valued dollar)

Continuing transfer of value from periphery to centre (S → N)

- Debt repayment
  - role of IMF (and SAP / PRSP) as the enforcer
- Maintaining high dollar reserves (at low interest) as 'insurance' against currency crisis means cost of capital (for real investment) is higher
- Brain drain
- Tax evasion
- Unfair trade
  - 'free trade' in manufactured goods
  - protectionism for IP and agriculture
  - barriers to free trade in people
- Declining terms of trade
  - commodities vs manufactures

Capital recycled as consumption through debt

- Profits and savings redirected as loans:
  - corporate rationalisation (in particular mergers and acquisitions) financed through corporate debt
  - household consumption supported through increasing debt (recycling profit and savings as consumption)
- Increasing size, wealth, turnover and power of the financial sector (banks, insurance, etc):
  - slowing growth so business redirects profit into financial sector (as portfolio investment and speculation) rather than into new direct investment
  - new financial derivatives increase risky lending and speculation
  - bidding up of asset values on borrowed or non-existent money (asset bubbles) feeds consumption expenditure (wealth effect)
  - privatisation of pensions (superannuation) redirects billions from tax into savings held by private financial institutions (lent on for asset speculation and consumption)

Global support for US consumption

- US trade deficit
  - imports exceed exports
  - US traders need to buy more foreign currency than they earn
  - 'should' lead to fall in value of dollar making US exports cheaper and imports more expensive
- But China, OPEC and other corporations and countries lend to the US (by buying US govt bonds) have
  - kept the price of USD high
  - kept US consumption spending high (and inflation low)
  - kept the global economy ticking over
- Up until the 'sub prime mortgage' crisis...

The ‘Sub-prime Mortgage Crisis’

- Asset bubbles burst; ‘wealth’ becomes ‘debt’
- Extensive use of doubtful collateral (securitised debt) to support borrowing revealed
- Credit squeeze: banks globally withhold credit because of their exposure to doubtful loans
- Consumption contracts (credit dries up; saving preferred because of threat of recession)
- Production and employment contract because credit dries up and consumption slows
- Global recession looms because of significance of US market to exporters globally
- Risk of foreign holders of US bonds selling off or stopping buying bonds (buy oil futures instead or spend on crisis)
- Risk of USD falling

Some doubtful recovery strategies

- Save the banks (nationalise bad debt)
- Boost consumer spending
- New financial regulation
  - but who will hold the US accountable for its economic policies?
  - policing of global tax evasion?
- Massive borrowing (expansion of money) to cushion the collapse
  - no change to basic architecture of world economy
  - threat of return of stagflation
- (Defer action on climate change?)

New questions to be asked

- ‘Neoliberalism’?
  - unregulated capitalism?
  - small government?
  - aggregate benefit of blind rational indivualistic material greed and selfishness?
- ‘Free’ trade?
- Never-ending growth in material consumption?
- Possibilities for human solidarity?

‘Free’ trade - the key to growth and development?

- ‘Free’ trade - a slithy slogan obscuring countries’ and corporations’ manoevering for advantage
- Regulatory framework defining ‘free’ trade discriminates in favour of the rich North
- Globalised free trade risks exacerbating the crisis of overproduction
- Protectionism, can have important benefits as well as drawbacks
- Amin: global regime in which national self-sufficiency and regional (south south) trade are supported (looking for a Fordist balance)