

The crisis: Afterword

The best part of a decade has now passed since the financial crisis and the onset of what has become known as the ‘Great Recession’, and it perhaps behoves us to at least sketch out what has happened over this time and what we think might happen in the foreseeable future. In 2013 we considered in some detail the slow economic recovery in the UK in ‘What happened to economic recovery in the West? The case of the UK’.¹ Although most of that article was narrowly focused on the UK, in the Introduction we sketched out a brief summary of what had happened globally in the five years following the crisis. It is perhaps worth repeating what we said then, since for the most part we think it still holds true, before briefly looking at what has happened since and what might happen in the future.

What happened to the economic recovery in the West?

In issues 18 and 19 of *Aufheben* we presented a two-part article on the financial crisis that had begun with the credit crunch in the summer of 2007 and culminated with the near meltdown of the global financial system a year later. In the first part - ‘Return of the Crisis: Part 1’ - we focused on the immediate causes of the crisis. In the second part - ‘Return of the Crisis: Part 2’ - we located the crisis in the context of the long upswing in global capital accumulation since the 1980s. For the most part the article was retrospective. However, we did put forward in the conclusion of Part 2 the view, albeit rather tentatively, that the crisis did not necessarily mark the beginning of a new downswing in capitalist development

‘...there seems little to suggest we have entered a long downswing, or that capitalism is now mired in stagnation, other than the financial crisis itself. Indeed the rapid recovery in profits, and the confidence of much of the bourgeoisie in the long-term prospects of renewed capital accumulation, would seem to suggest otherwise.’

Hence we went on to conclude:

‘...the nature and significance of the financial crisis is not that of a decisive turning point leading to an economic downturn or the end of neoliberalism as many have supposed, but more of a point of inflection pointing to a new phase in the long upturn.’

It is true that in a footnote we did hedge our bets:

¹ *Aufheben* #22

‘...the rapid recovery in profits following the crisis has yet to result in a surge in investment and thus real capital accumulation. Even if capital accumulation does take off, the austerity measures imposed by governments across Europe is likely to mean economic recovery will be slow for several years.’²

Nevertheless we did not quite expect that five years after the crisis the output of the UK economy would still be below its pre-crisis levels.

So did we get it wrong? From the perspective of those in the UK, and indeed much of the old capitalist heartlands of Europe, Japan and North America, the last five years have certainly been a period of slow economic growth, if not stagnation. There has been no rapid recovery from the recession that followed the financial crisis. What is more, what economic growth there has been has only been sustained by the unprecedented and exceptional monetary policies of the Bank of England and the US Federal Board in creating vast quantities of money and maintaining ultra-low interest rates.

Certainly from this perspective there would seem to be a good case for seeing the financial crisis as marking the beginning of a long downswing in the course of capitalist development, if not the beginning of capitalism’s final demise. But this ignores the rest of the world.

For more than a hundred and fifty years world capital accumulation has been concentrated in a core of advanced capitalist economies located in Europe and North America. Over the course of the twentieth century little changed except for the consolidation of the USA as the world’s economic superpower, the rise and decline of the USSR, and the inclusion of Japan in the ‘rich nations club’. The rest of the world remained peripheral. It has therefore become long established that the fate of world capitalism is located in the US and the old capitalist heartlands. However, since the 1990s the long established structure of world capitalism has changed with the rise of China and the ‘emerging economies of the global south’ that now account for nearly half the world’s GDP. The importance of this was brought home in the midst of the global financial crisis when the US did not summon the old rich nations club of the G8 to deal with the crisis but called the enlarged G20 so as to include China and most of the prominent members of the emerging global south.

In assessing the fate of world capitalism we can no longer simply look to what is happening in the USA and the old capitalist heartlands. Thus although the last five years have seen an

² ‘Return of the Crisis Part 2’, *Aufheben* #19, p. 26.

exceptionally slow recovery from the crisis in the west, there has during this period been a rapid economic recovery in the emerging economies of the global south.³ As a result, whereas the annual growth of the global economy before the financial crisis of 2008 had been between 4%-5%, in the last five years it has been between 3%-4% mainly due to the lack of growth in the old capitalist heartlands. Such rates of growth can hardly be considered as indicating economic stagnation or the beginning of a long term economic downswing.

On a global scale we could claim that we were right: the crisis of 2008 marked a point of inflexion rather than a turning point in the long term development of capitalism.

Furthermore we did suggest, albeit in a footnote, that

‘The crisis could be seen as an earthquake caused by the shifting tectonic plates of global accumulation as the centre of accumulation shifts away from the USA and the old advanced capitalist economies towards China and Asia.’

But we must admit we did not foresee this bifurcation of global accumulation. We did not expect that China would be able to become, at least temporarily, the locomotive of the global economic recovery in the wake of the crisis. Nor did we expect that the extent of the slow recovery would be in much of the old capitalist heartlands.

So what has happen since then, and what might we conjecture about the future?

At the time of writing - April 2016 – it has become clear that China, as ‘the locomotive of the global economy’, is fast running out of steam. Already in 2013 signs that the Chinese economy was ‘overheating’ - such as double-digit price and wage inflation and mounting under-performing bank loans - had prompted the authorities to take measures to rein in the spectacular and increasingly speculative economic boom. The programme of state investment in economic infrastructure and public works, which had powered China’s economic recovery from the 2008-9 crisis, was scaled back. Interest rates were raised, and restrictions on bank lending were tightened, so as to discourage excessive and speculative lending. At the same time a number of high-profile corruption show-trials of senior party

³ Between 2008 and 2012 the nominal GDP of the US grew from \$14.2 trillion to \$15.7 trillion (i.e. an increase of 10% that was mainly due to inflation). In stark contrast, China’s nominal GDP has increased by over 80% from \$4.5 trillion to \$8.4 trillion.

cadre and state officials were held, to make it quite clear that the 'party was over' and there would be far less tolerance of state-party officials bending the rules for their own personnel advantage and self-enrichment. As a result, the Chinese authorities have been able to engineer a managed and gradual cooling off of the economy, with economic growth slowing from over 10% in 2012 to what was seen as a more sustainable 7% in 2015.

This measured slowdown of the Chinese economy, however, has caused a sharp slowdown amongst the 'emerging economies' of the global south. The vast investments in the construction of roads, railways, airports, power stations and other economic infrastructure, which powered the post-crisis recovery, had led to a rapid growth in China's, and hence in the world's demand for food, fuel and raw materials - most of which are mainly produced by emerging economies in the global south. With the scaling back of China's infrastructure investment programmes, Chinese demand for such 'primary commodities' has slowed down sharply over the past couple of years. As the growth in demand fell below the growth in supply, prices had begun to slide by the end of 2014. By mid-2015 the price of oil had more than halved, a fall that has been matched by most other 'primary commodities'. Facing falling sales and prices for their principal exports, many of the economies of global south are now experiencing a precipitous fall in their rate of economic growth, with Brazil, South Africa and Russia having already plunged into recession.

This sharp economic slowdown across the global south has in turn resulted in a sharp slowdown, if not contraction, in the demand for the cheap manufactures exported by China. At the end of 2015 this backwash from its own economic slowdown seemed to be making its impact felt, with indications that the growth of Chinese exports – once the prime engine for China's rapid economic growth – had ground to a halt. As a consequence, independent forecasts of China's economic growth this year are being significantly revised downwards.

But the impact of China's slowdown has not been entirely confined to the emerging economies of global south. The post-crisis boom had also resulted in an increase in demand for both high precision machine tools, plant and machinery, necessary to build and equip China's new industrial cities and infrastructure required to support them, but also for branded and luxury consumer goods to meet the demands of the rapidly growing and prosperous Chinese 'middle classes'. As a consequence, the Chinese boom produced a

growing demand for imports from the old capitalist heartlands of the global north. This was particularly true of Germany, which benefited not directly through increased exports to China, but also indirectly through an increase in trade with Russia flush with bloated oil revenues.

As we have argued elsewhere,⁴ it was the promise of vast business opportunities opened up by the rise of China, along with the accompanying threats posed by increased Chinese competition, that was to drive the German and European bourgeoisie to impose a draconian austerity-led restructuring of the European economy, which was to become implemented through the euro-crisis. At first, the rising exports to China and Russia had served to offset the sharp fall in exports to the austerity stricken economies of Southern and Western Europe. Germany, and its hinterland in Northern and Eastern Europe were thereby largely insulated from the impact on their own economic growth from the draconian austerity measures imposed in the wake of the euro-crisis on their southern neighbours.

With the slowdown in the Chinese economy, the sluggish recovery from economic recessions that afflicted Portugal, Spain, Italy and Ireland as a result of the austerity measures that followed the euro-crisis has more than offset by falling economic growth in Germany and northern and Eastern Europe. As a result, the aggregate growth of the EU has been restricted to a crawl.

With much of the old capitalist heartlands still mired in slow economic growth, the United States has stood out as an exception. It is true that US economic recovery from the crisis has been long and drawn out by historical standards. Unlike most post-war recessions there has been no short burst of growth of the economy as it seeks to make up for lost time. But the American economy has seen a slow but sustained acceleration in the annual rate of economic growth to the point where the rate of economic expansion has reached 2.5% in the last couple of years - significantly above the more-or-less 2% long term average recorded before the crisis. The US economy can be seen as being in something of a mini-boom that has seen substantial falls in the numbers registered as unemployed.

⁴ See 'The Euro crisis: Taking the PIGS to market' in *Aufheben* #21

As a result, the Federal Reserve Board (FBR) has been able to begin the long journey towards restoring monetary policy to some semblance of normality. Over the past two years the FRB has largely wound down 'quantitative easing', and last December took the first tentative step in raising interest rates.

However, no sooner had the FBR raised interest rates than incoming economic data began to suggest a significant weakening of the US economy towards the end of 2015 due, at least in part, to the slashing of investment in the US oil and gas sector following the tumbling of oil prices earlier in the year. As a consequence, Janet Yellen, the chair of the FBR – has made it known that further increases in interest rates would have to be delayed.

Now of course, the recent unexpected deceleration in the economic growth across the world is seen by most mainstream economic commentators as merely part of an overcorrection in the adjustment of the global economy to the slowdown of the Chinese economy over the last two or three years - an overcorrection that itself can be expected to be more or less corrected in the course of 2016.

Certainly it can be argued that as the fall in oil prices feeds through to lower petrol prices and lower energy bills for consumers, money will be released that can be spent on other 'goods' and services', thereby increasing overall consumer demand. At the same time, the sharp fall in oil prices together with other 'primary commodities' can be expected to feed through into falling production costs, thereby raising profit margins, particularly for the manufacturing and transport industries, across the globe. Thus for both China and the old capitalist heartlands the positive effects of the fall in oil prices and other primary commodities on global economic growth should, over the course of 2016, begin to more than offset their current negative impact of reducing investment in the global energy sector.

In addition, for the emerging economies of the global south, the price of oil and raw materials seemed to have stabilised. Over the coming months, as high cost producers cut back on investment and close down unprofitable production, and as global demand continues to increase - albeit at slower rate - oversupply in the primary commodity markets will ease and prices should begin rise above their current rock bottom levels. Better prices, along with gradually rising growing sales for their principal exports should then be expected ensure the economic recovery of those economies of the global south that are currently

either in recession or close to it.

Having failed to predict the extent of the full extent of this overcorrection to China's managed economic slowdown, and having made the rather rosy assumption that the Chinese slowdown would be more than offset by strong growth in the US and a continued economic recovery in Europe following the euro-crisis, most mainstream economic forecasters have had to drastically revise their forecasts for the rate of growth of the global economy for 2015. The IMF had originally predicted that the world economy would grow by 3.6% in 2015 – up a notch or so up on 3.4% they had estimated that the global economy had grown in 2014. But by the end of 2015 this forecast had been cut to 3.1%.

Nevertheless, the IMF still expected that the world economy would bounce back by the end of 2016 allowing them to forecast an growth rate of 3.4% for the year as a whole.

Subsequently, as the full scale of the 'overcorrection' to China's slowdown has become apparent over the winter, this forecast for 2016 has been cut back to 3.2%. However, IMF now warns that there are serious downside risks to such predictions.

Firstly there is the gathering of what could turn out to be a perfect storm of political uncertainty in the coming months. The further advance of populist and anti-establishment political tendencies from both the left and the right are being seen on both sides of the Atlantic. With Donald Trump now set win the Republican nomination for US Presidential elections, there is now a significant chance that not only will wide swathes of US congress be in the hands of right wing populist 'Tea Party' Republicans, but also next President of America might be an unpredictable maverick 'anti-politician' - an unprecedented situation with unknown consequences.

On this side of the Atlantic, 2015 saw the election of 'radical left' Syriza leading to a six month game of chicken between the new Greek government and the European establishment that brought Greece to the brink of expulsion from the Euro, threatening to reignite the euro-crisis across southern and western Europe. Although the Greek government blinked first, this has not resolved the issue of the draconian austerity imposed on Greece, which is widely feared might still flare up at any time in the near future. But if the threat to the integrity of the European Union of Grexit has receded for the time being, this has been replaced by the danger of Brexit. As the UK referendum on continuing membership

of the EU looms, there is a distinct risk that Britain might absent-mindedly break away on its own accord.

All this has been greatly compounded by the hundreds of thousands of refugees fleeing to Europe from Russia's intervention in the war in Syria, which, together with the series of ISIS bomb attacks in France and Belgium, threatens to fracture the unity of the EU. There is now a distinct possibility that political structure of Europe, which has been taken for granted for decades, might end up being torn apart.

With such political uncertainty, even the ever-optimistic IMF has expressed fears that capitalists will in the coming months postpone major capital investments until the situation on both sides of the Atlantic becomes clearer. This might then lead to a collapse of private investment, greatly exacerbating the overcorrection to the Chinese economic slowdown – which itself has become a cause of uncertainty for business. Europe, and perhaps the world as whole, could then find itself plunged into a deep economic recession.

The second concern of the IMF is the danger of another global financial crisis on the scale of that of 2008. The rapid economic growth in the emerging economies of the global south following the financial crisis of 2008 had attracted a substantial flow of short and medium term money-capital seeking a cut of the vast profits that could be made. With the sharp slowdown of these economies the reversal of these capital flows is likely to be accelerated, giving rise to the prospect of much greater volatility in the global financial markets. With a substantial minority of the world's banks, particularly in Europe, still to 'work off' their bad debts, and thus susceptible to unexpected further losses, this greater financial market volatility risks pushing such banks towards bankruptcy. If one of these banks goes under, then there is a risk that this could drag the entire world's banking system down with it.

These concerns have prompted the IMF, along with other neoliberal organisations such as the OECD, to take the rather uncharacteristic Keynesian inspired step of urging those Governments that are in a relatively sound financial position, such as Germany and China, to take advantage of low interest rates to borrow money to finance investment in social and economic infrastructure, ease austerity measures and to hold back on 'labour market reforms' that might weaken the ability of trades unions to resist a deflationary spiral of falling prices and wages - all in order to maintain the momentum of economic growth over

the coming difficult period for the global economy. Already the Chinese government has begun to stoke up demand by resuming large scale investment in public works. However, whether Germany and European Central Bank will be willing to abandon their austerity-led programme of restructuring the European economy is debatable.

If the global economy manages to avoid these downside risks over the next couple of years then what then? What would be the prospect for the next seven years? Short of a major restructuring of capital accumulation in the US, it seems highly unlikely that the American economy will be able to sustain an annual rate growth of more than the 2.5% that it has recently achieved. So who else can take up the slack caused by the slowdown in the Chinese economy of the last two or three of years? With the failure of umpteen attempts to kick start its economy over the last two decades, Japan, the world's third largest economy, does not offer much prospect of taking up the slack. This would seem to leave Europe. Now it could be optimistically argued that once the austerity-led restructuring of the European Union is completed, a leaner and more competitive Europe might surge ahead. However, Europe economic growth would have to surpass that achieved during the period of the 'great moderation' before the financial crash if it was compensate for the Chinese economic slowdown. Even then global economic growth would only be restored to the 3%-4% achieved in post-crisis period of 2009-13.

But all this assumes that China is able to return to, and then sustain, its long term target rate of growth of 8%-7%. There are those, of course, that once again warn that the Chinese economy has finally reached the point at which it will go the way Japan did in the early 1990s - that is, more than two decades of rapid economic expansion followed by more two than decades of stagnation. There are certainly some superficial resemblances. A speculative boom leading to mounting bad debts held by the banks, an aging population, the saturation of export markets and profit margins squeezed by rising raw material costs and rising wages. But such warnings would seem still to be premature.

Nevertheless, any attempt on the part of the Chinese government to repeat the investment-led boom that propelled China out of the post-crisis recession is likely to quickly run once again into the buffers of labour shortages at home and shortages of raw materials abroad. It therefore seems unlikely that China will be able to return to double digit growth rates.

Indeed it may well be the case that the long term sustainable rate of growth may gradually decline.

This would certainly be in accord with those economists in the West that urge China to shift towards a more consumer-orientated economy less dependent on either export or investment led growth. In this view the Chinese must accept that as China's economy 'matures', it will inevitably converge towards the structure and growth rates of mature economies of the old capitalist heartlands. But this view ignores the concerted efforts being made by the Chinese state to bring about a major restructuring of Chinese capital accumulation that, if successful, will shift China's economy from being a major net importer of capital to a major exporter of capital - thereby allowing Chinese capital exploit the labour and the production of 'primary commodities' across the globe.

For more than a decade China has been investing \$10s of billions a year abroad in the form of joint ventures with governments in Asia, Africa and South America in order to develop the production of food, fuel and raw materials. This export of capital has had the strategic aim of securing long term supplies of such 'primary commodities' necessary for China's continued economic growth by circumventing the 'commodity markets' in New York and London. However, this export of capital has been dwarfed by \$100s of billions of annual foreign direct investment into China by US and European capital.

In 2013 Xi Jinping made an announcement, which at the time went largely unnoticed outside the Chinese Communist Party, which sketched out his ambitious plans to develop two new trade routes that would link China to the Middle East, Africa and Europe. An overland route across Central Asia to be known as the 'New Silk Road' and a 'Maritime Silk Road' passing along the coasts of South East Asia and the Indian sub-continent and ending up in the Persian Gulf. The development of these two new trade routes would not only bring China closer to both its suppliers of food, fuel and raw materials, and the European markets for China's export markets, they would also open up the remote mineral rich areas of Central Asia.

But the development of the 'New Silk Road' and the 'Maritime Silk Road' will require vast investments of capital into the construction of transport and communications infrastructure – i.e. ports, roads, pipelines and railways. In 2014 China established the Asian Infrastructure

Investment Bank (AIIB) along the lines of the World Bank to help finance such investment. The starting capital for the AIIB has been provided by subscriptions from governments across the world with China providing the largest share, which can then be 'leveraged up' by borrowing on the global financial markets. The AIIB will then be able to grant large scale loans to help finance the various joint ventures with China's partners in Asia that will be necessary to construct the new silk roads and the further investment opportunities they will create.

Of course, Xi Jinping's plans face formidable obstacles if they are to be realised. There will have to be numerous and lengthy diplomatic and commercial negotiations with China's various Asian partners. With the New Silk Road passing overland through the politically unstable regions of Central Asia there will also be considerable issues of security from attacks from Islamic and other forces to be overcome.

However, already the first steps are already being taken. A new railway has already been built from China to Pakistan, which is the first part of a major agreement to upgrade Pakistan's railway network with Chinese capital over the coming five years. A new deal has also been struck with the Pakistani government to build a new state-of-the-art harbour at Gwadar that will be part of 'new economic zone'. Meanwhile China is currently entering into an agreement with the United Arab Emirates to develop their solar energy industry. The realisation of Xi Jinping's ambitious plans for the new Silk Roads would bring about a transformative restructuring of the global accumulation of capital.

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