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The global economic slowdown

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The 1980s finance-led phase of capitalism has been characterised by marked cycles led by the US economy, with periods of expansion leading to increasingly serious recessions in 1990/91, 2001/02 and of course 2007/09. The most recent expansion, now in its seventh year, has been especially weak, and the latest forecasts anticipate that growth will remain low (IMF 2016; OECD 2016; UNCTAD 2016). This is led by the world's three largest economies – the US, the euro area, and China – which together account for more than half the world's output.

United States

The US's most recent expansion began in 2009, boosted by Obama's US$ 787 billion expansionary programme, but it was not until 2012 that output returned to its pre-crisis peak, and growth has remained uncharacteristically weak.[1]

The expansion raised profitability. The share of profits in national income is strongly cyclical, and the peak has risen in every expansion since the 1980s, reaching a high of 14.5% of GDP in 2012. But the rise in fixed investment, which is also strongly cyclical, has weakened. Firms have made record distributions to shareholders through dividends and share buybacks, which incur lower taxes. Non-financial corporations have also become significant financial investors since the 1990s, with the value of their holdings rising from 4% to 9% of GDP. They have continued to borrow despite relatively weak fixed investment. Their indebtedness relative to GDP, which declined in the aftermath of the crisis, is once again as high as in 2008.

The official US unemployment rate has fallen back to just under 5%, having risen from 4.3% in 2007 to 10% in 2011. But the 150 000 new jobs generated each month are predominantly in low paid sectors. The official figure for unemployment plus involuntarily part-time work, which reached 20% in 2010, is still 10%. The total number of people employed or seeking work is several millions below 2007 figures, indicating that many workers have withdrawn from the labour market.

One of the most striking features of the current expansion is that, unlike any previous upturn, labour productivity has stagnated since 2011. New jobs are predominantly in services, where productivity growth is notoriously limited. This trend will seriously reduce margins for increasing incomes if it continues.

Since the early 1980s, growth in US national income has famously benefited the top 20%, with the top 1% increasing their share of income from 8% to 18% (Alvaredo et al, n.d.). By contrast, wages of workers earning the median income or less have been repeatedly eroded and are still lower than in the early 1980s. Very low inflation and tighter labour markets boosted their real wages for 2015 and may do so again in 2016, but this will not offset the earlier decline.

A major new law requires US banks to clean up their balance sheets and hold more capital as a safety net. However numerous bank failures have put the biggest banks in a more dominant position than before the crisis, and 'shadow' banking institutions, which are less regulated, have increased. Perhaps most worryingly - partly because the Federal Reserve's 'quantitative easing' pumped money into the economy by buying securities - the stock market has reached unsustainable levels far higher than before the last crisis.

The euro area

The Euro's introduction in 1999 promoted economic restructuring in Europe. In Germany, unlike any other European country, real wages did not rise for many years, and weak growth was driven by expanding exports. In southern Europe, by contrast, lower interest rates boosted growth, wages and imports. The southern countries' trade deficits were financed by borrowing, mainly from banks in Germany and France which abruptly curtailed their lending after big losses in the US in 2007/08.

The US crisis was transmitted to the euro area through a collapse in bank lending and a sharp fall in exports, but the euro area faced an additional challenge as the US began to recover in 2009. Under highly restrictive rules governing the euro, governments could no longer turn to their own national central banks for support as in the US. Southern countries faced debt crises. The European Union, the European Central Bank and the IMF organised 'rescue programmes' but these involved highly restrictive conditions which led to sharp downturns, big increases in unemployment and a major assault on labour and social standards. The periphery in southern Europe became completely subordinated to the core led by Germany.

The euro area only regained pre-crisis levels of output early this year. Growth and investment are weak and there are major divergences.[2] In northern countries except Finland, output is now above 2008 levels; unemployment remains as much as 10% in some countries but is slowly falling; and real wages have overtaken pre-crisis levels. In southern countries, by contrast, output fell sharply and remains well below 2008 levels; unemployment is more than 20% in Spain and Greece; and real wages have declined sharply – by 30% in Greece.

The euro area authorities have launched numerous initiatives in response to the crisis, but with a deeply neoliberal approach. National economic policies are subject to increasingly centralised control by the European Commission, with no democratic oversight by either the European parliament or national legislatures. Furthermore, major banks have not been forced to clean up their balance sheets, and there are concerns that several banks – including Germany's largest private bank – failed to disclose big losses.

With social spending pressed, social polarisation is growing within and between states. Growing discontent is reflected in electoral support for progressive parties in Greece, Spain and Portugal, but there have also been alarming gains for right wing initiatives in France, the Netherlands, Finland, Austria and Germany.

Peoples' Republic of China

China has completely transformed its economic model from state socialism to a form of regulated capitalism since 1978. Foreign investment has been encouraged subject to certain conditions, and private domestic firms have proliferated. Prolonged periods of exceptionally high economic growth frequently reached more than 10% a year.[3] Average wages increased three-fold in the past ten years to reach the equivalent of about US$ 11 000 a year. However, inequality has also risen. China's income distribution is now more unequal than Brazil's and almost as unequal as South Africa's. Spectacular industrial growth has been accompanied by acute environmental pollution, although the authorities have now introduced measures against this.

After joining the WTO in 2002, China's export surplus surged to an extraordinary 10% of GDP by 2007. But demand for China's exports fell with the US and euro area crises. As growth fell, the Chinese government launched a major public investment programme worth about US$500 billion. This pushed growth back to 10% in 2010, but the economy has been characterised by massive overinvestment and excessive savings. Labour disputes rose as enormous labour reserves declined. The Hong Kong-based China Labor Bulletin reports that strikes and disputes increased from 185 in 2011 to 2 726 in 2015. The era of super-rapid expansion has ended: GDP growth has officially fallen to around 6%, and the export surplus to some 2% of GDP.

The Chinese government is trying to promote a shift to higher-value added products. While China's share of world trade in simple consumer goods (toys, shoes, clothing) is declining, its share of more sophisticated electronic goods (computers, household appliances) has risen. In 2016 it announced plans to lay off 5 million to 6 million steel and coal workers. State-owned enterprises' share of industrial output has fallen from nearly 60% in the late 1990s to around 30%, and the government plans to further reduce their role in providing key services. The government now faces the challenge of sustaining rising living standards and redirecting the economy without provoking a crisis in the over-extended financial system.

The wider impact

Weak growth in the three major economies has been transmitted to many developing economies through declining demand for primary commodities. The super-commodity cycle which began in the early 2000s ended in 2012. Prices of many agricultural and mineral commodities are now stagnant or falling, seriously affecting commodity exporters such as South Africa and Brazil. Future developments will be strongly influenced by Trump's presidency of the US. He proposed investing US$ 1 trillion in the country's crumbling infrastructure, and significant tax cuts. As financial markets anticipate a major rise in US government borrowing, interest rates are already beginning to rise.

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Footnotes

1 US figures from Bureau of Economic Analysis, NIPA Accounts, Table 1.1.1 (output), Table 1.12 (profits), and Table 1.15 (investment); Federal Reserve, Financial Accounts, Table F103 (dividends & share buybacks), Table L103 (cash holdings) and Table L100 (borrowing); Bureau of Labor Statistics (unemployment); and the Conference Board (labour productivity).

2 Euro area figures from Eurostat Database for GDP, trade balances and fiscal deficits; OECD Database for unit labour costs; and AMECO for wages and unemployment.

3 Chinese figures for GDP, investment and trade balance from IMF, World Economic Outlook Database; income figures from www.tradingeconomics.com; Gini coefficient from IMF Country Report No. 16/271, August 2016.