

Correspondence on US recession

19 February 2001

Dear Editors,

While reading the two articles written by Nick Beams, (February 8) “Is the US economy on the Japanese road?” and (February 9) “Australian central bank cites US slowdown in interest rate cut”, a couple of questions came to mind in relation to the concept of a “V-shaped” recession.

Firstly: If, as the New York Federal Reserve President William McDonough believes, there is to be an upturn in the United States economy by the second half of this year, from the current “zero activity” into an upturn that would be “quite strong”, would not this whole process have to be generated by the application of new technologies designed to raise labour productivity, (a decline in company profitability is a characteristic of this current crisis)?

Secondly: What effect would this have on unemployment which is currently on the increase, and because living labour is the only source of “profit”, would not a further decline in productive labour effect future profits?

All of this “theorising”, is of course, ignoring the most serious problems for the US economy, the structural imbalances that are already there.

Yours sincerely,

AC

February 13, 2001

Dear AC,

Regarding the points you have raised on the recent articles dealing with the US economic downturn. The prospect of a so-called “V-shaped” recession is based on the assumption that even if growth rates do turn negative, they will rapidly move back into positive territory.

Announcing its interest rate cut at the end of last month, the US Federal Reserve Board cited the erosion of consumer and business confidence and the weakening of retail sales and business spending as requiring a “rapid and forceful response of monetary

policy.”

The aim of the Fed is try to head off a recession by preventing a collapse of consumer spending and lifting business spending. The interest rate cut is clearly intended to try to lift the stock market, thereby maintaining the conditions, which have helped boost spending over the past period. The problem with this strategy, as has been widely noted, is that if it is “successful” it will deepen the underlying imbalances in the US economy, principally the high levels of debt and the record balance of payments deficit, thereby creating the conditions for bigger problems in the future.

And this future is shaped by longer-term processes. The increase in investment over the past decade, the expansion of productive capacity through the application of new technologies, has resulted in greater pressure on profit rates. This is reflected in the deflationary tendencies throughout the world economy and the emergence of excess capacity in major industries.

Some financial analysts are pointing to the impact of these tendencies and noting what they describe as an unusual end to the current phase of economic expansion. In all the major cycles of the post-war period, they point out, expansion has come to an end with increased inflation but this is not taking place today.

As, Barton Biggs, the economic strategist with Morgan Stanley Dean Witter, commented recently: “If inflation is almost non-existent at the tag end of a boom, what will happen during the recession?”

“What is unusual about this cycle is that the US is entering a recession with very weak core pricing. Despite a massive infusion of liquidity and strong growth, commodity prices have been falling since the Asian crisis, wage inflation is low, job growth has slowed, and the world has substantial excess capacity of many goods and services.”

Yours sincerely,
Nick Beams



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