No prospect of global “economic recovery”

Nick Beams
7 May 2011

Any conception that the world economy would experience a “recovery” in the wake of the global financial crisis has been shattered by the latest figures coming from Britain and the United States.

The British economy grew by only 0.5 percent in the first quarter of this year following a contraction of the same amount in the last quarter of 2010. The flatlining of the past six months has prompted warnings that Britain is on the edge of a “double dip recession.”

In the US, the annualised growth rate for the first quarter was down to 1.8 percent, a decline from the 3.1 percent recorded in the previous quarter. Over the past year, the US economy has grown by only 2.3 percent, less than the 2.5 percent considered necessary just to keep pace with the expansion of the labour force.

Fears of a global slowdown sparked sell-offs in equity and commodity markets this week as European Central Bank President Jean-Claude Trichet indicated that an interest rate rise in June was unlikely because of the state of the European economy.

The employment situation confronting American workers is a social disaster. The average time a worker stays unemployed is now 39 weeks—the longest period on record. Young people are especially hard hit. Last year the jobless rate for 16 to 24 year-olds was 18.4 percent—also a record high.

The economic situation in both Britain and the US is marked by processes that have not been seen in the post-war period. In Britain, real earnings are set to contract for the fourth year in a row—the first time this has happened since the 1870s. Household disposable incomes are predicted to fall by 2 percent in real terms this year. Far from there being any return to “normal”, the financial situation remains extremely fragile with Bank of England Governor Mervyn King warning this week that any rise in long-term interest rates would have “severe” consequences.

In the United States, while profits have risen in the past year, there has not been an economic recovery. This is because the increased profits have not come from expanding markets but are the result of cost-cutting, especially the slashing of wages. Consequently, profits are not being ploughed back into new investments—the way the business cycle turns around in normal conditions—because US firms fear that markets will remain stagnant or may even contract.

Business fixed investment at the end of last year was about 15 percent lower than before the onset of the financial crisis, as US firms decided to hold on to their profits. As a result, their holdings of cash and other liquid assets rose to more than $1.93 trillion in the third quarter of 2010, an increase of more than 14 percent over the year.

The ramifications of the deepening American economic and social catastrophe are extending internationally through the role of the US dollar as the global currency.

In order to sustain the position of the US banks and finance houses in the aftermath of the financial crash of 2008, the US Federal Reserve has made available to them hundreds of billions of dollars at close to zero interest rates. While this policy of “quantitative easing” is expected to end in June, the Fed will continue to keep interest rates at ultra-low levels.

The result is unprecedented turmoil in international financial markets.

In a clear sign of the growing lack of confidence in the US currency, it was revealed this week that the central bank of Mexico had bought nearly 100 tonnes of gold in February and March as a way of transferring its reserves out of falling US dollar assets. The Mexican purchases, valued at about $6.4 billion at current prices, follow similar moves by China, India and Russia, which have all made large gold purchases in recent years.

The falling dollar is leading both to inflation and recessionary trends. Food prices have soared by around 30 percent over the past year, adding to pressures on living standards in the poorer regions of Asia, Africa and Latin America.

At the same time, countries with flexible exchange rates are experiencing increased market pressure as their currencies rise, subjecting them to intense international competition, especially in manufacturing industry.

Brazil, whose finance minister Guido Mantega last year warned that the fall of the dollar was leading to an international currency war, is now facing the risk of "deindustrialisation" as a result of the appreciation of the Brazilian currency, the real, against the US dollar.

The chief executive of the German industrial conglomerate, Siemens, which has large investments in Brazil, told the *Financial Times* this week that controls had to be implemented to stop the surge in the real or the company's export business would be crushed. "This is fundamental; there is a risk of deindustrialisation," he said.

The rise of the real, sparked by the slide in the US dollar, is hitting all sections of manufacturing. The chief executive officer of ArcelorMittal, the country's largest steel producer, told the *Financial Times* that last year was a "disaster, almost a complete disaster."

The Australian dollar is another currency that has taken off against the US currency. From a level of 60 cents to the US dollar in 2009, the Australian currency has hit its highest level since being floated in 1983, at one point reaching $1.10. This has led to near-recessionary conditions in all sectors of the economy other than minerals and resources.

More broadly, the ongoing turmoil in global financial markets and the world economy is being accompanied by warnings from the spokesmen of international finance capital that there is no prospect of pre-crisis conditions returning. Their demands are for increasing austerity measures directed against the working class.

Announcing a 38 percent profit increase this week, the head of the ANZ banking group in Australia, Mike Smith, warned that Australian businesses had been structured for a "bull market and constant growth. What has happened is that, after the crisis, we have an adjustment where certain sections of the economy have suddenly become globally uncompetitive and the models they had operated with are no longer sustainable." It was "unrealistic," he said, to expect a return to "pre-crisis times."

These warnings of a "paradigm shift" underscore the fact that the financial crisis of 2008-2009 was not a cyclical downturn, but the start of a massive restructuring of economic and social relations on a global scale, aimed at driving down the social position of the working class to levels not seen since the Great Depression. The global corporate and financial elites are pressing forward with the imposition of this program. The working class must respond by initiating the struggle for political power as the first necessary step towards ending the profit system and implementing a socialist economic program on an international scale.

Nick Beams