Global economy falls deeper into slump

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20 November 2014

The announcement Monday of a third-quarter contraction in Japan's gross domestic product, officially plunging the world's third-largest economy into its fourth recession since 2008, is another indication that the world economy, far from experiencing a recovery, is spiralling downwards. It meant that the communiqué issued the previous day by the G20 summit pledging to boost global growth by 2 percent over the next five years was a dead letter.

The news from Japan came in the wake of data showing that stagnation and outright recession are permanent features of the 18-member euro zone, whose combined economy is larger than that of the United States.

The euro zone expanded at an annualised rate of just 0.6 percent in the third quarter, well below the pre-2008 growth rate of around 2 percent. The most significant aspect of the data was its showing that the slide into recession is concentrated in the region's three largest economies—Germany, France and Italy—rather than the so-called periphery.

Germany, once the powerhouse of the euro zone, only narrowly escaped officially falling into recession, with its economy recording a rise of just 0.1 percent, following a 0.1 percent contraction the previous quarter. It was the first time the German economy lagged behind the rest of the euro zone for the second quarter in a row since the initial impact of the financial crisis in 2009.

Italy has entered its third recession since 2008, with growth contracting 0.1 percent in the quarter following a 0.2 percent contraction over the previous three months. The French economy expanded by 0.3 percent, but it was hardly good news after a contraction in the second quarter and no growth in the first.

A symptom of the deepening malaise is the fact that the Greek economy, flattened by successive austerity programs and an unemployment level of 25 percent, turned in the best European result, with a quarter-over-quarter expansion of 0.7 percent.

The deepening slump prompted a stark warning last week from the governor of the Bank of England, Mark Carney. The central bank cut its growth forecasts for the next two years in its November inflation report, declaring that inflation would remain below the 2 percent target.

"Indicators across much of the advanced and emerging world have been moribund," he said. "A spectre is haunting Europe--the spectre of economic stagnation, with growth disappointing again and confidence falling back."

This was followed by a comment from British Prime Minister David Cameron published in the *Guardian* on Monday. "Six years on from the financial crisis that brought the world to its knees," he wrote, "red warning lights are once against flashing on the dashboard of the global economy."

The state of the global economy is even worse than it was in the initial period following the Wall Street crash of September 2008. This is because the so-called emerging economies, which have provided up to 80 percent of global expansion over the past six years, are now slowing rapidly.

In the weeks after the financial crisis, the Chinese economy was still expanding at a rate close to 10 percent, thanks largely to a $500 billion stimulus package and the decision by authorities to unleash a massive expansion of credit to fund a construction and infrastructure program. Those days have gone.

Chinese growth is now below the official target of 7.5 percent and financial authorities are trying to halt credit expansion amid fears the country could face a major financial crisis.

Bad loans held by Chinese banks have risen to their highest levels since 2008, with further evidence that the country's property boom, which has played a central role in sustaining growth rates in the past period, has come to an end. On Monday, the National Bureau of Statistics reported that new-home prices had dropped from their levels of a year ago in 67 out of the 70 cities which it tracks. Housing sales are down 10 percent for the first 10 months of this year compared to the same period in 2013.

The Chinese economy is expected to expand by 7.4 percent this year, the lowest growth since 1990, with Bloomberg reporting that leaders of the Chinese Communist Party are planning to lower the official growth target for 2015.

In other major "emerging economies" the picture is the same or worse. The Brazilian economy experienced a recession in the first half of this year and is expected to record virtually no growth in the second half.

The Russian economy, the world's ninth largest, is on the brink of recession as a combined result of the rapid fall in the price of oil and the sanctions imposed by the US and Europe, which threaten to set off a crisis in the financial system.

In Europe and Japan, as well as in countries such as Australia, the mantra from ruling circles is the same: structural reform must be carried out. This is not a road to economic expansion, but code for deepening attacks on workers' wages and social conditions.

If this phrase is not heard so much in the United States, it is largely because the assault on the working class, starting with the Obama administration's restructuring of the auto industry in 2009 and the halving of newly hired workers' wages, has already set new benchmarks across the economy, with the result that America has emerged as a centre of low-wage manufacturing.

There is another decisive consequence of the deepening global economic breakdown.

Five years ago at the G20 summit held in the wake of the financial panic the air was filled with pledges of cooperation, collaboration and the need to learn the lessons of the 1930s, when economic rivalries led to the outbreak of World War II.

Those commitments have long since gone by the wayside, and this year's G20 summit in Brisbane was marked by belligerence towards Russia and thinly-veiled threats by the US that, having spent "blood and treasure" to secure its domination of the Asia-Pacific, it was determined to maintain its economic and military hegemony against China, by war if necessary.

The ruling classes the world over have no economic solution to the crisis of the profit system, only a program of social counterrevolution and world war, threatening the very destruction of civilisation.

The international working class must intervene and take matters into its own hands by fighting for a revolutionary socialist program aimed at the overthrow of the decaying capitalist system and the reconstruction of the world economy to meet human needs.