OECD report highlights deepening economic breakdown

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The Organisation for Economic Cooperation and Development (OECD), in its latest Economic Outlook report, has painted a gloomy picture of the state of the world economy. Growth and investment are at historically low levels, especially in the euro zone, without any end in sight, amid the risk of more financial turbulence.

Introducing the report at a press conference in Paris on Tuesday, OECD secretary-general Angel Guirra said: “We are far from being on the road to a healthy recovery. There is a growing risk of stagnation in the eurozone that could have impacts worldwide, while Japan has fallen into a technical recession. Furthermore, diverging monetary policies could lead to greater financial volatility for emerging economies, many of which have accumulated high levels of debt.”

The OECD is projecting global growth of 3.3 percent in 2014, rising to 3.7 percent in 2015. Both forecasts are well below the rates of 4 percent and above achieved before the financial crisis of 2008.

Moreover, as OECD chief economist Catherine Mann acknowledged in her presentation of the report, the organisation’s predictions for global growth over the past five years—like those of the International Monetary Fund—have been persistently too optimistic.

Mann focused her presentation on the euro zone, noting that, even on the most optimistic scenario, growth for the region would not get back to the levels of 1999-2007. Presenting data that showed exports had risen, she said the problem was not that the euro area was uncompetitive, but that consumption and investment demand was too low.

Over the past six years, investment in European Union countries has fallen by an estimated €430 billion, with Portugal, Greece, Spain, Ireland and Italy the hardest hit.

In its assessment of the macroeconomic situation, the OECD said there were “rising risks of getting locked into persistent stagnation” in the euro area. Already, the region “may have fallen into a persistent stagnation trap, where deficient demand due to insufficient policy stimulus undermines potential growth, which in turn weakens aggregate demand still further.”

While the growth decline in emerging market economies appeared to have levelled out, “only a small renewed upturn is projected.” In these countries “financial risks that have built up,” most notably in China, “are also a source of risk to the global economy.”

In China, the OECD pointed to concerns relating to “the past rapid increase in credit, the rising share of financing from outside the traditional banking sector as well as the potential for negative feedback loops” between the banking sector, housing market and local governments.

This refers to a situation where banks and other financiers, having made large loans to finance housing and real estate construction, often backed by local government authorities, are hit by falling property prices in China, which impact on their ability to supply credit, leading to a further decline in real estate markets.

Other “emerging market economies” remained vulnerable because of their “cyclical and structural weaknesses.” Growth had slowed in Brazil, Russia and South Africa, increasing credit risks. Corporations had boosted their borrowings in foreign currencies, exposing them to shifts in currency values, while short-term bank debt had increased in both India and Indonesia.

The European banking system is also far from healthy. According to the report, stress tests and capital

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injections in the euro area have failed to restore confidence in banks, which have been characterised by “low capital and impaired assets on their balance sheets,” thereby reducing the provision of credit to healthy businesses.

More broadly, the report drew attention to the risks involved in the “highly accommodative monetary policy” in the major economies—the quantitative easing carried out by the US Fed, the Bank of England, the European Central Bank and the Bank of Japan—which has led to elevated asset prices and increased financial market vulnerabilities.

A period of low volatility between May and September was followed by turbulence in mid-October, illustrating “how fast market sentiment can change, with steep falls in global equity prices and a rise in financial market volatility in spite of no clear change in macroeconomic fundamentals.”

The OECD warned that such sudden shifts in investor sentiment and a fall in asset prices could have not only local but “global financial stability repercussions.”

The report said a “sustained acceleration” in investment was essential if there were to be a recovery. This amounts to a tautology, given that “recovery” is characterised precisely by increased investment, which plays the key role in the expansion of the capitalist economy.

Investment gaps were large “not only in relation to past norms but also relative to projected future steady-state levels in many economies.”

The report provided no concrete policy by which such an increase in investment might take place. The mantra of all the major economic organisations and think tanks is that “structural reforms,” chiefly the lowering of wages and the worsening of conditions for workers through “labour market flexibility,” are necessary.

In her presentation, Mann took up this theme as well. But her comments indicated the bankruptcy of this perspective so far as any revival of economic growth is concerned.

She pointed out that in the so-called peripheral countries of the euro area, where such reforms have been carried out the furthest, leading to unemployment levels of up to 25 percent in countries such as Greece and Spain, the flow of bank credit to firms, necessary for expanded investment, lagged behind the rest of the region.

In other words, the claim that if working people undergo sufficient economic pain and hardship an economic recovery will eventually take place is a complete fiction.

The OECD report was yet another indication, even as various global financial and economic authorities acknowledge the failure of all their previous measures, that they have no solution to the deepening capitalist breakdown.

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