The “Great Recession” and the deepening austerity drive

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A comment by *Financial Times* economic columnist Martin Wolf published November 11 points to the depth of the downturn in world economic output resulting from what he calls the “Great Recession” that followed the global financial crisis of 2008.

According to Wolf, a “recovery” is now underway but “only in a limited sense.” Just how limited and whether it can even be called a “recovery” in any meaningful sense is highlighted by the global economic trends to which he points.

While most crisis-hit countries are now showing positive growth rates, he writes, gross domestic product “remains far below what might have been expected from pre-crisis trends.” He continues: “In most cases, growth has not recovered, mainly because of declines in productivity growth. In the euro zone, GDP was still below pre-crisis levels in the second quarter of 2015. In crisis-hit members, a return to pre-crisis output is still far away. They will suffer lost decades.”

This analysis underscores two decisive conclusions: the crisis of 2008 was not a conjunctural downturn, but a breakdown in the functioning of the capitalist economy; and the measures implemented by governments and central banks, with the claim that they would promote “recovery,” have failed completely. In fact, as research cited by Wolf in his comment makes clear, they have exacerbated the slump.

Wolf draws attention to a survey conducted by Professor Laurence Ball of Johns Hopkins University, who found that losses of potential output ranged from zero in Switzerland to more than 30 percent in Greece, Hungary and Ireland.

Summing up Ball’s results, Wolf writes: “In aggregate, he concludes, potential output this year was thought to be 8.4 percent below what its pre-crisis path would have predicted. This damage from the Great Recession is… much the same as if Germany’s economy had disappeared.”

As is always the case with comments by Wolf, while he can perceptively point to significant trends in the global economy and bring to light certain relevant facts, as an ardent defender of the profit system he never goes so far as to suggest that these phenomena are the result of inherent contradictions within the very structure of the capitalist economy. Consequently, he always maintains that there is some way out if only more rational policies are followed. And when what he sees as necessary remedies are not applied, he attributes this to failure of either the will or the intellect.

Addressing the question of the euro zone, which seven years after the Lehman Brothers collapse still has not returned to pre-crisis output levels, he insists that its governments and financial authorities “should have done better” and that even today Europe “lacks the will and the institutions it needs.”

Why such measures have not been developed is never probed. This is because any such examination would raise the question of whether the present policy outcomes are not the result of the “lack of will” to pursue more effective measures, or some kind of mistake, but are, in fact, the expression of another agenda which is being assiduously implemented.

Despite all the evidence to the contrary, Wolf maintains that it “might be possible to return to pre-crisis trend rates of growth” and that a mix of “aggressive support for demand and contributions to long term supply,” via far higher levels of public investment, would work both to increase output levels and restore growth rates to their previous trend.

He points to evidence that “festering recessions have prolonged effects on prosperity,” and adds that “one conclusion is that it is vital to act swiftly to restore demand.” But the question as to why government and economic authorities around the world have proceeded in the opposite direction—cutting spending on health, education, pension and other vital social services and refusing to undertake public investment spending—is never examined.

The impact of government spending cuts on economic growth is highlighted in a 2014 paper co-authored by former US Treasury Secretary Lawrence Summers and Antonio Fatás, cited by Wolf. Since then, Summers has advanced the proposition that the world economy is not experiencing a conjunctural downturn, but has entered a period of what he calls "secular stagnation," akin to that of the 1930s.

The 2014 paper details the predominant downtrend in the world economy, particularly in the euro zone, where, relative to the situation in 1999 when the euro was launched, GDP is below where it would have been had the trend at that time been maintained. The International Monetary Fund estimates that by 2019, the euro area will be 15 percent below the level of output that would have existed had pre-crisis growth continued.

The Summers-Fatás analysis examines the persistent overestimation of IMF growth forecasts compared to the actual outcomes since 2008 and notes that if the "deviations were… transitory, we would expect the forecast error to decrease over time as output returns to trend."

But, in fact, there is a "very large amount of persistence" in the forecast errors for all advanced economies, suggesting that the first shock—the crisis of 2008—continued its propagation and "became permanent."

The authors conclude that government programs of "fiscal consolidation"—the reduction of government spending for the purpose of decreasing debt—lowers growth, creating a "negative feedback loop" where the more that spending is cut and the sharper the fall in output, the more the debt to GDP ratio rises, leading to a push for even more spending cuts. There is "strong support for the notion that austerity policies not only have caused significant temporary damage to growth, but that they might have resulted in exactly the opposite outcome that they were seeking by permanently reducing output."

They maintain that countercyclical fiscal policy should have been "more aggressive given the nature and persistence of the crisis." In other words, instead of government spending being cut, it should have been increased.

But the same question arises here as with Wolf. Why were such policies not carried out from the beginning, and, furthermore, why, when the damaging impact of government cuts has now been definitively established in facts and figures, has the austerity agenda not been reversed?

The answer to these questions lies in a probing of some of the basic features of the capitalist economy, which none of the "critics" of the present agenda undertake, as they seek to promote the illusion that the deepening breakdown can be halted if only more enlightened policies are followed.

The Summers-Fatás paper indirectly points to the direction in which such an analysis must proceed. The authors note that from early 2007, GDP growth in many advanced economies began to slow. This trend was increasingly evident by the end of the year before it turned into recession in 2008, which deepened in 2009.

However, these trends were the outcome of processes that went further back. The analysis of bourgeois economists focuses on shifts in output measured by GDP. But the driving force of the capitalist system is not economic growth as such, but the accumulation of profit, and, in particular, the return on capital as measured by the rate of profit.

While profit rates tended to rise during the decade of the 1990s, they had started to turn down towards the end of the decade, resulting in a recession in the US in 2001. The interest rate cuts initiated by the US Federal Reserve provided a temporary boost, helping to fund a cheap-money boom in the first half of the decade both in the US and globally, such that the IMF recorded that world growth in 2006 was at its highest level since the early years of the 1970s.

But the downward pressure on profits, which had led to cuts in productive investment in the real economy and an increasing resort to financial speculation, was not overcome. Consequently, when the orgy of speculation exploded in 2008, it did not give way in due course to an upturn, but resulted instead in growing stagnation, outright recession and further financial crises as took place in Europe in 2012.

Placed within this context, the essential class logic of the spending cuts, attacks on wages and social conditions and the incessant demands for labour market "restructuring" becomes clear. Viewed from the standpoint of the process of profit accumulation—the driving force of the capitalist economy—government spending on social services, as well as increases in real wages, represent a drain on the wealth that would otherwise be available to capital in the form of profit, and must be driven down.

In other words, the ongoing and deepening austerity programs being pursued by governments around the world are not some irrational response to the crisis, or the product of intellectual failure, lack of will or any of the other reasons advanced by Wolf, Summers and other would-be critics. Rather, they are an expression of the remorseless class logic of the capitalist economy, where, as Marx put it so clearly, the accumulation of wealth at one pole depends on the accumulation of poverty, misery and degradation at the other.