Mounting problems for US and global economy

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It was all going to be so easy, as simple as the flick of a switch. According to the high priests of "capitalist wisdom" around the world, once COVID-19 restrictions were lifted and society learned to "live with the virus"—no matter what the cost in terms of lives of workers and the impact on their children—the economy was going to spring back.

Some 20 months into the pandemic, with the virtual obliteration of public health measures in country after country, the real situation is very different.

The global economy is beset with a series of interconnected problems, which are worsening at a rapid pace. These include: global supply chain constrictions, ranging from computer chips to clothing and toys; rising inflation resulting from supply chain choking and higher energy prices; labour shortages due to the reluctance of workers to risk their health and that of their families and the ever-present threat of financial market turmoil.

The situation in the US transportation system can only be described as chaotic. Tens of thousands of containers are held up in the ports of Los Angeles and Long Beach on the west coast with as many as 60 ships lining up to berth and sometimes having to wait for as long as six weeks.

On the east coast the *New York Times* reported that in the port of Savannah, Georgia, some 80,000 containers are piled up waiting to be delivered, 50 percent more than usual. Savannah is the third largest container port in the country after the Los Angeles-Long Beach complex and New York-New Jersey.

In the California complex, where there are 13 private container terminals, private ownership creates problems in developing a unified plan for resolving the port situation as well as more broadly.

As the *Wall Street Journal* reported: "Participants in each link in the US chain—shipping lines, port workers, truckers, warehouse operators, railways and retailers" blame others for the imbalances. All of them are "struggling with a shortage of workers."

The supply chain problems are not confined to the US. The *New York Times* has reported that in Germany, where one-in-four jobs depends on exports, the crisis in global supply chains is "weighing heavily on the economy" and some economists have even predicted a "bottleneck recession."

According to a survey conducted by the Association of German Chambers of Industry and Commerce conducted in August more than 40 percent of companies said they had lost sales because of supply problems. Germany highlights another problem arising from the supply chain crisis.

In line with the dictates of the capitalist market, supply shortages have led to rising prices, with the annual inflation rate in Germany hitting 4.1 percent in August, the highest in nearly 30 years. This has raised the prospect of stagflation—a slowing economy combined with higher inflation.

This prospect is also emerging in the United States as the latest employment data show that non-farm payroll rose by only a seasonally adjusted 194,000 in September, down from the already low increase of 235,000 in August and far below the figure of 500,000 predicted by economists.

Here again, "capitalist wisdom" was confounded. It had been claimed that federal support for unemployed workers had been "holding back" job applications and the ending of that support, coupled with the opening of schools, would see a rush for jobs when it ended at the start of the month.

The *Washington Post* reported last Friday on the situation in the restaurant industry, which had been cited as a kind of bellwether for the rest of the economy. According to official data, food services and drink establishments added only 29,000 jobs in September after losing 24,700 jobs in August. Between January and July this sector added a monthly average of 197,000 jobs.

The number of restaurants was down by 13 percent compared to the start of the pandemic in the spring of 2020. The article reported on a survey which found that more than half of the 4000 restaurants canvassed said conditions were worse now that three months ago. They reported problems of higher food and utility costs as well as supply-chain problems "but the biggest issue, restaurateurs say, is lack of staff."

This indicates that notwithstanding all the official hype about the wonders of re-opening, there is widespread concern in the working class about the dangers of going to work in conditions where they can be hit by the virus or pass it on to their families.

Back in July, Federal Reserve chair Jerome Powell said that Americans had “kind of learned to live” with the virus. That assessment is contradicted not only by the jobs growth numbers for September—the lowest for the year—but by the withdrawal in the month of more than 300,000 women from the labour force, either because they had quit work or given up their search for a job.

Another factor in the worsening overall outlook both for the US and global economy is the rise in energy prices. The price of crude oil has risen by 64 percent this year to reach a seven-year high. Natural gas prices have doubled in the past six months, coal prices are at records and the cost of heating oil in the US has risen 68 percent this year.

Moody’s predicts that oil will rise from its present level of around $80 a barrel to $90 by the end of the year, while JP Morgan Chase has put forward a worst-case scenario in which the price of oil rises over the next three years to reach $190 per barrel by 2025.

Consumer prices in the US in August rose by 4.3 percent, according to the Fed’s preferred measure, and more than 5 percent according to other data. Whatever number is used it is well above the Fed’s target rate of 2 percent.

Oxford Economics projects that energy prices alone will lift the annual US inflation rate to 5.1 percent by the end of the year. The biggest fear in ruling circles is that inflation expectations will lead to a surge in wage demands—on top of the movement that has already begun.

The prospect of rising inflation and slowing growth is leading to concerns about the direction of the global economy. Reporting on the latest findings of its Brookings-FT tracking index, the *Financial Times* said the global rebound from the coronavirus recession “appears in danger of stalling” because of supply chain problems, inflation, higher energy prices and slower growth in the world’s two largest economies, the US and China.

Eswar Prasad, the senior fellow at the Brookings Institution, involved in the preparation of the report said: “Policymakers in many major economies now face the difficult conundrum of supporting growth while keeping inflation under control, even as they continue to be hit by domestic and external supply disruptions.”

The traditional measure adopted by central banks for containing inflation has been lifting interest rates to dampen the economy and Powell has made repeated statements that it will use all its tools to counter inflation if it proves not to be transitory.

But as many commentators have pointed out, lifting interest rates does nothing to unravel global supply chains or bring a halt to workers’ fears of being infected with COVID-19 which has contributed to the shortage of labour.

At the same time, continuing ultra-easy monetary policies only serves to continue the speculative boom in financial markets and the prospect of a major crisis. As Prasad put it, additional stimulus measures, “especially monetary easing, are likely to yield an increasingly unfavourable trade-off between short-term benefits and longer-term vulnerabilities.”

And those vulnerabilities, which were revealed in the freeze of the $21 trillion US Treasury market in March 2020 and the tremor of fear which passed through the market in February this year, have not gone away.

They could rapidly come to the surface once again if the Fed decides at its November meeting to start winding back its asset purchases, currently running at $120 billion a month, that have played the key role in pushing Wall Street and other markets to new highs.

The FT reported earlier this month that some bond market participants fear that the lack of once reliable support could generate instability if the Fed starts winding back. The article cited Yesha Yadav, a professor at the Vanderbilt Law School in Nashville who has studied the structure of the Treasury market.

He maintains that because the major banks—the so-called primary dealers in Treasuries—no longer play the role they once did, in providing a backstop, the market is now primed “so that high-frequency traders and prime dealers pull back when there are problems.”

“The way this is set up is designed to fail,” he said. “It is exceptionally fragile.”