OECD forecasts worsening global economic outlook

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The Organisation for Economic Cooperation and Development (OECD), a grouping of 33 major economies, has forecast a worsening outlook for the global economy in a report issued last month.

But despite slowing growth and cuts in real living standards, the organisation insists the tightening monetary policies of central banks, aimed at suppressing wage demands by dampening the economy, or even inducing a recession, must continue.

The focus of the report was on the energy crisis, which it blamed on Russian "aggression," completely ignoring the fact that the Ukraine war is being driven by the US and its NATO allies as they seek to dismember Russia and accelerate war preparations against China.

In its editorial introducing the report, the OECD said inflation was on the rise because of the COVID-19 pandemic. It had much more prevalent following the Russian invasion, such that because of the surge in prices "real wages are falling in many countries, slashing purchasing power."

It stated that "fighting inflation," the code phrase used by all capitalist economic institutions for further cuts in real wages, "has to be our top priority right now."

The OECD claimed the policy was enjoying "some progress" as there was an easing of price rises in the US, while insisting that "monetary policy should continue to tighten in the countries where inflation remains high and broad-based."

Furthermore, it wants a two-pronged attack. It was essential that government fiscal policy worked "hand-in-hand with monetary policy."

If fiscal policy added to inflationary pressures, the editorial said, it would lead to even higher interest rates.

Accordingly, that meant "policy support to shield families and firms from the energy shock should be targeted and temporary… without adding to inflationary pressures and increasing public debt burdens."

But overall, nothing substantial should be done since "energy prices are likely to remain high and volatile for some time" and "untargeted measures to keep prices down will become increasingly unaffordable, and could discourage the needed energy savings."

There is a clear parallel here with the response to COVID. While some limited mitigation measures were put in place, they were abandoned in the face of the "let it rip" agenda. On energy prices, the policy is the same—limited "targeted" measures to try to assuage popular anger while pursuing a "let it rip" policy on price hikes and the profit gouging by the major energy corporations and the commodity speculators.

In its analysis of the state of the global economy, the OECD report painted a picture of a steadily worsening situation.

The significant tightening of global financial conditions was "weighing on interest-sensitive spending and adding to the pressures faced by many emerging-market economies."

While labour market conditions remained "generally tight"—a situation which the central banks want to change with the higher-interest regime—"wage increases have not kept up with price inflation, weakening real incomes despite the actions taken by governments to cushion the impact of higher food and energy prices on households and businesses."

It said global GDP growth was projected to be 3.1 percent in 2022, around half the pace in 2021, and was expected to slow further to 2.2 percent next year.

Global growth, such as it is, was becoming "increasingly imbalanced with the major Asian emerging market economies accounting for close to three-quarters of global GDP growth in 2023, reflecting their projected steady expansion and sharp slowdowns in the United States and Europe."

But uncertainty about even this outlook remained high because "the risks have become more skewed to the downside and more acute." One of those risks is that higher interest rates "slow growth by more than projected, with policy decisions difficult to calibrate given high debt levels and strong cross-border trade and investment links that raise the spillovers from weaker demand in other countries."

Summing up the outlook, the OCED said the world economy was facing "a period of weak growth and persistent inflation, with elevated downside risks. Tighter monetary policy and higher real interest rates, elevated energy prices, weak household income growth and declining confidence are all expected to take their toll of growth, especially in 2023."

The best prospect it could offer was a "mild recovery," projected to get underway in most countries in 2024.

Besides the worsening prospects for the real economy, there are major problems in the financial system.

The OECD warned that a "sharp increase in interest rates" could jeopardise the ability of households and companies to service their debts, "potentially leading to defaults and bankruptcies, and to corrections in house prices."

It said stress tests put in place after the global financial crisis of 2008 had helped improve the resilience of the banking sector. "Nonetheless, many banks could still face substantial losses if a larger-than-expected downturn occurred, especially in emerging-market economies where banks are particularly sensitive to shocks and have lower capital ratios than in advanced countries."

Major problems could also erupt in non-bank financial institutions, the size of which has rapidly expanded in the last decade-and-a-half, as a result of rising interest rates.

"Repricing of stretched asset valuations could lead to disorderly market corrections and investor outflows," it stated. And for "institutions that are highly leveraged, or which are subject to severe liquidity mismatches, such as open-ended funds [those where investors can withdraw their funds on a daily basis], the impact could be particularly large."

Commenting on the OECD report, *Financial Times* columnist Martin Wolf sought to place it in a wider context, invoking the definition of "polycrisis" advanced by economic historian Adam Tooze in which "economic and non-economic shocks" are entangled "all the way down."

He referred to the shocks emanating from the pandemic, the energy shock resulting from war, itself a breakdown in relations among great powers, slow growth, rising inequality, over reliance on credit, the decade of ultra-low interest rates that have led to financial fragility worldwide and the added threat of climate change.

Economists, among others, Wolf wrote, had to cease being confined to "silos," think "systematically" and recognise "how the economy is interconnected with other forces" and that "navigating today's storms compels us to develop a wider understanding."

But such understanding will never be found in any of the institutions of capitalist society, much less a solution advanced to resolve "polycrisis"—or breakdown as it might be more accurately described. This is because it is rooted in the profit system to which they are dedicated to defending and maintaining at all costs.

And so, in the end, as the OECD report makes clear, the only "solution" they advance is deeper attacks on the working class.

But there is one issue on which we can agree with Mr Wolf.

The working class has to begin to think systematically, recognising that the multiple crises it confronts—pandemics, wars, economic devastation, deepening attacks on living standards and the effects of climate change—necessitate ending the capitalist system in which society is subordinated to the dictates of private profit. This means fighting politically for a socialist program in which the economy is based on human need.