Global Economic System Running towards Recession

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At present, the global economic recession is at its peak. This is not a change that occurred all of a sudden. The global economic system has not revived from the Global Financial Crisis of 2008.This is an economic crisis strengthening in all the countries. As per the World Inequality Report, 2022, the cruel form of strengthening economic crisis is clearly revealed by Covid-19 pandemic. This economic recession is a dangerous one. Global financial institutions such as the UNO, IMF and World Bank have been seriously worrying about this danger. They are seriously estimating about the future developments and trends and revising them frequently. The statistics and estimates show that every revision that seeks to correct it, is leading to deterioration in the coming years. All the countries which are affected by the crisis have to fight collectively against the world capitalist class.

The unemployment crisis on the one hand, and the exponential price rise on the other, are making the lives of the majority of the people miserable. It is strange that the rise in the prices and the simultaneous fall in rate of profits continue in parallel with the reserves of essential commodities. Therefore, it is called as “Stagflation”. The conversion of appropriated absolute and relative surplus value into profits requires the sale of produced goods. For this people should have Purchasing Power. This is associated with their earnings. Marx calls this crisis related to the inability to sell the produced goods as “the Crisis of Under Consumption”. This results in the “Crisis of Falling Rate of Profit”. There is excessive accumulation of unsold stock of commodities. The survival of present mode of production will become critical owing to this serious crisis. For this reason, the international organizations have been estimating the global recession again and again. They have been worrying seriously because all the estimates are showing further deterioration. The growth of the unemployed army due to this situation is seen as a matter of concern.

In response to the estimates that show serious economic recession, the UN’s Secretary General, Antonio Guterres stated that “the time is now to close the inequality gaps within and among countries. If we work in solidarity – as one human family – we can make 2022 a true year of recovery for people and economies alike.”

Global Economic Recession - Estimates:

The estimates of IMF stated that the decline in the growth rate of global economy will be stabilized in 2020. Global unemployment reached its peak. Similarly, highest levels of unemployment are recorded in US. The falling rate of profit lead to rising preference for gold. The estimates stated that the growth rate of global production will decline from 6.1% in 2021 to 3.1% in 2022 and further decreases to 2.9% in 2023 and 2.8% in 2024. However, the intensity of deterioration in growth rate is relatively high in advanced countries. It will reduce from 5.1% in 2021 to 2.5% in 2022 and 1.4% in 2023. In developing economies, the growth rate will decline from 6.8% in 2021 to 3.6% in 2022 and will continue at the same level in 2023. It is to be noted that the levels of inflation are relatively better in advanced countries despite high decline in the growth rate. The issues of inflation are severe in developing countries.

The share of merchandise trade in global gross domestic product is declining especially from 2008 onwards.

The backward countries will be strongly wedged in foreign debt trap. As per IMF estimates, 30 % of emerging economies and 60 % of less developed economies are high risk countries in regard to foreign debt.

The estimates of the Centre for Economics and Business Research in its "Global Recession, 2023", are more pessimistic when compared to IMF estimates. They state that the growth rate of global gross domestic product will be less than 2% in 2023. The "World Economic Situation and Prospects" report of UNO also forecast critical growth rate of global economy associated with stubborn inflation, rising interest rates in advanced economies and their effects on the whole world. The World Bank Group's Flagship report, 2024 also forecasts further deterioration in the global growth rate. However, it expects a rise in the global growth rate to 2.7% in 2025. Further, it states that the investments will decline in emerging economies associated with volatile merchandise exports. The rising interest rates and continuation of excessive rise in the prices will be at dangerous levels. The report suggests that the emerging economies should take measures to increase the accessibility of education and health to majority and to raise the labor participation rates for the complete utilization of their economic potential.

The report further states that the global economy is subjected to multiple challenges. Therefore, the growth rate of global gross domestic product will decline even in 2023-24. The emerging economies severely suffer from excessive foreign debt burden, declining investments and critical inflation. The capital flights increase from all the countries and foreign direct investments will decline.

All this pose serious problems to attain Sustainable Development Goals by 2030. The global economy did not achieve Millennium Development Goals declared by UNO, in 2000, to be achieved by 2015 for humanitarian development of the world. The same goals with little modification have been declared as the Sustainable Development Goals to be achieved by 2030. There is no hope on achieving them. The process of exploitative capitalist system will only give guarantee to the precarious lives to the majority.

It is usually stated that the Russia-Ukraine war, environmental challenges, the extreme weather incidents due to climate change, rising global prices of oil are the causes for present global economic recession. The profit motive, economic and political struggles among dominant countries and dominant classes for power are the true causes for present economic depression. It is unscientific to state that the consequences of the movement of capitalist economic system are the causes for the present global recession.

How is it possible for the capital owners to get profits despite economic stagnation? The exploitation of speculation opportunities outside the real economy, the movement of market process from rule binding to rule breaking and to illegal activities, plundering public domain and national property, privatization, perpetuation of massive corruption, undermining moral and ethical foundations of society and systematic disorder in various forms will give excess profits amidst stunted growth. “Oligarchs too big to fail and too big to jail”. The system has created safe havens for the treasure of corporate forces and wealthy.

The exorbitant rise in the economic inequalities for the past three decades is due to the strong implementation of neo-liberal policies. Consequently, the income and wealth are transferred from working class to the treasury of the capitalist class. The transfer of income and wealth from oppressed class whose propensity to consume is high, to wealthy class whose propensity to consume is low, naturally results in the emergence of “Under Consumption Crisis”. The mode of production will not sustain with the production of super luxury goods exclusively consumed by rich class.

Exploitative Capitalist System - Crisis :

The process of exploitative capitalist system whose basis is free interplay of “efficient market forces” is strongly associated with crises. This has been proved by the last hundred years of global economy beginning with the 1930’s “Great Depression”. It is a serious contradiction that the so called “inefficient” governments should take initiatives and measures to revive the system from crises. The reason for the emergence of crisis is the falling rate of profit. Therefore, its revival will be closely connected with raising the rate of profit. Consequently, the capitalist class will be strengthened and working class will be weakened in the post-crisis period. All this will intensify the exploitation levels continuously.

The exploitative imperialist forces will be strengthened to extend extra-territorial domination, exploitation and the burden of crisis. In the past, this process is in the form of unequal trade and export of capital. These are additionally super imposed by the instrument of “Global Value Chain” to extract higher level of rent. With this, it will be easy to earn super profits. No need to export capital. The Global Value Chain is perfectly divided into various tasks. The higher value part consisting of design and retail will be in the control of corporate forces of Head Quarter countries. The low value tasks consisting of manufacture and assembly will be transferred or outsourced to emerging or backward economies. The entire surplus value generated by strengthening informal sector in third world countries will be appropriated by the head quarter countries through Global Value Chain. The excess surplus is generated not only due to cheap labour but also by leaving them to vulnerable working conditions as warned by ILO for several years - damaged buildings, less compensation for accidents and deaths of workers, possibilities of evading compensation many a time, easy to violate environment protection rules, no need to take measures for the safety of workers. The generated exorbitant surplus from manufacturing and assembling will be transferred to Head Quarter countries. Moreover, they print brand name on the manufactured product and sell it in the emerging economies at higher prices. The Global Value Chain is the modern form of imperialist exploitation compared to the “Unequal Trade”, the form in the colonial period where colonies used to export raw materials at cheap prices and forced to import manufactured goods at higher prices.

The UNCTAD, as early as in 2013 stated that more than 80 percent of global trade is taking place through Global Value Chain. The ILO, 2015 report states that in OECD and Asian countries, more than 400 million are working with global value chain. The UNCTAD, 2013 report clearly states that GVC means the dominant countries will exploit the emerging/backward countries without any investment. The creation of neo-tools of imperialist exploitation resulted in the excessive accumulation and concentration of wealth in dominant countries.

The process of raising rate of profit in the Post-Global Financial Crisis, 2008, resulted in the emergence of Gig Workers’ System. The ILO worries that this system has raised commodification of labor to its peak. It resulted in the highest levels of labor exploitation. On the other, the capitalist system is seriously trying to strengthen labor-free production by increasing use of Automation, Robots and Artificial Intelligence. The labor Unions, workers’ rights, limitation related to working hours per day, all will disappear. The world of workers is caught in the critical crisis in the form of highest unemployed reserve army.

Capital has created several cruel forms of exploitation. This resulted in the emergence of excessive surplus value. But this must be realized in the form of profits. This warrants the purchasing power of people. For this, all the people should be provided decent livelihoods. Conversely, the emergence of highest unemployed reserve army resulted in the highest level of crisis of under consumption as scientifically predicted by Marx. The exploitative capitalist system “successfully” prepared its own burial ground. The work remained for the revolutionary forces is to consolidate the oppressed class strongly to bury the exploitative capital system.

Economic Recession - US :

In US, simultaneous excess rise in the prices as well as unemployment is prevailing. In order to control this problem, the US Federal Reserve has raised the interest rates. For investments, US is safe haven. Therefore, foreign investments from emerging economies especially from India outflow to US. Moreover, our speculation market is dictated by highly volatile Foreign Portfolio Investments. Their sudden out flow will further aggravate the instability in the speculative market. Further, our government has amended various Acts to enable easy exit of foreign firm on the name of Ease of Doing Business. Despite innumerable incentives and tax concessions, the foreign investments will leave our country when US raises its interest rate.

This results in the appreciation of Dollar value. Since it is considered as global currency, the value of national currencies of emerging economies particularly of India will depreciate seriously. For the same value of foreign exchange, now India should export more quantity of goods and services. Consequently, our wages will decline further. The labor exploitation will be intensified. The domestic prices will increase. Still, the recession in US is continuing seriously. The industrial base of US has hollowed out due to the strong implementation of Neo liberal policies for the past three decades. The liberalization of trade resulted in the steep decline in public investment.

The dominance of finance capital reached its peak. The real economy consisting of goods and services is destroyed. Wealth is centralized and concentrated in the hands of corporate forces.

The US National Security Establishment states that the labor movements and labor unions are safety nets to capitalist system. Their eradication is not good. So, the US decided to shift to New Washington Consensus consisting of policies that strengthen public sector and ensure inclusive growth, in the place of Old Washington consensus which is based on Neoliberal Policies.

India - Economic Recession:

IMF estimates as well as estimates of UN's World Economic Situation and Prospects, 2024 state that the growth rate of Indian economy will decline even in 2024 and it will not exceed 6.2 percent. As the Indian economy is closely connected to, super power US, the rising economic recession in US will spread to India excessively, as per Global Recession, 2023, of Centre of Economics and Business Research. The strengthening economic recession in US will easily extend to India as India's exports to US are on the rise because Indian companies have huge outsourcing contracts with US clients. The demand for our goods and services will decline. The deficit in the balance of payments particularly in the current account will increase further. The Non-performing Assets in the banks will multiply. The crisis in the stock market will aggravate further. Amidst pessimistic situation expressed by the estimates of international organizations about the growth rate of Indian economy, the statement of our RBI governor Shaktikant Das, in the recent annual conference of the World Economic Forum in Davos, that Indian economic growth rate will be 7% in 2025 and consumer price Index will decline to 4.5%, is really a serious contradiction.

The Economic survey 2018-2019 states that private investments have declined during 2012-2017. The growth rate has slowed down. Despite favourable conditions created to businesses including low interest rates, despite Ease of Doing Business Index of India improved to 77 in 2018 from 142 in 2014, private investments did not increase. The economic recession is strengthened by 2019 and resulted in the sky rocketing prices and huge unemployment problems simultaneously. The food stocks are excessively piling up in godowns. Contrarily, the consumer price index is rising. Banks are with excess liquidity. The problem is not at all related to supply. It is the crisis of aggregate demand.

The entry of globalization in 1990-91 started with the privatization of education and health sectors which are basic needs of the people. They will not be accessible to common people. The disinvestment of public sector undertakings took the form of aggressive privatization and sale of public sector enterprises at cheaper rates. In addition, private investments fell down. The capital-intensity increased. The job-less growth transformed into job-loss growth. The growing rural distress, agrarian crisis, unemployment and fall in the wages resulted in the huge decline in the aggregate demand. The ratio of private wealth to Gross Domestic Product has increased from 290% in 1980-2000 to 560%. With excessive rise in the economic inequalities, the income and wealth are transferred from working class whose marginal propensity to consume is high to the wealthy class whose marginal propensity to consume is low. This resulted in the enormous decline in the aggregate demand.

The government refused to accept the true causes of recession and took measures to strengthen the supply chain. Consequently, the economic recession strengthened by 2021-22 in India. It is the stagnation associated with price rise. The cereals prices increased excessively in 2021-22. Even the prices of non-food goods, especially the prices of health services increased. The government lost revenue to the tune of Rs. 1.45 lakh crores due to decrease in the corporate tax to 22% in 2019. But the government increased the taxes on diesel, petrol and gas continuously irrespective of Global oil prices. This resulted in the continuous rise in the domestic prices. The growing trends in the prices are becoming permanent. The lower per capita income associated with rising prices resulted in the steep decline in household savings which is the true basis for our domestic investment.

The estimates of National Statistical Organisation says that the growth rate in 2021- 22 is 9.2%. In fact, the growth rate in the real gross domestic product is negative i.e, -7.9%. According to IMF estimates, the fall in the output in India is 6.7% in 2022-23 and 4.1% in 2023-24. The average growth rate of capital accumulation is 15% during 2004-08 and has declined to 5.8% during 2014-19. The RBI estimates in 2013 states that despite low interest rates the private investments did not increase.

In the name of export led growth strategy, the government took various reforms in the foreign direct investment and permitted 100% through automatic route. So many tax concessions and incentives are provided. Still, the government failed to direct them to manufacturing sector. They flowed into service sector especially into IT sector which yields high and quick profits. Foreign investments did not bring new technology. They entered into brownfield projects which resulted in the crowding out of domestic companies. Moreover, the export intensity of foreign companies is negative but import intensity is high. The 'Make in India' initiative started in 2014 failed to increase the growth rate of manufacturing sector as well as employment generation. The share of domestic value added in exports declined and the share of import content increased. India is confined to low value-added products in the global value chain. The share of public debt in gross domestic product is as high as 72.5%. Further, 32% of government revenue is going for the payment of interests.

The development in India is highly volatile owing to excessive dependence on foreign investments. No self-reliance. High dependency. Added to it continuous depreciation in the value of our rupee. The deficit in the balance of payments especially in current account is on the rise continuously. High dependence on imports lead to rise in the demand for dollars. The merchandise deficit is to the tune of $17.3 billion in January 2022 but within six months that is, by June 2022, it has increased to $25.6 billion. Under these conditions, the Foreign Trade Policy, 2023, declared goal to achieve $2 trillion worth exports by 2030 is a contradiction.

The provision of decent employment and livelihoods to all is associated with inclusive growth. This will solve the challenge of crisis in the aggregate demand. Whereas, the exploitative capitalist system creates recession and crises only. The 1930s Great Depression which shook the entire world could not touch the Soviet Union in which socialist system is at its infancy. Similarly, the present growing global economic recession shows less effect on China and Russia. In fact, these two countries are no more socialist systems and are market led economies now. But they have the base of socialist system and its residues. This clearly shows that crisis free economic structures are possible only in the socialist system. The present crisis poses a great and serious challenge before the revolutionary forces to intensify their struggles and movements in this direction.