

2

Two Essays by Andre Gunder Frank

WORLD ECONOMIC CRISIS ONCE AGAIN

I



"Frank Admission From White House: Recession Isn't Over."¹ President Bush: "I've known this economy is in a free-fall. Maybe I haven't conveyed it as well as I should, but I do understand it."² "Now, for the first time, the Fed chairman, Alan Greenspan, is saying that he has no clear idea when the economy's stagnation might end: by spring, by Election Day, by early 1993 or perhaps not until later in the decade."³ This Recession Is a Different Beast not so much in its statistical profile as in the near certainty that it is not a prelude to a substantial recovery. Having perceived this, consumers have decided that the prudent thing to do is to retrench ... Banks are supercautious in making new loans. Hence the 'credit crunch' that keeps the economy stalled. The Federal Reserve Chairman, Alan Greenspan, told Congress last week that the hesitancy of both consumers and bankers "is extraordinary and unprecedented."⁴

A renewed recessionary cyclical downturn from the Reagan recovery is certain ... The evidence suggests that the next recession may also be once again more severe and that it may even turn into a recession analogous to that of the 1930s ... [This] suggest that the world has not yet bottomed out from its present (possibly Kondratieff) downturn. The

evidence... may be summarized as follows. Each of the past four recessions [in 1967, 1969-70, 1973-75, and the double dip recession of 1979-82] was more severe than the preceding one. The growing structural problems like lower rates of productivity growth and higher structural unemployment were not resolved or even abated by the succeeding recoveries. The recoveries themselves generated or exacerbated new problems, like the replacement of fixed exchange rates by widely fluctuating ones in 1973, and the Third World debt crisis in 1982, following upon the increase in credit and interest rates in the 1970s. The recovery since 1983 in particular generated many new problems, especially the replacement of real production, investment and productivity growth by growing financial speculation and debt as well as the exacerbation of imbalances among the United States, Japan, Western Europe, Eastern Europe, the Third World, and within these regions.

"WHAT'S WRONG WITH THE ECONOMY. America is plagued by excess capacity and excess debt. Neither problem will be worked out before the middle of the decade Occupancy rates for commercial real estate are at the lowest levels since the Great Depression,.... this downturn represents the

first time in recent history that white-collar workers have lost jobs in a recession."⁵ "In New England's Economic Slump, Echoes of the Dire '30s."⁶ "U.S. Mayors Urge Relief for 'Hometown America' — Emergency food requests jumped 25 percent in the nation's major cities this year, while requests for emergency shelter rose 13 percent. "If it is a good policy to feed hungry people in the Soviet Union, then why isn't it good policy to feed hungry people here in the United States?"⁷

"The longest recession since the 1930s The Reagan years borrowing and spending led to the retrenchment that has led to the present slump DOES AMERICA NEED A NEW DEAL FOR THE NINETEES?"⁸ "U.S. Economy: Woes Go Beyond Debt ... into the troubled structure of the American economy ... One reason why no one in Washington professes to know the cure is that acknowledging some of the underlying causes would indict those Reagan and Bush administrations who bear some of the responsibility for them It's too late for sound economic policy. Now we're reaching for quick fixes"⁹

"The U.S. economy suffers from two ailments. For 20 years, incomes have stagnated, leaving the middle class little better off than it was in 1970 [or rather worse off, and the working class is much worse off]. Apart from that stagnation, the economy started sliding into recession in 1990 [really 1989], a slide that has now accelerated — witness the deep cuts announced by General Motor."¹⁰ "IBM Suffers First Annual Loss as Sales Collapse Into Decline" for the first time ever.¹¹

Elsewhere, "Glum Rumble of Discontent. Britain is hurting badly, and even the Deutschland express is wheezing as sluggish growth and soaring unemploy-

ment grip the Continent. The economic engines are sputtering from London to Lisbon."¹² "Soviet and Global Slump Worry G-7.... All our economies are underperforming."¹³ "UN Sees 'Depression' in East.... the overall drop in industrial production at 19.5 percent for 1991."¹⁴

The recourse by policy makers to anti-recessive economic policies to promote and sustain recovery may render these instruments less available when they are needed to combat the next recession. Examples in domestic [monetary] policy are accommodating monetary policy and lower interest rates by the Fed. Examples in domestic fiscal policy are increased public (defence) expenditures, reduced taxes, and a bigger budget deficit. Examples in international economic policy are exchange rate intervention and trade policy. Therefore easy recourse to these and similar economic policies to assure a soft landing in, let alone provide for a sustained recovery from, the next recession are likely to be less available, effective and adequate. In particular, the recourse to reflation, which is so dear to some economists and to policy-makers hearts, is not likely to be an adequate policy remedy in the next recession

"Unpleasantness Ahead? With the latest drop in interest rates, the Federal Reserve Board is doing its desperate best to revive the economy. It can't go much farther... While the fear of a renewed—or continued—recession is widespread, it is quite possible that public policy can do very little about it. Increasing an already gigantic budget deficit is not going to help.... Some of the American prosperity of the 1980s was spurious... If the flow of money from other countries declines, as now seems to be happening, the standard of living is going to suffer. That is what happened to Latin America..."¹⁵

Contrary to almost everybody except the Nobel laureate in economics from Yale, James Tobin, there is a serious danger of deflation rather than inflation The next recession may threaten another period of very severe deflation as credit supported speculatively inflated values collapse.... It becomes rational

and necessary for individual and financial corporations to sell off real and financial assets at any low price they will fetch in order to raise the cash they need to meet their most pressing immediate interest payment and other financial obligations

"Too much debt. Too many loans. Too much unneeded real estate. The excesses of the 1980s have damaged many of our financial institutions and corporations. Now comes the cleanup... perhaps even deflation.... The World Bank: Debt Crisis Not Finished."¹⁶

Another important deflationary influence in Europe and Japan of any US recession.... would be the consequent loss of their US dollar denominated assets.... The flight of Japanese capital from overseas and especially from the United States, and of course the growth of protectionism and Japan bashing.... as the United States and Europe try to redirect Japanese exports to or against each other.... is a real possibility in the next recession. Perhaps the most plausible alternative would be to upgrade.... the Japanese yen and the German mark, or a mark based Eurocurrency through the strengthening of the European Monetary System (EMS).

All of these economic possibilities and policy options would sharpen already existing economic and political conflicts of interest [and of economic and monetary policy as other paragraphs explained] among the United States and its Japanese and European allies as well as with Third World countries... The United States, Japan and Western Europe could turn increasingly toward neo-mercantilism and/or the formation of regional blocs. These blocs might be centered on the United States in the Americas, Japan in Asia, and Germany in Western Europe and perhaps Eastern Europe.... These could also promote the creation or extension of a European bloc in Western Europe or in all of Europe, including Eastern Europe, and with some possible participation of the Soviet Union as well This policy to extend detente into a pan-European entente has also been proposed by the present author's *The European Challenge: From Atlantic Alliance to Pan-European Entente*

for Peace and Jobs (Frank 1983/4, summaries of which also appeared in EPW).

The options for Canadian and Latin American nationalism would be more constrained by an American Hemispheric bloc or even a North American Common Market Similarly, renewed pressure could build up toward the formation of a Japanese 'Greater East Asian Co-Prosperity Sphere' (to recall the term of the 1930s) in the Pacific area.

"Each One Going Its Own Way.... The German move [to raise interest rates], as the Federal Reserve lowered the discount rate in America, was dramatic evidence that the Group of Seven coordination is dying on the vine. Each major country is attending to its own current problems with little regard to the impact of its decisions on others."¹⁷ "International economic coordination among the Group of Seven powers is in a deep freeze. Investment money may drift away from the United States to Europe so as to earn a better return."¹⁸ "Thoughts have turned to the possibility of a tripolar international monetary system, centered on the US dollar, the deutsche mark, and the Japanese yen."¹⁹ "The building blocs of world trade: What in the world do economists worry about? A large part of the answer, to judge from the list of this year's Amex Bank Review Essay Competition is the state of the world's trading system and the emergence of trading blocs. Two of the three prizes which will be presented.... are concerned with trading blocs."²⁰ "Emerging Trade Blocs: The Americas.... Europe.... Asia & the Pacific Rim" are the themes of a major conference on "World Trade & Investment: Emerging Blocs & Opportunities" sponsored by the International Chamber of Commerce and the International Herald Tribune, according to a half page announcement in the International Herald Tribune (IHT).²¹

All above reports and statements on the economic crisis in quotation marks are from the press. Most are from the IHT in late December 1991 and early January 1992, as indicated in the endnotes below. All the accompanying "explanatory" text, although not placed in quotation marks here, is a direct quote

from my article "Is the Reagan Recovery Real or the Calm Before the Storm?" published in *Economic and Political Weekly* (Bombay) Vol. XXI, No. 22, May 31, 1986.²² Similar quotations from the current press and my earlier publications could be multiplied many fold. More of the same however — also about recent events in Eastern Europe and the Soviet Union — should be unnecessary.

I would simply add that it is important to look behind the spectacular political appearances to see the underlying economic background and mechanism: The world economic crisis has drawn — or more accurately pushed — the weakest parts of the world economy, that is some parts of Asia and the Middle East, Africa, Latin America, Eastern Europe and now the ex-Soviet Union [all quite independently of their supposedly different economic "systems" and political ideologies], into a depression, which is already deeper than that of the 1920s and 1930s. The economically and politically strongest have obliged the peoples of the weaker and poorer countries to bear the brunt of the world economic crisis and to pay its greatest cost in the attempt to protect the rich from the same. Yet, in this recession, even this enormous sacrifice may not be enough to save us economically — or politically: the threat of global economic depression, national chauvinism, rabid racism, neo-fascism, and war — already in the Gulf and now in Yugoslavia — are rampant again as a direct result of the world economic crisis.

The spate of doomsday books and articles in the United States, from Batra's

bestselling *The Great Depression of 1990* to Wall Street financier Felix Rohatyn and former Secretary of Commerce Peterson, like my above cited modest analyses also, were all in vain. No one in a position to do anything seems to have taken any note, and those in Washington still have not, until they do too little too late.

EPILOGUE

After the above lines were composed, David Stockman, the Chief of Ronald Reagan's Budget Office, who was himself initially responsible for the fiscal side of Reganomics until his resignation and his cynical "Trojan Horse" interview in *The Atlantic* about the Reganites' purpose to redistribute income from poor to rich, gave another interview:

"This recession is really not a typical inventory recession.... It represents an effort to correct belatedly the debt and spending binge hangover from the 1980s by liquidating excess debt and investment. During the 1980s we probably had somewhat of a false prosperity that we are now paying the price for. Since this is unique and unprecedented in postwar business cycles.... the ordinary stimulous measures, whether monetary or fiscal, are not likely to be appropriate, even though they will be tried Now we're a debtor, and we're kind of on an international bond market standard which sharply constrains our ability to employ fiscal and monetary stimulous.... By the middle of the decade, the recession should be behind us, as well as the \$ 100 billion for the savings and loan bailout.... To [try to] jump-start the economy in the

short run.... will clearly compound the longer term, structural imbalance."²³ Amen!

Notes

1. IHT Dec. 18, 1991.
2. IHT Jan. 19, 1992
3. IHT Dec. 18, 1991
4. Hobart Rowen in IHT Jan. 17, 1992
5. U.S. News and World Report, Jan. 13, 1992
6. IHT Dec. 16, 1991
7. New York Times editorial in IHT Dec. 20, 1991
8. IHT Jan. 18-19, 1992
9. IHT Dec. 18, 1991
10. Time Jan. 20, 1992
11. IHT Jan. 18-19, 1992
12. Time Jan. 20, 1992
13. IHT Dec. 16, 1991
14. IHT Dec. 2, 1991
15. IHT Nov. 9-10, 1991
16. Business Week Nov. 4, 1991 issue on "Financing the 90s"
17. Hobart Rowen in IHT Jan. 6, 1992
18. IHT Dec. 30, 1991
19. Finance & Development, International Monetary Fund, June 1991, p. 2
20. Financial Times Nov. 12, 1991
21. IHT Dec. 21-22
22. Shorter but updated versions of the same appeared as "The Perils of Economic Rambolism: The Next Recession Threatens Deflation and Depression" in *The Imperiled Economy: Left Perspectives on Macroeconomics*. New York: Union of Radical Political Economics 1987 and as "American Roulette in the Globonomic Casino: Retrospect and Prospect on the World Economic Crisis Today" in *Research in Political Economy*, Paul Zarembka, Ed. Greenwich: JAI press, 1988, pp. 3-43.
23. IHT Jan. 20, 1992