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Is the global recession possible in 2012?

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Prophecy and prophets of the recession in 2012. Gloomy forecasts predicting the second wave of crisis and global recession in 2012 have been growing since August, 2011. Panic prophecies became more frequent in subsequent months. They had actually merged into a solid stream by the end of the year.

In December, 2011 many respectable organizations, institutions and scientists burst into statements about the inevitable recession in 2012. Their list included the International Monetary Fund, the World Bank, the U.S. Federal Reserve System, and Nobel Prize winners in Economics. A praised professor of New York University N. Roubini supported them. It is considered that he predicted successfully the crisis of 2008 – 2009 and earned the laurels of a cyclic prophet.

Here are typical examples. The IMF raised one of the first loud alarms in September, 2011, "Projections are for an anemic recovery in major advanced economies and a cyclical slowdown in emerging economies"[1]; "Downside risks have increased and are severe"[2]. According to the downside scenario of the IMF, the U.S. could lose about 2.5% of GDP in 2012[3].

The Bank of the U.S. Federal Reserve in San Francisco issued an alarming warning in November. According to forecasts, the recession odds were greater than 50% that we would experience a recession sometime early in 2012[4]. Analysts of the U.S. Federal Reserve explained, that they had appealed to the results of statistical experiments based on the components of the Conference Board's Leading Economic Index, which showed a significant possibility of a U.S. recession over a 24-month period. Since 16 months was over, the recession odds increased from 33% to more than 50% – that was the logic there. The interpretation of the current macroeconomic indicators of the U.S. was slanted in favour of it.

N. Roubini gave utterance to his assessments in December. And they also were depressive, "The outlook for the global economy in 2012 is clear, but it isn't pretty: recession in Europe, anaemic growth at best in the US, and a sharp slowdown in China and in most emerging-market economies. Asian economies are exposed to China" [5]; "At this point, a Eurozone recession is certain" [6].

Hopeless state of mind was shared by Joseph Stiglitz, "Someone recently quipped that the best thing about 2011 was that it was likely better than 2012... I hope that events prove me wrong, and that my pessimism turns out to have been excessive. But I am afraid that the risks are more on the downside"[7].

The apogee of the world concern was December 23 in 2011, when the UN experts joined the prophets of the recession. They released a report "World Economic Situation and Prospects 2012. Global economic outlook", which was mottled with the terms "downturn", "economic recession", etc.

We quote, "The world economy is teetering on the brink of another major downturn... Even this sombre outlook may be too optimistic. A serious, renewed global downturn is looming because of persistent weaknesses in the major developed economies related to problems left unresolved in the aftermath of the Great Recession of 2008 – 2009"[8]; "Risks for a double-dip recession have heightened"[9]; "The United States could trigger another global recession"[10]. According to the downside scenario for the world economy, in 2012 the losses were 0.8% of GDP in the USA and 3.6% in Russia[11].

Such estimates and prophecies can be easily multiplied. But, we think, those of them mentioned above are enough. The picture is clear. If we take these forecasts on faith, the recession threatens, mainly, the leading industrialized countries – the U.S., European countries and China; then it will spread to the less-developed economies. A few months are supposed to be between the world and a terrible depression, because it will hit the world economy in the first half of 2012. This is probably the general opinion.

The baselessness of depressive prophecies. As you can see, competent scientists and world organizations make pessimistic forecasts for the world economy. Naturally, undermining of their authority is out of the question. However, authority is a subjective category, and therefore it isn't a scientific argument. We can't put the authority into the scales of truth.

We have a tool to check the validity of the conclusion about imminent economic recession in the U.S. and other developed countries in 2012. A model of cyclical crises of capitalism gives us this opportunity. We have developed the model based on the classical laws of the capitalist mode of production.

Since the U.S. economy appears in the forefront of the prophecies and predictions of a hypothetical recession in 2012, we have taken the necessary U.S. statistics, grouped the data in the order necessary for our model and carried out the marching. Estimated result was diametrically opposite to gloomy one: it pointed clearly not to the recession, but to the growth.

In other words, a pointer of a scientific cyclic barometer shows the U.S. economic expansion. The other OECD countries including the leading economies were not calculated. We had to consider only the U.S. economy due to the difference in gathering and preparation of statistical data. Nevertheless, its fall from the downside scenario of 2012 has depreciated it in whole.

Contrary to the chorus of gloomy predictions, our conclusion is different. It is the following statement: there will be no second wave of crisis or recession in the advanced OECD countries in 2012; on the contrary, the U.S. will improve its economy in the near months much more rapidly than it had been until recently.

As to the crisis, it will be another cyclical one; it will have nothing to do with the second wave of the last crisis. The crisis impending objectively isn't possible in the developed countries before the second half of 2013. It is necessary to note that this conclusion has no concern with Russia. We will explain the reasons further.

Thus, the signal of cyclic alarm is enabled for the world economy prematurely and without proper causes. Now we are going to prove our conclusion.

A new model of crises. It is not the place for going into the fundamental questions of the theory of capitalist crisis, confrontation of classics and "neoclassic", reproduction approach and its mathematical formalization. Everyone, who is interested in the theory of the reproduction cycles of the total capital, can find useful publication where the relevant issues are the subject of more detailed analysis[12].

It is enough to describe the specifics of the model we used in brief in order to be closer to the main purposes of the article.

First, the model has been designed in full accordance with the principles and laws, which are basic for the classical employment paradigm.

Second, the model is in keeping with the logic of the reproduction approach, which is classic too. It's necessary to note, that classic reproduction rejects both production for the sake of production and exalted "neoclassical" exchange for the sake of exchange.

Third, the specifics of the crisis model we used are based on the criteria and indicators of social division of labor, so the model doesn't depend on any value aggregates and indicators. It isn't affected by GDP, prices, inflation, deflators, wages and income, currency and stock rates, exports and imports, savings, loans, debts, etc. While it reflects very accurately the aggregate macroeconomic dynamics that is cyclic in capitalism, by definition.

Fourth, the model has been tested in the long series of the U.S. and the UK statistics, leading the countdown to 1910. Each time indicated points of the crisis coincided with those, which had been fixed officially, in particular, by the U.S. National Bureau of Economic Research, which is responsible for the identification of the beginning and the end of cyclical crises in the U.S.

Fifth, the model has already helped us to identify an initial point of the U.S. recession in the last crisis cycle – December, 2007, as well as a point of transition from depression to recovery– the second quarter of 2009. Both points were confirmed by the National Bureau of Economic Research later; the traditional delay amounted to 1.5 – 2 years.

The economy is on the rise in the U.S. Thus, we are in the firm belief that the model is adequate, as well as the result obtained, which shows only one crucial moment for the U.S. now, namely, the transition from recovery to growth in February, 2011. The other point hasn't been seen yet. Therefore, the U.S. economy hasn't reached a turning point from expansion to recession and will not go up to it in 2012. The recession odds come to nothing in the next 12 months.

Undoubtedly, the way out of the latest crisis was dragged out. The depression lasted longer than it was usually in the postwar period. Only since February, 2011 the U.S. economy has moved from the sluggish recovery to the growth, though it is too slow. As we can see, there were some reasons for that.

Nevertheless, the real GDP growth in the U.S. in 2011 seems to be more dynamic than the current estimates show it. In our opinion, the next statistical adjustments, refinements and reappraisals will be oriented to increase it in about six months.

However that may be, the U.S. has at least 15 months of GDP growth, or five crisis-free quarters in future. We can't look beyond a year and a half period because there are no data to do this. However, this horizon is more than enough to be satisfied with it.

A closer analysis of traditional macroeconomic indicators shows that the U.S. economy looks much better than it is assumed. Corporate profits are rising. The volume of the U.S. GDP has exceeded pre-crisis rate. It was increased by about 3% in the fourth quarter of 2011. The supply of jobs is being increased. And this trend will cover the whole first half of 2012. House building is being recovered. The final consumption level is 4.5% higher than it was before the crisis. The volume of savings and loans is being expanded. Service costs of households' debt are being gradually reduced – from 14% at the peak down to 11%.

Thus, the dynamics of the expanding U.S. economy is not declining, but it is increasing, even in value terms.

The reasons of sluggish recovery. According to classical political economy, a special anti-crisis function immanent to the price of production activates in the periods of capitalist crises. Here is a classical formula of production price: $P = k + K * r$, where P – the price of production, k – costs, K – advanced capital value, r – general economic, or average, profit rate. The last tends to zero under the crisis {r – > 0), so that the price of production is approximate to the costs (P –> k). In this case, first of all, return on fictitious capital turnover decreases extremely: if r –> 0, then A> r –> 0.

Thus, an anti-crisis function of the production price cuts the risk capital from the industrial capital, which gets rid regularly of the parasitic ballast through market crashes.

Therefore, speculative capital, monetary capital and capital unsecured with commodities cease to be profitable and grow in value in the phase of the crisis. In order to realize a profit, money capital must be converted, firstly, into productive capital embodied in the means of production and labour force, and then it must be turned into commodity capital presented in final goods. At the same time, it is important for the new productive capital to have a technical structure which is higher than average ones, because a level of costs is dependent functionally on the organic structure of capital in production.

In short, first of all the mechanism of the production cost cuts off speculative capital investment spheres in the phase of the crisis and leaves productive ones. Along with that, the mechanism of production cost includes the effect of one more powerful factor of development because it suppresses the extraction of profit by increase in prices. Inflated inflationary profits come to nothing. The main sources of income are increased productivity, expansion of commodity production, labour saving and a cut in expenditures.

Minimum levels of interest rates, supported currently in the developed countries (r – > 0), prove that the anti-crisis mechanism of reproduction price is really up, and it is running. At the same time, it is under the pressure of some opposed factors, that's why speculative ballast is partially dumped, and it continues to limit significantly the accumulation of new industrial capital.

What factors hamper recovery and slacken the expansion of reproduction? Are they well-known? Yes, they are. We mention only the key ones.

The first factor is an institutional boundary blur between industrial and exchange speculative capital.

The wall was erected between one and another under the "New Deal" in the United States in 1934. It prevented the transformation of industrial capital into speculative one. The Glass-Steagall's mechanism stood guard over the border. It did not allow any companies or banks to put industrial capital into speculative stock exchange operation. But since the 1990s the Glass-Steagall's mechanism has been actually dismantled. Banks and corporations began to speculate and chase the quick profits at the expense of industrial capital, as it was before the Great Depression in the early 1930s, and that caused burning indignation of John Maynard Keynes in "The General Theory".

Nowadays there is no boundary between capital-function and capital-ownership even within the U.S. multinationals.

Their leadership acts both as an industrial capitalist and a speculator. Managers are rushing around in search of more profitable ways to invest their money capital – in production or stock exchange. Low lending rate is concentrating the flow of funds in production, while the high profitability of speculative operations is persistently straying them to currency and stock exchanges, including the markets of underdeveloped countries, where the exchange profitability is particularly high because of comprador sales of national wealth.

The second factor includes the workload of a printing press of the U.S. Federal Reserve System and incessant injections of the dollars unsecured with commodities (in fact, they are sweet wrappers) into the arteries of the global commodity and money circulation. One package of issue referred modestly to as "quantitative lessening" is replaced by another. Issuing dollars are instantly transformed into inflationary petrodollars. They raise the prices for oil, gas, metals, fertilizers and other resources.

Thus, the U.S. Federal Reserve System is flooding the world with dollar wrappers; it pumps speculative bubbles worldwide; it raises artificially the exchange pyramids and bubbles, and, as a result, it overstates the mass and the profitability of speculative monetary capital. It's necessary to note, that the representatives of the U.S. Federal Reserve System deny even at the Senate hearing the connection between speculative oil price inflation and dollar issue, which are secured with the only political dictates of the United States. But the regression models show the opposite facts, with a correlation coefficient 65 – 75%.

There is a final benefit of the USA in the situation when the world delivers the goods to this country in exchange for money unsecured with commodities. So, the U.S. has got a free imperialist rent each year wringing on a vast scale by the monetary leverage of "the dollar imperialism".

The third factor is inflationary high oil prices. They increase the cost of commodity production, reduce the recoupment of technology investment, and slow down the rates of industrial recovery and growth.

The fourth factor is the deregulation of banking, financial and stock exchange turnover. Liberalization, or freedom from regulation, increases both the speed of speculative pyramids and their size. Hence there is an increase in frequency and amplitude of stock-exchange crashes in the 2000s and depressed conditions and incentives for expanded reproduction of industrial capital.

The factors, noted briefly and counteracted the natural implementation of anti-crisis function of production price, are purely non-economic in origin. All of them are generated by "the dollar imperialism", or the dollar globalization.

In turn, "the dollar imperialism" is based on the strength of the American war machine. Moreover, its military power is also globalized unilaterally by the U.S., which tries doggedly to achieve the total world domination – military, political, economic and monetary.

To sum up, we can say, that the extremely slow rate of revival and recovery after the crisis of 2007 – 2009 is caused by "the dollar imperialism", which has turned into the source of the modern world economic imbalances and speculative stock-exchange pyramids.

Debt crisis of the EU. The current position of the U.S. is asymmetric to the situation in the EU due to "the dollar imperialism". When the situation is bad for the euro and the EU economy, it is good for the U.S. dollar and the American economy, and vice versa. After the crisis American multinational corporations try to achieve profit markup by any means including the funds of the developed and underdeveloped economies.

There were no any exceptions for the global "dollar imperialism" before; and they don't exist now. It does not give any indulgences to the EU countries, where it is a reason of the large-scale debt crisis. It may sound ironic, but it is a fact that some European states and governments are the debtors of the American private capital. This is also a direct consequence of deregulation and monetary and financial liberalization, rather than the decentralization of the EU fiscal structure. Of course, the EU leadership will solve these problems, but now the leaders are far from this goal, as they try to shift the loss of speculative capital onto the taxpayers. The response is a pan-European social protest, which moves to the true solution of the problem associated with the bankruptcy of speculative capital.

Nevertheless, the debt crisis in the EU, produced by "the dollar imperialism" in the geopolitical interests of the United States, is not identical to the cyclic one. The European Central Bank keeps a long-term low interest rate, thus stimulating an anti-crisis function of production price and the introduction of the new industrial capital with higher technical structure. Germany and France avoid deliberately the euro issue unsecured with commodities because they realize its harmfulness for the European industrial capital. In general, the EU is paying for the debt crisis in unprecedented low growth and high unemployment. But there is no recession or depression here.

Threats to Russia. As the dominance of the raw materials export model is preserved even after the monetary crisis of 2008-2010, the GDP growth in Russia is still dependent on the inflation of petrodollars and the printing press of the American Federal Reserve System. The development of the Russian economy isn't still dependent on Russia. And this factor outweighs everything else.

There were a lot of declarations and appeals to the transition from the external to internal development and a new post-crisis economic model. In fact, the system of our country hasn't changed a bit because the economic policy continues to contradict the development formula of Russia: it is neo-industrialization plus vertical integration.

Straight, hard and cruel dependence of the national economy on raw materials export, petrodollar inflation and the printing press of the U.S. Federal Reserve System puts Russia in a position of dependence on the currency and monetary factors, which are not influenced or controlled by the Government of the Russian Federation. It is know that the GDP growth, based on raw materials export in Russia, is directly proportional to the issue and depreciation, or petrodollar inflation. If depreciation is more, oil prices and the dollar volume of GDP are higher; if depreciation is less, oil prices and nominal volume of GDP are lower.

Thus, the position of post-reform Russian economy is regulated by the American printing press.

Moreover, it is exacerbated by one more factor. The problem is the oil market has become a manipulated market since 2000. The oil price has ceased to follow the changes in supply and demand. Petrodollars issue and their inflation have the decisive influence over its formation. If during the period of 2000 – 2010 domestic dollar, circulating in the U.S., has depreciated by 25-30%, the petrodollars depreciation was fivefold and more rapid almost in 20 times. The current rate of GDP in Russia amounts to 450-500 billion dollars in terms of purchasing power of the petrodollar in 2000.

You cannot ignore the fact that the oil market has turned into a speculative one. According to our calculations, since 2000 the share of supply and demand impact on it is 5%, whereas the influence weight of speculative capital is 95%. Oil is used as an object in stock-exchange speculation. Speculative pyramids are based on oil, but they tend to collapse like a house of cards.

In view of these factors, it's impossible to predict any oil market conditions. Even global recession does not necessarily leads to the drop in oil prices, because their development is predetermined by the petrodollar issue.

We can firmly state only one thing: any drop in oil prices is equivalent to the economic recession for Russia as a result of functioning of the raw materials export model.

We do not know anything about the development of oil prices in 2012. But it is know that the U.S. Federal Reserve System intends to print unsecured petrodollars and throw them into circulation up to the end of the first quarter of 2012. If it's true, this means direct support for a speculative pyramid, and therefore we can assume that steep drops in the price conditions of oil market is unlikely up to the end of March, 2012. But we can't guarantee that this is true.

We have no idea about the situation after March of 2012 and the decisions beneficial to the U.S. administration.

If Washington decides to act in behalf of industrial capital of American multinational corporations and urge on neo-industrial growth, there will be the command to stop petrodollar issue. Then oil prices and speculative pyramid will collapse, and the growth rates of the U.S. economy will increase.

At the same time, it is extremely profitable for the U.S. to print the petrodollars, because gratuitous resources, which are pumped by "the dollar imperialism" out of the other countries such as natural, mineral, technical, consumer, etc., are flowing overseas nonstop in exchange for the dollar funny money.

Net enrichment of the U.S. at the expense of a currency and monetary factor now comes to $ 1 trillion dollars a year. Moreover, it is represented only by material values, in spite of the primitive and naive notions about "post-modern values" of American multinational corporations. Such an imperialist rent giant in size, appropriated by the U.S., hampers the suspension of petrodollar issue.

In strategic terms, the U.S. will not stop printing petrodollars in any case. They will surely continue to appropriate real goods in exchange for virtual petrodollars in order to enrich themselves with resources at the expense of the rest of the world.

The "dollar imperialism" pumps out their rent as a non-stop conveyor. And the situation won't change until there are no oil rates in another currency, or until the oil-producing countries shut themselves off with the firm foreign trade monopoly and eliminate the petrodollar stabilization funds of dollar inflation import.

Of course, the nature of these funds must be understood clearly. It's impossible to cover the commodity imbalance with the monetary one. The gap between trade and monetary is inflation. If a country exports its goods and gets monetary mass in exchange for the equivalent mass of commodities, it means the export of goods in exchange for the import of inflation. It is always profitable for the country, which prints the currency of payment, to change money unsecured with commodities for real goods. But it is unprofitable for the countries, which part with their goods free of charge. It's beneficial for the U.S., which gives monetary fiction and gets a full-fledged mass of goods in return maintaining the purchasing power of the national dollar.

The U.S. will not abandon its strategy of "the dollar imperialism" in any case. Temporary suspension of the printing press of the U.S. Federal Reserve System is another matter. For example, during the period when a partial loss of imperialist rent is balanced by the acquisitions in the field of industrial capital and political concessions of some oil exporting countries, etc.

Therefore, it is impossible to eliminate a possibility of a sudden Washington's transition from a "weak" petrodollar to a "strong" one in 2012. The drop in oil prices will provoke a new currency and monetary crisis in Russia. Its direct consequences are obvious: devaluation of the ruble, flight of the dollars abroad, budget deficit, contraction in aggregate demand, scraping of investment and social programs, collapse of industrial production. In general, the situation happened in 2008 can repeat in such a course of events.

It is known that it is impossible to enter the same water. If the crisis in Russia concurred with the crisis in the developed countries in 2008, then this time there can be a striking asymmetry: the recession will take place in Russia, when the economic growth is continued in the advanced industrial countries. In this case it is useless to appeal to the thesis that the crisis comes from outside and Russia is in the same boat with the developed nations, and it is plunged into the crisis at the same time with them.

There are no recession dangers for the developed countries in 2012. Moreover, there is a danger in Russia; and it's more serious than it was in 2008.

What is to be done? The only true solution is to eliminate the dependence on the petrodollars of socio-economic development of Russia and switch over to home, reproductive, neo-industrial sources, factors and motive powers.

There are no such purposes and decisions in the updated version of the Strategy-2020. Our country has too little time to wait until 2020, carrying out a false and dangerous experiment, proposed by the liberal-oligarchic experts as "the supply-side economics". The task is to increase budget revenues on the basis of high growth of the national economy, but not to reduce budget expenditures.

In general, the Strategy-2020 contains the steps that we shouldn't do. So, the best thing is a rejection of it for the sake of a fundamentally different strategy aiming at the new industrialization and vertical integration of the national economy.

It is necessary to substitute an export-raw material model for a planning integrated system of neo-industrial reproduction to cut the Gordian knot of dependency on petrodollars. Obligatory and objective prerequisite for this is a strategic nationalization of land, power industry and other infrastructure monopolies, military-industrial complex, etc. It is known that the Government of the RF would like to confine itself to the current budgetary nationalization of raw materials export rents. The Government doesn't want to touch the property relations. But this position is for the past. It has come into conflict with the realities and challenges of the time. It is impossible to keep Russia on a short leash of petrodollars and expose it to danger of crisis asymmetry, inflation and devaluation shocks.

There is no strategic nationalization alternative for the planned vertical integration of ownership and industrial production in order to ensure a new industrialization of our country. The situation will be different if it is possible to organize a vertical integration of ownership, combining directly the mining and manufacturing sectors of the national industry without the nationalization of the strategic heights of the economy. However, this variant is unrealistic: it is conceivable but unrealizable. It is impossible prove the contrary of this statement, but no one wants to do it.

Nowadays time isn't on the side of Russia. Our country is in the situation of the countdown. The delay in the vertical integration of ownership leads objectively to the national catastrophe. This is not exaggeration, but verified assessment based on the scientific analysis of the current situation.

Nationalization for the sake of vertical integration is the only right way out. Our country has got no alternative in terms of neo-industrial prospects.

Russia will eliminate quickly the dependence on petrodollars based on the nationalized heights of the economy and restore or reorganize the vertically integrated structure of the fuel and energy complex, power industry. The country will link institutionally extraction of raw materials with their deep and high-tech industrial processing and implement the national plan on creation of workstations within the scope of the progressive distribution of productive forces. It will stop "black redistribution", removes the centrifugal tendencies, establish direct links between producers and trade, and eliminate the offshore and intermediary economy. Russia will also ensure the growth of the budget at the expense of infrastructure rent, as well as high-tech and neo-industrial rent such as aviation and others, which go to comprador private capital, and then they are converted into dollars and are exported abroad.

In addition, the strategic nationalization is a basis, which will allow us to restore mutually beneficial infrastructure, currency, price, tax, economic and systemic unity of the CIS countries through the synchronization of their integration on the way of new industrialization.

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[1] Consolidated Multilateral Surveillance Report. IMF, September, 2011. P. 1.

[2] Ibid, p. 3.

[3] Ibid, p. 5.

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[9] Ibid, pp. 2, 17.

[10] Ibid, p. 18.

[11] Ibid, p. 20.

[12] See: Gubanov S. Reproduction model of cyclical crises. In: “Capital” and Economics: Issues of methodology, theory and teaching. No. 3. Ed. by V.N. Cherkovets. Moscow: Economy Department of MSU, TEIS, 2009. P. 183-213.