UNIVERSITÀ DEGLI STUDI DI TERAMO

Economic growth and Ideology

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Abstract

When the growth rate of the economy decreases, two are the most recurrent affirmations in the 'narration' of this event: it was an exceptional event, caused by COVID, by inflation, by the war; and/or: it is a single case, a particular country, an exception. COVID, inflation, war are - obviously - adverse shocks that affect economic systems, negatively influencing the cycle; it is also (equally) true that Italy has not grown for at least twenty years, but if it is not just a single country that grows less and the time frame is not limited to a cycle, then the optimistic 'narratives' become insufficient and they risk being dominated by ideology.

Keywords: economic growth, ideology, productivity; B51, N10, O40

1. Introduction. Productivity, value, and working time

The problem of Italy's insufficient economic growth has been in the spotlight of economists, politicians, sociologists and in general of those who wonder about the future of society for many years now. In their recent book[1], Codogno and Galli (2022) claim that "in the last quarter of a century Italy has almost stopped growing. No other advanced country has done worse [..] from 1995 to 2019 the cumulative gap in GDP growth was 32.1 percentage points compared to France, 23.7 compared to Germany, 29.5 compared to the Eurozone average". The cause of the lack of growth is attributed – by Codogno and Galli, but not only – to a precise factor: "the lack of productivity growth is the main factor that has slowed down economic performance[2]".

For their side, Ardeni and Gallegati[3] observe that "in recent decades, the effect of productivity growth on labor [..] has become increasingly controversial, [..] productivity

[1] Codogno, L. and Galli, G., Crescita economica e meritocrazia, il Mulino, 2022, pag. 75

[2] Codogno e Galli (2022), page 79

[3] Ardeni, P. and Gallegati, M., Alla ricerca dello sviluppo, il Mulino, 2022, pag. 252

drives per capita GDP growth only if the ratio between employed and population remains constant and, at the same time, the number of new workers increases [..] after 1980 the growth of labor productivity is associated, in the main economies, with a decrease in the quantity of employed work [. .] in the last twenty years, Italy has recorded a number of hours worked (per worker) on an increasingly smaller share of the active population – that is, those who work, work more[4]".

Sure; Italy has stopped growing for many years, undoubtedly the level of productivity in our country is lower than the average of the nations with which it makes sense to establish a comparison, but are we so sure that Italy's low performance represents an anomaly or is it rather a lower level within a trend of declining growth common to most countries similar to ours?

More generally, that we can grow forever, to infinity, is a postulate that collides with ecological, demographic and historical limits and many authors[5] wonder whether growth, at least in the traditional sense of the term, can still constitute the only or the main economic objective that humanity must set; nevertheless, or perhaps precisely because of this, wondering about some dynamics of economic growth in recent decades can be useful for understanding whether capitalism is just going through another phase of crisis from which it will sooner or later recover, i.e. whether economic growth - at least in the rich and old West - has only been interrupted, or whether if we should rather reconsider the way of organizing the production and distribution of resources.

Looking for greater economic efficiency, i.e., the ability and possibility to produce and reproduce resources by making the best use of available inputs, is closely intertwined in modernity with the pace of technological change. If, through innovations, it is possible to increase productivity, then a system grows, as long as it is possible to sell the production; the productive forces, enormously increased thanks to technology, causes - or rather has for a long time caused - increased production and income, allowing people to work for relatively less time, both with reference to the working day or the working week, and throughout the working life.

The productive forces, for Marx, are science, technology and their application to the production process. The development of the productive forces is measured quantitatively by the increase in productivity, i.e., by the greater quantity of use-values produced with a

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[4] Ardeni, P. and Gallegati, M. (2022), 252-255

[5] See Gallegati, M., *Acrescita*, Einaudi, 2016

given unit of capital. The increase in productivity is mainly due to the embodiment of science in technological innovations and their application to the organization of work.

A shorter working day, the 'short week', the substantial prohibition of working on holidays and at night, a shortened retirement age, have constituted so many achievements of civilization. Then, starting from the second half of the 1980s and with greater incisiveness in the following decade, these achievements were first reduced and then abolished and replaced with much heavier, more precarious and more flexible working time regimes, just when technology seemed to have truly become capable of improving the quality of life of workers.

The first cause, the main reason for the authentic conservative restoration[6], which began during the 1980s and is still going on, is to be found in the crisis of profitability which in the modern economy coincides with the decrease in growth rates.

So, the crucial question becomes: the conservative counter-revolution, in addition to having enormously increased the flexibility and therefore the precariousness of work, has it been successful or not in its attempt to raise the growth rates of the global economy?

It should immediately be explained that, even when labor productivity increases, this does not automatically lead to an increase in the value of the mass of goods: the volume of product obtained will be greater, but in order for this greater product to also become greater value added, a fundamental condition must be verified. As P. Ciocca[7] (2022) reminds, an innovation - according to classical economists - makes it possible to obtain a greater product, a greater added value, also to 'free' the technological unemployed who can switch to produce new goods, but only with the same workforce employed.

If we accept, according to the classical economists (Marx above all, but not only), that the value of commodities depends on the labor time, then an hour of work in itself is always worth an hour of work and the labor force, however productive it may be, cannot create more value in an hour, but just a greater quantity of goods. The purpose of increasing productivity is precisely to be able to reduce the labor time necessary to produce a given volume of goods; this result, when the innovation has become 'common' to the sector, will translate into a decrease in the unit price and this decrease can be translated into an increase in sales, according to the conditions of demand and according to the overall quantity of labor used in the changes production conditions.

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[6] Donato. M. and Taddeo, R., The 'Secret' of the Restoration: Increased Class Exploitation In: Considering Class: Theory, Culture and the Media in the 21st Century Brill, 2017

[7] Ciocca, P., Prefazione a Ardeni and Gallegati (2022), pag. 18

The most important result of technological innovations that translate into increases in productivity, thus concerns the labor time necessary to produce goods that will see their unit value decrease and not increase in this way.

It is Marx, in the 15th chapter of the volume one of Capital, dedicated to the role of machinery, who connects the increase in productivity - made possible by the introduction of a new machinery - to the length of the working day, distinguishing a first phase in which the capital – so defined in his highly abstract model - seeks to prolong the duration of the working day as much as possible.

Replacing workers with machinery increases the productive force of those who work, but 'It is impossible, for instance, to squeeze as much surplus-value out of 2 as out of 24 labourers. If each of these 24 men gives only one hour of surplus-labour in 12, the 24 men give together 24 hours of surplus-labour, while 24 hours is the total labour of the two men.[8]'; in the 'transition phase' machinery produces relative surplus value by raising the social value of the good [and] prolonging the working-day as much as possible[9]. 'Hence, the application of machinery to the production of surplus-value implies a contradiction which is immanent in it, since of the two factors of the surplus-value created by a given amount of capital, one, the rate of surplus-value, cannot be increased, except by diminishing the other, the number of workmen. This contradiction comes to light, as soon as by the general employment of machinery in a given industry, the value of the machine-produced commodity regulates the value of all commodities of the same sort; and it is this contradiction, that in its turn, drives the capitalist, without his being conscious of the fact, to excessive lengthening of the working-day, in order that he may compensate the decrease in the relative number of labourers exploited, by an increase not only of the relative, but of the absolute surplus-labour[10].'

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[8] Marx, K., the Capital, Volume one, chapter 15, Chapter Fifteen: Machinery and Modern Industry, Section 3 - The Proximate Effects of Machinery on the Workman B. Prolongation of the Working-Day

[9] 'Machinery produces relative surplus-value; not only by directly depreciating the value of labour-power, and by indirectly cheapening the same through cheapening the commodities that enter into its reproduction, but also, when it is first introduced sporadically into an industry, by converting the labour employed by the owner of that machinery, into labour of a higher degree and greater efficacy, by raising the social value of the article produced above its individual value, and thus enabling the capitalist to replace the value of a day's labour-power by a smaller portion of the value of a day's product. During this transition period, when the use of machinery is a sort of monopoly, the profits are therefore exceptional, and the capitalist endeavours to exploit thoroughly "the sunny time of this his first love,' by prolonging the working-day as much as possible."

[10] https://www.marxists.org/archive/marx/works/1867-c1/ch15.htm#S3b

But this is not enough. The relationship between productivity and working time regimes must also consider the other characteristic of working time other than its quantitative and therefore measurable dimension, the duration, that - not measurable - of the intensity of an hour of worktime.

So, and we come to contemporary economic history, 'a point must inevitably be reached, where extension of the working-day and intensity of the labour mutually exclude one another, in such a way that lengthening of the working-day becomes compatible only with a lower degree of intensity, and a higher degree of intensity, only with a shortening of the working-day[11]'.

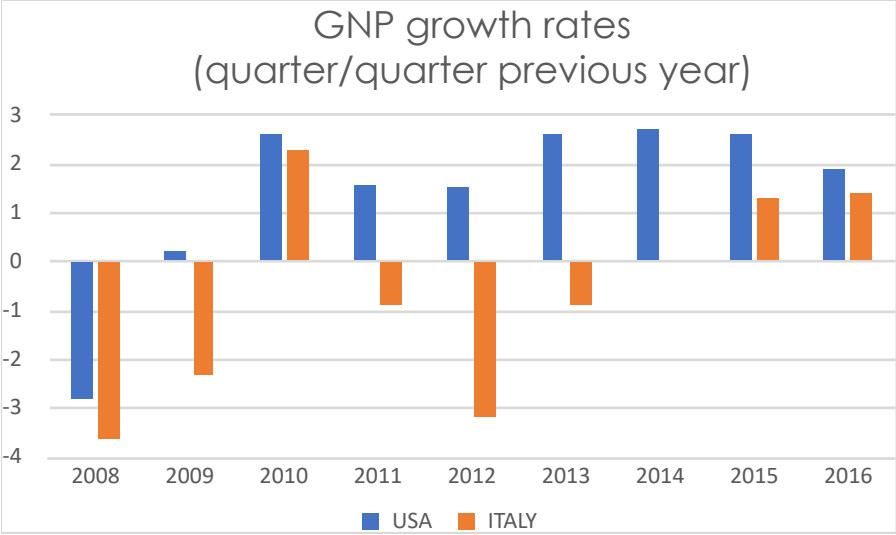
We agree with Marx: beyond a certain limit, lengthen the working day limits the maximum possible work intensity; in other words, an inverse relationship exists between the duration of work and its intensity: when working hours are prolonged, the possibility of extracting greater intensity from them is reduced. To increase the degree of condensation of worktime, it is necessary to reduce its duration, and this has been the trend of working time for a long period of time, up to a certain point. From the time Marx wrote Capital, until a few decades ago, working hours have been reduced in most developed countries, and their intensity has increased. Then, the trend towards the reduction of working time was interrupted, its density increased, up to a limit that seems difficult to overcome. As a result, economic growth has stalled.

2. Cycles and trends in the postwar US economy

The debate on secular stagnation - we will refer to it shortly - has developed in recent years not in relation to Italy or a 'peripheral' country of the world market, but to the US economy: this is where we should start.

[11] https://www.marxists.org/archive/marx/works/1867-c1/ch15.htm#S3b

Fig. 2.1 GNP growth rates USA - Italy (2008-2016)[12]



In the context of a model estimated with Bayesian methods, Antolìn-Diaz, Drechsel and Petrella[13] (2017) find evidence for a gradual decline - dated around the turn of the century - in the growth rate of the U.S. economy, which went from a peak of 3.5% to 2.7% in 2015 and 1.7%. in 2016[14]. According to these authors, the reason for this decline lies in the drop in productivity, common to the other G7 countries; the residual growth is therefore led by the hours worked, the dynamics of which, vice versa, seems to differ from country to country.

Before them, evidence of a slowdown in economic growth in the G-7 countries had been presented by Gordon[15] (2014 and 2015) and Summers[16] (2013) whose explanation - which

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12 Data from: *Economic Report of the President; European Central Bank, Annual Report.*

13 Antolin-Diaz, J., Drechsel, T., Petrella, I. Tracking the slowdown in long-run GDP growth, LSE Research Online https://eprints.lse.ac.uk/81869/1/Drechsel_Tracking%20the%20slowdown_2017.pdf

14 In 2017 the rate of growth of US economy has been+ + 2,2%, in 2018 + 2,9%, in 2019 + 2,3%, in 2020 a negative – 2,8% and in 2021 +5,9%. Data from World Bank https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=US

15 Gordon, R. (2014), "The Demise of U.S. Economic Growth: Restatement, Rebuttal, and Reflections", NBER Working Papers 19895; Gordon, R. *Secular Stagnation on the Supply Side: U.S. Productivity Growth in the Long Run*, DIGIWORLD ECONOMIC JOURNAL, no. 100, 4th quarter 2015, p. 19 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2845327

16 14th Annual IMF Research Conference: Crises Yesterday and Today, Nov. 8, 2013 https://www.youtube.com/watch?v=KYpVzBbQIX0

can be traced back to the concept of 'secular stagnation' proposed in the 30s and 40s by Alvin Hansen - gave rise to a long debate still ongoing[17].

The essence of the Demand Side Secular Stagnation Hypothesis, according to one of the last statements on the subject made by Larry Summers, is: '…there are many reasons that equilibrium real interest rates will be substantially lower than they have been in the past. *Lower equilibrium real interest rates coupled with low rates of inflation means that the zero-lower bound is likely to be a constraint on achieving adequate aggregate demand much more in future than in the past*[18]'.

At the earth of what Summers considers a market failure, there is, basically, the imbalance between saving and investment, caused by an increasing propensity to save and a decreasing propensity to invest. The resulting saving glut acts as a drag on demand, reducing output and inflation, and pulling down real interest rates. In this view, secular stagnation is supposed to occur when the "natural" rate of interest, that balances saving and investment at full employment, is sufficiently low that it cannot be achieved through conventional monetary policy[19].

According to Gordon, part of the slowdown in US output growth would be due to a decline in the growth rate of the working-age population; a second reason is identified in the change in the dynamics of per capita working hours, which went from an increase - due to the entry of women into the labor force in the period 1965-1995 - to a decrease, mainly caused by the retirement of the baby-boom generation. Only the third reason is the slowdown in the growth rate of hourly productivity, which went from 1.7% per year in the period 1974-2004 to 1.1% per year in the period 2004-2014 and to an even more modest 0 .55% in the period 2009-2014.

If we compare the performance of the US economy with that of the Italian economy, we can observe that in the 60s the US economy grew but, particularly in the period 1967-1970, less than the Italian economy: at the end of the 60s US were in recession, with a growth rate of 0.2% in 1970. The unpegging of the dollar from the value of gold operated by the Nixon Presidency in 1971 'straightened' the situation but, in 1973, the growth rates of US

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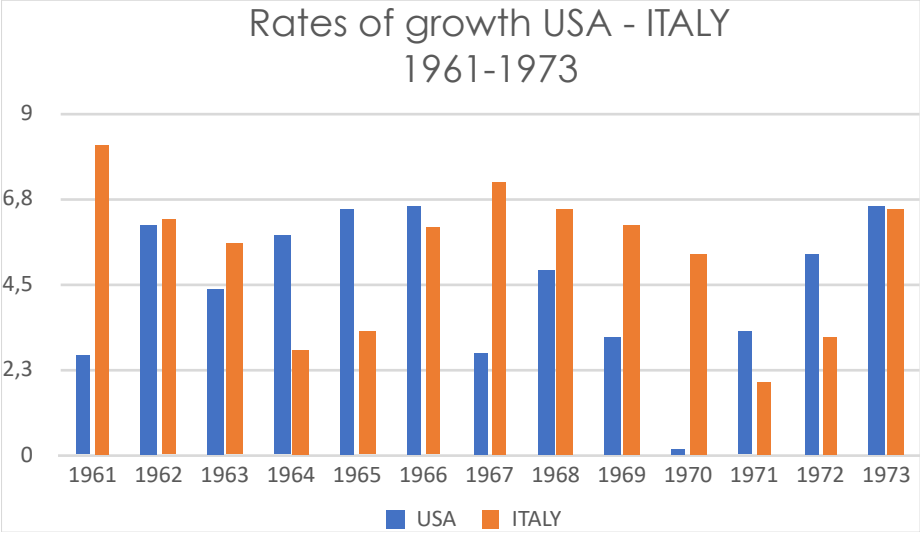
[17] *Secular stagnation: The history of a macroeconomic heresy*, by Roger E. Backhouse e Mauro Boianovsky The European Journal of the History of Economic Thought Volume 23, 2016 - Issue 6: A Selection of Papers Presented at the Annual Conference of the European Society for the History of Economic Thought in Rome, May 2015

[18] Summers, L., Demand Side Secular Stagnation, American Economic Review, May 2015, pp. 60-5.

[19] Summers, L., The Age of Secular Stagnation. What It Is and What to Do About It, Foreign Affairs, February 15, 2016.

and Italy were the same, when the 'oil shock' plunged the US GDP growth rate into negative territory for the next two years.

Fig. 2.2 GNP annual growth rate USA – ITA 1961-1973 (data from OECD)



Only in 1976 did the US economy recovered from the crisis, but for a short time: in 1980 it was again in recession (-0.3%) and again in 1982 (-1.8%); the rest of the 80s was positive, with some particularly favorable years, then a new recession, in 1991.

Fernald[20] (2014) also believes that the decrease in the growth of productivity and therefore of income, occurred concurrently with the cycle of the 'dot-economy', noting however that it is not the slowdown, but rather the exceptional growth cycles to seem unusual, regarding the U.S. economy: that before 1973, and then between 1995 and 2004.

Commenting on the dynamics of the US economy in the last seven pre-COVID years (2011-18), the US Federal Reserve[21] provides further confirmation of the analysis, clarifying what growth depends on, when it is not productivity that drives it: '*Since the beginning of 2011, growth in real output in the nonfarm business sector has been slow, averaging just 2.7% percent. And most of the economic growth has been driven by increases in labour inputs and not by increases in labour productivity. [..]Given that the output growth rates are only slightly different from—either a little above or a little below—growth in hours, the majority of growth in output has come from increases in hours instead of increases in*

[20] Fernald, J., Productivity and potential output before, during, and after the Great Recession, Working Paper 20248 http://www.nber.org/papers/w20248

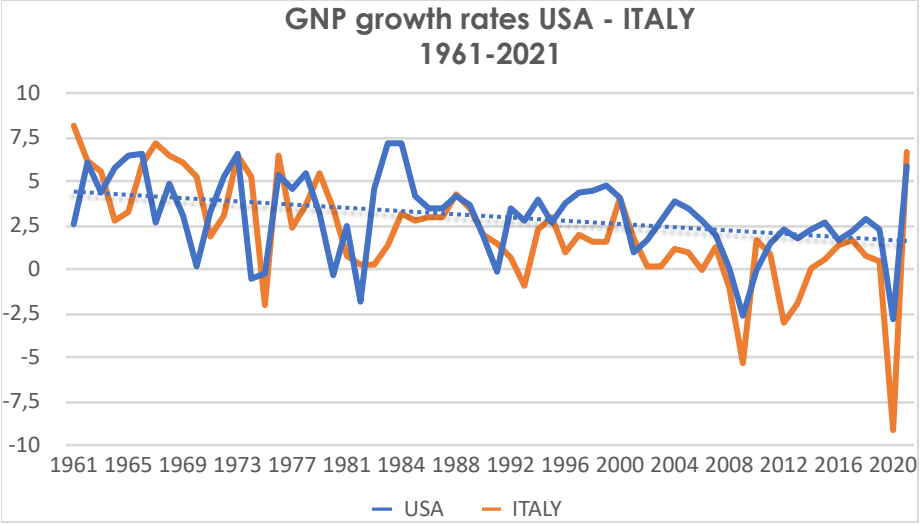
[21] https://fredblog.stlouisfed.org/2017/02/slow-labor-productivity-growth/

labour productivity. Labour productivity growth averaged 0.7% over this period, accounting for just 27% percent of real GDP growth.'

Fernald, Hall, Stock, and Watson[22] (2018) return to the topic, attributing the cause of the structural decline of the US economy to two factors: the slow growth of innovation and the decline in labor force participation. It is true that employment rose during the recovery, but much of this increase was cyclical, compared to the dramatic declines seen during the recession. Taking these cyclical movements into account, recent positive employment trends in US employment – for years considered a benchmark for the European labor markets – have been very weak compared to historical trends and this weakness seems to reflect a sharp decline in participation to the workforce.

It is therefore possible to argue that, regardless of the reasons, on which economists are divided, there is evidence of a slowdown in economic growth not in a peripheral country, but in the USA, the richest and most powerful country in the world. Consequently, that of reduced, blocked, interrupted growth is a more important and general phenomenon than it seems if we focus exclusively on presumed 'exceptional' cases (depending on the period, Italy, Japan, PIGS).

Fig. 2.3 USA and ITALY growth rates (data from OECD)



As with the causes of stagnation, there is also debate about when growth rates began to fall. For the authors we have considered, and for the US economy, the decline began in the 'fin de siècle' years. If we take the last 50 years as a time interval and if we consider - at least - the G7 countries, we can hypothesize that the slowdown had been underway for at least 20 years earlier. The reference to the period between the end of the twentieth

[22] Fernald, J., Hall, R., Stock, J, and Watson, M. *The Disappointing Recovery in U.S. Output after 2009*, FRBSF Economic Letter 2018-04 | February 12, 2018

century and the beginning of the new millennium is correct, if one considers a shorter period and the USA case, but, for the global economy, the crisis comes from further away and needs explanations less related to cyclical dynamics.

3. A global and long-lasting crisis. Cycles, bubbles, and ideology

Economic growth not only in Italy, but in all the advanced economies, for more than forty years has shown signs of a tendency to stagnate, and if a country has managed for a few years to delay its effects and - in a certain extent – to unload the weight on other subjects, it depends only on the undeniable economic, technological, and military strength of the U.S.A.

Adopting - to establish a more satisfactory temporal breakdown - a historical, political, and economic criterion, we can take into consideration the beginning of the phase usually defined as globalization, and compare the global economic growth achieved before and after the 1980s. Starting from that decade, a movement of financial deregulation, labor market liberalization and privatization of increasingly large areas of the public sphere first developed and then - in the following decade - generalized and intensified. This conservative counter-revolution[23] has profoundly changed some ways of functioning of the world market and, according to the apologists of capitalism, would have finally ushered in a more prosperous era and a harbinger of great and positive news for everyone.

With this periodization, it is possible to show how the globalized economy has indeed grown and is still growing on average, but at rates that correspond approximately to half those of the previous period. If we consider the twenty 'golden years' of globalization, we can observe how at the end of 2001 the world economy - at constant 2000 dollars - had grown by only 1.4% compared to the previous year; in 2002 the growth was 1.8%, and in 2004 it was 3.9%: a short, moderately positive cycle, but without forgetting that 2001 had been the worst year since the last crisis, that of 1982. Adopting a less narrow time horizon, and therefore a medium-long term, we discover that in no year between 1960 and 1970 did world income grow by less than 4% per year: in the 60s capital accumulation proceeded – mainly in the West and favoring the wealthy classes, this must be underlined – at a rapid pace, while since 1991 there has been no more year in which world income has grown by 4%.

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[23] Donato, M., Present crisis, Relative Wage and the Rate of Exploitation, *Historical materialism* conference Revolution and Restoration, Rome, 17-18-19 September 2015. https:// hmrome2015.files.wordpress.com/2015/01/hm-program_pagina_23.jpg

Tav. 1 The 'golden years' of globalization

	1970-1980	1980-1989	1990-2000	2000-04
WORLD	**3.8**	**3.2**	**2.8**	**2.6**
DEVELOPED ECONOMIES	**3.3**	**3.1**	**2.5**	**1.9**
Canada	4.3	3.3	3.1	2.8
United States	3.3	3.7	3.5	2.5
EU 15	3.0	2.4	2.1	1.5
Japan	4.3	3.7	1.4	1.3
CIS (Russia etc.)	5.3	2.8	-5.0	6.6
South-East Europe	7.6	1.9	-1.2	4.9
China	5.1	10.6	10.4	8.7
India	3.3	5.7	6.0	6.1
South America	5.6	2.0	3.3	1.7
North Africa	6.8	3.0	2.4	4.3
Sub-Saharan Africa	3.0	2.1	2.5	4.0
Middle East	6.8	1.4	3.9	3.7

Source: UNCTAD Handbook of Statistics Online

In the 70s, world production and income grew by less than 4% in two years: in 1974 (1.1%) and in 1975 (1%); the average growth of that decade was 3.5% a year, in the following decade it was 3.1%, in the 90s it did not reach 3%. As for the years between the turn of the century, we have said something, but now it is appropriate to go deeper into the matter, by recalling once again the object of this part of the discussion: there is – now – a considerable consensus among economists in dating the beginning of the decrease in the growth rates of the US economy in the period between the end of the last century and the beginning of the new. Now; but then, that is, in those years, what was at the center of the economic debate?

A few weeks after the beginning of 2000, after the Millennium Bug paranoia was over, US shareholders, top managers and leading economists were preparing to celebrate a record: the longest positive cycle in the US economy since the post-war period. Understandably, 9 years of growth – even not continuous - had generated an euphoria which, a part from other issues of no less importance, revolved around a fundamental question: was it a cycle, positive but all in all normal, which would end with an inevitable fall, which it was necessary to prepare waiting for a trend reversal, or instead we were witnessing the take-off of a new economy destined to erase, among other things, even the old and unpleasant cycles economy in favor of potentially limitless prosperity?

For the more cautious of academic economists, the most reliable answer was evidently the former, but the ideology, mixed with a generous dose of speculation, typical of a financial boom, led one to believe otherwise. That the debate on economic cycles was not just academic is testified by the important judgment of Alan Greenspan, former Governor of the US Federal Reserve; when the speculative nature - at least in his last phase – of the cycle began to seem evident, Greenspan spoke about 'irrational exuberance' with reference to the stock markets, and only at that point within a few weeks (between March and April 2000) did the bubble burst, but throughout the winter of that year the optimism seemed to have no limits: it really seemed that the economic cycles had disappeared.

Statistically speaking, the 'extraordinary' economic cycle of the US economy, which began in March 1991[24], can be compared in terms of intensity and duration with the other two periods of growth that occurred during the 1960s and then during the 1980s. In all three cases, the level of output and income grew significantly but, dividing the cycles into sub-periods, we find that during the first five years of the last expansion, from March 1991 to March 1996, the growth was 12% compared to an average growth of 26% in the same sub-period of the previous two cycles; if we then consider the brief and partial slowdown of 1995, the period of time is shorter, since only from 1996 the growth rate of output exceeds the average of the previous cycle.

On balance[25], during the seven years since the beginning of that cycle (March '91 - March '98) the US economy grew by 22%, compared with the average of 36% for the same period (seven years) of the previous two cycles. If we move on to a greater level of detail, we discover that, mostly regarding the investments, it was a cycle with characteristics different from the previous ones, and this not so much by considering the growth rates of non-residential investments in general (6% more, to be compared with a 16% more in past cycles), but regarding investments in durable machinery, whose performance is really notable: +104%, compared to a +64% of boom of previous cycles. The performance of the stock market was even more amazing, with the Standard & Poor's index registering a +183, when the previous best period didn't reach +100.

Omitting comments on the performance of other economic variables, albeit important for of a more complete and in-depth assessment of this phenomenon, let us analyze what

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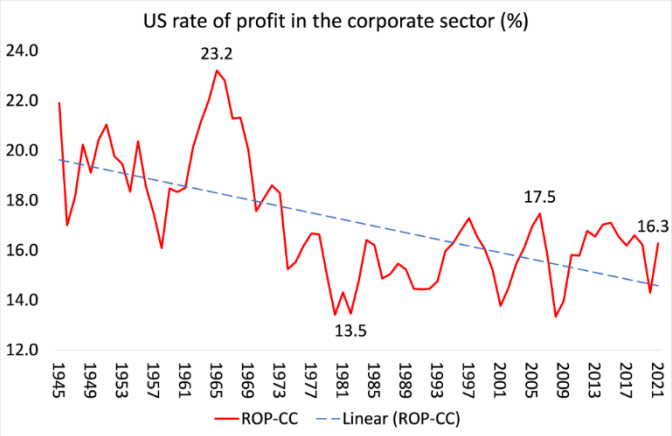
[24] If we adopt a methodology based upon monthly data, in the first quarter, in case of quarterly observations.

[25] See the contributions of Zarnowitz, V., *Business Cycles Indicators* of the *Conference Board.* https://en.wikipedia.org/wiki/Victor_Zarnowitz

happened to a crucial indicator for determining whether the characteristics of that cycle were structurally different - and in which sense different - compared to the previous economic history: the profit margin of US firms. If it had been a so relevant cycle for US economic history, exceptional to the point of change the growth trend, we should find traces of it in the profitability dynamics; but, in spite of technological innovations, mergers and acquisitions, business-friendly policies, the profit margin in US companies, which in previous cycles reached an average of 8%, oscillating between a minimum of 7 and a maximum of 9 %, has simply widened its fluctuation band in those years, varying from a minimum of 6 to a maximum of 10%, therefore without any statistically significant variation, not even the slightest one. As we hypothesized above, the break, which reverberates from profitability on growth, had occurred earlier, during the 1980s.

As should seem evident, is not in question the judgment about a single, record, cycle: nine years of growth is a very positive result, a record, but there is a big difference between consider it the beginning of a 'new economy' and the beginning of the end of growth. More modestly, it was not the beginning of a 'new economy' without fluctuations (never happened) nor was it the beginning of the slowdown (which had started before).

Fig. 3.1 US Rate of Profit in the corporate sector[26]



The economists whose research we cited in the previous chapter view the end of that cycle as the beginning of stagnation; other economists viewed that as the beginning of a radiant dawn characterized by the disappearance of volatility and the beginning of a period of growth with no more fluctuations. In 2003, the Nobel laureate (in 1995) prof.

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26 Roberts, M., *The US rate of profit in 2021*
https://thenextrecession.wordpress.com/2022/12/18/the-us-rate-of-profit-in-2021/

Robert Lucas affirms: 'My thesis in this lecture is that macroeconomics in this original sense has succeeded: Its central problem of depression prevention has been solved'[27].

There were also those who showed greater caution: for example Romer[28] (1999) who argued that the volatility of the historical series of the main US macroeconomic variables had not decreased by much; what was happening was that the recessions in the US economy they were only a little less frequent and less severe than in the past, although they did not last less on average, while the expansions lasted on average a few quarters longer than in the situation before the First World War. These characteristics would suggest, rather than improbable miracles, rather a sort of slight lengthening of the cycles, and this result could be attributed – with all due respect to the so-called neo-liberals – to an at least partial effectiveness of those stabilization policies which should mitigate the severity of the fluctuations.

In the positive cycle of the 1990s, there were elements that favored real growth: investments in new and technologically advanced machinery, but at the same time and contradictory it was also a fictitious growth, supported by an earlier devaluation of the dollar of the order of magnitude of 40-60% that lasted until 1995, a substantial freeze on real wages that lasted for North American companies until at least 1997, and a disproportionate increase in the value of company shares, whit price/earnings ratio - which roughly indicates in how many years the value of the same would theoretically be repayable if the shareholders asked for it - amounted to figures that not even a world of bionic Methuselahs would ever have been able to achieve.

In the spring of 2000, the dream of a 'new economy' shattered when the dot.com bubble burst; after a few years, it was a similar mechanism, although referring to a different sector, that of the real estate market, with even more accentuated speculative dynamics, ended in the 2008-09 crisis. After twenty-five years, the global economy is still characterized by the alternation of positive and negative cycles, but what interests us most is the relationship between the cycles and the long-term trends of economic growth, [i.e., of capital accumulation] and it is on this that our attention is focused,

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[27] Lucas, R., Macroeconomic Priorities, Presidential Address delivered at the one-hundred fifteenth meeting of the American Economic Association, January 4, 2003 https://www.princeton.edu/~markus/misc/Lucas2003.pdf

[28] Romer, C., Changes in Business Cycles: Evidence and Explanations, The Journal of Economic Perspectives Vol. 13, No. 2 (Spring, 1999)

3.*1 Hysteresis: a way not to separate economic growth and cyclical fluctuations*

As Felli (2017[29]) states, we know from history, and well-known empirical evidence, that in some circumstances the effects of macroeconomic fluctuations may well be persistent, or permanent in the limit, especially in the case of severe crises that give rise to prolonged recessions. This was the case of the Great Depression, and this is the case of the Great Recession, originated by the global financial crisis taking place in 2007. After 15 years since that crisis started, in most advanced economies (including, but not just, Italy) GDP remains far from its pre-crisis trend. That is, differently from what happened in most cyclical episodes – which can be supposed as some sort of "norm" – some cycle shows persistence. This means a much more extended slump without a rapid and strong recovery that has allowed for a return to trend. In the traditional framework, this kind of pattern may be explained only as the insurgence of some exceptional circumstance that altered the above-mentioned supposed norm. Or as a way to separate demand (temporary) from supply (permanent) sources of shocks. A barely satisfying explanation of course.

But then, how this persistence can be explained? What is its origin?

To answer these questions in a consistent way, Felli thinks (ad I agree with him) it is inevitable to abandon the tradition of separating long run dynamics and business cycle.

As Felli (2009[30]) correctly remind us, although since the beginning of economic analysis, cyclical fluctuations and economic growth have been seen as fundamentally connected phenomena, in the contemporary mainstream and especially in its most basic textbook versions, these two phenomena appear inexplicably separate. In 1954, Prof. Nicholas Kaldor wrote an article [31] those conclusions weres:

'The conclusion that emerges…is not at all that the trend of the growth rate determines the strength and duration of the periods of expansion, but instead that the strength and duration of the periods of expansion determines the trend…An economy in which men businessmen are tireless and speculative, in which expectations are extremely volatile, but with a fundamental tendency towards optimism, in which high and growing profits are

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[29] Felli, E. Growth and Cycle https://sofiaeconomics.wordpress.com/2017/10/18/growth-and-cycle-two-separate-worlds/

[30] Economic Growth and Cyclical Fluctuations, https://sofiaeconomics.wordpress.com/2009/10/09/economic-growth-and-cyclical-fluctuations/

[31] Kaldor, N. (1954), 'The relation of economic growth and cyclical fluctuation', *Economic Journal*, 64(253), 53–71. https://academic.oup.com/ej/article-abstract/64/253/53/5259238?redirectedFrom=fulltext

projected into the future and lead to the hasty adoption of 'unsound' projects 'original] involving super-expansion, are likely to show a higher rate of progress for extended periods; while an economy of cautious and reasonable businessmen…will grow at a slower rate. It is of course true that the very process of excessive expansion during the boom period makes the subsequent slump inevitable… Here we finally find the fundamental link between the trend and the cycle that we have been looking for… both the cycle and the growth are the result of attitudes of entrepreneurs – more precisely the volatility of entrepreneurs' expectations… Thus, the same forces that produce violent booms and slums will also tend to produce a higher growth trend…'

As seems clear to us, this is an explanation rooted in the Keynesian tradition, to which it is now possible to add a few supplementary notations.

Now, there is an alternative way (to Real Business Cycle theory) to explain GDP persistence and is the hysteresis hypothesis: it is possible that cyclical conditions driven by demand disturbances may affect potential output making short run fluctuations have persistent or even permanent effects on GDP dynamics. Yagan[32] (2019) – in a paper adding to a consolidated literature, starting with Blanchard and Summers[33] (1986) - finds that 'exposure to a severe local Great Recession caused working-age Americans to be substantially less likely to be employed at all in 2015, despite recovery in the unemployment rate'. In other words, contrary 'to the conventional view that a business cycle's employment impacts cease once unemployment recovers… the Great Recession appears to have altered trend employment via labor force exit... the long-term recession impact
accounts for over half of the 2007–15 US age-adjusted employment de-
cline… the Great Recession altered unemployment-
constant employment'.

3.2 *Hysteresis, ideology, expectations*

We just must add that, in the assessment of what was happening to the US economy towards the end of the 1990s, and more generally, in assessing economic growth, we must consider an extra or meta-economic, psycho-political, and ideological element, very pervasive and evident, consisting in the ' narration' of economic events. In that case, the goal was to persuade public opinion, or rather savers, that we were no longer in the

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[32] Yagan, D. (2019): "Employment Hysteresis from the Great Recession
Journal of Political Economy 2019, volume 127(5), pp.2505-2558.

[33] Blanchard, O. and Summers, L. (1986): "Hysteresis and the European unemployment problem", NBER Macroeconomics Annual 1986, Volume 1, 15-90.

presence of a cycle, with its peaks as high as you like, but also with its inevitable falls, but something new, something unprecedented – new economy, it was said in 2000. If the ideological-financial operation had been successful, then it would have been possible that a sufficiently high share of subjects, riding an 'irrational' optimism, would continue to feed a bubble, while the more 'rational' economic agents had already withdrawn from the market.

Today as yesterday, and as always, it is matter of expectations, which can be influenced by economic policy and by the 'narrative' of events but are still rooted in the 'animal spirits' of entrepreneurs and more generally of economic agents.

The emphasis on the role of agents' expectations in determine economic performance is not a recent discovery in economics. Long time ago, J. M. Keynes devoted considerable attention to clarifying the role that the "animal spirits" of entrepreneurs play in defining their choices on investments to be made or postponed. More than costs - Keynes warned - it is precisely the state of confidence in the general economic conditions that determines the decisions of economic agents, and these propensities have not only to do with a subjective psychological inclination towards pessimism rather than optimism, but they reflect more general and objective assessments (i.e. speculations) about what can roughly be defined as the current and projected state of the balance of power between social classes and/or countries, in a given period, country or industrial sector. Of all the economic activities, stock market speculation - well known to Keynes - is particularly able to generating 'herd behavior': when business goes well, a greater number of savers feel enticed to participate in the new parlor game, and when the indices reach record levels, thanks to clever propaganda, the idea can easily take hold that – in violation of the well-known Murphy's law – if things are have been going well for a long time, ok, it means that they could get better and better.

At the turn of the century - the alleged date for the beginning of the decline in the growth rate - some economic and financial analysts presented figures which, as we have seen, indicated that the greatest collapse in the history of capitalism was about to take place. Someone[34] had "predicted" the collapse of the stock exchanges without inventing some particularly innovative forecasting model, but simply taking up numbers that had been circulating in newspapers and economic magazines since the end of 1999: a bubble was being produced which could have resulted in a decrease in the twenty, twenty-five, thirty percent of the average value of the shares.

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[34] Donato, M., *Soft landing*, la Contraddizione, n° 76, gennaio-febbraio 2000

Meanwhile, the world was changing, two decades of globalization made it impossible to continue to consider the world market as a mere appendage of USA, Europe and Japan; new large and important countries - finally - had acquired or re-acquired strength and power, and so the assessment on growth must necessarily be broadened.

We have mentioned the difficulties of a country like Italy, we have referred to the USA which, after having suffered a crisis during the 70s, started to grow again in the following decade and did so for almost twenty years. Now the question is: did the appearance on the economic scene of new players of more recent industrialization and therefore capable of exhibiting growth rates of the order of 7, 9, 12% per year, managed to make the world economy grow more?

4. Stalkers. The chase, ten years ago.

Observing the figures contained in the World Economic Outlook of the International Monetary Fund ten years ago, we can read[35] that in 2011 the world economy recorded an average GDP growth rate of 3.8%. A not exceptional performance, but positive on average; distinguishing by area, for the more developed countries, the "advanced" economies, the growth was very low, around 1.5%, and much better, 4.5%, for the emerging ones. The 2012 WEO considered a 35-year period in which a break is evident: from the early 1980s to the mid-1990s, the cycles were substantially similar between the areas, synchronized not only in duration, but also as intensity, that is to say that the economies of richer countries and those of poorer countries grew more or less at the same rate when the cycles were in positive phases, and behaved in a similar way, albeit starting from different levels, in negative phases. In the second part of the period the story is a bit different: the synchronicity remains, but the rates diverge. Why? What does it mean? Is it the emerging countries that have begun to grow more or the advanced ones that have stopped doing so? Or both? In essence, because of these two contrasting trends, is the world economy growing more, less, or at essentially the same rate as in previous periods?

In 1983, forty years ago, the economic cycle still seems highly integrated at the international level; in the following ten years, 'somehow' the economies of the advanced countries had managed to keep pace with their pursuers, whose attempt to escape underdevelopment begins again in the first half of the 1990s, but fails again; finally, let's say roughly starting from 2002, the economies of emerging countries try to "take off" for the

[35] IMF World Economic Outlook, January 24 ,2012

third time, which seems to be the right one, and at this point the richer countries seem to be in great difficulty.

So, what happened before the '80s? If we compare the group of richer countries (the "triad" United States, European Union, and Japan) with China in the early 1970s, the characteristics of the process we are trying to describe emerge more clearly. In the 1970s, a decrease in real income growth rates began in all three of the old "core" areas of the planet, parallel to the increase in importance of a country like China, to which we could add at least the other four major economies of the 'BRICS' group: India, Russia, Brazil, South Africa.

Japan really seems to be a sensational case[36]: in the early 1970s it was the most vital economy on the planet, with a real income growth rate of 10%; from that year and for the entire decade, the economy of the Rising Sun plummeted to halve its growth rates in the 1980s; a brief recovery and then a new period of crisis that reaches the point of stagnation: from ten to almost zero percent. Not bad, very bad.

For the United States, the black decade was the 1970s, from the second half of the 80s to the following twenty years, the rate of growth of income of North Americans recovered, fluctuating around an average of 3%, but then plunged at the dawn of the new millennium.

As far as European Union is concerned, in the 70s it had a higher growth than that of the USA, even if lower than that of Japan; during the 80s the EU lost the second place in the standings concurrently with the US recovery and stabilized its growth rate around an average of 2% with a further downward trend.

As regards the growth of emerging countries, once defined as 'developing countries', the role of investments was and is crucial - not unlike what happens for already developed countries; apart from domestic agents' expectations, an important question in this regard concerns the dynamics of capital flows towards emerging countries: if one attributes - as economic theory suggests - a positive role to capital movements originating from dominant areas, the question is: when and why do the flows of capital from North to South, i.e. from the central to the (once) peripheral areas of the planet increase?

What seems to us to have happened is that when growth in the 'core' countries stops, when the conditions of the 'core' financial markets signal a slowdown, it is then and only then that private capital takes - in a small part, it should be stressed, up to 10 years ago it

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[36] As for the most recent Japanese economic performance, see Bank of Japan Outlook for Economic Activity, january 2023 https://www.boj.or.jp/en/mopo/outlook/gor2301b.pdf

was a few hundred billion dollars – the way South, but ready to "go home" as soon as financial, political or geo-strategic conditions signal that it is time to do so.

The costs and benefits of the North-South capital flows have been the subject of in-depth debates, to justify or criticize the forced liberalization of the financial markets of the South of the world which has characterized the so-called neoliberal phase of accumulation. After years of denying or downplaying the negative effects that the uncontrolled export of capital could have for countries classified as 'emerging', for some time now not only leading economists, but also institutions such as the Bank for International Settlements have recognized the problem[37].

From a theoretical point of view, there is now enough consensus on the recognition that the removal of obstacles to the free movement of capital, in the presence of other 'distortions', is not in itself capable of ensuring an increase in general welfare. From the point of view of empirical checks, there is no robust statistical evidence capable of showing a positive correlation between the liberalization of capital movements and the growth of per capita income in the host countries[38]; an IMF study[39] demonstrated how the benefits of financial liberalization exist, but are distributed asymmetrically, favoring growth in high-income countries but weakening it in poorer ones.

Even without denying the existence of positive effects of the liberalization of financial markets on emerging economies, we want to underline that these are often temporary and not permanent effects: bubbles, or in any case episodes linked to changes in the regulation of a single country which led to an improvement in the index of 'investability'. In such cases, any positive effects linked to single events or waves of capital exports must be considered together with the costs associated with the increase in vulnerability deriving from the volatility of capital flows.

From this point of view, a characteristic to note, with regard to the North-South capital investment cycle of the first years of the new century, is that many emerging countries did not need the capital of the dominant countries in order to finance trade deficits, since

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[37] Bank for International Settlements, Committee on the Global Financial System, CGFS Papers n° 33, Capital flows and emerging market economies, January 2009

[38] Rodrik, D., Why do More Open Economies Have Bigger Governments? Journal of Political Economy Vol. 106, No. 5 (October 1998), pp. 997-1032; Sebastian Edwards, Capital Mobility and Economic Performance: Are Emerging Economies Different? NBER Working Paper No. w8076 14 Jan 2001

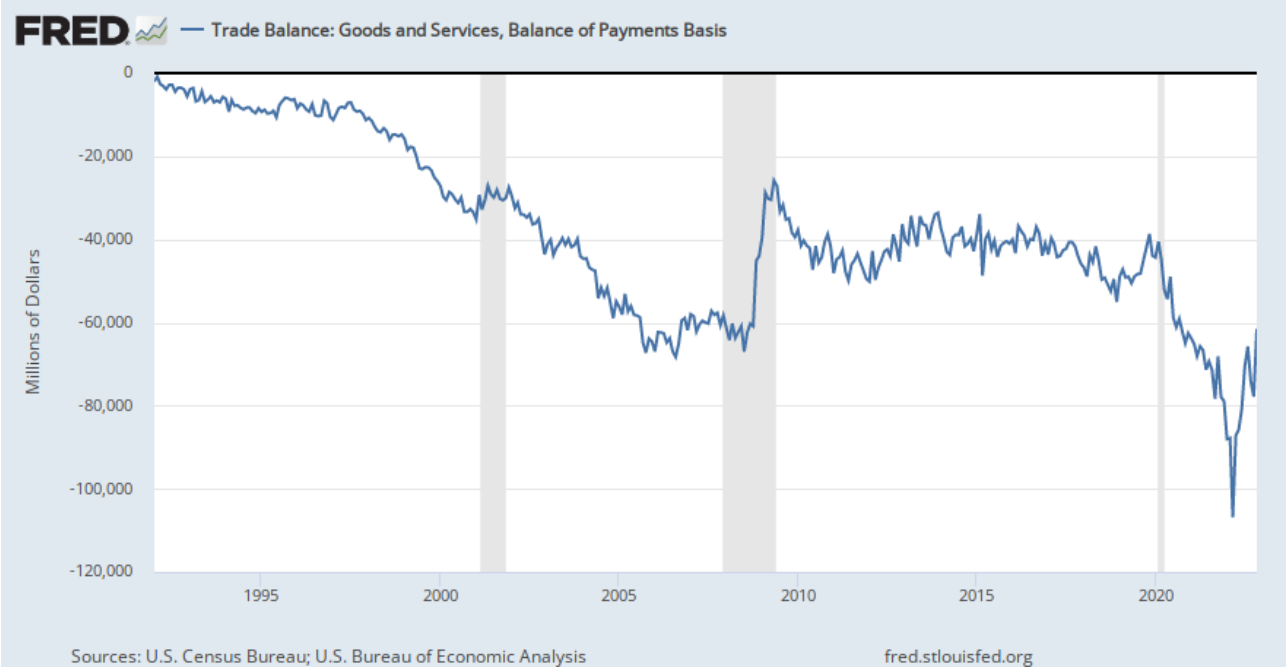
[39] INTERNATIONAL MONETARY FUND, Effects of Financial Globalization on Developing Countries: Some Empirical Evidence, March 17, 2003 https://www.imf.org/external/np/res/docs/2003/031703.pdf

their foreign accounts were in surplus, nor for an alleged shortage of domestic savings, whose share relative to income was, on the contrary, higher than that of the rich countries. In the ten years between 1997 and 2007, after a long phase of cyclical fluctuations without particular positive or negative trends, the share of gross national saving of emerging countries in relation to income grew more than investments which, although growing, show a less sustained rate of change. In the same period, after an equally long period of negative trade balances, the developing countries experience an improvement in their trade balance which for the first time - starting from the beginning of the new century - registers a surplus with the rest of the world, managing to obtain from the export of the commodities they produce more than they spend on the importation of industrial products from rich countries, despite very unfavorable exchange rates and tougher loan terms.

In a dualistic model, an improvement in the trade balance of one area of the planet must necessarily corresponds to a deterioration in the trade balances of the other, and it is therefore not surprising to discover that, in relation to foreign trade, the economies of the dominant countries exhibited systematic deficits with respect to the emerging ones, even if it should be emphasized that this was not a phenomenon that affected all advanced countries in the same way.

To be more precise, there was only one economy that systematically lost weight in the trade of goods: that of the United States of America. The Japanese economy, despite steadily declining income growth, still maintained positive trade balances; the euro area, after an initial period characterized by deficits, was in surplus as regards the current accounts; the only large, developed economy in a systematic and prolonged crisis as regards the trade side of the international balance of payments, was – until the 2008-09 crisis – that of the United States of America, the dollar currency area. After the financial crisis, the US trade balance has improved. For a few years.

Fig. 4.1 US Trade Balance: Goods and Services, Balance of Payments Basis[40]



If we consider together the evolution of savings, investment and trade balances of emerging countries over time, we note that, although savings and investments showed a clear positive trend as early as the 70s, that growth did not translate into positive trade balances, which begin to manifest themselves only from the first years of the new century. Obviously, there is a peculiar question linked to the terms of trade between North and South, indeed the reasons are two: the dynamics of the relative prices between agricultural and industrial products, on the one hand, and the exchange rates between the dollar and weak currencies, on the 'other.

It should also be added that, if instead of referring to growth rates, we consider the levels, we clearly see how - despite the fact that we are dealing with countries with a population of hundreds of millions of persons - the share represented by their trade surpluses, considered in relation to the world's gross domestic product, was ten years ago still tiny and in any case completely inadequate to meet the needs of the majority of the inhabitants of those areas of the planet.

What is important to highlight is that, despite the exchange rates and the unfavorable balance of power, the former emerging or developing countries have built over time those macroeconomic conditions that the International Monetary Fund consider typical of those countries that have the 'fundamentals in order' from the point of view of the real

[40] https://fred.stlouisfed.org/series/BOPGSTB

economy. But, as we shall see soon, this was not enough to prevent the decline in the growth rates of the global economy.

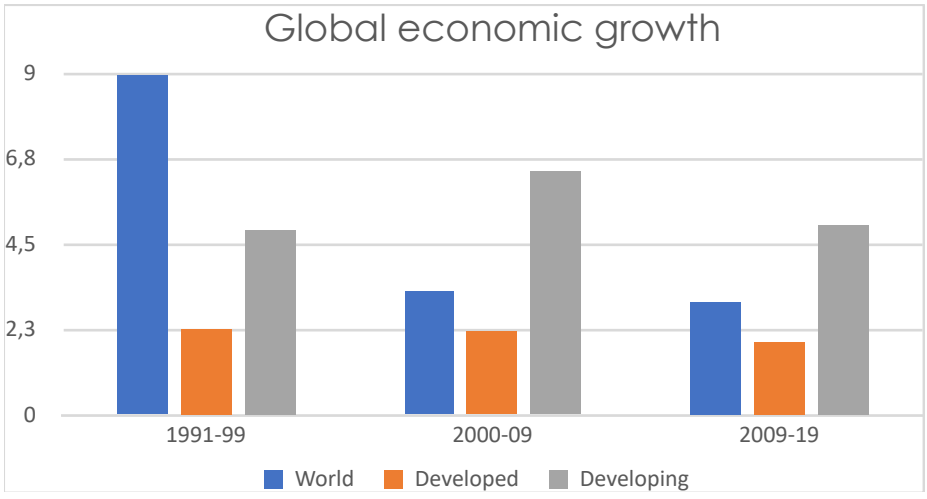
As we mentioned above, in a dualistic model it is evident that an improvement in the trend of savings, investments and trade balances in one area of the planet must necessarily correspond to a worsening of the same variables in the other area. And of course, this happened. Even in the presence of the usual, traditional, roughly five or six-year economic cycles, the share of savings, investments and trade balances of industrialized countries in relation to global GDP systematically decreases, despite the countertendencies that manifested themselves with particular success during the restoration of the 80s.

We can now finally answer the question: has the growth of emerging economies been (at least until now, let's avoid making forecasts) or not able to counterbalance the trend towards stagnation evident in the richer side of the planet?

According to the statistics collected and published by the United Nations agency for trade and development (UNCTAD), the answer appears unambiguous and unquestionable: no!

The average growth of the world economy which had been 9% during the 90s plummeted in the first decade of the new century to 3%; during the 1910s there was a 'recovery', but of the order of magnitude of 0.3%.

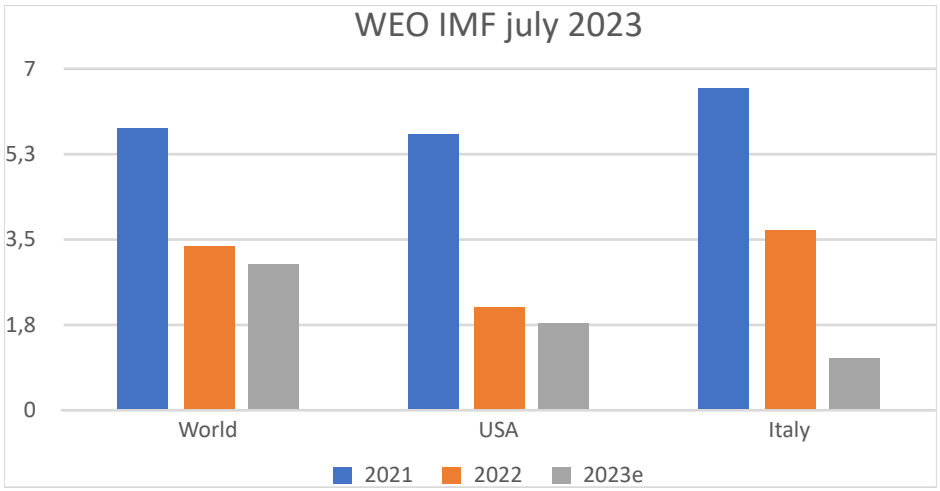
Fig. 4.2 Economic growth global, Advanced countries and Developing and emerging countries (data UNCTAD)



As a result, despite the contribution of emerging countries, which in the 90s grew twice as much as developed countries, triple in the first ten years of the century, and almost 5 times more in recent years, the average growth rates of the global economy continue to

remain low and, if not declining, stagnant and lower than 50 years ago. In 2022, based on the United Nations Global Policy Model, the world economy grew by 2.5%, less than half the previous year's growth rate (5.6%). The forecasts for 2023[41] indicate a recession, maybe mild.

Fig. 4.3 World Economic Outlook IMF update, July 2023



[41] International Monetary Fund, World Economic Outlook Projections, update, July 2023