ARGUMENTA
OECONOMICA
CRACOVIENSIA

No 2(23) • 2020
ISSN 1642-168X
e-ISSN 2545-3866
AOC, 2020; 2(23): 11–32
https://doi.org/10.15678/AOC.2020.2301

Kalim Siddiqui

CAN GLOBAL IMBALANCES CONTINUE? THE STATE OF THE UNITED STATES ECONOMY

Abstract

Objective: This study investigates the issue of global imbalances by exploring, in a historical context, the interconnections between the United States current account imbalances and the processes underlying allocative inefficiency, financialisation and austerity politics.
Research Design & Methods: A comprehensive review of published studies is the research methodology used in this article. Published secondary data from both governments and international institutions are presented and discussed.
Findings: The study find that the deep nature of the current imbalances and economic crisis in the United States could adversely affect the rest of the world. Although the IMF and other institutions of global governance have now questioned the effectiveness of neoliberal policies, the severe measures the IMF advocates in response to current account deficits could presage yet another era of anti-growth austerity measures in the United States.
Implications/Recommendations: There are features of the current account US imbalances situation that have the potential to exacerbate negative trends and to further fuel adverse economic and political outcomes. The study suggests that a coordinated, US-led international response to a future global recession could be even more deficient than the current response to climate change.
Contribution: The paper makes a contribution to the literature on the failures of global governance and critically examines the economic risks of the current situation that are being compounded by the political approach of the Trump Administration, which

Kalim Siddiqui, University of Huddersfield, The Business School, Department of Accounting, Finance and Economics, Queensgate, Huddersfield – HD1 3DH, UK, e-mail: k.u.siddiqui@hud.ac.uk, ORCID: https://orcid.org/0000-0002-7952-4573.

This is an open access article distributed under the terms of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 License (CC BY-NC-ND 4.0); https://creativecommons.org/licenses/by-nc-nd/4.0/.

characterises US trade partners as adversaries in need of coercion through tariffs and strident rhetoric.

Keywords: current account imbalances, neoliberalism, financialisation, The United States.
JEL Classification: E50, 60, F30, G15.

1. Introduction

This article examines the current deficits of the United States (US) by focusing on the long-term structural causes of this imbalance. Evaluating whether this current account imbalance is good or bad for the global economy requires an understanding of the underlying characteristics of the US as an advanced capitalist economy which sucks-in saving from surplus countries (Wade 2017). This could not continue forever, and in fact is seen by the critiques as causing uncertainty and hindering growth in the global economy (Wolf 2008a).

The US has been showing deficits on its current account for the last nearly twenty-five years. For instance, the current account deficit was much less during the Clinton Administration, but soon after, under the George W. Bush Administration, it began rising and has been moving upward since. The IMF's External Sector Report (2018b) estimates that 40–50% of global current account imbalances are now excessive, with the largest excessive deficits being concentrated in the US and the UK. The IMF defines "excessive" as "not explained by countries' fundamentals and desirable policies (emphasis added)".

It is said that if a country runs a current account deficit, this means that it must sell assets to the rest of the world to pay for its imports. The IMF (2018a) warns that, "because of the risk that foreign lending dries up, deficit countries face greater pressure to balance their international accounts than surplus countries do to balance theirs. But when the adjustment comes, both debtor and creditor countries lose. The adjustment in the aftermath of the global financial crisis is a not-too-distant reminder of that". The policy approach recommended by the IMF to deficit countries includes fiscal consolidation, reducing the generosity of pension systems, and market reforms to labour costs – measures that seem likely to be politically inflammatory in countries already long subject to relative stagnation (or decline) in incomes, demographic ageing, growing private household debt, and decline in the quality of basic infrastructure.

Unsurprisingly, after years of austerity measures of the type the IMF recommends, the capacity of the capitalist system to achieve stability, prosperity and peace through self-regulation is being called into question by both professional economists and the public at large (Wolf 2008a).

We will also discuss the impact of the COVID-19 pandemic on the US economy. In order to analyse the impact of the pandemic on an advanced capitalist economy like the US, there is a need to look at its effect on different industries and sectors. For instance, in the US, consumption makes up 70% of GDP, but in the last six months, consumption has fallen due to business closures and private consumers postponing major purchases as they worry about their jobs and incomes. Private investment makes up 20% of GDP in the US, but investors are postponing future investment as they are not sure about COVID-19. Other economic sectors, which are important in terms of jobs and incomes, namely services such as tourism, entertainment, music, clubs, sports, hotels and restaurants constitute 4.2% of GDP, with restaurants, clubs and cinemas being closed and an other important sector, manufacturing, which constitutes nearly 11% of the US total output, being disrupted mainly due to closures or working below capacity in anticipation of reduced demand.

The global recovery from the COVID-19 recession still remains uncertain. There is some patchy recovery across economies, but it is faltering in some sectors and countries, as in some countries the restrictions on people and economic activity are stalling, while in others they are going into reverse. This means that the international economic rebound is also uneven across sectors, with services continuing to experience crisis. For example, the recent IMF Report forecasts that the US economy will shrink by more than 8% by the end of 2020 compared with a reduction of 7% in the European Union and 5% in Japan, while others claim that by the end of 2020 the US economy will be witnessing a reduction in annualised second--quarter decline of nearly 40%.

The governments of advanced economies such as the US, Japan, Germany and the UK have made trillions of dollars available to businesses and households, along with reducing interest rates to minimise the adverse impact of the COVID-19 crisis. For example, the UK has begun an employment retention programme, where the government would pay up to 80% of workers' wages. Since the government programme was launched, more than 400,000 companies have applied to pay nearly 3.4 million people through furlough payments, which could cost the government £ 2.5 billion by the end of September 2020. There is also other government programme to

support over 5 million self-employed workers. But still, despite such beneficial schemes in a time of recession, many more will not be covered by such plans.

This research intends to discuss global imbalances, and because the US remains the largest economy in GDP terms, it is crucial adopt a historical perspective to better understand the current situation. First, we note that these global imbalances have been defined as "external positions of systemically important economies that reflect distortions or entail risks for the global economy" (Brake *et al.* 2010). This definition, which accords with the view of the IMF, outlines important features of global imbalances and indicates that the inner disequilibria of large advanced economies could have an impact on the world. It has been argued that the US current account deficit cannot be remedied through a temporary nominal deflation of the US dollar alone and that it will also require some strong policy measures to address the domestic imbalances in the US economy (De Cecco 2012).

Mainstream economists argue that current account imbalances should not be seen as a crisis and a matter of concern but rather as the result of emerging economies' aims to increase accumulation through export-led growth (Taibbi 2018, De Cecco 2012). It is said that after the 1997 East Asian financial crisis, these economies wanted to increase their US dollar reserve holdings sharply to combat any potential financial crisis. As a result, there was an increase in demand for US dollar reserves due to allocative inefficiency through net transfers being made from low- to high-income countries. This phenomenon is known as the Lucas Paradox.

Under this economic situation, Keynes (1980) said that in fact surplus countries should take greater responsibility: "The objective of the new system must be to require the chief initiative from the creditor countries, whilst maintaining enough discipline in the debtor countries to prevent them from exploiting the new ease allowed them in living profligately beyond their means" (Keynes 1980, p. 30). Keynes emphasised in his book *The General Theory of Employment, Interest and Money* (1973) that the policy aim for the government should be to take capitalism out of the "Great Depression". Therefore, under such circumstances, government economic policy should be to regulate the market. The aim must be to raise investment and consumption in the economy, and if private investment is low then the government must take the initiative through the use of fiscal policy to fill this gap. Keynes was in favour of government regulation of financial institutions. He pointed out that the main cause of the economic crisis was lower investment in the economy. If capitalists increased the level of investment, leading to an increase in GDP, then recession could be averted.

The increased financialisation of the past three decades and stagnation in the labour share of national income in the advanced economies are together largely responsible for rising inequality in income distribution because they decouple improvements in the personal income of households from improvements in macroeconomic performance (ILO 2015). However, in an era of declining investment in the real economy, as result of rapid growth in speculative financial investment, higher levels of debt are required and demanded from households (Armstrong & Siddiqui 2019).

The global financial crisis of 2008 illustrated the inability of capitalism driven by neoliberal policies to resolve the contradictions of this new economic environment. In the name of more innovation, the greater freedom given to financial institutions has led to global financial instability and has ultimately adversely affected the global economy. For emerging economies, who were encouraged to rely on exports and foreign capital inflows for their economic growth, the COVID-19 pandemic and slow-down in the advanced capitalist economies have aggravated the crisis. In fact, the inability of the global reserve system to provide sufficient international liquidity during the crisis pointed to those economies' vulnerability to economic forces beyond their control (Patnaik & Patnaik 2016, World Bank 2017).

The research question is why in recent years the US economy has witnessed a rise in current account deficits. The methodology of this study has been chosen carefully in order to answer the research question. The research method is based on analysing the data provided by the international institutions and published reports and also intends to critically examine the relevant studies in order to answer the research question.

The adoption of neoliberal economic policies and the rise of the financial sector in the US since the 1990s saw households increase their debt rapidly in order to finance their consumption. As summarised by Martin Wolf: "Any country that receives a huge and sustained inflow of foreign lending runs the risk of a subsequent financial crisis because external and domestic financial fragility will grow (…) Cheap money encouraged an orgy of financial innovation, borrowing and spending". This is, however, an incomplete account because the mortgage-backed securities and the derivatives based on them, which were the ultimate cause of the 2008 financial crash, were dependent on higher levels of indebtedness by "miserable victims" who largely "turned out to be poor, non-white, and elderly" (Taibbi 2018).

In fact, the easy availability of credit encouraged consumers to borrow, but there were other forces influencing their spending and consumption decisions. Marketing, in particular, began to use the brand names of big

corporations, which played an increasingly important role in expanding sales. In order to promote their business operations and sales, many global corporations allocated huge amounts of money for marketing and promotion. As Baran and Sweezy (1966) noted under monopoly capitalism more than half a century ago, price competition is replaced by the increased use of marketing and product differentiation to build a loyal consumer base. Multinational corporations spend large amounts of money on advertising, marketing and the development of ranges of different products. At the same time, capital came to depend on the support of its country of origin in order to defend its interests and provide help against its rivals. According to Baran and Sweezy, the growing interdependence of states and capitalists has given rise to an intensification of geo-political rivalries that could lead to armed conflict. The recent clash between the US and France over the latter's plan to tax Google, Amazon and other tech giants is illustrative (*US Launches Inquiry...* 2019).

The constant bombardment through marketing and advertising increases the psychological and social pressures on people to buy more. It is widely accepted that consumer demand is not endogenous but influenced by exogenous institutional processes and especially by corporate advertising. Indeed, although rational choice theory has not been abandoned, the relatively new discipline of behavioural economics has placed much more emphasis "on the ways in which consumer decision-making may not be fully rational and how firms can exploit such consumers" (Fatas & Lyons 2013). Moreover, under oligopolistic markets, such as those we find in US tech industries, intense rivalry and competition can easily lead to high investment in product innovation and differentiation.

The period of relative global stagnation and instability in which advanced capitalist countries found themselves even prior to the COVID-19 pandemic is evidenced by slow growth rates in the last ten years. In fact, the international economy has been increasing at 3.3% per year since the 2008 financial crisis, compared to 4.5% in the earlier decade. Much of the global growth between 2009 and 2018 was due to growth in China, which was stimulated by government investment in infrastructure (Siddiqui 2020a, Sahoo, Dash & Nataraj 2010). Indeed, the Chinese economy has emerged in last ten years as the second global economic power, while the US and European countries have witnessed relatively little growth.

A recent study by Bullard, Silvia and Iqbal (2017) argues that although the US economy is still the world's biggest, between 2008 and 2016 there was a 20% annual shortfall in fixed capital investment, which has adversely

impacted GDP growth and output. Despite this relative lack of growth, the United States is still the major source of demand in the world economy, and its growth in therefore crucial for the world economy. In fact, for nearly the last four decades, the current account deficit of the US has risen gradually to very high levels. This has no doubt benefited China, India and other emerging economies (Siddiqui 2018a).

It seems that capitalism in the advanced economies has failed to deliver economic stability and prosperity for nations, and at the same time persistent attacks against trade unions together with an unbalanced fiscal policy have reduced workers' bargaining power (Siddiqui 2019c). In the US, 24% of adult workers now derive income from the gig economy and for 44% of those individuals such work is their primary source of income (Edison Research 2018). It is not an exaggeration to claim that the creativity of early capitalism has been superseded by a new era typified by insecure employment, private debt, financial speculation, declining innovation, stagnant aggregate demand, and government-assisted asset price inflation.

2. The Political Crisis of Global Capitalism

The question arises as to whether the United States will remain the leader of global capitalism after the current political and economic crisis has run its course. It appears that Donald Trump's orientation toward protectionism will be constrained by the global production chains of US corporations and that high technology industries will very likely escape the effects of tariff adjustments. There are, however, other considerations.

China has become the world's second biggest trading nation and fastest growing economy. At present, its economy accounts for more than one fifth of incremental demand worldwide. Furthermore, China's ability to use its economic power to bring about transformations in global governance has become a serious research endeavour within Chinese academia (Xueliana & Lu 2016). Moreover, some other fast growing and developing economies have also boosted global demand and these countries are similarly questioning their future role in the global order vis-á-vis both the US and China (Beeson & Zeng 2018, Siddiqui 2016).

During the last twenty-five years of increased globalisation, modern capitalism has transformed itself hugely, as evidenced by the rise of foreign capital investment and the economic integration of East Asian economies. In this recent international financial system, despite the existence of national capital, a new transnational capitalist class has risen to dominate globally.

As a result, competition occurs between global corporations and not between nations: “As nation states are captured by transnational capitalist forces, they tend to serve the interests of global over local accumulation processes” (Robinson 2004, p. 17). In fact, advanced capitalism has the intrinsic need to export capital in order to cut costs and seek higher profits (Patnaik & Patnaik 2016). These capital exports also lead to increased competition among nations. The multinational corporations can operate in different countries, but still they link to their home country so they expect to receive government help and support (Kobrin 2009).

3. The US Economy and Global Imbalances

The US current account deficit, which is the ultimate cause of key global imbalances, has been said to be due to overspending in the US, though some blame “policy exchange rates” adopted by surplus countries to prevent currency appreciation. Figure 1 shows the US current account balances for 2011–2020. According to this alternative view, under a flexible exchange rates regime, countries with surplus currencies would appreciate against US dollar until the imbalances were eliminated and blame surplus countries for the rise in the US deficits (Siddiqui 2020d). Two-thirds of all foreign exchange reserves are still kept in US dollars and due to the global demands for US dollars, the United States is still able to run large current account deficits, which makes it difficult to maintain the stability of the global capitalist system in the face of internal dysfunction, climate emergency, and renewed competition for global economic, political, and military hegemony (Willett & Chiu 2012).

Former Chair of the US Federal Reserve Ben Bernanke’s “saving-glut” theorem emphasises that US high spending is the reason behind the US trade deficits (see Figure 2), due to this money flowing back into the US economy from the rest of the world. This leads to credit expansion and by keeping lower interest rates to attract borrowers and as a result US household consumption increases global demand (Siddiqui 2019d, Wade 2017).

The rise of inflow of capital into the US economy from overseas induces asset price inflation, while excessive reserve accumulation overseas is due to efforts by the East Asian economies to self-ensure against possible speculative currency attacks (Siddiqui 2019a). The emerging economies are cautiously guarding against a sudden fall in investment, capital flight or domestic currency appreciation as these could have a negative impact on export competitiveness and economic growth.

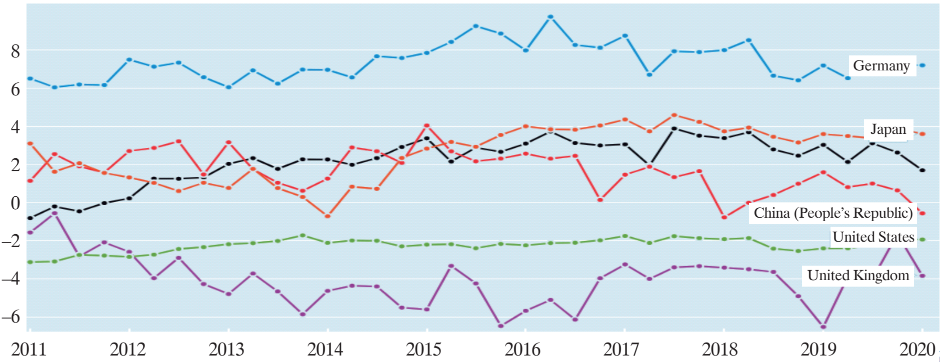

Fig. 1. Current Account Balance – Total, in % of GDP, Q1 2011–Q1 2020

Source: OECD, https://data.oecd.org/trade/current-account-balance.htm#indicator-chart (accessed: 18 July 2020).

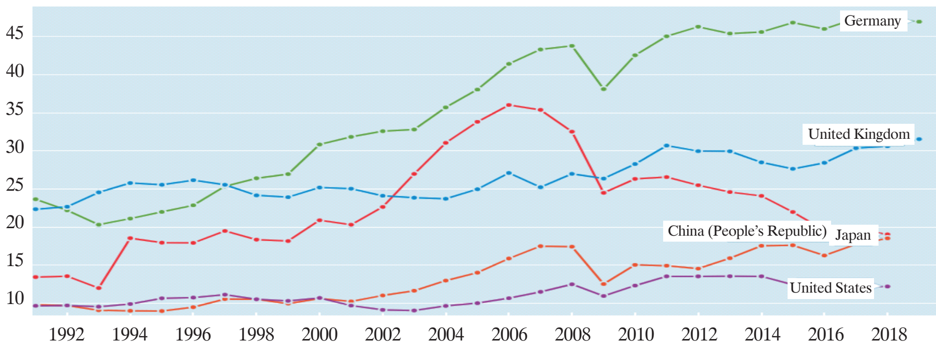

Fig. 2. Trade in Goods and Services, Exports as % of GDP, 1992–2018

Source: OECD, https://data.oecd.org/trade/trade-in-goods-and-services.htm#indicator-chart (accessed: 18 July 2020).

Historically, very large current account deficits are in fact sustainable for very long periods of time. In the late 19th century, there was a very large and sustained current account imbalance in the UK, which was then exporting a huge amount of capital to Argentina, Australia and Canada. The critics said that UK investors were lending and exporting capital while neglecting domestic markets and, in fact, this capital was exported from the UK primarily because of the lack of higher returns in the domestic economy.

Factor income was very important before the First World War, when Britain was called a nation of rentiers. At this time, Britain's current account

was dominated by foreign dividend inflows, which were the yield of past investments. In the 1920s, Britain became a deficit country and its huge foreign investments were used to pay for war supplies imported from the US. By then, the US was the main surplus country and also held most of the world's gold.

In 2017, economic growth in the US was lower than that of other major economies, with a rise of 2.3%, while the average growth for EU countries was 2.5%, and China's was much higher at 6.9%. In the previous year, i.e. 2016, US GDP growth was 1.5%, while EU growth was 2% and China's growth was 6.7%. Past US experience indicates that there is a strong correlation between GDP growth and the percentage of net fixed investment, which means that fixed investment is crucial to achieving higher growth rates. In the absence of net fixed investment, it is simply not possible for the US economy to accelerate growth rates in the long term. For instance, during the post-war economic boom in 1966, US net fixed investment was 11.3% of GDP, but in 1978 it was 10.5%, in 1984, 9.2%, in 1999, 8.3%; in 2006, 7.9%; in 2017, 4.2% and in 2018, 5.1%. Currently, US fixed capital formation is far lower than in the two decades of the post-war economic boom (OECD 2020).

Donald Trump's tax cuts for US corporations and the wealthy, which have coincided with a reduction in government fiscal spending, have further increased the US budget deficit. If other things remain the same, such policy discourages US domestic savings and therefore reduces savings to finance investment. Under such circumstances, the federal deficit will rise and will push up bond yields to attract foreign buyers. However, although the US share of global GDP has declined, but is still currently estimated to be 20% lower than a decade ago, US-based multinational corporations control nearly half of the world's assets (Siddiqui 2019c, Bello 2006).

There is no doubt that the US has a less powerful global position in exports and productivity than ten years ago (Siddiqui 2020c). However, US-based multinational corporations are still successfully transferring the greater part of the economic surplus created in the developing countries back to the US. They do so thanks to the global military and financial hegemony of the US (Siddiqui 2019c). The continuation of US financial dominance depends on the survival of the dollar as the hegemonic currency. Currently, the rise of Chinese economy poses a challenge to the US dollar, but even so the US has by far the largest defence spending and military power in the world. The US has continued to maintain global dominance mainly through the role played by its defence sector in technological advancement and the

presence of military bases all over the world, but it will be very expensive to maintain such large military expenditure due to the relative decline of its economic position in the world. However, a smooth transition to a multi--polar world is far from guaranteed, and tensions between rivals are evident. In the last century, political and economic instability in the capitalist world economy gave rise to wars and fascism.

Despite these developments, the recovery in the US in 2018–19 was fragile because it was backed by the expansion of the global financial system of the previous decades. It has been seen in the past that, as capital develops, money cannot find a ready outlet and moves into interest-bearing capital. Since early 1990s, due to financial de-regulation, interest-bearing capital has grown sharply as it receives vast interest payments.

Financialisation could be explained in terms of the dominance of finance over industry (Wien 2010). This does not mean that finance fully controls or dictates to the industrial sector (Siddiqui 2019d). In fact, studies have shown that multinational corporations depend far less on the financial sector to fund their operations. For instance, US-based non-financial corporations are themselves increasingly moving into financialization and are thus deriving a share of their profits from their financial rather than from their productive activities. As Martin Wolf has described it, "the US itself looks almost like a giant hedge fund. The profits of financial companies jumped from below 5 percent of total corporate profits, after tax, in 1982 to 41 percent in 2007" (Wolf 2008b).

However, even with the existence of high levels of sovereign debt in the US, no country has yet shown any initiative to challenge the US dollar as the international currency (Siddiqui 2020d). Patnaik (2009) stresses that any possible alternative to the US dollar as an international currency will require a country to challenge the prevailing international financial system. He points out that the fall in the value of the dollar in terms of oil could lead to the decline, and finally replacement, of the US dollar. It seems that, currently, no advanced economy has tried and no serious attempt from the major dollar holders been made to seek an alternative. At present, the major creditors to the US, namely China, Germany, Japan and the rich Arab countries, rely heavily on US markets to prop up their own domestic demand. In the US, since the global financial crisis of 2008, real average wages have declined, but domestic consumer demand has continued to rise along with household borrowing.

The neoliberal model has thus failed to validate the opinion that "we must have more globalization". This current COVID-19 crisis could be a chance

to reform economic policy, which means the redistribution of wealth and power and benefitting some previously marginalised classes and sectors through a more active fiscal policy. For instance, the national independence of former colonies became possible after the two World Wars weakened the European powers and made it impossible to control them militarily. And on the domestic front, negotiations between employers and employees became the norm, with trade unions playing a greater role in wage negotiations.

Since the early 1990s, in the name of efficiency and competition, the gradual de-regulation and capital liberalisation of the financial sector led to a dramatic expansion of this sector. As a result, the US witnessed the reversal of its post-war gains, especially on the issue of income inequality. For example, in the US, the income share of the top income group (1%) declined from 29% in 1929 to 8% in 1970 and stayed the same until the end of the 1970s, while the poor and middle income group witnessed a greater rise in their incomes. By contrast, the neoliberal regime adopted since the late 1970s has reversed the earlier redistributive income and wealth policy, which has widened the gap between rich and poor to very high, historically unprecedented levels. For instance, in the US, the income share of the top 1% rose very sharply to 23% by 2008 (Wade 2017). Between 1991 and 2010, economic growth was linked to the sharp in rise in real-estate prices. However, by 2006 these prices had began to stagnate and reached a plateau. Soon after 2007, housing markets plunged into a deep fall in prices, resulting in the sub-prime financial crisis and global economic recession (Kotz 2018).

It seems that early in this decade the economic recovery in the US was linked to debt-financed consumer spending, which was very difficult maintain in the long run (Siddiqui 2019b). The growth occurred at a time when consumer spending rose while investment in the economy slowed; government spending contracted in real terms over the period, resulting in a slow-down in overall growth. US trade imbalances grew further as imports rose faster than exports. These developments clearly indicate that the largest contributor to US economic growth in recent years is household spending, which contributed to 81% of the increase over the 2014–17 period. Investment slowed to 2.1%, contributing to only 16% of GDP growth over the same period. Moreover, the US government's and firms' foreign debts exceeded foreign assets by the equivalent of 30% of its GDP as early as in 2004 (Kotz 2018, Glyn 2005).

The crucial question is whether the current Trump administration's tariff protection measures are justified. In order to answer this, we must first analyse the long-term view regarding the external payments situation of the

US. Figure 3 presents a summary of US external payments between 1970 and 2017. During these thirty-seven years, trade rose uninterruptedly, but for the last two decades it has grown remarkably at historically very high levels. This coincided with the period when China became a member of the World Trade Organisation, which the US elites used as an excuse to blame China for its trade deficits. The US trade deficit with China and other countries is shown in Figures 4 & 5.

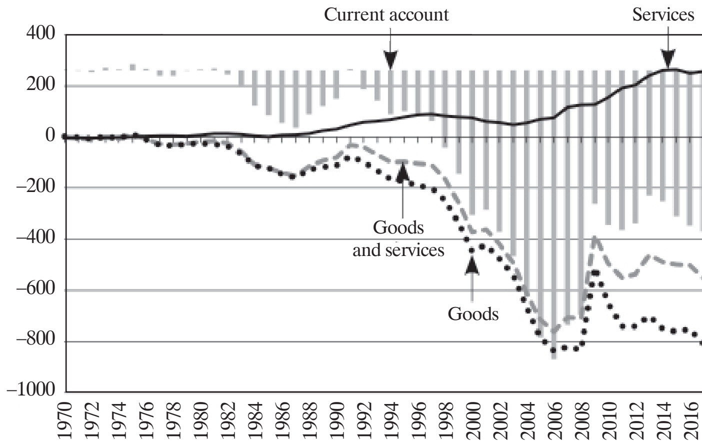

Fig. 3. The United States' External Payments (in billion USD), 1970–2017
Source: IMF (2018b).

The official US figures for trade in goods between the US and China indicate (see Figure 4) that the US has experienced a trade deficit with China since 1991, which has since risen to a much higher level. For instance, the amount of trade deficit in 1990 was very small, i.e. USD 10 billion, but by 2000 it had reached USD 100 billion; by 2005 it had risen further to USD 200 billion, by 2012 it was USD 315 billion, and by 2017 it further rose to USD 376 billion. The sharpest increase was since 2001, which also coincided with China joining the World Trade Organisation (WTO). After the joining the WTO, China had greater access to the US market. As a result, China's exports to the US rose from USD 125 billion to USD 505 billion, while during the same period US exports to China rose from only USD 19 billion to about USD 130 billion.

Figure 5 clearly shows that China is an important trading partner for the US, but when we analyse US trade deficits with its other trading partners, we find that China has less than half of the US's overall trade deficits.

For instance, in 2017 the US's trade deficit with China was USD 375 billion; however, its overall trade deficit was USD 775 billion. This means that if the US were to remove its trade deficit with China, its trade imbalance problems would not disappear in relation to other trading partners.

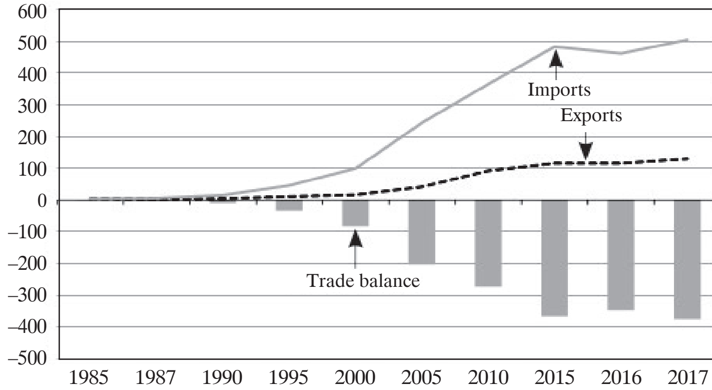

Fig. 4. United States – China Trade in Goods (in billion USD), 1985–2017
Source: The US Department of Commerce (2018).

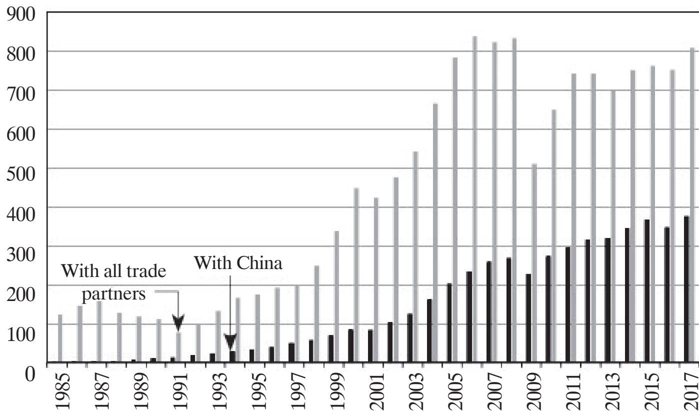

Fig. 5. United States' Trade Deficit (in billion USD) with all Trading Partners, 1985–2017
Source: The US Department of Commerce (2018).

It seems that the US's trade imbalances over the last three decades are largely due to its own economic policies. The US needs to critically examine

its own domestic economic policies towards big corporations rather than blaming others. Trade deficits (i.e. imports exceeding exports) reflect the saving-investment gap in terms of national income, which is associated with low levels of domestic saving (Siddiqui 2018b). Mainstream economists have either ignored or not taken this issue seriously, namely why consumption has risen while saving rates have declined or otherwise remained low. For instance, the US domestic savings rate was never higher than 24% between 1950 and 1969, but since the early 1990s it has steadily declined and is now below 17% (McBride 2017). In fact, personal savings as a proportion of disposable income in the US declined from an average of 10% between 1975 and 1985, to nearly 5% by 1995, and further declined to a very low 0.7% in 2010. During the same period, US household debt rose dramatically.

To compare the prevailing US economic situation with that of the UK soon after the First World War: Britain was forced to sell most of its foreign assets and had attempted to bring back the Gold Standard without sufficient gold reserves and with a weak current account. The attempt to reintroduce the Gold Standard was bitterly opposed by the country's trade unions and it only deepened the economic crisis. But US policy-makers choose to forget that there are crucial differences between 1920s Britain and the current US position.

The US has decided to have a strong currency, the US dollar, as did Britain in the 19th century, in order to reduce inflationary pressures, to attract foreign assets, and to boost the country's financial markets. Due to higher costs and strict environmental regulations in the US, the US-based multinational corporations – especially in labour-intensive industries – have decided to relocate to other countries where wages and taxes are low. As a consequence, within the last three decades, imported manufactured goods have gradually replaced domestically produced ones, resulting in the imbalances discussed in this paper.

4. COVID-19 and the US Economy

In order to analyse COVID-19's impact on the US economy, we need to examine the pandemic impact on different industries. In the US economy, consumption comprises nearly 70% of total GDP. However, the current pandemic crisis has sharply reduced consumption as business operations have stopped or are working far below capacity levels to be profitable and as households have cancelled major consumer purchases as they are uncertain about their finances and employment. The other important macroeconomic

factor, namely investment, which is one-fifth of GDP, has reduced as uncertainty increases and businesses postpone investments. Another crucial sector of the US economy, i.e. manufacturing, accounts for nearly 11.2% of GDP. However, most production has been disrupted because global supply chains have been affected by business closures and delays in the supply of raw materials.

Unemployment is shooting up much faster than it did during the 2008 global financial crisis and economic slowdown, a sign that the economy is headed towards a deep recession. The most pertinent question is how long the COVID-19 slump likely to last.

It seems that the ongoing coronavirus pandemic will haunt the US economy for a decade, wiping close to USD 8 trillion off economic growth, according to new projections released by the Congressional Budget Office (CBO) in mid-July. Since the pandemic hit the US, trillions of dollars have been poured into the economy via government stimulus programs and actions by the Federal Reserve. However, such measures have still not stopped unemployment soaring to levels unseen since the 1930s. By early July of this year, nearly 40 million people had lost their jobs, and it is expected that the unemployment rate may reach 20% by the end of July, up from 15.3% in June, rising from 4.4% in March. It is estimated that by the end of July 2020, world output will have a yearly projection of –4.9% (IMF), –5.2% (World Bank) and –6% (OECD). In the worst case scenario, the latter two organisations foresee contractions of –8% and –7.7%, respectively. The International Monetary Fund anticipates that the United States will contract by –8.0% while China will record growth of 1.0%. The Eurozone and Latin America are to contract by –10.2% and –9.4%, respectively.

With the deepening economic crisis, the neoliberal policy imperative of “fiscal austerity” has vanished. Businesses are asking for government spending and the portentous preachers of the “free market” rush to the TV screens to plead for increased public spending. The pandemic hit after four decades of neoliberalism, which had depleted state capacities in the name of the “superior efficiency” of the market and fostered deindustrialisation through the “globalisation” of production.

Recently, the IMF warned that the world economy was experiencing its longest and worst recession since the Great Depression of the 1930s, with output likely to fall sharply by as much as 7% by the end of 2020. Gita Gopinath, the IMF’s chief economist, presented very bleak future growth forecasts for the world economy. According to her, COVID-19 could reduce global output by as much as USD 9 trillion (£ 7.2 trillion) within the next two

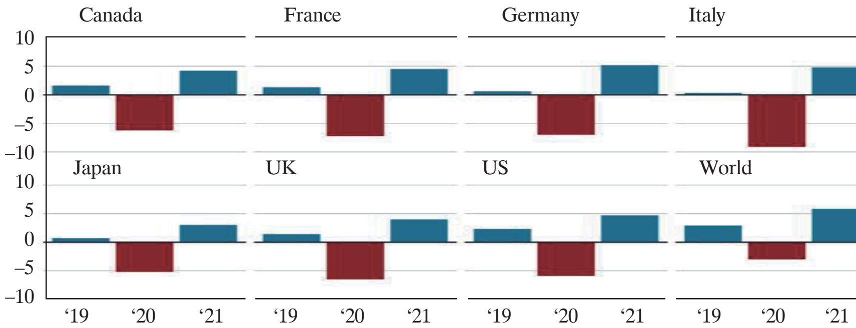

Fig. 6. Annual Growth of GDP in Major Advanced Economies, in %

Source: IMF, https://www.bbc.co.uk/news/topics/c77jz3mdmxxt/international-monetary-fund-imf (accessed: 12 May 2020).

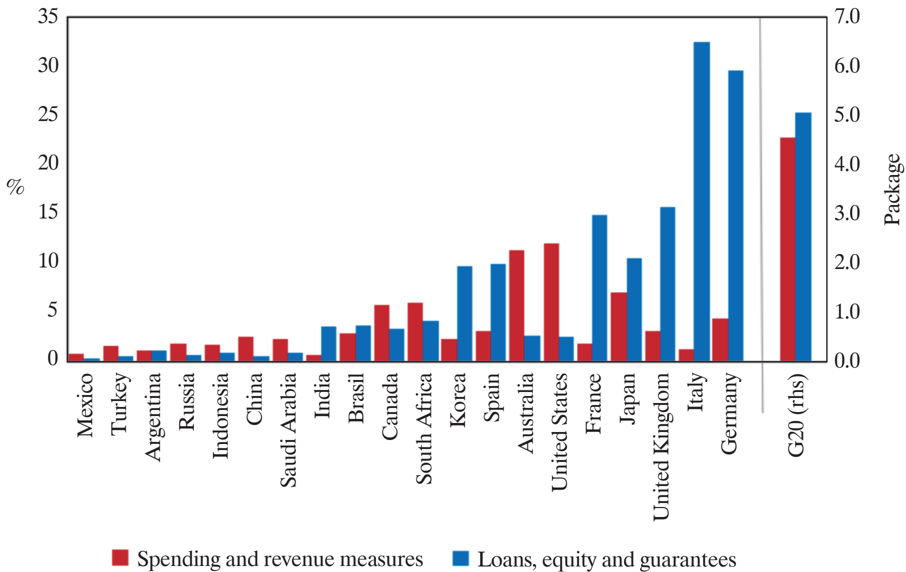

Fig. 7. Fiscal Measures Announced in G20 Economies, in % of GDP

Source: IMF (2020).

years (see Figures 6 and 7). Her warning reminds us of the Asian Financial Crisis of 1997 and brings back stark memories of currency crashes, property prices tumbling, millions out of work, and the wealth that was built up in decades disappearing in a matter of months. All indicators suggest that the

impact of the COVID-19 pandemic will be far greater than either the global financial crisis of 2008 or the Great Depression of the 1930s (Siddiqui 2020b).

5. Conclusion

This historical account indicates that a high current account deficit is not necessarily intrinsically harmful. There are, however, features of the current situation that have the potential to exacerbate negative trends and to further fuel adverse economic and political outcomes. The US current account deficit stems in part from growth of the financial sector and from its creation of complex and unstable financial derivatives built on risky forms of private debt. Furthermore, this "financial innovation" has itself been a response to the low growth and low profitability of the domestic productive economy (Northfield 2012). Despite the clear warnings provided by the 2008 banking and subsequent sovereign debt crises, US corporate debt is at an all-time high and in 2017 "the value of securities issued based on car loans, credit card debt, student loans and various other unsecured debt exceeded commercial and residential mortgage-backed securities combined" (Blakeley 2019).

The economic risks of the current situation are being compounded by the political approach of the Trump Administration, which characterises US trade partners as adversaries in need of coercion through tariffs and strident rhetoric. So far these policies have succeeded only in further depressing the profitability of US business (Amiti, Redding & Weinstein 2019). Additionally, Trump's rejection of the post-war liberal international order in favour of "transactional bilateralism" (Stokes 2018) suggests that a coordinated, US-led international response to a future global recession could be even more deficient than the current response to climate change.

The COVID-19 pandemic has suddenly caused the sharpest and deepest reduction of GDP in the history of capitalism as globalisation has gone into reverse. International supply chains, which were once the exemplars of organised production and hailed as the backbone of trade, have collapsed. Some countries and their policy-makers have begun to talk about the importance of the national economy. Overseas travel and tourism have almost entirely halted, and within the last six months tens of millions of workers have been laid off and millions of small businesses and their suppliers have closed down (Siddiqui 2020b).

Finally, although the IMF and other institutions of global governance have now questioned the effectiveness of neoliberal policies (Ostry,

Loungani & Furceri 2016), the severe measures the IMF advocates in response to current account deficits could presage yet another era of anti-growth austerity measures in both the United States and the United Kingdom. The burden of these will undoubtedly fall on those least able to bear the strain, nationally and internationally. The possibility that harsh and anti-egalitarian measures could further inspire aggressively nationalist and generally anti-progressive political movements in these countries – and throughout the world – should not be discounted. In the meantime, surplus and deficit countries alike must navigate the uncertain terrain between the current global hegemonic power, its potential rival, and global institutions that function on principles designed for an era of capitalism that ended in 2008.

Bibliography

Amiti, M., Redding, S. J. and Weinstein D. (2019) "The Impact of the 2018 Trade War on U.S. Prices and Welfare". *Discussion Paper*, Centre for Economic Policy Research, https://www.princeton.edu/~reddings/papers/CEPR-DP13564.pdf (accessed: 1 August 2019).

Armstrong, P. and Siddiqui, K. (2019) "The Case for the Ontology of Money as Credit: Money as Bearer or Basis of 'Value'". *Real-World Economics Review* 90: 98–119, December.

Baran, P. and Sweezy, P. M. (1966) *Monopoly Capital*. New York: Monthly Review Publishers.

Beeson, M. and Zeng, J. (2018) "The BRICS and Global Governance: China's Contradictory Role". *Third World Quarterly* 39: 10, https://doi.org/10.1080/01436597.2018.1438186.

Bello, W. (2006) "The Capitalist Conjuncture: Over-accumulation, Financial Crises, and the Retreat from Globalisation". *Third World Quarterly* 27(8): 1345–1367, https://doi.org/10.1080/01436590601027222.

Blakeley, G. (2019) "The Next Crash: Why the World Is Unprepared for the Economic Dangers Ahead". *New Statesman*, 6 March, https://www.newstatesman.com/politics/economy/2019/03/next-crash-why-world-unprepared-economic-dangers-ahead (accessed: 1 August 2019).

Bracke, T., Bussière, M., Fidora, M. and Straub, R. (2010) "A Framework for Assessing Global Imbalances". *The World Economy* 33(9): 1140–1174, https://doi.org/10.1111/j.1467-9701.2010.01266.x.

Bullard, S., Silvia, J. E. and Iqbal, A. (2017) "Can We Estimate the Cost of a Recession?", American Economic Association Conference, www.aeaweb.org/conference/2017/preliminary/paper/bzQ4bKGK (accessed: 6 June 2018).

De Cecco, M. (2012) "Global Imbalances: Past, Present, and Future". *Contribution to Political Economy* 31(1): 29–50, https://doi.org/10.1093/cpe/bzs001.

Edison Research (2018) "The Gig Economy", http://www.edisonresearch.com/wp-content/uploads/2019/01/Gig-Economy-2018-Marketplace-Edison-Research-Poll-FINAL.pdf (accessed: 5 August 2019).
Fatas, E. and Lyons, B. (2013) "Consumer Behaviour and Market Competition" in *Behavioural Economics in Competition and Consumer Policy,* Centre for Competition Policy, University of East Anglia, UK, http://competitionpolicy.ac.uk/documents/8158338/8193541/CCP+economics+book+Final+digital+version+-+colour.pdf/30214557-cace-4b0b-8aac-a801bbde87bc (accessed: 10 May 2019).
Glyn, A. (2005) "Imbalances of the Global Economy". *New Left Review* 34: 5–37.
ILO (International Labour Organisation) (2015) "The Labour Share in G20 Economies", G20 Employment Working Group, https://www.oecd.org/g20/topics/employment-and-social-policy/The-Labour-Share-in-G20-Economies.pdf (accessed: 5 August 2015).
IMF (2018a) "Addressing Global Imbalances Requires Cooperation", IMF blog post by Maurice Obstfeld, https://blogs.imf.org/2018/07/24/addressing-global-imbalances-requires-cooperation/ (accessed: 31 July 2018).
IMF (2018b) "External Sector Report. Tackling Global Imbalances Amid Rising Trade Tensions", https://www.imf.org/en/Publications/ESR/Issues/2018/07/19/2018-external-sector-report (accessed: 31 July 2018).
IMF (2020) "Economy 'Losing Momentum' Amid Virus Second Wave", https://www.bbc.com/news/business-55006982 (accessed: 22 May 2020).
Keynes, J. M. (1973) *The General Theory of Employment, Interest and Money.* London: McMillan/Palgrave.
Keynes, J. M. (1980) *The Collected Writings of John Maynard Keynes, Volume XXV: Activities 1940–1944: Shaping the Post-War Economy.* London: Macmillan.
Kobrin, S. J. (2009) "Sovereignty Bay: Globalization, Multinational Enterprise, and the International Political Situation" in *The Oxford Handbook of International Business* (2nd Edition), https://doi.org/10.1093/oxfordhb/9780199234257.003.0007 (accessed: 31 July 2019).
Kotz, D. (2018) "End of the Neoliberal Era?". *New Left Review* 113: 29–55 (September–October), https://newleftreview.org/issues/II113/articles/david-kotz-end-of-the-neoliberal-era (accessed: July 2020).
McBride, J. (2017) "The US Trade Deficit: How Much Does It Matter?". *Council on Foreign Relations*, 17 October, https://www.cfr.org/backgrounder/us-trade-deficit-how-much-does-it (accessed: 7 August 2019).
Norfield, T. (2012) "Derivatives and Capitalist Markets: The Speculative Heart of Capital". *Historical Materialism* 20(1): 103–132, http://www.countdownnet.net/Allegati/05%20tony-norfield-on-derivatives-and-the-crisis.pdf, https://doi.org/10.1163/156920612x634735.
OECD (2020) "A Global Economic Recovery Is in Sight", https://www.oecd.org/economic-outlook/ (accessed: 18 July 2020).
Ostry, J. D., Loungani, P. and Furceri, D. (2016) "Neoliberalism Oversold?". *Finance and Development*, June: 38–41, https://www.imf.org/external/pubs/ft/fandd/2016/06/pdf/ostry.pdf (accessed: 10 June 2019).
Patnaik, P. (2009) *The Value of Money.* New York: Columbia University Press.
Patnaik, U. and Patnaik, P. (2016) *A Theory of Imperialism.* New Delhi: Tulika Books.
Robinson, W. (2004) *The Theory of Global Capitalism: Production, Class and State in the Transnational World.* Baltimore: Johns Hopkins University Press.

Sahoo, P., Dash, R. K. and Nataraj, G. (2010) "Infrastructure Development and Economic Growth in China". *IDE Discussion Paper*, http://hdl.handle.net/2344/923 (accessed: 31 July 2019).

Siddiqui, K. (2016) "Will the Growth of the BRICs Cause a Shift in the Global Balance of Economic Power in the 21st Century?". *International Journal of Political Economy* 45(4), 315–338, Routledge: Taylor & Francis, https://doi.org/10.1080/08911916.2016.1270084.

Siddiqui, K. (2018a) "The Political Economy of India's Post-Planning Economic Reform: A Critical Review". *World Review of Political Economy* 9(2), 235–264 (summer), Pluto Journals, https://doi.org/10.13169/worlrevipoliecon.9.2.0235.

Siddiqui, K. (2018b) "U.S. – China Trade War: The Reasons Behind and Its Impact on the Global Economy". *World Financial Review*, November/December: 62–68.

Siddiqui, K. (2019a) "Financialisation, Neoliberalism and Economic Crises in the Advanced Economies". *World Financial Review*, May–June: 22–30.

Siddiqui, K. (2019b) "The Political Economy of Essence of Money and Recent Development". *International Critical Thought* 9(1): 85–108. Routledge: Taylor & Francis Group, https://doi.org/10.1080/21598282.2019.1585275.

Siddiqui, K. (2019c) "The Political Economy of Global Inequality: An Economic Historical Perspective". *Argumenta Oeconomica Cracoviensia* 21(2): 11–42, https://doi.org/10.15678/AOC.2019.2101.

Siddiqui, K. (2019d) "The US Economy, Global Imbalances under Capitalism: A Critical Review". *Istanbul Journal of Economics* 69(2): 175–205 (December) https://doi.org/10.26650/ISTJECON2019-0027.

Siddiqui, K. (2020a) "A Comparative Political Economy of China and India: A Critical Review", chapter 3, pp. 31–58, in K. Young-Chan (ed.) *China-India Relations: Geo--Political Competition, Economic Cooperation, Cultural Exchange and Business Ties*, Cham Switzerland: Springer Nature Switzerland AG.

Siddiqui, K. (2020b) "The Impact of Covid-19 on the Global Economy". *World Financial Review*, May–June: 25–31.

Siddiqui, K. (2020c) "A Perspective on Productivity Growth and Challenges for the UK Economy". *Journal of Economic Policy Researches* 7(1): 21–42, https://doi.org/10.26650/JEPR650998.

Siddiqui, K. (2020d) "The US Dollar and the World Economy: A Critical Review". *Athens Journal of Economics and Business* 6(1): 21–44 (January), https://doi.org/10.30958/ajbe/v6i1.

Stokes, D. (2018) "Trump, American Hegemony and the Future of the Liberal International Order". *International Affairs* 94(1): 133–150, https://www.chathamhouse.org/sites/default/files/images/ia/INTA94_1_8_238_Stokes.pdf, https://doi.org/10.1093/ia/iix238.

Taibbi, M. (2018) "Ten Years after the Crash, We've Learned Nothing". *Rolling Stone* (accessed: 31 July 2018), https://www.rollingstone.com/politics/politics-features/financial-crisis-ten-year-anniversary-723798/.

The US Department of Commerce (2018) "The US Trade in Goods with China", https://census.gov/foreign-trade/BALANCE/C5700.HTML (accessed: 10 July 2020).

US Launches Inquiry into French Plan to Tax Tech Giants (2019) BBC News, https://www.bbc.co.uk/news/world-europe-48945828 (accessed: 31 July 2019).

Wade, R. (2017) “The American Paradox: Ideology of Free Markets and the Hidden Practice of Directional Thrust”. *Cambridge Journal of Economics* 41: 859–880, https://doi.org/10.1093/cje/bew064.
Wien, B. R. (2010) “US Capital Productivity Decline Must Be Reversed”. *Financial Times*, 17 February, London.
Willett, T. D. and Chiu, E. M. P. (2012) “Power Relations and the Political Economy of Global Imbalances”. *Global Economic Review* 41(4): 341–360, https://doi.org/10.1080/1226508X.2012.738782.
Wolf, M. (2008a) “Comments on Global Imbalances”. *Financial Times*, 7 October, p. 13, London.
Wolf, M. (2008b) “Why It Is So Hard to Keep the Financial Sector Caged”. *Financial Times*, 6 February, London.
World Bank (2017) *Global Economic Prospects: A Fragile Recovery*, June. World Bank: Washington DC.
Xueliana, L. and Lu, Y. (2016) “The Implications of State Governance for Effective Global Governance”. *Social Sciences in China* 37: 4, https://doi.org/10.1080/02529203.2016.1241504.