

Stagflation And Global Hunger Are On The Horizon. Neoliberalism Needs To End



Shouvik Chakraborty - Photo:
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The capitalist world economy is facing major challenges today: The COVID-19 pandemic has caused damage to most economies around the world, skyrocketing inflation is disproportionately affecting poor and working-class people, and even stagflation (a combination of high inflation and stagnant economic growth) looms on the horizon. In addition, there is a global food crisis fueled by the war in Ukraine. The current food crisis has its roots in neoliberal policies in agriculture in developing countries, according to radical political economist Shouvik Chakraborty.

None of the current global economic problems can be solved without massive changes to the workings of the world economy to counter the harms caused by neoliberal capitalism over the last 40 years.

Is neoliberalism dying? And what are the alternatives? Is socialism a viable option for developing countries? Chakraborty addresses these questions in an exclusive interview for *Truthout* below. Chakraborty is research fellow at the Political Economy Research Institute at the University of Massachusetts-Amherst and author of scores of academic articles in macroeconomics and political economy.

C.J. Polychroniou: The world economy is projected to experience feeble growth

and high inflation in 2022, and there are even concerns about stagflation. What are the major challenges facing the world economy in 2022?

Shouvik Chakraborty: The world economy entering a stagflation phase genuinely concerns the working class across the globe. However, given the income disparity among the advanced and low-income economies, the challenges faced by the workers under such a stagflationary scenario are different. The concerns in the former are more focused on the continuation of a particular lifestyle — whether they would be able to purchase a single-family home, afford a vacation or continue driving their private vehicles. At the same time, the fear in the lower-income countries is related more to the necessities of life — whether they would be able to put food on the table, a minimum supply of clean and safe water, and access to some minimum level of electricity and cooking fuel. Given the lack of income support such as food stamps, social security benefits and unemployment benefits, the marginalized sections in these low-income countries are acutely vulnerable to the coming economic crisis. The advent of neoliberal policies over the last four decades led to the retreat of the state from even the basic forms of welfare measures in these low-income countries like providing food through fair price shops, price-controlled health care through primary care facilities, supply of clean water, etc., which were once part of the [dirigiste](#) regime, and, thereby, exposing these vulnerable sections now to the vagaries of the market forces.

The pandemic made things worse for these poorer sections of society, especially the women who have been disproportionately impacted. During the pandemic, these marginalized sections have already faced an economic blow to their income and in sustaining their livelihood. With the unequal distribution of income globally and inequality within nations accentuating further during the pandemic, the more affluent sections globally were less affected by the recessionary conditions and could shield themselves. However, the marginalized sections, especially those in the low-income countries, were the worst impacted. Therefore, it is true that the fears of an economic recession combined with an inflationary situation concern the global economy. Still, their extent and nature differ based on the current levels of income and development of those economies. Additionally, for the developing countries, repaying their debts at higher interest rates in a reduced growth rate environment would pose additional macroeconomic challenges.

There is a global food crisis going on, and many accuse Russia of using food as a weapon of war. Yet, there are many governments around the world that are

imposing food-export restrictions that not only drive food prices up but also squeeze food supplies. So, what is actually causing the global food crisis, how bad is it going to get, and what ways are there to solve the current food security crisis?

The global food crisis will be acute, and it will be most felt in the countries that are already food-insecure and suffering from hunger. The UN Food and Agriculture Organization (FAO) has already issued dire warnings. Although one can point to the ongoing Russia-Ukraine war, export restrictions, supply-chain issues and climate change-related disruptions accentuating the global food crisis, it is not the entire story. During the neoliberal era, one sector that mainly got ignored by the policy makers, especially in the developing world, is agriculture and its allied sectors. [According to the OECD Agricultural Statistics](#), the total budgetary support to the agricultural sector as a share of Gross Domestic Product (GDP) in the emerging economies declined from 1.25 percent to 0.81 percent over the last two decades.

As a consequence of negligence to this sector, the average annual growth rate of agriculture, forestry and fishing sector worldwide, according to the World Development Indicators, declined from 3.7 percent in the 1980s to 2.9 percent in the 2010s. It is starker in the case of the lower- and middle-income countries. Over this same period, while the overall growth rate of low- and middle-income countries increased from 3.6 percent to 4.7 percent, agriculture and its allied sectors' growth declined from 3.9 percent to 3.4 percent. The point of citing these statistics is that much before the Russia-Ukraine war and pandemic, the agricultural sector was already suffering, and the food supply was impacted.

Historically, agricultural prices are volatile. With the underlying crisis of this sector and the recent events accentuating it, global food prices increased last year, and that trend continues. The two other factors contributing to the rising prices, as a direct fallout of the neoliberal policies, are the increased profiteering of the major multinational agribusinesses and the speculative activities on the futures commodity market. The increased speculative activity is recently confirmed by [a critical study](#) that tracked the movements of financial investors (investment funds in particular) in commodity markets. Both profiteering and speculation need to be immediately regulated.

The production of agricultural commodities is usually price-responsive (although

with some lag), and it is possible that other agrarian economies (assuming the Russia-Ukraine war continues) would probably respond by increasing their production level and improving the supply chain. However, to do so, the governments in those economies need to support the sector by increasing public investments and total budgetary support. This would, however, be an anathema to any state adhering to neoliberal policies and its obsession with balanced budgets; hence, the political challenge should be to do away with the neoliberal order.

Neoliberalism has been a disaster for most countries in both the developed and the developing world. Is it the case though, that neoliberalism has lost its force? Is it in crisis?

Neoliberalism has weakened the working class globally — the race to the bottom in wages, de-unionization and privatization. In the advanced countries, the workers' wages have got tethered to those in the lower-income countries and, therefore, the share of labor compensation in GDP has been declining for several advanced countries around the world. In the United States, this share declined by 5 percent between 1975 and 2017. The decline in other countries like Germany, Japan and France is even more significant, with the largest occurring in Canada, at almost 11 percent.

This has accentuated the inequality within countries, especially in these advanced economies, in terms of both income and wealth inequality. Since 1990, income inequality has increased in these developed countries. It also further accentuated the already existing wealth inequality globally — while the bottom half of the global population owned less than 1 percent of all wealth in 2018, the richest decile (top 10 percent) owned 85 percent of all wealth, and the top 1 percent alone held almost half of it. The pandemic has only worsened this inequality, with hundreds of millions of people forced to leave the workforce. This level of inequality creates a lot of precarity and vulnerability among the working class.

With the rise of nationalist slogans and racist mongering in the advanced countries, the right-wing forces blamed the poor workers in the emerging economies — Mexico, India, China and African nations — for the loss of employment faced by the workers in the advanced countries. Right-wing people falsely argue that the advanced economy workers have to suffer because some guy in Bangalore or Shanghai is taking away their job, and the workers in these emerging economies are prospering. It is true that inequality among per capita

national incomes has declined in relative terms in recent decades. However, the average income levels in advanced economies are still very high. For example, the average income of people in the European Union is 11 times higher than that of people in sub-Saharan Africa; the income of people in North America is 16 times higher than that of sub-Saharan Africans.

Despite this reality, the right-wing forces continue the narrative and challenge the process of globalization, and encourage the rise of nationalism. In many advanced countries like the U.S., France, Germany, and others, this false narrative, along with other factors like immigration, led to the rise of authoritative, undemocratic regimes. These regimes bolstered the narratives of xenophobia and nationalism. In the U.S., for example, the Trump administration decided to escalate trade wars with China, moved out of the Paris Climate Accords, and turned their back on the European Union in the name of nationalism and protecting the national economy. This led many scholars, including some progressives, to write the epitaph of the neoliberal order.

It is true that the ideas associated with neoliberalism, especially that of the free market, are facing some challenges, especially after the pandemic during which a significant chunk of the population in the advanced countries benefited from the welfare measures of the state. However, I still doubt whether the free movement of capital and international trade, an integral part of the neoliberal regime, faces the same challenge. Capital, especially speculative finance capital, is still free to move across borders in search of speculative profits. And the U.S. dollar is still the top currency in the world and enjoys the global reserve currency status. Most of the central banks in the world have to adjust their interest rates in response to what the Federal Reserve does, sacrificing their independent monetary policy. This might even push their economies into recession because the central banks of those countries are scared of a capital flight. So, Main Street has substantially challenged Wall Street, but I still think the former has a long struggle ahead to make a permanent dent in the latter. Hence, it is true that neoliberalism is facing substantial challenges, but it might be too early to write the epitaph.

If the neoliberal agenda has indeed failed, what alternative paths of development are realistic for today's world?

As mentioned earlier, although neoliberalism has not entirely lost all its steam, it has been challenged. The Green New Deal proposed and discussed in the Global

North by various sections of the progressives presents a viable alternative to the neoliberal agenda. Any alternative progressive path of development in today's world must keep the science of climate change at the center of policy making. The world is facing an existential crisis, and an alternative progressive development path must consider these policies' environmental and ecological impacts. It should directly link to access to natural resources such as water, air and land.

However, from a developing country's perspective in the Global South, the pursuit of the Green New Deal in the Global North should not become a cause of pain and exploitation for the workers, peasants, petty producers and miners in the former. Historically, the economic interactions of the advanced economies through the mechanisms of "free and fair" trade led to the exploitation of human and natural resources in the Global South. Hence, one should think about the Green New Deal as a Global Green New Deal, where the interest of the populace in the Global South is equally protected like that of the Global North, and the North partially bears the cost of this Green New Deal program in the South. Otherwise, what would happen, as history has shown us time and again, that the Global North will prosper at the expense of the Global South.

Is socialism a viable option for the Global South?

Socialism is, of course, a viable option for developing countries. With the recent win of the progressives in Peru, Chile and Colombia, it seems to become more feasible. But, the critical question is: Which model of socialism will these emerging countries follow? Will it be the Chinese model of socialism? In that case, I believe the progressives globally need to give it a pause and rethink whether they want to follow that trajectory. I say this because many leftists in the world, including my country, India, seem to unquestioningly follow the Chinese model of socialism without even genuinely understanding its repercussions in a democratic setup.

I believe democracy today needs to be an integral part of the socialist agenda, with the dignity of individuals upheld, where a top-down approach to planning with the state deciding it all needs to be questioned. Local participation, decentralized administration and democratic interaction should form the core of a new socialist agenda. A rights-based approach, where the right to life and the basic necessities for it — food, clean water and air, housing and clean energy are upheld, needs to be a central part of a socialist program, along with other rights

like the right to health care, the right to education and employment. We need better protection of social and economic rights, which does mean a more significant role for the state. Protection of the workers' rights, petty producers, small farmers and miners, whose interests have been sacrificed in this neoliberal era, must form the core of the new socialist agenda. A newly envisioned socialist order in the emerging economies of the Global South has to learn from the mistakes made by the earlier regimes by engaging in dialogues and attending to the needs of the local communities.

This interview has been lightly edited for clarity.

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