OPEC+ and Capitalism's Fight against Inflation*

Prabhat Patnaik

Except in war-time, capitalism invariably seeks to control inflation by creating a recession; and this is so even when the inflation has been caused by an autonomous increase in capitalists' profit-margins which are downward inflexible and hence would not be reduced by a recession. This strategy is pursued because a recession invariably lowers the demand for primary commodities and hence their prices; this serves to lower inflation. Likewise a recession increases the unemployment rate and thereby reduces the bargaining strength of the employed workers, which means that the workers do not get wage increases to compensate them for the rise in their cost of living; this also serves to lower the rate of inflation.

If we think of three claimants on the output produced in a capitalist economy, namely the capitalists, the workers and the suppliers of primary commodities in the form of food and current inputs, then inflation can be said to arise because the claims on output of the three together exceed the output itself. Anti-inflationary policy under capitalism invariably consists therefore in lowering the shares of the latter two groups, and not of the capitalists, by lowering their bargaining strength through a recession.

It is significant that even liberal American economists, who concede that the workers have been the victims of the current inflation, still recommend controlling money wage increases, that is, further increasing the burden on the workers, as the means of controlling inflation. Since this is the logic of capitalism and the liberal economists' outlook is confined exclusively to capitalism, they see capitalism's way of controlling inflation as the only possible way. And it is also clear from this that capitalism's motivation for controlling inflation lies not in any sympathy for the workers being squeezed by it (for then it would not be seeking to control inflation at their expense), but in the fact that inflation hurts financial interests; the real value of the assets held by the financial oligarchy is lowered by inflation.

I mentioned above two groups at the expense of whom inflation is sought to be controlled under capitalism. But if one of these groups succeeds in resisting a squeeze upon itself, then the system needs to squeeze the other group even more drastically for controlling inflation; and for doing so it would need to impose an even more drastic recession. This is exactly what seems to be happening at present.

On April 2, the OPEC+ countries, consisting of the 13 OPEC members and 11 other non-OPEC oil-producing countries that include Russia, decided to curtail their oil output by 1 million barrels per day from May onwards until at least the end of the current calendar year. This cut comes over and above the cut announced by OPEC+ in October last year to the tune of 2 million barrels per day. That cut had occurred despite massive lobbying by the United States against it. Joe Biden, the US president, had sent several of his cabinet ministers to Saudi Arabia, a leader of OPEC and a close ally of the US, and had even visited that country in person, to persuade it to avoid such a course of action; but to no avail. Even against the present cut the US had exerted immense pressure, but again to no avail. These output cuts in short are testimony to the decline in US hegemony that has taken place of late.

The argument given by OPEC+ for the announced curtailment in output is that the demand for oil is getting reduced because of the recession. In other words, they argue that when there is a reduction in demand for oil, the producers are better off if output rather than the price is curtailed, which indeed is what they are enforcing. Their argument can be understood as follows: suppose there is a 10 per cent reduction in demand at the going price; if output is curtailed by 10 per cent, then the price remains unchanged, and their total revenue also falls by 10 per cent. But if they let the output remain unchanged and let the price fall until demand and supply are equalised, then the fall in price will be more than 10 per cent, and therefore the revenue will fall by more than 10 per cent. This is because the demand for oil is price-inelastic (indeed this is exactly what price-inelasticity of demand means). Incidentally, it is this price-inelasticity of the demand for oil which makes oil multinationals raise their profit margins and hence prices whenever they think they can get away with it.

The producers therefore are better off by curtailing output when there is a recession-induced reduction in demand than by keeping output unchanged and letting the price adjust to equate demand with supply. This is the OPEC+ argument for cutting output; and already even before the output cut has come into effect, there is a 6 per cent increase within a week in the price of crude oil in anticipation of it. Even the equity prices of some oil multinationals have also started going up.

If oil prices are kept up through cuts in crude output then the effect of an engineered recession in bringing down the inflation rate is correspondingly reduced. This means that the extent of recession will have to be even greater, in order to enforce an even greater restraint on the real wages of workers and on the share of other non-oil raw material and food producers. But the share of non-oil raw material and food producers in output being already rather low, the brunt will have to be borne by the wage earners. The point is: will the working class in the capitalist world, especially in the advanced capitalist countries allow this to happen? To the extent that they do not, the recession that is the capitalist panacea for inflation will have to be even greater.

The resistance of the working class however is not just to a squeeze on real wages; it is also to greater unemployment. And if the recession becomes too deep, that will provoke significant working class action. Europe is already racked by a wave of strikes; in fact no major European country is currently free of significant strike-struggles. If the recession deepens then the working class, under the pincer attack of inflation and unemployment, will become even more militant.

But that is not all. If the recession deepens then banks would become further stressed. Already there is considerable stress being experienced by the banking system in the advanced capitalist world, with two American banks having gone down. With a deepening recession and the ensuing defaults on bank-loans, matters will become even more serious.

All this points to an important fact. A whole set of conditions underlie the apparently smooth functioning of capitalism, and if the fulfilment of any of these conditions is impaired, then it sets off a chain reaction that seriously threatens the stability of the entire system. The hegemony of the US-led metropolitan imperialism over the world economy is one of these conditions. Because this hegemony has been so pervasive, so taken for granted, most analysts even fail to notice its relevance; but a crack in it, such as the relative assertiveness of Saudi Arabia that we are witnessing of late, the fact of its no longer toeing the American line, is seriously threatening the stability of the system.

World capitalism has been in a crisis for a long time, ever since the collapse of the housing bubble in 2008. It is a hallmark of the crisis that attempts to resolve it in one form simply give rise to a crisis in some other form. The original manifestation of the crisis was in the form of a stagnation; even establishment economists like Lawrence Summers the former US treasury secretary have now started talking of a "secular stagnation". But the attempt to overcome this stagnation by pumping in extraordinarily cheap credit to the system over a long period of time, and then by running enormous fiscal deficits in the wake of the pandemic, brought on the current inflation. The Ukraine war, a fall-out of the effort to maintain western hegemony over the world, accentuated this inflation. And now the effort to curb this inflation is threatening western hegemony over the world, as well as the control exercised by metropolitan capital over its domestic working class. What we are witnessing in short is a coming apart of the conjuncture that underlay the stability of neoliberal capitalism.

*** This article was originally published in the Peoples Democracy on April 16, 2023.**