Warnings mount of 1930s-style deflation

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The new year has opened with a series of warnings by bankers, economists and capitalist politicians that the Asian currency crisis is the harbinger of global deflation and depression on a scale not seen since the 1930s.

In a special article published in the London-based *Financial Times* on December 31, billionaire financier George Soros warned that the international financial system was suffering a "systemic breakdown" touched off by the Asian currency crisis: "What started out as a minor imbalance has become a much bigger one that threatens to engulf not only international credit, but also international trade. We are on the verge of worldwide deflation."

Soros's warnings of deflation—falling asset and commodity prices combined with mounting layoffs and bankruptcies—were echoed in a speech some four days later by the chairman of the US Federal Reserve Board, Alan Greenspan. Addressing a meeting of the American Economic Association in Chicago, the central banker acknowledged that some observers considered that deflation was now a possibility. He warned that as in the 1930s rapid declines in the prices of assets, such as stocks and property, "held the potential to be a virulently negative force in the economy," and noted that this process was the source of many of the problems in Asia.

The dangerous implications of global deflation were also the subject of a special article by the labor secretary in the first Clinton administration, Robert Reich, published in the January 15 edition of the *Financial Times*. Reich, now a professor of social and economic policy at Brandeis University, warned that like generals who made the error of fighting the last war, economic policy makers had grown so accustomed to dealing with the dangers of inflation that they failed to see the danger on the opposite front.

"While our policy artillery," he wrote, "is still aimed at the specter of spiraling inflation, the real danger is spiraling deflation. The generation that witnessed the worldwide depression of the 1930s recalls the power of this enemy, but memories are distant. The seeds of the depression were sown in the late 1920s, when demand began to fall. By 1927, sales of houses, cars and consumer durables were in decline, commodity prices had turned downwards and industrial production began to fall. We are entering a similar era."

Pointing to the political dangers arising from such an economic crisis, Reich warned that a "vicious deflationary cycle can also let loose a vicious social cycle.... Deeper indebtedness, combined with higher unemployment, may give rise to strikes, changes in democratically elected governments, or violent forms of unrest."

In a survey of the global economy, Reich pointed out that signs of deflation—falling prices for basic commodities such as steel, food and energy—were clearly evident before the onset of the Asian currency crisis, and that a "large uncoordinated global contraction is under way".

Economic activity in Southeast Asia, which has contributed at least one-third to the overall growth of the world economy, is contracting, economic demand is falling across Latin America, provoked by a downturn in the region's biggest economy, Brazil, while Europe continues to stagnate, with unemployment in France and Germany near 12 percent.

Economic demand has been sustained by the growth of the US market, but with real wages in America still below the levels of almost 10 years ago, much of this growth is being financed by consumer debt, now showing signs of slowing down.

In a call to governments to take action to try to reverse the contraction, Reich wrote: "Consider the big picture: an east Asia of toppling currencies and bank insolvency; rising unemployment in Latin America's largest economy and falling real wages throughout the region; stagnation and unemployment in Europe; a rapidly approaching limit to the capacity of US consumers to take on more debt. As the global economy slows, social unrest threatens."

A similar demand was issued in the January 26 edition of the US magazine *BusinessWeek*, which warned that unless the US, Europe and Japan organized a "coherent, high-profile response" to the crisis in Asia, the "damage to the global economy could be deep and long-lasting."

Criticizing Clinton's remarks last month that the Asian currency crisis was merely a "glitch in the road," it declared: "Such complacency is dangerous. The cold reality is that the world's industries and financial systems are inextricably intertwined. Just as no one anticipated how swiftly a local panic in Thailand would bring down an entire region, no one really understands how the collapse of the world's biggest growth zone will ripple through the West. At this point, confidence has become so shaky that one more big shock—a currency devaluation by China, another plunge in Japan's Nikkei average, or a key Asian borrower reneging on its IMF terms—could well trigger reverberations that will rock the globe."

Indeed, as the article pointed out, according to Japan's vice-minister for international finance, Eisuke Sakakibara: "This isn't an Asian crisis. It's a crisis of global capitalism."

A series of statistics on the Japanese economy, which less than a decade ago was hailed as a "locomotive" for the world, reveal the depth of the crisis and its implications for the world economy. The bad debts of the banks are now officially admitted to be around $600 billion, or at least 15 percent of gross domestic product.

Business bankruptcies for 1997 jumped by 75 percent over the previous year, itself a record, and are running at double the rate of the early 1990s when the Japanese share market collapsed.

The Japanese economy has been in a continuous recession for the past seven years. "Recoveries" peter out almost as soon as they begin, with government measures aimed at providing a stimulus having virtually no effect.

Describing the Japanese economy as "falling out of control," Massachusetts Institute of Technology economist Rudi Dornbusch has warned that the situation in Japan "has all the overtones of the US in 1929: As the economy sinks, bureaucrats do little and claim that everything will work out in time."

Criticism of the failure of governments to act is not confined to Asia. A recent article co-authored by Nobel prize-winning economist Franco Modigliani has called on European governments to tackle mounting unemployment or risk the single European currency project.

But as the authors themselves point out, none of the agreements reached between the European powers address the unemployment crisis, and budget cuts imposed under the European "stability pact" make any stimulation of the economy impossible.

The perplexity and impotence of the major capitalist governments in the face of the most serious crisis of the capitalist system in the postwar period is not simply a matter of the incapacities of the various bourgeois politicians. It is the political expression of objective economic processes.

The various economic mechanisms set up in the postwar period to provide economic stability are unable to deal with the crises of a globally integrated economic system. Under conditions where the central concern of every national government is the struggle for global economic dominance, the capitalist class is unable to develop any coordinated measures to provide for economic stability.

In fact, its global institutions create ever-greater disequilibrium. The International Monetary Fund, set up in 1944 as a key component of the international financial system, is a case in point. Rather than stabilizing the situation in Asia, its demands for government spending cuts, bank closures, interest rate hikes and removal of subsidies on food and fuel, imposed in the interests of the world banks and financial institutions, have deepened the economic crisis of the entire region.

The discussion now taking place in the leading circles of bankers, business executives and capitalist politicians is not over economic solutions to the crisis—they know they have none—but what measures must be developed to deal with their rivals in the global struggle for markets and meet the social convulsions beginning to be produced by the imposition of mass impoverishment and unemployment.

In the words of *BusinessWeek*: "The US will have to keep the pressure on Asian leaders to follow through with a structural overhaul of their economic models as South Korean workers take to the streets and rioters spill out of Jakarta's slums."

That is, the dictates of the global capitalist market are to be imposed by force, and not just in Southeast Asia. Already, this year has seen the use of riot police by the Jospin Socialist Party government against unemployment protests in France, the deployment of riot police to guard banks in South Korea, the massing of troops on the streets of Indonesia and police attacks on workers in Thailand.

In every country, the impact of the global crisis of capitalism will be the same: escalating unemployment, the lowering of wages and the destruction of living conditions combined with the dismantling of what remains of the social welfare system.

The unleashing of this crisis necessitates a political response by the working class. Above all this requires a critical evaluation of all the assumptions that underlie capitalist politics.

An assessment must be made of the central ideological campaign of the past decade and a half, in which capitalist politicians of all stripes, together with trade union bureaucrats, "left" and right, have insisted that workers could defend their social interests provided they developed more productive methods of working.

The foundations of this campaign have been shattered by the unfolding deflationary crisis of capitalism. The crisis is characterized not by a lack of productivity, but, on the contrary, the development of overcapacity in every industry, from cars to computer chips to textiles. At the most fundamental level, the crisis is the outcome of the conflict between vast advances in technology and productivity over the past two decades, and the profit system within which these technological advances have taken place.

The more labor productivity and productive capacity have been developed, the more intensive has become the struggle for markets, leading to a further drive to boost productivity, cut costs and increase capacity.

Capitalism has entered a vicious circle, characterized on the one hand by a never-ending global struggle of each against all, and on the other by ever increasing attacks on the working class.

In preparing to meet these attacks workers must confront the central ideological precept upon which the capitalist economy rests: that the market is the only possible form of economic and social organization.

The market is not a product of God or Nature, but a historically developed form of social organization based on the private ownership of the means of production and finance through which the material wealth produced by the labor of millions of working people is appropriated in the form of profit by the banks and corporations.

The working class must develop its own independent program, based on its unification across national boundaries and borders in the common struggle against the global corporations and banks and the entire profit system.

It must take up the political fight for the socialist reorganization of society in which productive capacity is used to meet human needs, and not the requirements of profit.