The crash of 2008 and the prospects for 2009

2 January 2009

Whenever a historical review is made certain years attract attention because of the decisive events with which they are associated. The years 1914, 1929, 1933, 1939 and in more recent times 1956 and 1989 are some that come to mind. The year 2008 is destined to join this group.

This was the year when the supposedly impossible happened: The world capitalist system underwent a financial breakdown which now threatens to repeat, or even eclipse, that which began in 1929.

The figures speak for themselves. The US government alone is committed to providing more than $8 trillion to prop up the financial system. Interest rates charged by central banks around the world have been cut to record lows, in the case of the US to near zero, in a desperate bid to prevent a financial meltdown.

The year has ended with stock markets around the world showing losses not seen since the worst years of the Great Depression. In the US, the S&P 500 index has fallen by 38.5 percent—with much of the drop in the last few months—to record its worst result since the fall of 47.1 percent in 1931.

In Japan, the Nikkei index closed 42.1 percent down for the year, exceeding the previous biggest loss of 38.7 percent in 1990, when the share and land bubble collapsed. In Korea, the Kospi index ended the year with a loss of 40.7 percent. Both these Asian results were the worst since records began, while across Europe similar declines have been recorded.

The collapse of financial markets is now being matched by the decline of the real economy. Next year total economic output in the advanced capitalist economies will fall—the first such contraction in the post-war period. According to Olivier Blanchard, the chief economist of the International Monetary Fund, the contraction in demand "could exceed anything seen since the Great Depression in the 1930s."

In November, Japan, the world's second largest economy, recorded an 8 percent month-on-month decline in industrial output, the largest in history. In Korea, one of the world's major industrial economies, the decline in industrial output for November was 14.1 percent compared with a year earlier—the steepest fall ever recorded.

And the prospects for the US, the heart of the global economy, have become, in the words of a recent report from the Levy Economics Institute, "uniquely dreadful, if not frightening."

According to the Levy report, US gross domestic product (GDP) will fall by about 12 percent below trend between now and 2010, with unemployment rising to about 10 percent. The report concludes that the "virtual collapse of private spending" will make it "impossible for US authorities to apply a fiscal and monetary stimulus large enough to return output and unemployment to tolerable levels within two years."

The massive financial losses and the extent and speed of the ensuing slump are large enough by themselves to establish the historical significance of the year 2008. But the importance of this year's economic events is not simply a quantitative question.

Starting with the emergence of the sub-prime mortgage crisis in mid-2007, the events of the past year-and-a-half signify the breakdown of the mode of capitalist accumulation which has prevailed over the past three decades and which emerged out of the previous historical crisis of the capitalist economy in the 1970s.

The edifice of credit and finance which has now come crashing down was not some excrescence on an otherwise sound economic system. It was the key component in the global mechanism of capital accumulation.

For a considerable period it appeared that the processes of so-called "financial innovation," in which ever more complex schemes were devised to make money through the manipulation of money, could overcome the fundamental laws of the capitalist economy. However, no amount of financial manipulation could alter the fact that, in the final analysis, the accumulation of capital depends on the extraction of surplus value from the working class in the production process.

The eruption of the present crisis signifies that the financialization of the past three decades has reached the point where the claims of finance vastly outweigh the mass of available surplus value. Two processes have been set in motion as a result. On the one hand, capital must launch a full-scale assault on the working class in order to drive up the accumulation of surplus value and, on the other, each section of capital must seek to drive its rivals to the wall.

In other words, all the conditions which characterized the 1930s—mass unemployment and a deepening assault on the social position of the working class, together with sharpening conflicts among the rival groups of capitalist powers—are making their return.

In the face of this breakdown, the political and ideological representatives of the capitalist ruling classes are desperately trying to promote the illusion that they have some antidote to the crisis.

After three decades dominated by the so-called "efficient markets hypothesis"—the claim that market prices are always correct—a new myth is being hastily manufactured: that Keynesian economic measures based on increased government spending and deficit financing will eventually restore the health of the capitalist economy.

The historical record proves otherwise. In the 1930s, the measures enacted by Roosevelt in the New Deal did not bring about a recovery of the American economy. After a brief upturn in the middle years of the decade, the US economy experienced a major downturn in 1937-38 as steep as anything that had gone before. The US economy's revival began with the turn to war production, and global stability was reestablished only with the reconstruction of the world economy following the massive destruction of World War II.

In the early 1970s, Keynesian measures failed to prevent the development of the deepest recession since the 1930s. In fact, they promoted stagflation—high unemployment and rising prices—thereby helping to create the political conditions for the implementation of the "free market" program spearheaded by Reagan and Thatcher.

And in Japan, the continuous stimulus packages of the 1990s failed to bring a revival of the economy following the collapse of the stock market and land price bubble in 1990.

While Keynesian measures provide no economic antidote to the breakdown of the capitalist economy, they do perform an important political function for the ruling class. Roosevelt's New Deal did nothing to end the crisis of the 1930s, but it did help create the illusion that a solution was possible and thereby performed an invaluable service in blocking the development of a socialist perspective in the working class.

As world capitalism enters its most serious crisis since the breakdown of the 1930s, and the ruling classes draw on their own experiences, so the working class must assimilate the lessons of history. The only way of preventing a repeat of the experiences of the Great Depression, which culminated in the deaths of millions in World War II and the use of nuclear weapons, is the overthrow of the historically-outmoded profit system. The year 2008 marks a milestone in the disintegration of world capitalism; 2009 must become the starting point for a resurgence of the struggle for international socialism by the world working class.

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