World economy faces deepening turmoil

Nick Beams 8 January 2011

The New Year has opened with expressions of concern that two years after the financial meltdown sparked by the collapse of Lehman Brothers, the global economy and financial system, far from recovering, has entered an era of unprecedented economic and political turmoil. In short, the realisation is growing that the financial crisis was not a cyclical downturn to be followed by an upswing, but the beginning of a new era of economic breakdown.

In a comment published last month, Jeffrey Garten, undersecretary of commerce in the Clinton administration and now Yale University international trade and finance professor wrote: "As the first decade of the 21st century comes to a close, leaving the steady growth of last century's second half a distant memory, what does the future hold for the global economy? For the next several years, we can expect exceptional turbulence as the waning days of the global economic order we have known plays [sic] out chaotically, possibly destructively."

The focus of immediate attention is Europe where, according to a comment by former International Monetary Fund chief economist Simon Johnson, published in the *New York Times* on December 30, "most experienced watchers of the eurozone are expecting another serious crisis in early 2011, tied to the rollover funding needs of its weaker governments."

But as Johnson went on to warn, the turbulence will not stop at the Atlantic. "When the financial markets are done with Europe, they will come to test the fiscal resolve of the United States." Notwithstanding the belief of the entire American elite that "we are different from the Europeans because we issue the dollar and therefore have some special privileges" the age of American predominance, he insisted, was now over.

The *Financial Times* also pointed to the likelihood that the European financial crisis would spread in the next few months. "Last year brought the eurozone debt

crisis. Greece and Ireland had to be bailed out and big question marks still hang over Portugal and Spain. But the focus is now likely to widen. The question for 2011 is how much of the western world will be caught up," it noted on January 3.

The FT comment cited a survey conducted by a major US investment bank of its largest institutional investors, who were asked when they thought the debt crisis afflicting Europe would reach the United States. Fewer than 10 per cent said "never".

As economic and financial problems deepen in Europe and the US, the still growing Chinese economy, far from providing a new foundation for global economic expansion, may itself become the source of a new wave of international turbulence.

Rising inflation has led authorities to lift interest rates, sparking concerns that if these increases are too rapid, they will cause a collapse of the investment and real estate bubble—much of it promoted by local government authorities—that has played such a central role in Chinese economic growth over the past two years.

According to Beijing university professor Michael Pettis: "Debt levels are worryingly high and starting to act as a serious constraint on rebalancing. It is becoming increasingly difficult for the People's Bank of China to raise interest rates without causing a great deal of financial distress in government related entities."

The deepening problems within the Chinese economy, while exacerbated by the global financial crisis, are rooted in long-term processes. According to a comment by a former member of the monetary policy committee of the Peoples' Bank of China, Yu Yongding, published in the December 23 edition of the *China Daily*, the "East Asian growth pattern" that formed the basis of China's progress over the past three decades "has now almost exhausted its potential." Consequently "China has reached a crucial juncture" and "without painful structural adjustments, the momentum of its economic growth could be lost."

The actions of the United States are fuelling the escalating turbulence in the world economy.

For much of the post-war period the US functioned as the anchor of the world capitalist economy. Today it is one of the main sources of destabilisation as it seeks to overcome its mounting economic problems at the expense of its rivals.

The US Federal Reserve's policy of so-called "quantitative easing," which sees it pumping billions of dollars into the global financial system—increasing the availability of cheap finance and pushing down the value of the US dollar—is sending shock waves through the world economy.

One of the immediate consequences has been renewed speculation in food and other basic commodities, such as oil. This week, the UN's Food and Agriculture Organization issued a warning that food prices had now surpassed the levels reached in the price hikes of 2007-2008.

Faced with "hot money" inflows sparked by quantitative easing, a number of countries have sought to impose new financial controls. Brazil has just announced new banking regulations to try to curb the inflow of finance, while Chilean authorities have intervened in money markets to try to hold down the value of the peso.

Pointing to the deepening divisions in the world economy, Nobel laureate economist Joseph Stiglitz noted that the coordinated policy response of the major powers to the economic crisis in 2009 was now a "faint memory".

"Worse," he continued, "America's quantitative easing is now viewed as an update of the policies that marked the Great Depression. The world is waking up to the way that exchange rates can be used in selfpromotion at the expense of others—discouraging imports and enhancing exports.... Such beggar-thyneighbour policies didn't work in the 1930s, because countries responded in kind. Today the same will happen."

The eruption of currency wars threatens to fracture the world market in the same way that tariff barriers in the 1930s divided the world into a series of hostile economic blocs, leading to the eruption of war by the end of the decade.

Mounting tensions between the major powers are being accompanied by an increasingly ferocious assault on the social position of the working class. The unleashing of state violence against students, youth and workers by governments in Britain, Greece, Spain and France in order to impose the austerity measures being dictated by banks and financial markets is only a foretaste of what is to come as the ruling classes everywhere seek to make the working class pay for the historic bankruptcy of the profit system.

Just as the breakdown of the capitalist order proceeds across borders and continents, so the working class must develop its own global response. The task ahead is to develop a unified movement of the international working class that will take political power and establish workers' governments, placing key economic and financial resources in public hands and reorganising the economy to meet social needs. That is the perspective of the International Committee of the Fourth International.

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