Financial chaos sounds a warning

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Last week commodity prices fell on world markets in what the *Financial Times* described as an “epic rout”—the worst sell-off since the collapse of Lehman Brothers. This week markets were again on the rise. Next week, who knows? Another sell-off, a banking collapse, a sovereign debt default, a repeat of the still unexplained “flash crash” on Wall Street a year ago when the market plunged nearly 10 percent in minutes, or something completely unexpected?

The unprecedented volatility in international financial markets is sounding a warning. It points to two fundamental features of the global capitalist economy: none of the underlying contradictions that set off the global financial crisis in September 2008 has been resolved; and the policies of the major governments and central banks are coming into increasing conflict as each of them acts in its own national interest under the slogan “every man for himself and the Devil take the hindmost.”

The commodity price fall on May 5 was led by oil, which dropped more than 10 percent in what traders described as an “horrendous” plunge. The subsequent rush for the exits saw the world’s biggest commodity hedge fund Clive Capital hit by losses of more than $400 million, mostly incurred in just one day. In a letter to clients, however, the fund’s management was at a loss to explain what had caused the oil market to be “annihilated.”

No one else seemed to be able to come up with an answer either. After setting out one possible explanation, an editorial in the *Financial Times* of May 6 said while the proffered theory may be correct, “so may be its exact opposite.” It concluded: “The ease with which we explain price swings—in any direction—suggests that we really do not understand them at all.”

Whatever the immediate reason for the plunge, the underlying cause of the turbulence is the ongoing breakdown of the global financial system.

One of the main factors behind the commodity boom of the past year has been the decline in the value of the US dollar against all major currencies. This reflects both the long-term decline in the economic position of the US in relation to the other major capitalist powers and also the policies pursued by the US Federal Reserve. The US central bank provides cash to the American banks at a rate of between zero and 0.25 percent. Under conditions where inflation is between 2 and 3 percent, this means that the banks essentially receive money at negative interest rates.

This money is not being invested in the expansion of industry, but is being used to finance speculation in commodities and in other markets. While this policy is highly beneficial to the US banking and finance houses, it is wreaking havoc on the global economy as governments and central banks have to try to counter the inflationary effects of rising prices and the recessionary impact of rising currency values on their economies.

While not directly naming the US Federal Reserve, the Reserve Bank of Australia pointed to the risks to the global economy posed by the Fed’s activities in its latest quarterly report on monetary policy. With interest rates remaining low, it said, and “monetary policy ... at very accommodative settings” rising commodity prices were “dampening economic activity” and “contributing to higher inflationary expectations.” If central banks were too slow to respond, there would be “further increases in inflation expectations” followed by a "sharp slowing in growth as policy is belatedly adjusted." In other words, the inflationary spiral will end in a bust and set off a global recession.

American monetary policy is not the only source of global turbulence. Another is the ongoing crisis of the eurozone, recently described as a "slow-motion avalanche."

Last week's plunge on commodity markets was accompanied by a fresh crisis over the Greek bailout, with *Spiegel Online* reporting that Greece was preparing to quit the eurozone. The report was strenuously denied, but the magazine was able to quote from a German Treasury paper which set out the consequences of such a move.

The deepening problems of the Greek financial system, as well as those of the two other so-called peripheral economies that have been bailed out—Portugal and Ireland—signify the failure of the financial measures initiated a year ago. The scenario put forward was that after a period of fiscal contraction, the Greek economy would recover and the government could return to international markets for its funding needs. A year on, the situation has gone from bad to worse: the level of Greek debt has climbed to 160 percent of gross domestic product, unemployment is on the rise, the economy is contracting and Greece has been effectively frozen out of international markets as a result of the latest downgrade of its debt by Standard and Poor's.

A major factor in the inability of the eurozone countries to provide anything even resembling a solution to the debt crisis is the deep divisions among them, especially between France and Germany.

Policy has been determined on the basis that there can be no "restructuring" of Greek or other sovereign debt because this would lead to major bank losses and even a financial meltdown along the lines of that which followed the collapse of Lehman Brothers. Consequently, a kind of Ponzi scheme has been put in place in which loans are rolled over and new debts are financed.

But such a system cannot continue indefinitely. At a certain point it will lead to what the *Financial Times* called a "forced sovereign restructuring and [an] ensuing wave of bank collapses."

Underlying the turmoil is the fact that financial markets have long ago outgrown national boundaries and operate through a complex set of interrelationships that enmesh the globe—beyond the control of any government or group of governments and regulatory authorities.

The chaos of the system recalls the comment by Marx in the *Communist Manifesto*: "Modern bourgeois society, with its relations of production, of exchange and of property, a society that has conjured up such gigantic means of production and of exchange, is like the sorcerer who is no longer able to control the powers of the nether world whom he has called up by his spells."

This chaos and the ever-increasing social devastation inflicted on hundreds of millions of people signifies that the profit system and the nation-state system in which it is rooted must be overturned. The blind irrationalities of the market must be replaced by conscious management of the global economy and democratically-controlled economic planning to meet human need, in accordance with the laws of reason. That can only be achieved through the taking of political power by the working class and the establishment of international socialism.

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