A major shift in the global economy

Nick Beams
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In the run-up to the American presidential election of 2008, significant sections of the US ruling elite took the decision to back Obama in the wake of the financial crisis that erupted with the collapse of Lehman Brothers. Their calculations were based on the assessment that illusions in “hope” and “change you can believe in” generated by the Obama campaign would provide some breathing space amid a wave of popular hostility to the Bush administration.

Four years on, disillusionment is becoming ever more widespread, coinciding with a significant shift in the US and global economy that will fuel an intensification of class struggle internationally. Broadly speaking, the series of measures put in place by governments and financial authorities around the world to prevent a financial meltdown and global depression are reaching the end of their limited effectiveness.

In the US, major corporations, taking their lead from the Obama administration’s “restructuring” of General Motors, which saw starting wages reduced to just $14 per hour, have been able to maintain, and, in many cases, increase their profits. But the program of cost-cutting in the face of declining revenues and depressed demand cannot continue indefinitely. Business investment—the surest indicator of future conditions—remains at historically low levels, recording zero growth in the third quarter.

Over the past four years, the US Federal Reserve has sought to boost the finance houses and banks by pumping out endless supplies of ultra-cheap money, increasing the asset holdings of the Fed by around $2.5 trillion. But the adrenalin of financial stimulus is losing its effectiveness.

The policies of the Fed have been replicated by central banks around the world. The financial assets on their balance sheets have increased from around $6 trillion to $18 trillion, equivalent to just under one third of global gross domestic product. As financial journalist Satyajit Das recently noted: “[T]he global economy is addicted to monetary heroin,” with increasing doses “necessary for the patient to even function at all.”

Government debt levels have rapidly increased as private bank debt has been turned into public debt, with the indebtedness of 11 major nations rising from 381 percent of GDP in 2007 to 417 percent in 2012. The program of all capitalist governments is to recover these massive outlays in support of the banks through sweeping austerity programs directed at slashing social spending and impoverishing the working class.

When the crisis erupted, various financial commentators and media pundits claimed that China and other so-called “emerging markets” would be able to “decouple” from the major economies and provide new centres of growth for world capitalism.

And for a brief period, these illusions were sustained by the continuing growth of the Chinese economy, as the government’s spending measures and credit expansion—characterised by Goldman Sachs as the biggest stimulus package in economic history—fueled an investment boom. But the Chinese regime’s measures were predicated on the belief that the country’s export markets—above all in Europe and the US—would recover. That illusion has been well and truly shattered, and the inherent limits of the Chinese stimulus policy are clearly apparent.

According to David Pilling, the China correspondent of the *Financial Times*, the economic mood in China has “palpably darkened” in recent months. The Chinese growth rate has fallen for the past seven months and is now at its lowest level since 1999.

Such has been the extent of the investment boom, that it has been estimated that half of all China’s physical infrastructure has been built in the past six years. Economic growth based on investment spending comprising some 50 percent of GDP is inherently unsustainable, with some economic commentators openly speaking of the inevitability of a crisis.

The latest figures from the euro zone, an economic bloc comprising 20 percent of global GDP and larger than both the Chinese and US economies, are the clearest expression of global recessionary trends. This week, the European Commission revised its forecast for GDP growth next year down from 1 percent to just 0.1 percent, following an expected contraction of 0.4 percent for this year.

Significantly, the main reason for the downward revision was the downturn in the German economy, which is predicted to grow by only 0.8 percent next year compared to a previous forecast of 1.7 percent. Major sackings have been announced in key sectors of the German economy. Commenting on the figures, European Central Bank President Mario Draghi said that previously Germany had been insulated from the economic problems in the rest of the euro region, but that period was now ending.

Unemployment across Europe is expected to climb to more than 12 percent, meaning the depression-like conditions in Greece and Spain are going to spread across the continent.

As economic growth declines, financial instability throughout the euro zone will increase, posing the threat of a far-reaching global crisis if Greece, Spain or one of a number of other countries defaults on its loans. The problems are not confined to the so-called peripheral countries.

The outlook for German banks remains on “negative watch,” and there are continuing concerns over French banks. A major crisis has been averted so far only by the European Central Bank’s provision of $1 trillion to cash-strapped banks and its commitment to buy the bonds of highly indebted countries. But no amount of ECB cash can cover over the central problem—that major European banks and financial institutions face an insolvency, rather than a liquidity, crisis.

Faced with the ongoing breakdown of the global capitalist economy, the response of the ruling class the world over is to intensify its attacks on the working class. The re-elected Obama administration has made its first item of business the institution of sweeping spending cuts, above all to social security entitlements. In Europe, the austerity programs that have brought depression-like conditions to Spain and Greece are going to be intensified. And in China, the stimulus measures of the past four years have run into the brick wall of the global downturn.

The turn in the world economy poses decisive political challenges to the working class. The first step in meeting them is the recognition that the capitalist system has failed and there is not going to be a return to “normal” conditions.

The “new normal” is a return to the conditions of the Great Depression—war, mass unemployment and dictatorial forms of rule. This poses the necessity for the working class to initiate a political struggle for the overthrow of the historically outmoded profit system and the building of a planned socialist economy.

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