The stock market bubble

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In the fifth year of the economic depression, and amid signs of the worst global slowdown since 2008, world stock markets are booming.

In the US, the three major stock indices have either reached or are within a few percentage points of their 2007 highs, despite the fact that the economy has stalled, contracting for the first quarter since 2009, according to figures released Wednesday.

Europe is in a state of disintegration, with Greece and Spain facing conditions not seen since the Great Depression, while Germany is experiencing a sharp slowdown. In Britain, the economy is now 3.3 percent smaller than at the start of the downturn, but the benchmark FTSE 250 index has doubled. China, Brazil and India have posted sharply lower figures for economic growth, amidst a slowdown in exports. Yet global share prices have risen ten to twenty percent in the past year alone.

These apparently contradictory phenomena—surging financial markets and economic stagnation—are in fact intimately linked. The continued rise in the markets is not a sign of health, but a particular expression of the diseased state of the world capitalist system.

The world's ruling classes, confronting a historic crisis of productivity and investment, have responded through the reflation of asset values—and their own incomes—through historically unprecedented measures of wealth redistribution.

Above all, there has been a massive infusion of cash into the financial system by the US Federal Reserve and other central banks. The US Fed is currently purchasing some $85 billion worth of mortgage-backed securities and treasury bills every month, essentially printing money to buy up government debt and bad assets held by the banks. The total assets owned by the Federal Reserve have climbed to $3.01 trillion, more than triple what they were in 2008.

All major world central banks have taken similar actions. In July, the European Central Bank moved to reduce its benchmark interest rate to the lowest level in the history of the euro. The size of the holdings of the six largest world central banks has nearly tripled, to €14 trillion in 2012.

The actions of the central banks are invariably described in the mass media as necessary measures to address unemployment and other social ills. In fact, their central purpose is to make virtually unlimited sums of money available for financial speculation.

This policy is directly tied to the frontal assault on the working class internationally. Awash in cash, the corporate and financial elite insists that there is no money for health care, pensions or decent wages. Every basic right must be eliminated in order to ensure the continued flow of funds into the banks. Millions of people have been thrown into poverty, unemployment and destitution as a consequence.

The decimation of wages and living standards has the additional effect of counteracting the inherently inflationary impact of the central banks' policy. Under any other circumstances, the mass printing of money would cause runaway price inflation, but falling wages and plummeting investment are directing the flow of cash not into goods, but into asset values.

The systematic reduction of wages, the precedent for which was set by the Obama administration in the 2009 restructuring of the auto industry, has fueled an enormous boom in corporate profits, which have set records for three years in a row. Yet these profits are not reinvested. American corporations are sitting on about $2 trillion in cash, much of which is simply funneled into the markets.

The entire process is completely unstable. The ruling class stumbles from crisis to crisis, and its response to one crisis sets the stage for the next. The economy stagnates, and new speculative bubbles threaten to burst, unleashing a financial collapse that could far eclipse the crisis of 2008. While engorged in excess, the ruling class appears at the same time bewildered, the measures it adopts increasingly improvisational.

At the same time, the infusion of cash into the world economy is undermining the global exchange system and fueling currency wars and competitive devaluations. This month, Japan became the latest economy to announce an expansion of its money supply in what was widely seen as an attempt to bolster exports by devaluing the yen. A breakdown of the international monetary system, and consequent turn to trade war measures that characterized the response of governments to the Great Depression, is occurring.

The social and historical catastrophe confronting mankind is not simply the product of an economic crisis in the abstract. This crisis is mediated by class interests, and these class interests find expression in definite actions. Behind the central banks and governments stand the interests of a financial elite whose relationship to the rest of society is fundamentally parasitic.

A solution to the crisis must take a political form. To the interests of the ruling classes, the international working class must counterpose its own program. At the center of this program must be the understanding that a way forward is possible only through the transformation of society as a whole, placing it on new foundations.

The only force capable of breaking the political stranglehold of these social parasites is the international working class. It must be armed with a socialist program, fighting to place the major corporations and banks under democratic control and reorganize the economy on a rational and egalitarian basis.