Market turmoil signifies a new global financial crisis in the making

Nick Beams
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Concerns are growing in international financial circles that the conditions have been created for a major, and potentially uncontrollable, crisis, as soon as the US Federal Reserve begins cutting back on its purchases of US treasury bonds under its "quantitative easing" (QE) program.

Since the Fed first indicated last May it would begin the process of "tapering," the so-called "emerging markets" have been experiencing growing turbulence in their currency and stock markets as the speculative capital that moved in as a result of QE starts to be withdrawn.

Under the QE program, which involves purchases by the US central bank of treasury bonds and mortgage-backed securities to the tune of almost $1 trillion a year, interest rates in the US have been reduced to record lows **.** The QE program has been aimed at boosting the fortunes of those responsible for the crisis, creating the conditions for another financial bubble, amid the worst social crisis in the US since the 1930s.

The lowering of US interest rates also set off a "carry trade" in which financial speculators borrowed at very low rates and invested in emerging markets at higher rates of return than those obtainable in the US. According to the *Financial Times*, since 2010 capital flows into emerging markets have reached $1 trillion a year as a result of the "unconventional monetary policies" in the advanced economies.

Now speculative capital is starting to move in the opposite direction in anticipation of "tapering" and an increase in US interest rates. The outflow has accelerated as the currencies of emerging market countries start to fall, prompting speculators to take their money out before they suffer significant losses.

Writing in the *Financial Times*, former Mexican Treasury Secretary Guillermo Ortiz noted that since April, Indonesia had lost about 14 percent of its foreign exchange reserves and India nearly 5.5 percent. If the stress continued, a full-blown balance of payments crisis could develop, with the same holding true for Turkey, Ukraine and South Africa, as well as other countries.

The Indian rupee has fallen by 20 percent in 2013 as economic growth dropped to 4.4 percent, well down from the average of 7.7 percent between 2002 and 2011. Inflation is rising and budget deficits are growing.

The Turkish lira has fallen by around 14 percent since the start of the year and the stock market is down by 25 percent. Much of the Turkish economic expansion over the past decades has been the result of a financial and credit bubble, which is now rapidly deflating. The fear is if the lira continues to fall it will become impossible to service foreign-denominated debt.

According to a recent assessment by the International Monetary Fund: "Turkey remains vulnerable to capital flow reversal due to its large external financing needs; should this occur, it could lead to a hard landing."

Turkey's problems are replicated across the range of emerging markets, posing the danger of a repeat of the Asian financial crisis of 1997-98, only on a much larger scale. The claim that such countries had "decoupled" from the advanced countries and could provide a boost to the global economy in the wake of the breakdown of 2008 has been shattered.

International Monetary Fund Managing Director Christine Lagarde has called for "further lines of defence" to be built to try to protect the world economy from an emerging markets crisis. But nothing has been proposed, and, in any case, the amounts of finance involved should a rush for the exits begin are beyond anything the IMF could control.

The US Fed has virtually washed its hands of any responsibility for the international situation, with officials insisting they are concerned only with the domestic impact of their policies. This recalls the infamous phrase of Treasury Secretary John Connally when confronted with European concerns about a fall in the dollar in 1971 that "it's our currency but it's your problem." Now the aggressive economic policy of 40 years ago has been raised to new heights and is being combined with increasing militarism in pursuit of US interests around the world.

No international solution is being discussed or even in sight. South African Finance Minister Pravin Gordhan has spoken of the "inability to find coherent and cohesive responses across the globe to ensure that we reduce the volatility in currencies." Speaking at the Jackson Hole, Wyoming, conclave of central bankers last month, Agustin Carstens, Mexico's central bank governor, noted the "volatility of [capital] flows has been very pernicious."

The underlying causes of this volatility were highlighted in a recent report by the management consultant firm Bain and Company. It pointed out that the relationship between the financial economy and the underlying real economy had reached "a decisive turning point." While real output was slowing, the volume of financial assets had expanded at a rapid pace and was now ten times the value of the global output of goods and services.

In other words, the world economy increasingly resembles an inverted pyramid in which an expanding volume of financial assets—the growth of which is being fuelled by the policies of the Fed and other central banks—sits on top of a base that is declining in relative size.

It was this situation, the report drew out, which has meant that asset bubbles, created by the speculative inflows of capital searching for profits, "have moved from being relatively isolated events to system-shaking crises claiming trillions of dollars of losses."

The guardians of US finance capital proceed on the basis that they can act unilaterally without regard for the global consequences of their actions. But in the final analysis, no country is more vulnerable to the violent movements of global finance than the United States.

The US financial system has become so dependent on the purchases of Treasury bonds by China that a major credit crisis in that country—and there are warnings of one in the making, with Chinese debt rising from 130 percent of gross domestic product in 2008 to 200 percent today—and a consequent withdrawal of funds from US markets would set off a financial earthquake.

Last week, the global chief investment officer for UBS Wealth Management, Alexander Friedman, warned that sooner or later the US might have to bail out the Chinese banking system, because if China was forced to dump US bonds in order to deal with a crisis at home, such actions would drive up interest rates and bring economic turmoil to the US.

There is also an increasing interaction between the eruption of militarism and the deepening economic crisis. The continuous series of wars launched by the US are the outcome of its attempts to overcome its relative economic decline by force of arms. But war against Syria, or other targets such as Iran, could set off a financial crisis that would immediately "blow back" into the United States.

As the fifth anniversary of the onset of the financial crisis approaches, it is clear that not only has nothing been resolved, but the historic crisis of the capitalist economic and financial system is intensifying. Billions of people live with a sword of Damocles over their heads, threatened with being plunged overnight into poverty as the global financial system toboggans towards a new disaster.