World economy: Conditions for another crash taking shape

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Almost six years after the eruption of the global financial crisis, it is becoming clear, even to those normally associated with boosting the wonders of the "free market," that there is something fundamentally amiss in the workings of the capitalist economy.

A recent article in the *Wall Street Journal*, entitled "Sluggish economic recovery proves resilient," is typical of a growing stream of commentary on the US economy in the financial press.

It began by noting that: "The recovery from the recession has been nasty, brutish and long. It is also shaping up as one of the most enduring."

According to the National Bureau of Economic Research, which stipulates the beginning and end of recessions in the US, the American economy resumed its expansion in June 2009, following the financial collapse of September 2008. This means that the "recovery," already at 58 months, is set to exceed the average length of expansionary phases in the post-war period.

As the article points out, however, this "recovery" bears little resemblance to past episodes. "[A]fter almost five years, the recovery is proving to be one of the most lacklustre in modern times. The nation's 6.7 percent jobless rate is the highest on record at this stage of recent expansions. Gross domestic product has grown 1.8 percent a year on average since the recession, half the pace of the previous three expansions."

After canvassing possible reasons as to why this might be the case—from the after-effects of the financial crisis to the onset of "secular stagnation"—the author is only able to conclude that, for whatever reason, the present economic situation is far from the "typical recession."

He is not alone in his incapacity to provide any understanding of what is clearly an economic breakdown, rather than a conjunctural fluctuation. No bourgeois academic economist or financial commentator has been able to do any better.

Some put the situation down to the greed of the financial speculators and their activities, others point to the lack of regulation, while still others, such as the liberal *New York Times* commentator Paul Krugman, bewail the incorrect policies of government and financial authorities.

What is common to all of them is that they seek the cause in factors external to the functioning of the capitalist economy. In other words, the crisis is not generated by capitalism itself. Rather it is something to which it falls victim, like catching the flu, in the case of "typical" recessions or, more seriously, developing cancer, as in the present situation.

This approach is not the result of individual intellectual failings, but of a definite class orientation and historical perspective. Whether coming from the "right," and the assertion that the crisis is rooted in the pursuit of an incorrect monetary policy and that it is necessary to purge the economy to set a new foundation, or from the "left," and the claim that the abandonment of Keynesian pro-growth policies based on government intervention is the basic cause, these different tendencies share a common foundation.

They maintain that capitalism is not a historically developed mode of production but the only viable form of socio-economic organisation. Insofar as they consider history, it is only to provide evidence of the limitations of previous economic formations. They conclude that capitalism was the economic order to which mankind was always striving, as a result of humanity's inherent characteristics that can only find expression in the free market.

Consequently, crises are not expressions of the historically limited character of capitalism—the sure sign that it must be overturned and replaced by a higher form of socio-economic organisation—but a result of external "factors" and policy failures. These must be countered in order to ensure that, once again, all will be for the best in the best of all possible worlds.

Marxism has a fundamentally opposed perspective, basing itself on the understanding that crises and economic breakdown do not develop outside the capitalist system but are rooted in its essential contradictions.

The apologists and defenders of capitalism deny that these fundamental contradictions exist. But as Marx explained: "Crises exist because these contradictions exist… The desire to convince oneself of the non-existence of contradictions, is at the same time the expression of a pious wish that the contradictions, which are really present, *should not* exist."

The contradictions of capitalism, revealing its historically-limited character, assume two main forms: that between the global character of production and the nation-state system which divides the world; and that between the development of the productivity of labour, based on socialised production, and the private ownership of the means of production which forms the basis of the appropriation of wealth via the profit system.

The first contradiction manifests itself in the conflicts between the rival nation states and great powers for domination of the world economy, leading ultimately to war; the second in economic breakdown—characterised above all by the development of unemployment and social misery amid the production of great wealth.

For considerable periods of time—at least as measured by the yardstick of an individual's lifespan—it may seem that these contradictions are able to be suppressed or even overcome. As the present world economic and geo-political situation so clearly demonstrates, however, they have now erupted to the surface once again, as they did in the first half of last century, resulting in depression, fascism and war.

The situation in Ukraine, stoked up by the US and other imperialist powers in their drive to dismember Russia, together with the tensions in the East, generated by the Obama administration's anti-China "pivot" to Asia, testify to the ever-growing danger of war.

A series of economic processes indicates that, far from being overcome, the breakdown, which began with the eruption of the global financial crisis in 2008, is intensifying.

The central policy of the US Federal Reserve, the world's major central bank, is to keep interest rates at or near zero, while making available to the banks and financial institutions trillions of dollars of ultra-cheap credit.

This has now led to a situation where stock markets have reached record highs. Under what were once considered "normal" conditions, such a boom would point to a healthy economic expansion. But the Fed's interest rate settings and its "quantitative easing" program are characteristic of a crisis.

Moreover, the stock market boom is taking place amid increasingly worsening conditions in the real economy, marked by persistent high unemployment, historically low levels of investment and the emergence of a downward deflationary spiral.

Last week, it was reported that Sweden was the first country in northern Europe to slide into deflation, with prices falling by 0.4 percent in March compared to a year earlier. There are now eight European Union countries experiencing serious deflation, with more to follow. The Netherlands, one of the countries regarded as among the healthiest in the EU, has an inflation rate of just 0.1 percent, threatening to set off a series of financial problems in conditions, especially in the housing market, where the debt levels of Dutch households are at around 250 percent of disposable income.

In the United States, there are growing warnings of another market crash—with potential consequences even more serious than in 2008—as trading becomes increasingly dependent on borrowed funds.

Earlier this month it was revealed that margin debt, provided by brokerage firms to their clients to make market trades, had risen close to the levels reached in 1999–2000, just before the so-called "tech wreck," and in 2007 on the eve of the global financial crisis. Increased dependence on margin debt can set off a downward spiral if markets start to fall. Lenders start to call in "margins" on their loans if stock prices decline significantly, forcing lenders to find cash. If they do not have it on hand, they have to sell stocks they have purchased, with the potential to cause a further market slide and additional margin calls.

The conditions are being created for such a situation. As *Financial Times* columnist James Mackintosh recently noted, "a not insignificant number of stocks in the S&P 500 have valuations that rely on the belief in a financial fairy."

In an article entitled "The bell tolls for a margin debt catastrophe," Daniel Palmer, the North American correspondent of Australian web site *Business Spectator*, recently noted that there had been "no time in history when markets have traded at record highs and central banks were acting as if a major crisis was still afoot."

Before the financial crisis of 2008, a federal funds rate of 0-0.25 was unheard of, he noted. "To think that the US is still there over five years later while the S&P 500 and Dow are ploughing new heights and corporate and margin debt levels are jumping to fresh peaks, beggars belief."

The drive to war, coupled with the emergence of conditions for another economic crash—both of which will have incalculable consequences for the international working class—point to the historical crisis of the capitalist system and the necessity for its overthrow.

The online May Day rally called by the International Committee of the Fourth International for May 4 provides a truly unique opportunity for workers and youth all over the world to actively advance this perspective.