Market gyrations and the need for socialism

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The turmoil on global financial markets last week shattered the claims of the world's economic and financial authorities to have a solution to the breakdown of the capitalist system that began with the financial crisis of 2008.

As a number of commentators observed, the wild swings on Wall Street and in bond markets signified that the crisis that erupted six years ago not only remains unresolved, but could return in an even more explosive form.

The realisation that nothing has been done to stabilise the financial system coincides with the recognition that so far as the underlying real economy is concerned, the world is moving into a period of stagnation and ever-deepening recession.

Earlier this month, the annual meeting of the International Monetary Fund (IMF) took place, bringing together the world's state treasurers, central bankers and top economists. It was held in the wake of data showing that the euro zone is moving into its third post-2008 recession, growth is slowing in China, and the pace of economic expansion is sharply falling in emerging markets. Nothing was put forward to counter this situation.

As Larry Elliott, the economics correspondent of the *Guardian* observed, the conference resembled nothing so much as a gathering of the League of Nations in the 1930s in which all the participants knew another war was coming, but felt powerless to do anything to prevent it.

At the beginning of the year, the conventional wisdom in leading bourgeois economic circles was that growth in the United States, albeit somewhat constricted, would eventually pull the rest of the world behind it, bringing about a return to global expansion.

That comforting scenario collapsed in a heap this week. Data from the US, including falls in retail sales and a slowing of manufacturing in the New York region, and concerns over the impact of a rising dollar on US exports, pointed to the opposite situation: rather than leading the world to a recovery, the US economy may be pulled back by powerful downdrafts internationally.

The economic model that depicts the US as a locomotive for the rest of the world is a relic of the past. As the chief economist for HSBC, Stephen King, noted in a comment published in the *Financial Times*: "The US economy's share of the global pie is shrinking and therefore it no longer exerts the same gravitational pull on the rest of the world. And, increasingly, economic and financial developments are reshaping US economic performance in ways that domestic policy makers cannot easily offset."

As far as the financial markets are concerned, it is becoming increasingly clear that the pumping of ultra-cheap cash into the global financial system by central banks and financial authorities over the past six years, estimated at between $7 trillion and $10 trillion, coupled with a low-interest-rate regime, has only created the conditions for another crash.

On October 14, the assistant governor of the Reserve Bank of Australia, Guy Debelle, who also heads the market committee of the Bank for International Settlements, pointed to the likelihood of "violent" events on financial markets as a result of these policies, including a rush to the exits as financial speculators seek "safe havens." There are a number of "positions" in financial markets that depend on zero, or close to zero, funding costs, he noted, and when interest rates start to rise, "these positions will blow up." A day later, the financial markets experienced conditions reminiscent of 2008.

A number of explanations have been advanced for the turmoil, which saw yields of US Treasury bonds plunge by 35 basis points in a matter of minutes last Wednesday as panicky investors dumped stocks to buy what are considered the safest of assets. The explanations include the use of computer trading by investors seeking to speed up their transactions and beat the market. However, as all such systems are based on the same premises, they produce herd-like behaviour in which asset managers all try to exit at the same time, compounding the crisis.

One is reminded of the famous comment by Marx in the *Communist Manifesto* in which he explained that the bourgeoisie is like a sorcerer who has conjured up spirits from the nether world that he cannot control.

The turmoil on the financial markets, and the further devastation of the social position of the working class in every country it portends, also recalls an insightful analysis made by Rosa Luxemburg 100 years ago. Economic and financial crises, she pointed out, are often depicted in terms derived from descriptions of the weather—"storms" and "dark clouds on the horizon"—as if these events are the result of some invisible power or akin to the famines and plagues that ravaged the world in the Middle Ages, against which mankind was helpless.

However, the economic and financial system is not the product of heaven, but of society. Yet its "black laws" inflict outcomes just as devastating as the famines and plagues of an earlier time.

Luxemburg's analysis pointed to the solution. The socio-economic organisation of society must be brought under the conscious control of society as a whole in order that the vast forces it has created, and which find such a distorted and malignant expression in the financial markets, can be utilised for economic and cultural advancement.

There is only one way of achieving this objective: the taking of political power by the international working class and the overturn of the system of private ownership, starting with the public ownership of the banks and finance houses and their placement under democratic control as the first step in the establishment of a socialist economy on a global scale.

In their reaction to last week's crisis, the spokesmen for the banks and finance capital inadvertently pointed to the burning necessity of the fight for this perspective. Universally they insisted that the latest crisis had been created by the new financial regulations introduced since 2008.

This amounts to an admission that there is no possibility for reform of the financial system to make it crisis-free and end the threat hanging over the world's people within the framework of the capitalist system, and that attempts to regulate it may become new sources of turmoil.

We could not agree more. Out of their own mouths, they have set out the case for the expropriation of the financial-corporate elite and the establishment of a new and higher form of socio-economic organisation.