Growing warnings of another financial disaster

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Global financial markets are on the road to another crash, with consequences even more serious than the collapse of September 2008. There have been a series of dire warnings from within the ruling class itself that present monetary policies have created massive financial bubbles with devastating consequences.

In an interview with the *Financial Times*, James Bullard, the head of the Reserve Bank of St Louis, and a non-voting member of the Federal Open Market Committee, said the Fed had to start normalizing interest rate policy as soon as possible. Continuing the present near-zero rate would feed into an asset price bubble which would "blow up out of control."

Bullard and others are pointing to what has now become an obvious fact, that the combined effects of quantitative easing (i.e., printing money) and interest rate cuts by central banks are powering a feeding frenzy in global equity and bond markets.

Last week, an analysis of the S&P 500 Index from the Office of Financial Research, attached to the US Treasury Department, concluded that the US stock market had entered a situation comparable to patterns seen in 1929, 2000 and 2007. That is, a major downturn, if not a crash, was looming. Entitling his report "Quicksilver Markets", the author noted: "Quicksilver markets can turn from tranquil to turbulent in short order."

There are growing fears of a "liquidity crunch" if all the major investors and speculators, which operate on basically similar financial models, try to make an exit at the same time, only to find that there are no buyers.

According to a report in the *Financial Times* on Tuesday, some fund managers have warned "not since the collapse of Lehman Brothers in September 2008 and the freezing of money markets in August 2007 has there been such widespread concern over the structure of fixed income [i.e., bond] markets." It said that prices of bonds had risen appreciably as investors had "gorged" on the cheap money provided by the low-interest rate regime of central banks and warned that there could be a "liquidity crunch" if they "collectively run for the exits."

The same situation has developed in corporate and government bond markets, which have surged ahead on cheap money, making commonplace the previously extremely rare phenomenon of negative yields. (The price of the bond moves in the opposite direction to the yield.)

Negative yields mean that investors are in effect paying governments for the privilege of lending them money. The phenomenon is the result of a situation in which, despite the fact that bondholders would make a loss if they held the high-priced bond to maturity, they can still make a capital gain because the outflow of central bank finance will push bond prices still higher. They can simply sell the bond to another investor, who is himself operating under the assumption that he can do the same.

In effect, corporate and bond markets have been turned into a giant Ponzi scheme where profits can continue to be made so long as money continues to pour in. In other words, the modus operandi of what started as a criminal venture in the US during the 1920s has now become the central operating principle of the global multi-trillion dollar financial markets.

The official justification for this system advanced by its promoters is that these measures are necessary to stimulate economic growth. Such claims are refuted by facts and figures. The world economy as a whole is characterized by growing deflationary trends coupled with stagnant or low growth rates.

Yesterday it was announced that in Britain consumer prices for February had failed to show a rise for the first time in 55 years, a sure indicator of economic contraction. At the same time, a key indicator of manufacturing activity in China fell to an 11-month low. Decreases occurred in the key areas of new orders, export orders, employment and output prices.

The day before in Europe, projections prepared by the European Central Bank found that its quantitative easing program, aimed at pumping more than €1 trillion into financial markets over the next 18 months, would do virtually nothing to boost employment. The jobless rate will continue to remain at above 10 percent even after the program has been completed.

The main effect of the QE measures has been to boost European stock markets, which so far this year have risen at a faster rate than in the US, even as European economic output still remains below where it was in 2007, with investment in the real economy down by more than 25 percent on pre-crisis levels.

While the corporate and financial aristocracy continues to enrich itself, the conditions for the working class are subject to an unending austerity drive. The dictates of the financial oligarchy with respect to Greece are the consummate expression of what is a global program: the forcible impoverishment and starvation of ever-wider sections of the population.

In the aftermath of the devastation of the Great Depression of the 1930s, the political representatives of the ruling classes—desperately fearful of socialist revolution—claimed that they could regulate the worst effects of the profit system through so-called Keynesian measures based on government spending to simulate growth and secure a return to “normalcy.”

For a very short period, in historical terms, these policies seemed to bring success. However, they rested on the strength of US capitalism and the boost that its more productive methods provided for the global economy as a whole.

The situation today has been completely transformed. The US economy is no longer the centre of economic expansion but is the headquarters of global parasitism. The central position in the world economy is no longer occupied by corporations such as Ford and General Motors, but by Goldman Sachs, JPMorgan Chase and their equally parasitic counterparts internationally, which are not engaged in the creation of new wealth but in its appropriation, often through outright criminal methods.

The utter bankruptcy of the entire profit system is exemplified by the policy debate now taking place in ruling financial and economic circles. It is between those who maintain that the cheap money policies of the central banks must be continued lest a disaster result, and those who insist the taps have to be turned off, and the system purged, if necessary through bankruptcies and financial collapses, in order to try to prevent an even bigger catastrophe.

The various defenders of the profit system, in the media, academic circles and in pseudo-left organisations such as Syriza in Greece, maintain that the perspective of a planned world socialist economy is not possible and therefore the only alternative is to try to “save capitalism from itself”.

In fact, the perspective of international socialism is the only viable and realistic answer to the historic crisis of capitalism. To be realized, it must be made the basis of the political program for which the international working class begins to fight.