Global Ponzi scheme threatens to implode

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Asian stock markets opened Monday with another sharp selloff. As of this writing, China's Shanghai Composite index had dropped by over 8 percent and Japan's Nikkei, Hong Kong's Hang Seng and Australia's All Ordinaries were all down by more than 3 percent. China's central bank was preparing another round of cash infusions into the country's financial markets.

The global panic, which has wiped out over a trillion dollars in stock values in the US alone, has shattered the claim that the US and world economies are in the midst of an economic recovery.

Prompted by decelerating economic growth in China, a collapse of financial markets and currencies in the so-called emerging market countries, and a continuing fall in the price of oil and other commodities, the plunge in stock prices is an expression not simply of passing conditions, but rather the inability of governments and central banks to address the fundamental contradictions of the capitalist system that led to the Wall Street crash and recession of 2008–2009.

What appears to be coming to an end is the period when massive infusions of cash by central banks into the financial markets, combined with a ruthless assault on the living standards of the international working class, could paper over the systemic character of the crisis and produce a boom in stock prices, corporate profits and the wealth of the financial aristocracy—even as the real economy continued to stagnate.

An article published Sunday in the *New York Times* ("Investors Race To Escape Risk In Global Bonds") sheds light on a significant factor behind the crisis atmosphere on global markets. The *Times* explains that some of the biggest bond mutual funds based in the US, including BlackRock, Franklin Templeton and Pimco, are massively invested in emerging market government bonds whose values are now collapsing.

The article raises the very real possibility that one or more of these firms could be bankrupted by demands from investors for the return of their cash, under conditions where the firms cannot offload their emerging market bonds and meet these demands. Such an event would be comparable to, if not worse than, the collapse of Lehman Brothers in 2008.

The large-scale investments by bond mutual funds in these highly risky bonds underscores the rotten foundations not only of the so-called economic recovery, but of the global capitalist system itself. It demonstrates that the response of the capitalist class to the economic breakdown of 2008–2009 was a continuation and escalation of the parasitism and speculation that triggered the crash in the first place.

It exemplifies the modus operandi of world capitalism in its dotage and decay. What was historically considered the normal paradigm—investing capital to build factories and mines and carry out research and development, hire workers, and generate profit from the surplus value extracted through their exploitation—has become almost incidental to a ceaseless, feverish scramble for ever-higher yields from various forms of financial manipulation and outright fraud.

In the older imperialist centers, particularly the United States, the industrial infrastructure has been largely dismantled, decimating the jobs and living standards of the working class, in order to seek higher profits from the creation of financial bubbles. Following the 2008 Wall Street crash, the American ruling class led the way in using unlimited supplies of virtually free credit provided by central banks to push stock prices to record highs and generate an emerging market bubble, while laying siege to the jobs, wages and conditions of workers through mass unemployment and austerity policies.

The resulting "recovery" had the character of a gigantic Ponzi scheme, resting on a stagnant real economy and ever-increasing social inequality. This financial house of cards is being undermined by the growth of deflationary tendencies in the world economy, reflected most starkly in collapsing commodity prices and the slowdown in China, but also in anemic growth or outright recession in Japan, Europe and the US.

In January 2008, the *World Socialist Web Site* wrote that the crisis, then in its early stages, was "not merely a conjunctural downturn, but rather a profound systemic disorder" of the capitalist system.

On September 16, 2008, the day after the collapse of Lehman Brothers, the WSWS declared: "A sea change is unfolding in the US and world economy that portends a catastrophe of dimensions not seen since the Great Depression of the 1930s."

The article continued: "These events are signposts in the historic failure of American and world capitalism. For the working class, they mean a rapid growth of unemployment, poverty, homelessness and social misery. The government, Wall Street and both political parties will seek to place the burden for the consequences of their own greed and incompetence squarely on the backs of working people."

This analysis has been entirely confirmed. Seven years later, the labor force participation rate in the United States is at the lowest level in nearly four decades, while economic output in the euro area remains below its level in 2008.

The crisis has been compounded by the policies pursued over the past seven years. The world's major central banks have taken on enormous levels of debt, limiting their ability to respond to a new panic. The balance sheet of the US Federal Reserve has ballooned from under a trillion dollars in 2008 to over $4 trillion today, and the Fed's benchmark interest rate has been held essentially to zero, giving the central bank significantly less "ammo," in the words of the *Wall Street Journal*, to respond to a renewed financial crisis.

"The world economy is like an ocean liner without lifeboats," Stephen King, chief economist at HSBC, wrote in a recent research note.

All of the institutions of capitalist rule, most notably the European Union itself, have been dramatically weakened in the period since 2008. The signs of disarray and instability in Beijing, amidst a growing wave of strikes and protests by Chinese workers, have stoked fears in ruling classes around the world that the regime upon which they have relied to provide a cheap-labor manufacturing base and stimulate global growth may be unraveling.

The perplexity and bankruptcy of governments and policymakers in the face of the renewed downturn was summed up in a column published in the *Financial Times* over the weekend by former Treasury Secretary Lawrence Summers, who called on the Federal Reserve to keep interest rates at zero indefinitely.

Summers wrote: "Satisfactory growth, if it can be achieved, requires very low interest rates that historically we have only seen during economic crises. This is why long-term bond markets are telling us that real interest rates are expected to be close to zero in the industrialised world over the next decade."

The intensification of the economic crisis sets the stage for immense social struggles. The working class will not accept a return to conditions of mass poverty and industrial slavery.

However, the whole history of the twentieth century—the victory of the working class in Russia in 1917 and the defeats that followed—and the initial results of mass struggles thus far in the current century, from Egypt to Greece, show that for the resistance of the working class to succeed, it must be guided by a socialist and internationalist program and led by a revolutionary party. The building of this leadership—the International Committee of the Fourth International—is the crucial task posed by the breakdown of world capitalism.