Central banks boost stocks as world economy sinks deeper into slump

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Decisions by two of the world's major central banks last week point to mounting deflationary pressures in the global economy and the inability of monetary and financial authorities to do anything to reverse them.

On Thursday, the European Central Bank indicated that it is prepared to extend its €1.1 trillion "quantitative easing" program of asset purchases, citing risks to the euro zone and the world economy flowing from the slowdown in China and its impact on emerging markets.

The next day, the Chinese central bank lowered its benchmark interest rate for the sixth time in 12 months. This followed the release of data showing the lowest growth rate in China for a quarter of a century, with gross domestic product rising only 6.9 percent in the September quarter. The People's Bank of China cut its benchmark rate to 1.5 percent from 1.75 percent, the lowest on record, and reduced the share of customer deposits that banks must hold in reserve.

According to Eswar Prasad, a professor at Cornell University and former China head at the International Monetary Fund, the Chinese actions heighten concerns that "the economy may be losing growth momentum somewhat faster than suggested by the headline official GDP growth rate."

Those fears have been underscored by the statement of Chinese premier Li Keqiang that the government will not "defend to the death" its growth target of around 7 percent for this year. Li was speaking on the eve of a major meeting of the ruling Communist Party at which growth targets for the next five years will be set.

Concerns over the impact of slowing growth in China were at the centre of the official statement of European Central Bank President Mario Draghi following a meeting of the ECB's governing council in Malta last Thursday.

He said the ECB was prepared to "act if needed" and was "open to the full menu of monetary policy" at its next meeting in December. This was a clear indication that the bank is getting ready to extend and increase its quantitative easing program, which at present involves the purchase of €60 billion of financial assets every month until September 2016.

Draghi cited concerns over "growth prospects in emerging markets" and developments in financial and commodity markets that "continue to signal downside risks for growth and inflation." Both of these processes flow from the gathering slowdown in China, which has sent prices of industrial commodities—base metals, oil, gas, minerals and agricultural products—falling, fueling a financial crisis in emerging market economies.

As for the euro zone itself, the latest data show that GDP growth in the region slowed to 0.3 percent in the second quarter, down from 0.4 percent in the first, with growth so low that even after the passage of seven years the region has not made up the production lost as a result of the 2008 financial crisis. And while the ECB has a target inflation rate of 2 percent per annum, inflation fell to -0.1 percent in September, compared to 0.1 percent in August.

The official explanation is that this is largely due to the fall in oil prices as a result of excess supply. But Draghi said there was a need to be "more cautious" about such a scenario and that it could be a result of a "demand-induced shock"—that is, a fall in demand for oil due to declining industrial production.

While these developments point to a deepening crisis in the real economy, global stock markets have surged, boosted by renewed confidence that central bankers and government leaders will continue to subsidize the parasitic activities of the financial elites and underwrite

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the diversion of resources from productive investment to speculation.

Clear conclusions emerge from the actions of the ECB and the Chinese central bank and from the confusion and divisions within the governing bodies of the US Federal Reserve over previously announced plans to begin raising interest rates.

There is no recovery in the global economy, as one emergency measure is piled on another, and those in charge of economic and monetary policy have no idea how to engineer one. This is not the result of some intellectual incapacity. It arises from the fact that the events of 2008 were not a conjunctural crisis, but a fundamental breakdown of the global capitalist system, which has continued to deepen.

The sole response of financial authorities at every turn has been to make available still more supplies of ultra-cheap money—a policy dictated by the fear that a return to "normal" rates could trigger a new crisis and the insatiable demands of the financial parasites who command the heights of the economy.

When this program was first announced, it was claimed it would provide a stimulus to real economic growth. That assertion has been completely discredited. Quantitative easing in its various national forms has done nothing to revive investment in the real economy. Rather, it has accelerated the process by which financial manipulation and speculation become the chief forms of profit accumulation.

Not only has this parasitism led to the outright destruction of the productive forces—including through giant mergers and acquisitions leading to asset-stripping and job cutting—it goes hand in hand with deepening attacks on the working class and a historically unprecedented increase in social inequality.

The actions of the ECB and the People's Bank of China also underscore the global character of the crisis. On the one hand, the ECB cites problems in China as the reason for further monetary stimulus, while on the other, Chinese authorities, including President Xi Jinping, point to the worsening global situation as the reason for the mounting difficulties they confront. At the same time, the Fed points to the China slowdown and potential turbulence in emerging markets as constraining factors in any move away from the zero interest rate policy of the past seven years.

The guardians of the economic and financial order are unable to advance anything resembling a coordinated response. Rather, divisions are widening, with the Fed at least nominally committed to lifting rates, while the ECB, the Chinese central bank and the Bank of Japan are determined to maintain record low rates.

Their perplexity and contradictory policies arise from a central contradiction of the capitalist system: that between the global character of the economy and the nation-state system in which the property and profits of each capitalist ruling class is rooted.

That contradiction cannot be resolved under the profit system. It will continue to fester in the form of deepening economic crisis and a growth of national antagonisms leading inexorably toward a new world war. The historically necessary reorganisation of social relations in line with the global character of economic relations can be accomplished only by the working class on the basis of the program of world socialist revolution.

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