

The New Year stock sell-off

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5 January 2016

The first trading day of 2016 quickly turned into a global financial debacle, with stock markets all over the world plummeting after the Chinese government shut down its major exchanges to prevent a full-scale crash.

The sell-off confirmed the year-end expressions of foreboding by bourgeois commentators over the prospects for world capitalism in the new year. Whether Monday's market rout is the beginning of an implosion of unsustainable financial bubbles or an anticipatory financial heart attack remains to be seen. One thing is certain, however. It is a symptom of profound and insoluble contradictions that have only intensified since the Wall Street crash more than seven years ago.

The collapse on Chinese markets, with the Shanghai Composite Index closing with a loss of 6.9 percent, was triggered by new data showing that Chinese manufacturing activity fell in December from the already depressed level of the previous month. The December decline marked the tenth consecutive monthly contraction.

The report confirmed that the slowdown in China to its lowest growth rate in a quarter century was likely to worsen in 2016. Given the immense role of the world's second-largest economy and central manufacturing hub as a magnet for imports, including oil and other industrial commodities as well as manufactured goods, the indication of stagnation spread fears of a further fall in commodity prices and a deepening crisis of commodity-exporting nations from Brazil and Russia to Australia and Canada.

Japan's Nikkei 225 index fell by more than 3 percent. Germany, a major exporter to China, suffered a 4.3 percent decline on its DAX stock index. The other major European indexes fell by more than 2 percent, and the EURO STOXX 50 index declined by 3.14 percent.

The global market sell-off was compounded by negative economic data from the US. The Institute for Supply Management reported that its index of factory activity fell to 48.2 in December from 48.6 in November. Any reading below 50 denotes contraction. The figure for December was the weakest since June 2009 and marked the first

time since the 2008 crash that the US manufacturing sector had suffered two consecutive monthly contractions.

At the same time, the Commerce Department reported that US construction spending fell 0.4 percent in November. The dismal data prompted economists to lower their fourth-quarter 2015 projections for US economic growth to as low as a 1.1 percent annual rate. The figures confirmed that the US, previously cited as the "bright spot" in a world economy dominated by stagnation and slump, is itself in an industrial recession.

The US indexes fell sharply, with the Dow ending the day down nearly 1.6 percent, the S&P 500 down 1.53 percent, and the Nasdaq 2 percent lower.

The indicators of a deepening crisis in production sent shock waves through the financial markets because they portend the looming collapse of a vast speculative house of cards built up since the 2008 Wall Street crash, which sits atop a real economy that has never recovered from the Great Recession. The dirty secret of the so-called "recovery" is that it has been dominated by an expansion of the types of parasitic and quasi-criminal activities that triggered the financial crisis and depression in the first place.

The US and world central banks and all of the major governments responded to the breakdown of capitalism in 2008 by transferring trillions of dollars in public assets to the bankers and hedge fund billionaires, no strings attached. They were free to do with the blood money as they saw fit. Even the feeble and token proposals to rein in CEO pay at bailed-out corporations were blocked by the financial moguls and their bribed politicians.

Untold trillions were pumped into the financial markets to engineer a record rise in stock prices for the benefit of the rich and the super-rich, whose fortunes doubled in the aftermath of the 2008 crash.

At the same time, governments launched brutal attacks on the working class to make it pay for the bankrupting of the state. These attacks—austerity, wage cutting, mass layoffs—bolstered the profit margins of the corporations and further enriched the top 10 percent, and especially the

top 1 percent and top 0.1 percent.

The corporations used their massive cash hoards not to expand production or create decent-paying jobs, but to find new avenues for speculation, plowing money into the so-called emerging market economies, the booming energy sector, and high-yield, high-risk junk bonds. While 2015 was a year of rising poverty and desperation for the masses, it was a record year for job-destroying and socially destructive activities such as mergers and acquisitions, stock buybacks and dividend increases.

The McKinsey Global Institute last year published a report that gives some idea of the colossal growth of debt in the world economy—a measure of the increase in financial speculation and swindling. It noted that global debt has grown by \$57 trillion since 2007, raising the ratio of debt to the world's gross domestic product by 17 percentage points. China's total debt has quadrupled, rising from \$7 trillion to \$28 trillion by mid-2014.

In an article published on January 1, the *Wall Street Journal* noted that in 2015 “the American corporate landscape was dominated by activist investors, buybacks, currencies and deals”—in other words, by speculation. Meanwhile, the real economy is being starved of productive investment. Capital spending by members of the S&P 500 index fell in the second and third quarters of last year compared to 2014, the first time there have been two consecutive quarterly declines since 2010.

The final weeks of 2015 saw mounting signs that the underlying stagnation and slump in the real economy—marked by plummeting oil and commodity prices, declining global trade and dismal or negative growth rates—is beginning to undermine the mountain of speculative debt. The prices of energy-related junk bonds began to fall sharply, and mutual funds that speculate in them suffered a rush of redemption orders, prompting two such funds to refuse to honor redemption requests from investors.

The social and class significance of the further explosion of financial parasitism is indicated in statistics that document the massive redistribution of wealth from the working class to the bourgeoisie that has taken place.

The chief economist of the World Bank published an article on January 1 pointing to a “remarkable statistical trend” in high and middle-income countries. The article noted: “Total labour income as a percentage of GDP is declining across the board and at rates rarely witnessed. From 1995 to 2015, labour income dropped from 61 percent to 57 percent of GDP in the US; from 66 percent to 54 percent in Australia; from 61 percent to 55 percent

in Canada; from 77 percent to 60 percent in Japan; and from 43 percent to 34 percent in Turkey.”

Under conditions of widening wars in the Middle East and military buildups in Europe and Asia, accompanied by police-state measures imposed internally in country after country on the pretext of fighting terrorism, the underlying economic uncertainty as the new year begins intensifies great power tensions and drives the ruling elites further along the road to war and dictatorship.

At the same time, a major contributor to the sense of foreboding and fear of shocks that predominates in ruling class circles as the new year begins, reflected in the volatility on financial markets, is the sense that the coming year will see a growth of working-class opposition and struggle. The year just ended was marked by the initial signs of a new period of class struggle, with strikes and protests multiplying from Europe to China to Latin America and the United States.

In the US, the resistance of autoworkers to the imposition of new pro-company contracts by the auto bosses and the United Auto Workers union, and the turn of thousands of autoworkers to the *World Socialist Web Site* and the WSWWS Autoworker Newsletter for information and political leadership, herald the reemergence of the most powerful detachment of the international working class into mass struggle.



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