China and Brazil: Two expressions of the deepening capitalist breakdown

Nick Beams
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In the aftermath of the global financial crisis of 2008 and the rapid downturn in the global economy that followed in 2009, various bourgeois economists and pundits put forward the notion that the so-called BRICS economies—Brazil, Russia, China, India and South Africa—could provide a new basis for the expansion of world capitalism.

The last remnants of this myth collapsed this week with reports that the Chinese government is planning to slash millions of jobs in basic industries amid vast overcapacity, and that Brazil has entered a recession, possibly the deepest contraction in its history.

The assertion that the BRICS group, a series of lower- and middle-income countries beset with problems of economic backwardness and dominated by the centres of imperialist finance capital, could somehow provide a new advance for global capitalism was always economic fiction.

It was able to be sustained for a brief period by the massive stimulus package initiated by the Chinese government, including government spending of half a trillion dollars and the most rapid expansion of credit in economic history.

The China construction boom and the expansion of industrial capacity lifted the price of commodities and provided a boost to commodity-exporting countries. But the collapse of the so-called commodities "supercycle", reflected most immediately in the plunge in the price of oil since 2014 and extending across the range of industrial raw materials, combined with the outflow of capital from "emerging markets", has unleashed a wave of economic destruction.

On top of the worsening economic situation in China and Brazil, Russia is in recession as a result of the fall in oil prices. South Africa, hit by the fall in metal prices and the cuts of thousands of jobs in the mining industry, is expected shortly to enter recession. India is still touted as a "bright spot", with growth rates of more than 7 percent, but its economy is weighed down by bad loans, falling export markets and stagnant wages and private investment.

The contraction in Brazil, amounting to 3.8 percent for 2015, is accelerating, with data released yesterday showing that the economy shrank by 5.9 percent in the fourth quarter of the year compared to a year earlier, as "all of the components of internal demand showed falls," according to the country's statistics agency. It is on track to suffer the worst recession since official records began, with another contraction of at least 3 percent expected for this year.

The full significance of the announcements in China and Brazil cannot be grasped by considering these countries in isolation. They are expressions of the deepening crisis of the global capitalist economy as a whole and underscore that the breakdown that began with the crash of 2008 has entered a new stage.

The total meltdown of the global economy, in the wake of the worst financial crisis since the 1930s, was only prevented by the injection of trillions of dollars of cash into the financial system by the world's central banks in order to prop up the banks and finance houses, along with the economic expansion of China.

This process has come to a shuddering halt. As the BRICS "growth model" disintegrates, so the conditions are emerging for another financial disaster. The former governor of the Bank of England, Mervyn King, recently warned that the collapse of 2008 was the "failure of a system," and that without a resolution of the "disequilibrium" in the world economy a new catastrophe was likely "sooner rather than later."

Instead of a return to so-called "normal" conditions, the financial system is becoming ever more dysfunctional, with the program of "quantitative easing" (i.e., the flooding of markets with cash) now extending to the introduction of negative interest rates and negative yields on bonds.

Around a quarter of global gross domestic product is being produced in countries experiencing negative interest rates, following the decision at the end of January by the Bank of Japan to start charging for money deposited with it.

Instead of providing a boost to the financial system, the decision by Japan has thrown markets into turmoil. There are growing concerns over how long the business models for major banks, pension funds and insurance companies, which invest in government securities, can remain sustainable in what a *Financial Times* article characterised as the "La La Land" of negative rates. "Investors are supposed to buy super safe bonds to avoid the risk of making losses on riskier bets. Now, they're lining up to make a guaranteed loss on that super safe paper," the article noted.

The mounting economic and financial crisis is bringing violent political upheavals. This week, in the wake of further evidence of deflation and continuing stagnation, and the possibility of the exit of Britain from the European Union, economists at Credit Suisse warned in a research note entitled "Close to the Edge" that recession in Europe could bring about the collapse of the eurozone. "If the euro area were to relapse back into the recession, it is not clear it would endure," they said.

In Latin America, the downward spiral of the Brazilian economy is part of the shipwreck of the "left turn" in bourgeois politics, which was dependent on exports to China. In the US, the deepening crisis of the economic and political system has led to the emergence of a fascistic contender, Donald Trump, as the leading presidential candidate for the Republican Party.

Nowhere is the utter bankruptcy of the capitalist order more graphically expressed than in China. The Chinese Stalinist regime pledged that the restoration of capitalism would open the way for the country's "peaceful rise" and overcome the legacy of decades of economic backwardness. Its program has turned into a disaster.

On the one hand, China's economic growth has placed it directly in the crosshairs of the American military juggernaut, which regards its rise as a threat to US military and political dominance. On the other, Chinese capitalism does not have "special characteristics" but has turned out to be beset with the same contradictions that afflict the system as a whole and which now directly threaten the jobs and livelihood of hundreds of millions.

As last weekend's meeting of the G-20 demonstrated, the bourgeoisie and all its agencies have no economic solution to the mounting crisis. Rather than collaboration in the face of mounting problems, the world capitalist system as a whole is characterized by increasingly bitter conflicts. But on one thing they are agreed: that the working class must be made to pay for the chaos of the system over which they preside.

There is no solution to the economic breakdown within the present political order. Global capitalism is heading for a catastrophe, a fact increasingly recognised even in ruling economic and political circles. But as Marx explained, no problem ever arises in the course of mankind's development without at the same time the material conditions emerging for its resolution.

That is the significance of the massive growth of the international working class over the past three decades—the outcome of globalisation of capitalist production. This includes an increase of 265 million new workers in China, Brazil and India alone between 2000 and 2010. The enormous objective strength of the working class, however, can only become actualised through the political struggle for its unification on an international socialist program, carried forward through the building of the International Committee of the Fourth International as the World Party of Socialist Revolution.