2022: A year of deepening economic and financial crisis

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The year 2022 has seen a sea change in the global economy and financial system, setting in motion tendencies that will continue and deepen in 2023.

The most significant shift in the economic and financial landscape has been the development of global inflation to the highest level in four decades and the response of central banks, led by the US Federal Reserve.

In the name of "fighting inflation," they have undertaken the sharpest rise in interest rates since those of Fed chief Paul Volcker in the early 1980s, part of a war against the working class spearheaded by the Reagan administration in the US and the Thatcher government in the UK.

This shift has not been initiated to bring down inflation—central bankers understand their policies will do nothing to reduce prices—but is aimed at suppressing the wages struggles of the working class by imposing an economic contraction, or even a recession.

There are many forecasts of recession next year, both in the major economies and globally, as the impact of interest rates rises takes hold.

The Centre for Economics and Business Research in London said it was "likely" that the world economy would face recession next year. It expected that central banks would continue with their tightening regime "despite the economic costs" and there was a "poorer growth outlook for a number of years to come."

These findings are more pessimistic than the International Monetary Fund predictions in October that more than a third of the world economy would contract in 2023.

The development of recession, coupled with the higher interest rate regime, will have a significant effect on financial markets.

As *Financial Times* columnist John Plender noted in a recent comment entitled "Central bank horror story": "A move into recession in 2023 could expose financial fragilities arising from the long period of ultra-low interest rates in which investors searched for yield regardless of risk."

The low interest rate regime, intensified in March 2020 to prevent a meltdown of the financial system at the start of the pandemic, led to a new round of speculation which sent share markets to record highs.

With the shift in the policy of central banks this financial house of cards is becoming increasingly unstable.

The turn by the Fed and other central banks does not indicate any shift in their class orientation by the guardians of finance capital. Rather, it is based on the assessment that the most destabilising factor of all is the global upsurge of the working class in support of wage demands to counter rising inflation, which must be suppressed at all costs.

The year has ended with a small downturn in goods inflation and a slight easing of the rate of interest rate hikes—the Fed reduced the increase in its base rate to 0.5 percentage points from the previous four consecutive rises of 0.75 percentage points at its last meeting. However, the major central banks have made it clear the rises must continue and have increasingly pointed to the "tightness" of labour markets as the reason for doing so.

The Fed has said it has "more work to do," the European Central Bank has spoken of "more ground to cover" and the Bank of England, confronting struggles by millions of workers in support of pay demands, has insisted it must take "forceful" action.

Even before the interest rate rises have had their full impact, the effect on financial markets has already been felt. This was most notable in the September-October crisis in the UK financial system which followed the budget of the short-lived government of Liz Truss.

Her government's decision to give massive tax handouts to the corporations and wealthy by increasing debt sparked a market meltdown which threatened the financing of the entire pensions system, estimated to amount to £1.5 trillion.

The turmoil in markets was not an expression of opposition to more wealth being showered on the super-rich but because the measures were not funded by major spending cuts and the increase in debt was not viable in the new financial conditions produced by interest rate rises.

The financial gyrations on Wall Street, while not yet as violent as those which erupted in the UK, are no less significant. The major index, the S&P 500, has fallen by almost 20 percent over the year, even as traders continue to speculate on the assumption that the Fed will have to begin cutting rates some time in 2023.

Notwithstanding these expectations, at least in some quarters, the direction is clear. One of the chief beneficiaries of ultra-cheap monetary policy, the Tesla car company of Elon Musk, has suffered a spectacular fall.

At the start of the year, the market value of the company was $1.2 trillion. In trading just before the Christmas break, its market capitalisation was below $400 billion, after the plunging stock price drove down its market cap by $85 billion in a week, or 18 percent.

The rapid changes in financial conditions have led to calls for the Fed to pull back on the interest rate hikes lest they hit the entire financial system.

Writing in the FT, Bill Gross, once the world's foremost bond market trader, called for a halt, noting the "dangerous levels of debt" found by the Bank for International Settlements earlier this month, but which are not reported on or tracked.

"Off-balance-sheet dollar debt," the BIS warned, "may remain out of sight and out of mind, but only until the next time dollar funding liquidity is squeezed."

According to Gross, the BIS calculated that this "hidden 'shadow bank' debt may be as high as $65 trillion, more than two and half times the size of the entire Treasury market and most of it owed to the banks."

He noted that the lowest global interest rates in history had led to "massive misallocations of capital," much of it "hidden in private equity" that ultimately had to be repriced "sharply lower."

The collapse of the crypto bubble, expressed in the $32 billion demise of the FTX exchange owned by Sam Bankman-Fried, now facing multiple criminal charges, is not some kind of exception.

The rise and rise of crypto was fuelled by the provision of virtually free money which lifted all areas of the financial system, but has now come to an end.

The year is concluding with another significant shift—the decision by the Bank of Japan to ease its so-called yield curve control. That measure had involved buying up virtually all new government debt, which kept interest rates at near zero.

While the BoJ has yet to officially abandon the policy, there is no doubt as to its implications. Higher Japanese rates will mean the return of money previously invested internationally.

In an article entitled "Why Japan's bombshell risks another global credit crunch," the financial columnist of the UK-based *Telegraph*, Ambrose Evans-Pritchard, noted that with $3.6 trillion of net assets overseas, Japan is the world's top creditor.

"When the flows reverse and the Japanese repatriate their money—as they did in late 2007 and 2008—it can lead very quickly to a systemic credit crunch and a financial chain reaction."

He cited the remarks of one financial analyst who pointed out that ultra-monetary policy had been holding down rates in the rest of the world but "the tectonic plates are shifting."

It is impossible to predict the exact course of events, but the general trend of developments is clear.

The onset of global recession, the growing prospect of another major financial crisis and the unbridled determination of governments and central banks to make the working class pay for the deepening crisis of the profit system are going to drive forward the development of the class struggle in the coming year.