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A deepening global economic and financial breakdown

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The annual report of the Bank for International Settlements, released last Sunday, points both to the depth of the global capitalist breakdown that began in September 2008 and the incapacity of the ruling economic and financial elites to advance any policies to resolve it.

In fact, as the report makes clear, the measures implemented after 2008 to try to save the global financial system from a complete collapse—the endless supply of ultra-cheap money—are creating the conditions for another meltdown. But the central banks, firmly in the grip of the financial elites with their insatiable profit demands, press on regardless.

Just as the geo-political system is increasingly coming to resemble a madhouse, with US imperialism staggering from one military disaster to the next, creating the conditions for world war, so the financial system, devoid of any rationality or logic, is on course for another meltdown, potentially bigger than the last one.

Far from having any solution, the authors of the BIS report appear mystified, pointing to the “puzzling disconnect between the markets’ buoyancy and underlying economic developments globally.”

Since 2009, share markets have steadily risen. They have surged to new record highs over the past year, while the global economy has experienced the lowest rate of “recovery” in the post-World War II period. The euro zone has yet to reach the level of economic output achieved in 2007.

The underlying disaster is even more evident when trend figures are considered. In the United States, where the economy underwent a 2.9 percent contraction in the first quarter of this year, the level of output is 12.5 percent below where it would have been had the pre-crisis trend continued. In Britain, the corresponding figure is 18.5 percent, while for Spain, one of the European countries hardest hit by the financial crisis, the figure is 29 percent.

Even after allowing for the fact that the pre-crisis trend could not have continued indefinitely, and applying what it called more “sophisticated statistical measures,” the BIS found that, on average, the post-crisis shortfall in the advanced economies was between 7.5 and 10 percent. It ruled out any return to higher growth rates, stating that “the prospects for restoring trend growth are not bright.” It pointed to falling productivity trends in the advanced economies and a lack of investment due to weak demand.

While the real economy stagnates, financial markets are positively euphoric. The BIS noted that Wall Street’s S&P 500 index gained almost 20 percent in the 12 months to May 2014, whereas expected future earnings grew by less than 8 percent over the same period. The price/earnings ratio for the index stood at 25 in May, six points higher than its average over the previous 50 years.

The disparity is the outcome of the program of “quantitative easing”—essentially, the wholesale printing of money—spearheaded by the US Federal Reserve as well as the Bank of England and the Bank of Japan. Even where they have not adopted the same policy, other central banks in countries such as Australia, Canada and the Nordic region have been forced to lower their interest rates, leading to a boom on share markets.

The outcome of the “extraordinary policy ease” has been a massive expansion of central bank assets. After growing rapidly in 2007, “they have more than doubled since then, to an unprecedented total of more than \$20 trillion (more than 30 percent of global GDP).”

As a result, all the parasitic and outright criminal practices that led to the 2008 collapse are making a return. “Deal frenzy, animal spirits, merger mania—call it what you like, it is back,” the *Financial Times* noted in an article published earlier this week on the 75 percent rise in the value of global merger and acquisitions in the first six months of this year. Merger and acquisition finance hit \$1.75 trillion and is now at its highest level since 2007.

Another article in the same newspaper stated that US firms were “adding record debt through mergers and acquisitions and share buybacks,” and that “to keep up with competition conservative asset managers are throwing in the towel and buying riskier products.”

According to a recent article published by the *New York Times*, in home loan markets, “subprime” is fading as a “dirty word.” While the level of subprime lending is not sufficiently

large to enable loans to be bundled into securities for sale to investors, as took place in the period leading up to the crash of 2007–2008, “lenders say it is only a matter of time before the market for subprime mortgage-backed securities rebounds.”

The flood of central bank money is not only re-creating the conditions that led to the previous collapse, it is adding more potential flashpoints. Lower interest rates in the advanced economies have sent money pouring into so-called “emerging markets” in search of higher yields. But these inflows can reverse very rapidly, as was seen in the summer of 2013 and at the beginning of 2014 when central banks in a number of countries, including Turkey and South Africa, were forced to lift interest rates to stop an outflow.

While this turbulence was brought under control, a more significant disruption, on the scale of the Asian crisis of 1997–98, would have major implications because, as the BIS noted, emerging markets now constitute a much larger proportion of the world economy and are far more closely integrated into the global financial system.

While implicitly criticising the US Fed and other central banks for their “easy money” policies, the BIS does not have a policy to resolve the crisis. Rather, its criticisms are based on the recognition that flooding financial markets with money is only a short-term fix that raises enormous dangers.

The report contained repeated references to the need for “structural reform,” greater “flexibility” and fiscal consolidation—all code words for intensifying the global social counterrevolution.

This perspective is grounded on the political economy of global capital. While injections of money can provide an adrenalin-like boost, in the final analysis, capital, in vampire-like fashion, depends on sucking fresh life-blood out of the global working class through the lowering of wages, cuts in conditions and the intensification of exploitation.