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World capitalism “toboggans toward catastrophe”

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19 August 2015

Seven years after the Wall Street crash of September 2008, fears are growing within ruling circles internationally that the world capitalist economy, far from recovering, is descending into depression. There is increasing speculation as to where the next financial meltdown, triggering a collapse in trade and production, will occur.

As to how to prevent such a turn of events, there is general perplexity.

The very countries previously touted as the “engines” of world economic growth following the 2008 recession, China and the so-called “emerging market” economies, are now seen as the places most likely to spark a new global downturn.

China’s surprise currency devaluation, coming amidst a marked cooling of its economy and continuing stock market turmoil, has intensified fears that its crisis is far deeper than previously thought. The emerging economies of Latin America, Eastern Europe, Asia and Africa are facing massive outflows of capital as their stock and bond markets and currencies plummet, and their debt burdens are compounded by the rise in the US dollar.

Driving all of these developments is a global growth of deflationary pressures, reflected in the ongoing fall in the prices of basic commodities, from oil and natural gas to copper, iron and other metals.

With Europe and Japan mired in recession and the US “recovery” proving to be both fragile and hollow, there is no evident country or group of countries in a position to save world capitalism from disaster.

“The world economy is like an ocean liner without lifeboats,” writes Stephen King, chief economist at HSBC, the world’s third largest bank, in a recent research note. He points to three looming dangers: the risk of a stock market crash, the failure of pension funds and insurers to meet obligations and the prospect of a Chinese recession dragging the US into recession or depression.

King elaborates, calling China “the shock absorber for the global economy, a punch bag seemingly able to soak up the recessionary blows that would otherwise have totally derailed global growth.” He adds, “It doubtless makes sense for China now to address its internal imbalances. Yet, in doing so, the rest of the world needs to find a new shock absorber. It’s not at all obvious whether any economy is really up to the task.”

King notes that since the Great Recession, global debt has soared by 40 percent to \$200 trillion, almost three times the size of the global economy. This massive debt overhang severely limits the ability of governments and central banks to deal with a new crisis.

The *Wall Street Journal* on Tuesday published a front page article headlined, “US Lacks Ammo For Next Crisis.” Noting that the Federal Reserve Board cannot significantly reduce interest rates in the event of another crisis, having held them near zero since December 2008, and that it is already loaded with debt, having quadrupled its balance sheet to over \$4 trillion, the *Journal* worries that there will be no buffers when the next recession hits.

The mood of foreboding has been intensified by events of recent days. Last week's Chinese devaluation sparked fears of competitive currency devaluations and trade war, driving down global stock markets. Financial markets stabilized later in the week after Beijing issued assurances that it sought only a modest correction in its exchange rate.

Then on Tuesday, Chinese stock indexes plummeted, with the Shanghai Composite index falling 6.2 percent. It was the biggest sell-off since an 8.5 percent decline on July 27, sparking new worries that the regime’s massive infusion of funds into the country’s stock exchanges would fail to avert a crash.

The concerns were compounded by the political dimensions of the crisis in China. In the aftermath of the horrific warehouse explosion in Tianjin, and amidst a rising tide of labor protests and strikes (nearly twenty times the rate four years ago), capitalist governments and bankers fear an unraveling of the Stalinist regime that has presided over the transformation of China into the world’s foremost cheap-labor manufacturing center.

The crisis in China is itself an expression of a general downward trajectory in the world economy. In the second quarter of this year, Japan contracted and Europe sank even further into stagnation.

The United States' much vaunted "recovery" is proving to be hollow. Over the past two days, the Federal Reserve has reported a sharp decline in manufacturing activity in the New York region, and Wal-Mart, the world's biggest retailer, has reported a sharp drop in its second quarter profit and has cut its annual earnings outlook. Wal-Mart's slump is a telling reflection of the worsening conditions of American workers that underlie record corporate profits and stock prices.

These developments show that the so-called "recovery" from the 2007-2009 recession was based on rotten foundations. First came a multi-trillion-dollar bailout of the global financial aristocracy in the form of outright government handouts, central bank money-printing and virtually free credit. This unfroze the financial markets and enabled China to carry out a massive stimulative program that revived world trade and made possible a limited resuscitation of production in the advanced countries.

These measures were accompanied by ruthless austerity and wage-cutting aimed at permanently slashing the living standards of the working class in Europe and the US. Under President Obama, total state, local and federal government spending, adjusted for inflation, has contracted by 3.3 percent since the recovery began in 2009, compared with an average increase of 23.5 percent over comparable periods in past post-war expansions.

Corporate profits, stock prices and the fortunes of the rich and the super-rich have soared and social inequality has reached unprecedented levels as a result of a vast transfer of wealth from the bottom to the top. But these class-war policies, far from resolving the crisis, have strengthened the tendencies toward slump, exacerbating the contradictions that produced the crisis.

This process finds expression in a further growth of financial parasitism and outright criminality within the corporate-financial elite. At the heart of the slump is a decline in productive investment. Instead of using their vast profits to expand the productive forces and carry out research and development, let alone provide decent-paying jobs, bankers and CEOs are plowing billions into mergers and stock buybacks at record rates. These financial machinations increase the personal wealth of the financial oligarchs at the direct expense of workers' jobs and living standards.

The impasse in the world economy and the perplexity of the ruling classes confirm the analysis made at the time by the *World Socialist Web Site* that the financial meltdown of September 2008 was not merely a conjunctural event, but rather the onset of a fundamental breakdown in the world capitalist system.

Capitalist breakdown intensifies the drive of imperialism to war. Under conditions of glutted markets and falling demand, the capitalists of each nation seek to expand their share at the expense of their rivals, intensifying conflicts that ultimately are settled by means of military

violence. At the same time, the ruling classes seek to divert mounting social tensions at home by deflecting them outward on the basis of national chauvinism and militarism.

The crisis cannot be resolved, except on the basis of barbarism and war, within the framework of capitalism. The global economy, more interconnected than ever before in history, cannot be rationally developed within the framework of rival nation states and private ownership of the means of production.

In 1938, in the midst of the last Great Depression and on the eve of World War II, Leon Trotsky, in the opening passages of the founding document of the Fourth International, the *Transitional Program*, wrote that the bourgeoisie, seeing no way out of its crisis, “toboggans with closed eyes toward an economic and military catastrophe.” He spoke of capitalism’s traditional parties being “in a state of perplexity bordering on a paralysis of will.”

Those words apply with full force to the present situation. So too does the basic theme of the founding program, summed up in its opening sentence: “The world political situation as a whole is chiefly characterized by a historical crisis of leadership of the proletariat.”

The capitalist crisis impels the international working class into revolutionary struggle. The crucial issue is the building of revolutionary leadership—the International Committee of the Fourth International—to bring the fight for the political independence of the working class and the program of world socialist revolution into these struggles.