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The economic and political implications of deflation

By Nick Beams

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The euro zone's slide into deflation, recorded in the 0.2 percent decline in prices for the year to December, is another expression of the deep-going breakdown of the global capitalist economy. For almost two years, inflation has been consistently below the European Central Bank's target rate of 2 percent, with each month showing a result worse than the previous one.

The year 2014 was supposed to have been a year of recovery. It turned out to be the complete opposite.

More than six years after the collapse of the investment bank Lehman Brothers and the start of what has become known as the Great Recession, economic output in the euro zone has not returned to the levels reached in 2007, and there is no sign of it doing so. On the contrary, worsening economic conditions—cuts in investment, Depression-levels of unemployment in many countries, ever-lower living standards—have become a permanent condition.

Besides the clear deflationary trend, another indication of the state of the global economy is the record low interest rates on government bonds. This week, the yield on German five-year government debt turned negative. As the *Financial Times* commented in an editorial: "When people pay the government to look after their money, it seldom presages thriving economic times."

Low market rates, the *Financial Times* noted, are too well entrenched to be put down to a psychotic episode on the part of the market. Nor can they be ascribed simply to low inflation and the precipitous fall in the price of oil and other commodities. Rather, the newspaper continued, “weak yields and sagging oil prices may signal that secular stagnation needs to be taken seriously.”

The low yields point to underlying stagnation, characterised by overcapacity in the economy and resulting low rates of return on capital investment, so that a return of just 2 percent on government debt becomes acceptable.

Peter Praet, the chief economist with the European Central Bank (ECB), pointed to the same process in a recent interview. “There is a risk,” he said, “of a real economic vicious cycle: less investment, which in turn reduces potential growth, the future becomes even grimmer, and investment is reduced even further.”

An “underemployment equilibrium”—the term used by Keynes to describe the situation during the Great Depression of the 1930s—was setting in, he suggested.

The same tendency is reflected in the falling oil price following the decision of the Saudis not to cut production. Representatives of the Saudi regime have attributed the price falls to the global slump, insisting that there is no point in trying to boost prices, as their market share would simply be captured by their rivals. In other words, they have taken the decision to try to drive their competitors to the wall as markets contract even further.

Two conclusions flow from even this brief review of the economic balance sheet. First, the crisis of 2008 was nothing less than a breakdown of the global capitalist economy and the initiation of a downward spiral.

Second, the policies pursued by the ruling elites since then, including the pumping of up to $10 trillion into the global financial system, have failed to bring about any genuine economic revival.

Rather, they have been aimed at protecting the position of the banks and investment houses, whose criminal and semi-criminal activities triggered the crisis, while initiating a series of measures aimed at systematically impoverishing ever greater sections of the working class, thereby exacerbating the economic downturn.

Just as significant as deflation and low bond yields in pointing to the underlying state of the global capitalist economy is the response of financial markets to worsening economic data. Equity markets around the world, and above all on Wall Street, immediately rose on the news of the euro zone deflation figures in the expectation that the data would tip the hand of the European Central Bank towards a major expansion of quantitative easing when its governing council next meets on January 22.

Financial markets and their representatives have been demanding that the ECB expand its QE program to include the purchase of government debt in order to expand the flow of cheap money into the financial system.

This points to one of the most striking features of present-day capitalism: the extent to which financial parasitism, based on the supply of ultra-cheap money for speculation in financial markets, is the main driving force of profit accumulation.

Of course, throughout economic history, speculation has always been a crucial component of profit accumulation. However, the fact that it now predominates representatives a qualitative transformation, with far-reaching economic and political implications.

There is a fundamental difference between accumulation by parasitism and the more “normal” forms of profit-making. Financial parasitism involves not the extraction of surplus value from the labour of the working class and expanded production, but profit accumulation through operations in financial markets completely divorced from the production process.

However, in the final analysis, capital accumulation depends on expanded reproduction—investment leading to increased productive activities, greater profits and further investment. But this once virtuous circle has become a vicious one. Ever-increasing speculation has transformed the financial system into a house of cards, creating the conditions for a collapse in the same way, as Marx noted, that the law of gravity asserts itself when a house falls about our ears.

The political implications of this development are no less significant. In his pamphlet *Imperialism, the Highest Stage of Capitalism*, Lenin explained that financial parasitism was the driving force of imperialist conquest and war and the development of political reaction “all down the line.” Though it was written almost 100 years ago, Lenin’s analysis is even more relevant today.

The drive to accumulate through speculation—the appropriation of wealth produced by others, through market manipulations, fraud and looting—finds its ultimate expression in regime-change operations and war.

Likewise, financial parasitism, as Marx noted in *The Class Struggles in France*, rests on confidence that the state will continue to meet the demands of the “wolves of finance.” However, once the class struggle develops, this confidence is shaken and the whole edifice begins to topple.

Marx’s analysis too has lost none of its relevance. It points to the underlying driving force behind the development of ever more authoritarian forms of rule, aimed at the forcible suppression of the class struggle, for which the “war on terror” is invoked as the justification in all major countries. As the *World Socialist Web Site* has previously noted, it is highly significant that the country that recorded the best market return for 2014 was Egypt under the blood-soaked military dictatorship of General al-Sisi.

The political situation confronting the working class is not one of a “choice” between socialism and a functioning capitalist democracy, based on economic growth. Rather, the political alternatives are the fight for socialism and the overthrow of the “wolves of finance” or the descent into a nightmare in which the irresolvable contradictions of the capitalist mode of production increasingly assume the barbaric forms of war and dictatorship.