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## A new stage in the global economic breakdown

Nick Beams

9 February 2016

China's foreign currency reserves dropped by almost \$100 billion last month, following a decline of \$108 billion in December, adding to fears the country is experiencing capital flight and that financial authorities are losing their battle to prevent a rapid fall in the renminbi (also known as the yuan). The announcement had global significance because, together with the ongoing rout on international share markets, it indicates that the economic breakdown that began in 2008 has entered a new and explosive stage.

The outflow of \$99.5 billion, following the biggest ever monthly fall in December, takes the country's reserves to a more than three-year low of \$3.23 trillion. At first sight this figure gives the appearance that China has sufficient reserves still in hand. However, according to calculations by the International Monetary Fund, China needs reserves of around \$2.75 trillion to maintain operational flexibility in managing its currency and financial system. In other words, China has a buffer of just \$500 billion before it encounters difficulties, and if money keeps flooding out at the present rate, that buffer will be rapidly exhausted.

The global significance of the mounting Chinese financial problems emerges when the present situation is examined within the framework of the economic history of the past quarter century. The liquidation of the Soviet Union at the end of 1991 was accompanied by a wave of bourgeois

triumphalism and celebrations of the “free market” around the world, which was joined by the Chinese regime.

Having already initiated the restoration of capitalism and organised the bloody repression of the working class in the Tiananmen massacre of June 1989, the regime moved, from the beginning of 1992, to integrate China more directly into the capitalist world market and make it the cheap labour platform for global capital.

In the ensuing years, this set up a so-called “virtuous” economic circle. For global corporations, the opening up of China and its cheap labour force—pay scales were at one point one thirtieth the levels in the US—provided a significant boost to profits as well as benefits for US financial markets.

In a bid to first establish and then maintain its position as the world’s premier cheap labour platform, the Chinese regime recycled the dollars it received from exports to the US and other Western markets back into the US financial system through its purchases of US Treasury bonds. This prevented the value of the renminbi from rising.

This, in turn, enabled the US Federal Reserve to maintain interest rates at historically low levels throughout the latter part of the 1990s and into the first years of the new century, in what was referred to as the “great moderation.”

Low interest rates fuelled the speculation in financial assets, land, housing, stocks, etc. that increasingly became the dominant mode of profit accumulation in the US. The financial boom and the increase in home values also helped sustain consumption spending in the US, even as real wage levels declined, providing the markets for the manufactured goods produced in China and generating further trade surpluses, which were then recycled into US Treasury bonds, keeping interest rates low.

This house of cards collapsed when the crisis in sub-prime mortgage schemes set off the US and global financial meltdown of 2008.

The crisis spelt the end of the China export boom. In response to the loss of more than 20 million jobs in 2008–2009, the regime initiated a fiscal stimulus package worth half a trillion dollars and financial authorities engaged in a massive expansion of credit, leading to an infrastructure and property investment boom based on borrowed funds.

This, in turn, boosted the prices of oil and other industrial commodities in what became known as a “commodities supercycle.” As emerging markets benefited from the increased demand for their commodity exports, finance houses, looking for higher yields, poured in money to finance debt-based projects.

At the same time, the Fed, along with other central banks, ensured the continued inflow of ultra-cheap money by setting interest rates at historic lows and increasing the supply of cash through purchases of government bonds and other financial assets under their respective “quantitative easing” programs.

These measures, however, did not return the global economy to the conditions that prevailed prior to 2008. What “recovery” did take place was at best anaemic, with investment—the crucial driver of real growth in the capitalist economy—remaining at historically low levels, as corporations piled up cash to use in speculative activities such as mergers and acquisitions and share buybacks.

The significance of the massive expansion of Chinese credit is indicated not simply by China’s rising share of the global economy, but also by the fact that the “commodities supercycle” it generated meant that China-dependent emerging markets contributed about 40 percent of global growth after 2008.

But far from overcoming the crisis, all the measures undertaken since 2008 have only created the conditions for another financial and economic meltdown.

Last week, an analysis published in the *New York Times* pointed to a massive stagnant pool of non-performing loans—bad debts—which is posing an increasing threat to the entire banking system. In China, it is estimated that “troubled credit” could exceed \$5 trillion, equivalent to half the country’s annual economic output.

According to financial analyst Charlene Chu, cited in the article, China’s financial sector will have loans and other financial assets worth \$30 trillion at the end of the year, compared to \$9 trillion seven years ago. “The world has never seen credit growth of this magnitude over such a short time,” she said. “We believe it has directly or indirectly impacted nearly every asset price in the world, which is why the market is so jittery about the idea that credit problems in China could unravel.”

The phenomenon of non-performing loans is not confined to China. It is estimated that bad loans in Europe amount to about \$1 trillion, and the IMF has calculated that emerging markets have over-borrowed by about \$3 trillion.

If we take the last quarter century as a whole, the picture that emerges is very different from the triumph of the “free market” proclaimed with the liquidation of the Soviet Union. The first phase of growth was the result of the boost to profits provided by the exploitation of cheap labour in China and elsewhere. After this ended in financial disaster, the severely shaken world economy was propped up only by the trillions of dollars pumped into the financial system by the major central banks and the massive expansion of credit in China.

Now this process has come to an end, giving rise to deepening recessionary trends and the emergence of a new financial crisis, the consequences of which threaten to be even more far-reaching than 2008.

The deepening crisis in China and its global ramifications expose one stark fact: there is no economy or group of economies that can provide a basis for global economic expansion. The US, regarded until recently as a “bright spot,” is heading for recession—manufacturing has probably already arrived there—as indicated by the plunge in yields on 10-year Treasury bonds. Yesterday, they finished at just over 1.7 percent, as investors rush for a “safe haven.”

The European economy continues to stagnate, with predictions that unemployment will remain at double-digit levels indefinitely and concerns grow over the level of bad loans in the banking system. The Japanese central bank is undertaking further quantitative easing measures and has moved to negative interest rates because of the failure of “Abenomics” to provide any boost to the Japanese economy.

So intense are the recessionary pressures that more than one quarter of the world now operates under negative interest rates, a historically unprecedented situation.

Having no economic solution to the mounting crisis, the response of the ruling classes around the world will be three-fold:

- An intensification of the assault on the working class, through job- and wage-cuts and attacks on social conditions.
- The development of ever-more authoritarian forms of rule and attacks on democratic rights to crush the social and class struggles now emerging.
- An accelerated war drive, as each of the capitalist “great powers” seeks to unload the crisis onto its rivals, if necessary by military means.

The international working class must develop its own strategy, worked out to the end, based on the struggle for an international socialist program aimed at the conquest of political power and the overturn of the capitalist profit system.