The Latest Stock Market Panic

A Harbinger of the Future Crash of the Capitalist World Economy

Comment by Michael Pröbsting, International Secretary of the Revolutionary Communist International Tendency (RCIT), 8 February 2018, www.thecommunists.net

The panic at the stock markets all around the world in the last days has demonstrated once more the fragile character of the so-called recovery of the capitalist world economy since the Great Recession in 2008/09. At this point we will limit ourselves to a few remarks as we plan to publish a book about the current world situation and its fundamental contradictions by next week. This document will include a more extensive chapter about the world economy.

Naturally, we are not in a position to predict if the stock market panic of the last days will continue directly into a crash or not. As we know from past events it is possible that there might be a superficial temporary recovery. But it is certainly the case that this panic reflects the highly fragile state of the world economy and its explosive inner contradictions as we have outlined in past works. (1) These contradictions are in turn an expression of the fundamental decay of capitalism as a mode of production. (2)

The IMF and other bourgeois think tanks have published in the past months several reports in which they presented a relatively optimistic picture. In its *January 2018 Update* the IMF states: "*The cyclical upswing underway since mid-2016 has continued to strengthen. Some 120 economies, accounting for three quarters of world GDP, have seen a pickup in growth in year-on-year terms in 2017, the broadest synchronized global growth upsurge since 2010*." (3) The World GDP is supposed to grow (calculated by Market Exchange Rates) by 2.5% (2016), 3.2% (2017), 3.3% (2018) and 3.2% (2019).

However, the smarter bourgeois economists are fully aware that there is not much behind the official optimistic fanfares. The *World Economic Forum*, the organizer of the summit of the world's elite in Davos in January, warns in its report: "*However, this relatively upbeat picture masks numerous concerns. This has been the weakest post-recession recovery on record. Productivity growth remains puzzlingly weak. Investment growth has been subdued, and in developing economies it has slowed sharply since 2010. And in many countries the social and political fabric has been badly frayed by many years of stagnating real incomes.*" (4)

The development of investment and profits continues to be weak or is even in decline. As the OECD demonstrated in its latest *Economic Outlook*, average growth of output since 2008 has been clearly below the average of the two business cycles before. (5) We see a similar picture for the development of investment and profit growth in the U.S. according to the latest World Bank statistic. (See Figure 1). This is also true when we look to the dynamic of investment in the other major economy – China. (See Figure 2)

Figure 1. US: Investment and Profit Growth 2000-2017 (6)

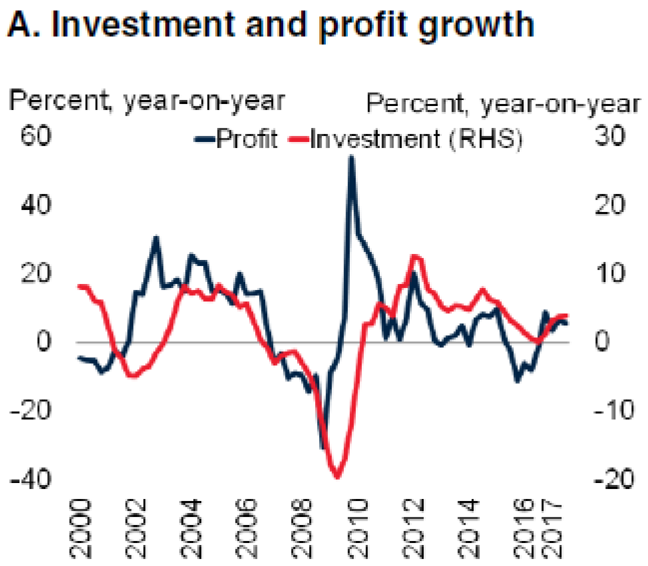
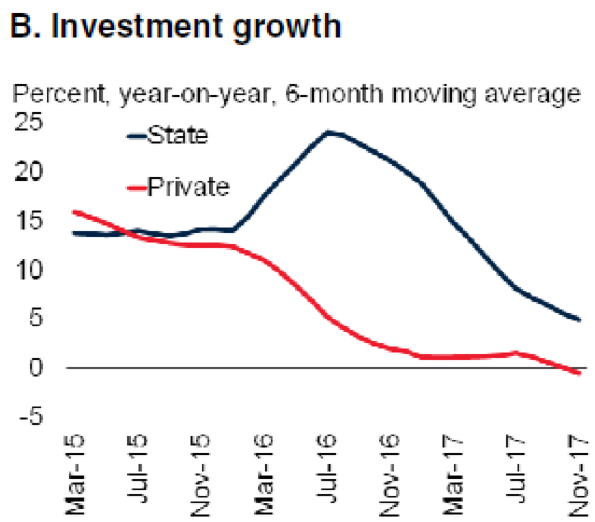


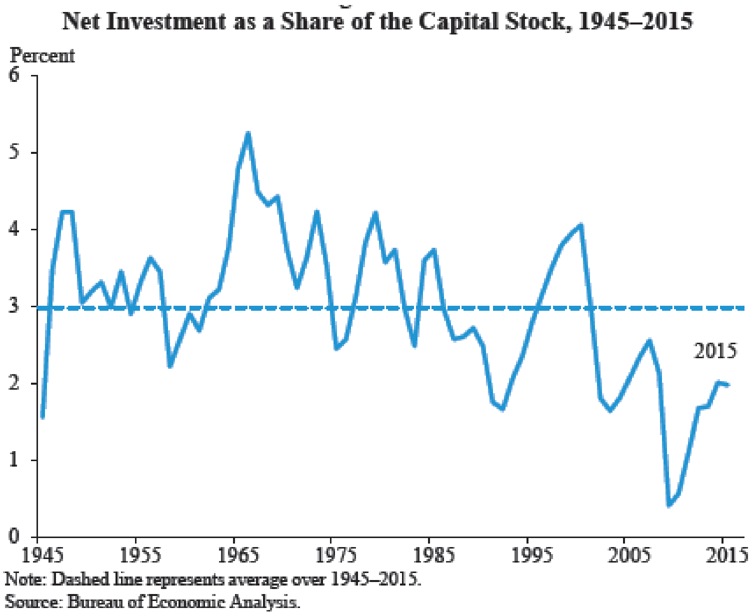
Figure 2. China: Investment Growth 2015-2017 (7)



Furthermore, as we have pointed out in past World Perspectives documents, we continue to see a stagnation of world trade in relation to production. As we have said, the era of globalization is about to come to an end. According to the *World Trade Organization* 791 new non-tariff barriers appeared annually on average in the years 2010-15 – that is, more than ever in history. (8) Another reflection of this development is the decline of cross-border capital flows as a percentage of global GDP since the Great Recession in 2008/09. From a peak level of 20.7% in 2007 it fell to a record-low of 2.6% in 2015.

These stagnation tendencies of the business cycle reflect the failure of the monopoly bourgeoisie to overcome the fundamental inner contradictions of the capitalist world economy – its over-accumulation of capital and the fall of the rate of profit. Even the latest issue of the U.S. "*Economic Report of the President*", annually produced by the White House and not known for a pessimistic outlook, is forced to draw attention to the decreasing rate of capital accumulation. It reproduces a figure showing the development of net investment as a share of the U.S. capital stock between 1945 and 2015. (See Figure 3) This figure reflects the declining dynamic of the expanded reproduction of capital: *"In 2009, net investment as a share of the capital stock fell to its lowest level in the post-World War II era and the nominal capital stock even declined. Although net investment has rebounded somewhat in the recovery, its level as a share of the capital stock remains well below the historical average and it declined slightly in 2015."* (9)

Figure 3. Net Investment as a Share of the Capital Stock, USA, 1945-2015 (10)



While the capitalist class has been unable to overcome these fundamental contradictions of its mode of production, it has been able, until now, to delay the beginning of the next recession. What have been the reasons for this? There are several reasons but the most important seem to be a massive increase in debt reaching a level higher than before the last recession in 2007. Related to this there is a huge bubble in the financial sector which will sooner or later explode. All this has been made possible by the reckless policy of the imperialist central banks of printing money and keeping down the interest rates at nearly zero.

Let us look to these developments more in detail. In Table 1 we see the latest calculations of the *Institute of International Finance* on global debt. It shows that debt as a share of global output rose massively in the past 15 years. Significantly, while debt as a share of global GDP was 276% before the last recession, this has grown to 327% in 2017 – despite all the official promises to reduce debt as it was understood to be a major reason for the severity of the last recession!

Table 1. Global Debt (All Sectors), 2002-2017 (11)

	In Trillion US-Dollar	*Global Debt as a Share of Global GDP*
2002	86	246%
2007	149	276%
2012	205	305%
2017	217	327%

In Table 2 we see the breakdown of this debt into the different sectors: Non-Financial Corporations, Government, Financial Sector, Household. It is of particular interest to see that – compared with the situation before the last recession – the two sectors where debt increased most rapidly have been the non-financial corporations and the government. While it is only logical that the capitalists are prepared to increase their debt in order to keep their business operations going in this period of declining profit rate, it is telling that government debt is increasing massively but not that of the financial sector. This is all the more interesting since it was the financial sector which was massively in debt before the recession in 2007 and which triggered it. The explanation lies in the fundamental character of the capitalist government – as Marx and Engels already stated in the Communist Manifesto: "*The executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie*" (12) Concretely, the capitalist state has taken over the debts of the banks and, by this, helped the financial speculators to start their risky business again. Meanwhile, the working class has to pay for the increased public debt with higher taxes and cuts in social service!

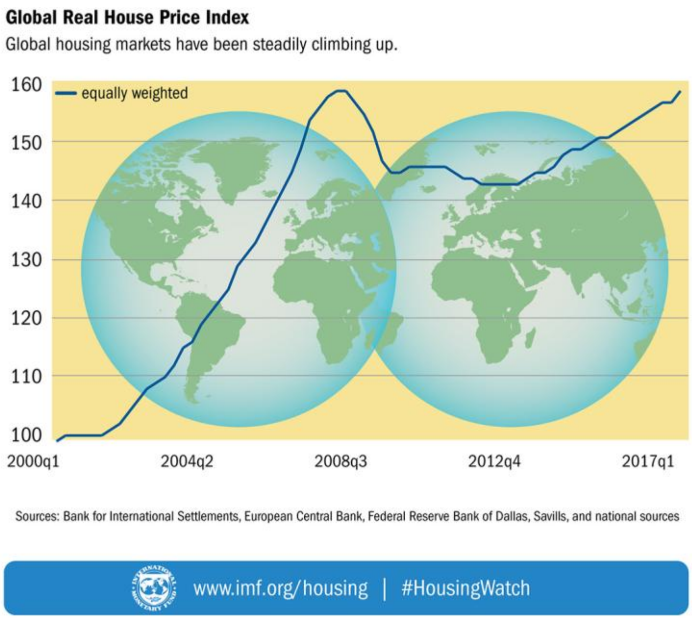
Table 2. Global Sectoral Indebtedness (All Sectors), as a Share of Global GDP, 1997-2017 (13)

	Non-Financial Corporations	*Government*	*Financial Sector*	*Household*
1997	64%	58%	53%	42%
2007	77%	58%	86%	57%
2017	92%	87%	80%	59%

The growth of indebtedness is taking place in all imperialist economies. While the level of indebtedness was already high in the Western imperialist economies before the recession in 2008/09 but not so much in the so-called "emerging markets" (including China), this has changed now. In fact, debt has even increased faster in China than in the old imperialist economies! According to the latest OECD report, aggregate debt in China rose from less than 100% of GDP at the end of 2008 to 170% by early 2016. (14) According to another report, China's total debt is believed to be around 280% of GDP, with corporate debt rising quickly to 160% of GDP, the highest level among the major world economies. (15) In facts, debts in government and non-financial corporations sector increased in nearly all G20 countries. Marx observed in Volume III of *Capital* that the credit system helps the capitalists to accelerate production. However, he also warned that indebtedness is a double-edged sword. The more it accelerates production, the more it will later result in violent eruptions: "*Hence, the credit system accelerates the material development of the productive forces and the establishment of the world-market. It is the historical mission of the capitalist system of production to raise these material foundations of the new mode of production to a certain degree of perfection. At the same time credit accelerates the violent eruptions of this contradiction – crises – and thereby the elements of disintegration of the old mode of production.*" (16)

There are many indications that the global economy is experiencing a similar bubble as it did in the last two decades. Global stock markets are hitting all-time high after all-time high. But in fact this is a bubble which should soon implode. The WEF alarmingly observes: "*US stocks have only twice in history been higher than they are at the moment: just prior to the crashes of 1929 and 2000.*" (17) Another example for the bizarre bubble is the hype around the cryptocurrency Bitcoin, which increased in value by around 1200% in 2017! Likewise, the Global House Price Index has increased massively and has reached now the same level when the bubble was at its height in 2007! (See Figure 4) In short, assets are unsustainably overpriced and this bubble must implode rather sooner than later. Such an implosion most likely would trigger another Great Recession.

Figure 4. Global House Price Index Q1-2000 – Q2-2017 (18)



In fact, the next recession will most likely be worse than the last. This is the case for a number of reasons related to the deep stagnation of the capitalist world economy. But at this place we want to point out only three important factors. First, during the last recession in 2008/09, the dramatic effects on the world economy could be softened by the fact that the recession had its focus in the old imperialist countries. Hence, China which experienced still some significant growth, as well as other "emerging economies", could soften the consequences of the slump. This is no longer the case. As we have demonstrated, indebtedness in China and other "emerging economies" has significantly increased and, hence, their ability for counter-cyclical interventions is much more limited now.

Secondly, the dramatic effects on the world economy in 2008/09 could be softened by the massive state-capitalist intervention. The capitalist governments were prepared to bail out the banks, take over their debts and pump money since then into the economy (the so-called "*Quantitative Easing*", as we have explained in past documents on the world economy). However, again, this instrument is no longer available. The governments are now much higher indebted than they were last time and therefore their room for maneuver is much more limited.

Thirdly, the central banks were able in past recessions to lower the interest rates. This monetary instrument made it easier for banks and corporations to take new loans and to soften the effects of the recession. However, this instrument too is no longer available since the central banks already lowered the interest rates to nearly 0% in the past years! Former U.S. Treasury Secretary Larry Summers noted in a recent speech that the Fed typically has lowered interest rates by 5 percentage points over time to stimulate the economy in recessions. However, this is no longer possible as the Fed had lowered the federal funds rate close to zero and just recently raised it to 1.25-1.5%. Other Central Banks – like the European Central Bank, the Bank of Japan and the Bank of England – are in an even worse position since their interest rates are currently even lower than the Fed's.

There can be no doubt that the capitalist world economy is heading towards a new Great Recession which will be most likely more devastating than the last one. An increasing number of economists already get nervous. Jean-Claude Trichet, the former President of the European Central Bank from 2003 to 2011, warned in a recently published interview about the "*a very serious risk of a new crisis.*" (19) We can not say if this will happen in 2018 or later. In fact, the massive state-capitalist interventions and the huge global indebtedness, which reminds one to a Ponzi scheme, make a precise prognosis difficult. However, whenever the next Great Recession will explode, it will tremendously shatter the bourgeois order and open a new phase of major attacks by the capitalists as well as of class struggles.

Footnotes

(1) For the RCIT's analysis of the capitalist world economy since the Great Recession in 2008/09 see e.g. RCIT: World Perspectives 2017: The Struggle against the Reactionary Offensive in the Era of Trumpism, Chapter I, in: Revolutionary Communism No. 59, https://www.thecommunists.net/theory/world-perspectives-2017/; RCIT: Advancing Counterrevolution and Acceleration of Class Contradictions Mark the Opening of a New Political Phase. Theses on the World Situation, the Perspectives for Class Struggle and the Tasks of Revolutionaries (January 2016), Chapter II and III, in: Revolutionary Communism No. 46, http://www.thecommunists.net/theory/world-perspectives-2016/; RCIT: Perspectives for the Class Struggle in Light of the Deepening Crisis in the Imperialist World Economy and Politics. Theses on Recent Major Developments in the World Situation and Perspectives Ahead (January 2015), in: Revolutionary Communism No. 32, http://www.thecommunists.net/theory/world-situation-january-2015/; Michael Pröbsting: World economy – heading to a new upswing? in: Fifth International, Volume 3, No. 3, Autumn 2009, https://www.thecommunists.net/theory/world-economy-crisis-2009/; Michael Pröbsting: Imperialism, Globalization and the Decline of Capitalism (2008), in: Richard Brenner, Michael Pröbsting, Keith Spencer: The Credit Crunch - A Marxist Analysis, London 2008, https://www.thecommunists.net/theory/imperialism-and-globalization/

(2) For our analysis of capitalism's decay in the present historic period we refer readers to RCIT: World Perspectives 2016: Advancing Counterrevolution and Acceleration of Class Contradictions Mark the Opening of a New Political Phase, Chapter II, https://www.thecommunists.net/theory/world-perspectives-2016/part2/; Michael Pröbsting: The Great Robbery of the South. Continuity and Changes in the Super-Exploitation of the Semi-Colonial World

by Monopoly Capital. Consequences for the Marxist Theory of Imperialism, Vienna 2013, chapter 14, https://www.thecommunists.net/theory/great-robbery-of-the-south/

(3) IMF: World Economic Outlook, Update, Brighter Prospects, Optimistic Markets, Challenges Ahead, 22 January 2018, p. 2

(4) WEF: Global Risks Report 2018, p.19

(5) See e.g. OECD ECONOMIC OUTLOOK. The policy challenge: Catalyse the private sector for stronger and more inclusive growth, Presentation, Paris, 28 November 2017, p. 3

(6) World Bank: Global Economic Prospects, January 2018, p. 13

(7) World Bank: Global Economic Prospects, January 2018, p. 15

(8) Rawi Abdelal and Igor Makarov: The Fragmentation of the Global Economy and U.S.- Russia Relations, Working Group on the Future of U.S.-Russia Relations, Working Group Paper 8, April 2017, p. 8

(9) Economic Report of the President, January 2017, Washington, p. 104

(10) Economic Report of the President, January 2017, p. 105

(11) Tyler Durden: Global Debt Hits Record $233 Trillion, Up $16Tn In 9 Months, 01/07/2018, https://www.zerohedge.com/news/2018-01-07/global-debt-hits-record-233-trillion-16-trillion-9-months

(12) Karl Marx and Frederick Engels: Manifesto of the Communist Party (1848), in: MECW Vol. 6, p. 486

(13) Tyler Durden: Global Debt Hits Record $233 Trillion, Up $16Tn In 9 Months

(14) OECD Economic Outlook, Volume 2017 Issue 2, p. 58

(15) PricewaterhouseCoopers: The Long View. How will the global economic order change by 2050? February 2017, p. 22

(16) Karl Marx: Capital Band III, MECW Vol. 37, p. 439

(17) WEF: Global Risks Report 2018, p.19

(18) IMF: Global House Price Index, http://www.imf.org/external/research/housing/index.htm; see also IMF: Global Housing Watch, Q2-2017, p. 1

(19) Interview mit Jean-Claude Trichet: „Es gibt ein sehr ernstes Risiko einer neuen Krise“, Wiener Zeitung, 27. Jänner 2018, p. 15