

The Next Looming Great Recession

Observations on the Latest Stock Market Slump and the Structural Crisis of the Capitalist World Economy

Commentary by Michael Pröbsting, International Secretary of the Revolutionary Communist International Tendency (RCIT), 12 October 2018, www.thecommunists.net

Stock markets around the world experience another slump. We do not know if this is already the beginning of the next Great Recession. But we know that the combination of a crisis-ridden capitalist world economy and the accelerating tensions between the imperialist Great Powers create a powder keg which can explode at any moment.

At this stage, global stock markets experience “*a bit of a bloodbath*”, to quote a senior portfolio manager in New York. (1) U.S. stocks have fallen for a sixth day and experienced the biggest fall in eight months. By now, market value of U.S. common stock plunged by 6.8% for October to date. Stocks were hit particularly hard in Asia, where no market was spared in the sweeping sell-off. Stocks in Shanghai, Tokyo, Seoul and Hong Kong dropped 4% or more. China’s stock market is at its lowest level since November 2014. Europe’s major stock indexes fell less drastically — by about 1.5% — because they had already been on a downward trend for several months. (2)

No doubt, panic is spreading among the capitalists. The *International Monetary Fund* (IMF) — one of the central global institutions of capitalism — already warned a few days ago in unusual blunt language that “*large challenges loom for the global economy to prevent a second Great Depression.*” (3) A journalist expressed his worries when viewing the stock market slump in combination with the convulsions in world politics: “*That not the end of the world, per se. But with trade battles intensifying and dormant old devils re-emerging, all bets could soon be off. That is a lot more than depressing: it’s terrifying.*” (4)

Now, as a matter of fact, we are not in a position to say if the current stock market slump is already the beginning of the next Great Recession or if the capitalists manage to delay this for some time. However, even if a new Great Recession has not already begun, it is clear that the convulsions on the stock market are its harbinger.

The RCIT has drawn attention for many years to the colossal contradictions which characterize the capitalist world economy. We have warned in the past years that capitalism was incapable to overcome its structural problems which led to the Great Recession in 2008/09. Consequently, we predicted that another Great Recession — most likely an even “*Greater*” Recession — will shatter the capitalist world economy. (5)

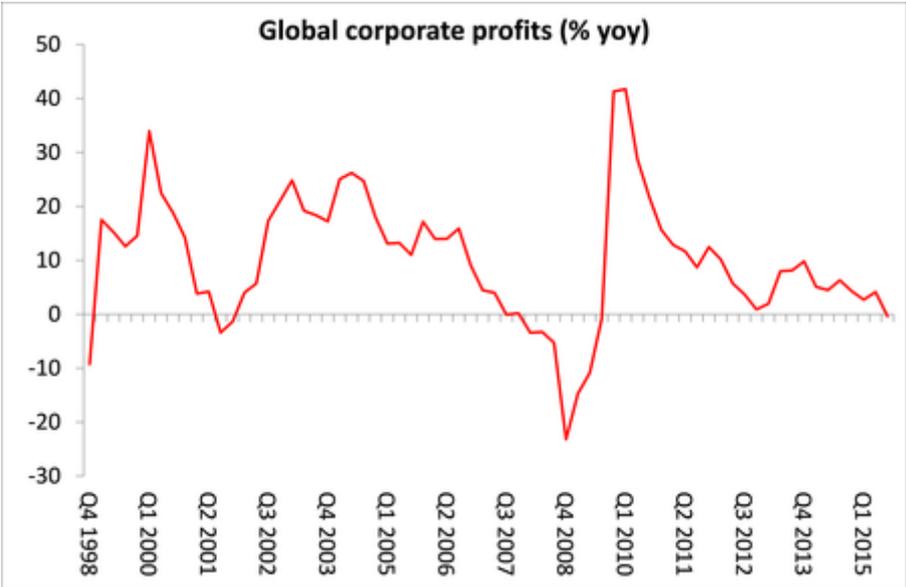
Here is not the place to repeat our extensive analysis and we will limit ourselves only to a few observations. As we have demonstrated in past works, the capitalist world economy is in a long-term decline which has, as its basis, the over-accumulation of capital and the tendency of the rate of profit to fall. This results in declining growth rates, less investment and lower productivity.

What we will briefly show at this place is that the capitalist world economy today is in a worse position than it was before the last Great Recession in 2008/09 and, consequently, the economic collapse will be most likely even worse this time.

Stagnation Tendencies

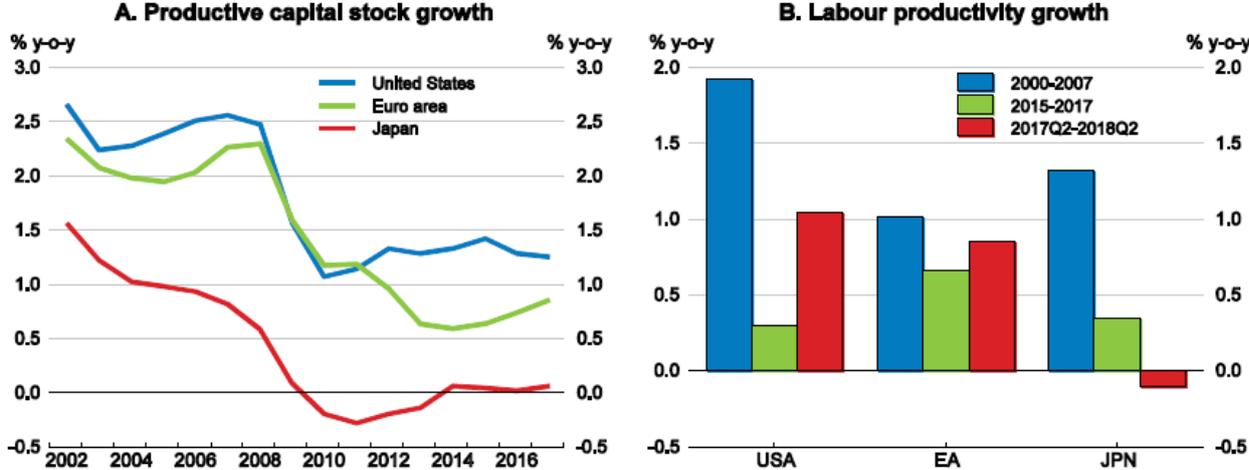
First we reproduce a figure showing the growth of the global profit rate which has been weaker in the current cycle than in the one before. (See Figure 1)

Figure 1. Global Corporate Profits 1998-15 (6)



This is related to lower growth rates of labor productivity as well as lower growth of the productive capital stock. In Figure 2 we show the relevant data for the old imperialist states – the U.S., Western Europe (the Euro Area) and Japan.

Figure 2. U.S., Euro Area and Japan: Growth of Productive Capital Stock and Labor Productivity Growth (7)



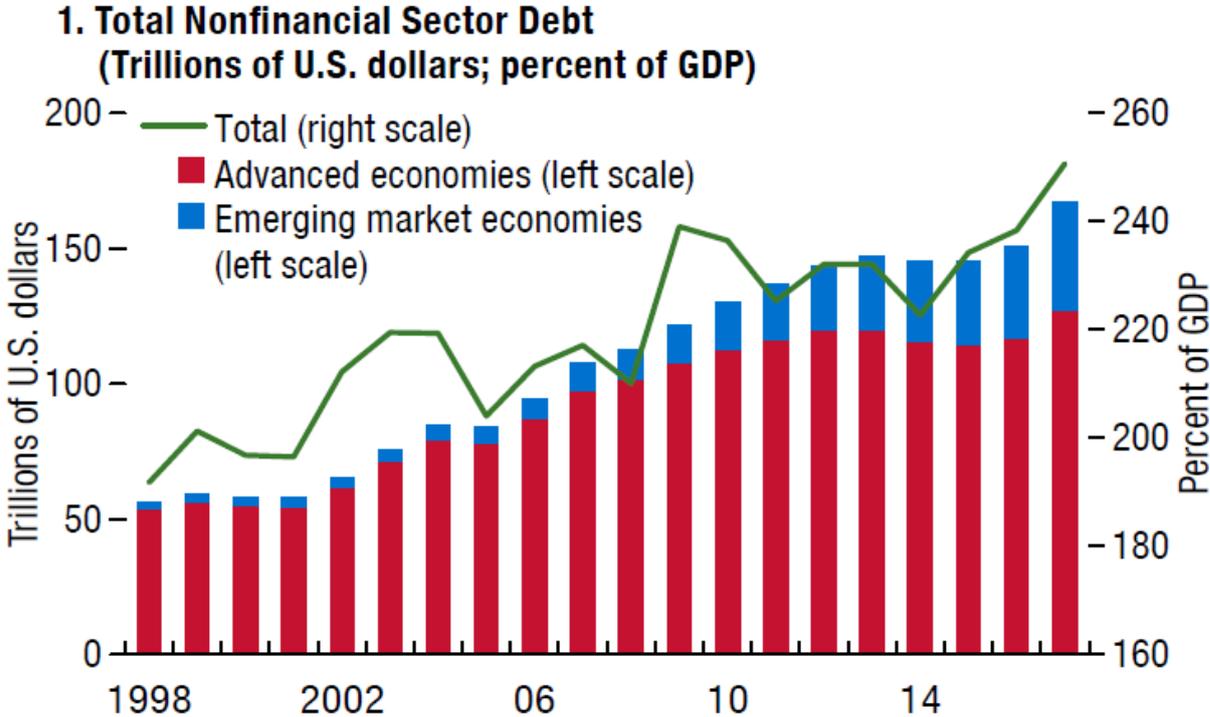
Rising Debts

At the same time, indebtedness – a major trigger of the last recession – has substantially increased all over the world and in all sectors. In 2008/09 an even worse slump was only avoided because the China’s economy was still robust and because the capitalist state apparatus in many imperialist countries was able to intervene and to bail out the banks. A repetition of such a development seems to be excluded.

The reasons for this are several. Corporations, governments as well as households have substantially increased their debts. According to the latest report of the IMF, “total nonfinancial sector debt – borrowings by governments, nonfinancial companies, and households – has expanded at a much faster pace than the growth rate of the economy. As a result, total nonfinancial debt in countries with systemically important financial sectors now stands at \$167 trillion, or over 250 percent of aggregate GDP, compared with \$113 trillion (210 percent of GDP) in 2008.” (See Figure 3)

Figure 3. Growth of Global Debt in the Nonfinancial Sector, 1998-2017 (8)

Total nonfinancial sector debt has continued to swell since the global financial crisis.



Significantly, debt has risen in particular in the corporate as well as the public sector and less in the private household sector. As we show in Table 1 global corporate debt has increased from \$37 trillion to \$66 trillion in the past decade while government debt more than doubled from \$29 trillion to \$60 trillion.

Table 1. Global Debt, in \$Trillions, 2000-2017

	2000	2007	2017
Household	18	31	43
Non-Financial Corporations	25	37	66
Government	21	29	60
Non-Financial Corporations			
Debt to GDP	78%	79%	92%

To this one has to add that official figures for government debt usually do not cover large parts of public debts. This is the case because in most cases figures for accrued pension liabilities are excluded in these statistics. However, according to latest issue of the IMF’s *Fiscal Monitor*, “the standard measure of general government public debt compris[es] 94 percent of GDP for these countries. This is only half of total

public sector liabilities of 198 percent of GDP, which also includes 46 percent of GDP in already accrued pension liabilities.” (9)

In an article on the world economy which we published half a year ago we stated: *“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”). 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.” (10)*

The IMF arrives at similar conclusions in the latest issue of its *World Economic Outlook*: *“Nevertheless, large challenges loom for the global economy. The extraordinary policy actions to prevent a second Great Depression have had important side effects. The extended period of ultralow interest rates in advanced economies has contributed to the buildup of financial vulnerabilities, as discussed in the April and October 2018 GFSRs. The large accumulation of public debt and the erosion of fiscal buffers in many economies following the crisis point to the urgency of rebuilding those defenses to prepare for the next downturn. Moreover, some of the crisis management tools deployed in 2008–09 are no longer available (the Federal Reserve’s bailouts of individual institutions, for example), suggesting financial rescues in the future may not be able to follow the same playbook.” (11)*

U.S.: As if there is no tomorrow

The American bourgeoisie lives as if there is no tomorrow. The Trump Administration has massively increased public debt in an extremely short-time-span. The deficit for this year will rise to \$890 billion (it was about \$660 billion when Obama left office). The shortfall in government expenditures will rise above \$1 trillion next year. All in all, publicly held U.S. government debt has tripled in a decade. (12)

Corporate debt has also risen in the last decade. This was to a large degree because of massive borrowing to finance fusions between companies. A recently published article of Bloomberg which dealt with corporate debt in the U.S. was characteristically entitled *“A \$1 Trillion Powder Keg Threatens the Corporate Bond Market”*. It concluded: *“After a decade-long buying spree, many companies have pushed their leverage to levels that are typical of junk-rated borrowers in their sectors. The result has been a surge in debt issuance in the lowest rungs of investment-grade—the biggest share of it driven by corporate acquisitions. There’s now about \$2.47 trillion of U.S. corporate debt rated in the BBB tier, more than triple the level at the end of 2008. (...) When it’s all said and done, some \$1.1 trillion of investment grade debt could end up as junk.” (13)*

Debt of U.S. corporations stands now at a new high of \$6.3 trillion. The cash-to-debt ratio, which was 14% in 2008, has dropped to 12%, i.e. \$1 in cash for every \$8 of debt. (14)

China too

The effects of the last recession in 2008/09 could be mitigated because China avoided a slump. However, it did so via a massive state-capitalist interventionist program and a rapid rise of its corporate debt. As a result, China's "corporate debt has increased by \$15 trillion, or more than half of global corporate debt growth. As a share of GDP, China's corporate debt rose from 97 percent of GDP in 2007 to 163 percent in 2017, one of the highest corporate debt ratios in the world apart from small financial centers that attract offshore companies." (15) This development is also reflected in the outstanding bonds of nonfinancial corporate. (See Table 2) All in all, China's combined debt (Non-Financial Corporations, Government and Household) as a share of GDP has increased from 145% (2007) to 256% (2017).

Table 2. Nonfinancial Corporate Bonds Outstanding, \$Trillion, 2010-2017 (16)

	2010	2017
United States	2.8	4.8
Western Europe	1.6	2.6
China	0.4	2.0
Other Advanced Economies	0.7	1.2
Other Developing Economies	0.6	1.2

We note, as an aside, how bizarre it is that there still exist various Stalinists and pseudo-Marxists which continue to defend the nonsense that China would be a "socialist" or "workers" state! (17)

Furthermore, the global banking system suffers from the extraordinary imbalances in the current accounts, reflecting the fact that major economies like Germany, Japan and China export much more than they import while the U.S. "lives beyond its means", i.e. it imports much more than it exports. An economist comments: "Hedging the foreign exchange risk in this half-trillion-dollar per year business has exhausted the balance sheet of the global banking system. That explains a large part of the jump in the US 10-year note yield to 3.2% last Friday from 2.85% in early September. Hedging the foreign exchange risk in these massive flows created a derivatives mountain, and it has started to spew smoke and lava." (18)

Nearly three years ago, we made the following prediction in the annual RCIT *World Perspective* document: "First, the coming recession – in contrast to the previous one – seems to be spreading to and assuming a severe character in all major regions of the capitalist world economy. Secondly, financial speculation – a central trigger for the Great Recession in 2008/09 – has not decreased since then. In fact, today the financial bubble is bigger than it was in 2007. And third, corporate and public debt has risen in nearly all imperialist countries, which is why the bourgeoisie will not be able to use massive state-capitalist interventions yet another time to help their corporations escape the worst consequences of the recession simply by raising the national debt." (19) We have every reason to stand by our assessment.

Global Trade War

In fact, the factors aggravating the situation have increased. The economic causes of the capitalist crisis are exacerbated by the accelerating political contradictions between the imperialist Great Powers. This is particularly evident with the Global Trade War. As we have elaborated in a number of articles in recent months, the Global Trade War – in particular between the U.S. and China – is a major factor not only in determining the world political situation but also for the future of the world economy. (20)

Chang Shu, a Bloomberg economist, wrote: *“The U.S.-China trade war is shaping up to be a long confrontation. In our view, piling pressure on China is unlikely to result in concessions. A strategic misstep by the U.S. risks further escalating the tariff war, which would add to the drag on growth – with larger implications for Asia’s supply chains.”* (21)

In fact, there are several crucial political factors which will influence the dynamic of the world economy. We already pointed this out in a recently published article: *“We are experiencing the final phase of the current business cycle, the first cycle within the period of the Great Depression which began in 2008. The Global Trade War, in combination with the warmongering of US imperialism against Iran, could trigger an early economic collapse. While Washington’s attempts to exclude Iran – the third biggest global oil producer – from the world market will inevitable result in a massive rise of oil prices, the increase of tariffs will increase prices both for industrial as well as for consumer commodities.”* (22)

Conclusions

There are a several indications that we are living in a historic moment: the contradictions of the capitalist world economy are exacerbating; the rivalry between the imperialist Great Powers is accelerating (the Global Trade War between the two most important powers, the U.S. and China; the saber-rattling, alternating with deal-making, between Washington and Moscow; etc.); the never-ending domestic political crisis of the rotten Trump Administration; wars and political tensions all over the world – beginning from the last stand of the glorious Syrian Revolution in Idlib, the ongoing Saudi war of aggression against the Yemeni people, the shocking rise of the arch-reactionary presidential candidate Bolsonaro in Brazil, the barbaric butchery of the critical journalist Jamal Khashoggi in the Saudi embassy in Istanbul – and so on. History is in the making and we might be close to the beginning of a new world political phase.

The central problem is not the strength of capitalism – in fact this system is in its death agony. The problem is rather the lack of political preparedness of the working class and its vanguard to utilize the bankruptcy of its class enemy. It is the task of Marxists to help the working class to organize its defense against the inevitable attacks of the capitalists.

No one should have any illusions: the bourgeoisie will do everything in its power to make the popular masses pay for the capitalist crisis. Reactionary forces – imperialist warmongers, chauvinist rabble-rousers, etc. – will spread the message of national hatred in order to divide and defeat our international class. Reformist muddle-heads will confuse and mislead the workers and oppressed.

All authentic socialists must unite in order to build a Revolutionary World Party based on a program for liberation struggle under the present conditions. The RCIT is dedicating its forces to this big, indeed this historic goal. Join us in this struggle!

Footnotes

(1) Quoted in Asia Times: Carnage as markets plunge across Asia, October 11, 2018 <http://www.atimes.com/article/carnage-as-markets-plunge-across-asia/>

(2) See e.g. Asia Times: Global selloff continues in New York despite glimmer of trade hope, October 12, 2018 <http://www.atimes.com/article/global-selloff-continues-in-new-york-despite-glimmer-of-trade-hope/>; Jeremy Herron and Sarah Ponczek: U.S. Stocks Pare Earlier Losses on Tech Strength: Markets Wrap, Bloomberg, 11. Oktober 2018, <https://www.bloomberg.com/news/articles/2018-10-10/asia-braces-for-losses-after-u-s-stocks-plunge-markets-wrap?srnd=premium-europe>; Alexandra Stevenson, Jack Ewing and Matt Phillips: Wall St. Extends Drop Into Sixth Day After Global Sell-Off, The New York Times, Oct. 11, 2018 <https://www.nytimes.com/2018/10/11/business/stock-market-global.html>; Sudden jump in US interest rates prompts Wall Street stock plunge, 2018-10-10 <https://www.aljazeera.com/news/2018/10/sudden-jump-interest-rates-prompts-wall-street-stock-plunge-181010202647267.html> ; Martin Farrer: World stock markets dive as Trump attacks 'crazy' US rate hikes, The Guardian, 11 Oct 2018 <https://www.theguardian.com/business/2018/oct/11/asian-stock-markets-dive-as-trump-attacks-crazy-us-rate-hikes>; John Lonski: Will Thin High-Yield Spread Again Overrule Above-Trend VIX? Oct 11, 2018, <https://www.economy.com/dismal/analysis/todays-economy/347146/Will-Thin-HighYield-Spread-Again-Overrule-AboveTrend-VIX/>; David P. Goldman: Has the derivatives volcano already begun to erupt? October 9, 2018 <http://www.atimes.com/article/has-the-derivatives-volcano-already-begun-to-erupt/>

(3) Tyler Durden: World Economy At Risk Of Another Financial Crash, IMF Warns, 10/04/2018, <https://www.zerohedge.com/news/2018-10-04/world-economy-risk-another-financial-crash-imf-warns>

(4) William Pesek: 'Great Depression' ahead? IMF sounds dire warning, October 9, 2018 <http://www.atimes.com/article/great-depression-ahead-imf-sounds-dire-warning/>

(5) For the RCIT's analysis of the capitalist world economy since the Great Recession in 2008/09 see e.g. Michael Pröbsting: World Perspectives 2018: A World Pregnant with Wars and Popular Uprisings. Theses on the World Situation, the Perspectives for Class Struggle and the Tasks of Revolutionaries (Chapter III), RCIT Books, Vienna 2018, <https://www.thecommunists.net/theory/world-perspectives-2018/>; Michael Pröbsting: The Latest Stock Market Panic, 8 February 2018, <https://www.thecommunists.net/theory/the-stock-market-panic-february-2018/>; 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:

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(6) Michael Roberts: It's greed and fear, 18.09.2018, <https://thenextrecession.wordpress.com/2018/09/18/its-greed-and-fear/>

(7) OECD: Interim Economic Outlook, High Uncertainty Weighing on Global growth, 20 September 2018, p. 12

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(9) IMF: Fiscal Monitor, October 2018, p. VIII

(10) Michael Pröbsting: The Latest Stock Market Panic, 8 February 2018, <https://www.thecommunists.net/theory/the-stock-market-panic-february-2018/>

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(12) George F. Will: Another epic economic collapse is coming, Washington Post Op-Ed, August 18, 2018, https://www.washingtonpost.com/opinions/another-epic-economic-collapse-is-coming/2018/08/17/c26fb12c-a182-11e8-93e3-24d1703d2a7a_story.html?noredirect=on&utm_term=.e61009e0c452

(13) Molly Smith and Christopher Cannon: A \$1 Trillion Powder Keg Threatens the Corporate Bond Market, Bloomberg, 11 Oktober 2018 <https://www.bloomberg.com/graphics/2018-almost-junk-credit-ratings/?srnd=premium-europe>

(14) John Feffer: There's a New Crash Coming, September 19, 2018, <https://fpif.org/theres-a-new-crash-coming/>

(15) McKinsey Global Institute: Rising Corporate Debt Peril Or Promise? Discussion paper, June 2018, p. 2

(16) McKinsey Global Institute: A Decade After The Global Financial Crisis: What Has (And Hasn't) Changed? Briefing Note, September 2018, p. 5

(17) On the RCIT's analysis of China as an emerging imperialist power see the literature mentioned in the special sub-section on our website: <https://www.thecommunists.net/theory/china-russia-as-imperialist-powers/>. In particular we refer readers to Michael Pröbsting: The China-India Conflict: Its Causes and Consequences. What are the background and the nature of the tensions between China and India in the Sikkim border region? What should be the tactical conclusions for Socialists and Activists of the Liberation Movements? 18 August 2017, Revolutionary Communism No. 71, <https://www.thecommunists.net/theory/china-india-rivalry/>; Michael Pröbsting: The China Question and the Marxist Theory of Imperialism, December 2014, <https://www.thecommunists.net/theory/reply-to-csr-pco-on-china/>; Michael Pröbsting: China's transformation into an imperialist power. A study of the economic, political and military aspects of

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