https://www.internationalviewpoint.org/spip.php?article4848

Economic crisis

World economy: The return of crisis

- Features - Economic and debt crisis -

Publication date: Friday 27 January 2017

In the wake of the 2008 global economic crisis, capitalism regrouped as states pumped enormous amounts of money into the system to stabilize it. The result has been a relatively weak recoveryâ€"one that has failed to clear away the problems that had produced the crisis in the first place. As a result, eight years later crisis threatens to return.

The weak global economic recovery limped into the second half of 2016, even after the major world economies rushed through stimulus spending in the aftermath of China's slowing economic growth. Britain's vote to exit the European Union (EU) in June sent another wave of financial panic throughout the system. Commodity-exporting countries remained in a slump because of falling demand from China. The contradiction between nation-states and an integrated world economy, explored by revolutionary Marxists a century ago, is as topical as today's headlines.

The huge stimulus measures of late 2015 and early 2016â€"spending by the US Congress far above previous austerity limits, unprecedented bond-buying by the European Central Bank on top of a $1 trillion cash injection into the economy, and a $1 trillion-plus credit-and-spending program by Chinaâ€"may keep the recovery going for months. With additional stimulusâ€"perhaps more likely in order to cushion the impact of Britain's exitâ€"the economic expansion could continue for a few more years.

Britain's exit from the EU brings the world economy into uncharted territory. Some $2 trillion vaporized on the financial markets on the day after the vote, raising the specter of further turmoil. [1]

Despite the Chinese stimulus, key emerging market economies were still mired in crisis by mid-2016, while growth in the advanced economies remained slow. In the United States, profits were in decline by 2016, productivity had slowed, and investment remained at historically low levels. Currency wars and trade wars loomed amid intractable wars in the Middle East and other parts of the world. In Europe, Brexit may trigger the once-unthinkable prospect of an unraveling of the entire EU as right-wing parties in several countries demand exit referendums in their own countries.

A sure sign that profitable investment opportunities are narrowing, investors searching for safe harbor have plowed $10 trillion into government bonds and other financial instruments that paid negative interest rates. [2]

Essentially, they were paying governments for the privilege of loaning them money. Such investmentsâ€"which are highly destabilizing for financial institutions like pension funds and insurance companiesâ€"make sense only if prospects appear to be even worse elsewhere. Such pessimism is entirely justified, according to economists at the International Monetary Fund (IMF), [3] the World Bank, [4] and the Organization for Economic Cooperation and Development (OECD), [5] all of whom cut their consensus forecasts for world economic growth in 2016.

The timing of the economic slowdown was not surprising. It arrived some seven years after the end of the Great Recession of 2007-09, more or less on schedule for a typical economic expansion in the United States. What makes the prospect of a new slump so threatening is that the world economy is far from resolving the problems that contributed to the Great Recession: overcapacity in industry is resulting in declining profits, threatening insolvency, and forcing corporations to service unprecedented levels of debt in relation to economic output. It is a looming crisis that classical Marxist economic theorists would recognize: breakneck competition to build the most technologically competitive factories, a flood of credit to finance the scramble for profits, followed by a drop in profits as ever-greater investments yield proportionately smaller returns as too many goods are produced to be sold at a profit. As Karl Marx and Frederick Engels put it

In these crises, there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdityâ€"the epidemic of overproduction. Society suddenly finds itself put back into a state of momentary barbarism; it appears as if a famine, a universal war of devastation, had cut off the supply of every means of subsistence; industry and commerce seem to be destroyed; and why? Because there is too much civilization, too much means of subsistence, too much industry, too much commerce. [6]

The crisis of neoliberalism

In past decades, mainstream economists would have sneered at such an analysis. These days, however, the more honest establishment economists are coming to grips with the fact that neoliberalismâ€"the policies of privatization, deregulation, free trade, social- spending cuts, and union bashing that had delivered a long upward swing of the world economy between 1982 and 2007â€"does not offer a solution to the chronically depressed world economy. On the contrary, neoliberalism is increasingly seen to be at the root of the problem.

In 2011, New York University economist Nouriel Roubini told the Wall Street Journal that "Karl Marx had it right. At some point capitalism can destroy itself. . . . We thought markets worked. They're not working." [7] After five more years of weak economic growth, other mainstream economists also rejected the orthodoxy. Notably, Lawrence Summers, the former secretary of the US Treasury turned critic of establishment economics, now argues that the world economy is gripped by what he calls "secular stagnation," his description of the prolonged period of weak growth. He concluded that the economic theory he taught for years is wrong. [8] Two staff writers for the IMFâ€" a training ground for neoliberal technocrats as well as a debt collection agency for Western banksâ€"admitted that "aspects of the neoliberal agenda . . . have not delivered as expected." [9]Financial Times columnist Martin Wolf asserted that if big banks had to be effectively nationalized during the 2008 crash, they should be considered wards of the state. [10] Economist Robert Gordon's latest book is titled The Rise and Fall of American Growth [11] The list could go on.

The combination of economic and ideological crises has led directly to political ones. The impact of a new global slump on world politics is beyond the scope of this article. It must suffice to say that the polarization seen in the recent economic "good" years will continue. The flux in imperialist relations following the twin US defeats in Afghanistan and Iraq has ensured that the political consequences of a depressed world economy will be magnified. This includes revolution, counterrevolution, and civil war in the Middle East, the biggest refugee crisis in seventy years, the rise of anti-immigrant right-wing politics in Europe, and working-class resistance as seen in France and other countries. The continued crisis in the dominant political parties of both the older and newly industrialized nations is part of a process of political polarization that has produced political possibilities for both the Right and the Left.

There is a left-wing electoral revival in Greece, Spain, and Portugal, as well as the victory of leftist Jeremy Corbyn in Britain's Labor Party, which had been the pacesetter in European social democracy's turn to neoliberalism. While the outcomes are variedâ€"Greece's Syriza capitulated to creditors, with Spain's Podemos likely to face a similar challengeâ€"anti-austerity politics were finding an expression at the ballot box. For their part, far-right partiesâ€"such as Marine Le Pen's National Front in France and Norbert Hofer's Freedom Party in Austriaâ€"are seeking electoral gains based on channeling popular anger over the economy against immigrants. But French unions' big strikes and protests against anti-labor laws in 2016 highlighted the potential of working-class resistance and raised opportunities for the renewal of the Left within that struggle. [12]

In the United States, the economy and rising inequality fueled both the rise of Donald Trump's anti-immigrant "Make America Great Again" campaign and Bernie Sanders's unexpected success in reintroducing socialism into mainstream US political discussion for the first time in decades.

Of course, the capitalist class and its political representatives will not stand idly by as the world economy drifts from crisis to crisis. On the contrary, capital and the state will by turns try and contain, co-opt, or crack down against any serious challenge from below. US imperialism will develop a new strategy to reassert its power. At the same time, capital will grope towards some way to restructure the system to restore growth and profitabilityâ€"which inevitably will mean intensifying class conflict. If neoliberalism succeeded in gutting Western social contracts and "partnership" labor-management relations, the next capitalist restructuring will attempt to shred what remains. In France, it is the El Khomri law to gut workers' rights; in the United States, it is "entitlement reform," a euphemism for cutting Social Security and Medicare.

The stormy economic times ahead will only increase this political volatility and create both challenges and opportunities for a rebirth of revolutionary socialist politics and organization. The opportunities for such a revival are clear. But if socialists are to make a convincing case for their views, they must put forward an analysis of the current crisis and an understanding why it cannot be solved on a capitalist basis without even greater human suffering than we have seen in recent years.

What follows is an initial investigation of a renewed economic crisis that is still in its early stages.

From panic to a weak recovery

To understand the weakness of the world economy, it is useful to recall what Wall Street would prefer us to forget: that the entire financial system nearly collapsed in the autumn of 2008 as industrial production fell at a faster rate than at the outset of the Great Depression in 1929. [13] Complicated financial investments linked to mortgagesâ€"such as credit default swaps, valued at $62 trillion, about four times the size of the US economyâ€"plunged in value in the wake of the failure of the investment bank Lehman Brothers. [14]Banks worldwide refused to lend to one another, fearful that they wouldn't get their money back. [15] As a result, the world economy shrank by 2.1 percent in 2009, [16] with world trade contracting by 11 percentâ€"by far the worst global slump since the 1930s. [17]

Total meltdown was averted when governments in Europe and the United States stepped in to bail out their biggest banks, essentially nationalizing them on a temporary basis. [18] This was followed by the Obama administration's $787 billion stimulus program that some economists say boosted GDP between 2.1 and 3.8 percent. [19]

Meanwhile, central bankers in the United States and internationally turned to the monetarist policies of Keynes's free-market critic, the late Milton Friedman. In this view, the key to avoiding a prolonged slump was to make money as freely available as possibleâ€"even dropping it from helicopters, as Friedman famously argued. [20] The Friedmanite helicopter money drop came in the form of a short-term cut in the payroll tax. The most powerful stimulus, however, came through the Federal Reserve, the US central bank, which slashed its main interest rate to 0.25 percent, where it remained until 2015, shattering all Fed precedents. [21] The Fed further bought up the banks' holdings of US treasury bonds, flooding the banks with cash. When even that wasn't enough to spur banks into lending, the Fed went on to buy enormous amounts of the banks' dodgy mortgage-backed securities. [22] This is what in central banker jargon is known as quantitative easing, or QEâ€"the modern version of printing money. It resulted in a previously unimaginable $4 trillion balance sheet for the Fed. [23]

The impact of this Frankenstein stitch-up of Keynesian and Friedmanite policies has been to deliver weak growth at best, and to store up still greater problems for the future. In Europe, the transfer of bank and private sector debt to public debt increased public debt to such a level that some states, like Greece and Portugal, were unable to borrow more money by selling new government bonds. To limit that borrowing, those governments introduced austerity measuresâ€"or were forced to do so by the "troika" of the EU, the IMF, and the European Central Bank (ECB).

In the pre-eurozone era, those countries would have had the option of devaluing their currencies to try to export their way out of the slump by making their products cheaper on the world market. Members of the nineteen-country eurozone, however, have no such option. They are locked into whatever policy that the German-dominated ECB will permit.

To try and restore fiscal order European governments, pressured by Germany and the big bondholders and banks, launched austerity programs that involved deep cuts to social spending. [24] The aim was to "restore confidence" and ensure that those European banks got their money back no matter what the social cost, leading directly to the economic strangulation of Greece. After recession returned to much of Europe in 2011, the Europeans did a U-turn, with ECB president Mario Draghi vowing to do "whatever it takes" to save the euro. [25] The ECB went on to follow US Fed in embracing QE by buying up $1.2 trillion in assets to drive its balance sheet to $3 trillion. [26]

Yet austerity continued in highly indebted countries, especially Greece, which was made to suffer not just to ensure the banks recouped their money, but also to send the message that smaller members in the eurozone which attempted to resist the German agenda would be crushed. The strategy seemed to work until Brexit blasted a hole into the heart of the EU.

Britain had remained outside the eurozone, maintaining its own currency and a central bank under its own control. But the British economy nevertheless faced many of the same pressures as eurozone members. The British economy has suffered a long-term decline in economic competitiveness in relation to Germany and rising industrial powers like China. [27] The burdens created by the financial crisis also dragged down the British economy with what the OECD called "exceptionally weak" productivity since 2007, despite a drop in the unemployment rate to 5 percent. On the eve of Brexit, the current account deficit hit 7 percent of GDP, in part a reflection of declining exports. Growth for 2016, projected at 1.75 percent before the referendum, is likely to be weaker. [28]

Britain's weak economy was the context for the "Leave" campaign for Brexit, creating the basis for an alliance of the anti-immigrant right with sections of the British capitalist class that was convinced that a future outside the crisis-bound EU was a better prospect. And despite the near-term chaos, Brexit may well give leverage to those chafing at the ECB's policiesâ€"which include not only the Far Right, but also influential sections of the Italian and French ruling classes. [29]

In the near term, the economic dislocations caused by Brexit will further test the ability of politicians and policymakers to stave off recession. And despite the trillions of dollars pumped into the world economy through low interest rates, government spending and QE have not been able to stop deflation from taking hold in Japan and in industrial commodity prices. Moreover, eight years of easy money has created enormous amounts of what Marx called "fictitious capital." This includes not just speculation, but the valuation of assetsâ€"real and on paperâ€"at higher levels without anything like a corresponding growth of underlying productive capital.

The proponents of monetary policy were flummoxed. They believed that easy money policies would inflate assets sufficiently so that wealthy people would make larger investments. This was supposed to trickle down to workers and the middle class by creating jobs and generating consumer demand. Instead, there were mammoth asset bubbles throughout the world in stocks, bonds and housing. [30]The $2.4 trillion parked offshore by US corporations to avoid taxes highlighted this reluctance to make investments. [31]

China: From savior to the source of crisis?

Over the last three decades China has become increasingly central to the world economy and critical to Corporate America's strategy. China's opening to the world market came as the Western advanced countries emerged from the crisis of the 1970s, which was characterized by depressed profit rates and sporadic growth. The United States and the big European countries responded to the crisis with an industrial restructuring in industries that were no longer competitive on a world scale. Decades-old corporations disappeared overnight as capital responded to the crisis with neoliberalism and globalization, laying the basis for a new economic expansion. [32]

Meanwhile, the turn to the world market in the former USSR, Eastern Europe, and Asiaâ€"centrally, Chinaâ€"opened up a vast, new, cheap pool of one billion workers for capital with very little means of production and accumulated capital from the economically uncompetitive Eastern bloc and a partially industrialized China. [33] This laid the basis for the neoliberal boom internationally, centered on China's unprecedented expansionâ€"what Mike Davis has accurately described as the greatest industrial revolution in human history. [34] It was financed by the greatest expansion of credit in world history. For decades, Chinese businesses and the government invested the equivalent of 40 percent or more of GDP in infrastructure, new factories, and productive capacity. [35] Chinese GDP increased tenfold since 2000 to pass the $10 trillion mark. [36] This enormous growth was financed by an enormous credit creation of nearly $30 trillion. [37]

Huge direct investments by US companiesâ€"Apple's supply chain being perhaps the best-known exampleâ€"allowed China to serve as a low-cost labor source for products that US businesses could then sell domestically and internationally. At the same time, China's rapid growth created an enormous new market for US corporations. Thus the responsibility for the latest phase of the crisis lies not with China's rulersâ€"as Western critics would have itâ€"but with the capitalist class internationally and the anarchy of the world market.

Indeed, it was the decisive actions by Chinese leadership that helped to contain the Great Recession. When the crisis of 2007-09 began, the Chinese banks were not trapped in the same financial shock as their Western and Japanese counterparts. China had more than $2 trillion in foreign reserves when the crisis hit, enabling the Chinese leadership to provide credit and stimulus. [38] It was the Chinese government's $590 billion stimulus program in 2009â€"proportionately much bigger than that of the United Statesâ€"that did the most to blunt the world crisis. [39] Chinese government spending, along with an anything-goes expansion of credit at the national, regional, and local level, further revved up an industrial economy that was already in high gear when the crisis struck.

The impact was felt worldwide. Price of commodities and energy soared, giving a big lift to emerging markets and sparing them the worst effects of the Great Recession. This expansion further boosted the economies of commodity-producing countries like Russia, India, China, and South Africa (know collectively as the BRICS), accelerating their transition into new, globally significant centers of capital accumulation. The result is that China is now the second-biggest economy in the world. By 2015, China's foreign reserves peaked at more than $4 trillion. [40]

To achieve that growth, the Chinese government also vastly expanded creditâ€"not only through the official banking sector, but through regional and local government agencies and other nonbank financial institutions, leading to a rapid expansion of the shadow banking system, with assets equivalent to 43 percent of GDP. [41]

Essentially, the Chinese government bet on a world economic recovery that would absorb a new round of Chinese exports. But the world recovery was too weak to deliver. And since the Chinese currency, the yuan, is pegged to the dollar, China lost some of its competitive pricing edge as the dollar rose in value relative to other currencies. This led to a decline in Chinese exports even as industrial capacity expanded. [42]

The resulting Chinese expansion, along with other emerging markets, accounted for half of world economic growth in 2014 as the economies of the United States, Europe, and Japan remained stagnant. [43] But it wasn't just government stimulus spending and credit expansion in China that fueled this growth. With zero interest rates in the

United States and Europe, money flowed to where growth was taking place and profits were to be madeâ€"that is, to China and the commodity-producing economies in Latin America, Asia, and Africa that benefited from China's economic expansion. [44]

These trends combined to drive the Chinese industry-heavy, export-oriented model to the breaking point. By late 2015, China's expected growth rates had been cut nearly in half, to 6 or 7 percent, if official figures are to be believed. [45] China's slowdown, in turn, triggered a collapse in the price of oil and other raw materials, destabilizing economies in Brazil, Russia, Saudi Arabia, Venezuela, and elsewhere. [46]

China's Western critics argue that this model is failing because consumption is too low in relation to the overall economy. In fact, Chinese workers' wages have risen 12 percent a year every year for ten years, unlike in the United States and the advanced world. [47]The problem isn't China's failure to "rebalance," but the contradictions of the capitalist system. China's industrial transformation has become a barrier to further expansion as the organic composition of capitalâ€"the ratio of fixed capital to living laborâ€"has increased dramatically. Thus China must contend with the same dynamics that depressed profitability in Western countries in the 1970s. In early 2016, Martin Wolf of the Financial Times unwittingly confirmed the Marxist analysis of the situation: "The amount of capital needed to generate additional incomeâ€"has roughly doubled since the early 2000s. China's overall capital-output ratio is also very high and rising." [48] Indeed, skeptics of the official Chinese statistics estimate that the actual growth rate is between 2 and 4 percent. [49] This slowdown is reflected in the official figures for the rate of profit. In January industrial profits posted their biggest decline since 2000.

Meanwhile, China's debt has grown enormously to about 260 percent of GDPâ€"a ratio less than that of the United States, but a huge and potentially destabilizing amount for an industrializing country with a still-developing financial system. [50] The consulting group McKinsey, which put the debt ratio figure even higher, summarized the implications: "Three developments are potentially worrisome: half of all loans are linked, directly or indirectly, to China's overheated real-estate market; unregulated shadow banking accounts for nearly half of new lending; and the debt of many local governments is probably unsustainable." [51]

At least 14 percent of that debt consists of bad loans, according to one study. [52] Others put the figures still higher. What's more, China has $16 trillion in corporate debt, totaling 160 percent of GDPâ€"twice the ratio in the United Statesâ€"which, as Reuters put it, is a much greater threat to the Chinese economy than the stock market gyrations of recent months. [53] That means a growing risk for the world system: The IMF warned in April 2016 that China's growth makes "spillover" into global financial markets increasingly likely. [54]

Adding to China's debt problem is rapid capital flight since 2015, when the currency reserves totaled $4 trillion. Given China's $300 billion trade surplus at that time, the country should have been on track for a $4.3 trillion reserve by 2016. Instead, the figure was around $3.3 trillion. [55] The reason: about $1 trillion fled the country in 2015. [56] The government spent another $1 trillion trying to prop up the Chinese currency from a collapse. [57]

The Chinese economic slowdown resulted in overcapacity in eighteen industries by mid-2015. [58] Even so, Chinese steel companies are producing over 800 millions tons of steel per year, with a total capacity to produce 1.13 billion tons. [59] China's steel exports alone are roughly equivalent to the entire Japanese steel outputâ€"and considerably greater than US steel production. This has put pressure on steel companies worldwide, raising the specter of bankruptcies in that industry and setting the stage for intensive trade wars. [60] The US-driven Trans-Pacific Partnership (TPP) trade deal aims to push back at China by enabling US capitalism to create an Asian economic bloc of its own. [61]

But the impact of TPP, assuming it passes the US Congress, is years away. For now, trade wars and currency devaluations are adding to the pressure towards price deflation, which has hit parts of Europe and threatened the

United States even after the 2007-09 crisis. If deflation does get a grip on major economies, the vast expansion of debt on a global scale could make it extremely difficult to overcome. That's because as prices fall, the relative value of the debt actually increases. This is already true of countries like Brazil, which must repay its debts in dollars with a currency that has been sharply devalued. Given the tremendous expansion of debt in the world since the Great Depression, the risk cannot be overstated.

The threat posed by debt became clear with a worldwide crash in commodity prices that began in 2013 and stabilized only in mid-2016 as the Chinese stimulus worked its way through the world system. Oil dropped 75 percent between 2014 and early 2016 from $120 to $30 per barrel before it recovered. [62] The pattern was similar for copper, aluminum, and other raw materials. That is an unmistakable indicator of the slowing demand for industrial production on a world scale. Commodity producers' high profits turned to catastrophic losses almost overnight. Oil production was maintained not because of the prospect of market opportunities, but to pay the interest on loans. The world's leading oil exporters found themselves in a devastating price war, as Saudi Arabia ramped up production to maintain market share at the expense of not only OPEC members like Venezuela and Nigeria, but also the burgeoning oil and gas boom in the United States. [63]

The crash in commodity prices soon led to a dramatic drop in the value of the currencies in the economies most affected, such as Brazil, which saw a drop of 30–40 percent. [64] And because most commodity-producing countries hold their debt in dollars, a weaker currency means that their foreign debt effectively rises. This is essentially what occurred in 1997-98 in the East Asian financial crisis.

Some of these big changes in exchange rates were competitive devaluations, as one country seeks to steal growth from another by using a cheaper currency to effectively lower the prices of the goods it produces. It's called "beggar thy neighbor." Thus Japan orchestrated a steep decline in the yen relative to the dollar in recent years. The ECD did likewise with the euro. [65]

With the plunge in commodity prices has come a sharp slowdown in world trade, which has never fully recovered from the Great Recession. [66] By 2015, Chinese exports began to decline. [67] The Baltic Dry Index, the main indicator of world oceangoing freight shipments, dropped 80 percent from December 2013 to January 2016. [68]

In this context, both the rate and the mass of profits worldwide were declining as 2016 began. With shrinking profits comes the attempt to slash expenses through layoffs and other reductions in labor costs, as well as cuts in capital expenditure. Driving this trend are the oil and mining companies. Anglo-American, the transnational company, announced that two thirds of its 85,000 workers are to be laid off. [69]

Stimulus: The sequel

China, after trying to rebalance its economy away from export-oriented industry towards domestic consumer goods and services, responded to the economic slowdown in early 2016 by unleashing a $1.1 trillion stimulus program. [70] The government once again made credit freely available to heavy industry, apparently calculating that it was preferable to ramp up more debt and overcapacity than to risk the economic and political consequences of a slowdown. To take one telling example: as a result of the stimulus, a bankrupt and shuttered single steel mill complex with the capacity to produce half the amount of the entire British steel industry was reopened in the spring of 2016. [71]

China's stimulus managed to put a floor under the much-reduced price of oil and other commodities, and give a push to the world economy. But by mid-2016 it couldn't deliver the hoped-for rebound in growth. [72] The European Central Bank's multipronged program of low rates and QE also fizzled, with growth in the eurozone barely emerging from a second recession in 2011 with growth expected to be just 1.6 percent in 2016. [73] In the United States, the Republican Congress and the Democratic Obama administration quietly moved away from austerity with a $1.1 trillion spending plan to provide an election-year stimulus that both sides judged to be politically beneficial. [74]

Still, the US economy, despite steady job growth, has struggled to attain a 2 percent rate of growth since the end of the Great Recession, compared to 3.5 percent annual growth in the period since the World War II. Investment remained low by historical standards. The Wall Street Journal noted: “Companies appear reluctant to step up spending on the basic building blocks of the economy, such as machines, computers and new buildings.” [75] Low investment begat miniscule gains in productivity, the foundation of profitability. Productivity has increased an average of just 1.2 percent annually since the onset of the Great Recession in 2007, compared with a 2.6 percent average rate of increase from 2000 to 2007, and actually declined in 2015. [76]

All this created a dilemma for Federal Reserve Chair Janet Yellen, who began pushing through a planned series of interest-rate hikes starting in late 2015 in a bid to help bank profitability and provide ammunition for future interest rate cuts in a crisis situation. Then, the faltering job increases of mid-2016 led to fears that the US boomâ€”if the paltry recovery can be given that nameâ€”was ending, forcing the Fed to further postpone plans to raise interest rates. The Brexit bombshell put further pressure on Yellen to keep ultra-low rates intact. Yet keeping interest rates low much longer threatens bank profits and the stability of the financial system. Alternatively, a significant rise in rates could stifle growth by tightening credit and driving up the value of the dollar in relation to other currencies, hurting US exports and squeezing the profits of the S&P 500 companies, which get 40 percent or more of their profits from abroad.

The muted impact of the various stimulus efforts have once again highlighted how the policy measures taken to recover from the crisis have not only failed to generate growth, but are now themselves creating new difficulties. The latest Keynesian-style stimulus spending in China may keep the economy from a further slowdown, but only at the cost of adding to growing debts, worsening overcapacity, and tensions over trade, and thus preparing the way for a potentially worse crisis. “[In 2009] the world applauded China’s move and thanked China for boosting world economic growth,” China’s Finance Minister Lou Jiwei said at the annual meeting of US and Chinese government leaders in 2016. “Now the world is pointing at China and saying that China’s overcapacity is a drag on the world, but it didn’t say so at the time China contributed to global economic growth.” [77]

Friedmanite monetary policy has run out of steam, too. Near-zero interest rates implemented by central bankers in Japan and Europe did succeed in keeping the biggest banks solvent in the 2008 financial crash. But after eight years of ultra-low interest rates, the policy is now a threat to the financial system. The low rates constrain bank profits, particularly in Europe, which means that the banks cannot meet the capital reserve required by regulations imposed in the aftermath of the 2008 crash. [78]

If the banks are having difficulty in a zero-interest world, other financial institutions are staggering towards crisis. The business model for pension funds and insurance companies requires them to generate income of 7–8 percent per year. Consequently, continued low interest rates threaten their solvency in coming years. [79] To try and eke out larger reserves, many pension funds and insurance companies have been compelled to take on more risk, such as collateralized mortgage obligations and bonds from emerging market economiesâ€”countries that are now in crisis as the result of the crash in commodities prices. Some of these investments may implode in the next recession, putting the already strapped public employee pension funds at even greater risks.

But the central banks in the advanced countries haven’t come up with an alternative. Countries from Japan to Sweden have responded by imposing negative interest ratesâ€—effectively, a tax on deposits. The aim was to try and compel businesses to invest and consumers to spend; but it has had negligible immediate results, leaving Japan, for example, unable to break out of two decades of stagnation. [80] The European Central Bank, which must straddle the competing interests of the dominant players in the eurozoneâ€”Germany, France, and Italyâ€”in March 2016 launched a program that both pushed some rates further below zero and essentially will pay banks to loan money as well as buy up both government and corporate bonds. [81] In Japan, the central bank has bought not only bonds, but stocks as well, making it a top shareholder in Japan's biggest companiesâ€"a move that shattered central bank orthodoxy. [82]

Europe: From crisis to crackup?

Brexit is a product of the European economy's average 0.3 percent rate of growth since 2009. Since then, the central focus of European Union policyâ€”driven by Berlinâ€”has been to maintain the German-dominated economic pecking order and the solvency of European banks. Because Britain did not join the euro, it could avoid this pressure. But Greece has been subjected to the worst peacetime social crisis in European history. The objective was threefold: get the bondholders' money back; maximize the cost of defiance, default, or departure from the EU; and send a message to the Italian and French ruling classes that they had to toe the German line in the eurozone.

Greece's Syriza government, elected in 2015 to stop such austerity, itself capitulated and backed a deal with creditors that contained still more severe cuts as a condition for renegotiating loans. But that was not enough to end the risk that Greece, unable to meet those terms, may default on its debt anyway. As Greece teetered on the edge in spring 2016, even IMF officials were taken aback at Germany's relentless drive to squeeze Greece. [83]

But from the perspective of the German government in Berlin and its allies in the EU headquarters in Brussels, the crucifixion of Greece is a necessary part of a debt resolution process in far bigger European countries. By early 2016, Italian debt as a percentage of GDP was much higher than it was in Greece at the start of the bailout. Italian non-performing loans reached 18 percent of the total, equivalent to more than $400 billion. [84] The already weak big Italian banks had to cough up billions for a convoluted bailout fund for their smaller counterparts in order to comply with EU rules against direct government aid. [85]

At the root of Italy's problems is Italian industry's declining competitiveness in relation to Germany. The introduction of the euro in 1999 allowed German industry to take advantage of a currency that was valued far less than the old German deutschmark would have been. At the same time, the German government took advantage of cheap labor from the former East Germany after unification in the early 1990s to squeeze labor costs despite big gains in worker productivity. [86] What's more, Germany shifted its supply chain away from Europe to Asia. [87] The result has been a steady decay in Italian industry that has led to mounting bad private debts as well as government budget deficits. In addition, Italian banks remain dependent on near-zero interest rates to stay afloat, leading to a conflict within the EU as banks in Germany and elsewhere see their profits erode by low or negative rates from the ECB. German politicians openly accuse the ECB chief Mario Draghi, an Italian, of fronting for Italian banks. [88] EU rules prevent states from bailing out national banking systems unless their bondholders take losses firstâ€"a policy that the Italian banking crisis is straining to the limit.

The French economy is also battered by competition with Germany. By 2016 France had still not yet made up for the lost output of the Great Recession, and had a jobless rate of 10.8 percent. [89]

But Germany was not immune to the crisis. The country's own flagship financial giant, Deutsche Bank, was forced to take extraordinary measures to stave off financial speculation that it would need a bailout if the economy slowed even further. [90] By mid-20016, some 96 percent of Deutsche Bank's assets were in so-called Level 3 capital, the classification for opaque, hard-to-value holdings such as the derivatives that were at the center of the 2008 financial crisis. When tallying up such assets, bankers call the process "mark to myth." [91] Spain, meanwhile, despite a recovery that helped a conservative prime minister stave off an electoral challenge from the left, in mid-2016 had the highest unemployment in the West. [92]

All these factors make it highly probable that the economic slowdown or recession in the emerging markets will trigger a financial crisis as well. The only question is when this will occur and how severe it will be. It is impossible to predict, as the unregulated shadow banking systemâ€"that is, the nonbank financial institutions that played a central role in the crash of 2008â€"are now bigger than ever, at an estimated $75 trillion as of 2015. [93]

The stagnant economy shaped the European response to the biggest refugee crisis since World War II. The anti-immigrant backlash, embraced by ruling parties across the board, could end the Schengen open border agreement within the EU and even curtail the mobility of labor. The Brexit debate in the UK was largely driven by anti-immigrant and nationalist sentiment and a calculation by sections of British capital that they could get a better deal outside the crisis-bound economies on the European continent.

But the process of the EU unraveling may not end with Brexit. The next crisis may again pressure governments to bail out their own banks and companies using methods that violate EU rules. The price of accepting German dominance may ultimately be too high for French and Italian capitalists who are powerful enough to push for either a looser EU, an exit from the eurozone or even a breakup. A departure from the eurozone may yet occur in Greece, whether the result of a push or a jump. As the crisis unfolds, the previously unthinkable becomes plausibleâ€"even likely.

Can the United States escape the crisis?

The United States may be the last major economy to go into recession, a reversal of a century-old pattern. That’s because the United States came out stronger in the 2007–09 crisis compared to its traditional rivals. To be sure, the average of 2 percent growth in GDP per year in the United States is the weakest on record, but it is much stronger than in Europe or Japan. The United States got an edge because its banks were bailed out faster and consolidated and merged so that they could rebuild their reserves. They are probably stronger than their counterparts abroad.

The US economy also got a big boost from an oil boom in the United States making it the leading oil producer in the world. [94] The manufacturing revival, much touted by the Obama administration, was relatively limited, given that the expansion was the weakest since the 1930s. [95] But it was enough to gradually boost employment, even as wage stagnation endured, benefits became more expensive, and the median family income was less than that of 2007.

Those lower wages were a reflection of a dramatic shift of $750 billion in national income from labor to capital between roughly 2003 and 2013. This, in turned, helped lay the basis for a glorious season of profits for US corporations. In 2013, after-tax profits hit $1.7 trillion, the highest level in eighty-five years, when adjusted for inflationâ€"a figure that corresponds to 10 percent of GDP. Pre-tax profits were the equivalent of 12.1 percent of GDP, tying the previous record set in 1942. “But in 1942, most of those profits were taxed away,” the New York Times’ Floyd Norris observed. “The effective corporate tax rate was nearly 55 percent, in sharp contrast to last year’s figure of under 20 percent.” At the same time, employee compensation was at the lowest level in sixty-five years. [96]

Jobs growth did improve, with six million jobs created in 2014 and 2015â€"the best run sine the late 1990s. [97] Housing construction returned to levels unseen since 2007 on the eve of the collapse. [98] This led to hopes that the United States would avoid the recession that hit the developing world in 2015.

But a closer look reveals contradictions of the US economy. The rise of the dollar has meant that manufacturing began to stagnate and decline slightly by early 2016. [99] That is significant, because although manufacturing now accounts for just 12 percent of US economic output, some two-thirds of the profits of the S&P 500 big companies come from manufacturing corporations. [100]

At the same time, exports declined in early 2016 for the first time since the recession, as the low-wage advantage of US capitalists against Europe and Japan was counterbalanced by the rise in the dollar. [101] In this context, factory capacity utilization began to sag in the first half of 2016. [102] What's more, the fracking and oil boom turned to a bust amid the collapse in world energy prices. A series of energy companies went bust, creating the biggest wave of bankruptcies in US history, hitting the balance sheets of the banks that had loaned to them. [103] Finally, the ultimate arbiter of the health of the capitalist economyâ€"profitsâ€"began to decline. In spring 2016, the S&P 500 reported their third consecutive quarter of declining profits. [104]

Despite these weaknesses, the US position vis-Ã -vis its rivalsâ€"except for Chinaâ€"has improved. But the situation remains fluid. While the European economies are a weak link in the chain, Germany is still a strong competitor. Some 51 percent of the German economy is based on exports, and in 2015 Germany had an 8.8 percent current account surplus with the rest of the world. [105] That means Germany had a surplus of nearly $250 billion in the trade of goods and servicesâ€"a figure bigger than that of China, despites the latter's vastly larger population and rapid growth.

Another threat to the US economy comes from the financial system, just as it did during the 2008 crash. The regulations imposed on US banks since then are onerous for individual financial institutions but are nevertheless incapable of preventing a new financial crisis. Moreover, the regulations don't cover the shadow banking system. As a result, a majority of all mortgages in this country are now done through non-banks, potentially introducing new risks into the financial system. [106] Private equity firmsâ€"the polite term for the shadow banking system in the United Statesâ€"have moved aggressively into the mortgage industry, replicating the same rapacious and risky practices the led to the 2007-08 housing crash. [107] Further, the Federal Reserve is buying about half the mortgage-backed securities sold by the government-controlled Fannie Mae and Freddie Mac, propping up the housing market. All this raises anew the possibility of a housing bubble and bust.

Since banks are adept at hiding off-balance sheet liabilities and the financial instruments that emerged in the last crisis, such as collateralized debt obligations (CDOs), few outside the banks know what problems may emerge in a downturn in the United States, or what risks American banks may have in relation to their sickly counterparts in Europe or Asia. But in spring 2016, the Federal Reserve made it clear that there is plenty of cause for worry. In a letter to JPMorgan Chase about the bank's wind-down plan, Fed officials wrote that they had “identified a deficiency” in the plan that could “pose serious adverse effects to the financial stability of the United States.” [108] In any case, the interconnected nature of global finance means that US banks are inescapably exposed to crises in the rest of the world.

For all these reasons, the next slump could be as bad or as worse as 2007–09, given that there is more overproduction and more debt now. As China has led the world recovery from the Great Recession, a bust-up in the Chinese economy is likely to have a greater impact than the US housing and banking crisis. It is, of course, impossible to predict the severity of the next crisis. But by mid-2016 it is clear the years of relative stabilization are over.

How will governments and capitalists respond to a new slump? Their traditional methods have failed: Keynesianism, austerity, monetarism, and quantitative easing. Capital will have to come up with something else to restructure the system. Those efforts will be further complicated by the rise of economic nationalism exemplified by Trump, Brexit, and Le Pen. In the 2008–09 crisis, the Group of 20 industrialized nations coordinated stimulus spending and bank bailouts, narrowly averting a 1930s-scale slump. Today, however, governments pressured by nationalists and burdened by huge debts may be unable or unwilling to undertake similar measures in concert.

Prospects

There have been three previous periods of protracted economic crises that were resolved by the restructuring of capitalism. The first was the crisis of the 1870s to the 1890s, which was overcome by the rise of monopoly corporations, finance capital, and imperialism, setting the stage for the World War I. It was in this context the Russian revolutionaries V. I. Lenin and Nikolai Bukharin developed the Marxist theory of imperialism, which held that the contradiction between nation-state and world economy led inevitably to military conflict as states intervened to defend their national corporations.

World War I failed to fully resolve those contradictions, either economically or politically, setting the stage for the Great Depression of the 1930s and a second inter-imperialist war. At the end of the World War II and the absolute destruction of capital in Europe and Japan, the United States emerged as the dominant power and used institutions like the International Monetary Fund and World Bank to lock in its hegemony.

The third crisis, lasting from 1974 to 1982 as discussed above, was overcome by the neoliberal restructuring of industry and deregulation and the collapse of Stalinism, which dramatically lowered the organic composition of capital on a world scale, opening the way for renewed profitability.

What restructuring will take place as a result of the current prolonged crisis is impossible to predict. In the era of World War I, as Bukharin described it, Western nation-states and finance capital fused in struggle to divide the world to control raw materials to support their rival industrial monopolies. In today's globalized economy, the picture is very different. The legacy imperialist powers, still dominated by the United States, must now contend with a world economy reshaped by China and the rest of the BRICS, which present new challenges to their dominance.

Despite the transformation of the world system since then, Bukharin's summation of the contradictions of a globalized capitalist economy provide a framework for the present day:

If we thus consider the problem in its entirety, and take thereby the objective point of view, i.e., the point of view of the adaptation of modern society to its conditions of existence, we find that there is here a growing discord between the basis of social economy which has become world-wide and the peculiar class structure of society, a structure where the ruling class (the bourgeoisie) itself is split into "national" groups with contradictory economic interests, groups which, being opposed to the world proletariat, are competing among themselves for the division of the surplus value created on a world scale. Production is of a social nature; international division of labor turns the private "national" economies into parts of a gigantic all-embracing labor process, which extends over almost the whole of humanity [109]

The economic rivalry of national capitalist classes is the foundation of imperialist rivalry, Bukharin showed. Here, too, his analysis, in general terms, fits. The US capitalist class's aim of maintaining its dominance is further complicated by the impact of its twin military failures in Afghanistan and Iraq. What began fifteen years ago as an effort by the sole superpower to lock in its dominance, today has destabilized the entire Middle East and Southwest Asia. The United States' "pivot to Asia" to contend with a rising China therefore takes place in a period of disorientation for US policy. The proposed TPP trade agreement and the parallel US military alliances with Japan, Vietnam, the Philippines, and other countries is an effort to create a bloc that can check China's ascendancy. But success is far from assured.

Yet from the capitalist perspective, there must be a restructuring because the system is in decline. The crisis in mainstream political parties amid the rise of Trump and the European Far Right on one side and the Syriza, Podemos, and Sanders developments on the other is putting pressure on national ruling classes to find competent personnel who can develop a political program to manage the crisis, cope with intensifying class conflict, and navigate international rivalries and wars. In some cases, this will take the form of a co-optation of left-wing parties like Syriza. In other cases, it may mean that capital lets the Far Right off the leash to further scapegoat immigrants and minorities in order to drive a wedge into the working-class movement by whipping up nationalist fervor. Consequently, we are entering an extremely volatile periodâ€"economically, politically, ideologically, and in terms of imperialist relations. The Left will be tested internationally.

At the same time, the crisis has opened a way for a renewal of the socialist left. A generation of young people that has come of age amid recession, weak growth, and endless imperialist wars has become politically conscious and active. Already, millions of young people in the United States count themselves as socialists, however vaguely defined. However, the Left is not as well organized or as politically coherent as the Right.

The job of revolutionaries is to help overcome these weaknesses by clarifying the politics and organization the Left needs to meet these challenges. This analysis of capitalism's crisis today is offered as a contribution to the struggle of a new generation of fighters in order to better understand the battles ahead.

IS Review

---

[1] Eric Platt and Nicole Bullock, "Global Markets Take $2tn Brexit Hit," Financial Times, June 26, 2016

[2] Ben Eisen, "Negative-Yielding Debt Tops $10 Trillion," Wall Street Journal, June 3, 2016, www.wsj.com.

[3] Ian Talley, "IMF Cuts 2016 US Economic-Growth Forecast to 2.2%," WSJ.com, June 22, 2016.

[4] "World Bank Cuts 2016 Global Growth Forecast to 2.4 Percent," World Bank, June 26, 2016, www.worldbank.org.

[5] Sean M. Dougherty, "Is Mexico a New China?" OECD Echoscope, June 7, 2016, https://oecdecoscope.wordpress.com.

[6] Karl Marx and Frederick Engels, The Communist Manifesto: A Road Map to History's Most Important Political Document, Phil Gasper, ed. (Chicago: Haymarket Books, 2006), 47–48

[7] Simon Constable interviews Nouriel Roubini, "Roubini Warns of Global Recession Risk," Wall Street Journal, August 11, 2011, www.wsj.com/video/roubini-warns-of-...

[8] Lawrence H. Summers, "The Age of Secular Stagnation: What It Is and What to Do About It," Foreign Affairs, March 29, 2016,â€"=> *www.foreignaffairs.com*].

[9] Jonathan D. Ostry, Prakash Loungani, and David Furceri, "Neoliberalism: Oversold?" IMF Finance and Development, www.imf.org/external/pubs/ft/fandd/...

[10] Martin Wolf, The Shifts and the Shocks: What We've Learnedâ€"and Have Still to Learnâ€"From the Financial Crisis (London: Penguin, 2014), 126-127.

[11] .Robert J. Gordon, The Rise and Fall of American Growth: The US Standard of Living Since the Civil War. (Princeton, NJ: Princeton University

Press, 2015).

[12] Léon Crémieux, “What Stirred the Stormy Seas in France?,” SocialistWorker.org, May 24, 2016.

[13] Barry Eichengreen and Kevin HjortshÃ¸j O’Rourke, “A Tale of Two Depressions: What Do the New Data Tell Us? Vox, March 8, 2010, http://voxeu.org.

[14] Felix Salmon, “Recipe for Disaster: The Formula that Killed Wall Street,” Wired Magazine, February 23, 2009, http://archive.wired.com.

[15] Mark Gilbert and Matthew Brown, “Interbank Lending Market â€˜Died with Lehman’: Chart of the Day,” Bloomberg.com, June 1, 2010.

[16] Michael Deal and Allison McCann, “2009 Global GDP’s Negative Growth Rate,” Bloomberg.com, September 12, 2013.

[17] Matthieu Bussière, Fabio Ghironi, and Giulia Sestieri, “Estimating Trade Elasticities: Demand Composition and the Trade Collapse of 2008–09,” Vox, February 14, 2012, http://voxeu.org.

[18] Lee Sustar, “Why Should Bankers Get More of Our Money?,” SocialistWorker.org, February 11, 2009.

[19] Michael Grunwald, “Five Myths about Obama’s Stimulus,” Washington Post, August 10, 2012, [-<www.washingtonpost.com].]]> www.cbpp.org].

[20] Milton Friedman, The Optimum Quantity of Money and Other Essays (London: Macmillan, 1969).

[21] Binyamin Appelbaum, “Fed Raises Key Interest Rate for First Time in Almost a Decade,” New York Times, December 16, 2015 www.nytimes.com.

[22] Lowell R. Ricketts, Christopher J. Waller, “The Rise and (Eventual) Fall in the Fed’s Balance Sheet,” Regional Economist, January 2014, www.stlouisfed.org.

[23] Jim Puzzanghera, “Federal Reserve to Send Record $98.7-Billion Profit to Treasury,” Los Angeles Times, January 9, 2015, www.latimes.com.

[24] Peter Spiegel and Quentin Peel, “Berlin Insists on Eurozone Austerity,” FT.com, April 30, 2012.

[25] Stephan Riecher and Alessandro Speciale, “Draghi Aggression Shows Pledges Backed by Rate Surprise,” Bloomberg.com, November 8, 2013.

[26] Jana Randaw, “Europe’s QE Quandary,” Bloomberg,com, June 1, 2016

[27] Robert Skidelsky, “Meeting Our Makers: Britain’s Long Industrial Decline,” New Statesman, January 24, 2013, www.newstatesman.com.

[28] United Kingdom,” OECD Economic Outlook, vol. 2016, no. 1, (OECD Publishing, 2016), 228–32, www.oecd-ilibrary.org.

[29] Interview with Jacob Funk Kirkegaard, “The Growing Franco-German Divide,” Council on Foreign Relations, October 24, 2012, www.cfr.org; Simon Nixon, “Italy Versus Germany: Europe’s Latest Fault Line,” WSJ.com, January 18, 2016.

[30] Ferdinando Giugliano, “Central Banks Urged to Raise Rates as Asset Bubble Fears Grow,” FT.com October 23, 2015.

[31] Fortune 500 Companies Hold a Record $2.4 Trillion Offshore,” Citizens for Tax Justice, March 4, 2016, http://ctj.org.

[32] Kevin L. Kleisen, “Restructuring and Economic Growth: Taking the Long-term View,” Federal Reserve Bank of St. Louis, July 1993,

www.stlouisfed.org.

[33] Richard Freeman, "What Really Ails Europe (and America): The Doubling of the Global Workforce," TheGlobalist.com, March 5, 2010; Edward N. Wolff, "What's Behind the Rise in Profitability in the US in the 1980s and 1990s?" Cambridge Journal of Economics 27, no. 4 (2003): 479–99, www.jstor.org/stable/23602104.

[34] Mike Davis, "Planet of Slums," New Left Review II, no. 26 (2004): 5–34.

[35] Minxin Pei, "China Keeps Throwing Trillions in Investments Down the Drain," Fortune.com, December 1, 2014.

[36] China Economic Outlook," FocusEconomics, June 21, 2016, www.focus-economics.com.

[37] Joyce Ho, "Bernanke Downplays China Impact on World Economy," Nikkei Asian Review, January 19, 2016, http://asia.nikkei.com.

[38] Brad Setser and Arpana Pandey, "China's $1.7 Trillion Bet: China's External Portfolio and Dollar Reserves," Council on Foreign Relations, January 2009, www.cfr.org

[39] Jamil Anderlini, "World Bank Credits China Stimulus for Higher Growth," FT.com, June 19, 2009.

[40] Fion Li and Kyoungwha Kim, "China's Reserves Retreat from $4 Trillion Mark as Outflows Seen," Bloomberg.com, October 16, 2014.

[41] Douglas Elliott, Arthur Kroeber, and Yu Qiao, "Shadow Banking in China: A Primer," Brookings Institution, March 2015, www.brookings.edu.

[42] Bloomberg News, "China's Exports Decline as Trade Surplus Swells to Record," Bloomberg.com, February 15, 2016.

[43] Recovery Strengthens, Remains Uneven, April 2014," IMF World Economic Outlook, April 2014, www.imf.org/external/pubs/ft/weo/20...

[44] Ralph Atkins, "World Bank Warns of Capital Flow Risk to Emerging Markets," FT.com, January 15, 2014.

[45] China Sees Steady Economic Growth of â€˜around' 7 Percent in Third Quarter," Reuters, September 25, 2015.

[46] Ana Swanson and Kevin Sieff, "China's Slowdown, Financial Mayhem Cast Long Shadow across World," WashingtonPost.com, January 11, 2016.

[47] Jiaxing and Yangon, "The Future of Factory Asia: A Tightening Grip," Economist, March 14, 2015. www.economist.com .

[48] Martin Wolf, "China's Great Economic Shift Needs to Begin," FT.com, January 19, 2016.

[49] Luke Kawa, "Six Ways to Gauge How Fast China's Economy is Actually Growing," Bloomberg.com, November 2, 2015.

[50] George Magnus, "China's Debt Reckoning Cannot be Deferred Indefinitely," FT.com, April 29, 2016.

[51] Richard Dobbs et al., "Debt and (Not Much) Deleveraging," McKinsey Global Institute, February 2015, www.mckinsey.com

[52] Matt O'Brien, "China's Debt Bubble is Getting Only More Dangerous," WashingtonPost.com, May 16, 2016.

[53] Umesh Desai, "Manage, Meddle or Magnify? China's Corporate Debt Threat," Reuters.com, July 24, 2015

[54] Shawn Donnan, "Impact of China on Advanced Economies Set to Grow, FT.com, April 4, 2016.

[55] Peter Coy, “China’s Capital Flight,” Bloomberg.com, January 14, 2016.

[56] “China Capital Outflows Rise to Estimated $1 Trillion in 2015,” Bloomberg.com, January 25, 2016.

[57] Lingling Wei and Anjani Trivedi, “China’s Forex Reserves Fall by Record $93.9 Billion on Yuan Intervention,” WSJ.com, September 8, 2015

[58] Scott Paul, “The Real Problem in China,” CNBC.com, July 10, 2015

[59] David Stanway, “China Steel Capacity at 1.13 billion Tonnes, More Cuts Requiredâ€”Official,” Reuters UK, April 10, 2016, uk.reuters.com

[60] Holly Ellyatt and Karen Tso, “China Has Conducted a â€˜War’â€”Not Tradeâ€”With Steel, Experts Say,” CNBC.com, May 20, 2016

[61] Ashley Smith, “A Treaty to Declare Economic Ear,” SocialistWorker.org, April 20, 2015

[62] Mark Shenk, “Crude Falls below $30 a Barrel for the First Time in 12 Years,” Bloomberg.com, January 12, 2016

[63] Stanley Reed, “Saudi Arabia Keeps Pumping Oil, despite Financial and Political Risks,” NYTimes.com,, January 27, 2016.

[64] Roger Blitz and Leo Lewis, “Currency War Heating Up for Yen and Euro,” FT.com, August 17, 2015.

[65] Roger Blitz and Leo Lewis, “Currency War Heating Up for Yen and Euro,” FT.com, August 17, 2015.

[66] David Brancaccio, Katie Long, and Justin Ho, “Have We Reached Peak Trade?” Marketplace, June 23, 2016, www.marketplace.org.

[67] 68

[68] Jeffrey Rothfeder, “The Surprising Relevance of the Baltic Dry Index,” New Yorker, June 22, 2016, www.newyorker.com.

[69] Scott Patterson and Alex MacDonald, “Anglo American to Slash Assets, Cut 85,000 Jobs,” WSJ.com, December 8, 2015.

[70] Angelo Young, “Why China is Launching Massive $1.1 Trillion Stimulus Package,” International Business Times, January 6, 2015, www.ibtimes.com.

[71] Christian Shepherd, “China Steel Mills Fire Up as Prices Flare,” FT.com, May 16, 2016.

[72] Christian Shepherd, “China Steel Mills Fire Up as Prices Flare,” FT.com, May 16, 2016.

[73] “ECB Raises 2016 Eurozone Growth & Inflation Forecasts,” RTTNews, February 6, 2016, www.rttnews.com

[74] Christopher Rugaber, “US Budget Deal Approved by Congress May Boost Economy Just as Fed Pulls Back on Stimulus,” US News & World Report, December 19, 2015, www.usnews.com.

[75] Eric Morath, “Companies Shy Away from Spending,” WSJ.com, November 30, 2015.

[76] Jeffry Bartash, “US Worker Productivity Sags Again in the First Quarter,” Market Watch, June 7, 2016 www.marketwatch.com.

[77] “China’s Lou Says Not So Fast on US Calls to Cut Overcapacity,” Bloomberg.com, June 6, 2016.

[78] David Keohane, “Bank Profits, Negative Rates and Evidence,” FT.com, February 15, 2016.

[79] Ellie Ismailidou, “BlackRock’s Larry Fink Says Negative Interest Rates Are â€˜Biggest Crisis’ in the World,” MarketWatch.com, March 14, 2016.

[80] Peter Wells, “Japan Falls (a Little) Deeper into Deflation,” FT.com, May 27, 2016.

[81] Alessandro Speciale and Jeff Black, “Draghi Expands ECB Stimulus with More QE and Lower Rates,” Bloomberg.com, March 10, 2016.

[82] Yuji Nakamura, Anna Kitanaka, and Nao Sano, “The Tokyo Whale is Quietly Buying up Huge Stakes in Japan Inc.,” Bloomerberg.com, April 24, 2016.

[83] Marcus Walker, “IMF Proposal on Greece Sets Up Battle with Germany,” WSJ.com, May 17, 2016.

[84] Alexandra Gibbs, “Here’s How Toxic Italy’s Bad Loans Really Are,” CNBC.com, April 11, 2016.

[85] Raoul Ruparel, “A Bad Deal on Bad Loans at Italian Banks,” Forbes.com, January 28, 2016.

[86] Tomas Hirst, “The Changing Face of the German Economic Miracle?,” Bloomberg.com, December 11, 2016.

[87] Stefano Casertano, “Entitled to Fail: Inside Italy’s Downward Spiral,” World Affairs Journal, July/August 2012, www.worldaffairsjournal.org.

[88] Jens Münchrath, Daniel SchÃ¤ffer, and Kevin O’Brien, “In Germany, Zero Interest in Mario Draghi,” Handelsblatt Global Edition, March 11, 2016, www.global.handelsblatt.com.

[89] Larry Elliott, “France: The New Sick Man of Europe,” TheGuardian.com, January 14, 2014.

[90] James Shotter, Patrick Jenkins, and Gavin Jackson,“Deutsche Bank Considers Multibillion Bond Buyback,” FT.com, February 9, 2016.

[91] Landon Thomas Jr, “Hard-to-sell Assets Complicate European Banks’ â€˜Brexit’ Risks,” NYTimes.com, June 28, 2016.

[92] Tobias Buck, “Spain’s Economic Recovery Powers Ahead despite Political Crisis,” FT.com, April 3, 2016.

[93] Sheridan Prasso, “Shadow Banking,” Bloomberg.com, March 31, 2015.

[94] Rakteem Katakey, “US Ousts Russia as Top World Oil, Gas Producer in BP Data,” Bloomberg.com, June 6, 2015

[95] Meagan Clark, “The Renaissance of US Manufacturing Is Real but Maybe Not What You Think,” IBTImes.com, February 4, 2014.

[96] Floyd Norris, “Corporate Profits Grow and Wages Slide,” NYTimes.com, April 4, 2014.

[97] “Robust Hiring in December Caps Solid Year for US Jobs,” NYTimes.com, January 9, 2016.

[98] Reuters, “US Housing Starts Rebound as Single-family Projects Soar,” CNBC.com, March 16, 2016.

[99] Shobhana Chandra, “Manufacturing Output in US Falls by Most since February 2015,” Bloomberg.com, April 15, 2016.

[100] Burt White and Jeff Buchbinder, “The S&P and GDP Are Not the Same Thing,” Business Insider, November 4, 2014, www.businessinsider.com.

[101] Matt Egan, “US Exports Drop for First Time since Great Recession,” CNN.com, February 5, 2016.

[102] Michelle Jamrisko, “US Factory Production Falls More than Forecast on Auto Output,” Bloomberg.com, June 15, 2016.

[103] Ernest Scheyder and Terry Wade, “US Oil Industry Bankruptcy Wave nears Size of Telecom Bust,” Reuters.com, May 5, 2016.

[104] Ernest Scheyder and Terry Wade, “US Oil Industry Bankruptcy Wave nears Size of Telecom Bust,” Reuters.com, May 5, 2016.

[105] “German Trade Surplus Swells to Fresh Record,” FT.com, May 10, 2016.

[106] Anrea Riquier, “An Old Fear Returns as New Mortgage Market Players Rise,” MarketWatch.com, February 29, 2016.

[107] Matthew Goldstein, Rachel Abrams, and Ben Protess, “How Housing’s New Players Spiraled into Banks’ Old Mistakes,” NYTimes.com, June 26, 2016.

[108] Tyler Durden, “The Fed Sends a Frightening Letter to JPMorgan, Corporate Media Yawns,” Zero Hedge, April 15, 2016, www.zerohedge.com.

[109] Nikolai Bukharin, Imperialism and World Economy (New York: International Publishers, 1929 reprint), 106 . Also available at Marxists.org