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Capitalist system in crisis

In the past year and a half, very intense crisis in production, finance and trade engulfed many countries and entire global regions one after the other. The storm first hit Asia and Japan in the first half of 1997; hammered Russia next in the third quarter of 1998, and caught up later with Latin America, Eastern Europe and South Africa.

The US and European economies, while registering positive but very moderate growth rates, continue to slow down. Moreover, with other parts of the world either wallowing in depression and recession or deep into stagnation, there prevails, on the whole, a global recession. Contraction of production is most severe in East Asia – which before 1997 was the fastest growing region – and Russia which nose-dived into a deeper pit. The US and European economies are themselves repeatedly convulsed by intense stock market and financial troubles and continue to be pulled down.

This is the most serious global economic crisis of the last 50 years. It is unprecedented in terms of scope and the rapidity by which it has spread, as well as by the steep declines in living standards of countries and peoples. The breadth and depth of the damage it has wrought on countries and peoples are believed to equal or even surpass those of the Great Depression of the 1930s.

In Asia alone, the meltdown of trillions of dollars of stock market and bond capital, aside from the more than US$260 billion in losses in corporate equity, occurred in only a few months. Central bank reserves were depleted by the hundreds of billions of dollars in a futile attempt to defend currencies under speculative attack. Hard-earned savings evaporated, incomes drastically deflated and millions of people thrown out of work. The basically backward and semifeudal character of the so-called "emergent markets" was brought to the fore.

The overwhelming majority of countries have not even benefited from the temporary growth brought about by increasing shares in the export of low- and medium-value added manufactured goods and the massive inflow of foreign portfolio investments. They have long been suffering from the almost two decadeold debt crisis and contraction of the global market for raw material exports. The present crisis not only dims their hopes of recovery. It also buries them deeper in poverty.

The crisis persists despite attempts by the international bourgeoisie and their drumbeaters to belittle it and prematurely declare its end. Stormwinds continue to gather for an even more violent supertyphoon. The signs forebode the further intensification of crisis, dislocation and devastation. The following discussion focuses on the three most prominent features of this crisis:

Overproduction

In essence, the main disease that is ravaging the real economy of the global capitalist system is the severe and worsening imbalance between excess capacity in production and shrinking markets. Overconcentration of capital and overaccumulation of productive capacity go on at such a rapid and high rate while the base of global mass consumption suffers from drastic and massive contraction. In various sectors of industry, agriculture and services, there is a large and increasing disproportion between supply and demand.

Another marked result of overproduction is the emergence of the problem of deflation: the general fall in prices due to slackening sales, together with the sudden fall in profits, trade and production. This is similar to the deflation that triggered the Great Depression of the 1930s. Japan and Asia are suffering from deflation due to the sudden contraction of the domestic and global markets for their manufactures and the depletion of available loans and financing – especially for small and medium-scale companies in Japan, but also for the largest companies in other parts of East Asia. The main branches of industry in the US and Europe are also troubled by weak sales, shrinking markets and falling rates of profit.

From 1992 to 1995, the Japanese government spent $535 billion to pump-prime the economy which has been sluggish since 1990. In 1998, another $120 billion was poured in, raising the budget deficit to 10% of total domestic production. But private consumption decelerated more rapidly, thus causing Japan's full descent to recession. Production is running at 65% of capacity, unemployment has, for the first time reached 4%, and yet the inventory of companies continues to rise, reaching 12% of sales, which is twice the previous record high.

In the global car industry, the rate by which production has outstripped the market is three times that which prevailed in the '70s. It is expected that by the year 2000, global overproduction of cars will reach 23 million, greater than the overall sales in North America, the biggest market of cars.

The economic meltdown in East Asia, the region reckoned to be responsible for half of the expansion in global production and two-thirds of the expansion in global trade in the past years, is a crushing blow to the international market. From mid-1997, the price of all agricultural and mineral commodities fell by 30%— and reached its lowest levels in more than 25 years. The impact of this on backward countries that rely on raw material exports will be extremely painful.

The annual growth rate in industrial capitalist countries in the present decade is just above 2%, far below the average rate of 5% in the '50s and '60s. To raise the rates of profit in a period of slow growth and shrinking markets, capitalists have resorted to all-out cost-cutting, restructuring and reengineering. This includes the extensive use of computers and high-technology, massive reduction in employment, and gigantic corporate mergers and acquisitions.

The dominance of the neoliberal policies of deregulation, privatization (easing controls over private business) and anti-inflationary bias has enabled monopoly capital and the financial oligarchy to implement such schemes. While the concentration, operation and expansion of monopoly capital are given free play and encouraged, there have been relentless attacks against so-called inflationary wages and cost-cutting measures to "shave the fat" off government spending by reducing the number of public employees and funds for public service and social benefits.

The result is job-killing growth, the swelling of unemployment up to 35 million in industrialized countries, a drop in real wages and incomes of common people, and continuing and rapid contraction of the base of mass consumption in capitalist countries. There is also further intensification of the concentration of capital and monopolization of finance, production and markets by ever larger but ever fewer monopoly corporations: "Winner-takes-all" and "second placers are losers" are the now the predominant rules in big business. High technology has further increased the rate of concentration and centralization of capital, as well as the turnover of production, trade and commerce and the obsolescence of otherwise perfectly running factories. Financial manipulation and overborrowing have also further accelerated the aggressive expansion as well as accumulation of capacity well beyond the capability of the market.

The inventory of unsold goods has increased rapidly. Unprofitable buildings and machineries are piling up. Despite the scope and severity of destruction already wrought by the current crisis, this is just the start of a major upheaval in the crisis-ridden capitalist system. Running down the overcapacity will necessitate more and greater storms of cataclysmic proportions.

Financial and currency crisis

The sudden and steep devaluation of currencies in East Asia and, later, in Russia – followed by the destabilization and virtual stoppage of entire economies, characterize the current crisis and result from the free flow of portfolio investments and finance demanded by the global financial oligarchs. Since the crisis erupted, the value of the Indonesian rupiah has fallen by 80% against the dollar, and the Korean won and the Thai baht by 40%. Such devaluation involves the depletion of loans and investments, sky-high interest rates, widespread bankruptcies of companies and businesses, sudden drops in production and trade and stampeding hyperinflation.

The liberalization and deregulation of the inflow and outflow of foreign investments and profits, and the pegging of local currencies to the dollar are IMF-WB prescriptions to neocolonial and dependent countries to attract foreign investments which are expected to be the main source of financing for export-oriented production. On the other hand, the World Bank sold the concept of "emerging markets" (markets outside established financial centers) to banks and Western investors and provided the seed fund for expanded investments in bonds, real estate and the stock markets of such economies.

Profits from such investments in East Asia reached up to 42% in 1988 and 98% in 1989 and set the "emerging markets" on flight and created a mad rush starting in 1993 that suddenly inflated the stock, bond and real estate markets of East Asia, reaching a peak in 1996 when $93 billion flowed into South Korea, Indonesia, Thailand, Malaysia and the Philippines, thus giving "globalization" a miraculous shine.

Since 1994, however, exports have lost steam and trade and currentaccount deficits have worsened resulting largely from the loss of their price advantage after China launched its export offensive and devalued its currency and the Japanese yen fell in value. The stream of speculative and portfolio funds in the following years concealed the worsening deficit, overvalued the local currency and created a massive bubble of borrowings and financial speculation.

When George Soros and his cabal of speculators attacked in 1997, currencies in East Asia were drastically devalued in a few weeks and more than $100 billion in the regions' central bank reserves were squandered in a failed attempt to defend their currencies. There was a net withdrawal of foreign funds reaching $12 billion from South Korea, Indonesia, Thailand, Malaysia and the Philippines. In a year, $105 billion flowed out ($12 billion net outflow in 1997 coming after a $93 billion net inflow in 1996), equivalent to 11% of total production in these countries. In the span of a few months, the overall value of stock markets in Asia fell by 60%.

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The plunge of currencies and stocks, bonds and real estate markets in East Asia destabilized currencies and stock markets around the world, rocking even the US and Europe and tearing apart the myth of imperialist "globalization". After a momentary calm in January and February of 1998, currencies and stock markets fell again in East Asia. In September 1998, the stock market fell to its lowest level in 12 years. Because the US and Europe were not drawn into the second Asian meltdown, the notion that the crisis was limited to Asia was already making the rounds, when Russia unilaterally devalued the ruble and defaulted on its debt in August 1998. American and European banks and investors were hit by another and far bigger round of profit losses running to hundreds of billions of dollars which was followed by stock market drops that melted $4 trillion in financial global wealth.

The extreme volatility of the global financial system is a result of excessive financial manipulation, abuse and speculation while overproduction, shrinking markets and falling rates of profit undermine the real economy. The bubble of borrowings and speculation in the "emerging markets" is a small part of the bubble prevailing over the entire capitalist system. The value of stock market transactions is 30 to 40 times more than the real value of global production. The daily transactions in the global currency market are worth almost $2 trillion, while the value of annual global exports is only $5 trillion. Due to the unprecedentedly large speculative bubble prevailing over the financial market, financial instruments have acquired a life of their own as evidenced by the continued rise of Wall Street stock prices even as profits and sales of listed corporations are declining. This bubble is kept afloat by sustaining and continually increasing the flow of funds that are wagered at the giant wheel of speculation. And to sustain such a flow, various, interrelated and overlapping levels of transactions, instruments of purchase and sale and statistical sleight-of-hand, estimates and forecasts are employed to siphon people's savings, and funds and reserves of governments and all other types of private and public institutions in all parts of the world. Aside from institutionalized speculators that are based in giant commercial and investment banks, stock brokering firms, insurance companies, etc. – the bourgeois mass media, paid academics, officials of imperialist governments and international institutions such as the IMF-WB are involved in conjuring and bloating this bubble. This is commonly called pyramiding and swindling when done by humbler folk.

Soros is just a particular kind of speculator who is typical of financial operators in the global centers of finance. He operates together with the largest banks and other financial giants in New York, London and Tokyo, raking in profits as they move in or out, running after billions of dollars of superprofits with every fluctuation in market prices, with every inflow and outflow of funds wagered in whatever market that is currently flying high or in free fall. In fact, during the fall, it was still the representatives and personnel of these financial oligarchs who cooked up the "bail-out packages" and continued to earn huge fees and profits as partners of the IMF in the implementation of "recovery programs".

Debt Crisis

The entire global capitalist system is swimming in an ocean of debt that progressively deepens and widens as the probability of repayment becomes increasingly nil. This global crisis resulting from the unsurpassed abuse of the credit system is a major source of the financial oligarchy's billions of dollars of superprofits, and has, at the same time, been a major cause of the instability of the financial system for the past two decades and resulted in the past two years in a debt deflation that severely hinders the flow of financing and further aggravates depression in large parts of the world.

The debt crisis of backward countries erupted in the early '80s when Mexico threatened to stop servicing its foreign loans, sending shockwaves throughout the banking system of capitalist countries. Prior to this, global banks encouraged lending to governments of backward countries because they were awash with uninvestable funds due to the stagflation prevailing in the West. A large portion of the loans was wasted in corruption, in the reactionary ruling classes' luxury spending, in funding militarization and counter-revolutionary wars and other unproductive expenditures such as projects and extravaganzas to entertain tourists. When the global market for raw material exports began imploding in 1979, many of the countries that borrowed large amounts lost the capacity to continue servicing their debts.

It was at this point that the IMFWB started playing the role of debt collector for giant commercial banks and Western governments, and imposer of conditions and "structural adjustment" programs which ruthlessly ripped apart the economic, trade, financial, tax and budgetary policies and structures of debt-ridden countries. Backward debt-burdened countries were compelled to carry out belttightening measures, sell the "family jewels" at bargain prices, agree to the deterioration of already primitive social services, the sacrifice of food production and other basic needs of the people, the tightening control by foreigners of all important aspects of the economy, and to follow all impositions on deregulation and liberalization in favor of foreign capital – just so as to repay their debts. Whatever wealth and progress the debt-ridden countries have mustered in the past decades have been sacrificed, their people driven into greater privation. Large parts of the world were ravaged by famine, epidemics and ethnic and religious strife. Yet despite all this, instead of falling, total debt has risen further, and the debt crisis has not eased but worsened.

When the crisis began, the total foreign debt of backward countries was almost $600 billion. This reached $1086 billion in 1986, $1419 billion in 1992 and $2000 billion by 1995 (including the debt of the former Soviet bloc countries). From 1980 to 1992, the overall payment made on the debt principal ($891 billion) and interests ($771 billion) was three times more than the original debt in 1980. Yet in the end, the sum of unpaid debt is still one and a half times greater than the original amount. Like a peasant under the yoke of a loan shark, these backward countries are forced to borrow at higher interest so as to amortize the old debt. Since 1984, governments of debt-ridden countries have paid more than they have received in new loans and assistance from the rich nations' governments and commercial banks and the IMF-WB. The net result of official transactions has been an outflow, not an inflow, of funds.

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While the old debt crisis of backward countries persists, the crisis in Asia has exposed a new aspect of the international debt crisis: the mountains of debt of private companies that pose an even bigger threat to the whole global financial system. During the time of the bubble and the mad rush of private banks and business firms for a larger share in the fantastic profits from the "emerging markets", there was a flood of cheap loans which were taken advantage of by companies that borrowed heavily to aggressively expand their market share. This further speeded up and intensified the accumulation of overcapacity and the crisis of overproduction. When the bubble burst, it left in its wake a huge pile of bad loans.

In East Asian countries which were worst hit by the crisis, the loans of a typical company listed in the stock market are estimated to be 400% to 600% of their capital. The amount of bad loans is equal to 50% to 100% of the overall produce of many countries in the region. The banking system in the countries seriously hit was crippled because a large part (20% or more) of their loans to real estate, construction and other private firms could not be paid.

The extremely heavy debt burden cripples not only the banks but entire economies as well. This burden is made heavier by the mountain of bad loans; banks are completely dependent on external funding for the hundreds of billions of dollars required to recapitalize and resume lending. But they can only borrow at rates three times more than those prevailing before the crisis. It remains uncertain whether anyone is ready to provide credit because there is an intensification instead of an attenuation in the overall decline of investments and loans. The overall inflow of direct foreign investments to "emerging markets" fell to $186 billion from $300 in 1996, and is expected to drop further to $119 billion in 1999. Moreover, the entire credit system has been overextended by efforts to put out the conflagration that continues to grow and spread rapidly.

Japan is also saddled by an intense debt crisis. The bad loans of Japanese banks are estimated to reach $600 billion. They have lent more than $270 billion to Asia. Some believe that the Japanese bad debt problem may be twice as bad as what is reported. Fourteen of the 21 largest banks in Japan (including some of the largest in the world) have excessively high rates of bad loans. The US government is pushing the Japanese government to quickly solve the banking crisis because this is a major reason for the continued contraction of private investments and loans in Japan. The danger goes beyond Japan since despite the crisis, Japan remains the largest creditor country.

The loans of European banks to Asia are equivalent to 49% of their total capital. This already has dire consequences, but its impact is less compared to the blow inflicted on them by Russia's debt default, the closure of its principal banks and the resulting capital flight in widespread parts of the world. US banks which thought they had avoided the intense credit crisis in Asia were jolted even more violently by the Russian crisis and are threatened with a direct hit by the Latin American storm. A large percentage of the loans of global banks have lost all chance of being repaid; this will slash a large chunk of capital from the entire banking system and will cause the fall of even the largest banks. At the same time, the debt crisis will deepen and prolong further the dislocations in production and sow even greater terror the world over.

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