Panic sell-off on world financial markets

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The global stock market sell-off that began last week with China's surprise decision to devalue its currency escalated on Thursday and Friday in a wave of near-panic selling, plunging markets from Asia and Europe to the US and Latin America into negative territory for the year.

Outside of China, where the Shanghai Composite Index fell 4.3 percent on Friday, the sharpest declines were in the US. The Dow Jones Industrial Average plunged 531 points, or 3.12 percent, bringing its losses for the week to over 1,000 points. The S&P 500 and Nasdaq indexes both fell even more steeply, 3.19 percent and 3.52 percent, respectively.

The meltdown on equity markets is being driven by signs that the world economy is sliding into a new recession or outright depression. The focal point of the slowdown is China, the world's second largest economy, which this decade has accounted for a third of the expansion in the global economy. This is almost double the contribution of the US and more than triple the impacts of Europe and Japan.

The Chinese government has allocated some $90 billion to rescue the country's stock markets. However, this has failed to stanch a crisis that has seen stock prices fall by more than 30 percent since June. The evident disarray of Chinese policymakers, combined with a growth of labor unrest and discontent fueled by events such as the Tianjin warehouse explosion, is stoking concerns in corporate boardrooms and imperialist governments over the political stability of the regime, on which they have relied to ensure high profits based on poverty-level wages and intense exploitation of Chinese workers.

The deceleration of growth in China, reflected in figures on production, exports and imports, business investment and producer prices, is fueling a near-collapse in so-called "emerging market" economies that depend on the Chinese market for exports of raw materials. The past week saw a further plunge in stock prices and currency rates in Russia, Turkey, Brazil, South Africa and other countries. These economies are being hit by a massive outflow of capital, placing in doubt their ability to meet debt obligations.

The starkest expression of the growth of deflationary pressures is the ongoing rout on commodity markets. On Friday, the months-long decline in prices for oil, coal and a range of industrial metals accelerated. Falling commodity prices reflect a decline in demand, which, in turn, reflects a decline in production and productive investment, along with glutted markets.

The anarchy of the capitalist market can be graphically seen in the chaos in energy markets. Oil prices continue to plummet, feeding recession, mass layoffs and trade and currency wars. Yet all of the major oil producers, including the United States, continue to pump out oil at current or even increased levels, further glutting world markets. They do so in order to secure the maximum sales and profits within a contracting market, as a matter not only of corporate profits but also the divergent geostrategic interests of competing capitalist nation states.

The main trigger of Friday's sell-off was a report indicating a further decline in manufacturing in China. The preliminary Caixin China Manufacturing Purchasing Managers' Index fell to its lowest reading since March 2009—at the height of the economic crisis sparked by the September 2008 Wall Street crash.

In recent days, Japan has reported a contraction in its economic output for the second quarter, and the euro zone has reported growth at a snail's pace.

Notwithstanding America's position as the supposed "bright spot" in the world economy, US growth is at its lowest level in more than three decades. Wages are rising at their slowest pace since the 1980s, and productivity is stagnant. Millions have stopped looking for work and millions more have been forced to take part-time jobs. The number of full-time jobs in the US

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today is 0.7 percent, or 822,000, lower than it was eight years ago.

These developments expose the hollow character of the so-called recovery from the 2007-2009 recession. The US Federal Reserve Board and the central banks of the European Union, Britain and Japan have pumped trillions of dollars into the financial markets to rescue the bankers and financial oligarchs and increase their wealth, even as capitalist governments imposed brutal austerity and wage cutting on the working class.

The primary mechanism for this process of economic plunder has been the stock market. US stock prices tripled from their low point in March of 2009, and share values reached record highs in Europe despite the fact that productive investment declined and the real economy stagnated.

In a commentary posted Tuesday in the *Financial Times*, Christophe Donay, head of asset allocation at Swiss-based Pictet Wealth Management, described the means by which governments and central banks have inflated stock prices and kept them extraordinarily high despite slow or nonexistent growth in the real economy and virtually without reference to the actual earnings growth of corporations, which, he noted, "remains low."

Under the rubric of "asymmetric asset price targeting," he included near-zero interest rates and central bank "quantitative easing" (money-printing). These policies, he explained, were designed to put a floor on stock prices but not a cap (hence the asymmetry). The purpose was to create a "wealth effect," i.e., boost the wealth of the corporate-financial aristocracy.

The incipient panic in corporate boardrooms stems largely from the fear that this mechanism may be breaking down under the impact of global recessionary pressures.

All of the policies pursued by the bourgeoisie since the Wall Street crash of 2008 have been designed to paper over the contradictions that led to the collapse while facilitating the further enrichment of the corporate-financial elite. The crisis has been utilized to engineer a massive lowering of workers' living standards and working conditions, while the ruling class has utilized the trade unions and their pseudo-left allies to isolate, dissipate and suppress working-class resistance. But these policies have only exacerbated the contradictions underlying the economic crisis.

Whatever the short-term turn in the stock market—whether this week's sell-off marks the onset of a full-scale crash or the financiers' governments manage to engineer a temporary rebound—there will be no progressive solution to the crisis apart from the victory of the world socialist revolution. The turn is to the working class and the building of its revolutionary leadership.

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