

A new tipping point in the global economic crisis

By Nick Beams
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The announcement by the global mining giant Anglo American that it will sack 85,000 workers world-wide, put 60 percent of its assets up for sale, and reduce its mining sites from 55 to just 20 signifies that the crisis of the world capitalist economy is heading toward a new tipping point. The world economy is threatened by a plunge into deep slump, coupled with a financial crisis even more devastating than that which erupted in 2007–2008.

The immediate cause of the Anglo American decision is the plunge in prices for all major industrial commodities—iron ore, coal, copper, nickel and manganese—to name but a few. Having reached their lowest levels since 2009, they are continuing to fall, signifying that, despite the trillions of dollars poured into financial markets over the past seven years by the world’s central banks, the over-riding tendency in the world economy is towards recession.

Nowhere is this more sharply expressed than in China, the centre of global manufacturing. Earlier this week, official data showed that Chinese exports slowed markedly in November due to falling global demand, while the currency, the renminbi, hit its lowest level in four years. The expectation is that if Chinese financial authorities withdraw support, the renminbi will rapidly fall still lower, sending another deflationary wave through the global economy.

The lack of confidence in the country’s growth prospects in the upper echelons of the financial and economic elites is exemplified by the flight of capital, with foreign exchange reserves recording their third-largest monthly fall in November.

In the years immediately following the 2008 financial crisis, the conventional wisdom was that the so-called BRICS countries together with emerging markets would provide a new base of stability for world

capitalism. That rose-tinted scenario has been shattered.

The downturn in China is now ripping through world markets. The Brazilian economy is experiencing a contraction on a scale not seen since the Great Depression of the 1930s, Russia is in recession, India faces mounting corporate debt problems, and South Africa, together with economies across the continent, is being hit by falling commodity prices. The future for emerging markets is exemplified in Venezuela, the site of some of the largest oil reserves in the world, where the economy is set to shrink by 10 percent this year.

In its quarterly review of the world economy issued earlier this week, the Bank for International Settlements warned that the “uneasy calm” that had characterised global financial markets could soon be disrupted by the motion of “deeper economic forces that really matter.”

Over the past period, financial markets, sustained by the flood of cheap money from central banks, have seemingly been able to continue ever upwards in defiance of deepening global recessionary trends. However, the conditions have been created for this house of cards to collapse as the “deeper forces” assert themselves.

One of the most significant areas to which cheap money has flowed is the financing of high-yielding “junk” bonds, often issued by energy companies. With the price of oil reaching over \$100 per barrel as recently as the early months of 2014, it seemed to be a viable strategy. But with oil now trading at below \$40 and threatening to plunge even further, possibly down to \$30, it is rapidly unravelling.

The rise of energy-related debt defaults is only a symptom of a more general process.

Last Friday, the *Financial Times* reported that more than \$1 trillion in US corporate debt had been

downgraded so far this year, as defaults climbed to their highest levels since the 2008 financial crisis. Analysts with the three major credit rating agencies—Standard & Poor’s, Moody’s and Fitch—expect the default rates to increase over the next 12 months, a process that could be accelerated if the Federal Reserve decides to lift its base interest rate next week.

An analysis by Deutsche Bank, portions of which were published on the *Financial Times*’ web site this week, pointed to the potential for a rapid shift in financial markets.

“Late stages of every credit cycle,” it noted, “... are built on the theory as to why this time is different. This type of attitude was prevalent going into 2015, when credit markets largely dismissed the oil sector distress, choosing to believe this was an isolated issue and will stay that way.”

But, as the assessment went on to elaborate, this has proven not to be the case, as the percentage of corporate bonds designated as being “in distress” has steadily risen.

“From its starting point in energy a year ago, it has now reached other commodity-sensitive areas such as transportation, materials, capital goods and commercial services. But it did not stop here and is also visible in places like retail, gaming, media, consumer staples and technology—all areas that were widely expected to be insulated from low oil prices, if not even benefiting from them.”

The growing potential for a renewed financial crisis was also highlighted in a report issued by the US investment bank Goldman Sachs last month. It noted that corporate leverage in the US was now at its highest level in a decade.

Low interest rates and the incessant profit demands of speculators had encouraged corporate America to go on a spending spree, financing share buybacks, dividend hikes and a series of merger and acquisition deals, funded through the issuing of bonds. But the flow of cash has not kept pace with bond issuing, with the result that the total amount of debt on balance sheets is “more than double pre-crisis levels.”

Goldman reported that even after the energy sector was stripped out, the net debt to earnings ratio was at its highest point since the financial crisis. “The spectre of rising rates, potential global disinflation (dare we say

‘deflation’?), declining operating profits and wider credit spreads continues to create near-term consternation for weak balance sheet stocks,” the report concluded.

The Bank of England has added its voice to those expressing concern over the stability of financial markets, warning of the consequences of the divergence between the policies of central banks, as the Fed moves towards tightening while the European Central Bank and the Bank of England maintain a loose monetary policy.

The bank’s Financial Policy Committee said it was difficult to predict how markets would react to any increase in the Fed rate. The minutes of a meeting held at the end of last month and released on Wednesday state, “Capital flows had been sensitive to diverging prospects for monetary policy around the world and there was a risk of further volatility as that policy divergence progresses.”

The deepening global economic crisis is one of the driving forces for the eruption of militarism, especially over the past month. At the same time, the escalation of the war drive can only exacerbate the economic and financial situation. This underscores the fact that the mounting world economic and political disorder is not the result some kind of temporary or passing disequilibrium, but the expression of an ongoing and deepening breakdown of the global capitalist system.

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