GlobalResearch
Center for Research on Globalization

The Masters of Money Impose their Law

By Ariel Noyola Rodríguez
Global Research, December 18, 2015
Theme: Global Economy

Over 2015, the losses in the stock markets added up to hundreds of billions of dollars. The business world began to tremble when at the beginnings of August the Shanghai stock market fell during several consecutive days. It was only then evident that the vulnerabilities of the global economy are not limited to the United States and the European Union.

Although seven years have gone by since the bankruptcy of Lehman Brothers, everything indicates that the global crisis has not touched bottom, since as the weeks pass there are more victims from one sector to another, from one geographical region to another. As a consequence of the growing deceleration of the Asia Pacific region, the emerging countries whose incomes depend on the export of commodities are now facing a serious predicament.

The channel of the crisis of the industrialized countries towards the emerging ones is not only through commercial connections – although it is important to note that the Baltic Dry Index (BDI), one of the principal indicators of marine transport and a fundamental datum to measure commercial activity in real terms, has registered its worst performance of the last three decades –, but above all through finances.

According to an investigation published in October by the Institute of International Finance (IIF), which analyses data from 30 countries, this year the flow of capital from residents of emerging countries reached over one billion dollars. This is the most dramatic rise since the Asian crisis of 1998. There is no doubt that the stock market euphoria of the global South will not last.

The investors were buying sovereign debt bonds from the countries of Latin America and Pacific-Asia. As well as securities backed up by *commodities*, are at the present time full of fear and uncertainty. They do not now believe in the security of obtaining high dividends betting on high risk financial assets.

Right now nothing seems more secure than to put their investments in US Treasury bonds. In spite of their enormous public debt, no one believes that Washington will declare itself bankrupt in the short term, which would result in the dollar weakening its status as a reserve currency, and with that, the hegemony of the United States would be seriously wounded. This would leave a contradiction that even with the serious problems of the US economy, the confidence in the dollar has hardly lessened since the crisis of 2008, even if it be true that there are other currencies, such as the yuan, that have increased their influence considerably.

In these moments money is returning home, to its real masters, the pockets of the magnates of Wall Street. This explains the fall of exchange rates and stock markets of emerging countries. Nevertheless, this money will either be amassed, or utilised to bring about mergers and acquisitions of enterprises, but it will not be placed massively in productive activities, and because of this, the labour market of the United States will still be far from overcoming its structural degradation.

In the face of an increasingly global panic, the International Monetary Fund (IMF) insists that the monetary authorities of the United States should act with caution. In the face of high levels of debt on a world scale, which are denominated fundamentally in dollars, the Executive Director of the IMF, Christine Lagarde, has suggested on various occasions that the United States should put off any increase in the federal funds rate until 2016 at least [*Editor's note:* the Fed raised its benchmark federal funds rate, locked near zero since the financial crisis, by a quarter point to 0.25-0.50 percent on December 16].

Even though the most recent data on the United States' labour market appears better than before, this does not imply in any way that the economy of that country enjoys a sustained recovery. Private debt is maintained at a very high level in the United States, both that of businesses and that of families. Thousands of US residents and citizens cannot find full time employment, but must settle for part time work, the majority badly paid and without social benefits of any quality. The less fortunate survive on unemployment insurance and food stamps.

In contrast, thanks to government policy, US banks have managed to increase their levels of capitalization. At the same time, they have increased their financial leverage (this is the relation between credit and their own capital invested in a financial operation), with which, it is clear that rather than providing credit to small and medium enterprises, they have dedicated themselves to speculative ventures in the stock market. Over all, as I noted in my last comment, this increase has been exhausted at great speed. According to data from the US banks, their profit levels are moving down.

Seen from this global perspective, the great risk is that any hasty decision can shore up recessive (depressive) tendencies in other countries. Paul Mason, commentator with the British daily *The Guardian*, cites the economists of the Bank of International Settlements (BIS), for whom *"a world in which debt levels are too high, productivity growth too weak and financial risks too threatening"*.

In the case of the European Continent, for example, given the extreme debility of growth and negative inflation, that is deflation that has struck various nations on the periphery, the central bank of the monetary union has indicated that it is disposed to bring about extraordinary measures if the economic situation continues to deteriorate.

The same thing is happening in Japan, and the Prime Minister, Shinzo Abe, has put in march an ambitious program of recuperation, which has included both monetary and fiscal stimuli, and a basket of "structural reforms" in order to increase productivity, as the second most important economy of the Asian region fell into a technical recession in the third quarter of this year.

Thus three of the strongest central banks of the world diverge in their plans of monetary policy. On the one hand the United States are preparing to raise the cost of credit, and on the other Europe and Japan are preparing to launch programs of more aggressive injection of liquidity. With this, it is obvious that the volatility of the financial markets will not lessen, but will tend to increase in the months to come.

In a word, there is no consensus among the big powers on the monetary policies that should be employed to combat the world recession. This was manifest in the summit of the Group of 20 (G-20, made up of the 20 most powerful economies of the world), in mid-November in the city of Antalya, Turkey.

Nevertheless, there is agreement among the principal world leaders to sharpen the conditions of exploitation of the working classes through new "structural reforms". On the other hand, the reforms oriented to regulate global financial activities lack sharp teeth and their execution progresses very slowly. The funds deposited in the fiscal paradises are still untouchable. This is the reflex that shows the same image from Paris, Berlin, London, Brussels, Washington, Tokyo and the greater part of emerging economies: the masters of money impose their law.

Translation: Jordan Bishop.

Source in Spanish: Contralínea.

***Ariel Noyola Rodriguez** is an economist who graduated from the National Autonomous University of Mexico (UNAM). Twitter: @noyola_ariel.*

Articles by: **Ariel Noyola Rodríguez**

About the author:

Ariel Noyola Rodríguez is an economist graduated from the National Autonomous University of Mexico (UNAM). Involved in the Centre for Research on Globalization, Global Research, based in Canada. His reports on World Economy are published in the weekly magazine Contralínea and his opinion columns in the international news chain Russia Today. The Journalists Club of Mexico awarded him the National Journalism Prize in the category of Best Economic and Financial Analysis for his pieces issued in the Voltaire Network during 2015. He can be reached at noyolara@gmail.com. Twitter: @noyola_ariel.