The World Economy 2013: Illusions and Reality

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When the economic history of the recent period is written, it may well be that the year 2012 is regarded as having been almost as important as 2008.

The collapse of Lehman Brothers four-and-a-half years ago was the trigger that set in motion the breakdown of the global capitalist system. But the past year has made its own mark. It has seen the destruction of a series of fictions assiduously promoted by the spokesmen of the ruling elites in the wake of the onset of the global financial crisis.

First of all, it has exposed the claim that the world economy would somehow right itself through the operations of the business cycle, and that the "magic of the market" would come to the rescue. But well into the fifth year of the global breakdown, the financial system is being sustained only by the activities of the world's major central banks, which are providing hundreds of billions of dollars to the major banks and finance houses through various forms of "quantitative easing"—a euphemism for printing money.

Far from creating the conditions for "recovery," however, these operations are simply financing the accumulation of profits through speculation—the very thing that led to the collapse of 2008—and setting the stage for another crash.

Writing in Monday's edition of the *Financial Times*, Mohamed El-Erian, the chief executive and co-chief investment officer of the giant bond trader Pimco, noted that "several asset classes now have highly manipulated prices due to experimental bank activities, both actual and signaled," and that "this situation is reminiscent of 2006-07."

The past 12 months have also put paid to the illusion that after a period of financial turbulence, "recovery" was just around the corner. All the data on the world economy point to continuing low growth or recession in all the major countries.

In its report on the world economy issued last month, the United Nations pointed to "weaknesses in the major developed economies" as being at the root of continued "global economic woes," with most of these economies, particularly in Europe, being "dragged into a downward spiral" as high unemployment, reduced consumption spending, continued bank risk, fiscal tightening and slower growth "viciously feed into one another." Reports from all other major international financial institutions highlight the same processes.

According to the UN, the euro area is expected to grow by only 0.3 percent in 2013 and just 1.4 percent in 2014, after a contraction of 0.5 percent in 2012. The growth rate for the US is predicted to fall to 1.7 percent in 2013 after reaching just 2.1 percent—well below the level experienced during every other "recovery" in the post-World War II period. Japan, which experienced a contraction last quarter, is expected to grow by just 0.6 percent in 2013, after growth of 1.5 percent in 2012.

The UN report also pointed to trade figures that highlight the underlying contractionary processes in the world economy. World trade fell by 10 percent in 2009, but then rebounded significantly in 2010. However in 2011, the growth of exports started to slow and then decelerated sharply in 2012, "mainly due to declining import demand in Europe… and anemic aggregate demand in the United States and Japan."

The British economy is set to move into a "triple dip" recession this year, after activity in the services sector, which compromises around 75 percent of the British economy, experienced a sharp decline in December.

The manufacturing-based German economy is headed down the same road. According to the latest report published by the Kiel Institute for World Economy, Germany is now facing "pronounced economic slowdown" after experiencing "decelerating growth" throughout 2012. Aggregate output is expected to fall by 1.2 percent in the fourth quarter as a result of "sluggish exports" and a "significant decrease in enterprise investment spending."

Economic events in 2012 also exposed the fiction that, notwithstanding the stagnation of the advanced capitalist countries, the so-called BRIC economies could provide a new base for the expansion of global capitalism. The claim that "emerging" markets would be able to "decouple" from the major economies has been shattered, as their dependence on the major markets is revealed in falling growth rates.

Last year, the growth rate in China dropped from 10.4 percent to 7.7 percent. Brazil, where growth reached 7.5 percent in 2010, recorded a rate of just 1.3 percent last year, while India's growth has fallen from 8.9 to 5.5 percent.

A recent report published by the McKinsey Global Institute (MGI) makes clear that the world capitalist economy is not passing through a conjunctural downturn, but a breakdown comparable to that which began in 1914 and continued for the next three decades. This analysis, which was advanced by the *World Socialist Web Site* more than four years ago, is being confirmed by hard facts and figures.

The McKinsey report found that underlying the deepening recession in Europe was a collapse in private investment. Between 2007 and 2011, private investment in the 27-member European Union fell by more than €350 billion, "larger than any previous decline in absolute terms." This represented more than 20 times the fall in private consumption and four times the decline in real gross domestic product.

Private investment is now 15 percent lower than in 2007, meaning companies will not generate some €543 billion in revenues between 2009 and 2020 that they otherwise would have. The MGI report noted that European companies had excess cash holdings of €750 billion for which they could not find profitable outlets. The piling up of cash points to a breakdown in the basic dynamic of capitalist production, in which investment leads to the accumulation of profit, which then results in further investment and economic expansion.

The same process is at work in the US economy, where companies are piling up cash while profits are increasingly being accumulated through speculation in financial markets.

The objective logic of the profit system is the driving force behind the austerity programs being implemented by the ruling classes in the US, Europe and the world over. They are seeking to resolve the crisis through the impoverishment of the working class, reducing its conditions to those of the 1930s and worse.

The international working class must respond with its own independent strategy based on the overthrow of the bankrupt profit system and the establishment of socialism. The worst mistake it could make is to believe that half-measures will suffice or that the capitalist economy will eventually right itself. The events of 2012 have shattered that illusion as well as laying the basis for major social struggles in the coming year.

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