

Turmoil on Financial Markets: Share Selloff Points to New Economic Crisis

By [Nick Beams](#)

Global Research, June 25, 2013

[World Socialist Web Site](#)

Region: [USA](#)

Theme: [Global Economy](#)

The renewed turmoil on global financial markets, which saw major falls on Asian markets and a one percent downturn on Wall Street yesterday, underscores the fact that none of the problems that erupted in the 2008 meltdown have been overcome. On the contrary, the latest gyrations are a sure sign that a new crisis is in the making—one set in motion by the very policies put in place by central banks over the past five years.

The initial spark for the selloff was the announcement by Federal Reserve Chairman Ben Bernanke that if economic conditions in the US improved, the Fed would consider easing back on its purchases of bonds under its policy of “quantitative easing”. The panicky response on the markets to this statement has been since compounded by fears of a credit crunch in China due to the tightening of money policy by financial authorities.

Since the third round of quantitative easing (QE3) was announced last September, the Fed has been spending \$85 billion per month on purchases of Treasury bonds and mortgage-backed securities, expanding its balance sheet at the rate of \$1 trillion per year.

At his press conference last Wednesday, Bernanke issued repeated assurances to the financial markets that the Fed was not tightening monetary policy, but merely easing pressure on the accelerator, and that should economic conditions worsen, even more monetary easing would be carried out.

But such has become the extreme dependence of financial capital on continuous injections of ultra-cheap liquidity from the Fed that even the hint of a future cutback in the flow of funds brought an instant paroxysm on the markets. Bond prices fell, bringing a rise in bond yields (interest rates). On Wall Street, the Dow fell, losing some 200 points in the period immediately following Bernanke’s press conference and dropping a further 350 points the next day before recovering slightly on Friday.

The selloff has had a major impact around the world, especially in so-called emerging markets, where currencies that had been rising against the dollar have suffered significant falls. The Turkish lira and the Indian rupee hit record lows last week.

Fund managers reported major withdrawals from debt funds in response to fears that many of these countries have become too dependent on the outflow of money from the United States under the quantitative easing program, and that a reversal of the money flow could lead to serious economic problems. Turkey and India were both seen as vulnerable because they have deficits on their current accounts.

But the economic difficulties of these regions are only a graphic expression of the deepening crisis at the very centre of the global capitalist economy.

Since the global financial crisis erupted in 2008, central banks around the world, with the US Fed leading the way, are estimated to have shovelled at least \$10 trillion into financial markets. The initial assistance took the form of bailouts. Now it is being delivered in the form of quantitative easing, in which hundreds of billions of dollars at ultra-cheap rates is made available to banks and finance houses through central bank purchases of bonds.

The official rationale for this policy is that purchasing bonds and driving down the yields on the safest financial assets will eventually lead to greater risk-taking by investors, including the injection of money into the real economy.

That has not taken place. Rather, quantitative easing has promoted unprecedented financial speculation, leading to a situation in which share markets have risen sharply while the real economy has either grown very slowly, stagnated or contracted.

Even before the latest selloff it was clear that a new phase of financial turbulence had begun, with growing signs of instability in the wake of Bernanke's comments on May 22 that the Fed could consider a "taper" in quantitative easing, sparking fears of a fall in bond prices and a consequent rise interest rates.

Speaking to a group of British MPs earlier this month, the Bank of England's director of financial stability, Andy Haldane, pointed to the potential for a new crisis. "Let's be clear," he said. "We've intentionally blown the biggest government bond bubble in history." The biggest risk to the financial system, he added, was a "disorderly reversion", that is, a rapid fall in the bond market.

There could hardly be a clearer admission of the utter bankruptcy of the present capitalist economic order.

The very policies enacted by governments and financial authorities on behalf of the ruling classes around the world have now created the conditions for the development of a new economic catastrophe on top of the social and economic devastation already resulting from the meltdown of 2008.

The form in which the latest round of turbulence has emerged indicates that the crisis is rooted in a malignancy at the very centre of the capitalist profit system itself.

Bernanke declared that the QE program would start to be pulled back only if there was an improvement in real economic conditions. But the reaction of the markets to this suggestion indicates that were it actually carried out there would be a full-scale collapse. In other words, financial markets can no longer survive under what were once considered "normal" conditions.

This is the expression of a profound disintegration in the very process of capitalist production itself. In so-called "normal" conditions, money is invested in the means of production and used to employ labour to produce commodities which are then sold to generate a profit. At least part of this profit is then used to finance further investment, generating further production and economic growth.

However, this process has broken down. Profits are being accumulated, but increasingly

they do not result from an expansion of the economy as a whole, but rather from cost-cutting, wage reductions, such as in the US auto industry, or the development of new technologies that drive competitors out of the market.

Economic stagnation and contracting markets mean that profits are not reinvested, but lead to the accumulation of large cash balances on the books of corporations—estimated to be as much as \$2 trillion in the US economy—which are then used for speculative operations in financial markets.

The violent reaction to the possibility that quantitative easing might be cut back shows the extreme dependence of the capitalist economy on this form of economic parasitism.

It is, of course, not possible to predict the exact form the next stage of the breakdown of the global capitalist economy will assume. But the perverse logic of the market gyrations is very revealing.

The panicked response to the suggestion of even a partial return to what were once were considered “normal” economic conditions signifies that the “health” of the financial markets depends on the continued impoverishment of the working class and the mass of the population.

The original source of this article is [World Socialist Web Site](#)
Copyright © [Nick Beams](#), [World Socialist Web Site](#), 2013

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Nick Beams](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca

www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca