

Money Markets 3CR 16 April

Attention returned to the dangers of a global smash during the share-market roller-coaster in January. The Chinese markets went into free fall. That chaos got people worrying some more about the long-term health of the world economy. Because the headlines were about plummeting share-prices, attention reverted to the financial aspects. This narrow focus was helped along by the release of the feature film, *The Big Short*.

Since then, the share markets seem to have settled down. Shocks are confined to single sectors, to individual economies or to this or that corporation. The index numbers usually recover within a week. The pundits then reassure each other that the ups and downs were much needed 'corrections'.

So, has the hurricane passed us by? Will Zombie capitalism revive?

In tracking of the Perfect Storm ahead, we've stressed that the source of the coming smash is excess capacity in the system of production. We keep banging on about excess capacity because the conventional ignorance is such that the Global Financial Crisis has become an acronym: GFC. Say 'GFC' and a surprisingly wide range of people instantly know what you mean. There is no disputing that, after 2007, the implosion in the system of production erupted through the financial sector. It almost always does.

The reason why crises appear in the financial sector is because of the structured dynamics of the capitalist system. Money makes that world go around. Every stage depends on access to credit. The expansion of capital is best understood by following the circuit of money-capital. For instance, a corporation uses its access to money-capital to buy production goods, including labour-power. Its wage-slaves produce commodities for sale. Their sale realises profits from the surplus-value. At least some of those profits have to return to the corporation if there is to be the next bout of investment. The circuit of exploitation and expansion needs a drip feed of credit, every second of every day.

That ceaseless flow of credit is maintained via a social division of capital. Banks keep the system of production afloat. Block that flow of credit to production, distribution and consumption and all will seize up. That almost happened in October 2008.

Each bank is only as sound as the corporations and governments to whom it has lent money. Among the biggest borrowers from the big banks are other banks. The lines of credit pour down to the non-banking corporations. A bank might decide to stop lending to another bank because of doubts about the health of the other bank's clients, not because the balance-sheet of the other bank looks wonky.

The talk about a new Royal Commission into banks misses a crucial point. What's wrong with the banks is what is wrong with the capitalist system as a whole. You can't have capitalism without banks anymore than you can have capitalism without money. You can have capitalism without cash, but not with money in its other forms. Banks are essential if money as credit is to perform its vital functions within the expansion of capital.

That means that we opponents of capitalism have to dual track our investigations. Yes, we must follow the money, but in doing so we must never forget that every cent comes from exploiting wage-slaves. And we must never forget that at least some of the profits have to be reinvested if capital is to keep growing.

Our concern in these discussions is always with the ability of capital to expand. Expansion depends on finding investments that offer at least an average rate of profit. That opportunity has gone AWOL.

The erstwhile Governor of the Bank of England, Mervyn King, is rabbiting on about a 'savings glut' as the reason for the low rates of growth since 2008. This learned gent may or may not know it, but he is talking about Marx's concept of 'excess capacity'. A savings glut means that corporate global capital cannot find enough places to invest in order to extract profits from exploiting the rest of us. King mistakes an effect for the cause. Keynes did much the same by focusing on under-consumption rather than on over-production.

The residential property bubble is yet another symptom of 'excess capacity'. Small investors have been burn on the share-market imagine that bricks are solid. Of course, investments in the housing sector differ from putting excess savings into the money market. Unlike share trading, the erection of new houses and blocks of apartments involves the production of surplus-value. (That worksite

exploitation can't happen if the money goes into existing properties.) But once the profits have been taken out of the surplus-value produced by construction workers, the extra housing stock will never add one jot to the capacity to produce more surplus value. The money that has gone into housing is now dead capital. In addition, real estate investments are not as readily available as is share capital to throw into the expansion of capital, should an opportunity appear.

Just for now, I don't want to argue the pros and cons of whether there will be a catastrophic crash, or when. Instead, I'd like to say something about which signs to watch out for. In particular, what, if anything, we can discern from taking note of the hourly stock-market reports on the 'non-commercial' ABC.

The first point to repeat is that the stock market is not the best barometer. It has always been a voting machine, never a weighing machine. A big change began around 1980. As a result, share prices now express two distinct forces in the economy. They are distinct in how they take effect, yet they were linked at birth.

The old determinant is still around as a measure of the prospect of taking away the average rate of profit. Two recent cases show where the share price and the real economy coincide. The collapse in the share price for Volkswagen after its scandal last year is one. The other example is the collapse in the share price for steel producers due to the excess capacity in global sector.

The second driver derives from the long-term excess capacity throughout the entire global economy, not just for iron and steel.

How can stock-markets be booming if the fundamentals are fundamentally unsound? There are several reasons and they differ from country to country.

In Japan, the government has directed the public's savings into keeping the Nikkei Index at around 17,000. The result? A plunge into negative interest rates. Tokyo's share-market looks good on paper but the economy remains stagnant.

Something similar happened in the U.S. of A. with Quantitative Easing to the tune of a couple of trillion dollars. They kept Goldman Sachs rolling in it but did little to stimulate productive demands.

Another reason for the Wall Street boom is that the giant U.S. corporates are making record profits. They can do so after strengthening their oligopolistic clout inside the U.S. of A. since 2007. Their profit levels at home are now 50 % greater than their overseas take. To fuel this domestic growth the corporates continue to invest at trend rates. But they have nonetheless accumulated \$800 billion each year in funds for which they cannot find profitable investments. \$800 billion is 4 percent of GDP. Five years at \$800 billion adds up to four trillion dollars with nowhere to go. Well, not quite nowhere. It flushes through the Wall Street.

The 'savings glut' encourages managers to try their hand at making money out of money. In short, they gamble on the money markets. Let it be clear: they cannot *make* money on the money markets in the way they do in farms, factories, hospitals, airlines or hotels. The managers cannot extract surplus-value by trading in shares, bonds or currencies. The money with which they gamble has come from prior exploitation of wage-slaves. The most the traders can achieve is to get their hands on the excess funds being gambled by other players. The pool of value does not swell. The most that can happen is for the turnovers of money to accelerate.

Where to look?

As the old saying goes, we're treated like mushrooms: kept in the dark and fed on a supersaturated solution of bourgeois bullshit. If the current combination of stagnation and turbulence is beyond the wit of central bankers, what chance does any of us have of making accurate predictions about where the global economy is headed?

For my part, I am waiting for the 2016 report of the Bank of International Settlements, due out late in June. Since 2007, it has been warning of disasters ahead. More recently, it has despaired because governments and corporations have done little more than to postpone the day of reckoning. If the next BIS report says the worst is behind us, then I shall have to eat my hat.

Meanwhile, if you want just one number to track, keep your eye on European bank stocks, in particular, the Italian banks. Several of them have been trading while insolvent. But a further word of caution.

I'm able to point to Italy as a hot spot because its banks are widely recognised to be dangling over the precipice. Hence, some preventive measures are underway. The coming eruption is more likely to happen at a stress point to which no one is paying much attention. The system is like a water-bed. Relieving pressure at one corner shifts one of the problems out of sight. It doesn't make any of them go away.