

The deep rift in the global economy and its significance

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There is an extraordinary dichotomy in the world economy for which there is no parallel except for the “roaring twenties” of a century ago when a US boom led to the stock market crash of 1929 and the onset of the Great Depression.

As the rest of the world—all the major economies—struggle to record even a positive growth rate, let alone consistent expansion, the US is in the midst of a financial boom as money pours into its stock market and financial system from the rest of the world.

This phenomenon, which has markedly increased since the onset of the pandemic, has been accelerated by the financial hype surrounding the development of artificial intelligence (AI), reflected in the rise of the AI firm Nvidia from an also-ran among tech stocks to the second biggest US firm by market capitalization.

And it has been intensified with the election of Trump to the US presidency, his placing of financial oligarchs in control of key areas of his administration, his commitment to cuts in corporate taxes, and the virtual scrapping of what remains of financial regulations.

It would take more space than we have available here to detail all the indications of the gathering slump in the global economy. Suffice it to point to some outstanding expressions of this process.

In Germany, the world’s third-largest economy and once the powerhouse of Europe, a wave of sackings is underway across manufacturing industry, the backbone of its economy. This is not a conjunctural downturn, from which a “recovery” can be expected in the course of the business cycle, but the disintegration of its very foundations.

Headlines in the financial press pose the question “Is the German business model broken?” The answer increasingly being given is yes.

In November, the *Financial Times* (FT) cited comments by Deutsche Bank’s chief economist Robin Winkler that the fall in industrial production was “the most pronounced downturn” in Germany’s post-war history.

Last September, Siegfried Russwurm, the president of the Federation of German Industry, warned: “Germany’s business model in grave danger—not some time in the future, but here and now.” He said that by the year 2030, one-fifth of Germany’s industrial production could disappear, and that “deindustrialization is a real risk.”

The mass sackings in steel and the auto industry—the threatened closure of three VW plants—have attracted international attention. But the crisis does not stop there. Chemical production, in which

Germany has been a world leader since the last decades of the 19th century, is now down 18 percent on its 2018 levels.

A report by Germany’s Bundesbank issued last week slashed its forecast for growth in 2025 from 1 percent to near zero and warned that a US tariff war could push it into recession.

The central bank said that under current assumptions, Germany would grow by only 0.1 percent next year, but if Trump followed through on his threats to impose a 10 percent tariff on European goods and 60 percent on Chinese exports to the US, German GDP could fall by 0.6 percentage points.

Significantly, Bundesbank president Joachim Nagel, who insisted in September that “Germany is not in decline,” noted in his remarks on the latest report: “The German economy is struggling not just with persistent cyclical headwinds but also with structural problems.”

The latest data coming out of China, the world’s second-largest economy, and the major source of global economic growth since the global financial crisis of 2008–09, show it is struggling to reach its official growth target of “around 5 percent” this year—the lowest in more than three decades—and growth could fall even lower next year.

Alarm bells are ringing in Beijing and growing louder. Figures released earlier this week showed consumption spending grew by only 3 percent in the year to November, below predictions of a 4.6 percent rise and the increase the previous month of 4.8 percent.

At its annual Central Economic Work Conference last week, the Chinese Communist Party leadership called for “vigorous” efforts to boost consumption, and its report listed the issue as the top priority, significantly ahead of the call to develop “new productive forces” which has been the central pillar of the economic program advanced by President Xi Jinping.

Earlier this month, the government called for a shift in the stance of monetary policy from “prudent” to “moderately loose”—the first time such language has been used since the 2008 crisis—in a bid to try to boost the economy.

Japan has been well out of the picture as a center of global growth for decades and has struggled against persistent deflationary pressures, with its growth rate coming in only at between 1 percent and 2 percent at best. Its decline was expressed earlier this year when it lost its position as the world’s third-largest economy to Germany and was demoted to fourth place.

One could also cite the case of the UK or middling economies such as Australia where, but for government spending, the

economy would be going backward, and per capita GDP has declined for seven quarters in a row.

By contrast, the US economy appears to be roaring ahead as money pours into its financial markets. While the prevailing sentiment is that the US will continue to power ahead, warnings are being sounded.

Regular FT commentator Ruchir Sharma, the chair of Rockefeller International, in a recent piece entitled “The mother of all bubbles,” detailed the extraordinary inflow of money into Wall Street and noted the rise of “American exceptionalism” in financial circles.

Global investors, he wrote, “are committing more capital to a single country than ever before in modern history” with the result that the US “accounts for nearly 70 percent of the leading global stock market index, up from 30 percent in the 1980s.” The divorce of the financial sector from the underlying real economy is highlighted by the fact that the US share of the global economy is 27 percent.

The drawing power of the US in global debt and private markets is stronger than ever. So far in 2024, “foreigners have poured capital into US debt at an annualized rate of \$1 trillion, nearly double the flows into the eurozone” with the US attracting 70 percent of the flows into the \$13 trillion market for private investments.

Sharma said talking about tech or AI bubbles obscured the broader picture. “Thoroughly dominating the mind space of global investors, America is over-owned [meaning that everyone who wants to hold a stock has already done so], overvalued, and overhyped to a degree never seen before.”

In a follow-up column, he noted he had received some pushback in response to his initial assessment, with virtually every Wall Street analyst insisting US stock would continue to rise. But clearly drawing on historical experience, he noted that “all this enthusiasm only tends to confirm that the bubble is at a very advanced stage.”

The flaw in the US economy, he noted, was its “sharply increasing addiction to debt” and that it now took nearly \$2 of additional debt to generate an additional \$1 of GDP, a 50 percent increase in the past five years.

“If any other country were spending this way, investors would be fleeing, but for now, they think America can get away with anything, as the world’s leading economy and issuer of the reserve currency.”

Another factor fueling the American bubble is the belief, at least in some sections of the financial markets, that the Trump tariff war, especially against China, is going to have beneficial effects.

Long-time China analyst Stephen Roach, the former head of Morgan Stanley Asia, outlined some of the underlying realities of the US-China economic relationship. He began by pointing to Beijing’s response to the latest US measures with the ban on exports of critical minerals. These were a “reminder that retaliation is the high-octane fuel of conflict escalation.”

He said there was a mistaken view in US policy circles that the relationship with China was one way, leaving out the other half of the equation.

“The US is also heavily reliant on low-cost Chinese goods to

make ends meet for income-constrained consumers; the US needs Chinese surplus saving to help fill its void of domestic saving; and US producers rely on China as America’s third-largest export market. This co-dependency means the US depends on China just as China depends on America.”

He pointed to the ultimate Chinese financial weapon—its holdings of US Treasury bonds, government debt, amounting to more than \$1 trillion, comprising \$772 by the People’s Republic and \$233 billion emanating from Hong Kong.

If China began withdrawing its holdings or even failed to turn up at auctions of Treasury debt, “this would be devastating for America’s deficit-prone economy and would unleash havoc in the US bond market, with wrenching collateral damage in world financial markets.”

The prevailing view among “cavalier Americans” is that China would not “dare flirt with this nuclear option” because the damage would be too great. But while such a scenario may seem far-fetched, because it would produce a financial meltdown, it would be “reckless to dismiss the ‘tail risk’ consequences of a trapped adversary.”

As we noted at the outset, the only parallel with the present situation is the “roaring twenties.” There is a perception that the Wall Street crash, which sparked the Great Depression, simply emerged out of the blue.

In fact, there were growing signs of what was to come before the events of October 1929. By 1927–28, there were clear indications of a developing slump, especially in Germany, which led to a series of political crises.

The financial catastrophe which followed—depression, mass unemployment, fascism, dictatorship, and eventually world war—posed the objective necessity for world socialist revolution as the only answer to the barbarism unleashed by the crisis of capitalism.

The working class, because of the betrayals of its leadership, the Stalinist Communist Parties and the parties of social democracy, was unable to carry out this historically necessary task.

History, of course, does not repeat itself, but as Mark Twain commented, it does tend to rhyme. And all the indications are that the crisis of capitalism, its death agony, is at an even more advanced stage than it was at that time.

At this point, therefore, the decisive issue is the building of the International Committee of the Fourth International as the world party of socialist revolution to provide the necessary leadership in the massive class struggles placed immediately on the agenda by the deepening economic breakdown of the capitalist economic order engulfing the world and in which there will be no “American exceptionalism.”



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