Davos summit: From the "new economy" to war and recession

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Back in the halcyon days of the 1990s, when the stock market bubble was being hailed as the birth of a "new economy," the annual gathering of politicians and business leaders at the World Economic Forum (WEF) took the form of a celebration of the supposed wonders of global capitalism. The free market had triumphed and was now demonstrating its superiority. But with share markets having fallen three years in a row, it's a very different scene at the Davos summit.

The headlines on the reports and comment pieces on last week's gathering in the Swiss alpine resort told the story. "Economic gloom at Davos summit", "World Forum faces tough economic skiing", "Global leaders wary, fret about war" and "Iraq darkens mood at Davos" were typical.

It wasn't only the threat of war and the worsening economic outlook that contributed to the gloomy atmosphere. Some of the old crowd, such as Enron chief Kenneth Lay, were not in attendance, having gone down with the collapse of the share market bubble and the exposure of the vast fraud and corruption that went with it. Others such as Stephen Case of AOL Time Warner have lost their positions. As the WEF founder Klaus Schwab told the *New York Times*: "We have noticed that the life of a chief executive officer has become relatively short."

The theme for this year's summit was "building trust" to reflect what the WEF termed "an extraordinary climate of global uncertainty and complexity."

According to a Reuters report, the opening of the summit was haunted by "worries over a fragile economy" and warnings of the economic consequences of war against Iraq.

In order to provide a stimulus to the rest of the world, the US economy would need to grow by at least 5 percent. But, after virtually stalling in the fourth quarter of 2002, it is predicted to grow by less than 3 percent in 2003.

Gail Fosler, chief economist of the US-based research group the Conference Board, warned that war could result in no growth in the US or even a recession. Ujiie Junichi, the chief executive of the Japanese financial services giant Nomura Holdings, said that whether it was a short war or a long war "the best answer is no war." Morgan Stanley chief economist Stephen Roach said that US economic growth had been "pathetic" last year while a war could push the economy into a recession. In a comment entitled "The Davos Daze" he noted that the hope of a year ago had given way to the "grim realities of a world in trouble" with the "mood in Europe as bleak as I've ever seen it."

Just about the only bright spot economists could pick out was China where annual growth is between 7 and 8 percent. But examination of the Chinese figures only highlights the worsening position in the rest of the world. China accounts for only 4 percent of world gross domestic product (GDP). Yet it was responsible for 15 percent of the growth of world GDP in 2002 and close to 60 percent of world export growth. These figures do not attest to a China-led world recovery, rather to a worsening global stagnation.

Economists and businessmen at the summit emphasised that Europe and Asia depended on strong growth in the US economy and would remain in the doldrums so long as the US economy did not recover. According to Robert Mundell of Columbia University: "There are no other engines. Japan will take longer to recover from the downturn than the US has. And the rise of the euro will dent exports in Europe, which is the only strong part of their economies." The US economy, he maintained, could "keep going, but that's not enough for the US to be the motor of the global economy."

What this adds up to is that the world economy is trapped in a kind of vicious circle. On the one hand, economic growth in the rest of the world depends on an expansion of the US economy. On the other hand, in the wake of the collapse of the share market bubble, expanded growth in the US depends on an upturn in the rest of the world.

The fears that hung over the Davos summit have been reflected in world stock markets. Last week London's share market, the FTSE, hit a seven-year low after suffering a 10-day fall—its longest continuous losing streak since the index was created in 1984. In the rest of Europe, share prices last week were down to a six-year low.

While the fall in the US market has not been quite as pronounced in the recent period, the Dow is down some 29 percent from its all-time high in January 2000 and the Nasdaq is down 73 percent from its peak in March 2000.

The lack of business confidence reflected in falling share markets will see cuts to investment, adding to the downward pressure on growth rates and profits. As an article in the *Financial Times* of January 24 noted: "Companies across the board are responding to a more chastened investment environment by cutting back on capital expenditure, as few see much growth in their margins. Many sectors are plagued with over-capacity and companies are focused on paying off debt to improve their credit ratings. That is likely to put a brake on big increases in profits."

The social consequences of the downturn are reflected in the increase in unemployment. According to a report by the International Labor Office (ILO) released last week, about 20 million people worldwide lost their jobs in the past two years, bringing the jobless total to about 180 million.

ILO director general Juan Somavia said the dramatic deterioration in the world employment situation was "very disturbing" because of its "grave consequences for social and political stability in large parts of the world."

Nowhere are these trends more clearly expressed than in the centre of world capitalism, the United States.

An analysis conducted by Jared Bernstein for the Economic Policy Institute shows that since the last economic peak in March 2001, the number of jobless has increased by 2.8 million. Compared with the end of 2000, there are now 2.1 million fewer private sector jobs, as "payrolls contracted not only over the recessionary year of 2001, but also over the alleged recovery year of 2002." According to Bernstein, the fall in private sector jobs is "greater than any of the past three recession/recoveries," while the average time spent unemployed is on the rise, having increased by more than five weeks since the fourth quarter of 2000.