# On eve of G20 summit: Economic danger signs

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23 September 2009

One year after the onset of the financial crisis and on the eve of the G20 summit this weekend, the political establishment is proclaiming imminent recovery from the greatest economic crisis since the Second World War.

"From a technical perspective, the recession is very likely over," Ben Bernanke, US Federal Reserve Chairman, said last week. He argued that the collapse of the financial system has stabilized, bringing with it a rally in equity prices and a slowing of the rate of increase of unemployment.

Bernanke added, "It's still going to feel like a very weak economy for some time," thereby acknowledging that even under his optimistic scenario, high unemployment will persist for the foreseeable future. Nevertheless, an official consensus has emerged that the worst is over and that a return to the catastrophic conditions of late 2008 is improbable.

Feeding the speculation of economic recovery has been the extraordinary rise in global stock markets. Every major world index is up by at least 20 percent over the past six months, with the Russian RTS up by 63.38 percent, the Chinese Hang Seng by 57.63 percent, and the Indian S&P/CNX 500 up by nearly 75.84 percent. In the US, the S&P 500 is up by 30.81 percent, and the NASDAQ by 39.84 percent. Gold prices have followed suit, rising by 38.5 percent in the past six months.

The rapid rise in asset prices has been vastly disproportionate to any real growth of the "real economy." While the rate of economic contraction has slowed worldwide in the last six months, unemployment continues to soar. Growth is extremely anemic, and there are many signs that it could resume its downward course in the fourth quarter of this year.

William White, former chief economist at the Bank of International Settlements, has ruled out the possibility of any sustained return to growth along the lines described by Bernanke. "The only thing that would really surprise me is a rapid and sustainable recovery from the position we're in," he noted.

Moreover, the current bout of recovery in the real economy is heavily dependent on government programs. US sales increased by 2.7 percent last month, driven largely by the government's "cash for clunkers" program.

The rise in stock markets is largely a product of the nearly free credit and multitrillion-dollar bank bailouts organized by the world's governments, particularly in the United States. This money has produced an upsurge in speculative investment, particularly to riskier assets paying higher returns. As a result, several commentators have begun raising concerns about a new bubble.

As the *Financial Times* wrote on Monday, "Record low interest rates and vast amounts of money pumped into economies by the central banks has translated into surging asset values across financial markets, raising the prospect of a new speculative bubble."

The *Times* quotes Steven Ricchiuto, chief economist at Mizuho Securities: "Something will break the current trend and I'm worried about the risk of a 1987-style one-day correction," referring to "Black Monday," on which the US stock market fell by 20 percent.

"Rarely has the stock market seen a six-month rally like the one it just turned in," The *Wall Street Journal* commented on Monday. "The Dow Jones Industrial Average's 46% surge was one of just six of that magnitude in the last 100 years." The *Journal* notes that every recovery of such magnitude, with the exception of one, has ended in dramatic retrenchments later on. In fact, markets are currently witnessing their most dramatic rise since 1930, in the midst of the Great Depression.

Whatever the mania on Wall Street and other financial centers, none of the essential contradictions that precipitated the present crisis have been resolved. On the contrary, they have intensified.

In order to prop up the banks, states throughout the world—in particular, the United States—have assumed the gambling debts of the financial elite. On the one hand, this raises the very real specter of state bankruptcy, particularly in the event of another sharp downturn.

On the other hand, it encourages the resumption of the very practices that led to the crisis in the first place. The largest banks have strengthened their stranglehold over the financial system, including through a new wave of consolidations. At the same time, they are confident that if they get into trouble again, they will be bailed out.

The resumption of speculative bubbles is taking place in the absence of any real foundation. Far from there being a resurgence of economic production, the crisis has been the occasion for the destruction of millions of jobs and wide swaths of industry. The more perceptive commentators now recognize that the growth of unemployment is structural—the jobs simply are not coming back.

Among the other factors that point to a renewed crisis:

• There has been no serious regulation of the financial system in the United States or internationally, and there have been no limits placed on executive bonuses. Both the means and the incentive to perpetrate fraud and engage in speculative activities remain.

• The financial and currency imbalances in the world economy have only deepened, and the position of the US dollar is even more questionable now than it was a year ago. The US government has taken on, in the estimate of the TARP's inspector-general, potentially $23 trillion in bailout obligations. There is a real concern, amid a continuing devaluation of the dollar, of a rapid decline in the creditworthiness of the US government.

• World powers have not been able to come to any consensus on their response to the crisis. On the contrary, there are many signs that global tensions are increasing. European powers have already reacted negatively to the proposals submitted by the United States for the upcoming G20 meeting, and earlier this month the US and China took initial steps in what threatens to become a major trade conflict.

The deepening of the contradictions plaguing world capitalism has been accompanied by a sharp intensification of class tensions. Underlying all these policies has been the systematic transfer of wealth. The massive bank bailouts have been coupled with the driving down of wages and the destruction of jobs. Now there are calls, being actively put into practice by the Obama Administration, to cut the federal budget deficit by further eliminating social services.

These different factors set the stage for the inevitable eruption of open social conflict.

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