German politicians, media warn about the next global financial crisis

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Within Germany's top political circles fear is growing of a second international financial crash exceeding in intensity and impact that of autumn 2008.

At the weekend, Chancellor Angela Merkel and Finance Minister Wolfgang Schäuble (both Christian Democratic Union—CDU) warned that the economic crisis was far from over. "We have initially succeeded in limiting the effects of the crisis on people, but difficulties remain in front of us," Merkel told a CDU meeting.

Schäuble compared the present financial crisis with the fall of the Berlin Wall twenty years earlier. "The financial crisis will change the world as powerfully as did the fall of the [Berlin] Wall. The balance between America, Asia and Europe is shifting dramatically," he told *Bild am Sonntag*. He also appealed to bankers to exercise restraint when it came to their bonus payments.

Jean-Claude Trichet, president of the European Central Bank, expressed fears about a social collapse if there is a new round of bank failures. "It is surely too early to say the crisis is over," he told a European congress of bankers in Frankfurt, adding the warning: "Our democracies will not accept twice giving such extensive support to the financial sector with taxpayers' money."

The enormous stock market bubble that has formed over the past eight months is seen as the biggest source of danger of another crash. The most important share indices—the Dow Jones, the Japanese Nikkei and the German DAX—have risen by around 50 to 60 percent since March. The prices of crude oil, copper and other raw materials have also more than doubled. These enormous increases are not based upon any corresponding economic growth. On the contrary, economic activity has fallen in numerous countries and many firms are still posting losses.

The rally in stock prices is due to the enormous liquidity that governments and central banks have pumped into the economy. Financial establishments are able to borrow unlimited sums of money from the central banks at virtually zero interest, and thus make high profits from their speculative deals. The trillions in taxpayers' money that are being spent to revive the economy do not flow into investments, but into speculative deals, high payouts to shareholders, and exorbitant bonus payments for the bankers.

"The stock markets are rising because so much money has to go somewhere—because shares per se are valued attractively," writes *Wirtschaftswoche*, the German business weekly, in an analysis of the current stock exchange boom. According to the magazine, the price-earnings ratio—comparing the market value per share to the annual earnings per share of the respective enterprise—has reached a historic maximum of 133. A price-earnings ratio of 14 or more is considered to mean shares are valued excessively.

As a consequence of the crisis, hundreds of thousands of workers in the US alone are losing their jobs each month, workers are being forced to forgo wages, and social programs are being cut on a massive scale. At the same time, the orgy of enrichment of those at the top of society has reached the same level as prior to the crisis, or even higher.

The large investment banks and hedge funds will this year disburse over $100 billion in bonuses to their staff. Goldman Sachs, the US bank, has set aside $17 billion for this purpose. In Germany, the 30 largest enterprises listed on the DAX plan to transfer over 20 billion euros to their shareholders in the spring of 2010. That is 71 percent of their net profits. In the previous record year, 2007, the corresponding figure was only 45 percent. Proportionately less will be available for new investment.

This is the background to the warnings of Merkel, Schäuble and Trichet. They fear that the shameless enrichment of the financial oligarchy, linked with a new crisis on the financial markets, could unleash an uncontrollable social rebellion.

Many experts consider another financial crash to be inevitable. This week's edition of *Der Spiegel*, the weekly newsmagazine, ran the following sensationalized headline, comic book-style, on its front page: "The trillion-bomb." The 12-page accompanying article begins by asserting that the question is not whether the present stock market bubble bursts, but when…

There follows a devastating picture of the present state of capitalist society: "In the midst of a world economy still gripped by crisis, the financial elite is again accumulating billions," the article states. "The old greed is there again, and the old hubris too." Never before in modern economic history has "the finance industry had such unfettered access to the finances of the state." *Der Spiegel* warns expressly of the "risk of hyperinflation—a breakneck rapidly progressing monetary depreciation, as Germany experienced at the beginning of the 1920s."

At the same time, citing Adair Turner, chair of Britain's Financial Services Authority, the article points to the ideological effects of the crisis. It not only involves a crisis of individual banks, but also a crisis of "intellectual thought": "Our conception that prices bear important information, that markets behave rationally and correct themselves in cases of irrationality, all that has been placed in question." In other words, capitalism and the free-market economy are thoroughly discredited.

Der Spiegel directs its principal fire against the US government. "The finance industry in the US is regulated by the finance industry, not by the finance minister [treasury secretary]," it notes disapprovingly, and lists the numerous individuals whose careers have extended from the executive offices of banks such as Goldman Sachs to the offices of the treasury department, or to the close environs of President Barack Obama, and back again.

"If one looked at the US with the same analytic coolness as [one looks at] Russia," observes the American economist James Galbraith, cited in the article, "one could not avoid speaking of the rule of an oligopoly comprised of politicians and bankers. The powerful individuals on Wall Street and in Washington are no less closely interlinked than Prime Minister Vladimir Putin and the magnates controlling Russia's raw material empire."

Der Spiegel speaks for that section of the German ruling elite that wants to end the state-financed reflationary measures and the policy of cheap money as quickly as possible, pleading instead for a lowering of business taxes and severe budget cuts. Although that would entail a substantial dismantling of social programs and a short-term increase in bankruptcies and job cuts, this is considered the lesser evil compared to a sudden economic collapse with incalculable social consequences.

The attitude of *Der Spiegel* essentially corresponds to that of the government in Berlin. The outgoing coalition of the Christian Democrats and the Social Democratic Party had already enshrined a "debt brake" in the constitution shortly before September's parliamentary elections, which now forces the new government onto a drastic austerity course. New state debt must be reduced from the present 86 billion euros to 10 billion in 2016 . Finance Minister Schäuble has repeatedly insisted that he will keep applying the debt brake and adhere to the European Union stability pact, which limits new debt to three percent of Gross Domestic Product.

But taking into account various internal and external political pressures means this austerity course is to be delayed by about one year. Chancellor Merkel fears a further erosion of support for the CDU and the loss of her government majority in the *Bundesrat* (upper house of parliament) if, immediately after the elections, she were to begin implementing social cuts. On an international level, there are sharp differences with Washington and London over financial policy, which already led to conflicts before the G20 summit in Pittsburgh.

The US and Britain, which have sacrificed a large part of their industrial base to the financial sector, have far fewer interests in a restrictive monetary policy than Germany, whose export trade and industry rank among the strongest in the world, and which fears the effects of a weak dollar on its competitive position. The vehemence with which *Der Spiegel* now attacks the American finance sector expresses the acuteness of the mutual tensions that are seldom openly addressed.

This must all be seen as a warning for working people. The global crisis of capitalism has reached a point where social and political compromise is no longer possible. Workers must prepare for fierce social struggles.