Sovereign debt fears trigger plunge in global markets

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Stock markets in the US, Europe and other regions plunged yesterday in response to growing fears over the size of sovereign debt in several countries. Greece is on the verge of national bankruptcy and international investors are sceptical about the government's ability to implement the savage cuts to wages and social spending required to lower its deficit from 12.7 percent of gross domestic product to just 3 percent by 2012. Portugal and Spain face a similar situation.

Underlying the crisis in the eurozone is the question as to whether US capitalism can finance its mounting debts and remain solvent in the long term. On Wednesday, Moody's Investors Service warned that America's triple-A sovereign credit rating will soon come under pressure unless economic growth is higher than forecast, or the Obama administration moves to reduce the fiscal deficit by initiating new and deeper spending cuts. Moody's warned that the current US debt trajectory was "clearly continuously upward".

This year's US budget deficit of nearly $1.6 trillion is equivalent to 10.6 percent of GDP, a record high since 1945. As a proportion of GDP, the US deficit is not far off Greece's but is higher than Spain's and twice the eurozone average. Only the dollar's status as the world currency has so far prevented Washington from coming under the same pressures as Greece and other southern European countries.

Yesterday's market decline began in Europe after European Central Bank President Jean-Claude Trichet issued what was reported as an "unusually stern warning" that other eurozone countries as well as Greece required "strong reforms" to cut their deficits. Spain's leading share index closed 6 percent lower, Portuguese shares lost 5 percent, and the Greek index declined 3.3 percent. London's FTSE100 finished down 2.2 percent to its lowest level since last November. The euro fell to a seven-month low against the dollar.

Yesterday's sell-off on Wall Street was partially due to worse than expected employment data. Initial claims for jobless benefits rose last week, dampening expectations of any improvement in the official unemployment rate that is to be updated today. The Dow Jones index briefly fell below the 10,000 mark before closing at 10,002—2.6 percent lower. This was its worst one-day decline since April 2009. The Dow has lost 6.5 percent in the past fortnight. Other New York indexes also finished lower yesterday—the S&P 500 lost 3.1 percent and the Nasdaq 3 percent.

Asian markets were mostly lower. Japan's Nikkei index was down 0.5 percent while China's Shanghai Composite lost 0.3 percent.

A Barclays Capital spokesman said the European Union may need to invoke emergency treaty powers to guarantee Greek debt. "If not contained, this could result in a 'Lehman-style' tsunami spreading across much of the EU," Barclays' Julian Callow told the British *Telegraph*.

This threat underscores the reality that the measures taken in response to the 2008 financial crash—including unprecedented bank bailouts, coordinated global stimulus spending measures, and near-zero official interest rates in many economies—have only compounded the underlying contradictions that gave rise to the crisis. Moreover, the latest share market

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gyrations may point to the imminent winding back of the stimulatory fiscal and monetary policies that triggered something of a rebound in the financial sector's fortunes over the past 10 months.

The International Monetary Fund recently warned governments that withdrawing emergency stimulus spending too soon risked triggering a "double dip" recession. "But if bond markets decide that sustained public spending and high deficits in some countries risk creating an unsustainable debt position, then they will take matters into their own hands," a *Wall Street Journal* article noted. "Schroders on Wednesday became the latest big investor to warn that the debt markets are in no mood to forgive politicians who fail to grasp their concerns. Faced with this pressure from the markets, policy makers in highly indebted countries will face an unpalatable choice: cut voluntarily, and take the risk the recovery is damaged; or have cuts forced on them in the midst of a market crisis. They may not have long to make up their minds."

This now applies to many of the world's major economies. "The issue of sovereign debt dominated many discussions in the Davos World Economic Forum last week," the *Financial Times* explained. "While much attention focussed on the fiscal crisis in Greece, considerable concern was also voiced about the outlook for countries such as the US and UK... At the heart of investor concerns is whether countries such as the US with its rising debt burdens has the political will, or the sense of consensus, to take decisive measures to cut debt."

Put more directly, "investor concerns" centre on whether national governments are going to be able to ram through draconian cuts to public spending—including welfare support, social infrastructure, health, education, and public sector jobs and wages—in the face of overwhelming opposition within the population. The global financial elites are now being forced to take note of a new factor in the situation—the re-emergence of the class struggle, with the working class beginning to intervene in defence of its interests.

The *Wall Street Journal* yesterday noted that investors had initially welcomed the EU's endorsement of the Greek government's plan to slash the deficit, but the country's bonds were promptly sold off again after trade unions announced that a general strike would be held on February 24.

One WSJ commentator, Paul Hannon, wrote a piece for the newspaper's internet blog section titled "Is Greece Governable?" Bemoaning a lack of "obedience and sense of common purpose" among ordinary Greeks, Hannon equated "governability" with Prime Minister George Papandreou's ability to crush resistance to his austerity drive. "Having questioned the governability of Greece, bond investors are now having the same doubts about some other countries with large budget deficits, which explains why the cost of insuring Portuguese government bonds against default has risen to a record high, and why investors are also selling Spanish government bonds," the article continued.

Portuguese workers are reportedly staging their first protest against spending cuts today. The country's minority social democratic government is in a major crisis, with opposition parties pressing a regional finance bill that could increase overall spending. Parliamentary Affairs Minister Jorge Lacao has warned that approval of the legislation "brings problems for governability", adding that "what is at stake is the credibility of the Portuguese state at a time when it is absolutely indispensable that the state shows rigour in its public accounts".

The question of "governability" is increasingly relevant to every advanced capitalist state, not just the most vulnerable eurozone economies, which have been dubbed the PIIGS (Portugal, Ireland, Italy, Greece, and Spain). That includes the US where unemployment is continuing to climb and the Obama administration is preparing massive inroads into social programs, including Social Security, Medicare and Medicaid.

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