Signs of new recession throw stock markets into turmoil

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US stocks fell sharply again Wednesday following a panicky selloff on global markets Tuesday. The Dow Jones Industrial Average plunged in the last hour of trading Wednesday after Moody's Investor Service warned that it might downgrade Spain's sovereign debt. The Dow ended with a loss of 96 points (0.98 percent), following Tuesday's loss of 268 points (2.7 percent). It now stands well below the 10,000 mark at 9,774.

The other major US indexes also closed sharply lower, compounding their massive losses Tuesday. The two-day plunge at the end of the second quarter resulted in worst quarter for US markets since December 2008.

The US selloff on Wednesday followed a second day of losses in Asia and a mild recovery in Europe.

Asian stocks fell precipitously Tuesday after the Conference Board revised its leading economic indicator for China for the month of April sharply downward, to 0.3 percent from an earlier estimate of 1.7 percent. With the US economy growing at an anemic rate and Europe carrying out severe austerity measures, global banks and investors are hoping that China will serve as the "growth engine" to sustain production and exports. The lower figure for China sent shock waves throughout Asia and beyond.

"There's some concern that China's not the growth engine we thought it was," said Len Blum, managing partner at Westwood Capital LLC. "A lot of investors have been hooking their dreams to China's growth engine to pull us out of our problems. There's certainly a fly in that ointment this morning."

The main stock index in Shanghai plunged 4.3 percent Tuesday to a 14-month low. Japan's Nikkei Stock Average was down 1.3 percent, South Korea's Kospi was down 1.4 percent and Hong Kong's Hang Seng Index shed 2.1 percent.

The selloff spread to Europe, where concern over a slowdown in China was compounded by anxiety over a Thursday deadline for eurozone banks to repay €440 billion in one-year loans from the European Central Bank, as well as by continued working class resistance to austerity measures. On Tuesday, shares fell 5.5 percent in Spain, 4 percent in France and 3.3 percent in Germany.

Wall Street opened sharply lower on Tuesday, and then fell further when the Conference Board reported that US consumer confidence dropped almost 10 points, to 52.9 from 62.7 in May. Economists had expected the index to fall only slightly.

There was more bad news on the US economy Wednesday. The payroll giant Automatic Data Processing (ADP) reported that only 13,000 new private-sector jobs had been created in June. Economists had expected ADP to report a jobs gain of 60,000 for the month.

All of these figures point to the unsustainability of the so-called "recovery." The dismal US jobs and consumer confidence data, combined with recent declines in home sales, scotch any prospect for a serious revival of consumer spending, which accounts for 70 percent of the US economy. The continuing crisis of the European banks increases the prospect for a renewed credit crunch and further slowing of the European economy. And the signs of a pullback in Chinese growth undermine hopes of a Chinese-led economic revival.

The G20 summit that ended Sunday only heightened fears on the financial markets. The turn to fiscal austerity signaled by the summit, with Europe leading the way, presages a further rise in unemployment and contraction in consumer spending, which can only choke off export markets and general economic activity.

At the same time, the summit underscored the lack of any international agreement on a coordinated strategy to deal with the economic crisis. The US and Germany, in particular, are at loggerheads on the timing of austerity measures.

The Obama administration is refusing to take measures to create jobs or provide serious relief for the 15 million unemployed, and is paring back its already inadequate stimulus program even as states and cities across the country teeter on the brink of bankruptcy and impose savage cuts in jobs and services. At the same time, it is urging Germany and Europe as a whole to adopt a slower pace in imposing social cuts for fear of a return to negative economic growth and global deflation.

While the banks and financial markets demand ruthless measures to make the working class pay for the crisis, they are also concerned over the prospect of growing social unrest. Another one-day general strike in Greece and a strike by transit workers that shut down the Madrid subway on Tuesday fueled the nervousness on the markets.

A growing number of economists are warning of the likelihood of a "double dip" recession. The *Los Angeles Times* on Wednesday quoted Mark Zandi, chief economist of Moody's Analytics, as saying, "There's an uncomfortably high probability that we slip back into recession. If we slip back, there's not policy response. We won't have the resources to respond."

Economist Paul Krugman published a column in Monday's *New York Times* headlined "The Third Depression," in which he excoriated governments for turning to hard money, austerity policies. "We are now, I fear, in the early stages of a third depression," he wrote. "And this third depression," he continued, "will be primarily a failure of policy. Around the world—most recently at last weekend's deeply discouraging G20 meeting—governments are obsessing about inflation when the real threat is deflation, preaching the need for belt-tightening when the real problem is inadequate spending."

Krugman went on to cite the experience of the 1930s, when Roosevelt, believing the depression to be largely over, turned in 1936 to fiscal austerity, resulting in a renewed slump in 1937 and 1938.

What Krugman, as a bourgeois economist, does not seriously consider are the manifold contradictions in world capitalism that make a policy of easy money and Keynesian stimulus no more viable than a policy of austerity. For one thing, much of the world banking system is insolvent, a crisis that cannot simply be papered over by printing more money.

There is an objective necessity for the financial elites to dismantle what remains of past social reforms and intensify the exploitation of the working class, just as there is an objective necessity for the working class to consciously respond by adopting a revolutionary strategy to fight for workers' power and socialism.