Economist Joseph Stiglitz warns of malaise "with no end in sight"

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Writing in last week's *Sunday Telegraph*, leading economist Joseph Stiglitz warned that the world economy faces a "Japanese-style malaise, with no end in sight." What makes matters worse, he adds, is that Japan's "lost decade" of low growth was accompanied by low unemployment and high "social cohesion"—unlike now.

Stiglitz, once the World Bank's chief economist and an adviser to the Clinton administration, is currently an economics professor at Stanford University. He said the "immediate future" looks like "a dismal picture".

He was voicing his thoughts on the eve of the October 14 publication of a paperback version of his book, *Freefall: Free Markets and the Sinking of the Global Economy*. He described how, "Events have (sadly) unfolded much as expected: growth has remained weak, sufficiently anaemic that unemployment has remained stubbornly high; mortgage foreclosures have continued apace and, while bank bonuses and profits have been restored, the supply of credit has not, even though the resumption of credit was supposedly the reason for the bank bailout."

Stiglitz criticised "the extent of the banks' fraudulent and unethical practices" and the way that they have been able to water down new regulations to the extent that "the prospect of another crisis down the road remains not insignificant."

"We have bought ourselves a little extra time before the next crisis", he stressed.

Stiglitz blames the private sector and governments for living in a "dream world" of fiscal recklessness and then reproaches Wall Street and the financial markets for their "shortsightedness" in demanding deficit reduction policies and austerity measures, which have engulfed countries like Greece and Spain. These are making the crisis worse by slowing growth, increasing unemployment and reducing income and tax revenue, he said. Spain "may be entering the kind of death spiral that afflicted Argentina just a decade ago" after it defaulted and "it may only be a matter of time" before it is attacked by speculators.

He also warns that the increasing attention financial markets are taking in inflation and national debts is currently unjustified, leading to more pressure for public spending cuts before the economy has a chance to recover. Stiglitz calls for fiscal stimulus packages instead, claiming that China's application of such measures in 2008 had led to one of the strongest recoveries. However, there are already signs of a significant slowdown in the economic growth of China, which is particularly vulnerable to any measures restricting its export markets and fears are growing that the country may be edging towards a sharper contraction.

Stiglitz calls for the eurozone to create a solidarity fund to help those facing economic problems, but he is not confident that the euro currency can survive the present economic crisis. One solution, he suggests, may be for Germany to leave the zone or for the zone to be divided into two. He looks back wistfully to 2008 as supposedly "a moment of national and international unity at the height of the crisis", when the idea of unfettered free markets had been discredited and expectations grew that "a new, more tempered capitalism and a new, more balanced global economic order" would emerge.

Instead, "the hope that suffused those early months of the crisis is quickly fading. In its place is a new mood of despair: the road to recovery may be even slower than I suggested, and the social tensions may be even greater. Bank officials have walked home with seven-figure bonuses while ordinary citizens face not only protracted unemployment but an unemployment insurance safety net that is not up to the challenges of the Great Recession."

It is true, as Stiglitz says, that the efforts at international coordination in response to the economic crisis have fractured into currency and trade policies that recall the economic wars of the 1930s. But even during the debates in 2008 about bank bailouts, new regulations for global financial markets and international control of financial institutions, a bitter struggle for economic advantage, power and profits was taking place. No government was really prepared to sacrifice its national financial and economic interests to the principle of international cooperation.

The US, for its part, was fearful that austerity measures would lead to low growth or even recession in Europe and jeopardise export markets and warned that a sudden cut in government spending could threaten global "recovery". In turn, the demands by France and Germany for new regulations represented attempts to promote their economic interests against those of Wall Street and the City of London—the world's two most important financial centres.

Stiglitz ends his musings by declaring that there has to be a return "to the basic principles of Keynesian economics" to tackle the real problems of unemployment and a lack of aggregate demand, otherwise, "the world is doomed to a protracted downturn."

For Stiglitz, the crisis has been the result of "wrong policies" and "shortsighted" bankers. However, his ideas, which seek to ascribe as a cause of the crisis a lack of aggregate demand—under-consumptionism—cannot explain the present global maelstrom. Keynesian measures cannot restore the health of the capitalist economy because they don't address the essential problem—the over-accumulation of capital in relation to the surplus value extracted from the working class. Capital seeks to resolve this by intensifying the exploitation of the working class and by the elimination of whole sections of capital through recession, trade war and ultimately military conflict.

Huge amounts of money have been injected into the economy in the hope that an expansion of liquidity would bring about a revival as it had in the 1990s and at the beginning of this decade. However, these measures failed and the crisis has worsened.

Stiglitz's article is a desperate appeal to the leading representatives of global financial capital that the harsh austerity measures and the havoc caused by violent capital movements are having major consequences for the stability and social cohesion of the profit system. This past weekend's International Monetary Fund and World Bank meeting was held in the face of mounting currency and trade conflicts, reflecting the systemic crisis of the capitalist system. The US is aggressively exploiting the crisis, pursuing a cheap dollar policy to lower the relative price of its exports and give it a competitive advantage against its rivals. It is using its domination of the IMF to target surplus countries like China—and implicitly Germany and Japan—which are attempting to resist US pressure.

Not only have the various measures taken since 2008 failed to address the underlying causes of the crisis. They have only heightened the contradictions of world capitalism and intensified tensions between nations and the social crisis within them. The IMF is now demanding a stepping up of the ruthless assault on the working class. For countries like Spain, suffering under a shrinking economy, 20 percent unemployment, temporary work contracts and welfare, wage and pension cuts, the IMF is demanding more austerity measures and warns that markets have "zero tolerance" for any failure.