Financial markets plunge on fears of renewed recession

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Stock markets in Europe and the United States plunged yesterday, amid growing fears of a further downturn of the global economy, along with a large-scale debt crisis emerging in Europe and rising global tensions over the weakness of the US dollar.

The US Dow Jones Industrial Average closed down 4.3 percent, falling 512.61 points, the largest fall since the 2008 financial collapse. Other US stock indices fell even further—the tech-based NASDAQ lost 5.08 percent, and the broader S&P 500 index lost 4.78 percent of its value. There were sharp declines in all sectors of the economy, but the heaviest losses came in raw materials, energy, defense contracting, and capital goods firms.

European markets also fell sharply, with the Italian stock index posting the largest loss of 5.16 percent. The French, British, German and Spanish indices were all down more than 3 percent. Bank stocks fell heavily on fears of a renewed debt crisis in Europe.

Dow Jones newswires described trading on stock, currency and commodities markets as “near-panic.” The Milan stock exchange stopped trading 30 minutes before the market’s normal closing time, and the NYSE Euronext temporarily suspended updates on the Paris, Brussels, Amsterdam and Lisbon stock exchanges.

Oil prices fell heavily, indicating fears of a further collapse in industrial and economic activity.

Oil traders worried that the US jobs report to be released today will show a significant fall in the US economy. Amrita Sen, an oil analyst with Barclays Capital, cut her forecast for global oil demand growth from 1.56 million to 1.1 million barrels per day, telling the *Financial Times*: “At the moment, the US numbers are looking so much weaker, it’s really affecting sentiment.”

The policies pursued by the financial aristocracy in Europe and the United States—involving deep attacks on the working class, most recently the $2.4 trillion budget-cutting deal in the United States—are exacerbating a global economic recession.

Italy and Spain were at the center of fears of a renewed debt crisis for European governments after a press conference by European Central Bank (ECB) chief Jean-Claude Trichet. Trichet said that the ECB would buy European governments’ bonds, effectively providing them with cash to avoid bankruptcy. However, questions arose over how much money the ECB would give, and which countries would receive it. Trichet admitted that the Governing Council’s decision to purchase state bonds was not unanimous—suggesting that the ECB might refuse to provide governments with large amounts of funding.

Bloomberg News and AFP cited “market sources” handling the ECB transactions—which are officially kept secret—as saying that the ECB was only buying Irish and Portuguese bonds. According to these reports, the Spanish and Italian governments would not receive ECB money. Trichet refused to confirm or deny that the ECB would fund Italy and Spain.

The head of the ECB reinforced demands from the financial markets for new and deeper attacks on the working class—calling for a “renewed commitment of all Heads of State or Government of the euro area to adhere strictly to the agreed fiscal targets. For several countries, this requires announcing and implementing additional and more frontloaded fiscal adjustment measures.”

This was a warning shot particularly to the Spanish and Italian governments. Spanish Prime Minister José Zapatero last week announced early elections in November, amid continuing street protests against the social austerity measures enacted by his deeply unpopular government. It is still unclear whether Zapatero will enact further social cuts during an election season.

As for Italian Prime Minister Silvio Berlusconi, his government passed a €79 billion cut in yearly spending last month. This came largely through anti-worker measures like increasing the pension age, raising medical

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fees, and further cuts in social and cultural spending.

On August 3, however, Berlusconi—facing rising opposition in the Italian working class—gave a speech suggesting he would not make further cuts. He said his cuts were sufficient, adding: "This is not an Italian crisis, but a planetary one… We will not follow the nervousness of the markets."

Investors reacted by sending interest rates for Italian and Spanish state bonds higher, to 6.19 percent for Italy and 6.28 percent for Spain—a level that threatens to send the two countries into bankruptcy. Italy already has €1.6 trillion in debts outstanding, a far larger sum than the debts of smaller countries like Greece or Ireland, which have faced debt crises since 2009. Italy is too large for the €440 billion European Financial Stability Fund to bail out.

If the ECB refuses to fund Italy, therefore, it would ultimately produce a severe financial crisis: a large-scale state bankruptcy in Italy or possibly Italy's exit from the euro so it could print its own money independently of the ECB.

In the United States, the European market crash compounded a string of bad news on the US economy and the position of the US dollar—amid nervousness over the results of today's jobs report.

US economic growth figures were recently revised downwards to a negligible 0.4 and 1.3 percent in the first two quarters of this year. Consumer spending fell 0.2 percent in June, amid continued downward pressure on American workers' wages and jobs. As a result of the recent US budget negotiations, working people also face the prospect of deep cuts to critical social programs—including Medicaid and food stamps as well as Medicare and Social Security—which will further undermine their finances and the broader economy.

Weekly initial jobless claims figures of 400,000 released Thursday showed that US unemployment, already at a yearly high of 9.2 percent (according to official figures) is not improving. A Congressional Joint Economic Committee report found that 42 percent of the US's 14.2 million unemployed workers have been out of a job for at least six months, and that businesses now often refuse to hire the long-term unemployed.

The dollar rose temporarily, in part as a result of a slight fall in the euro due to bad European economic news. However, it is largely due to the attempts by Japanese and Swiss authorities to reverse the rapid decline of the dollar against their currencies—a product of the broader, reckless US policy of driving down the dollar with low interest rates and "quantitative easing" (i.e., printing money that is then given to the banks).

This policy has played a central role in the transfer of wealth from the working class to Wall Street after the outbreak of the 2008 economic crisis. It has also devastated the economies of several other countries, including Switzerland and Japan. Their currencies are quickly rising in value, as US and euro zone investors try to avoid losses by investing their funds in the relatively stable Japanese yen and Swiss franc. This threatens to undermine Japanese and Swiss exporters, however.

Financial analyst Masafumi Yamamoto told the *Financial Times* that the Japanese authorities might spend up to 39 trillion yen to purchase dollars on the world market, although this would allow Japan to halt a rise in its currency for only one month.

Swiss authorities had similarly intervened to purchase dollars on August 3, spending 50 billion Swiss francs to raise the dollar from an unprecedented low level of 0.77 Swiss francs. The Swiss National Bank (SNB), which carried out the purchases, issued a statement noting that the Swiss franc was "massively overvalued." It added that the franc's strength had produced a "substantial deterioration" in the outlook for the Swiss economy.

Financial analysts also indicated the potential that the US policy of devaluing the dollar would lead to the uncontrolled collapse of the dollar and a global financial meltdown, as the central banks of different countries compete to drive down the values of their currencies.

Steve Barrow of Standard Bank told the *Financial Times* that he saw the possibility of a "rout in the dollar against the yen and the Swiss franc that could threaten global financial stability and suck in not just the BoJ [Bank of Japan] and the SNB, but other central banks as well."

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