US budget impasse, European debt contagion spark sell-off on world stock markets

Barry Grey
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The failure of the US congressional deficit-reduction committee to agree on an austerity plan and mounting signs that the European debt crisis has spread to France and other "core" euro zone countries combined to spark a broad sell-off on global stock markets Monday.

Fears of a breakup of the euro and further downgrades of US government bonds were compounded by a grim forecast of a deep and long-term world recession by a top Chinese official over the weekend. China's vice premier and head of finance, Wang Qishan, warned of weaknesses in the country's financial system and said, "Now the global economic situation is extremely serious and… the only thing we can be certain of is that the world economic recession caused by the international crisis will last a long time."

Substantiating the Chinese prognosis, the German Bundesbank cut its 2012 growth projection to 0.5 percent-1.0 percent, sharply down from its June prediction of 1.8 percent. This followed downward forecasts of economic growth by its counterparts in the US, Britain and the European Union.

Markets closed mostly lower in Asia and fell more sharply in the US, where the Dow lost 249 points (2.11 percent), dropping the index into negative territory for the year. However, the biggest losses were in Europe, with the Stoxx Europe index ending the trading day down 3.2 percent.

All three countries that have recently seen changes in government, driven by the demands of the banks, the European Union, the International Monetary Fund and Washington for more brutal social cuts, registered huge losses. Italy's stock market fell 4.8 percent, the Greek market fell 3.7 percent, and Spain's declined by 3.5 percent.

France's CAC 40 also fell sharply, closing down 3.4 percent. Germany's DAX declined 3.3 percent and Britain's FTSE 100 dropped 2.6 percent.

Bank stocks fell particularly sharply. French banks registered steep losses following a warning by Moody's Investors Service that it might put the country's AAA sovereign debt credit rating on negative watch due to France's exposure to Greece, Spain, Italy, and other highly indebted euro zone countries as well as the negative impact of the deepening economic slump in Europe.

US banks also fell sharply. Bank of America stock was down 5 percent and that of JPMorgan Chase fell 2.3 percent.

A major factor in the stock sell-off is the drive by the banks, hedge funds and international speculators to force through the destruction of all of the social gains of the working class over the past century and impose the full burden of the financial crisis on the working population. The financial elite is cracking the whip on governments all over the world, including in the US, to make the "tough choices" needed to underwrite and expand its wealth.

In Europe, this in part takes the form of an investment strike against government bonds not only of bailed-out countries such as Greece, Portugal and Ireland, but increasingly of much bigger, core European economies such as Italy, Spain and France. The financial markets are driving up the cost of borrowing to crisis levels in countries across the continent.

Thus, a day after Spain's right-wing Popular Party routed the social democrats in a national election and assumed power, pledging even more severe austerity measures, Spanish borrowing costs neared the highest levels since the European debt crisis began. The interest rate on Spain’s ten-year bonds approached 7 percent. Anything over 6 percent is considered unsustainable.

Italy’s ten-year yield continued to rise, as did yields for Portugal, Ireland and Greece. The interest on the highest-rated European bonds also increased, with the

Netherlands, Austria, Finland and France all rising. France's borrowing costs were nearly double those of Germany on Monday.

The *Wall Street Journal* online quoted Peter Schaffrik, head of European rates strategy at RBC Capital Markets in London, who said of the private markets' freeze-out of euro zone bonds, with the exception of Germany's: "Hedge funds are not there anymore. Banks are pulling out. You have ordinary fund managers not being active anymore. You have central banks reducing risk."

The newspaper noted that Japan's big investment trusts are turning away from European government bonds. It reported that Kokuysai Asset Management had announced the sale of all the Spanish and Belgian government bonds held by its Global Sovereign Open fund, the largest investment trust in Japan.

The spread of the debt crisis to central economies such as Italy and France poses the collapse of the euro currency bloc and the European Union as a whole. Credit Suisse issued a note to clients saying the euro zone has entered its "last days" as we know it. The Swiss bank added that the European Union will need to take "extraordinary" measures by early next year to prevent the crisis from threatening even Europe's strongest banks.

"This crisis is hitting the core of the euro zone," Olli Rehn, the European commissioner for economic and monetary affairs, said Monday. "We should have no illusions about this."

Speculation against the government bonds of Greece, Italy and Spain has only increased since the installation of new governments with the express mandate of defying popular opposition and imposing deeper cuts. This in part reflects the intention of the banks to ratchet up the pressure on the new governments to follow their dictates.

International banks may also be driving up bond yields in order to put pressure on the European Central Bank and Germany to drop their opposition to a far broader intervention by the ECB in support of the banks. France, Britain, the US and the International Monetary Fund are pushing for the ECB to vastly expand its program of limited purchases of the bonds of euro zone governments and become the lender of last resort. The European Union is sharply split on this and other proposals, such as the creation of euro bonds backed by all 17 members of the currency bloc.

On Monday, Jose Manuel Barroso, the president of the European Commission, announced that he would present a plan on Wednesday for the creation of such a bond. A spokesman for German Chancellor Angela Merkel promptly brushed off the proposal, declaring that the solution to the debt crisis lay in austerity and economic reform by highly indebted countries and not in large-scale ECB purchases of bonds or collective European debt vehicles.

But the continuing rise in European bond yields also reflects concerns within the European and international bourgeoisie that the newly installed regimes—imposed without any electoral mandate in the case of Greece and Italy—will confront an explosive growth of working class opposition and may not be able to deliver.

Last week, the Turkish *Hürriyet Daily News* quoted a top executive at the European Economic and Social Committee saying that European leaders have been discussing the prospect of Greek-style social unrest spreading to their countries. "European leaders fear that the same protests and strikes will take place in their own countries," said Dimitris N. Dimitriadis. "The problem is not just related to Greece," he added.

The financial elite has no intention of backing away from its program of mass poverty and intensified exploitation of the working class. As the *Wall Street Journal* online wrote Monday: "Whether the ECB decides to boost its bond-buying or not, investors seem to be coming to the conclusion that any true solution to the European debt crisis will be a years-long process in which governments will be asking electorates to accept enormous sacrifices, in the form of entitlement cuts and tax increases, as well as weak growth and high unemployment."

To prepare for the growth of working class resistance, the ruling classes are relying on the social democrats, the trade unions and their pseudo-left allies to divert, dissipate and strangle popular opposition, while they prepare for mass repression and a turn to more authoritarian, police-military forms of rule.

That is the significance of the installation of so-called "technocratic" governments in Italy and Greece, without even the benefit of elections, and the inclusion in the Greek national unity government of the fascistic LAOS party.