Financial turbulence mounts as global economy slides deeper into slump

Nick Beams
17 April 2012

For most of this year, financial markets have been experiencing an upswing, buoyed by the injections of cheap money from the US and European central banks. But like the rosy flush that appears on the cheeks of a tuberculosis patient, the surge in stock prices was not the manifestation of economic health, but rather a sign of deepening sickness.

The scene has changed in the past few days as interest rates on Spanish and Italian debt have started to rise sharply again, amid warnings that another round of the European financial crisis is looming. According to one financial analyst cited by the news agency Bloomberg, "the euro crisis is back," with the speed of the interest rate rise revealing "elements of a renewed market panic."

The market fears over Spain came in the wake of the announcement by Prime Minister Mariano Rajoy that the government intends to carry out reductions in government outlays equivalent to 5.5 percent of gross domestic product (GDP) over the next two years—one of the largest programs of cuts ever to be carried out by a major industrialized country.

The source of the new round of turbulence, however, is not just the situation in Spain and Italy, but the deepening malaise of the world capitalist economy as a whole. Four years after the onset of the global financial crisis, nothing has been resolved. In the words of a report prepared by the *Financial Times* and the Brookings Institution, the world economy "remains on life support."

It is being kept afloat largely by the pumping of massive amounts money into the financial system. According to Professor Eswar Prasad of the Brookings Institution: "The global economic recovery is still spluttering due to a lack of robust demand, policy tools that are stretched to their limits and unable to muster much traction, and enormous risks posed by weak financial systems and political uncertainty."

In a speech delivered last week, International Monetary Fund (IMF) Managing Director Christine Lagarde warned that the risks to the world economy "remain high" and the "situation fragile." Lagarde called for policies to support economic growth. However, such talk is mere window dressing for the austerity programs being dictated by the banks and global financial houses and reinforced by the IMF.

The consequences of this program can be seen most clearly in Europe. Greece has already been pushed back to conditions resembling the 1930s, while recessionary trends deepen across the continent.

The latest assessment from the Organisation for Economic Cooperation and Development (OECD) points to almost zero growth for Europe in 2012. The all-important German economy is expected to see growth of just 0.1 percent in the first quarter of this year, rising to an anemic 1.5 percent in the second quarter.

For France, the corresponding figures are a 0.2 percent contraction followed by a 0.9 percent rise. Italy is expected to see a decline in both quarters of 1.6 percent and 0.1 percent respectively, while the United Kingdom is predicted to experience a contraction of 0.4 percent followed by a rise of 0.5 percent.

While the OCED predicts "robust" growth for the US, this is belied by the latest employment report, which showed that the American economy added only 120,000 jobs in March, less than half the growth over the previous three months.

Since the beginning of the global financial breakdown in September 2008, the boosters of the capitalist system have pointed to the growth of China as opening up new paths, possibly leading to an "Asian Century." But these speculations have ignored the fact that China's economic growth has always been dependent on the world economy. Just as those connections were central to China's expansion, they are now the transmission mechanism for the deepening world slump.

Last week it was announced that China’s growth rate for the first three months of the year was 8.1 percent, the lowest for 11 quarters and below the government prediction of 8.4 percent. The drop in the rate was not a one-off event. China’s economic expansion has been slowing every quarter since the last three months of 2010. Import figures showed clear signs of a weakening economy. Overall imports rose by only 5.3 percent, with oil imports down 5.8 percent, copper down 4.6 percent and iron ore down 3.2 percent.

The real GDP figures may be well below the official rate. According to an analysis published in *Forbes*, electricity output, which outpaces growth in the rest of the economy, grew by only 7.1 percent, meaning that the real overall growth rate may have been as low as 6 percent. “The momentum at the moment is on the downside, and day after day we are witnessing a dynamic increasingly difficult to reverse,” the article noted.

The same trends can be seen in India, where economic growth has slowed to below 7 percent amid a rapid fall-off in industrial growth and investment. The impact of the European crisis is reflected in the figures for export sales to Europe, which grew by 19.5 percent in March compared to 37.6 percent for 2010-2011.

The deepening recessionary trends in the world economy have immediate political implications. They will bring an intensification of the international assault on the working class through the imposition of austerity measures, combined with layoffs and wage cuts in every sector of the economy. The working class can meet this stepped-up offensive only with its own political strategy based on the international unity of workers in the fight for workers’ governments and socialism.

Nick Beams