Global stock markets fall after 7 percent collapse in Japan's Nikkei index

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Stock markets posted significant losses worldwide, led by a one-day 7.3 percent drop in Japan's Nikkei stock index, amid signs of a growing global slump and demands for increasing attacks on the working class in Japan.

The Nikkei fell 1,143 points to 14,483.98, after which major indices across Europe and Asia all fell two percent or more. The Sydney stock market fell two percent to 5062, and Hong Kong fell 2.5 percent to 22,669.

The leading European stock markets—the London FTSE-100, France's CAC-40, and Germany's DAX—all fell 2.1 percent, to 6697, 3967, and 8352, respectively.

After an initial selloff amid fears of a global stock market collapse, the major US stock market indices closed down only marginally.

The fall in the Nikkei was accompanied a brief spike in long-term Japanese interest rates. This highlighted the risks facing the Japanese economy, which would be highly vulnerable to such an interest rate spike, if it were prolonged. After two decades of deficit spending in a failed attempt to revive its stagnating economy, Japan's gross public debt is projected by 2014 to hit 240 percent of Gross Domestic Product (GDP)—substantially higher than even such distressed European economies as Greece.

If banks demand higher interest payments on Japan's large debts, even only 2.5 to 3 percent, Japan would face a "financial stability problem," commented University of Pennsylvania Professor Franklin Allen.

The sudden movements in Japanese stock and debt markets followed the publication of economic data showing a contraction of Chinese industrial production, in line with deepening recession in Europe—stoking concerns over the global slump hitting Japanese exports. Uncertainty over whether US "quantitative easing" policies would continue fed into questions over the viability of similar monetary policies in Japan, backed by recently-elected Prime Minister Shinzo Abe.

In China, a key trading partner for Japan, the flash HSBC Purchasing Managers Index (PMI) fell to 49.6, coming in under the 50-point reading, demarcating growth from contraction, for the first time since October. HSBC chief China economist Qu Hongbin said, "The cooling manufacturing activities in May reflected slower domestic demand and ongoing external headwinds."

China's critical export sector is reeling from the impact of falling consumer spending—notably in the advanced economies of North America and Europe, where workers face millions of job losses, wage reductions and continuing cuts to government social spending.

Yesterday, composite PMI indices for euro zone manufacturing and services industries came in at 47.7 in May. German figures indicated a slight contraction, at 49.9, and French figures showed a deep contraction at 44.3.

Amid a mild uptick in US industrial production, US Federal Reserve chairman Ben Bernanke indicated that the United States might consider scaling back quantitative easing.

Under this policy, the Federal Reserve now regularly prints $85 billion per month, or $1.02 trillion per year. The Fed uses these funds to purchase stocks or real estate, artificially propping up the paper values of investors' portfolios and boosting the major banks' bottom line. Similarly, since Abe's election, the Bank of Japan (BOJ) has pledged to print 60 to 70 trillion yen (US$683 billion) to boost the country's money supply.

However, Bernanke said, "If we see continued

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improvement and we have confidence that that is going to be sustained, then in the next few meetings, we could take a step down in our pace of purchases. If we do that, it does not mean that we are automatically aiming towards a complete wind-down."

The "quantitative easing" policy has inflated massive financial bubbles, aiming to preserve the wealth of the super-rich. To the extent that governments attempted to return the productive economy to profitability, it was by imposing deep austerity on the working class.

This has produced a perverse and unsustainable situation: US stock markets have hit record highs, and the Nikkei has risen 39 percent this year, despite falling living standards and a deeply depressed world economy. According to AP business reporters, yesterday's recovery in US stock markets was based largely on the understanding in US financial markets that concerns about Bernanke withdrawing this quantitative easing policy were "overdone." That is, the Fed would avert a stock collapse by printing more money.

The adoption of such policies in the United States and Japan not only reflects the economic desperation and disorientation of the ruling elites, but is producing increasingly deep tensions on both sides of the Pacific and demands for attacks on the working class.

East Asian economies have come to depend on the infusion of massive amounts of cash. Bank of Korea Governor Kim Choong Soo said yesterday criticized US moves to exit from quantitative easing, warning it could spur a dangerous increase in interest rates worldwide.

At the same time, financial markets are increasingly complaining that Abe's government is using the availability of easy money to delay carrying out unpopular social cuts. Such calls come both from Japanese business circles, and US and European financiers investing in Japan and looking for quick, high returns. AP business writer Elaine Kurtenbach noted that the "verdict is still out" on Abe's policies.

A recent report of the Organization for Economic Cooperation and Development (OECD) laid out its demands for social cuts in Japan. It wrote, "Given the unprecedented size of its debt ratio and the risk of higher interest rates, Japan needs a detailed and credible medium-term plan of spending cuts and tax increases, accompanied by improvements in the fiscal policy framework."

As examples of such "improvements," the report proposed increasing the retirement age, a further increase in sales taxes, and increases in environmental taxes.

These demands were echoed by Hiromasa Yonekura, the chairman of Sumitomo Chemical Co. and the head of Japan's Keidanren business lobby, who demanded that Abe demonstrated his "commitment to achieve fiscal health."

In fact, the right-wing Abe government is eager to attack the workers. If it is not moving faster, it is because it fears provoking popular opposition. The government is simultaneously making social cuts and unpopular moves to eliminate the pacifist clause in the Japanese constitution—in line with US demands that Japan re-arm and step up its confrontation with China, as part of the US "pivot to Asia."

Credit Suisse's chief market strategist in Tokyo, Shinichi Ichikawa, said: "The incentive to carry out structural reforms is weakening … It requires a lot of strength for the prime minister to change the constitution. And of course a lot of power is needed to start the structural reform of the economy. I don't believe that one prime minister can achieve both at the same time."

Global finance circles are intensifying pressure for immediate social cuts inside Japan to boost profits available to international capital—while warning that otherwise Japan's policy would be seen simply as a hostile effort to improve Japanese competitiveness by pushing down the value of the yen.

Former Goldman Sachs vice chairman Ken Courtis commented that if Abe did not accelerate pro-business austerity policies, all Abe's monetary policy "really amounts to is a big devaluation. That's the monetary equivalent of Pearl Harbor."

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