Europe on course for double-dip recession

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Barely a week after the International Monetary Fund's *World Economic Outlook* report pointed to a gradual strengthening of the global economy in 2021, the foundations of its forecast are starting to look increasingly shaky.

Earlier this week, China reported that its economy had grown by 4.9 percent in the third quarter, following 3.2 percent growth in the second quarter and a contraction of 6.8 percent in the first three months of the year.

The increased growth was the result of the containment of the COVID-19 pandemic and a major state-backed boost in industrial production, but the Chinese result is the only positive number on the horizon. There is no prospect that China can repeat the role it played after the 2008 crisis, when its massive stimulus measures, fuelled by a growth of debt, provided a boost to the world economy, and commodity exporting countries in particular.

While the spokeswoman for China's official statistics bureau, Liu Aihua, said the rebound was conducive to China's own growth and would "play a positive role in promoting a global economic recovery," the data actually fell short of economists' expectations, with signs of a slowdown in infrastructure development.

Liu acknowledged that the situation in the major economies was "dismal" and the global economic outlook was "unstable and uncertain."

Nowhere is this more so than in Europe. The IMF forecast an 8.3 percent contraction in the euro zone economy for this year, followed by a "bounce back" of 5.2 percent for 2021. However, this now seems increasingly unlikely as COVID infections surge across the continent.

The *Financial Times* reported this week that "Europe's economy is sliding towards a double-dip recession" in the face of a second wave of infections.

Katharina Utermöhl, senior economist at Allianz, told the FT: "I can't believe how fast the second wave has hit. We now see growth turning negative in several countries in the fourth quarter—another recession is absolutely possible."

Another economist remarked that the virus resurgence, business lockdowns and "confidence shocks" made a double-dip recession "the central scenario." Klaas Knot, the Dutch central bank governor and a member of the governing council of the European Central Bank (ECB), warned that with many countries experiencing a second wave of infections "recovery now seems further way than we had hoped for. And the economic impact is deepening."

The FT cited an unnamed member of the ECB's governing council who said central bankers were watching high frequency data to try to measure the impact of the second wave. "Demand effects are dominating at the moment, and labour-intensive service sectors are being very badly affected. A double-dip is possible," the banker is reported to have said.

The ECB's forecasts of three percent growth in the fourth quarter and a return of the euro zone economy to its pre-pandemic level in 2022 are now increasingly in question.

This week, the FT published a stinging critique of the IMF and the European Union, authored by Shahin Vallée, a former adviser to the president of the European Council and the French economy minister. He wrote that meetings of the IMF, G20 finance ministers and EU leaders "all seem to point to the failure of international economic policy coordination."

Vallée complained that while the IMF had called for ambitious international policy support, it was not leading by example and had deployed only 10 percent of its available funding resources. Meanwhile, G20 finance ministers were haggling over extending debt relief for developing countries and had "suspended a mere $14 billion in interest payments."

Last July, EU leaders reached an in-principle agreement to undertake a joint €750 billion borrowing program, to take effect next year, to help member states pay for the economic damage inflicted by the pandemic. But negotiations over the details of the program have become bogged down over stipulations that payments could be suspended to countries that breached EU values.

As Vallée wrote, what had seemed to be a historic breakthrough "increasingly looks like a quagmire."

"What is most concerning perhaps," he continued, "is that many member states are still betting on a sharp recovery in 2021 and planning fiscal policy accordingly. Few really understand that while the political agreement of July might turn out to be a turning point for European federalism, it will not on its own address the depth and breadth of the economic shock of 2020 and 2021." He noted that Germany and France were both planning to reduce their deficits as a percentage of GDP.

"Meanwhile, the pandemic in Europe is not contained, the weekly death toll is moving towards its April peak and the economy is far from being on a recovery path," he added.

He warned that EU policy resembled what was done in 2011 when austerity measures produced a double-dip recession following the financial crisis of 2008.

The IMF has reported that overall government debt is expected to rise to 100 percent of global GDP this year, reaching 125 percent of GDP in the major economies.

But this debt is not being incurred to sustain the jobs and livelihoods of workers, or to fund measures to deal with the pandemic. It is above all a bailout of major corporations that have incurred massive increases in debt over the past four decades, a process that has accelerated in the period since the financial crisis of 2008.

The increase in debt was not used to finance productive investment, but to engage in so-called "financial engineering," such as share buy-backs and other measures to boost stock prices.

An article by FT columnist Robin Wigglesworth this week pointed to the extent of this process. Four decades ago, Standard and Poors had given 65 companies around the world a triple-A rating, equivalent to 6 percent of its total ratings. Another 679 companies received ratings in the A range.

Now there are only five companies with a triple-A rating, out of nearly 5,000, and fewer than 14 percent of all rated companies have ratings in the A range.

He noted that while the pandemic was a shock that would have threatened the soundest of companies, "the fact that so many companies around the world are far from sturdy is a major reason why governments and central banks had to go to eye-popping lengths to moderate a tidal wave of corporate bankruptcies."

The chief economist at the World Bank, Carmen Reinhardt, told the IMF-World Bank meeting last week, "First you worry about fighting the war, then you figure out how to pay for it."

That question, however, has already been answered. The payment will be extracted through a massive assault on the working class, just as it was after the global financial crisis of 2008. This time, however, it will be carried out even more ferociously.