Reopening amid Delta variant surge deepens contradictions in global economy

Nick Beams
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There is a deepening contradiction at the centre of the economic agenda being pursued in the major centres of the world economy, in particular the US and Europe.

On the one hand, the policy of re-opening, no matter what the health dangers posed by the Delta variant, and intransigent opposition to any policy of eradication, is pursued on the basis that nothing must be done that could impact the speculative rise of Wall Street and other stock markets over the past 18 months.

On the other, the continued wave of infections around the world, that this policy has produced, is hitting all areas of the economy, leading to disruption of global supply chains, the development of bottlenecks and rising inflationary pressures because of shortages. Problems in the supply of computer chips have attracted most attention, but the shortages range across the board from the simplest components to the most complex.

The supply chain squeeze is being reflected in inflation data. In the year to August, the US producer price index, which measures the wholesale prices of goods, as they leave factories and enter the market, rose by 8.3 percent, the biggest annual increase since 2010.

Comments from US business executives and economic analysts, reported in a *Financial Times* article headlined, "US business model darkens as Delta variant upends forecasts," pointed to the slowdown in economic growth.

The largest US airlines have reported a reduction in demand and scaled back their forecasts for revenue growth in the latter part of the year.

Home Depot chief Craig Menear told an investor conference last week that the company had not provided guidance on its performance this year, because there was "just so much uncertainty" and it was not known how the Delta variant would play out.

The number of S&P 500 companies lowering their forecasts for earnings growth has risen from 37 percent to 47 percent between the second and third quarters.

The situation confronting small businesses is also worsening. A blog report by the Innovation Group, issued over the weekend, said the share of small businesses reporting weekly decreases in revenue held steady for the past three weeks "at elevated levels not seen since March."

Coupled with the decreased share of businesses reporting increases in revenue, only 8 percent, it was "evidence that the small business recovery may be stalling in the face of Delta's resurgence."

In Europe there has been something of an economic upswing in the past few months. But how long it may last is another question.

At a press conference last week, following a meeting of its governing council last Thursday, European Central Bank President Christine Lagarde provided a generally upbeat assessment, but warned that Delta could "slow the recovery in world trade and the full reopening of the economy."

Erik Nielsen, chief economist as UniCredit, told the FT there would be a good growth number for the third quarter, but "the winter brings the risk of a slowdown. Our leading indicator is nose-diving into the end of the year, so there are warning signs this recovery may not be as smooth as people think."

The problems in the auto industry, due to the shortage of computer chips, have not abated. Major companies in Europe have shut production lines, and overall output is 30 percent below the level it had reached before the pandemic struck.

One of the most significant aspects of Lagarde's report on the ECB's meeting, at which it decided to marginally reduce its asset purchases, from €80 billion a month to between €60 billion and €70 billion, under its Pandemic Emergency Purchasing Program, was the issue of inflation.

The inflation rate for August rose to 3 percent, well

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above the ECB's target range of 2 percent. Like her counterpart in the US, Fed Chair Jerome Powell, Lagarde maintained this was due to "temporary" factors resulting from shortages.

But, in an indication of a key concern of both the ECB and the Fed, she raised the issue of a push for higher wages by workers hit with rising prices.

"One component that we are addressing, monitoring, and checking very attentively is the second-round effect, is the impact that price increases will have on wage negotiations, and that is what could actually fuel a more persistent and durable price increase and inflation going forward," Lagarde said, in response to a question on inflation at her press conference.

As in the US, the ECB is relying on the trade unions to continue their now long-established role of suppressing wage demands. She remarked, "we don't expect these wage increases and these wage negotiations to be very strong." But her comments underscore the fear in the financial establishment that workers will break free of the union straitjacket and begin to take independent action.

Forcing workers to take whatever job might be available, no matter how low the wage or the dangers to their health, was raised in a recent interview with the St Louis Fed president, James Bullard, with the FT.

Bullard, one of the "hawks" in the Fed leadership, who favours a more rapid wind-down of the Fed's monetary stimulus program, said there was plenty of demand for workers and more openings than unemployed.

The problem, he said, was that workers might not want to take them right now. "They can afford to be careful about which jobs they take, or they may feel like they can get an even better job by waiting or searching more diligently."

In a graphic display of the vicious class orientation of the entire ruling establishment, he said a problem holding back the supply of cheap labour was that because of the $1,400 stimulus payments "households are flush with income."

The Wall Street billionaires have seen their wealth escalate to record heights as a direct result of the Fed's pumping of trillions of dollars to the financial system.

But the cry is for still more, and so the meagre payments to workers, faced with rising prices and myriad other problems, are regarded as impediments to the process of extracting ever-greater amounts of surplus value and profit from their labour.

Meanwhile, Wall Street speculation, based on ultra-cheap money from the Fed, reaches ever more dizzying heights. A comment by *Wall Street Journal* columnist Andy Kessler, published over the weekend, noted some of the more egregious examples of this financial insanity.

Joby Aviation, which plans to begin electric air taxi services in 2024, is worth more than Lufthansa. Earlier this year, Tesla was worth more than the next nine car companies combined, before falling back to "only" the next six.

And the list went on: Airbnb worth more than the hotel chains Marriott and Hilton combined; the Crypto-exchange Coinbase worth more than the NASDAQ exchange; Beyond Meat, made with pea protein, worth more than the entire global market for peas, and used car-sales platform, Caravana, worth more than Volvo, Honda, Ford or Hyundai. And there were many other examples on his list.

This financial madness, Kessler said, is being driven, not least, by the "fear of missing out" but, as he noted, when the selling starts this turns into "fear of losing everything as speculators jump like rats off a sinking ship."

However, the collapse of this speculative bubble, the like of which has never been seen before, will not just be a market correction and a return to something resembling "normal."

Such has become the dependence of the US economy on the market mania, it will have far-reaching economic and social consequences, going well beyond the effects of the 2008 crash. It will immediately pose revolutionary tasks before the working class—the necessity to undertake a struggle for political power as the prerequisite for a complete reorganisation of the economy on socialist foundations.

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