Wall Street's Savage Reckoning: Clouds Gather Over G-20 Summit

By Mike Whitney
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Finance ministers and central bankers from the world's biggest economies met in Shanghai, China over the weekend to discuss many of the problems for which they alone are responsible. Leading the list of issues, was the steady deceleration in global growth which, to great extent, is the result of experimental monetary policies central banks implemented following the recession in 2009. Surprisingly, the group admitted that their "easing strategies" had failed to produce the durable recovery that they sought, but at the same time, they made virtually no effort to correct their mistake by making the changes necessary to shore up flagging global output. Here's a brief recap from Bloomberg:

> "Finance chiefs from the world's top economies committed their governments to doing more to boost global growth amid mounting concerns over the potency of monetary policy.
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> In a pledge that will prove easier to write than deliver and may disappoint investors looking for a coordinated stimulus plan, the Group of 20 said "we will use fiscal policy flexibly to strengthen growth, job creation and confidence." After a two-day meeting in Shanghai, finance ministers and central bank governors also doubled down on a line from their last gathering that "monetary policy alone cannot lead to balanced growth."

This is complete gibberish. Finance chiefs from the world's top economies did not commit their governments to do more to boost global growth. Quite the contrary, they didn't lift a finger to change anything. That's why Wall Street has its knickers in a twist, because they didn't get the lavish handouts they were hoping for. You see, now that stocks are on the ropes and corporate profits have been dropping for two consecutive quarters (which is a sign of impending recession), the big money guys want more favors from Uncle Sugar, this time in the form of fiscal stimulus and "structural reforms" which is an opaque "pro-business" buzzword that refers to the further slashing of workers wages, additional tax cuts for voracious corporations, and more lifting of government regulations to make it easier for Wall Street to fleece We the People.

What the markets were hoping for was some indication that more government freebies were on the way. But the finance ministers couldn't agree about anything, so the whole issue of stimulus was scrapped. In other words, Wall Street got zilch. That's why they're so upset. Check this out from *Financial Review*:

> "Investors burned by turmoil in global markets are looking for signs the world's top finance officials are ready to take action to bolster growth and calm

> currency moves…. Citigroup's Steven Englander said a failure to include more explicit support for fiscal stimulus in the closing statement from policy makers would be taken badly by investors. For Andrew Brenner, head of international fixed income at National Alliance Capital Markets in New York, a commitment to fiscal expansion and clarity on China's currency policy will send equities higher next week, while stocks will slide if those issues aren't addressed….
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> "Keeping the previous language would be very disappointing and would be viewed as either complacent or reflecting policy paralysis," Englander, Citigroup's head of currency strategy for major developed economies, said in a February 25 report. He urged the G-20 to "man up and tell member countries that monetary policy should be accompanied by fiscal expansion". ("G-20 needs to 'man up' to avert more market turmoil, says Citigroup's Englander", Financial Review)

Can you see what's going on? There is general acceptance of the fact that monetary policy has lost its effectiveness, so now Wall Street wants fiscal giveaways. And they don't care how they get them either. Notice how carefully Mr Englander phrases his comments: "Keeping the previous language would be very disappointing and would be viewed as either complacent or reflecting policy paralysis." In other words, if Wall Street doesn't get more government handouts it's going to stomp its feet and have another big hissyfit.

Reuters tells the same story. Check it out:

> "Investors could trim back positions on equities given a failure by a weekend meeting of the G20 group of leading economies to come up with concrete, new measures to boost growth, analysts said…..
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> "The fact that the G20 is going to do more of the same is likely to be greeted with a big yawn and a likely fall on stock markets," said Richard Edwards, managing director at trading and research firm HED Capital. Others felt equally discouraged.
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> "Some people will be disappointed that there are no concrete measures," said Francois Savary, chief investment officer at Geneva-based investment and consultancy firm Prime Partners." (Reuters)

"Some people will be disappointed", says Savary?? Well, boo-fu**ing-hoo! I mean, how long are we going to continue to shape policy so it suits the exclusive needs of the bloodsuckers on Wall Street? It's insanity!

Central banks and finance chiefs don't give a rip about growth, jobs or even the overall state of the economy. It's a joke. What matters them is profits and stock prices. That's it. All this rubbish about "doing more to boost growth" or "using fiscal policy to increase job creation and confidence" is enough to make you puke. Here's a short clip from the G-20 communique:

> "The global recovery continues, but it remains uneven and falls short of our ambition for strong, sustainable and balanced growth….While recognising these challenges, we nevertheless judge that the magnitude of recent market volatility has not reflected the underlying fundamentals of the global economy."

Fundamentals? What fundamentals? Global central banks have purchased more than $10 trillion in various distressed assets since the end of the recession in 2009. Do you think that that reduction in supply might have a affected the price of stocks and bonds a bit? Maybe just a titch?

Investors know its all a mirage. They know that soaring stock prices are strung together with chewing gum and duct tape. That's why they're on bailing out at the first sign of trouble. And that's what makes the G-20 confab a such momentous occasion, because the finance honchos and bank brainiacs brought nothing to the table. They basically told Wall Street to "pack sand". They even shrugged off an emotional appeal from the IMF to take "bold action" to stimulate growth and avoid more damage to the fragile financial system.

Here's what the IMF said:

> "The G20 must plan now for co-ordinated demand support using available fiscal space to boost public investment and complement structural reforms…a comprehensive approach is needed to reduce over-reliance on monetary policy. In particular, near-term fiscal policy should be more supportive where appropriate and provided there is fiscal space….The global economy needs bold multilateral actions to boost growth and contain risk."

That's quite a turnaround for the austerity-promoting IMF, don't you think?

But the fund is just being pragmatic. Now that monetary policy is kaput, fiscal stimulus is the only game in town. That's just the way it is. Either the finance ministers accept that fact and push for additional government spending on infrastructure programs and the like, or stocks and profits are going to face a savage reckoning. It's that simple.

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