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Light at the end of the tunnel



There are signs of hope but the economic crisis is far from over
By Uwe Jean Heuser



I was summer for the year 2009. For a time, prices on stock exchanges around the world rose by up to 25 percent as the big Western economies announced they had put the recession behind them and were again gaining momentum. Some economists are already forecasting strong growth for the coming year. Analysts at Allianz Insurance think German GDP could expand by 3 percent in 2010, thereby recouping much of the damage from the recession. And then there are the newspapers that have been trumpeting the end of the crisis in their headlines.

Recall the triumph of baseball legend Yogi Berra: It ain't over 'til it's over. German soccer's favorite mascot warns that the game lasts 90 minutes. And in the opera, it ain't over until the fat lady sings. In many ways, this spectacle—the international economic and financial crisis—is not yet over, the referees has not blown the whistle and the fat lady's final is yet to come.

Ever the optimist, I am especially early, it has long since moved forward to a need to dampen euphoria in August. 'I'm warning against declaring the end of the financial crisis too soon," Axel Weber said. "The last world has not been spoken yet."

Weber's main concern was that banks could still face huge losses if companies suffering from slow business continue defaulting on their loans. That would spark what is becoming known as the second wave of the crisis, emanating not from the financial sector but the real economy. And, to add to the concern, there were signs of hope but the economic crisis is far from over.

Export-dependent Germany is benefiting as much from this recovery as from its homegrown remedies. Its two stimulus packages are taking effect, and, contrary to expectations, joblessness has not exploded because companies have been putting employees on state-subsidized part-time work instead of laying them off.

All this has been the great success of the big economic stimulus and rescue policies, devised in Washington, Berlin and Beijing. Yet this success carries its own threat to the global economy. The recovery, so far, has been home-made. These three governments alone have pumped an additional \$1 trillion into the economy, and this state-sponsored bonanza will dry up sometime next year. That will herald the day of reckoning, of whether the private sector can really resume running on its own.

In the U.S. at least, plenty of indicators still point toward a "jobless recovery." Unemployment could hover stubbornly at today's high levels, not equipped to handle the U.S. welfare system, which supports recipients for only a limited time, not equipped to handle the U.S. welfare system, which supports recipients for only a limited time, not equipped to handle the U.S. welfare system, which supports recipients for only a limited time.

Joblessness in Germany will probably climb disproportionately in the fall and winter as companies begin slashing costs. Also, at about the same time funding should run out for the country's cash-for-clunkers program that turned many Germans into new car owners when the slump was at its worst. The effects of a one-time additional parenting subsidy will also have disappeared by then.

Not even China can keep its economy on artificial support forever. But U.S. demand for goods from China and Germany fails to return to the prodigious levels, where will the world's biggest exporters gain the strength for a sustainable recovery?

Even if business keeps growing as well as it has started to do, the threat of potentially crippling inflation is gathering on the horizon. America, in particular, has dug itself deeply into debt, along with some threshold economies, and the central banks have practically flooded the world with liquidity to keep the global financial system solvent. The central bank chiefs may insist they can withdraw all these trillions in no time, but whether they push the right number is another open question. If they don't, we face an inflation that would rapidly erase the nascent recovery.

To correct this summer's optimistic options, some observers have been recalling the year 1931. On June 9 of that year, the U.S. Commerce Department declared that "the depression is over."

The New York Times put the statement on its front page and economists found signs of an upturn. The Dow Jones Index rallied strongly before losing nearly three quarters of its value. The Great Depression had, in reality, only just begun.

Things will hardly be that bad this time. Yet whether we are entering a new phase of prosperity or are on the verge of a crash is something yet to be decided. To date the ups and downs of this crisis have always come stronger and faster than expected in the wake of the Lehman Bros. collapse last September as in the bank rescue, in the free-fall of the real economy as in the return of growth. Therefore we shouldn't be too surprised if another moment of decision arrives at our door sooner than we think, the experts think. We should prepare for that instead of just basking in the summer sun.

Germany goes to the polls

Different goals, same chancellor? This time around, the parties are promising to rebuild the economy on the back of green technologies. Meanwhile, Angela Merkel looks likely to remain in charge

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