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Growing concerns in Europe over Trump agenda

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The "America first" economic agenda announced by President-elect Donald Trump and its implications for the stability of the global economy have sparked concerns in European ruling circles over the prospect of trade conflicts and financial turbulence. These fears are reflected in the Financial Stability Review issued by the European Central Bank earlier this week, in advance of a crucial meeting of the bank's governing council on December 8.

The meeting will review the ECB's program of quantitative easing, under which it purchases €80 billion worth of bonds each month in an effort to keep interest rates at historic lows and maintain financial stability. While the program officially ends next March, the ECB had been expected to extend it and keep up the flow of ultra-cheap money.

But its planning has been thrown awry by the spike in bond yields in the US following the election of Trump. Billions of dollars have moved out of government debt into the share markets on the prospect that Trump's program, based on economic nationalism and large tax breaks, through both privatised infrastructure projects and direct cuts in corporate tax rates, will provide a major boost for profits.

The ECB now faces the prospect that its efforts to hold down interest rates in the euro region will collide with a movement in the opposite direction in the US.

But more is involved than concerns over the immediate movements in the money markets. While the ECB does not directly name Trump, the fears of the European financial elites about the implications of his election victory and what it signifies about the turn by the American ruling class more broadly are reflected throughout its report.

An ECB press release stated that "risks to euro area financial stability related to possible global asset corrections [a reference to the spike in bond yields produced by the outflow from the government debt market and the fall in bond prices] have intensified."

The report continued: "The financial stability implications for the euro area stemming from changes in US economic policies are highly uncertain at this point. The euro area may be directly impacted via trade channels and by possible spill over effects from the higher interest and inflation rate expectations in the US."

It added that "vulnerabilities" were significant for euro area banks, with profitability prospects remaining low across the region because of a "subdued economic growth environment."

The non-bank financial sector could also be adversely affected, with many investment funds, which have "grown rapidly in recent years"—largely on the back of the ultra-cheap money policies pursued by the ECB—now exposed to "liquidity mismatches." In other words, funds that have gambled on the maintenance of a low-interest rate regime could find themselves scrambling for cash as US interest rates begin to rise.

The ECB report noted that global bond valuations declined by the equivalent of €1 trillion in the week after the US presidential election. While the immediate outlook was uncertain, "more volatility is likely and the potential for an abrupt reversal remains significant amid heightened political uncertainty around the globe and underlying emerging market vulnerabilities."

Emerging markets are in the firing line because rises in US interest rates and the dollar—now at its highest level in 13 years—increase the value of their dollar-denominated loans and the debt burden they impose.

The shift in US economic policy, exemplified in the Trump agenda of economic nationalism, is also compounding the problems faced by the ECB in seeking to contain the mounting crisis of the Italian banking system. Italian banks have on their books some €360 billion of bad debt, of which €200 billion is classified as non-performing loans.

The scale of the financial breakdown is indicated by the share values of two major banks in the Veneto region, one of the more prosperous areas of the country, reported by the *Financial Times* this week. In the case of one of the banks, the share price had fallen from €40.75 in 2014 to 10 cents today. In the other, the share price crashed from €62.50 to 10 cents.

The country's banking system could suffer further destabilisation if Prime Minister Matteo Renzi loses a constitutional referendum on December 4. The "no" vote is being championed by right-wing populist parties that will have been strengthened by the Trump victory in the US. There are fears that if the "no" vote prevails and Renzi resigns, as he has threatened, this will lead to a political crisis, sparking financial instability.

But the Italian crisis is only one manifestation of a very large financial ice-berg. As the ECB report noted, "[T]he main structural challenges for bank profitability continue to be related to the large stock of non-performing loans in a number of countries," coupled with "overcapacity in some euro area banking sectors."

This is a legacy of the decision taken by the European financial elites following the 2008 financial crisis not to carry out a purge of the banking system and instead seek to contain the problems through central bank intervention, in the hope that higher economic growth would enable the financial system to gradually recover. That growth has not occurred and the financial malaise has been compounded.

Concerns over where the economic turn by the US under a Trump presidency could lead are not confined to financial markets, but extend to the area of trade. While Trump's opposition to the Trans-Pacific Partnership was well known before the election, his decision to place its scrapping front and centre in his brief video announcement last Monday sent a broader message: a new era in world trade relations, based on the aggressive pursuit by the US of its interests, has arrived.

The driving force of this agenda and the support it is receiving in US ruling circles are rooted in economic processes. This year, world trade growth will be barely 3 percent, less than half the level it reached in the years leading up to the 2008 global financial crisis, continuing a downward trend that began in 2011. The struggle for global markets and profits is becoming more intense.

In a press conference on the Financial Stability Review, ECB Vice-President Vitor Constâncio voiced his concerns over trade, declaring, "We are in a new phase of weaker world trade. If, on top of that, there would be a wave of protectionist measures, world trade and world growth would suffer."

As history, especially of the 1930s, has demonstrated, such economic turmoil prepares the conditions for war. While the full extent of the Trump agenda has yet to be revealed, the backing he has received from the American financial and political establishment signifies that his aggressive "America first" agenda is the expression of a far-reaching reorientation by the US ruling class.