Funding the Future

# What happens now as markets totter on the brink?

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What will happen in stock markets today? The honest answer is, no one knows.

Tech stocks fell further on Far East markets overnight. Indications suggest markets will open in London and on Wall Street slightly higher overall this morning than they closed on Friday, but with tech stocks probably down a little more.

Over the weekend, there was an extraordinary silence in the media over what was happening in financial markets. It was as if there was a collective decision to ignore the risk of a crash, in the hope that it might not happen.

The reality, however, is that the Nasdaq is already down 20% and other market indices have fallen significantly, whilst Nvidia has effectively halved in value, which represents a loss by itself almost equivalent to the value of the whole of the London Stock Exchange. That means that the collective loss of confidence in AI is enough, without any further share price losses, to undermine the entire direction of economic growth at present, which seems to have been what has been ignored.

This loss of confidence is the most important issue of this moment.

That is because, as I explained in this morning's video, unless people are forced to sell their shares in a stock market downturn because they have borrowed to buy them, the fall in valuation of these indices and share prices is not in itself a necessary cause of a financial crisis.

It is borrowing to buy shares that creates the risk, and at present that is the great unknown: we do know how much borrowing of that sort has taken place, and that is the transmission mechanism which will create a financial crisis, if we get one, as a consequence of the current share price falls.

It is, however, the loss of confidence that will have the much greater impact in the longer term.

Despite the fact that I have made it my job to understand a bit about how AI works, and

do as a result appreciate the impact that it could have on some sectors of the real economy - and that it would have radically transformed the way in which the accounting practice that I once ran would have undertaken its work - I have never shared financial markets' enthusiasm for AI, which now appears to have burst. I see its potential and its long-term evolutionary impact, but at the same time I do not, at least as yet, see it as revolutionary, even if, as workplaces adapt to it, there will be undoubted change.

The biggest economic change now will, then, result from realistic expectations replacing inflated ones. This is what happened when the dot-com bubble burst.

In 1999, financial markets thought that anything to do with the internet offered the prospect of almost immediate enormous riches. That was not true, although, as we know, some people have since then made staggering fortunes out of all proportion to any relationship with human need, whilst a great many more have been left in or hovering on the brink of poverty despite the changes that happened. It was when that awareness that riches were not going to be shared came to be appreciated, and as a consequence that growth could not be anything like that expected during the late 1990s, stock market prices adjusted. In fact, in London, they nearly halved over a little more than two years, starting in January 2000. That is what reality felt like.

My suspicion is that we need to go through the same process again. Nvidia has seen its share price halve. Nothing else has. My suspicion is that there is some way to go before this market downturn ends as a result. The only question now is whether we will get a market crash, giving rise to the translation of the largely artificial fall in the value of shares into the real world via the inability of some people to pay the loans that they have taken out to invest in AI, or whether the stock market descent will be steady enough that this process can be managed in an orderly fashion. That factor alone will determine whether we get a banking crisis. My obvious hope is that we can avoid this.

What cannot be avoided is the loss of confidence.

Nothing can replace the burst euphoria of AI.

There is also nothing to replace, in terms of economic activity, the investment it has been pursuing at present unless, and I cannot stress the point enough, the government realises this is the moment to step in.

There are, at present or very shortly, significant numbers of unused resources inside our economy. People engaged in AI investment will become unemployed. Those building data centres will be looking for a job. And right now, there will be no one to employ them unless the government steps in.

The reality is that whatever the financial consequences of what happened last week, confidence will have gone. It will take some time to be re-established. But unless the

government acts now and realises that this crisis of confidence is the real challenge we face, the risk of recession is very high indeed.

We do not need banks to crash to have a major economic downturn at present. If they follow stock markets and crash, as they could, this truth will become more apparent, more quickly. But the reality is that we are facing significant economic problems, whether or not banks fail.

The only question that matters now for the economic well-being of very large numbers of people around the world is whether governments realise that, without AI investment, they have no choice but to provide the missing economic activity that the end of the AI bubble will inevitably create.

But will they? Can neoliberals act in ways intended to meet universal human need and well-being? That is the question.