EU debt crisis: bond markets threaten Eurozone

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Keith Spencer examines the crisis that is gripping the EU and the struggles in the EU for domination

The European debt crisis is expanding, pitching country against country, with the major economies attempting to push recession on the working class of economically weaker nations. With the system itself in crisis, capitalist policies aim only to shift the debt burden by attacking jobs, pay and services.

The European Union (EU) now represents just over a third of global GDP, a huge "domestic market" for the biggest capitalists to dominate. But it is a tale of two zones - the Franco-German core versus the smaller states in southern and western Europe. Germany, for example, has recorded several quarters of growth - its GDP has grown by 3.9 per cent since the third quarter of 2009, particularly in machinery, equipment and the construction sectors.

But for Spain, Greece and Ireland it is an entirely different story. The Spanish economy ground to a halt in the third quarter of 2010 and the government has said it will shrink by 0.3 per cent overall this year, following a drop of 3.7 per cent in 2009.

Currently, the most powerful imperialist economies, Germany and France, are using the crisis to reorganise and dominate the EU. But their plans are challenged by the pressure of the global money markets on certain countries, as well as from the growing resistance of the working class.

Offloading the crisis

Runaway booms in real estate and banking during the past led to illusions that some countries like Greece and Ireland had shaken off their long history of poverty and dependency, becoming economic "tigers". But when the global crisis broke in 2008, most of this wealth was revealed to be fictitious - massively overpriced properties and shares. What was left was a huge mountain of debt.

Iceland was the first to go to the wall when its banks failed; then Ireland had to make the first of its three huge bailouts. Then news broke that the conservative Greek government was cooking the books to get more loans. Inflated Spanish and Portuguese property markets collapsed.

The rescues mounted for these countries were in fact rescues of German, French and UK banks which had both encouraged the debt sprees and profited from them. Letting foreign banking systems go to the wall would have caused catastrophic losses for the bankers of Frankfurt, Paris and the City of London.

Commenting on last month's Irish bank bailout, BBC's Robert Peston said: "According to the Bank for International Settlements, total lending of non-Irish banks to Irish banks is around $170bn, of which British banks provided $42bn, German banks provided $46bn, US banks $25bn and French banks $21bn."

And the Guardian revealed the extent to which French and German banks were exposed to Greece's debt problems: "Data from the Bank for International Settlements shows that, at the end of 2009, Greece owed about $240bn (£160bn) overseas. Of this, France and Germany have the biggest exposures of $75bn and..."
The EU’s big banks have to ensure that they will get paid. So Germany, France and the UK are lending yet more money to weaker economies. But the cost of repaying this debt is the slashing of public services and welfare. Effectively, the debt incurred by the EU’s major banks is being offloaded onto the working class.

**The bond markets**

Governments and banks can obtain money by going to the bond markets where they are charged interest for loans. The bond holders are giant financial institutions, individual billionaires and even other governments, which loan money at a price which yields a profit.

Governments have to borrow more when they spend more than they collect in, their deficits increase. Currently the UK has a deficit of just over 10 per cent, Spain’s is just over 9 per cent, Ireland’s is now at 12 per cent, and Portugal is at 7.3 per cent. Germany’s, by contrast, is under 5 per cent, while the EU recommends a 3 per cent deficit.

The UK it pays far less interest on bonds than other countries with a comparable deficit, as a result of the size and prestige of the economy. Even after the recent Irish bailout, the price of Irish bonds was over 9 per cent; Spain and Portugal are currently paying around 8 per cent.

There is a struggle between the bondholders pushing up interest and the European Central Bank (ECB) and Germany trying to force down the price by intervening into the money markets. The danger is when the bondholders keep forcing up the interest until a government can no longer repay and then defaults on its debts. Currently the ECB and Germany are stepping in to safeguard the loans and debt.

**The single currency**

These problems have been exacerbated by the single currency. During the boom years the euro provided stability because interest rates are the same across countries; exports and imports are purchased with the same currency, which helps control inflation; and money can easily move across national boundaries.

Governments can use policies, such as taxation and control of wages and benefits, to attract business.

But when a crisis hits, the straightjacket of the single currency restricts a state’s fiscal policy options. A country may want to manipulate interest rates downwards to boost lending and economic growth, or print more money and even depreciate the currency in order to make exports cheaper and stimulate demand.

But individual states can’t use these policy options with the euro. The ECB, with the German Bundesbank and the French National Bank at its core, controls them. And the ECB promotes only one policy for countries with large debts and deficits: slash public spending and make the people pay in order to safeguard the money of the bondholders.

Hence, the euro acts like the pre-Second World War gold standard when currencies were pegged to the price of gold. In the crisis in the 1930s, some countries such as Britain abandoned the gold standard, let their currencies depreciate and recovered more quickly than those countries like France that stuck doggedly to it.

There are fears that an individual country may do this in the eurozone, but it would lead to a complete breakdown of the single currency and destroy attempts at EU economic integration. That is why Merkel, the German Chancellor, and French President Sarkozy are so adamant about defending the euro.

**The role of Germany**
Germany has played a pivotal role in the Greece crisis, including the size of the bailout. It partnered with the IMF and the UK over the Irish crisis, but won the right of EU oversight. Germany has led the way in forming a pan-European bailout fund of €750 billion but has also been pushing for greater controls over national economies. Recently, it raised the possibility that countries receiving bailout money should not be able to veto important economic decisions, i.e. those favoured by Germany.

It has also allowed some depreciation of the euro to benefit its exports and help it out of recession, while other countries have been saddled with demand-sapping austerity programmes.

In effect, Germany has been using the crisis to offset its own debt problems onto the weaker countries, and then use the ensuing cuts and bailouts to strengthen its position within EU. For example, by forcing through changes in Greece and Ireland it has recouped billions of euros for its own banks. This means that it can postpone any emergency measures to cutback on debt because it does not have to bailout its own banking system.

While the German ruling class will eventually put its own working class on rations, it does not have to do so immediately in an all-out attack, risking the sort of fightbacks we have seen in France and hopefully will see in Britain in 2011. Instead, it can buy off the better-paid skilled sections of workers and offload the crisis on those with insecure and low paid jobs.

**In conclusion**

The banking and state debt problems are the current phase of the crisis in Europe. Currently the leaders of continental Europe - Germany and France - are imposing harsh austerity measures on the weaker economies in order to increase their own economic wellbeing and hegemony. However, the bondholders - motivated solely by making huge speculative gains - are pushing the weaker economies into emergency measures and endangering the euro.

In both scenarios, the mass of workers will be thrown into misery with job cuts, slumps, and slashing of public services and privatisation of education.

That is why now more than ever we need to:

? Build European-wide co-ordinations of struggle in order to build the necessary unity to fight the bosses across borders.

? Fight for coordinated action up to and including general strikes.

? We need to fight for emergency budgets to spend money on what the workers need, not austerity measures determined by the markets or ECB.

? Repudiate the debts. Not a penny to the bosses and money markets - make them pay for their crisis.

The money markets represent the anarchy of the capitalist system and how it ruins millions of lives for the benefit of a few billionaires; the EU represents capitalist club dominated by a few imperialist powers struggling with the US, China, Japan for domination over the rest of the world economy. All of them represent misery for the masses - revolution and a planned socialist economy is the only way out for the working class.