Italy and Eurozone on the brink

Andy Yorke and Dave Stockton Mon, 14/11/2011 - 16:23
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This week Italy overtook Greece as the state at the heart of the European crisis, raising the stakes and threatening to rip apart the Eurozone, writes Andy Yorke and Dave Stockton

The removal in quick succession of two prime ministers who had ?lost the confidence of the markets? and of the unelected ?Troika? (IMF, European Central Bank and European Commission) was also a body blow to ?really existing? bourgeois democracy as practised in the states of the EU.

In both Greece and Italy, unelected bankers and economists - Lucas Papademos and Mario Monti - replaced elected politicians at the behest of billionaire bondholders (a.k.a, ?the markets?) and Angela Merkel and Nicolas Sarkozy. Like a clap of thunder, it was revealed that Abraham Lincoln?s famous definition of democracy as ?government of the people, by the people, for the people,? had been amended, ?people? has been replaced by ?bankers?.

George Papandreou - after he had the temerity to announce a referendum on the savage austerity package dictated by the ?Troika? - was summoned before the G20 in Cannes. There it was spelt out to him, publicly and in undiplomatic terms, that the existing ?rescue payments? would stop forthwith, if he went ahead.

Moreover, it was made painfully clear that he himself had lost the confidence of the gruesome twosome; Angela Merkel and Nicolas Sarkozy. He would have to go. So he returned to Athens to execute a humiliating climbdown on the referendum, negotiate a government of national unity headed by a ?technocrat? banker and to reaffirm the terrible austerity, which will mean ten years of recession for his country.

The other delinquent on the carpet in Cannes was Silvio Berlusconi. His buffooneries, long an embarrassment, could no longer to be tolerated. Italy is the third biggest Eurozone country, seven times the size of Greece, with the second highest debt to GDP ratio in Europe. Because its debt represents the third biggest bond market in the world, an Italian debt crisis is currently Eurozone finance ministers? worst nightmare.

Yields, that is, interest rates, on Italian government bonds have been rising for weeks as investors demanded more and more in return for their money. In order to prop up his unpopular government, Berlusconi had allowed government borrowing to continue while avoiding deep cuts. Italy?s debt stands at €1.9tn euros, or 120.5 per cent of GDP.

So Berlusconi, like Papandreou, was unceremoniously told to return home and ram through an austerity programme. If he could not, he would have to give way to a ?credible? figure who could. Since there are few credible politicians left in Italy, this, too, would probably mean a technocrat.

Berlusconi?s assurances that he was the man to force through the austerity programme were greeted by sheer incredulity from all sides. The LCH Clearnet trading system demanded more collateral from those trading Italian government bonds on 9 November. This triggered a panic and a run on Italian debt. The interest rate on Italian ten-year bonds rose to over 7 per cent the same day. This is the rate seen by the markets as the point of no return, where the costs of borrowing make further borrowing unsustainable. The world's politicians, economists and media all chorused as one that ?the buffoon? had to go and that Mario Monti, top academic economist, former European Union Competition Commissioner, and adviser to Goldman Sachs Group Inc., was just the man to replace him.

A panic on the bond markets, echoed by heavy falls on the world's stock exchanges, persuaded the parliamentary supporters and coalition partners of the botoxed billionaire that he had to go. To jeering crowds, followed by dancing in the streets, Berlusconi drove off into history - or perhaps to the courts and prison. Meanwhile, President Giorgio Napolitano, 86-year-old former leader of the Italian Communist Party, obligingly made Monti into a lifetime member of the Senate, so that he could become prime minister.

But, as a British prime minister of the 18th century once commented of the London crowds, ?they are ringing their bells now; they will be wringing their hands before long?. And, indeed, there is little to celebrate in this whole sordid process.

On 10 November, the Italian Senate rushed through the cuts in public sector jobs and social services, plus measures demolishing labour protection laws, by 156 votes to 12. The next day, the lower house, the Chamber of Deputies, passed the proposals by 380 votes to 26. The Democratic Party of Walter Veltroni (once the Italian Communist Party) thus again betrayed, in the most shameful way, the Italian workers who voted for it. To give a minute's confidence to the bankers? man, Monti, under cover of ?getting rid of Berlusconi?, is worse than a scandal, it is a political crime.

It is obvious that the Italian workers, the precariously employed or unemployed youth and the poor in the rural south, have only themselves to rely on now. At a rank and file level in the unions, at the level of the workplaces, schools and universities, in the working class districts, a mass movement of resistance is already growing. It will need to go beyond isolated days of action, or symbolic occupations and direct actions, if it is to stop the austerity that is wrecking social life in Greece from doing the same in Italy.

The Greek and Italian crises, and the EU-organised ?bankers' coups?, reveal the profound and growing contradictions at the heart of the common European currency. After four years of recession, stagnation and a recent fall-off in growth, these contradictions erupted in Greece and then in Italy. Defaults threaten to create a second ?credit event?, an economists? euphemism for an even bigger banking crisis and potential collapse of the financial system, than the one which followed the 2008 collapse of Lehman brothers in the US.

It is not the supposedly ?lazy and profligate? Greeks who are being bailed out with ?our money?. It is ?our bankers? in Frankfurt, Brussels, Paris and the City of London, who are being bailed out; even if they do finally write off 50 per cent of the value of their Greek bonds. The new loans to the Greek Treasury are going straight out again to these parasites, not to ordinary Greeks who work the longest hours for the lowest pay and the poorest pensions in the Eurozone.

This crisis is threatening to tear apart the Eurozone, in part because the German government refuses to allow the European Central Bank to issue its own bonds or to print money on a massive scale (quantitative easing) as the US and Britain have done.

This is not, as journalists suppose, due to some German national psychosis caused by the 1923 hyperinflation. It is because setting the Euro at a high level relative to the productivity of the economies of southern Europe, who are unable to adjust their currency, meant they became veritable cash cows for northern bankers and industrialists, whose sales to these countries rocketed. The southern states' tax income was unable to sustain such an overvalued currency and they were forced to borrow (from the Frankfurt and Paris banks) at ruinously high interest rates whilst, at the same time, their uncompetitive industries lost out to a flood of German imports.

The German magazine Der Spiegel reported in July that, according to a recent study, ?prices of goods produced in Greece went up by an average of 67 percent between 1995 and 2008, a record increase for the euro zone. The average price of domestically produced goods went up by 56 percent in Spain, 47 percent in Portugal and 41 percent in Italy. By contrast, prices went up in Germany by only 9 percent in the same period.? As an added bonus to German capital, since the introduction of the Euro, German workers' wages have virtually stagnated.

Italians have not done well out of the Berlusconi decade either. Nearly one in seven is living in poverty, while the economic crisis has brought high unemployment and low wages. Already, the 20 October global Occupy day saw clashes with police in Rome. Once the dancing in the street over Berlusconi?s downfall is over, and the reality of Mario Monti?s austerity assault is plain to see, Italy could see widespread resistance and mass strikes on the scale of Greece.

Whither France?

Now, the speculative wolves are looking over Italy?s shoulder to France. The interest rate on French debt is also rising quickly. With an eye to elections in six months, President Sarzoky has for years pursued a Berlusconi-lite blend of populist politics and protectionism, avoiding a full-scale austerity package. Now, caught in the jaws of the same trap as Greece and Italy, between falling growth rates and rising debt, France is under increasing pressure. The global ratings agency, Moody?s, has put the country under ?observation?, threatening to downgrade its credit rating.

On Friday, 11 November, the agency issued a statement that France?s credit rating had already been downgraded. Although it was rapidly withdrawn as a ?mistake?, it was significant that markets initially accepted the statement at face value. It was not regarded as outlandish, it was not even questioned and, as a result, it sparked panics and market falls. According to Jacques Attali, head of the European Bank of Reconstruction and Development, ?On the markets, French debt has already lost its triple-A status?, hence the rising interest on its loans.

However, if France were to come under the same pressure as Italy, this would put a lot more than its credit rating in question. France is the fifth biggest economy in the world, and the Franco-German alliance is the axis around which the Eurozone revolves. A French debt crisis would throw the whole of the Eurozone, the EU and world economy beyond it, into crisis ? who is big enough to bail that out? If France?s credit rating were downgraded, this would undermine the rating of the European Financial Stability Facility, the Eurozone bailout fund that is underpinning the austerity packages of Greece, Ireland and Portugal, in part by sales of bonds.

Contagion

Across Europe and beyond, the word ?contagion? ? interlocking debts triggered by a major default into a systemic seizure, a ?credit crunch? and string of collapsing banks ? is on the lips of every finance minister and economic pundit. The German and French banks hold the bulk of the foreign-held government debts of the ailing middle-tier Eurozone countries ? Portugal, Ireland, Italy, Greece and Spain. According to the

Economist Intelligence Unit (09.11.11) US banks hold only 6 percent of this debt, rising to 18 percent through indirect exposure via other forms of debt such as derivatives.

However, on top of this, some $1.2 trillion in US bank lending to the German and French banks means that they are, indirectly, on the hook for even more of these countries? government debt, accounting for over ten percent of US banks? total assets. No wonder that, in Cannes, President Barack Obama berated the Europeans, especially the Germans, for their indecisiveness that had put the whole world economy (read ?the US banks?) in danger.

More explosively, the ten largest US money-market funds hold up to $285 billion in short-term loans to European banks, or 42 per cent of their total assets. Greece, Italy, France ? each time the ante is upped, the markets? fear increases, costs of debt increase and with them the danger of a state debt crisis leading to a banking collapse. In September, 2008, the US bank Lehman Brothers collapsed, triggering a banking crisis and global recession. This time the chain of contagion could run in reverse, from Europe to the US. Europe is teetering on the edge of such a collapse.

Since European bank loans to ?emerging markets? total US$3.6tn, or 71% of emerging market banks' total borrowing, a credit crunch here would hit the main source of (flagging) growth in the global economy today. A European banking crisis would herald a double dip recession. It would be more severe than that of 2008-2009 because this time round there are not the funds available for the bail outs and stimulus programmes that helped to contain that recession.

Debt ? democracy ? and socialism

The seemingly technical and hence, ?neutral?, infrastructure of the financial markets like Moody?s and LCH.Clearnet have shown that they have far-reaching economic power to reset the parameters of the markets and plunge whole countries into economic crisis. They have forced the removal of governments and the imposition of austerity programmes to attack workers' wages, jobs, rights and welfare programmes on an historic scale, previously only seen in the poorer semicolonial countries.

The media use a neutral term, the ?bond markets?, to describe the source of this pressure but, beneath the surface, are giant billionaire operators like Warren Buffet and Pimco. They made the loans in the first place and it is their demands for repayment, no matter the cost, that are forcing governments towards ?total? austerity plans. These plans are aimed at completely restructuring economies to the advantage of capital, with privatisation, brutal cuts to benefits, pensions and legal rights. They will inevitably hit growth and force up unemployment. This really is the 0.1 percent against the 99 percent.

What these events show is that capitalism - mired in a historic crisis that is far from having reached its deepest levels ? is hell-bent on clawing back the gains Europe?s workers made in the second half of the twentieth century. It will destroy in months or, at best, a few years, what it took decades to build up. In this situation, delaying and slowing the resistance, as the trade union leaders and reformist politicians are doing, in the hope that the politicians or the technocrats will think again and return to Keynesian counter-crisis measures, is worse than useless.

In country after country, effective resistance means all out general strikes that pose, as Trotsky said, the question ?who shall be master in the house?, i.e. the question of political power. In short, capitalism itself is creating objectively pre-revolutionary and revolutionary situations. More, it is doing this at such a speed, and with such unpredictability, that workers in countries like Germany, which now seem relatively stable, could soon find themselves in the firing line.

That is why we need to build more than just country-by-country-resistance. The national rivalries and chauvinism that our rulers and their poisonous media are stoking up to divert attention from the real enemy, capitalism, can only be resisted effectively if we launch pan European solidarity actions with those directly under attack. That is also why we need, not a ? Left exit from the Euro? into national autarky, but a programme and an international party which sets as its goal a pan-European alternative society - a Socialist United States of Europe.
