the Socialist what we think

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Crisis deepens in the eurozone

The eurozone faces its deepest crisis since the euro was launched in 1999. Failure to resolve the sharpening Greek debt emergency would have a devastating effect on the European and world economies. A default by Greece, in effect, bankruptcy under which the Greek government would not be able to pay its debts, would trigger a new banking crisis, probably as severe as 2008. At the same time, a Greek default could trigger the breakup of the eurozone, with the emergence of two or more currency areas, if not a complete disintegration.

Greece, moreover, is far from being an isolated case. Ireland, Portugal and Spain face similar problems.

There is no agreement between the eurozone leaders on how to deal with the crisis. Their disarray has been heightened by the Dominique Strauss-Kahn affair, with the head of the International Monetary Fund (IMF) facing charges of sexual assault in New York.

Whichever policy is followed by the eurozone capitalists, the working class faces a prospect of savage austerity. New loans will only be granted to the Greek government on the basis of even more drastic austerity measures. On the other hand, a default and exit from the eurozone would, on a capitalist basis, also lead to a further degradation of living standards.

The Greek bailout implemented last year has not worked. The Greek government was granted €110 billion of loans on condition that it carried out drastic attacks on the working class: welfare spending cuts, wage cuts, pension cuts, and increased taxes. However, it is estimated that Greece will require around €50 billion of new loans in 2012 to cover its borrowing needs. The main reason Greece has not met its economic targets is that the austerity measures have prolonged the economic slump. The Greek economy contracted by -4.4% last year and is expected to contract by -3.5% this year. In reality, the IMF/ECB/eurozone 'rescue' has only increased the indebtedness of Greek capitalism and undermined its ability to pay off its debts.

Pro-cuts campaigners demonstrate in London on 14 May photo Paul Mattsson

Privatisation

The eurozone leaders are discussing a further €30 billion loan to Greece, but only on condition that the government rapidly carries out a further €50 billion of privatisation of state industries and utilities. It has even been proposed that these privatisations should actually be supervised by the IMF, which would mean a complete loss of economic sovereignty for Greece.

Capitalist leaders are deeply divided. The European Central Bank, the German government and others favour more loans to Greece, on condition of further austerity measures and privatisation. Leaders like Angela Merkel in Germany fear an electoral backlash against further bailouts. There is fear of the eurozone becoming a so-called 'transfer union' in which the stronger economies are effectively financing the weak economies.

Other sections of the capitalists, particularly in the finance sector, now believe that a default is inevitable. They recognise there is a limit to the austerity that can be imposed on the Greek people without provoking greater social conflict and uprisings. It would be better, in their view, to carry out an orderly default. This would involve the exchange of existing Greek government bonds for new bonds, guaranteed by the IMF/ECB, etc, that modified their terms. This could mean longer periods of repayment and a lower interest rate. But the most contentious issue is whether there should be a reduction in the face value of the bonds (though in the secondary bond market there is already at least a 40% reduction in the value of the bonds).

The main motive of these finance capitalists is to carry out an effective rescue of the banks. Overall, foreign banks have loaned £1.6 trillion to the four heavily indebted eurozone countries, Greece, Ireland, Portugal and Spain. Domestic banks also hold billions of euros of government bonds. A forced default, or a panic-driven rescheduling, could trigger a banking crisis on the scale of 2008. There would be huge losses for the banks, not only on government bonds but also on the various 'derivatives' which are linked to the bonds.

At the moment, the Greek government is clinging to the euro (despite rumours early in May that it was considering withdrawal from the eurozone). It calculates that if it is part of the eurozone then the stronger eurozone governments will be forced to bail out the Greek economy.

However, at a certain point the conditions of such a bailout will become unsustainable. The conditions attached to new loans would make them intolerable, making withdrawal from the eurozone preferable. Then, countries like Greece and most likely Ireland and Portugal (and possibly Spain) would at least have the option of devaluing their new national currencies and boosting exports, as well as encouraging inflation which would reduce the real (inflation-adjusted) value of their debts.

Recent events confirm the analysis of the eurozone that the Socialist Party put forward from the beginning. While the euro could develop for a period on the basis of the growth of the European economy, we predicted that the common, multinational currency would not be able to overcome the national divisions of capitalism. In fact, the euro did not bring a 'convergence' between the stronger economies, like Germany and France, and the weaker, 'peripheral' countries, like Greece, Italy, Portugal and Spain. The low interest rates that were based on the performance of the stronger economies helped fuel property bubbles in the weaker economies. They also allowed their governments to hugely increase public spending on the basis of a temporary boost to tax revenues, fuelled by property booms and financial speculation.

When the global economy was pushed into deep recession after the onset of the US subprime crisis in 2007, the peripheral economies were faced with an unsustainable burden of debt. Deficits were boosted by the downturn, with the eruption of mass unemployment and the collapse of tax revenues.

The euro may or may not survive this crisis. But, sooner or later, the eurozone will be wrecked on the rocks of insurmountable economic problems and the conflict of national interests between the member states.

Horrendous austerity measures have provoked massive resistance from the working class throughout Europe, and especially in the countries facing the most acute debt crisis. Workers are furious that they are being forced to pay for a crisis triggered by the banks and other predatory speculators. The real bailout is the rescue of the banks and big business by the working class.

General strikes

In Greece there have been nine general strikes and seemingly endless protests against cuts. There has been resistance in Ireland, Portugal and Spain. Commentators, however, have noted that there appears to be a lull in the strikes and protest action, a certain 'protest fatigue'. Any such pause, however, will be purely temporary. It arises because the leaders of the workers' organisations, while calling strikes under pressure from below, have no alternative to the policy of bailouts and austerity measures.

Faced with this deep, long-term crisis of capitalism, the working class needs a bold alternative. This should be based on a clear refusal to pay the debts run up by capitalist governments, from which banks and other speculators hugely profited when the going was good. Repudiation of debts, however, is not in itself a solution. On the basis of capitalism, bankruptcy of the state would mean a period of prolonged poverty and suffering for the working class.

Control of the banks and the commanding heights of the economy – the major industrial and commercial companies – must be taken out of the hands of the capitalist class, which is responsible for the present global crisis. The economy should be planned and managed in the interests of working people, controlled by elected representatives of workers, trade unions, consumers, community organisations, and so on. This would be the beginnings of a socialist planned economy.

European institutions, like the eurozone and the EU itself, which are clearly agencies of the capitalist ruling class, should not be opposed from a narrow, nationalist point of view. Europe, as well as the wider world economy, cries out for socialist economic planning. This is the only way that the living standards of workers everywhere can be raised, obscene inequalities progressively eradicated, and the environment protected for future generations.

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