Eurozone and USA

Debt crisis - the price of capitalist failure

In the previous issue of the Socialist, Socialist Party general secretary Peter Taaffe pointed out that "capitalism is stuck in a blind alley". The ongoing and intractable crisis in the eurozone and the debt ceiling pantomime in the US illustrate this impasse.

The basis for the current deep and profound crisis was laid by the policies of the previous 30 years, particularly the massive financialisation of many economies that took place.

Now governments in Europe and the US seek ways of making working class people pay for the crisis caused by the bankers and the capitalist system.

The Greek bailout, welcomed by the European ruling classes, will do nothing for the Greek masses. Under the terms of the new bailout, wages will be slashed by 50%, pensions will fall to €500 a month and unemployment will continue to be a fact of life for 17-25% of the population.

But you cannot keep people under the boot for very long without them resorting to basic human survival instincts of 'fight or flight'. As we have seen, millions of Greek working class and youth have taken to the streets and the squares to protest against the devastation of their living standards.

In the USA workers in Wisconsin were inspired by the revolutions in Egypt. As the contagion of economic crisis spreads, so too will the 'contagion' of revolutionary workers' movements. In the following articles we look at the depth of the crises on both sides of the Atlantic.

image not available

Eurozone crisis: "Blood, sweat and teargas"

image not available

Lynn Walsh,
International Secretariat of the CWI

The last-minute rescue package put together by eurozone leaders on 21 July has averted an immediate Greek debt crisis. A default by Greece would have triggered a European financial crisis, with worldwide repercussions.

The package, however, merely eases the Greek government's cash-flow problem. It does little or nothing to reduce the unsustainable debt mountain or stimulate economic growth. While the eurozone leaders are heading for the expensive beach or exclusive mountain resorts, Greek workers continue to labour under the yoke of intolerable austerity measures.

The package provides another €109 billion (£96 billion) in emergency loans for Greece for 2010-14 (following last year's €110 billion package). At the same time, the agreement reduced interest rates on these loans to 3.5% (down from 4-5% or higher).

The maturities of loans have also been extended from seven years to a minimum of 15 years. This measure, which also applies to Portugal and Ireland, will improve the liquidity position, although it only marginally reduces the mountain of debt.

The 21 July deal will reduce Greek debt by just over 20%, according to estimates. This means that the national debt will peak at 148% rather than 172%! In other words, the national debt will remain unsustainable in the longer run.

The package also includes so-called private sector involvement, in the form of a voluntary 'haircut' for the banks which hold Greek government bonds. (A 'haircut' means a reduction in the face value of bonds and/or a delay in repayment.)

While this will make a very marginal difference to the debt position, it is a political victory for German chancellor Angela Merkel, who can present it as a fig-leaf when seeking parliamentary support for the package in Germany.

The deal also includes the extension of the powers of the EFSF (European Financial Stability Facility, created at the onset of the debt crisis last year). With the backing of the eurozone governments, the EFSF will guarantee Greek government bonds. However, there is no increase at the moment in the funds available to the EFSF (currently €440bn).

The deal also includes provision for €28 billion proceeds from the privatisation of state-owned companies and land, which many commentators believe to be unachievable. The periodic disbursement of eurozone funds to Greece, moreover, will still be conditional on the implementation of draconian austerity measures in Greece.

According to current plans, the Greek government has to achieve an annual budget surplus of around 5% of GDP from 2015 to 2020 in order to reduce the national debt to 120% of GDP. However, "one obvious danger is that Greece's weak and uncompetitive economy is unable to return to growth, making it impossible for Athens to achieve its fiscal targets". (Ralph Atkins, Financial Times, 27 July)

In addition to other measures, the deal holds out the possibility of another €17 billion of EU structural funds for Greece (which will no doubt be subject to agreement by EU governments).

Private sector 'haircut'?

Jean-Claude Trichet, head of the European Central Bank, has strongly opposed private sector involvement, on the grounds that it would be regarded as a partial default by financial markets. Moreover, the majority of the ECB directors believed it could set a dangerous precedent, with demands coming for similar haircuts in Ireland and Portugal, and even in Spain and Italy.

However, Merkel was determined to secure a private sector contribution, necessary in order for her to get the approval of the German parliament. Public opinion in Germany is strongly opposed to the bailout of 'profligate' southern European countries like Greece, even though large chunks of Greek debt are held by German banks, which will therefore be among the main beneficiaries of the new bailout package.

The 'haircut', that is the reduction in the face value of Greek government bonds, will only be 20%, which is better than the 40% reduction already effected in the secondary bond market. Maturities will be extended, so bondholders will have to wait longer for the return of their cash. However, the deal has the big advantage for the bondholders that the bonds will now be guaranteed by the eurozone governments (through the EFSF).

The private sector bondholders (mainly big banks and insurance companies) will contribute around €37 billion to the Greek package during 2011-14, a tiny amount when compared to the total €350 billion national debt.

The EU leaders claim that around 90% of bondholders will agree to participate in this deal, but that seems far from certain. The big institutional bondholders appear to be divided. Some have welcomed the deal as a guarantee against a Greek government default in which they would lose all their money.

Others are clearly sceptical about the effectiveness of the deal, and fear that there will be further write-downs of the value of Greek government bonds. They also fear 'contagion', the spread of the fiscal crisis to Portugal and Ireland, and the much bigger Spain and Italy.

The EFSF is advancing €20 billion for recapitalising shaky Greek banks. Meanwhile, the Greek finance minister is appealing to wealthy Greeks to repatriate the estimated €15 billion that they moved abroad since the crisis erupted last year.

Role of ECB and EFSF

A haircut therefore means losses for the ECB itself because it has bought up government bonds to prevent a collapse. A total default could provoke a major crisis for the ECB.

ECB chief Trichet wants to sell Greek and other government bonds to the EFSF, withdraw from responsibility for bailouts, and concentrate on eurozone monetary policy. However, only the ECB, which has the powers to create new credit, has the power to support European financial markets on a big enough scale in the event of a major crisis.

The 21 July agreement expands the role of the EFSF. It will be allowed to buy government bonds on the secondary bond market (to support the price of bonds). It will also be able to buy bonds from the ECB, a concession to Trichet.

It will have powers to intervene pre-emptively, to provide emergency funds to eurozone governments to prevent a collapse of their bonds. The EFSF will also be able to intervene to recapitalise floundering banks, and in fact will be responsible for providing €20 billion to troubled banks currently holding Greek bonds.

The role envisaged for the EFSF, if actually developed, would resemble that of the International Monetary Fund within Europe. The move has been hailed as a "significant step towards Europeanisation of sovereign debt".

On the basis of its enhanced role, the EFSF would have more power to supervise the budgets and tax policy of eurozone governments, a step (at least on paper) towards economic federalisation in the eurozone.

However, the 21 July agreement does not allocate additional funds to the EFSF (which remain at €440 billion). In reality, there are still severe limits on its powers. For instance, the EFSF will only be allowed to buy government bonds with the approval of the ECB.

Intervention to recapitalise banks and support government finances will require the approval of the ECB and all national governments. In other words, any government could veto such an intervention.

The combined sovereign debt of Italy and Spain, for instance, comes to around €2,200 billion. How could the EFSF possibly guarantee such a huge debt on the basis of its current funding? Nicolas Sarkozy's claim that the 21 July deal represents a major change – pointing towards a 'quantum leap' in federalisation – is clearly premature.

Prospects

The new package has averted an immediate collapse of the Greek government finances. However, the continued enforcement of drastic austerity measures is prolonging the slump in the Greek economy. Without growth, there is no way that Greece can escape from its debt crisis.

Writing in the Financial Times, Gideon Rachman comments (25 July): "While the fear of sudden collapse has receded for now, the threat of a slow squeeze, crushing the Greek economy and causing social and political turmoil, is still very much alive." The country's future, he says, promises "blood, sweat and teargas".

image not available

USA: Debt ceiling debate provides cover for historic attacks on New Deal programmes

An eleventh hour political fudge by Republican and Democratic party congress leaders has allowed the US federal government's $14 trillion debt ceiling to be raised by $2.4 trillion. For now, this has averted the prospect of the government defaulting on its debt for the first time in US history. However, this 'compromise' paves the way for trillions of dollars of cuts in spending on social security (pensions), medical aid and other welfare programmes for workers and the poor over the next ten years.

TEDDY SHIBABAW of Socialist Alternative (CWI supporters in USA) reports on US capitalism's fiscal and economic crisis and also on what the workers' response should be. (see www.socialistworld.net to read full article)

Since 2008 Americans have experienced a period of high structural unemployment with the economy stagnating and unable to effectively pull out of the recession.

Yet the politicians in Washington are not talking about jobs. Instead, they have been playing a dangerous game of chicken with the 2 August deadline to raise the federal debt ceiling.

The debt ceiling is normally raised with little fanfare. But the Tea Party and the Republicans have demanded drastic cuts to social programmes for ordinary people. They are not alone. President Barack Obama is also proposing deep cuts. Raising the debt ceiling has become captive to attempts by both parties to push through cuts that give them a political advantage.

While the agenda of Republicans is designed to shore up its right wing base in preparation for the upcoming presidential elections, there has been a wide-ranging discussion on the motives behind Obama's policies.

Under his present 'centrist' strategy, Obama has gambled that he can win the 2012 elections by posing as the wizard of a "grand bargain", and as the adult in a room filled with crazy Tea Party Republicans.

Obama's broader goal is to win over Wall Street and signal he's prepared to promote a broad pro-big business agenda of continued austerity once re-elected into a second term. This is not the "hope" or "change" that tens of millions of Americans voted for in 2008.

These new cuts by Obama are a lightning bolt that will start to shatter the widespread myth that Democrats are friends of workers and the poor.

Arguments about government 'living within its means' were never made when Wall Street got its bailout, when trillions were spent on wars of occupation in the last decade, or when Obama institutionalised Bush's tax cuts for the corporations and the rich.

It is amazing how the corporate politicians and corporate-dominated media around the world have managed to pull off a major coup - switching attention from anger at Wall Street and high unemployment to the need to cut the deficit as the biggest problem.

Given the extreme weakness of the private sector economy, only a massive jobs programme of public works could begin to attack high unemployment in a serious way.

But this would of course require shifting fiscal priorities away from protecting Wall Street and corporate profits and towards ordinary working people and the poor - the vast majority of Americans who actually create all the wealth through their labour.

Fight all cuts

The mass struggles in Wisconsin this spring against governor Walker's anti-worker, anti-union policies demonstrate a way forward. We need to build in the US a national anti-austerity, anti-cuts movement that puts blame for the deficits and unemployment where it belongs: on Wall Street and big business. The movement should take up demands such as the following:

- No to all cuts that hit workers, the poor and social services. Instead, end all the wars and slash military spending.
- Enact massive taxes on Wall Street, big business, and the very rich.
- Pass single-payer health care to save hundreds of billions of health care dollars now wasted on wild-eyed industry profits and unaccountable private bureaucracies.

About $4.5 trillion of the national debt is "inter-governmental loans", which is a nice way of saying they've raided social security and Medicare to pay for military spending. $9 trillion is held by private investors, mainly banks and billionaires, looking to get rich off interest payments.

Providing working people with homes, living wage jobs and health care should take priority over paying back money to rich investors who take low-interest loans from the Federal Reserve, then buy back government bonds and charge taxpayers higher interest! We should cancel the debt, only repaying creditors with proven need like retirees.

Corporate economists object to this. They argue that cancelling the debt would produce a financial crisis, with banks refusing to make future loans to government. But this only underscores how the entire financial system is totally reliant on taxpayers' money to stay afloat.

The big banks and hedge funds are essentially parasites sucking the lifeblood out of our public finances. These financial institutions should also be brought under public ownership and democratic control, with their massive ill-gotten assets invested in green jobs programmes, rebuilding crumbling urban centres, infrastructure, health programmes, and other social needs.

We need to build an anti-corporate, working class political alternative that fights in the streets, workplaces, campuses, and neighbourhoods - and in elections as well. In the elections, we can start by running independent working class candidates who will stand on a no-cuts, no-concessions, tax-the-rich platform – backed up by the anti-cuts movement, progressive organisations, and unions.

In the end, even a powerful movement of ordinary people will be limited in how much it can do within the confines of capitalism. We need to build a movement that has the power to enforce these measures: a movement for democratic socialism that says that if capitalism cannot afford our basic needs, we can't afford capitalism.

- The Tea Party Republicans' zeal to gut social spending is not as popular as they might think. A 17 July Washington Post/ABC News poll found that 72% of Americans support raising taxes on the rich and that the same amount are opposed to any Medicaid cuts. Majorities are also opposed to cuts in social security and Medicare.