the Socialist what we think

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Failed G20 summit takes eurozone nearer to the abyss

The G20 meeting of the world's most powerful government leaders on 3 and 4 November was a 'No Cannes Do' summit. The discussions were hijacked by the Greek crisis. George Papandreou's call for a referendum on the eurozone bailout package – additional loans for even more savage cuts – infuriated European leaders and led to the withdrawal of the package.

So the Greek deal, first packaged on 21 July, remains up in the air. The G20 leaders failed to agree on concrete measures to shore up the eurozone, and produced no new initiatives to stimulate growth in the world economy. It was the latest in a series of dysfunctional G20, European Union (EU) and other summit meetings that have promised decisive solutions but failed to deliver.

It was agreed in principle to increase International Monetary Fund (IMF) money available to intervene to prop up debt-crisis countries like Italy. But the US and China refused to pledge definite amounts.

China also declined to provide more capital for the European Financial Stability Fund or any other 'vehicle' designed to rescue European governments or banks. European governments, they said, would have to take responsibility for the eurozone crisis.

Germany, however, by far the strongest eurozone economy and the pivot of the eurozone, refuses to increase its support for the weaker eurozone countries. Meanwhile, big bond market speculators are pushing up the borrowing rates of countries like Italy to unsustainable levels.

Every day the G20, IMF or EU leaders fail to act, the eurozone slides nearer to the abyss of a systemic crisis, with bank failures and government defaults that would provoke a new slump in the world economy.

Austerity means higher deficits

Austerity measures across Europe, including Britain, are strangling growth. On 3 November the European Central Bank cut the base interest rate by 0.25% to 1.25%. The ECB's new head, Mario Draghi, warned that Europe now faces a "mild recession".

Even without a new banking crisis, however, it is more likely that Europe will slide into a more serious recession. Eurozone leaders will get the opposite of what they want. Negative growth in the most debt-burdened countries, like Greece and Italy, will result in even bigger deficits.

Cameron and Osborne have been congratulating themselves that Britain is not part of the eurozone. But a financial crisis or economic downturn in Europe would inevitably impact on British capitalism.

The biggest share of British trade is with Europe. A new downturn in the eurozone would mean a downturn in Britain as well, possibly even more severe than the 'great recession' of 2008-09.

Greek tragedy

The Cannes summit was dominated by the Greek crisis. Shaken by a wave of general strikes and mass protests, Greek leader Papandreou called for a referendum in Greece on the bailout package. This provoked fury from the eurozone leaders, who saw it as an attempt to torpedo the deal.

Papandreou's call for a referendum was a manoeuvre to maintain his position rather than a genuine attempt to give the Greek people a democratic choice. No doubt he believed that he could get majority support for the cuts package by linking it to continued Greek membership of the eurozone. Angela Merkel, Nicolas Sarkozy and other eurozone leaders, however, feared that a referendum could result in a rejection of the package.

In the event, under intense pressure from eurozone leaders and his rivals and opponents in the Greek parliament, Papandreou dropped the call for a referendum in favour of the formation of a government of 'national unity'. In reality, this will merely be an interim, austerity coalition with the sole purpose of approving an IMF/eurozone austerity package.

Greek workers must resist the 'national unity' government and the dictatorship of finance capital

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A general election early next year will provide the Greek people with no real choice at all. Both Pasok, the governing party, and the right-wing opposition, New Democracy, support austerity measures. The only differences are points of detail.

While imposing unparalleled, brutal levels of unemployment and poverty on the Greek working class and sections of the middle class, the cuts package has no chance of overcoming Greece's debt problems.

The country's industrial production is 23% below the 2008 level. Further cuts will prolong this slump, most likely producing an even bigger deficit. Even if all the cuts demanded by the IMF and eurozone were carried out to the letter, in nine years' time Greece would still have a national debt of over 120% of GDP – a level previously considered to be 'unsustainable'.

New austerity measures will provoke new waves of mass struggle against the Greek ruling class and its political representatives (see page 5).

Italy on the brink

The sovereign debt crisis is now engulfing Italy, the third largest economy in the eurozone. In cash terms, its national debt - €1.9 trillion or 120% of GDP - is on a far bigger scale than Greece's debt of €350 billion. The Italian economy is sliding back into recession.

The Berlusconi government has passed a cuts package, but neither the eurozone leaders nor financial markets have any real confidence that Berlusconi can implement the package of cuts and counter-reforms. Berlusconi's days as Italy's leader are clearly numbered. But none of Italy's political leaders have any solution to the growing crisis.

The interest rate on Italy's ten year bonds is now nearly 7%, an unsustainable level. The government needs to refinance €300 billion of debt next year, but faces the prospect of being excluded from raising money on bond markets. Yet the funds currently available for a rescue through the IMF or the EFSF are completely inadequate.

At the same time, the ECB, while it has purchased some Italian government bonds, does not appear willing to step in to support Italian debt. There is now the real prospect of an Italian default, which would detonate a major crisis in the world capitalist economy.

The future of the eurozone

A taboo was broken at the Cannes summit. For the first time in public, a number of eurozone leaders threatened the expulsion of Greece and raised the prospect of a breakup of the eurozone.

French president Sarkozy said that it had been a mistake to let Greece into the eurozone. German leader Merkel threatened the expulsion of Greece unless it accepted the cuts package. Olli Rehn, EU commissioner, said that Greece was embarking on "a course that would lead it outside the eurozone... We do not want that but we must be prepared for every scenario, including that one, for the sake of safeguarding financial stability and saving the euro."

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These statements have opened up a Pandora's box. Even if the Greek crisis is patched up for the time being, the prospect is clearly raised of a breakup of the eurozone in the future. Some eurozone leaders have called for moves towards a fiscal union, with a political infrastructure with powers to regulate tax and spending.

The richer countries, with trade and budget surpluses, are never going to agree to repeatedly bail out the weaker economies unless they have control over their budgets. But if it was not possible to achieve this kind of integration in a period of economic upswing over the last decade, how on earth will it be possible in a period of global stagnation or recession?

The present crisis shows ever more clearly that capitalism is incapable of overcoming the limits of the nation state and conflicting national interests.

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