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Eurozone: Into the abyss?

It has been revealed that UK Treasury and Foreign Office officials have been preparing contingency plans for the possible collapse of the euro. Fragmentation of the eurozone could trigger another deep financial crisis and global economic downturn. The eurozone is at a tipping point. EU leaders are in disarray and have no clear strategy for resolving the crisis. Lynn Walsh, in this shortened version, analyses the crisis. (Lynn's full article – which also examines the consequences of Greece exiting the eurozone - appears in Socialism Today, the journal of the Socialist Party, see advert below.)

Everything in Europe has turned into its opposite. The euro was intended to speed the integration of the participants and create a stable currency zone. Instead, it has currently become the main immediate source of instability and crisis in the world economy.

Following the subprime crisis and collapse of the banking system in 2007-08, with a flight from complex financial packages and derivatives, the banks moved into sovereign debt as a supposedly 'risk-free' investment. Now, the banks – including US banks – are faced with potentially catastrophic losses as a result of the eurozone sovereign debt crisis.

The European Union (EU), reinforced by the eurozone, was intended to overcome national antagonisms within Europe and insure the continent against any possibility of German hegemony. Instead, the problems of the eurozone and the EU generally, which are seen as being linked to the prolonged economic crisis, have led to an intensification of nationalism and tensions between the major EU states.

Moreover, Germany is now the dominant power of the EU (barely concealed by the Franco-German partnership), laying down the law – but without any policies that can resolve a complex crisis that becomes more acute every day. The eurozone is at a tipping point and could fragment at any time, detonating another deep financial crisis and economic downturn.

Saving the euro

German chancellor Angela Merkel and the Bundesbank have blocked the European Central Bank (ECB) from large-scale purchases of eurozone government bonds, the only immediate measure that could – possibly – shore up sovereign debt in the short term. This is despite pleas from eurozone governments, including French president Nicholas Sarkozy, for ECB intervention.

At the same time, the European Financial Stability Fund (EFSF – which has only around €250 billion left) has not been turned into an effective vehicle for intervention (it has failed to raise additional funds on financial markets). Merkel has also rejected the introduction of mutually guaranteed eurobonds to secure the position of the weaker eurozone countries.

ECB intervention or eurobonds would, in the view of Merkel, let the 'profligate' eurozone governments off the hook regarding further austerity measures. They would create 'moral hazard', allowing them to run up further debts without any penalty. Meanwhile, the assault on eurozone bonds by financial markets continues, even threatening French sovereign debt.

The big bond traders have forced up the cost of Italian and Spanish sovereign debt, and are now turning against French government bonds. There is even the beginning of a sell-off of German bonds, despite the relative strength of the German economy. This reflects growing fears among Asian investors of a complete collapse of the eurozone.

Merkel's response has been to propose 'more Europe', initially tightening the eurozone monetary union. This would be, according to her plan, another small, incremental step towards fiscal and political union.

image not available

Merkel's proposals were reportedly put to Sarkozy and separately to British prime minister David Cameron in their meeting of 18 November.

Merkel is proposing a tighter eurozone regime, with strict rules over taxation and spending. There would be the creation of a new body, a 'European monetary fund', that would have powers to intervene, supervise or even take over the fiscal and economic policies of national governments. Then, it is hinted, it might be possible to introduce mutually assured eurobonds and deploy other measures to support eurozone governments.

Merkel, however, has not welcomed proposals from José Manuel Barroso, president of the European Commission, putting forward plans for Eurobonds. The German version would be based on stricter conditions than are being proposed by the commission.

This has raised fears among European leaders that the new eurozone regime would, in effect, mean German hegemony. This was particularly true after comments by Volker Kauder, Merkel's parliamentary party leader, at the recent Christian Democratic Union conference that Europe "is now speaking German".

The proposals put forward by Merkel would require a treaty revision. Although the revisions would affect only the 17 eurozone members, revisions would require the approval of all 27 EU members. In a number of countries this would require referenda.

In her meeting with Cameron, Merkel, it appears, was eager to get the British government's acceptance. In return for the Con-Dem government accepting the treaty changes (and, according to some reports, giving an undertaking not to call a referendum in Britain), Merkel would agree to further opt-outs for Britain on social and employment legislation.

Would the measures proposed by Merkel be enough to save the euro? The first problem is time. It would take quite a time for the eurozone leaders to draw up and themselves approve a new eurozone framework. But then there is the even bigger problem of gaining political acceptance in the eurozone countries.

Mass opposition will undoubtedly be increased by further austerity measures, a downswing in the European (and most likely global) economy, and the fact that Merkel and others link these limited steps to the idea of political union.

Another slump?

The eurozone sovereign debt crisis and the austerity measures imposed by the EU and IMF are pushing the European and wider global economy into another downturn (when most economies are still below their 2008 peaks).

The EU economy is only expected to grow at around 0.5% next year. Even Germany will come to a near standstill, with just 0.8% growth forecast. However, even these gloomy forecasts may prove to be optimistic.

Merkel and the ECB are calling for even more drastic cuts in Greece, Italy and Spain. They appear blind to the fact that cuts on such a massive scale are strangling growth throughout Europe and beginning to impact on the world economy.

In fact, world capitalism faces a prolonged period of stagnation with, at best, a weak cycle of limited growth or, at worst, another slump even deeper than 2007-2008.

Political crisis

The eurozone crisis is not only an economic crisis but a deep crisis of capitalist political leadership. In Greece, the George Papandreou government has been replaced by the 'technocrat', Lucas Papademos, while in Italy Silvio Berlusconi has been replaced by Mario Monti. In Spain, the PSOE government of José Zapatero has suffered a massive electoral defeat, with the coming to office of the right-wing Popular Party government under Mariano Rajoy.

In Spain, the landslide victory of the Popular Party was not an endorsement of the PP – Rajoy was virtually silent about the policies he would implement – but a rejection of the PSOE government, which presided over the collapse of the housing bubble, staggering unemployment and severe austerity measures.

Despite its landslide victory, the PP will not enjoy a prolonged honeymoon but will soon face massive movements of the working class, students and sections of the middle class. [see last week's Socialist]

In both Greece and Italy, the ruling class has resorted to the appointment of 'technocrats', so-called non-party experts, bankers and bureaucrats. Papademos was a former vice-president of the ECB, while Monti was an EU commissioner. These autocrats represent the dictatorship of the market, and their role is to carry out further drastic attacks on the living standards of the working class.

Some of the political leaders will be pleased, for the time being, to hide behind these bureaucrats. Papademos and Monti may even enjoy a brief honeymoon as they represent a change from discredited political leaders. However, their policies will rapidly lead to renewed mass struggles, strikes, mass demonstrations and other protests.

The appointment of these bureaucrats, while their position is far from strong, is an ominous development.

The role of technocrats like Papademos and Monti reflects the complete discrediting of the bourgeois political leaders. But it also reflects the political bankruptcy of the left leaders of the traditional workers' parties and the trade unions.

Throughout Europe, there has been wave after wave of general strikes and mass protests, including mass movements of students and the middle class. But this elemental movement has not been matched by the existing left leaders, who are an obstacle to effective struggle.

This is a new period, however, and even bigger struggles will bring mass support for anti-capitalist struggles and the aim of replacing capitalism with a socialist planned economy under workers' democracy.

Workers in Europe are fighting back against austerity measures
photo Paul Mattsson

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