

The G7 and the Euro Group agree to pour billions into banks

Peter Schwarz
14 October 2008

Two summits of leading industrial nations decided last weekend to make unlimited sums of public funds available for the rescue of failing banks and financial markets.

The finance ministers and heads of the central banks of the US, Canada, Great Britain, France, Germany, Japan, and Italy (G7) met in Washington on Friday evening, while the 15 heads of state and government of the Euro Group (the European Union countries sharing the euro as common currency) and Great Britain met in Paris on Sunday.

The meetings were preceded by a turbulent week on the global stock markets, which lost approximately a fifth of their value around the world. New York's Dow Jones index plunged by over 18 percent between October 6 and 10, the London FTSE 100 by 21 percent, the Frankfurt DAX by 21.6 percent and the Tokyo Nikkei by 24.3 percent. Altogether, the world's markets over the past four weeks saw \$11 trillion worth of assets wiped out. This sum corresponds to virtually the entire annual gross national product of the US, or the European Union.

The governments of the leading industrial nations reacted to the panic on the stock exchanges by issuing a blank cheque from their treasuries made out to all of those who were responsible for the financial meltdown in the first place.

The G7 finance ministers in Washington adopted a five-point plan, which does not include precise figures or even estimates, but which will inevitably involve colossal sums of money.

In the first place, all the G7 governments pledged that they would ensure that no banks go to the wall. Secondly, they want to guarantee that financial institutions have sufficient access to liquidity by, for example, providing government guarantees for short-term interbank loans. Thirdly, they want to ensure that the banks have sufficient capital, through governments buying up bank shares. Fourthly, they are seeking to guarantee the savings of bank customers and lastly, they want to ease balance sheet regulations to ensure that toxic assets are not immediately written off.

The five-point plan fits on one side of a piece of paper. The details, practical execution and the financing of the plan are left to the individual states. The main concern of the plan is to ensure that any aid given by one state to its financial institutions does not provide it with a competitive advantage

over its rivals.

On Sunday evening, the heads of state and government of the Euro group took up the suggestions of the G7 and agreed on a "tool kit" to support banks in Europe. Among the "tools" are liquidity assistance, injections of capital and new balance sheet regulations for the banks. Once again, the selection, execution and financing of the "tools" are left to national governments. The package, therefore, does not provide for any common European approach, or for joint financing.

The role model for the Euro group's deal was the £500 billion (€635 billion) package to support British banks decided last week by the Labour government.

On Monday, the German government submitted its own package of €480 billion, which is to be rapidly pushed through parliament this week. Of this sum, €400 billion are intended as state endorsements for credits between the banks, the remaining €80 billion as fresh capital for the banks.

France plans its own support package of €360 billion--€320 billion for non performing loans and €40 billion for the supply of fresh capital to the banks. Spain intends to guarantee credits between its banks with a total of €100 billion.

These sums amount to double the annual national budget of these countries and, on a per capita basis, are three to four times larger than the \$700 billion deal enacted by the US government.

On Monday, the European Central Bank (EZB) announced that together with the British and Swiss Central Banks it would place unlimited amounts of dollar liquidity at the disposal of commercial banks. So far it had only distributed dollars in a limited quantity.

A bottomless pit

The first striking feature of the deals concluded over the weekend is their naked class character.

For the past three decades, any demand for social improvements has been rudely turned down with the argument that the public purse was empty. Taxes on high incomes and huge fortunes were lowered, wages decreased and laws protecting workers' rights were wiped out all because--as the argument went--only exorbitant rates of profit could guarantee prosperity for all. These arguments were eagerly taken up, expounded and put into practice by the British Labour Party, the German social democrats and trade unions across the globe.

Now, after an unprecedented orgy of enrichment and speculation has led to the biggest crisis of the capitalist system since 1929, we are told the treasuries can spend without limit. Hundreds of billions are being paid out to compensate the banks for their gambling losses. The millions and billions accumulated during recent decades due to speculation and low taxes are to be left untouched. In the long run, the bill will be paid by the working population--in the form of further social cuts, rising unemployment and inflation.

Governments have literally handed over the keys to their treasuries to the banks. The massive redistribution of wealth from working layers of the population to the rich elite during the last three decades is to be continued and accelerated in the course of the current financial crisis.

By pledging to guarantee that no important bank will be allowed to collapse, governments have publicly turned themselves into the hostages of the most powerful financial interests. Bankers and government officials have cooperated closely in all of the committees formed to prepare and implement the rescue packages.

In the US, the Treasury is headed by Henry Paulson, the former boss of Goldman Sachs--a bank that has been able to profit from the crisis. In Germany, the head of the Deutsche Bank Josef Ackermann, has worked hand-in-hand with government representatives.

Stock markets reacted positively on Monday to the deals struck at the weekend, largely compensating for Friday's losses (not, however, for those of the whole week). In New York, the Dow Jones Industrials posted a 936-point gain in celebration of the new torrent of money being poured into the international financial markets. But the general mood is one of scepticism.

The *Süddeutsche Zeitung* rated the resolutions made in Washington positively. For the first time the G7 had given "a global answer to the global crisis of the finance system." But, the paper continues, the weaknesses of the agreement are "so grave that the action plan of the G7 could go down in history as the last twitching by the international community of states before the implosion of their finance system."

Spiegel-on-line quotes finance experts who refer to the Crash of 1987: "At that time the stock market fell deeper to a new low after an initial phase of recovery."

Governments justify their multibillion-euro support packages with the argument that they are the only means to restore confidence and re-establish the flow of capital between banks, without which the entire economy would come to a halt. According to this line of thought, the present crisis is merely a crisis of liquidity and confidence, which will fade away as soon as the circulation of money is restored.

In reality, we are experiencing the bursting of a gigantic speculative bubble, which can rapidly lead to spiralling inflation under conditions in which huge sums of new money are being pumped into the finance system by governments and central banks.

During recent days and weeks, it has become increasingly evident that even the banks have no idea how much bad debt they are holding. The total sum of derivatives currently in circulation has been estimated at \$516 trillion. The market for credit and loan derivatives, however, has a volume of \$56 trillion. These are merely paper values, bets on future developments, which lie slumbering on the banks' balance sheets.

The G7 and European governments have gone to great lengths to promote confidence and calm. They present the rescue packages prepared over the weekend as proof that they have everything under control. In fact, these packages are an expression of growing panic. What is being put forward in public as the "global answer to a global crisis" is in reality an expression of increasing conflict between individual nations.

Since the US government began to support its banks with hundreds of billions of dollars in taxpayers' money, other countries fear competitive disadvantages if they do not adopt similar measures. In the general panic, a bank that has the support of a financially strong government has more chance of winning new investors than a bank lacking such support. Governments, therefore, are assuming a series of financial obligations, which they can never keep. In particular, smaller and economically weaker countries will stand to lose out.

In addition, the financial crisis is now rapidly spreading to the real economy. *Die Zeit* warns: "The next tsunami of the real economy is already on the roll." This will contribute to the frictions and conflicts between the most powerful industrial nations.

In the *Süddeutsche Zeitung*, Stefan Kornelius already sees a crisis of the entire world order and writes: "The self-devaluation of the US unfolded in all of its dynamic in the vacuum of the pre-election period.... Europe, politically already eager to decouple is struggling with its own ties. The shining idea of the West has faded; new participants are standing in the wings. The financial crisis is turning into a crisis of the world order; this is shown by the panic-drive conferences in Washington and Paris."

Such crises--the replacement of old power constellations by new ones--have never taken place peacefully in history. The current financial crisis is an expression and result of a profound crisis of the entire capitalist order.



To contact the WSWs and the Socialist Equality Party visit:

wsws.org/contact