Global crisis threatens to break up the Eurozone

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The international economic crisis is having an ever more devastating impact on Europe. A few weeks ago German Finance Minister Peer Steinbrück (Social Democratic Party—SPD) was still speaking of a financial crisis centred in America. Since then it has become clear that the crisis has developed into a worldwide recession with increasingly serious consequences for industry and jobs.

At the beginning of last week came warnings of the possible bankruptcy of several European states. Since then there have been mounting reports of a potential breakup of the sixteen-nation Eurozone and the collapse of the European currency, the euro.

The current issue of *Der Spiegel* magazine warns: "The possibility of the disintegration of the Eurozone has become a burning issue on financial markets." On January 29, *Die Zeit* commented: "The crisis is widening the gap between the euro countries. Serious economists are wondering when the first state will go bankrupt. After that it's only a short step to catastrophe—the collapse of the currency union."

Such a breakdown of the European currency is entirely possible because the crisis has exposed a fundamental problem in the European currency union: The countries that share the euro lack any common economic policy.

The economic position of the individual Eurozone countries is extremely diverse. At the beginning of the 1990s, the so-called "stability pact" was adopted on the insistence of Germany. The introduction of the euro seven years ago was tied to firm conditions concerning financial policy. Each accession country had to commit itself to strict budgetary discipline. The annual deficit of a country was to be limited to a maximum of 3 percent and its total debt to 60 percent of the country's gross domestic product (GDP).

First and foremost, it was Germany that urged the adoption of these criteria as a means of maintaining the stability of the euro. The euro was to be strengthened not only to compete with the US dollar, but also to ensure the dominance in Europe of the German economy, which was certain to profit from a stable currency owing to its position as the leading exporter.

A few weeks ago the German finance minister was still trying to defend the stability pact. His opposition to costly economic stimulus programmes led to heated conflict with the French and British governments. Since then, the crisis has largely destroyed the stability pact. Every European government—including the German government—is doing its best to save its own industries and economy.

On January 27, the federal cabinet put forward a supplemental budget amounting to 18 billion euros. It is designed to counteract shortfalls in tax revenue and increased expenditures. It also includes special allocations for investment in a second economic stimulus package. These will come from credits of up to an additional 21 billion euros. Combined with net borrowings of 18.5 billion euros already planned in the budget, the new package will result in total additional indebtedness of well over 50 billion euros for 2009. Never before has a German government had to approach financial markets with such massive demands.

Debt is growing even faster in other countries. Financial experts in Brussel's European Union (EU) Commission assume that the deficits of the sixteen Eurozone states will increase to 4 percent of GDP this year and 4.4 percent the following year–although such figures have to be corrected upwards almost every day. The stability pact's 3 percent cap on debt is being exceeded in all the Eurozone countries.

Consequently, a competition for access to credit has begun. This is sharpening antagonisms within Europe and pushing the Eurozone to the breaking point. Despite the single currency, government bonds of different countries

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attain widely different values on the financial markets. Some countries—like Spain, Portugal and Greece—have to pay much higher interest rates because of growing doubts about their credit worthiness.

Italy's national debt is the third largest in the world at 106 percent of its GDP. With the threat of national bankruptcy looming, it is more and more difficult for the government in Rome to find financial backers. Fixed-interest government bonds, issued in mid-January, attracted buyers only after the return interest rate was significantly increased.

Over the coming two years Greece will need 48 billion euros to redeem old debts. In addition, it also has to finance its recent budget deficits.

Rating agencies are reevaluating downwards the economic status of "problem countries" and, as a consequence, raising the interest rates on the debt they issue. Greek ten-year government bonds now yield 5.75 percent; those of Ireland, 5.25 percent; and Spain, 4.21 percent. A look at German ten-year bonds, yielding just over 3 percent, reveals how serious the situation has become. In contrast to Greek and Irish rates, the German government is obtaining loans for, respectively, 2.66 percent and 2.21 percent less. And this divergent tendency is increasing rapidly.

Up until now, countries with falling credit ratings have devalued their currencies and lowered key interest rates, thereby boosting their economies by creating more favourable conditions for exports. This is no longer possible for the Eurozone countries. "It looks like [some countries] might have to leave the club," writes *Der Spiegel*.

Facing this situation, Luxembourg's finance minister, Jean-Claude Juncker, who is also the prime minister, suggested that the sixteen Eurozone states should issue common debt securities, or "euro bonds." This was greeted with approval by some of the smaller EU countries, but met with bitter resistence from the Berlin chancellery. Just as Austrian Finance Minister Josef Pröll referred to euro bonds as "a royal charter to get into debt at the expense of others," his German colleague Steinbrück claimed each country will have to take its own steps to cope with problems arising from the rescue measures for the banks.

Mounting economic and political problems are creating conditions in which self-interest predominates and the project of European integration is rapidly unravelling.

A collapse of the EU would have convulsive consequences. Countries that became insolvent and opted out of the euro club would be confronted with enormous problems. Their credit standing would decline further and the cost of credit would become even higher. Old debts would have to be paid off in euros. In the case of devalued currencies, this would cause additional expense. The inevitable result would be drastic austerity measures and emergency decrees, as in the 1930s.

However, preservation of the EU and the single currency is not the solution. Bridge loans for the most crisis-ridden member states are already being made subject to draconian financial conditions and austerity measures. This has already led to riots and street-fighting in several eastern European capital cities. A few days ago, EU Economic Commissioner Joaquin Almunia demanded painful reforms in the labour markets and welfare systems of Greece, Spain, Portugal, Italy and France.

Notwithstanding the tensions among EU countries, all European governments are using the European Union to shift the burden of the economic crisis onto the general population. To achieve this, Brussels is laying the foundation for a police state.

The EU Commission has become a synonym for deregulation and the dismantling of workers' rights. Instead of reconciling social and regional antagonisms, it exacerbates them. This bureaucratic colossus–with 40,000 generally high-paid officials, unhindered by democratic control and subject to the influence of an army of lobbyists—manifests itself more and more openly as a tool of the leading European powers and the most powerful corporate interests.

The working class must prepare itself for major social and political confrontations and advance an international socialist programme that counters escalating economic nationalism and protectionism with a struggle to unify Europe on socialist foundations.

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