European bankers demand unprecedented austerity measures

Stefan Steinberg
19 January 2010

European bankers are demanding that countries on the brink of national bankruptcy impose brutal austerity measures on their populations.

In response to the global financial meltdown of September 2008, capitalist governments around the world assumed the debts of their respective banking elites, the result of speculative risk-taking and fraud on a monumental scale.

The universal line was that the big banks were "too big to fail." The result of this plundering of national treasuries has been a resurgence in stock market values, massive profits for major banks, and a ballooning of banker's bonuses, on the one hand, and a ruthless assault on the jobs, wages and living standards of the working class on the other.

Commenting on the increase of state indebtedness due to government bailout packages to the banks, a recent article in the British *Financial Times* notes: "There is no peacetime precedent for the current speed and scale of public debt accumulation … it is difficult to assess the social tolerance for high debt levels, and … the pain of protracted fiscal restraint. In several EU member states, the threshold has already been breached. The spectre of sovereign default, therefore, has returned to the rich world."

When it comes to weaker economies with high levels of indebtedness, European bankers and political leaders are making it clear that they are opposed to any bailout. Instead, these countries are expected to impose the type of "pain" which will stretch levels of "social tolerance" to the breaking point.

Last week, Jean-Claude Trichet, the head of the European Central Bank (ECB), declared that the ailing Greek economy would receive "no special treatment" to help it deal with crippling levels of debt. Trichet went on to threaten other highly indebted Eurozone countries with "rapid changes in market sentiment," meaning downgrades on their debt and higher interest costs to borrow money on capital markets.

The ECB's uncompromising stance against Greece is supported by Europe's biggest economy, Germany, the driving force behind the 3 percent limit on state deficits as a proportion of gross domestic product laid down as the condition for membership in the Eurozone.

Trichet's remarks were supplemented a few days later by Eurozone chief Jean-Claude Juncker, who declared in a letter to European finance ministers, "The European Commission should not hesitate to … address a warning to the member state not respecting criteria and commitments."

Greece is currently tied with Ireland for having the highest level of projected budget deficits in the Eurozone—about 12.5 percent of GDP (i.e., over four times the upper limit allowed for Eurozone member states). In the past, Greek economic data have proved to be highly unreliable, and some sources declare that the real level of the country's debt for 2009 will be closer to 14.5 percent. Spain is in third place, with a projected budget deficit of 11.2 percent, followed by France (8.3 percent) and Portugal (8.0 percent).

The "basket case" in Europe, with debt ratios far exceeding all of those above, is Iceland. Iceland is not part of the Eurozone, but its economy was virtually transformed into a huge hedge fund serving the financial markets of the European Economic Area. In the aftermath of the collapse of the Icelandic bubble last year, two creditor countries, Great Britain and Holland, are demanding the repayment of nearly €4 billion for their lost investments. This sum represents 50 percent of the current GDP of the small Icelandic economy.

In Greece, the social democratic PASOK government has already announced a plan to reduce the country's deficit to within EU limits (i.e., under 3 percent of GDP) by the end of 2012. The plan involves major cuts to the country's health system and a revision of its tax system, including increased taxes on basic goods such as tobacco and alcohol. These are exemplary of the sort of "painful" measures promised by Prime Minister George Papandreou shortly after taking office, and will have major repercussions for the living standards of ordinary Greek citizens.

Outlining the government program at a news conference on January 14, Finance Minister George Papaconstantinou declared, "We will attain our goals by any means possible." Following a negative reaction to the Greek proposals by the ECB and financial markets at the end of last week, Papaconstantinou said he was prepared to "introduce a supplementary budget and take additional measures if necessary."

Even such subservience to the dictates of the European Commission and the international banks is deemed insufficient. European bankers and political leaders are demanding much more stringent measures by indebted states—even if it threatens the social stability of the countries involved. Whether governments receive any financial assistance from international and European banks is to be determined by their readiness to implement unprecedented austerity measures and deal with the resultant political consequences.

The same basic criteria apply to all Western governments, and not just those with the highest levels of debt.

This is made clear in a recent article in the *Financial Times* under the headline "Funding and the Patriotism Test." *Financial Times* columnist Gillian Tett writes that the real challenge for individual states is to implement the budgetary cuts demanded by the banks and "even rewrite the social contract" without provoking a revolution.

Tett states: "What will be equally crucial in the coming years is not the sheer scale of debt, but whether governments can implement a rational and effective way of cutting it—and potentially allocating pain—without unleashing (at best) political instability, or (at worst) full-blown revolution."

Tett notes that Icelandic voters voted to derail their government's plans to repay its debt at the taxpayers' expense, and speculates whether the British government has the nerve to impose swingeing budget cuts in an election year. She warns that "social cohesion and patriotism in the UK are fragmenting," which means "the answer is simply unknown." She concludes: "But the key point is this: if the past two years were a crucial test for global financial markets, the next two will be an equally critical test for the system of Western government."

The social attacks demanded by Trichet, Juncker & company will inevitably exacerbate class tensions and lead to extreme political instability across the continent. As the comments cited above make clear, they will be accompanied by an intensification of attacks on democratic rights and state repression.

At the same time, they will fuel the centrifugal pressures which threaten to tear apart the European Union. Should any country prove unable to carry out the level of budgetary measures demanded by the banks and default on its debts, this will have a chain reaction impact on other ailing economies, undermining the viability of the euro.

The European working class is entering a new period of revolutionary struggle. It must counterpose to the class war program of the banks its own program, based on the perspective of establishing the United Socialist States of Europe.

Stefan Steinberg