Government debt: a new stage in the global financial crisis

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The tremors that have passed through financial markets over the past week signal a new stage in the global financial crisis brought on by fears in ruling circles of the onset of vast social struggles as governments attempt to pay for the cost of massive bank bailouts through unprecedented cuts in jobs, wages and social services.

In his book *The Class Struggles in France,* Karl Marx noted that “public credit rests on the confidence that the state will allow itself to be exploited by the wolves of finance”. Over the past 18 months, the wolves gorged themselves as bailouts by the governments of the major capitalist nations, amounting to some 30 percent of their combined gross domestic product, rescued the banks, increased their profits and boosted financial markets. As the governor of the Bank of England, Mervyn King, admitted in a speech last year, “never in the field of financial endeavour has so much money been owed by so few to so many”.

While the various bailout schemes and interventions have involved apparently complex operations, in essence they have been very simple: trillions of dollars of debt have simply been taken from the books of the banks and finance houses and transferred to the state. Now comes the next phase—the repayment of this debt through savage cuts in social spending and a drastic reduction in the living standards of the working class. This process has begun in Greece with the government’s announcement that it would seek to cut the budget deficit from its present level of 13 percent of GDP to 3 percent over the next two years.

Following the European Union’s endorsement of this decision, markets remained undisturbed. But that soon changed. In the words of one financial commentator, “the warm glow from the Brussels decision vanished” as soon as it was announced that a general strike to protest against the cuts would be held in Greece next month.

The shock waves that then passed through global financial markets reflect two interconnected fears in government and financial circles. The first concern is that the Greek developments are only the initial expression of a debt crisis that extends across Europe and more broadly. The second is that the situation prevailing over the past 18 months, in which governments around the world have implemented the demands of the banks and financial markets without any significant intervention by the working class, is about to end.

As soon as the Greek crisis came into view, attention turned to other members of the EU—Ireland, Portugal, Italy and Spain. Last week credit default swaps on Portuguese debt, measuring the risk of default, surged on fears that its government could not carry out planned austerity measures. One minister raised fears that the country was becoming ungovernable and that “what is at stake is the credibility of the Portuguese state”.

Default insurance costs for Spanish debt also jumped after *New York Times* economics columnist Paul Krugman warned that “the biggest trouble spot isn’t Greece, it’s Spain”. According to Barclays Capital, net external liabilities are equivalent to 87 percent of GDP for Greece, 91 percent for Spain and 108 percent for Portugal.

If the crisis were confined to Greece or even to the socalled Mediterranean countries it might be able to be contained. But the mounting budget deficits are a universal phenomenon. The International Monetary Fund (IMF) has forecast that the ratio of debt to GDP in the advanced economies will increase to 115 percent by 2014 compared to 75 percent in 2007—a surge unprecedented during peacetime—with the United States and Britain, two of the worst affected.

So far the EU has decided not to provide assistance to Greece—fearing that it would set a precedent for bailing out Ireland, Portugal and even Italy. At the same time, the EU has opposed intervention by the IMF because international bailouts of individual countries within the EU would call into question the European financial system and the stability of the euro. Reflecting EU pressure, a meeting of G7 finance ministers at the weekend made clear that the European authorities would "manage" the Greek crisis.

But the EU attitude has sparked criticism that it is creating even greater problems. In a comment headlined "Europe Risks Another Global Depression," former IMF Chief Economist Simon Johnson wrote: "What are the stronger European economies, specifically Germany and France, doing to contain the self-fulfilling fear that weaker eurozone countries may not be able to pay their debt—this panic that pushed up interest rates and makes it harder for beleaguered governments to actually pay? The Europeans with deep-pockets are doing nothing—except to insist that all countries under pressure cut their budgets quickly and in ways that are probably politically infeasible. This kind of precipitate fiscal austerity contributed directly to the onset of the Great Depression in the 1930s."

The onset of this new stage in the global financial crisis raises decisive political issues before working people. For the ruling elites everything depends on the extent to which they can isolate, break-up and suppress the struggles of the working class. For that they are relying directly upon the social democratic and trade union leaderships to defuse popular opposition to the cuts, channel it in nationalist directions and above all block the development of a socialist perspective.

However, the very character of the crisis itself poses the objective necessity for the unification of the international working class on the basis of a socialist program. The complex interconnections of global finance mean that a crisis in one region is almost immediately transmitted through the system as a whole. The sub-prime mortgage crisis in the US initially set off the global financial crisis, now debt defaults in Europe threaten to deepen it.

In every country, therefore, a political struggle must be launched to resolve this crisis in the interests of working people and society as a whole by demanding the expropriation of the entire banking and financial system and the placing of its resources under public and international democratic control. Only then can the grip of the financial oligarchy be broken and society reconstructed to meet human need and not the profits of the banks.

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