EU leaders fail to calm fears of Greek sovereign default

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Yesterday's pledge by the European Union that it will, if necessary, come to the aid of the embattled Greek economy was a vain attempt to calm rampant speculation in Greek government bonds and fears that the spread of financial contagion threatens the entire eurozone. For the Greek working class, as well as workers throughout Europe, it was the equivalent of a gun pointed at their heads.

EU President Herman Van Rompuy could not give any specifics about what form of financial cushion is being put together, and details may not emerge until Monday at a finance ministers meeting. But he insisted that the precondition for any aid was "rigorous" action by the social-democratic PASOK government of Prime Minister George Papandreou.

This implies not merely an endorsement of the austerity measures already outlined—aimed at cutting Greece's budget deficit from its present 12.7 percent of GDP to below the EU ceiling of 3 percent by 2012. A freeze on public sector salaries, bonus cuts, a two-year rise in the retirement age and increases in taxes on fuel, tobacco, alcohol and property are seen by the European ruling elites as wholly inadequate. Measures similar to those already imposed in the Irish Republic, involving a 20 percent wage cut in the public sector, tax increases and welfare cuts, will likely be demanded.

Faced with the threat of sovereign default, the Greek government will accede to whatever the EU asks of it. Van Rompuy promised that the 16 eurozone countries would "take determined and coordinated action if needed to safeguard stability in the eurozone as a whole" and stressed that Greece had not, in fact, asked for financial aid. The previous day, Papandreou held a meeting with French President Nicolas Sarkozy. "We have not asked for help," he said. "We have said that we just want you to support our own will, our country's credibility in implementing this [austerity] programme."

The EU's announcement was initially welcomed by global investors, but this response dissipated as the trading day wore on. Stocks in Europe were mixed, while the euro fell slightly in relation to the US dollar. Greek stocks were initially higher, but later fell due to the absence of any details from the EU. Stocks in Spain and Italy also closed lower.

David Buik, analyst at BGC Partners, told the BBC, "They say there is total solidarity, but there were no clear plans for cutting any public expenditure from any constituent country. These questions were left unanswered."

Even if details are provided on Monday, EU measures are unlikely to have a long-term impact on the stability of either Greece or Europe as a whole, under conditions where, on Monday alone, more than $8 billion was bet against the euro.

The sums involved in a bailout in the face of an uncontrolled collapse in Greece are immense. The country's debt is around 300 billion euros ($419 billion). Servicing this debt costs Greece 11.6 percent of its gross domestic product and this figure is rising constantly.

Greece has to pay between 6 and 7 percent interest on its bonds, compared with 3 percent for Germany. The government estimates it will need to borrow 54 billion euros this year just to cover budget shortfalls, of which 20 to 31 billion euros must be raised in the next few weeks. Greece's credit rating has already been downgraded to below A grade.

Greece is not the only country faced with an immediate crisis. Similar fears of sovereign default have been voiced regarding other southern European "Club Med" nations, collectively and less flatteringly termed the PIGS—Portugal, Italy, Greece and Spain—all of which are confronted with investors dumping their government bonds.

Greece faces the worst situation, with its debt reaching 110 percent of GDP. But Spain has a balance of payments deficit of £46 billion and borrows 11.8 per cent of GDP. Italy has faced a sell-off despite its relatively low deficit of 5 percent of output, because its debt is expected to top 120 percent of GDP this year and 128.5 percent in 2011.

The small size of the Greek and Portuguese economies has helped make them the favoured target for speculation. But there are broader concerns over the similarly high general levels of debt of Europe's major economies. And it is the euro itself that is under attack, having already lost around 9 percent against the dollar since December. There has been broad-based speculation over countries being forced out of the euro and even the collapse of the currency itself.

"The challenges facing the eurozone are very serious," said Simon Tilford, chief economist for the Center for European Reform in London. "For countries that have become pretty uncompetitive in the eurozone and have weak public finances, the current environment is very dangerous."

The crisis is, in addition, far from being confined to the eurozone sixteen. With UK debt as high, if not higher, than that of Greece, the *Guardian* asked pointedly, "Meanwhile, where will the next currency explosion occur? Might it conceivably be here in Britain where the scale of budget deficits could threaten an eventual credit re-rating and lead to massive currency speculation against sterling?"

Pointing to the global nature of the present crisis, the *Observer* noted that "the uncertainty surrounding sovereign debt worries spread late last week into many other markets, spreading renewed fears about the strength of the recovery in the global economy.

"If all main economies have to struggle to pay off the huge deficits run up as a result of their recessions, they could be squeezed by rising taxes and spending cuts for years to come. Suddenly, the robust global recovery world stock markets were pricing in looks a bit overoptimistic."

The February 6 *Washington Post* similarly warned, "Investor panic is threatening to drive up the cost of borrowing for myriad nations around the world and to destabilize global currency markets."

Economic historian Niall Ferguson, in a *Financial Times* column headlined "A Greek Crisis is Coming to America," wrote: "For the world's biggest economy, the US, the day of reckoning still seems reassuringly remote. The worse things get in the eurozone, the more the US dollar rallies as nervous investors park their cash in the 'safe haven' of American government debt. This effect may persist for some months, just as the dollar and Treasuries rallied in the depths of the banking panic in late 2008.

"Yet even a casual look at the fiscal position of the federal government (not to mention the states) makes a nonsense of the phrase 'safe haven.' US government debt is a safe haven the way Pearl Harbor was a safe haven in 1941."

European and world capitalism face a real and imminent danger of economic collapse—one that would be a continuation of 2008, but even worse in its scope. The multi-billion-dollar bailout of the banks and the pumping of billions of dollars into the global economy through "quantitative easing" did not end the threat of a global recession. It merely transferred to national governments the losses incurred by the world's banks.

The only means of averting disaster available to the ruling elite is a sustained attempt to make the working class pay for the crisis of the capitalist system. Austerity measures are being imposed in every country, and these will become ever more savage. The European Commission is presently drawing up a "blueprint" for recovery and growth, known as "Europe 2020," which is expected to be completed next month. It will inevitably be a declaration of economic and social war to be waged by the EU and its member governments against working people.