Finance capital and the Greek debt crisis

Stefan Steinberg
6 March 2010

In the wake of the most serious financial breakdown to hit world capitalism since the collapse of the US stock market in 1929, not a single serious measure has been put into place to rein in the activities of the banks and financial institutions responsible for the crisis.

In a recent essay, *Financial Times* journalist Lucas Zeise writes: "Two years have passed since the outbreak of the property and financial crisis, yet there has been no progress in the regulation of the banking and financial sectors. Worse still, a serious start has not even been made. This diagnosis… applies equally to the US, the European Union, and at the level of international regulation."

The failure of governments across the world to regulate the financial markets is an expression of the extent to which the major banks dictate government policy.

According to an analysis prepared by the Bank of England, state intervention in support of banks in the US, the UK and the eurozone has totaled $14 trillion. This sum represents a quarter of global gross domestic product (GDP).

Following the lead of the US, governments around the globe declared that such unprecedented measures were necessary because the major banks were "too big too fail." The result of this bailout has been to strengthen the economic and political power of the world's leading financial players.

Major banks are able to return to the gambling table fully aware that their losses will be picked up in future by the government. This has led them to intensify their involvement in the most hazardous forms of speculation.

Based on the near-zero interest rates, finance houses are able to borrow money at next to nothing and charge commercial customers 5 or 6 percent for loans. The result is soaring profits and bonuses—in some cases higher than those prior to the onset of the 2008 crisis.

The largess of governments has fuelled banking activities in all types of speculative investment. Trade is soaring in one of the most speculative forms of derivatives, credit default swaps (CDS), which played a key role in driving Lehman Brothers, Bear Stearns and American International Group (AIG) into bankruptcy.

Credit default swaps are insurance-like contracts that permit banks and hedge funds to place bets on whether or not a company, or even a country, will default on it debts. The nature of CDS trading, which is unregulated, is such that CDS speculators have an incentive to push companies or countries toward bankruptcy. According to one analyst, "Its like buying fire insurance on your neighbor's house—you create an incentive to burn down the house."

The role of CDS trading has been highlighted in relation to the financial crisis of the Greek state. Attracted to the highly indebted Greek economy like vultures to a decaying corpse, the CDS traders at major banks and hedge funds have moved in. According to the Depository Trust and Clearing Corporation, trading in credit default swaps linked to Greek debt has surged over the past year.

The overall amount of insurance on Greek debt hit $85 billion in February of this year. One year earlier, the same figure stood at $38 billion. The surge in such types of trading invariably drives up the cost of insuring Greek debt. The cost of insuring Greek bonds nearly doubled in February compared to early January. This, in turn, worsens the budgetary plight of the country and brings closer the specter of default—and a jackpot for CDS speculators.

The activities of CDS speculators are not restricted to Greece. In the past few weeks, they have increasingly switched their attention to the European currency, anticipating that a collapse of the Greek economy could lead to a crash of the euro. In the past week they have also increased their bets against the British pound, based on the fact that the current level of indebtedness of the British state actually exceeds that of Greece.

The list of world players in derivatives and CDS trading is headed by the US banks JPMorgan Chase, Citibank, Bank of America and Goldman Sachs. According to the Office of the Comptroller of the Currency, United States banks held a total of $13 trillion in notional value of credit derivatives at the end of the third quarter of 2009.

US banks, however, are not alone in such trading. A number of Europe's biggest banks, including Credit Suisse Group, UBS, Société Générale, BNP Paribas SA, and Deutsche Bank, are amongst the biggest buyers of swap insurance. Their activities on the derivatives market reflect their exposure to the Greek economy. The Bank for International Settlements reports that French banks hold $75.4 billion worth of Greek debt, followed by Swiss institutions, at $64 billion, and German banks, with an exposure of $43.2 billion.

The thoroughly parasitic relationship between international finance capital and world governments, which encourages the most exploitive and hazardous forms of speculation, was summed up by one financial analyst: “If companies were not implicitly backed by the taxpayers, then managements would get very reluctant to go out after that next billion of notional on swaps. They’d look over their shoulder and say, ‘This is getting dangerous.’”

Or, as a former International Monetary Fund chief economist put it, “Goldman Sachs has become the world’s biggest hedge fund underwritten by the US government.”

Vital political lessons must be drawn from the growing stranglehold of the international banks on economic and political life.

The political grip of the banks has grown in tandem with their increasing economic power. This has occurred over recent decades under social democratic as well as conservative governments in Europe, and under Democratic as well as Republican administrations in the US.

Few, if any, US governments have been so stocked with bankers and financiers as the Obama administration. It was Democratic President Bill Clinton who signed the bill repealing the Glass–Steagall Act and opened the floodgates for extreme forms of speculative trading by commercial banks.

In Europe, the political influence of the financial interests centered in the City of London has grown enormously under New Labour. In Germany, the legislation which permitted German banks to increase their dealings in the derivatives markets was introduced by the former Social Democratic Party-Green Party coalition. In Greece, the social democratic PASOK government of George Papandreou recently appointed a former Goldman Sachs official to manage the country’s public debt.

Flanked by their banking cronies on the one side, the social democrats in Europe and the Democrats in America turn to the trade unions to suppress the resistance of the working class, which is now called on to pay the gambling losses of the banks.

In addition to destabilizing entire currencies and states, the speculative activities of the banks are creating new financial bubbles and future financial crises that threaten to explode and overshadow the breakdown of 2008. The growth of extreme forms of speculative investment arises out of the objective logic of the capitalist system itself.

A catastrophe for mankind as a result of the activities of an international financial mafia and its accomplices in government can be prevented only by the socialization of the banks and all major international financial institutions under the supervision and democratic control of the broad masses of the working population.

Stefan Steinberg