Stock markets surge on €750 billion European bailout

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Yesterday's euphoric surge on world stock markets was the initial verdict of major banks and investors on profits to be realized from the €750 billion European bailout fund announced at 2 AM yesterday.

The bailout fund was announced amid signs of a collapse in lending and renewed fears of a meltdown of the global financial system, similar to the crash following the 2008 Lehman Brothers bankruptcy. Markets have panicked over fears of default by the Greek government and other governments in Europe, as Greek workers protested the austerity measures forced through by Greek Prime Minister George Papandreou.

Like other bailouts before it, this package promises a gigantic transfer of public funds to the banks. The plan—agreed to by EU finance ministers, central bankers, and International Monetary Fund (IMF) officials—will lead to huge payoffs to the major banks who are creditors of Greece, Portugal, Spain, and other indebted European countries.

The package includes €550 billion in funding from European governments. The British Treasury declined to participate; Chancellor Alistair Darling said, "What we will not do and what we can't do is to provide support for the euro."

European stock exchanges surged, with Spain's Ibex-35 increasing by a historic 14.43 percent, the Milan stock exchange rising 11.29 percent, and the French CAC-40 rising 9.66 percent, its third-highest increase on record. The FTSE-100 rose 5.16 percent, and the German DAX index rose 5.30 percent. This followed major sell-offs last week; all these stock markets are still down heavily from their values at the beginning of the year.

The biggest winners were major banks in Spain, France, and Italy: Banco Santander, BBVA, Société Générale, BNP Paribas, and Unicredit all saw increases of 20 percent or more in their stock price. German financial stocks were up 8 percent.

Other markets also rose, with Asian markets up between 1 and 3 percent, and the US S&P 500 and the Dow Jones Industrial Average closing up 4.4 and 3.9 percent, respectively.

The bailout was announced as fears that the Greek debt crisis and investors' concern over workers' protests in Greece might lead to a systemic collapse of the financial system. US President Barack Obama telephoned German Chancellor Angela Merkel and French President Nicolas Sarkozy Sunday to urge "resolute action to build confidence in the markets."

The *New York Times* commented: "Riots in Greece, ever-tightening terms of credit and the unexplained free fall in the American stock market last Thursday have compounded the sense that the European Union's inability to address its sovereign debt crisis might lead to the type of systemic collapse that followed the fall of Lehman Brothers."

The European Central Bank (ECB) also agreed to directly buy government and corporate bonds, after ECB director Jean-Pierre Trichet declined to agree to the measure last week. The ECB will thus print money to offer as cash guarantees to banks holding government or corporate debt. This decision, taken as inter-bank lending ground to a halt, aims to calm fears that these bonds would plunge in value, leading to massive defaults by banks holding them. It will also make it easier for governments to fund their borrowing.

The US Federal Reserve also re-opened currency swap lines, so that other central banks—the ECB, and the Banks of England, Canada, and Japan—can borrow dollars, against which they can issue more of their own currency.

The European-IMF bailout is a devastating comment on the parasitism of the global financial aristocracy. The banks are raiding hundreds of billions in public funds, which will increase already bloated state debts—allowing governments to press for further social cuts against the workers. The fact that such measures pass testifies to the total subservience of the political establishment to the super-rich.

Like the $800 billion bailout arranged by the US government after the collapse of Lehman Brothers, this money is being handed over to the banks with no questions asked—though taxpayers justifiably could insist that, in return for their money, the banks be nationalized and run as public utilities.

In calling for another massive handout less than two years since the US bailout, the banks are making clear that they intend to run global finance as a gigantic Ponzi scheme. Teetering on the edge of default, the banks only avert catastrophe with repeated short-term fixes, in which they help themselves to mountains of other people's money.

The bailout itself will do nothing to resolve the underlying debt crisis. Though it might delay the bankruptcy of certain European countries, such a bailout would not repay their debts or reduce their budget deficits. Its funds would be earmarked not for productive investment, but to temporarily avert a collapse of the financial system.

Simon Tilford, chief economist at the Centre for European Reform think-tank, noted: "[The bailout] does not address the underlying issue—the terrible economic growth prospects of the southern eurozone countries and Ireland. Unless these economies can avoid deflation and get their economies growing, they have no future in the eurozone."

The existing €110 billion European-IMF bailout plan for Greece faces similar criticisms: it will increase Greece's debt, while provoking a catastrophic collapse of its economy by pushing through massive cuts in state expenditure.

Nor is it clear that the current bailout, if activated, would avert panic on debt markets. Countries with stronger AAA credit ratings—Germany, the Netherlands, or France—would have to borrow large amounts of money to fund the bailout, undermining their own creditworthiness.

David Roche writes in the *Financial Times*: "As all the AAA-rated nations in Europe have 70-80 percent of gross domestic product public debt ratios already—not far behind the 'junk bond' states (and worse than Spain)—we reckon the market will soon wake up to the fact that this deal is a form of contagion by official action."

The announcement of the bailout does not even guarantee that the immense funds required will ultimately be made available. An "off-balance-sheet entity" will borrow the necessary funds, lend them as needed to countries in difficulty, and then seek guarantees from the other European countries. The *Wall Street Journal* noted that this "construction helps skirt EU treaties' prohibition on one state's assuming the debt of another." However, it ultimately leaves the off-balance-sheet entity dependent on the willingness of European governments to fund the bailout.

It is unclear whether European governments would, in fact, agree to fund the bailout. In particular, though it ultimately said it would participate in the bailout, the German government of Chancellor Angela Merkel has made clear its lack of enthusiasm for such measures, repeatedly putting its participation in bailouts of Greece in question during the winter. On Sunday, it lost a regional election in North Rhine Westphalia, in which Merkel's support for unpopular bailout plans worked against her.

Another factor behind Berlin's reservations is that the bailout plans amount to a German subsidy for the shaky bank holdings of France and Britain. According to figures published by the *New York Times*, the southern European countries owe France $852 billion, Germany $510 billion, and Britain $230 billion. However, under the arrangement worked out for the Greek bailout, Germany pays more into European bailouts—28 percent, versus 21 percent for France—and Britain would not contribute except through the IMF.

The bailout also moves away from long-established monetary policies preferred by the German bourgeoisie. *Le Monde* noted that yesterday's bailout breaks two "founding taboos" of the euro: the principle that eurozone states would not be responsible for each other's spending, and the principle that the ECB would not directly buy public or private debt on bond markets.

By favoring larger budget deficits and expanding the money supply, both these measures tend to increase inflation. This has historically been opposed by German financial authorities at the Bundesbank. The *Financial Times* commented: "The ECB move is an earthquake that marks a definitive divorce of ECB policy from all Bundesbank best practice."