Euro in crisis as speculative assault intensifies

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Having picked over the bones of both the Greek and Irish economies, leaving social devastation in their wake, international speculators and rating agencies are turning their attention to other European countries.

The price of Portuguese and Spanish state bonds is being driven up. Yields on Portuguese 10-year government bonds have risen to 7 percent, while the price for bonds in neighbouring Spain has reached its highest level since the mid-1990s.

Soaring rates of interest charged for their official state bonds makes it increasingly difficult for Portugal and Spain to repay their debts and acquire new financing. In the cases of Greece and Ireland both countries eventually yielded to the pressure from the finance markets and accepted massive bail out packages of loans and guarantees tied to the implementation of brutal austerity programmes aimed at wiping out social reforms.

Confronted with this offensive, European governments have done what is demanded of them. In the course of discussions at the end of last week on a 90 billion euro European Union-International Monetary Fund rescue package, Irish Finance Minister Brian Lenihan agreed to an extension of the country's existing scheme permitting banks to issue sovereign-guaranteed bonds for up to five years. This means that bond holders are freed from the slightest obligation to contribute towards bailing out the banks, ensuring that the full burden of this latest bail out is carried by the taxpayer.

Despite this assurance and the new slate of savage social cuts announced this week by the Irish government, yields on Irish 10-year bonds have risen to new record levels of nearly nine percent. The bond markets are sending a clear signal that the latest measures undertaken by Dublin to prop up its virtually worthless banks are insufficient and that even more drastic social cuts are required.

Describing the current bond market offensive against Spain, the Spanish newspaper *Publico* titles its report, "Full-scale assault on Spanish debt". It notes that "the cost of borrowing for the government in Madrid is double what it was a month ago … Now that the euro zone has officially acknowledged that Ireland is a second casualty, speculators are convinced that they can smell blood and large investors are pulling out their money."

The Madrid daily concludes, "Spain is having to face up to very severe punishment. If it stumbles, or if it is unable to service its debt, it could bring down the euro."

When the bond markets turned on Greece at the start of the year, they demanded that fundamental reforms be undertaken by Athens in order to overcome its high levels of state debt. This small Mediterranean country was considered to be the weakest link in the European chain. Since then the number of weak links identified by the money markets has increased to include some of the continent's biggest economies. Spain's economy is the fifth largest in Europe and three times bigger than the combined economies of Greece, Ireland and Portugal.

There are also major differences between all of the countries singled out for attack by big finance.

Unlike Greece and Portugal, Spain has a relatively low level of state debt. Spain did, however, go through a major property development bubble (like Ireland) and also has the highest rate of unemployment in western Europe. Unlike Ireland the Spanish banking system, based on high levels of capital provision, has so far emerged relatively unscathed from the current crisis.

Despite varying economic problems, the "structural reforms" dictated by the banks to the European Union and the IMF are invariably the same—a mixture of labour deregulation, tax increases for ordinary or middle income wage brackets and increases to consumer basic taxes such as VAT—measures aimed at impoverishing the broad masses of society.

What is taking place is nothing less than a fundamental restructuring of class relations in Europe and worldwide. At the heart of this restructuring is a massive reallocation of social wealth into the vaults of the banks and the pockets of the international finance oligarchy.

Already there is speculation in the international press that other, even bigger European countries could be the

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next victims of the finance Mafia. An article in the *Financial Times* on Wednesday drew a parallel to the current activity of investors in Europe with the wave of speculation that ended with the banking crash of 2008. "Like ducks lined up in a shooting range, markets are picking off countries one by one," it declared. “For Bear Stearns and Lehman Brothers, read Greece and Ireland. The question is whether the rot can be stopped as it was with banks or if Portugal, Spain, Italy and perhaps even France will be sucked in.”

Economic analysts are united in their opinion that the massive 750 billion euro bail out fund agreed last May is sufficient to finance a future bail out of Portugal, but is completely inadequate to fund a rescue package for Spain—already labelled the “country too big to save”. In any case, to speak of saving Portugal neglects to factor in that Spain is its major overseas investor. It postulates a domino-theory of “financial contagion”, rather than a collapse that could sweep through countries simultaneously.

There is already a broad consensus among European political elites that the raising of additional huge sums of money on a European scale—a euro rescue package Mark 2—would prove to be unacceptable to electorates. A collapse of the Spanish economy would throw the euro into turmoil and could even result in the breakup of the eurozone, with incalculable consequences.

The euro has declined steadily in recent weeks against the dollar. Markets are now factoring a collapse of the eurozone into their calculations and intensifying short trade speculation on a further decline in the euro.

German Chancellor Angela Merkel said this week that Europe was facing an “extraordinarily serious situation” and must “get back on a path of stabilization,” including setting limits on markets by ensuring that private investors bear some of the risk of future eurozone bailouts. The last time she raised this demand, it precipitated a counter-offensive by the bond markets in the form of a speculative attack on Ireland. Merkel retreated in the face of this. But the failure of the Irish bailout to calm the markets has led her to raise the demand again. German Finance Minister Wolfgang Schaeuble also told the Bundestag (parliament) Tuesday that the future of the euro was “at stake” in the Irish crisis.

Fearful of the consequences, of such a statement, a spokesman for the European Commission’s economic and monetary affairs commissioner, Olli Rehn, insisted that the euro was a “stable” currency and was not under threat.

Even so, political commentators continue to speculate on the end of the euro. Writing in the UK’s *Independent*, David Prosser asks bluntly, “When will Germany call time on its economic experiment?” He notes that “the threat to the euro comes not from the weakest members, but from its strongest. Though the single currency is more the project of Germany than anyone, the patience of its voters is dwindling.”

In the *Guardian,* the pro-European historian Timothy Garton Ash writes, “If the eurozone falls apart, it will be because Germany did not do enough to save it. If the eurozone is saved, it will be thanks to Germany. This is the greatest challenge to German statecraft since the country was peacefully united 20 years ago. At the moment, the leaders of Europe’s central power are not rising to the challenge, but they still have a few weeks in which to show that they can. Thereafter, it may be too late.”

Such appeals for Germany to come to the rescue of Europe and the euro are misplaced. It is not simply that the “patience” of German voters is being exhausted. While it is true that the German government is anxious to retain the joint currency and was able in the past to benefit from the euro like no other nation, the attitude adopted by Germany throughout the crisis has been characterised by the type of national egoism and complete subservience to the banks that has been the hallmark of all European nations. Germany has led the campaign for the imposition of stinging austerity programmes in countries across Europe, thereby intensifying the extreme economic and social divisions that prevail across the continent.

During a period of relative economic stability these divisions remained manageable and even concealed. The financial crisis unleashed by the collapse of Lehman Brothers in 2008 has now forced these divisions explosively to the surface in a manner which threatens to tear Europe apart. As the crisis intensifies it becomes increasingly apparent that any progressive resolution of the crisis is impossible within the framework of competing capitalist nation states, and requires the socialist unification of the continent by a revolutionary movement of the working class.

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