After the Irish bailout: The financial wolf pack targets new victims

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It is doubtful whether there is any greater degree of mystification, in any sphere of economics or politics, than in the way financial market operations are described.

The so-called Irish bailout announced last Sunday is a striking case in point. What has taken place is not the bailout of Ireland. Rather, the Irish government has agreed to the demands from international financial markets that all the resources of the state be deployed to ensure that all Irish debts and financial assets held by banks and financial institutions are paid in full, at the expense of the working class. In other words, it is not "Ireland" that has failed and requires a bailout, but the holders of Irish debt—the European and international banks.

The agreement is expected to cost Irish families an additional €4,000 each, on top of the €4,000 they are estimated to have lost already. And, as if to emphasise that there is no line it will not cross in order to meet the rapacious demands of the financial markets, the government agreed that pension funds would contribute €17.5 billion to the bailout.

No sooner was the agreement announced, however, than the financial wolf pack began lining up its next target … Portugal, Spain or possibly Belgium.

The deepening European financial crisis underscores the fact that the collapse of the US investment bank Lehman Brothers in September 2008 was not the result of a cyclical downturn, which would be followed by "recovery", but marked the beginning of a breakdown of the entire post-war global capitalist order.

The onset of the US financial crisis in 2007 had an immediate impact on European banks. They had been either directly connected to the sub-prime operations of the US finance houses, as in the case of Germany's state banks, or engaged in similar speculative activity.

If that were all there was to it, the crisis would have been over by now. But the initial bankruptcies were only the expression of far deeper contradictions within the global capitalist economy.

Since the beginning of the 1980s, following the end of the post-war economic boom, world capitalism has been characterised by what could be called the rise and rise of financialisation. One significant statistic points to the extent of the process. Some three decades ago, the stock of global financial assets was equivalent to around 100 percent of world GDP. By 2007 it had risen to 350 percent.

The implications of such a vast shift are now manifesting themselves in the deepening debt and financial crisis.

Notwithstanding the delusions of various financial spokesmen that money can somehow, by its very nature, indefinitely beget money, financial assets represent, in the final analysis, a claim on the wealth produced by social labour, in particular, the surplus value extracted from the working class in the process of capitalist production.

For a time, so long as money kept pouring into the financial system, this economic law seemed to be held in abeyance, as vast financial profits were accumulated through the appreciation of asset values, especially real estate. It really did seem that money could turn into more money, outside the process of capitalist production.

Eventually, however, the laws of capitalist economy did assert themselves, not peacefully, but in the manner described by Marx … like the law of gravity asserts itself when a house falls about our ears. The house of finance collapsed in September 2008.

Governments responded with bailout and stimulus packages to prevent an immediate plunge into

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depression. But these measures failed to resolve the crisis, they only shifted it. Trillions of dollars of debt were transferred from the banks and finance houses onto the books of the state. Now these debts must be paid by slashing the living standards and social conditions of the working class.

For a time, it appeared that European capitalism represented some kind of alternative to the rapacious "free market" system that prevailed in the United States. In fact, the expansion of finance and debt was just as crucial to the functioning of the European economy as it was in the US.

The eurozone's establishment in 1999 marked an attempt to ensure that the European economy was able to remain competitive with its rivals. There were even hopes that the euro would be able to challenge the dollar as the preeminent world currency. However, the monetary union had significant consequences within Europe itself. Among other things, it removed the possibility for the less competitive or so-called peripheral economies to improve their position in world markets by devaluing their currencies. The gap in their balance of payments was covered by an inflow of capital from the banks and financial institutions of the so-called core countries, in particular Germany and France. This capital was used to finance real estate developments and tourist projects, and to promote economic growth, in turn providing export markets for the more powerful European economies. A virtuous economic circle was established.

German capitalism enjoyed considerable benefits. In 1990, at the time of reunification, exports constituted around 25 percent of GDP. By 2008 they had risen to 47.2 percent, the highest proportion in the world, much of it resulting from exports to the rest of the eurozone.

Moreover, the euro traded at a lower level against other currencies than the deutschmark would have done, providing a competitive edge for German exports in international markets. This phase of capitalist development, made possible by the expansion of debt, has now come to an end. A new period has opened up, in which all the contradictions that tore Europe apart in the first half of the twentieth century are resurfacing.

The so-called Irish bailout is only the beginning. The financial markets are demanding not just a limited period of austerity, but the destruction of the entire post-war European social welfare system.

At the same time, the austerity measures being imposed now create the conditions for a vicious economic cycle, in which low growth exacerbates the economic crisis, leading, in turn, to deepening debts and insolvency—of banks, financial institutions and even governments.

The future of the European Union itself is in doubt, threatening a return to the intra-European conflicts that led to two world wars. National conflicts and divisions are on the increase. Writing in yesterday's *Financial Times,* head of the Madrid Office of the European Council of Foreign Relations, José-Ignacio Torreblanca, blamed Germany for the mounting economic problems confronting Spain.

During the 1980s and 1990s the process of European integration resulted in a "virtuous circle of economic growth: the periphery grew faster than the centre … but Germany and others benefited substantially because that growth was based on their exports and foreign direct investment." Now the circle seems to be "irreversibly broken" with Germany looking to go it alone.

The working class must meet the crisis by advancing and fighting for its own independent program. The dictatorship of finance capital, and its insatiable demands for the impoverishment of the working class, must be overthrown through the expropriation of the banks and financial institutions and the repudiation of their debts.

There is no national solution to the crisis. A divided Europe only signifies a return to the disasters of the first half of the twentieth century. Europe must be unified on a progressive basis, and this is only possible through the establishment of the United Socialist States of Europe—the perspective of the International Committee of the Fourth International, the world party of socialist revolution.

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