Portugal’s bailout: European banking crisis deepens

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Capitalist politicians, together with the mass media, work to present the so-called sovereign debt crisis as akin to the fate of an individual who, having encountered financial difficulties, is obliged to make sacrifices in exchange for assistance. The bailout of Portugal is the latest case in point. Announcing the decision of his caretaker government to seek emergency assistance from the European Union, Prime Minister Jose Socrates declared this was for the sake of “our country” and in the “national interest”.

The Portuguese bailout is expected to total at least €80 billion. Like those of Greece and Ireland, its real aim is to prop up Europe’s banks by imposing deepening cuts to the living standards and social conditions of the working class.

The lead-up to Wednesday night’s announcement followed a now familiar pattern. First the government implemented austerity measures, telling the population that any need for a bailout would therefore be averted. But the relentless pressure of the markets, the rating agencies and the banks continued, culminating in the downgrading of Portuguese debt to near junk status and an announcement by the country’s banks that they could no longer take onto their books further government debt.

One of Karl Marx’s most profound scientific discoveries was to reveal how, under the operations of the “free market”, systematic looting and robbery—and the accompanying impoverishment of masses of people—appeared as the outcome of “natural events”, for which no alternative existed. And so it has been here. Over the past months, the steadily deepening crisis of Portugal’s finances, which seemed to be produced by inevitable market forces, was, in fact, an operation aimed at forcing the government to seek a bailout, and ensuring that losses incurred by the major European banks would be guaranteed by the state.

As soon as the bailout decision was announced, Portugal’s banks celebrated. After all, the price of their stocks rose by between 4 and 6 percent in Thursday’s trading.

Massive amounts of money are at stake, together with the solvency of the entire European banking and financial system. According to data from the Bank for International Settlements—sometimes referred to as the central bank of the central banks—the total exposure of foreign banks to Greece, Ireland, Portugal and the next potential target, Spain, is $2.5 trillion. Of this, German banks are exposed to the tune of $569 billion, French banks $380 billion and British banks $431 billion.

The Japanese financial firm Nomura Securities has produced figures indicating the bailouts’ importance to the banks. By its calculations, if the debt of Ireland, Greece and Portugal were “restructured”—either by write-offs or by extending the time for repayment—the direct and indirect losses for the eurozone banks would total $240 billion. This figure would rise to $480 billion if Spain were included. German banks, being among the most heavily exposed, would take a loss of $185 billion, equivalent to around one-third of their total capital, if debts to the four so-called “peripherals” were restructured.

Debt restructuring has been opposed by the European Central Bank and the German government of Angela Merkel. One of the main reasons is their fear that any weakening of the European banks would advantage the American banks, which have been strengthened by the US Federal Reserve’s provision of massive funds and virtually zero interest loans.

Comments have appeared in the financial press stressing that the Portuguese bailout should mark the end of the financial contagion that began in April-May

2010. In an editorial headlined “Drawing a Line in the Iberian Sand,” the *Financial Times* insisted that it had to be the last and that “getting the Portuguese rescue right matters for all of Europe, and most of all for Spain”.

There is, however, no objective reason why the crisis will not extend further. As the economics editor of the *Guardian*, Larry Elliott, noted: “When it comes to economic fundamentals there is not an awful lot to choose between Portugal and Spain.” Elliott concluded: “So while it may be comforting for policymakers in Brussels and Frankfurt to believe that the sovereign debt crisis comes to an end with the Portuguese bailout, it is far more likely that Wednesday night’s call for help from Lisbon marks the start of a new and more dangerous phase of the crisis.”

This “new and more dangerous phase” will be accompanied by even deeper attacks on the working class than those carried out so far.

In this regard, it is critical to draw a political balance sheet of events that have taken place since the emergence of the “sovereign debt crisis” one year ago. It is highly significant that the Portuguese bailout request produced no disturbance on financial markets. In fact, stock markets generally rose, and the euro strengthened against the dollar.

This response was not a sign of any strengthening of the European financial system. It was produced by political, not economic, factors. It was an expression of conclusions drawn by the financial markets that, despite the worsening economic situation, the entire official political apparatus would work to ensure their demands were enforced. In Portugal, the two main parliamentary parties, the Socialist Party and the opposition right-wing Social Democratic Party, are both committed to imposing austerity measures on behalf of the banks, whatever the outcome of the country’s June 5 election.

As for the so-called Left Bloc, it has issued a statement declaring it will present a “plan in response to the debt situation”. But the financial markets have taken the measure of the “left” parties, and the trade union leaderships, on the basis of the past year’s events in Greece, Ireland and Portugal itself. They have already “factored in” to their calculations that in every country these apparatuses remain vehemently opposed to the development of an independent political struggle by the working class to bring down the governments of finance capital.

The forces for such a struggle are nevertheless emerging. The demonstrations of thousands of young workers and families on March 12, organised independently of the official apparatuses, point the way forward. This movement must be armed with an international socialist program for the establishment of workers’ governments, in the fight for the United Socialist States of Europe. That is the perspective of the International Committee of the Fourth International.

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