Global markets plummet as Greek political crisis deepens

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Markets around the world reacted negatively over the last two days to the latest events in Greece, as well as the continuing barrage of poor US economic news. At one point, the Dow Jones fell by more than 200 points on Wednesday. At the end of trading, it had recovered somewhat, but was still down 1.5 percent. European indices fell across the board on Wednesday, and at one point the Australian index hit its lowest level since the March 11 earthquake in Japan.

The Dow Jones made a slight recovery on Thursday, as US funds flooded out of Europe. According to one Reuters report, US “investors were indiscriminate in their abandonment of European banks.” The current losses mean that the Dow Jones has fallen by around 7 percent since the end of April and has lost most of its gains made this year.

Reflecting international concerns about the repercussions of a debt default on the part of Greece, oil prices and the euro fell sharply, while the price of treasury bonds rose.

On Thursday Greek stocks fell by nearly 3 percent, and interest rates on Spanish government bonds rose, reflecting market fears of a knock-on effect from the Greek crisis.

Following the downgrading to junk status of Greek sovereign debt and Greek banks by Standard and Poor’s earlier this week, another rating agency, Moody’s, turned its sights on mainland Europe.

On Wednesday the agency announced it was reviewing the credit ratings of three of France’s biggest banks. According to recent data from the Bank for International Settlements, French banks had more to lose from a collapse of Greek banks and a sovereign default than the banks of other countries, such as Germany, the United States and Britain.

The mounting sense of panic on world stock markets is an expression of the intractable nature of the Greek economic crisis, precipitated by the utterly reckless investment strategies of the major banks and capitalist governments across Europe. The volatility of the markets also reflects growing nervousness regarding the mounting political crisis in Greece and Europe as a whole, under conditions in which widespread public anger is visibly growing and assuming increasingly militant forms.

A series of meetings held by European ministers this week failed to come up with a proposal for a joint approach to the growing economic crisis in Greece. On Tuesday, European ministers met for what were described as “very intensive” discussions. According to one European Union diplomat, the talks were marked by bitter quarrelling between ministers, who were unable to issue a joint statement at the end of their deliberations.

The main fault line regarding EU policy towards Greece rests between Germany, which is seeking some involvement in debt relief by private-sector investors, and France. In line with the positions of the European Central Bank, the US administration and a number of other EU countries, France opposes any such solution.

Germany has also insisted that all 27 members of the European Union should contribute to a new bailout fund for Greece. The British government, along with several other European states, has strictly ruled out any contribution to a second loan to Greece.

The leaders of the two main combatant countries, French President Nicolas Sarkozy and the German chancellor, Angela Merkel, are due to meet in Berlin on Friday. Both leaders are under intense pressure from the markets to reach some sort of compromise.

On Sunday, euro-zone finance ministers are due to meet in Luxembourg prior to a meeting of European

Union leaders at the end of next week. Failure to reach a consensus on the continuing funding of Greece would jeopardise the latest tranche of payments to the country from the IMF.

Nevertheless, virtually all commentators agree that any compromise between Berlin and Paris would only provide a temporary breathing space to Greece and postpone what is increasingly regarded as the inevitable outcome—a sovereign default resulting in a new European and international finance crisis.

Meanwhile, inside Greece, the ruling PASOK government led by George Papandreou is fighting to survive. Papandreou's proposal for a government of national unity was turned down yesterday by the leader of the New Democracy opposition who has called for fresh elections.

Papandreou's government has suffered a number of defections from deputies in the past few days, and it is doubtful that his proposals for a cabinet reshuffle will be sufficient for the government to survive a confidence vote due to take place at the start of next week.

In a column in the *Kathimerini* newspaper on Thursday, Stavros Lygeros reflected on the deepening economic and political crisis in Greece and warned of the emergence of an even more radical response by the Greek population.

Lygeros notes, "Thirteen months after Greece signed the memorandum (agreeing to the terms of the EU-IMF-ECB loan to Greece) ... citizens see the country sinking deeper into recession, leaving it more and more in a state of economic and social ruin. Hope has been replaced by despair, and this is gradually transforming into rage. Under such explosive circumstances it is fortunate that society’s rage is being channelled through the peaceful Indignant movement. But how long will that last?"

The columnist then points out that the government of George Papandreou has not only failed to reach its fiscal targets, “it has also exhausted the precious capital of society’s tolerance for painful measures and reforms.” The PASOK government has failed to “touch the ‘big fish’ or the main players of the kleptocracy while at the same time placing the entire burden on easy targets—the wage earners, pensioners and manufacturers….”

Lygeros warns finally that the “inequitable division of the burden corrodes the moral foundations of the collective effort to exit the crisis, increasing instead the people’s rage and the chance of a social explosion.”