Europe’s crisis

Peter Schwarz
23 July 2011

Not since the adoption of the Treaty of Rome 54 years ago has the European Union and its precursors stood so close to the abyss as in the past week. Experts agreed that should the heads of government from the euro-zone countries fail to find an answer to the debt crisis at their emergency summit on Thursday, it would mean the end of the euro and the European Union.

The consequences of such a failure would not be confined to the economic sphere. Ever since the Thirty Years War in the 17th century, Europe has been repeatedly ravaged by wars, culminating in the two world wars of 1914 and 1939. Since then, the EU and the organizations that preceded it have constituted the most important mechanism for preventing new armed clashes between the European powers. It was no accident, therefore, that before the summit, for many of the senior politicians who spoke out, Europe—as *Spiegel Online* put it—“was still a question of war and peace—instead of euros and cents.” They forcefully warned against a failure of the Brussels emergency summit.

The summit has not solved the crisis but merely postponed it. It has even exacerbated the underlying problems.

The participants adopted the long-planned second loan package for Greece worth more than €109 billion, which like the first is linked to imposing drastic austerity measures. In order to facilitate its repayment, the interest rate on Greek government debt is being lowered from 4.5 to 3.5 percent, and the terms of the loan extended from seven and a half years to 15 to 30 years.

The powers of the European Rescue Fund (EFSF) are being extended; in future it will buy bonds on the market and proactively support vulnerable countries. However, its total volume will not be increased.

The summit participants made a great fuss about the involvement of private creditors in the debt of Greece. The size of their involvement is put at €50 billion by 2014. But a closer inspection reveals this to be a sham. Banks, insurance companies and other private creditors can redeem their Greek bonds at a small loss averaging 20 percent, or exchange them for new, long-term bonds whose repayment is guaranteed by the EU. In this way, they can sell their Greek bonds at a price that is far above the current market value. All future risks are being foisted onto the public.

As a result of the measures adopted in Brussels, which still contain many ambiguities and uncertainties, Greek government debt of €350 billion will decrease by just €26 billion—a drop in the ocean.

Ireland and Portugal, which are also highly indebted, will also benefit from lower interest rates from the rescue fund, but participation by the banks is expressly limited to Greece. No provisions at all were made for Spain and Italy, although the interest rates on their bonds have shot up in the last week, and the debts of the two countries are regarded as a core part of the euro crisis.

It is therefore only a matter of time before pressure on the euro increases, and the government heads will again have to meet in an emergency summit.

The question of the underlying causes of the debt crisis were not addressed ??at the summit, let alone answered. Politicians and the media repeat ad nauseam that the crisis is a consequence of dubious financial stewardship, and that the countries affected were "living beyond their means".

In fact, the debt crisis is the result of the systematic looting of state coffers and the enrichment of the upper class at the expense of working people. For three decades, taxes on corporations, high incomes and wealth have been continuously lowered. The billions of euros with which the speculative losses of the banks were offset after the financial crisis of 2008 have overwhelmed public finances.

But there is no shortage of funds in Europe that could be used to settle the debts. This is demonstrated by the rapid increase of private wealth and the number of millionaires, which continues to grow unabated despite the crisis. According to the World Wealth Report, compiled by the US investment bank Merrill Lynch, some 3.1 million millionaires resided in Europe in 2007, who collectively possessed total assets of $10.6 trillion (€7.5 trillion). An emergency tax of just 4.7 percent on this wealth could wipe out the entire Greek public debt in one shot.

This wealth is rising rapidly, even in the wake of the financial crisis. In Germany alone, according to the Bundesbank, the sum of private fortunes has risen for the past five quarters by a total of €350 billion—exactly equivalent to the total debt of Greece. And this is despite the fact that medium incomes have stagnated for ten years and lower incomes have fallen. Wealth is concentrated almost exclusively in the upper tenth of society, which possesses over 60 percent of the total wealth.

But these assets are off limits to the governments of the euro zone. Even a bank levy, demanded by President Sarkozy for tactical reasons, was rejected categorically in Brussels. The assembled leaders even used the crisis to accelerate the redistribution of social wealth. The emergency summit in Brussels expressly welcomed the austerity programmes in Spain and Italy, and insisted that the budget deficit in all euro countries must fall below 3 percent by 2013—which means more drastic cuts in social spending.

Above all the “left” bourgeois parties—the Social Democrats, Greens and ex-Stalinists—are insisting on further attacks against working people. They parade themselves as the saviours of European unity, although their conception of “saving Europe” is synonymous with unending austerity.

In Greece, the victory of the social democratic PASOK party was a prerequisite for an austerity programme that will lower the living standards of workers and pensioners by 40 percent by 2015. In Italy, the 86-year-old President Giorgio Napolitano, an old cadre of the Stalinist Communist Party, is now ensuring that the centre-left opposition supports the recent austerity programme of the Berlusconi government, which is directed almost exclusively against those of middle and lower incomes.

In Germany, the Social Democratic Party (SPD) has offered its support to the Merkel government in order to pass unpopular measures to deal with the euro crisis. And in *Spiegel Online*, Green Party leader Cem Özdemir praised Greek Prime Minister Papandreou because he had introduced his austerity measures against popular resistance.

In the 1920s, Leon Trotsky stressed that the European bourgeoisie was incapable of uniting Europe in the interests of its people. The capitalist system, based on private property, exploitation, personal gain and national interests, was unable to guarantee the harmonious coexistence and solidarity of the European peoples. This assessment is being dramatically confirmed today.

The debate between the right and “left” bourgeois parties regarding a way out of crisis swings between blatant nationalism, on the one hand, and “saving Europe” through the ruin of its people, on the other. As in the 1930s, both roads lead to social decline, dictatorship and war.

The working class cannot subordinate itself to either of these camps; it must fight for its own response to the crisis—the reorganization of Europe on a socialist basis. The large financial conglomerates must be expropriated and placed under democratic control; the assets of the super-rich must be heavily taxed or confiscated. On this basis, it will be possible to resolve the current crisis, to overcome the social divide in Europe and to use its vast resources in the interests of society as a whole.

The alternative to the Balkanization of Europe into warring nation-states and the dictatorship of finance capital and its institutions in Brussels is the United Socialist States of Europe.

Peter Schwarz