Stock market panic deepens euro crisis

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The stock market panic of the past two weeks has clearly shown that none of the problems have been solved that led the world financial system to the brink of collapse in 2008. On the contrary, the global economic crisis has deepened over the past three years.

An editorial in the *Süddeutsche Zeitung* at the weekend drew a parallel to the Great Depression of 1931, which culminated in the Second World War. Two years after the Wall Street crash of 1929, several economic experts declared with optimism that the worst was over.

"What an illusion—and what disturbing parallels to today's crisis, to the second world economic crisis, as one must now call it," says the *Süddeutsche Zeitung.* Meanwhile, it was clear that as was the case "eight decades ago, several waves of crisis will follow: triggered by collapsing banks, bankrupt states, poor credit ratings or—at worst—the collapse of the euro zone."

Three years ago, after the collapse of Lehman Brothers, politicians protested they had drawn the lessons of 1931 and would not repeat the mistakes of stifling the world economy through a deflationary policy. With the help of bank bailouts, stimulus packages and low interest rates, they pumped billions from state coffers into the banks that had triggered the crisis through their irresponsible and criminal speculation.

Now the state budgets stand at the heart of the crisis. State debt has risen sharply because of the support for the banks. For example, Irish government debt has quadrupled, Spain's has doubled, America's has grown by one third and Germany's by one fifth. The banks have turned the tables. First they were rescued using public funds, now they are demanding that budgets be slashed through brutal cost-cutting measures.

Governments have bowed to the dictates of the financial markets and are responding like their predecessors eighty years ago. They no longer talk about the lessons of the Great Depression. Instead, they are destroying the livelihoods of broad layers of the population, pushing the economy into recession through new austerity measures.

The stock market panic of recent days must be seen in this context. The trigger was the downgrading of the United States credit rating by Standard & Poor's and the deepening of the debt crisis in Europe.

Standard & Poor's lowered its rating on US government bonds because the financial markets considered that the social cuts agreed by the Obama administration and the Congress were insufficient. In Europe, Spanish, Italian and French government bonds came under the spotlight of the speculators because the financial markets were not satisfied with the devastating austerity programmes in the peripheral countries of Greece, Ireland and Portugal.

The run on the financial markets signalled that investors will not rest until the last remaining social achievements of recent decades are destroyed—and not just in the small countries in the periphery of the euro zone, but throughout Europe.

The political elite understood the message and responded immediately. Last week, the Italian government agreed on an additional cuts package of €45 billion, although it had only recently slashed spending by €79 billion. The German Chancellor and French President agreed to meet at a special summit today to give a sign to reassure the financial markets.

The main topic dominating financial discussions is the introduction of common European bonds—that is, debt issued jointly by all the euro zone countries. So-called euro-bonds would allow countries such as Greece to finance their debt at the same rate as Germany. Greece would face much lower interest rates than before, while Germany would face higher interest rates on its debts.

This is why Germany has so far categorically refused to accept such euro-bonds. Although the German economy, more than any other, has benefited from the euro, Berlin rejects in any form a "transfer union," a transfer of finances from richer to the poorer countries of the euro zone.

But the pressure on Germany has grown considerably in recent days. In an urgent appeal last weekend Italian Finance Minister Giulio Tremonti called for the establishment of common bonds. Euro-group president Jean-Claude Juncker and EU Monetary Affairs Commissioner Olli Rehn also called for euro-bonds.

In a contribution published in a number of German newspapers, the financial investor George Soros spoke in favour of the introduction of euro bonds. "Germany and other countries with 'AAA' bond ratings must agree to some form of euro-bond regime. Otherwise, the euro will collapse," he told finance daily *Handelsblatt.*

The German government still officially rejects euro-bonds. And on Monday Chancellor Merkel's spokesman even explained that euro-bonds were not the subject of the meeting with Sarkozy.

However, the *Welt am Sonntag* reported over the weekend, citing several government members, that Berlin was now prepared to accept common European bonds if this was the only way to save the euro. The previously chosen route, to help countries with financial difficulties with multi-billion dollar bailouts is reaching its limits.

However, Berlin does not want to openly announce such a move, but negotiate "concessions from its euro-partners" in a longer process, was how *Welt am Sonntag* described it. In essence, the highly indebted countries must give up their economic and monetary sovereignty and submit to the dictates of the financial markets unconditionally.

In this context, German Economics Minister Philipp Rösler suggested the formation of a "stability union," in which hard, tangible criteria would automatically ensure the reliability of the single currency. First, all countries should take up the German model of a constitutionally mandated balanced budget and put their labour market to a stress test. A European "stability council" should then decide on the use of credit and monitor compliance with the loan conditions. It would act as an "executive committee" of the EU in accordance with specified criteria that cannot be mitigated by political influence.

Rösler justified his proposal, which had been agreed with Chancellor Merkel, with the fact that the markets express a "basic mistrust" of the reliability of political decisions. The markets assessed the economic situation of a country more objectively than the political institutions.

In other words, the German government is demanding that the euro countries subordinate their financial and economic policies to a European body that stands outside any democratic control, and whose policies are largely determined by Berlin. In return, they would then be willing to finance some of the debts of weaker countries by means of euro-bonds.

The billionaire George Soros also supports this position. Euro-bonds would "then be acceptable for German voters if they were based on clear financial rules that must be set from Germany," he told *Der Spiegel*.

What additional burden euro-bonds would mean for Germany's budget is a matter of dispute. A representative of the Ifo Institute spoke of a total of €47 billion per year, which is likely to be an exaggeration. What is certain is that the German government would shift the additional costs onto the working class and pursue a harsh austerity plan similar to what Berlin has dictated for Greece, Portugal and other highly indebted countries.

Several economists have calculated that a failure of the euro would prove far too expensive for the export-dependent German economy.

Daniel Gros of the Centre for European Policy Studies (CEPS) expects a complete collapse of the European financial and banking systems if the monetary union should break up. The German economy would slump by 20 to 30 percent. In 2009, it only dropped by five percent due to the financial crisis.

Gustav Horn from the Institute for Macroeconomic Research, and Michael Burda of Berlin's Humboldt University, anticipate that a re-introduced Deutschemark would soon grow in value against the dollar and other European currencies by up to 50 percent. According to Horn, this would be a catastrophe for the export sector. "It would wipe out medium-sized German businesses in one fell swoop."

Nevertheless, the German government coalition is deeply divided over the issue of euro-bonds. The Bavarian Christian Social Union (CSU), the Free Democratic Party (FDP) and some Christian Democratic Union (CDU) parliamentarians oppose European community bonds categorically. Many media comments now consider the question a political powder keg that could cost Chancellor Merkel her majority.

Both the Greens and the Social Democratic Party (SPD) are ready to step into the breach. Both have spoken out forcefully for the course that is currently advocated in the majority of German business circles: the introduction of euro-bonds, combined with strict European finance rules and other austerity measures.

In a TV broadcast, SPD chair Sigmar Gabriel advocated the introduction of euro-bonds. The prerequisite, however, was that countries seeking access to the bonds submit themselves to strict European control and give up their budget rights, he said.

Green Party chair Cem Ozdemir told the *Rheinische Post* that the appointment of a European finance minister, control over the budgets of member states by the European Union, and effective measures and incentives for fiscal discipline were prerequisites for introducing euro-bonds. He specifically advocated even more austerity measures. Those who want the euro must "be willing to pay a price for it," he said.

The establishment parties—whether conservative, social democratic or Green—know only two answers to the economic crisis: the introduction of a European financial dictatorship in defence of the euro, or the Balkanization of Europe in the name of national interests. Both lead to disaster, deepening the social crisis and exacerbating national tensions.

The worsening of the economic crisis is putting immense class struggles on the agenda. In Tunisia, Egypt, Greece, Spain, Israel and many other countries, workers and young people have begun to oppose the dictates of finance capital. But these struggles can only succeed if they are guided by an international socialist perspective.

Workers all over Europe must unite across the national borders and launch a joint struggle against the dictates of the banks and their stooges in the establishment political parties and the trade unions. Its goal must be the establishment of the United Socialist States of Europe. This requires the building of the International Committee of the Fourth International and its sections in the whole of Europe.