Growing conflicts over euro crisis

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Almost all experts now anticipate a deep global recession this fall. At the same time, leading politicians and economists are completely divided over how to react. There are as many opinions as experts, and most of the advice given is mutually exclusive. The crisis has grown completely out of control.

In addition to falling growth forecasts for the US and Europe, it is the future of the euro that dominates the crisis. The multibillion-dollar financial package aimed at avoiding state bankruptcy for Greece and other highly indebted countries has had no effect.

The euro rescue package, which in 2013 is due to replace the provisional stabilisation mechanism adopted last year, has been ratified only by the French parliament. The parliaments of the other 16 eurozone countries have still to agree to it. Nevertheless, this proposal has already been overtaken by events.

The draconian austerity measures linked to the bailout package have hastened Greece into a severe recession. In the first quarter of this year, the Greek economy actually declined by 8.1 percent. As a result, Greek debt is increasing rather than falling. A similar fate awaits Ireland, Italy, Portugal, Spain and even France and Germany if the economy continues to weaken as expected.

The banks, which hold a large share of government bonds, have reacted as they did in 2008 at the time of the Lehman bankruptcy: Mistrust is growing; they are withholding their money and thereby exacerbating the crisis. The result on the stock exchanges is naked panic. Bank shares are primarily affected. On Monday, the German DAX stock index fell by 5 percent after it had already lost one fifth of its value in August.

"The eurozone is caught in a vicious circle", writes economist Barry Eichengreen in the *Financial Times*, adding, "Sovereign credit is deteriorating, reducing confidence in banking systems, which in turn increases the likelihood that governments will have to assume additional bank liabilities. This further impairs sovereign credit, which further undermines confidence in the banks. Europe's leaders have shown themselves incapable of breaking this vicious cycle, raising the danger of the European crisis becoming a global crisis."

The impotence of official policy towards the crisis is evident in the varying proposals about what to do next. It is possible to find at least three conflicting opinions in a single edition of the *Financial Times*, the leading European business newspaper.

In the August 6 edition, the above-quoted Professor Eichengreen from the University of California at Berkeley argues for the intervention of the International Monetary Fund and the G20. They should provide for stricter monitoring of European banks, he suggests, and supply them with extra capital to ensure they have sufficient equity to avoid payment defaults.

Eichengreen takes up the suggestion made by IMF chief Christine Lagarde at the end of August, who at a conference of central bankers in the US called for an "urgent recapitalisation" of European banks. "This is the key to cutting the chains of contagion", Lagarde argued. "If it is not addressed, we could easily see the further spread of economic weakness to core countries, or even a debilitating liquidity crisis". She also proposed activating the European stability mechanism as a way to recapitalise banks.

German Finance Minister Wolgang Schäuble completely dismisses the notion of using further tranches of state funds and instead recommends more austerity measures—even when they are "politically painful". In a column in the same edition of the *Financial Times*, he insists that "austerity is the only cure for the eurozone".

"There have been calls on regulators to rein in speculators, on the central banks to loosen monetary policy further, on the US and Germany to use their supposed 'fiscal space' to encourage demand and on European Union leaders to take an immediate leap into a fiscal union and joint liability", Schäuble writes. He then rejects all such proposals: "Piling on more debt now will stunt rather than stimulate growth in the long run. Governments in and beyond the eurozone need not just to commit to fiscal consolidation and improved competitiveness—they need to start delivering on these now."

The disputes evident at an international level are replicated at a national level. In Germany, which plays a key role in the euro crisis due to its economic size, the ruling coalition is deeply divided over the question of further action.

German Chancellor Angela Merkel has spoken out in favour of the euro. It was “much, much more than a currency”, she said. It was “the guarantor of a united Europe”, she explained on Wednesday in the budget debate in the Bundestag. “If the euro fails, Europe will fail.” Even Finance Minister Schäuble defended the euro as the only alternative. “What we need in a globalised world is a common European currency”, he said.

But Schäuble also threatened that the next tranche of cash to Greece will not be paid if the country does not fulfil its savings requirements. “There is no room for manoeuvre”, he said. Should Greece be denied funds the result would be national bankruptcy with incalculable consequences for the international financial system.

The Free Democratic Party (FDP) deputy Hermann Otto Solms has already called for the exclusion of Greece from the eurozone. The country had not met yet the conditions for financial aid from other states, he argued. “This cannot be permitted in the long term.”

There is also a wing within the government coalition that firmly rejects the euro rescue proposals. A straw vote in the coalition fraction on Monday revealed that the government lacked an outright majority. Nineteen members of the conservative Union parties and six FDP MPs either voted against the bailout or abstained. This means the government could be dependent on the support of the Social Democratic Party (SPD) when the definitive vote on the rescue package is carried out in the Bundestag at the end of September.

Then on Wednesday, the Federal Constitutional Court dismissed a lawsuit against the bailout lodged by several professors. The verdict was welcomed by the government and international financial markets. A negative decision could have led to the end of the euro.

The court did decide, however, that the Bundestag had to ratify any future lending under the terms of the existing rescue mechanism. Should the German example be followed by other countries, further bailouts would be made largely impossible.

The court also put a stop to the delegation of further national powers to European institutions. The type of European economic government favoured by Chancellor Merkel and French President Nicolas Sarkozy would then only be possible after a change to the German constitution.

The heated debates and sharp conflicts over how to deal with the euro crisis are an expression of the breakdown of the capitalist system. The crisis cannot be solved within existing social relations and political institutions.

The European debt crisis is the result of decades of redistribution of income and wealth, which accelerated in the early 1980s. Increasing proportions of social wealth flowed into the accounts of banks and into the pockets of the rich, while the wages of workers stagnated, production declined and welfare benefits were slashed.

Much of the wealth accumulated during the stock market boom of the 1990s was purely speculative in nature. It did not represent any real value. When that bubble burst in 2008, the banks were saved by the infusion of billions of dollars from national budgets. Now, the banks are insisting that these funds be recouped through massive austerity programmes directed at the mass of the population. The crisis thus becomes a mechanism to once again redistribute wealth while eliminating all of the social achievements of recent decades.

Both the proponents of a European and a national solution to the euro crisis are united in insisting that the population bears the cost of the crisis. The austerity measures that Greece has had to implement as a requirement for “assistance” from the euro rescue fund have reduced the living standards of average income earners by 30-40 percent and are destroying large parts of state infrastructure. A collapse of the euro and the European Union would result in the bankruptcy of entire countries and lead to a resurgence of national conflicts and wars in Europe.

Neither path can be reconciled with democratic methods. This is the background to the intense debate taking place within the ruling class and its parties. The political crisis will spawn authoritarian structures should the working class fail to intervene in political life and struggle to establish its own alternative solution.

Not a single social problem can be solved as long as the financial markets decide the fate of entire economies. The major financial institutions and large corporations must therefore be expropriated and put under democratic control. Economic life must be planned according to the needs of society rather than left to the anarchy of the markets and the profit interests of the banks.

This requires the independent mobilisation of millions of workers to establish workers governments and the United Socialist States of Europe. This in turn requires the building of a world revolutionary party—the International Committee of the Fourth International—and of its German section, the Socialist Equality Party.