French bank downgrade increases pressure for austerity across Europe

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The ratings firm Moody's downgraded two of France's biggest banks Wednesday, increasing pressure on governments across Europe to impose austerity measures on the working class.

Moody's cut its rating for France's second largest bank, Société Générale, from Aa2 to Aa3, and downgraded the third biggest bank, Crédit Agricole, from Aa1 to Aa2, citing their exposure to Greek government bonds. It left BNP Paribas, France's biggest bank, at Aa2, while putting it on negative watch.

The move, which had been widely anticipated, came in the midst of mounting fears of a Greek debt default and resulting collapse in confidence in French and other European banks that have large holdings in Greek bonds.

Political leaders in Germany, France and the US intervened demonstratively on Tuesday and Wednesday to reassure financial markets that Greece was not on the verge of bankruptcy, while insisting that the social democratic PASOK government escalate its assault on the jobs and living standards of Greek workers.

German Chancellor Angela Merkel on Tuesday disavowed statements by her deputy chancellor and economy minister, Philipp Rösler, indicating support for an "orderly default" by Greece as an alternative to further bailout funds from the European Union and the International Monetary Fund. She said she was confident that the "troika" overseeing the 110 billion-euro fund for Greece—the EU, the IMF and the European Central Bank (ECB)—would approve the next tranche of financing, 8 billion euros, which Greece says it must receive within days to avert a default on its debt payments and wage and pension obligations.

Choosing her words deliberately, she did not in principle rule out letting Greece go bankrupt. "It is our top priority to avoid an uncontrolled default," Merkel said.

On Wednesday, she held a teleconference with French President Nikolas Sarkozy and Greek Prime Minister George Papandreou after which all three issued statements reaffirming their common commitment to aiding Greece and keeping it in the euro zone—contingent on Greece meeting strict deficit- and debt-reduction targets that have already plunged the country into a depression.

US Treasury Secretary Timothy Geithner also sought to reassure the financial markets. In a speech at a New York conference co-hosted by the cable financial channel CNBC and *Institutional Investor* magazine, and in subsequent interviews, he declared his confidence that the European powers would take whatever measures were needed to avoid a Greek default and contain the sovereign debt crisis that is threatening to undermine the euro currency and the banks.

Geithner made clear, however, that the US considers the steps taken by Europe thus far to be inadequate. He called on European governments to use "overwhelming force" to deal with the continent's financial crisis and added, "They have to move more quickly."

Indicating the extreme concern in Washington over the deteriorating financial situation in Europe, Geithner is taking the unprecedented step of attending a meeting Friday of the European Union's Economic and Financial Affairs Council (Ecofin), which is being held in Wroclaw, Poland.

The main purpose of Wednesday's three-way teleconference was evidently to lay down the law to Greece and extract a pledge of further layoffs and budget cuts. Over the weekend, after negotiators for the EU, IMF and ECB had broken off talks on the next installment of bailout funds because Greece was 2 billion euros over its deficit target, Papandreou announced a 2 billion-euro hike in property taxes. However, the financial markets brushed the move aside and escalated their speculative betting that Greece would default.

As the *Financial Times* reported Wednesday, "Among the measures Mr. Papandreou is expected to discuss with Germany and France is a decision to cut even more public sector workers next year, one of the demands made by negotiators for the European Union and the IMF. The new reductions are likely to total more than 40,000.”

The massive cuts already imposed have led to a sharp contraction in the Greek economy and a rapid rise in unemployment, depleting tax revenues and worsening Greece’s debt crisis. Greek tax revenues fell 5.3 percent in the first eight months of this year. New cuts will only deepen the crisis, but the international bourgeoisie is determined to exploit the financial crisis to dismantle all of the social gains of the past century and reduce the working class to poverty.

Italy, which has come under attack by the financial markets, finalized new austerity measures on Wednesday. The previous day, the Italian government had to pay a record interest rate of 5.6 percent to sell 6.5 billion euros worth of 5-year bonds, despite heavy intervention by the European Central Bank over the past month to prop up the country’s debt.

The Italian parliament gave final passage of a 54 billion-euro austerity budget that aims to eliminate the nation’s deficit by 2013. This, however, is seen as only an initial step. There is talk of a fire sale of state assets to raise as much as 400 billion euros. Among the targets for privatization are government holdings in the power utility ENEL and the oil and gas group ENI.

France, for its part, is hurtling toward a massive bailout of its banking system, which will inevitably entail a sharp intensification of austerity measures against the French working class. This is being pushed particularly by the US and the IMF, which fear the international consequences of a collapse of one or more big French banks.

Major French banks, including PNB Paribas, Société Générale and Crédit Agricole, have seen their market value plunge in recent weeks, as the financial markets factored a Greek default and its consequences for the European banking system as a whole into their calculations. Société Générale shares have lost more than 50 percent since early August. BNP Paribas shares have fallen 38 percent, and Crédit Agricole has lost 37 percent over the same period.

The market value of Société Générale has plummeted from 110 billion euros in mid-2007 to just 12 billion on Monday.

In recent weeks, French and other European banks have had increasing difficulty obtaining short-term financing on the private market. According to JPMorgan Chase, the amount of short-term lending to euro zone banks dropped by $50 billion in August, a 14 percent drop from July and a 23 percent drop from June, according to JPMorgan. Of this, loans to French banks fell by $39 billion. In another sign of the growing distress of European banks, the European Central Bank revealed it loaned $575 million (418 million euros) to two euro zone banks this week.

IMF Managing Director Christine Lagarde has warned of a financial meltdown if European banks are not quickly recapitalized, i.e., bailed out with public funds. Reuters reported Wednesday that US Treasury Secretary Geithner will pressure European finance ministers at the meeting Friday in Poland to expand the 440 billion-euro European Financial Stability Facility agreed to in July so that it can be used to bail out failing banks.

“A well-connected fund source told Reuters,” the news service wrote, “Geithner had been pushing for a solution for European banks along the lines of the TARP program in the United States, but had not made much headway.”

A new and even bigger bank bailout in Europe will do no more for the broad mass of the people than the Troubled Asset Relief Program did for the American people. The first wave of bailouts, used to cover the bad debts of the financial-corporate elite, bankrupted national treasuries and provided the pretext for a historic assault on the jobs and living standards of the working class in the US and internationally. Next Monday, President Obama is set to unveil his program for trillions of dollars in cuts in social programs, amid mass unemployment and rising poverty.

Notwithstanding the differences that exist within the international bourgeoisie over how to deal with the debt and banking crisis, there is a universal consensus that the cost of the breakdown of the capitalist system must be borne by the working class. Calls by some factions to let Greece and other countries collapse are being used to ensure that the costs of any agreements reached to avert a financial meltdown will land on the backs of the working class.