European markets plummet on fears of a new banking crisis

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European stock markets fell sharply Tuesday and the euro hit new lows for the year amid reports of an impending default of the Greek economy and fears of a rapidly developing recession and renewed banking crisis on both sides of the Atlantic. Asian markets were also generally lower for the day.

Major European banks with heavy exposure to the debt of ailing euro zone countries such as Greece, Italy, Spain and Portugal suffered heavy losses. The Franco-Belgian bank Dexia lost 37 percent at one point following rumours of an imminent crash of the bank.

US stock exchanges, sharply lower for most of the day, pivoted in the final hour of trading to close with substantial gains. The Dow Jones Industrial Average rose 360 points in the last 30 minutes to end the day with a gain of 153 points. The rally was evidently triggered by an article posted on the *Financial Times* web site reporting that euro zone finance ministers meeting in Brussels were moving toward a coordinated plan to "recapitalize," i.e., bail out, the European banks.

Earlier in the day, one analyst had noted, "Dexia's problems stress the point that for euro zone leaders the Greek crisis is less about Greece and more about the potential for it to spark a much more widespread banking and economic disaster."

In Europe, the London FTSE index moved below 5,000 points in afternoon trading to register its worst showing in over a year. Frankfurt's DAX 30 and Paris' CAC 40 also fell sharply.

Germany's biggest bank, Deutsche Bank, reported disappointing figures and declared that it would be unable to hit its profit target for 2011. The bank said it would cut 500 jobs.

Fears of a looming default by Greece were heightened by a report from the Greek cabinet at the weekend which revised downward its previous economic forecast. According to the official figures, Greece's gross domestic product (GDP) is expected to contract by 5.5 percent for all of 2011. The cabinet expects the economy to contract in 2012 by 2.5 percent. This contrasts with earlier forecasts predicting zero economic growth next year.

The deep recession in Greece is a direct product of previous austerity measures introduced by the social democratic PASOK government at the behest of the banks, the European Union and the International Monetary Fund (IMF). Spending cuts, layoffs, wage and pension reductions and new consumption taxes have decimated jobs and purchasing power. According to the Ministry of Justice, the bankruptcy courts have registered a 60 percent increase in insolvency cases so far this year. Compared to 2007, the number of bankruptcies has risen by 206 percent.

The official unemployment rate has risen from 11 percent in 2010 to over 16 percent this year, while the General Confederation of Greek Workers (*GSEE*) estimates the jobless rate to be 26 percent.

The Greek government announced over the weekend that it would not be able to meet the deficit-reduction targets set by the so-called "troika" (European Commission, European Central Bank, IMF), which is overseeing the bailout funds agreed to last year to avert a default by Greece on its sovereign debt.

This year the budget deficit will amount to 8.5 percent of GDP. The troika had demanded a limit of 7.6 percent. Next year's target of 6.5 percent will also be exceeded, the government acknowledged.

European finance ministers and representatives of the troika reacted to the news of the country's growing economic and social crisis by demanding more of the same, i.e., more doses of the austerity measures that have already plunged the country into recession. At their meeting in Brussels on Monday, the European finance ministers postponed payment of a scheduled 8 billion-euro tranche of bailout funds until the end of October or beginning of November. Greek officials have said they need the funds by the middle of this month to pay public sector wages and pensions and avoid going into default.

The speaker of the euro group, Jean-Claude Junker, justified the postponement by saying the finance ministers wanted to wait for a report from the troika on the state of the Greek economy. The troika has repeatedly delayed a decision on dispensing emergency loans to Greece in order to make fresh demands for the implementation of new social attacks. Its representatives are currently in Greece and have already indicated that new austerity measures adopted by the Greek government over the past week, including the elimination of 30,000 public sector jobs, do not go far enough.

They have demanded that Labour Minister Giorgos Koutroumanis either renegotiate or declare null and void the national labour contract, which governs basic pay and conditions. The troika is also calling for drastic cuts to the country's minimum wage, which currently amounts to a miserly €548 per month. They are also pressuring Greece to rapidly implement a program of wholesale privatisations of state assets.

Despite these attacks, the country's two major union federations, GSEE and ADEDY (Civil Servants' Confederation), continue to stifle opposition to the Greek government, the European Union and the banks. The limited strikes they have organised are designed to allow workers to let off steam and pre-empt any effective movement against the government and the troika.

The latest figures from Greece and the unwillingness of the EU to release more emergency funds have intensified discussions over the likelihood of a Greek default. German Economics Minister Philipp Rösler of the Free Democratic Party and former finance minister Peer Steinbrück of the Social Democratic Party both reiterated their view that Greece will soon go into default. Rösler, who heads the junior party in the Christian Democratic Union (CDU)-led ruling coalition, has drawn up plans in his ministry for such an eventuality and is due in Athens Thursday as the head of a group of German industrialists eager to snap up bargains as the Greek economy dissolves.

Last month, Rösler came under attack from government colleagues for airing his plans in public. But on Tuesday, the deputy head of the CDU's parliamentary faction, Michael Fuchs, said on German radio that he basically supported Rösler's plan. Fuchs criticized euro zone leader Jean-Claude Juncker, who has repeatedly ruled out bankruptcy for Greece.

The *Financial Times* article cited Olli Rehn, the European commissioner for economic affairs, as reporting a growing consensus within the euro zone on the need for a coordinated plan to "recapitalize" European banks that face huge losses in the event of a Greek default. "There is a sense of urgency among ministers," he told the newspaper.

This points to a policy of pushing Greece over the edge, with devastating consequences for the Greek working class, while allocating hundreds of billions more in public funds to cover the potential losses of banks across Europe—a new bailout that will inevitably be paid for at the expense of the jobs, wages and social conditions of workers in every European country. These attacks will set a new benchmark for attacks on the working class in the US and internationally.