

# Economic crisis heightens global tensions

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Remarks by the Bank of England governor, Mervyn King, explaining last week's decision to extend so-called "quantitative easing"—the process by which central banks buy up government bonds in financial markets in order to lower long-term interest rates—point to the rapid deepening of the global financial crisis and the consequent rise of international tensions.

Citing "vulnerabilities" stemming from the debt crisis in the euro zone, King told Sky News that the bank had been driven into action by signs of a global economic disaster. "This is the most serious financial crisis we've seen, at least since the 1930s, if not ever."

While the words "if not ever" attracted most commentary, there was another, no less significant, aspect to his remarks. King has insisted that in order for the global economic crisis to even begin to be tackled there must be a "grand bargain" of the world's major powers to "act in the collective interest" otherwise it is only a matter of time before the kind of conflicts that erupted in the 1930s break out. However, his remarks on the Bank of England decision were widely reported as a vote of "no confidence" in eurozone authorities, making it necessary for Britain to act on its own.

British Prime Minister David Cameron then upped the ante in an interview published in today's *Financial Times* (FT) in which he called for European leaders to adopt a "big bazooka" approach to provide funds to the European banks. At the same time he called for special measures to safeguard the interests of Britain as a non-euro member of the European Union. In a direct shot at Germany, he told the FT: "I'm not having them try to move our financial services industry to Frankfurt—forget it."

Tensions between the US and Europe and the US and China are also rising as was made clear at President Obama's press conference at the end of last week. Obama insisted that European leaders take action to deal with the debt crisis and end the uncertainty in financial markets—the "biggest headwind" affecting the US economy.

"They've got to act fast," he said, calling for a "very clear, concrete plan of action that is sufficient to the task" to be set out by the time of the next meeting of the G20 to be held at the beginning of next month. Similar remarks were made by US Treasury Secretary Timothy Geithner in congressional testimony.

The over-riding concern of the Obama administration is not the impact of the deepening global crisis on the American people. Rather it fears that unless European authorities organise a bailout of the banks along the line of that carried out in the US in 2008-2009, then a default by Greece or a bank failure will create a major crisis for the American banking system. There are any number of candidates.

While the direct exposure of US banks to European sovereign debt is believed to be relatively low, they are vulnerable to any default through the credit default swaps market. American banks have raked in billions of dollars by providing "insurance" via CDS markets to European banks that stand to lose if there is a default. Bank of America alone is calculated to have taken in \$9 billion in 2010.

Because of the murky nature of derivatives markets no one knows the exact amount. But according to the Nobel laureate economist Joseph Stiglitz as much as 50 percent of European sovereign bonds are insured via credit default swaps by American banks. Therefore any default in Europe would see US banks lose heavily.

When it came to China, Obama was even more strident. China, he said, had been "very aggressive in gaming the trading system to its advantage and to the disadvantage of other countries, particularly the United States."

The facts speak otherwise. Beijing has continued its policy of allowing the renminbi to appreciate against the US dollar at the rate of 5-6 percent annually. Moreover, with more than half of China's exports coming from the processing of

components imported from other countries, trade balances are largely meaningless under conditions where production networks predominate, rather than the movement of finished goods.

In fact, there is an inverse relationship between the strength of US denunciations of China and China's position in international trade. While attacks on China have increased over the past five years, especially since the coming to power of the Obama administration, China's trade surplus in that time has declined as a proportion of gross domestic product from 7-8 percent to its present level of around 1-2 percent. Such figures make clear that the increasing bellicosity of the US arises from contradictions within the structure of American capitalism itself and its declining world position rather than from Chinese "aggression."

The tensions are not simply between the continental blocs. All the historical contradictions that exploded within Europe in the first half of the twentieth century are also coming to the surface. In a recent plea to save the euro, German Chancellor Angela Merkel claimed that history had shown that countries with a common currency did not make war on each other. "This is why the euro is far, far more than just a common currency" and could not be allowed to fail, she said, adding: "If the euro fails, Europe fails." But in the month since these words were uttered, the prospects of the euro have worsened.

In May 2010, when the eurozone financial crisis burst into public view, European Central Bank president Jean-Claude Trichet warned it was the "most difficult situation" since the Second World War, possibly even since the First World War, pointing to the enormous political consequences of a breakdown of the European financial system.

While attention is being focused on the upcoming G20 meeting as the place where a definitive solution must be advanced, it is increasingly clear there are no longer any "economic" measures available.

As the UK newspaper, the *Daily Telegraph*, noted in an editorial on October 7: "Little more than two years ago, global leaders were happily congratulating themselves on having avoided the mistakes of the 1930s, thereby averting a depression. But now it appears that the difficulties of 2008 were but a foretaste of what was to come. With the European banking system again on the verge of collapse, there is a sense that politicians and economists are out of options, that governments and central banks are powerless before events. The best of the cavalry has been sent into battle, and it has

come back in tatters. The fiscal armoury has been exhausted, the support offered by the boom in emerging markets such as India and China over the past two years seems to be on its last legs, and there is but the small rifle fire of the central bank printing presses left to defend us."

The exhaustion of all economic means for overcoming the global crisis signifies that politics will now come increasingly to the fore. The ruling classes in every country have already set out their agenda: increasing repression of the working class as, one after another, all the social concessions of the twentieth century are taken back, coupled with a turn to trade war, currency war and ultimately military conflict internationally.

But now a new factor has entered the situation—the movement of the international working class. The revolutionary struggles in Egypt, the protests and demonstrations in Europe and now the Occupy Wall Street movement spreading across America are changing the balance of forces.

As the bourgeoisie threatens to plunge mankind into disaster, unable to find any solution to the crisis of its social order, all the fundamental tenets of the Marxist analysis of global capitalism and its irresolvable contradictions have been verified. There is no reform road out of this crisis.

Great social struggles are developing as workers and youth in every country confront the same global Leviathan as they strive to realise their demands for genuine social equality and the creation of a society that meets human needs and not the destructive interests of the profit system.

The great political task is the building of a new revolutionary leadership of the working class and its unification across national borders on the basis of the program of socialist internationalism. This is the perspective of the world Trotskyist movement, the International Committee of the Fourth International.

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