The euro crisis: Billions more for the banks

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For the second time in three years, European governments are trying to “save” the banks with massive gifts of cash from the public purse. That is the background to the debate regarding a resolution of the European debt crisis through a “recapitalization” of the banks combined with a “haircut” (partial write-off) of Greek debt.

After a meeting in Berlin on Sunday, Chancellor Angela Merkel and President Nicolas Sarkozy announced that they would present a “compelling and comprehensive package” to solve the crisis by the end of the month, but without giving any specific details. A European Union crisis summit scheduled for mid-October has been postponed by a week to give Germany and France time to overcome their outstanding differences.

These mainly concern two issues: the allocation of costs and the timetable for a Greek default. France, whose banks have up to €80 billion in Greek government securities on their books, wants to provide the banks with new capital from the euro rescue fund (the European Financial Stability Facility—EFSF) and delay a Greek bankruptcy or debt restructuring as long as possible. Germany, whose banks have lent Greece about €18 billion, which they have already partially written off, wants to restrict support for the banks to national governments and organise an early “managed” default by Greece.

Despite the differences, Merkel and Sarkozy agree on the overall orientation: the European debt crisis is to be resolved in the interests of the banks and to the detriment of public finances. The result will be further austerity measures at the expense of working people.

Leading international financial and political representatives—such as International Monetary Fund (IMF) chief Christine Lagarde, US Treasury Secretary Timothy Geithner, President Barack Obama and British Prime Minister David Cameron—have long insisted that the European Central Bank (ECB) and the governments of the euro zone open up the flow of cash and make unlimited amounts of money available to the banks.

The German government had resisted this course up to now because it feared the inflationary consequences and was afraid it would have to provide for the debts of weaker countries. Berlin preferred to provide credit support to countries facing payment difficulties, linking this with draconian austerity measures.

The German government has now changed course under pressure from the international financial markets, falling stock prices and the threat of bank failures. On Sunday, Merkel spoke strongly in favour of recapitalizing the banks, i.e., increasing the amount of the banks' capital by injecting public funds.

On Tuesday, before the Economic and Monetary Affairs Committee of the European Parliament, European Central Bank President Jean-Claude Trichet also strongly supported the recapitalization of the banks. He called on politicians to take immediate action and warned that the debt crisis had reached “systemic dimensions,” placing it on a par with the collapse of Lehman Brothers in 2008 with all the attending consequences.

According to the media, German government circles are also discussing the "leveraging" of the euro rescue fund, i.e., multiplying its assets through various tricks of financial engineering. The banks would then have trillions available, while the standard of living of the population was driven down even more brutally. As in the US, the financial aristocracy would be swimming in cash while the rest of the population would be struggling to make ends meet.

A haircut for holders of Greek government bonds (the talk is of a 50 to 60 percent debt write-off), which the German government now advocates, would not relieve the situation facing the Greek population. On the contrary, it would be linked to additional demands for cuts and would technically amount to bankruptcy. The complete package being advocated by Merkel and Sarkozy also includes changes to the European treaties which would allow the EU to dictate fiscal policy to highly indebted member states.

There is overwhelming popular opposition to supporting the banks by using public funds. The Occupy Wall Street movement, which is rapidly spreading in the US, finds an echo in Europe. However, not one of the establishment parties or trade unions supports this opposition to finance capital. The official political debate revolves solely around the question of how the attacks against the working class can best be implemented and how resistance to such attacks can be most effectively suppressed.

In official politics, the terms “left” and “right” have lost any real significance. In Italy, “right-wing” Prime Minister Silvio Berlusconi faces calls for his resignation both from big business and sections of his own party, while the bourgeois “left” camp is prepared to implement the massive cuts programme Berlusconi lacks the power to carry out.

In France, the leading presidential candidate from the Socialist Party, François Hollande, tirelessly declares that he would balance the budget and reduce the national debt more effectively than the incumbent conservative, President Nicolas Sarkozy.

In Germany, the previous Social Democratic Party (SPD) chancellor has announced he favours a new round of welfare and labour “reforms” for Europe, modelled on those his government introduced under "Agenda 2010." All European states should implement reforms like those of “Agenda 2010,” Gerhard Schröder wrote in *Financial Times Deutschland.* Schröder's “Agenda 2010” created the basis for the massive growth of a low-wage sector in Germany, in which a large part of the younger generation now works.

The trade unions also play a key role in helping to enforce the dictates of the banks against working people and suppressing any opposition to them. They have not organised a single solidarity action with the Greek workers and stand behind the austerity measures of their respective governments.

Under these circumstances, the pseudo-left groups play an important role in organizations such as ATTAC and Democracy Now and in the periphery of Germany's Left Party and similar organizations. They cling to the reactionary trade unions and serve the ruling elite as advisors, showing how best to hide their right-wing politics behind “left” phrases.

They strictly reject organising an independent political movement of the working class. Instead, they insist that social movements must merely exert pressure on those in power and not develop an independent political perspective. In the "*indignados*" movement in Spain and Greece, they insist on “no politics,” banning political parties from openly campaigning for their aims.

Thus the extreme right is left with a *de facto* monopoly over public criticism of the European Union and the domination of finance capital and uses it to direct opposition into nationalist and racist channels that would lead to the Balkanization of Europe.

Principled opposition to the plundering of society's resources by a financial aristocracy and to the massive attacks on social and democratic rights demands an independent political response by the working class. The ruling class cannot be moved to adopt a different policy by appeals to sense and reason. The capitalist system is in mortal crisis and the ruling class is thrashing about like a wounded animal.

Capitalism cannot be reformed, it must be overthrown. The banks must not be “recapitalized” with public funds, but expropriated, placed under the democratic control of the working class and used to benefit society as a whole rather than the profits of a few.

To realize such a socialist programme, the working class must unite Europe from below. Working people must establish the United Socialist States of Europe to replace the European Union of the banks and corporations.

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