# Euro crisis deepens after failure of G20 meeting

**Nick Beams**
**8 November 2011**

The shock waves from the collapse of the G20 meeting last week are starting to spread through the global financial system as the implications of the failure to develop a rescue package for the eurozone become clear.

Eurozone finance ministers met in Brussels last night and will continue to meet today to discuss the crisis. The immediate issue is whether to sign off on the tranche of €8 billion needed by Greece to avoid bankruptcy. Even more pressing is the task of devising a way of boosting the capacity of the European Financial Stability Facility (EFSF) to meet the much larger sovereign debt problems of Italy.

According to the *Financial Times*, the meeting is unlikely to make any firm decisions and "will leave important questions unanswered."

On Monday, interest rates on Italian government bonds rose at one point to 6.68 percent, well into what is considered the danger zone. The interest spike is caused by two factors: growing concerns about Italy's financial position and a concerted push to oust the Berlusconi government in order to install a regime capable of imposing sweeping austerity measures against the Italian working class.

The conditions for a major financial crisis in Italy are already present. Were it not for the purchases of Italian bonds by the European Central Bank (ECB), interest rates would have reached the levels that triggered the bailouts of Ireland and Portugal. However, ECB purchases are only a stop gap, with Germany insisting that it cannot expand its support indefinitely.

The *Financial Times* noted that: "At the 6 percent-plus level, there is a risk that so-called negative feedback loops kick in which can trigger and accelerate more selling of eurozone government bonds, Italian or otherwise."

The EFSF does not have the capacity to support the Italian debt market which stands at around €1.9 trillion. It is being undermined by continuing doubts over the ability of France, the fund's second biggest guarantor, to maintain its triple-A credit rating.

Financial markets have so little confidence in the EFSF that last week it was forced to cut back an attempted fund raising from €5 billion to €3 billion due to lack of demand. Amid talk of the need for "big bazooka" to resolve the eurozone financial crisis, the EFSF has been characterised as a "water pistol."

Efforts by eurozone countries to secure additional funding for the EFSF at the G20 meeting, either through a contribution via the International Monetary Fund or directly, were a dismal failure. As German Chancellor Angela Merkel remarked: "There really are hardly any countries here that have said they will join up."

Opposition to increased funding via the IMF was spearheaded by the US and Britain. British Prime Minister David Cameron said the worst thing would be to try to "cook up a number without being clear who was agreeing to what. The job of the IMF is to help countries in distress, not support currency systems."

It had been hoped that some of the BRICs countries would contribute independently. But the Chinese said they needed more information before taking a decision to commit funds. Brazil's president, Dilma Rousseff, was somewhat more blunt on the attempt of the European powers to obtain wider support. "I have not the slightest intention of contributing directly to the EFSF; if they are not willing to do it, why should I?"

There are growing concerns in financial circles that the continued failures of the European summits have created the conditions for a much wider crisis. Joachim Fels, head of global economics at Morgan Stanley, has warned that for the second time in less than four months Germany and France have raised a “taboo” subject.

The first time was at the July 21 summit when the decision was made to involve private banks in the Greek bailout. It signalled that government debt was no longer risk free, sparking a crisis in the Spanish and Italian bond markets. The second was last week when France and Germany made clear that if Greece did not comply with the terms of the austerity program it would be out of the eurozone.

“By raising the possibility that a country might (be forced to) leave the euro, core European governments may have set in motion a sequence of events which could potentially lead to runs on sovereign banks in peripheral countries that make everything we have seen so far in this crisis look benign,” Fels wrote.

The inability of the eurozone countries to even begin to resolve the crisis stems from the fact that it is not a product of incorrect policies. It is the outcome of objective and irresolvable contradictions rooted in the European and world capitalist economies.

The establishment of the euro in 1999 was aimed at facilitating the expansion of the European economy, and meeting the needs of corporate and finance capital for an integrated, seamless market. But far from bringing about a harmonious development of the eurozone economy, it resulted in uneven development, leading to divisions among its members.

German capital benefited from the lower value of the euro on world markets as compared to the deutschmark, while for others the value of the euro was higher than their former currencies. This disadvantage was offset by the lower interest rates that membership of the eurozone made possible.

As *Financial Times* columnist Gavyn Davies has noted, while the sovereign debt problem is usually discussed in terms of the sustainability of public debt in the peripheral countries, it is better viewed as a balance of payments problem arising from the structure of the eurozone itself.

Taken together Italy, Spain, Portugal and Greece—the countries with the biggest problems—have a current account deficit of $183 billion. This is balanced by a German current account surplus of $182 billion, or 5 percent of its gross domestic product.

According to Davies: “Viewed in this light, it is clear that there needs to be a capital account transfer each year amounting to about 5 percent of German GDP from the core to the periphery. Without that, the euro will break up.”

Up until the financial crisis of 2008, this transfer took place took place through the flow of private capital into the debt of peripheral countries as well as via asset purchases, such as housing in Spain. However, with the collapse of Lehman Brothers, this process came to an end as capital flows dried up.

In order to maintain the eurozone in the face of its severe internal imbalances, there has to be a flow of public funds from the core to the periphery. But such a policy is vehemently opposed by the key core nations, Germany and the other northern powers, which fear it will weaken their position in the global economy.

In other words, the eurozone crisis is the expression of two interconnected processes: the financial breakdown that began in 2008 and the eruption of the irreconcilable contradiction between the global economy and the system of rival nation-states in which the capitalist profit system is rooted. That is why all the so-called “solutions” advanced by the bourgeoisie collapse almost overnight.