Financial markets continue offensive as European recession deepens

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After the installation of technocratic governments in Italy and Greece and amid continuing signs of economic slump, the financial markets have mounted a renewed offensive, attacking the government bonds of leading core European countries.

The standpoint of finance capital was summed up in an editorial in the Spanish business newspaper *Expansión*: “The markets won’t let themselves be beguiled for long by the siren-songs of Europe’s institutions, no matter how eloquent they may sound. Investors want to see concrete facts and not just more promises, if they are to regain their confidence in Europe, as well as in the EU.”

In the first stages of the European crisis, the banks, bond markets, and rating agencies concentrated their fire on the European periphery—countries such as Greece, Portugal, Ireland. Now they are increasingly turning on countries in the core of Europe, selling off large holdings of state bonds of France, Austria, Belgium and the Netherlands—countries long regarded as financial safe havens.

The banks’ campaign to drive up the interest rates on state bonds is aimed at dictating the political agenda in Greece, Italy and Europe as a whole. Renewed selling of French bonds came after an announcement by the French Prime Minister Francois Fillon that, after three successive austerity programmes, his government did not plan any more such measures before the French presidential election next April.

Financial circles are pressuring the French government to radically reform its labour laws and pare down its social welfare system.

The same demand has been raised with regard to Italy. Last week, Deutsche Bank chief economist Tom Mayer called upon Italy to introduce a reform programme similar to the Agenda 2010 programme by the German Social Democratic-Green government of former Chancellor Gerhard Schröder. This would create a huge pool of cheap labour and massively trim the country’s social welfare system.

After engineering the installation of regimes headed by bankers in Greece and Italy, the financial markets are now dictating the policies these regimes will carry out. An article in the French paper *Le Monde* notes that the common feature of all of three major appointments made in Europe in recent weeks is their record of activity for the banks—and, in particular, their collaboration with the US investment bank Goldman Sachs.

The new Italian prime minister, Mario Monti, was an adviser to Goldman Sachs starting in 2005, with a brief to give advice “on European business and major public policy initiatives worldwide.”

At the start of this month, Italian banker Mario Draghi became the new chair of the European Central Bank. *Le Monde* wrote: “Draghi was Goldman Sachs International’s vice-chairman for Europe between 2002 and 2005, a position that put him in charge of the ‘companies and sovereign’ department, which shortly before his arrival, helped Greece to disguise the real nature of its books with a swap on its sovereign debt.”

The head of the new Greek government, Lucas Papademos, was governor of the Greek central bank from 1994 to 2002. *Le Monde* noted: “In this capacity, he played a role that has yet to be elucidated in the operation to mask debt on his country’s books, perpetrated with assistance from Goldman Sachs.” It added that the current chairman of Greece’s Public Debt Management Agency, Petros Christodoulos “also worked as a trader for the bank in London.”

As the European debt crisis intensifies, the latest European economic figures show an accelerating trend

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towards recession. On Thursday of last week, the European Commission revised sharply downward the figures for European economic performance, declaring it did not exclude the possibility of a "deep and prolonged" recession.

"The outlook for the European economy is unfortunately gloomy," said EU economic and monetary affairs commissioner Olli Rehn. "The EU has come to a standstill and there is a risk of a new recession." Rehn stated that any improvement in European economic performance depended on effective measures being taken to deal with the continent's debt crisis.

The latest figures, issued just four days later from the EU statistics agency, Eurostat, indicate that recession is gathering apace across Europe. Economic growth in the 17 countries of the eurozone was just 0.2 percent in July-September.

This minute growth conceals huge differences between different countries. While Germany is still experiencing significant growth, Greece and Portugal are locked in recession, and growth has virtually come to a halt in the Netherlands, Belgium, Spain and Cyprus. The latest Eurostat data did not include information about Italy and Ireland. However, the European Commission forecast growth for Italy at just 0.1 percent in 2012 and 0.7 percent in 2013.

Other sources criticised EC growth forecasts as overly optimistic. The French bank *Société Générale* estimates that Italy will enter two years of recession as industrial production sinks.

The Bank of England also cut its growth predictions for 2011 and 2012 to 1 percent. Its governor, Sir Mervyn King, said British economic growth would remain flat until next summer.

As British industrial production grinds to a halt, unemployment is soaring. Official figures published this week indicated the highest level of unemployment in Britain for 17 years, with the largest number of youth unemployed since the beginning of the compiling of such statistics.

International stock markets reacted sharply to the latest news from Europe. US stocks have fallen markedly this week, with leading politicians expressing fears that the European crisis would have massive repercussions on US investments.

President Barack Obama's top economic adviser, Alan Krueger, declared this week that the European debt crisis was the leading risk to the US recovery. He called upon European politicians to act quickly "because it [the European crisis] is a threat not only to Europe and the US, but the world as a whole."

In addition to the wiping out of what is left of the European welfare state, the markets are also intent on capitalising on all other spheres of social and economic life.

The Swiss-Italian newspaper *Corriere del Ticino* warns this week that recession in Italy and Europe will have profound repercussions for Italy and the euro: "Italy and the euro are running out of time. A stringent austerity policy has recessive consequences that are only compounded by the recession in the Eurozone and weak global economic growth. A deflationary spiral accompanied by a general impoverishment of the country will result, and could even force it to sell off the family silver. This is the real danger Italy faces with the Monti government and a reality Greece, Portugal and Spain too must confront."

As the European crisis deepens and markets step up their offensive, international tensions inside Europe are growing daily. In talks with European leaders this week, including the Irish and British prime ministers, German Chancellor Angela Merkel is under pressure to prop up the banks by allowing the European Central Bank to print unlimited amounts of money to buy European bonds. France and the US have made clear this is also their favoured policy.

Berlin has consistently refused to agree to such a measure, however, fearful of the inflationary consequences and of jeopardising its own favoured status on the credit markets.

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