Euro crisis deepens amid warnings of depression

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Euro zone finance ministers meeting in Brussels have again failed to come up with any solution to the deepening euro crisis amid warnings that the increasingly likely break-up of the single currency will have catastrophic consequences for the European and world economy.

Little more than a month ago, the euro zone finance ministers put forward a plan to boost the capacity of the European Financial Stability Facility (EFSF), the region's bailout fund, to €1 trillion. Yesterday they were told by EFSF head Klaus Regling that efforts to attract funds from China and sovereign wealth funds in the Middle East had fallen through.

Speaking after the meeting, Regling tried to put the best face on a bad situation, saying, "We do not expect investors to commit large amounts of money in the next few days or weeks," and adding that "leverage is a process over time."

Having begun at the periphery, with Greece, Ireland and Portugal, the crisis has now struck at the heart of the euro zone as last week's failed bond issue by Germany revealed. This has prompted warnings that, in the words of *Financial Times* columnist Martin Wolf, "the world has reached a new and potentially even more devastating stage of the financial crisis that emerged in the advanced countries in the summer of 2007."

On Monday, the Organization for Economic Cooperation and Development (OECD), comprising 34 of the world's leading economies, warned that even if an outright disaster is averted, the European economy will stagnate. Pointing to "serious downside risks," it said that a "large negative event" would "most likely send the OECD area as a whole into recession, with marked declines in the US and Japan, and a prolonged and deep recession in the euro area." The so-called emerging markets would also be hit.

But something much worse would result from a break-up of the euro zone precipitated by the withdrawal of one or more countries. "Such turbulence in Europe," it said, "with the massive wealth destruction, bankruptcies and a collapse in confidence in European integration and cooperation would most likely result in a deep depression in both the existing and remaining euro countries as well as in the world economy."

The OECD is not alone in such assessments. Forecasters at the Swiss banking firm UBS have predicted that if the euro collapses, economies in the euro zone could temporarily suffer a loss of output of as much as 50 percent. The rating agency Moody's has warned that an exit from the euro by any country could trigger a cascade of sovereign debt defaults.

Like a forest fire, the crisis generates its own momentum as every piece of bad news leads to shifts in financial markets which generate still more problems. The head of the Brussels-based Bruegel think tank, Jean Pisani-Ferry, said "real businesses" as well as financial markets were "pricing in a break-up scenario." Such is the fragility of the financial situation that these decisions themselves could trigger a breakdown. "If disaster expectations build up," he warned, "and a growing number of players start positioning themselves to protect themselves from it, the consequences could become overwhelming."

And they would not just be financial. On Monday, Poland's foreign minister, Radaslow Sikorski, warned that the break-up of the euro zone "would be a crisis of apocalyptic proportions." He continued: "Once the logic of 'each man for himself' takes hold, can we really trust everyone to act in a communitarian way and resist the temptation to settle scores in other areas, such as trade?" If trade conflicts develop, then the conditions will rapidly develop for military clashes, he added.

In much of the media commentary, the euro zone crisis is ascribed to the refusal of German Chancellor Angela Merkel and her government to allow the European Central Bank to act as a lender of last resort or to establish euro bonds as a way of guaranteeing the debts of each country.

But the crisis cannot be put down to the intransigence of the German government. Its opposition to the proposed measures is based on the fear that if implemented, they would, at best, provide only short-term relief, while in the longer term they would drag Germany into the vortex.

Even a brief examination of the dynamics of the euro zone economy makes clear that the roots of the crisis go much deeper than German intransigence. The debt crisis is being fuelled by lack of economic growth across Europe.

For example, in Italy, where borrowing costs on government debt now regularly go over 7 percent, touching even 8 percent on Monday, economic growth would need to be 8.4 percent just to maintain the current sovereign debt to gross domestic product ratio. In the past, governments could seek to boost GDP by devaluing the currency and lifting exports. But under the euro regime that is no longer possible.

On the other hand, the imposition of austerity measures in a bid to lower borrowing costs for Italian debt on financial markets pushes the economy deeper into recession. Consequently, GDP falls, the debt to GDP ratio rises and borrowing costs increase. A self-perpetuating cycle of austerity, lower growth, increased budget deficits and rising interest rates is set off.

The existence of such vicious circles points to the fact that the debt and euro crisis is not a conjunctural problem which can be overcome if only governments implement the correct policies. Rather, it is the form taken by the breakdown in the entire process of capitalist accumulation.

After the introduction of the euro in 1999, economic growth in Europe was increasingly debt-dependent. Economic development took place unevenly, with some countries, those on the so-called periphery, running balance of payments deficits, while core countries, above all Germany, ran up surpluses. These surpluses were then recycled by financial institutions to the periphery, where the spending they generated formed the basis of core country export markets.

Under conditions of cheap credit, the introduction of the euro seemed to create the conditions for an expanding European market, just as the recycling of export surpluses from China into the American financial system made possible the cheap credit that fuelled US economic growth after the recession of 2001.

But the collapse of Lehman Brothers in 2008 laid bare the rot and decay at the heart of the international financial system and brought an end to the debt-financed expansion of the European economy.

The European bourgeoisie has no solution to the crisis even as its own institutions warn that it is hurtling to disaster. Only the working class can advance a progressive solution through the political struggle to take power, establish workers' governments, expropriate the banks and financial institutions and begin the rational planning of the European and international economy.

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