Global crisis deepens after Spanish bailout

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Rising interest rates in bond markets demonstrate that the €100 billion Spanish bailout last weekend has done nothing to resolve the euro zone crisis and may well have made it even worse. The rate on Spanish 10-year bonds climbed to the danger level of 6.8 percent Wednesday, while interest rates on Italian one-year government debt reached their highest levels since last December.

The latest turmoil came as the World Bank issued a report warning that so-called "emerging markets" face heightened risks from the European crisis. The World Bank's latest Global Economic Prospects report predicted that growth in developing countries would fall to 5.3 percent in 2012, down from 6.1 percent. The forecast for overall world growth was cut to 3 percent for 2013, down by 0.1 percent from the estimate in January.

The bank said that developing countries should prepare for a long period of volatility, warning that Eastern Europe and Central Asia were particularly vulnerable because of their trade and financial ties with the major European economies.

The director of economic prospects at the World Bank, Hans Timmer, said the volatility of financial markets made policy making difficult, adding that there was "no silver bullet" and that "you cannot solve problems over a weekend."

The rapid shift in market sentiment following the Spanish bailout prompted a desperate plea by Spanish Prime Minister Mariano Rajoy for the launching of a "battle" to ensure the survival of the euro. He released a letter he wrote on June 6, three days before the bailout, warning that the European Union was facing the "gravest crisis since its creation" and that the "euro is at risk."

Rajoy added his voice to calls both from within Europe and internationally for the European Central Bank to intervene and "guarantee the financial stability of the euro zone". He wrote, "The only institution which today has the capacity to ensure these conditions of stability and liquidity that we need is the ECB."

But calls for greater ECB intervention, which are supported by Britain and the US in order to safeguard the financial interests of their banks, continue to be opposed by German Chancellor Angela Merkel. She fears such a policy could endanger the German financial system unless there is more centralized control of national budgets.

"Germany is prepared to do more on integration", she said, "but we cannot get involved in things which I am convinced will lead to an even bigger disaster than the situation we are in today."

Rises in interest rates on the debt of so-called "core" countries, Germany and France, were interpreted as evidence that concerns were spreading about the stability of the entire system. Normally, when interest rates in the "periphery" rise, those in the "core" decline. One financial trader told the *Financial Times* that if there was a simultaneous sell-off of bonds [leading to a rise in interest rates] "we'd move from concern to alarm."

Far from alleviating the crisis, the Spanish bailout has only turned the focus of international financial markets on to the next target, Italy.

Italian Prime Minister Mario Monti denied that his country would be next in line and said comments by the Austrian finance minister that it would need a rescue were "inappropriate". He was joined by the Italian industry minister, who rejected the idea that Italy would need assistance. Such denials, however, cut no ice as exactly the same kind of comments were being made by the Spanish government right up until last weekend.

The growing Italian crisis is being driven by the same contradictions that have resulted in the bailouts of Greece and Spain. The adoption of the euro has led to Italian exports becoming increasingly uncompetitive because of the higher value of the single currency compared to the lira and because it is no longer possible to alleviate the situation through a currency devaluation.

Italy is now entering its fourth recession in the past decade, with a consequent decline is tax receipts, causing an increase in its deficit and worsening of its debt position. Analysts from Citigroup are warning that the country "will experience a deeper recession this year and next than most forecasters predict."

Australian economic commentator Alan Kohler noted in the *Business Spectator* that while attention had been focused on Spain, "the bigger problem for Europe is Italy, and it has been since the euro began. Like Spain, Italy is now in a fully-fledged debt trap, where economic growth is less than the national cost of capital. Without the ability to devalue, Italy has no hope of turning this around."

The Italian situation highlights the fact that, far from arising from the so-called "profligacy" of the Greeks or other such superficial explanations, the euro crisis is rooted in a fundamental contradiction of the capitalist economy: that between the global character of production and the system of rival nation states.

The necessity for increasing the integration of Europe in order to promote economic growth was one of the driving forces behind the establishment of the euro. But the national states of Europe have continued to pursue independent, and in some cases, conflicting economic policies.

These contradictions could be covered over to some extent while the global financial bubble continued. But when this came to an end in 2007-2008, the disintegration of the euro zone was set in motion. Now it is on the point of collapse, with incalculable consequences not only for the peoples of Europe, but for the global economy as a whole. The only progressive solution to the crisis requires the taking of political power by the working class and the integration of Europe by means of socialist planning.

The ruling elites have no answer, except further economic devastation—a fact underscored by International Monetary Fund director Christine Lagarde. Speaking at an economic conference on Tuesday, she said financial stability risks had returned with a vengeance. "Tensions are on the rise again", she said in a speech at the Center for Global Development, "and financial stability risks have once more moved front and center. Great uncertainty hangs over global prospects."