Tensions mount as European leaders scramble to avert Spanish banking collapse

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8 June 2012

European leaders scrambled to avert a collapse of the Spanish banking system Thursday as Spain's debt rating was once again downgraded and its financial institutions teetered on the brink of insolvency.

Fitch, the bond rating agency, slashed Spain's debt rating from A to BBB, the lowest rating that is considered investment grade. It also warned that unless Spain secured additional financing, its debt risked being downgraded to junk status.

The *Financial Times* reported Wednesday that European officials were working on a bailout of the Spanish banks. The newspaper reported that despite calls for a direct European Union bailout of the troubled banks, this option has been ruled out. Instead, the funds would most likely be channeled through the Spanish government or its bank rescue fund.

In its downgrade announcement, Fitch estimated the cost of repairing the country's banking sector at between €60 billion and €100 billion ($75 to $126 billion). The *Financial Times* reported that the bailout discussions are on the order of €80 billion.

The newspaper said the bailout would be tied to less intrusive fiscal and external monitoring requirements than those given to Greece and Portugal. This reflects concerns that, given Spain's much larger size, a crippling bailout like that in Greece could drag all of Europe down with it. It also reflects fears that a Greek-style bailout with sweeping new austerity demands and the de facto trashing of Spanish sovereignty could provoke mass popular resistance and destabilize the right-wing government of Spanish Prime Minister Mariano Rajoy.

Rajoy has called on the euro zone countries to prop up Spain's banking system, as it is unclear whether Spain can raise the funds necessary for the €19 bailout requested last month by Bankia, the country's fourth-largest bank.

Stocks rallied Thursday on speculation that a Spanish bank bailout was being worked out and in response to suggestions by Federal Reserve Chairman Ben Bernanke and European Central Bank President Mario Draghi that they would seek to counter a further deterioration of economic conditions with monetary easing.

Speaking before Congress Thursday morning, Bernanke said that the Fed was "prepared to take action" at its June 19-20 meeting, adding that "at this point I really can't say anything is off the table."

With the economic downturn spreading to Asia, the Chinese central bank cut its benchmark interest rate Thursday for the first time since 2008. The country's growth rate fell to 8.1 percent in the first quarter of the year, down from 10.4 per cent in 2010. Recent data has hinted that the Chinese economy is on track for even slower growth in the second quarter.

The Chinese rate cut also contributed to a rally on Asian and European stock markets, with the FTSE All World index rising by one percent, its biggest increase since December.

Earlier Thursday, the Spanish Treasury successfully sold €2.07 billion in bonds, but at higher interest rates than the previous debt issue in April. The Spanish government recently released figures showing that €100bn in capital had left the country in the first quarter.

Pressure mounted for assistance to Spain's banks amid a continuing stream of bad economic news. Greece's unemployment rate rose to 21.9 percent in March from 21.4 percent in February, the country's statistics office reported Thursday. This is up from 15.7 percent in March 2011. The unemployment rate in France hit 10 percent in the first quarter of the year, up from 9.8 percent in the previous quarter.

Any deal that may be reached between the various European powers to prop up the Spanish banking sector will be a stopgap improvisation that, like all of the previous measures, fails to address the underlying problems and paves the way for the next eruption of the crisis. Meanwhile, tensions between the major European powers are growing.

UK Prime Minister David Cameron traveled to Berlin Thursday to urge German Chancellor Angela Merkel to support stronger measures to avert a breakup of the EU. Cameron has called for an increase in the EU bailout fund, lower interest rates, and the pooling of debt across the euro zone through "euro bonds," i.e., debt jointly issued by all the countries that share the euro.

Hours before the visit, Merkel signaled her intransigence on these issues, calling for "fiscal integration" as a prerequisite for further assistance by Germany. By this, Merkel means turning over budget authority and political decision-making in Europe to the EU, which will push for deeper budget cuts and other social attacks on the working class throughout Europe.

This was summed up in a comment in the German daily *Süddeutsche Zeitung*, which made clear that the basic content of Germany's policy is for European countries to hand over their sovereignty and control of social policy to the EU and thus to Germany, the EU's strongest economy. The newspaper wrote, "If the euro and the historically unprecedented project of a united Europe is to be rescued, its two most powerful states must give up their most precious treasures: Germany its money and France its sovereignty."

The growing conflicts within ruling circles over how to respond to the European crisis have deeply worried leading bourgeois commentators. The comment published Tuesday in the *Financial Times* by Martin Wolf, entitled "Panic Has Become All Too Rational," is a striking example.

Wolf warns that "the west is in a contained depression," and that "forces for another downswing are building, above all in the euro zone. Meanwhile, policy makers are making huge errors."

Pointing to the failure of Austria's Kreditanstalt bank in 1931, which prompted the dissolution of the global monetary system, Wolf writes, "The fear must now be that a wave of banking and sovereign failures might cause a similar meltdown inside the euro zone, the closest thing the world now has to the old gold standard."

He adds, "If those with good credit refuse to support those under pressure, when the latter cannot save themselves, the system will surely perish."

Wolf expresses the perplexity and near-paralysis of a global ruling class that does not see any way out of the greatest crisis of capitalism since the Great Depression. They are divided amongst themselves as to who will foot the bill for preserving the euro, and there are factions that are directly weighing the benefits of a breakup of the euro zone.

Despite these growing tensions, the ruling classes of Europe and America are united in their determination to make the working class pay for the crisis.