Sovereign debt crisis, recession...
No way out under capitalism

(continued from page 12)

Robin Clapp

The Organisation for Economic Cooperation and Development expects the world's major economies to limp forward at best in the fourth quarter of 2011. The US will see growth of just 0.4%, Japan will flatline and Germany will contract by 1.4%.

The US has been described as a 'sub-prime nation', over-extended both militarily and economically, living large and beyond its means. Tea Party Republicans are refusing to sanction tax increases for the rich and demanding eye-watering cuts to the budget in order to curb the $14.5 trillion national debt.

Effective government has given way to growing dysfunction. This was underlined by the recent decision of the Standard and Poor credit rating agency to downgrade America's debt status.

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Quantative easing

In Britain, described in the past by Tory MP John Redwood as a large bank with a medium sized government attached to it, a second round of Quantitative Easing (QE) has been announced.

This comes after new figures showed that the downturn in 2008-2009 was even deeper than believed, with GDP (total output) dropping by 7.1%.

QE allows the Bank of England to print money electronically with which it then purchases government bonds from the banks. In theory they then lend this money to businesses, thereby lubricating the economy and stimulating demand.

In practice this has not happened. QE has certainly pushed up share prices and profits and has been used to speculate in food futures, commodities, etc, producing new price bubbles, more profits and heaping more misery upon starving millions.

This measure has been necessitated by the news that Britain's economy has ground to a halt, with the squeeze on living standards the greatest since the depression of the 1870s.

Caught like a rabbit in the headlights, Osborne's 'Plan A' is effectively in tatters and there is a growing clamour from business and even the International Monetary Fund for a more flexible economic policy that can avert a 'car crash'.

No agreement

Every day seems to bring forward a new 'plan' for resolving the sovereign debt crisis, bolstering the euro and creating confidence.

The trouble is that none of the plans concocted in the heads of economists and political leaders can easily be rolled out and accepted by squabbling capitalist governments who increasingly guard their own interests at the expense of rivals.

Europe's leaders are hamstrung by their national interests and the growing mood of anger on their streets. They cannot agree on anything. Should private sector creditors be forced to take losses? How big should the euro zone's bailout fund be and how broad its scope? Germany's chancellor Angela Merkel has one opinion, France's president Nicolas Sarkozy another, while both the ECB and the European Commission wade in with different demands.

> It was an anonymous official in Athens commenting on the growing threat of a Greek sovereign debt default, escalating international banking crisis and rapidly accumulating evidence of a worldwide seizing up of economic growth, who best summed up the collective fear that now haunts the bourses and boardrooms of business: "If we default, it's not just the domino effect....This place will become worse off than Bangladesh. People will be killed for a sandwich as they cross the road".

Greek contagion

The epicentre of the present economic contagion is undoubtedly Greece and the growing realisation that it is insolvent and in one form or another likely to default on its debts. Greek borrowing rates have now hit stratospheric highs; 62% for two-year money, while a three-year bond maturing in 2012 costs 129% in interest.

This follows a deal in July where eurozone countries sought to contain the crisis through emergency bailout payments with vicious strings attached.

Greece must repay at least €100 billion of debt over three years which is about 40% of its current GDP – a figure comparable to that demanded in reparations from Germany by vengeful Allied powers in 1919.

Another €109 billion would then become available, while the role of the European Financial Stability Facility (EFSF) would be extended to allow intervention to support other governments and banks.

Already Greek workers have been the victims of the sacking of a fifth of the total public sector workforce, swingeing tax increases and the biggest and fastest privatisation programme, relative to national output, ever attempted.

The expansion of the EFSF, the orderly restructuring of the debt of those countries that can never repay it, a shift in the eurozone's macroeconomic policy from its obsession with budget-cutting towards an agenda for growth, a declaration that the European Central Bank will stand behind all solvent countries' sovereign debts and that it is ready to recapitalise Europe's damaged banks, are all being frantically argued over in Berlin, Paris, London and New York.

But none of these measures may be enough to forestall a Greek exit from the euro. Behind this headline moreover and ticking like a time bomb are the vast sovereign debts of Spain and Italy, totalling €2.5 trillion.

Euro crisis

Capitalism's unprecedented financial integration, based on the fallacy that globalisation could continue in an uninterrupted manner, means in this period that a crisis in one sector can detonate a series of damaging aftershocks in others.

Thus the Belgian-French bank Dexia, which has a large exposure to Greek debt, is caught in the whirlpool, causing the cost of insuring Belgian government bonds to rise to record levels and impacting on the UK where it funds 40 PFI schemes, ranging from schools to street lighting.

Fearful of it collapsing, Dexia has now been nationalised by the Belgian state with €90 billion guarantees of French and Belgian government funding for up to ten years.

The undermining of the euro-project has begun. A Greek exit will have incalculable consequences, politically and economically. UBS bank calculates that Greek GDP might plummet by 40%-50% in the first year after withdrawal.

But increasingly the nightmare option is being whispered; that the single currency itself might collapse, causing broken treaties, wild currency swings and bitter political antagonisms. This in turn would cause the single-market to fragment and the EU itself – the symbol of Europe's post-war stability - could begin to crumble. That such a scenario is even being considered, shows how dangerous is the phase that capitalism has entered.

Capitalist failure

Recessions are inherent within the mechanism of the system. With the euro-project in jeopardy, banks facing still huge undeclared losses and a likely lurch back into recession, the world economy indeed faces a crisis as dangerous as that described by Mervyn King (see page 12).

But their class cannot resolve it without making ordinary working class and middle class people bear the price.

Greek, Spanish, Italian and now British workers will not accept that dictat from the unelected bond market vigilantes. Increasingly it will become clear that the rich have forfeited the right to rule. The forces must be built internationally to create the socialist alternative.

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The Committee for a Workers' International

The Committee for a Workers' International (CWI) is the socialist international organisation to which the Socialist Party is affiliated.

The CWI is organised in 45 countries and works to unite the working class and oppressed peoples against global capitalism and to fight for a socialist world.

For more details including CWI publications write to: CWI, PO Box 3688, London E11 1YE.
email cwi@worldsoc.co.uk

www.socialistworld.net

The CWI website contains news, reports and analysis from around the world. Recent articles include:

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15 October: International day of action

Anti-capitalist protests will take place in Portugal, Spain, Greece, UK, USA and in other countries organised around the theme of: 'We won't pay for the capitalist crisis'.

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Kazakhstan: Solidarity protest at football match in Brussels

Banners unfurled in support of workers and activists at Belgium vs Kazakhstan football match.

PSL/LSP (CWI, Belgium) reporters

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Palestine: Abbas' UN statehood bid and the views of Palestinians

Hope, fear and the struggle for self-determination.

Aysha, CWI Lebanon