New Turn in the Euro Zone Financial Crisis

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The eurozone financial crisis is set to deepen following this week's release of debt projections for the Greek economy. Budget estimates show that instead of peaking at 167 percent of gross domestic product, as predicted last March when the so-called bailout package was put in place, the debt ratio will hit 189 percent this year, rising to 192 percent in 2014—well above the worst case scenarios of just eight months ago.

With the Greek government expected to effectively run out of money by November 16, the eurozone crisis is certain to be a major issue at the G-20 finance ministers' meeting beginning in Mexico City on Sunday. The German government's refusal to make available any more money means that threat of a Greek default and a full-blown financial breakdown is back on the agenda.

On the eve of the meeting, German Finance Minister Wolfgang Schäuble insisted that Greece and other highly-indebted members of the eurozone had to continue with austerity programs. In a bid to deflect criticism from other major powers, he said the G-20 should not focus exclusively on the eurozone but should direct attention to the "fiscal cliff" in the US—the massive spending cuts to be initiated after the presidential election—and the mounting debt problems in Japan. "The United States and Japan bear as great a responsibility for (ensuring stability) as we Europeans," he stated.

The latest figures establish that the austerity program of the "troika"—the European Union, the European Central Bank and the International Monetary Fund—has created an economic catastrophe, the like of which has not been seen since the Great Depression of the 1930s.

Greek gross domestic product has fallen by a cumulative 21.5 percent since its peak in 2007 and is expected to decline by a further 4.5 percent next year. Such is the extent of the economic contraction that total government revenue from all sources will not even cover the interest rate payments on international loans. If any further "aid" is forthcoming or loan terms are extended, it will be designed to ensure the continued flow of funds to international lenders, but will not alleviate the economic situation in Greece.

The Greek catastrophe is only the sharpest expression of a crisis that is spreading through the eurozone.

Last week, Bank of Italy governor Ignazio Visco warned that his country faced a "vicious circle" of weak growth and lack of confidence. He was speaking after new figures showed that unemployment had reached its highest level in 13 years. The unemployment rate for young people is now 35 percent as factories shut down, firms go bankrupt and government spending is cut back as a result of the unelected Monti government's austerity program.

The Italian economy moved into recession in the second half of last year. The economy is expected to contract 2.4 percent this year, with a further decline of 0.2 percent in 2013—a figure that could increase if present trends continue.

Spain and Portugal, both under austerity programs, are already well down the Greek road. The Spanish banking crisis is further away from a resolution following Germany's insistence that money from European bailout funds cannot be used to cover past debts but only to facilitate new loans. This means that last June's commitment by eurozone ministers to end the situation where national governments are responsible for the debts incurred by their banks is a dead letter.

In an interview with Bloomberg television, Columbia University economist Joseph Stiglitz ruled out prospects for a European "recovery". Europe, he said, had "put in place austerity packages that almost inevitably will lead the economy to become weaker, they haven't put in place anything that will promote economic growth. It's difficult to see what the impetus for real growth in Europe will be."

Commentary in the financial press continues to promote the fiction that there is a divergence between austerity programs, on the one hand, and the policies of central banks in pumping trillions of dollars into the global financial system, on the other. Typical were the remarks of financial journalist Stephen Koukoulas in the Australian Business Spectator. He claimed: "While the ECB is trying to pump up economic conditions, governments are cutting wages, services and hiking taxes."

In fact, there is no contradiction at all. The ECB has made it a condition of its monetary stimulus measures that governments implement austerity measures. The provision of ultra-cheap funds by the ECB and other central banks is not aimed at trying to boost the real economy. It is intended to provide resources to the banks and finance houses to make profits through speculation even as the real economy continues to decline. Moreover, these measures are creating the conditions for a new crisis as the central banks become more dependent on global financial markets.

Another widespread fiction is the claim that the euro crisis is the outcome of a misplaced Teutonic stubbornness and could be resolved if only there were a change of heart in Berlin; and Germany became more responsive to the needs of the debt-ridden European economies.

Such views seek to cover up the fact that the agenda of Schäuble and Chancellor Angela Merkel is driven by the fear that the German banking system is at risk as well.

These dangers were underscored in a report published by the credit rating agency Moody's last month. It maintained its "negative" outlook for German banks—first put in place in 2008—and warned that they remained vulnerable to global shocks because they were among Europe's least profitable and most weakly capitalised. While the German banking system has benefited from the inflow of liquidity because of the crisis in the most indebted countries, it remains highly dependent on raising funds from international markets. Moody's noted that capital levels had improved but this was "more than offset" by the increasing risk of external shocks caused by the eurozone debt crisis.

These economic facts have decisive political implications for the European and international working class. While the eurozone crisis is certainly being exacerbated by the actions of governments and central banks, its origins do not lie in a “policy” failure but are rooted in the breakdown of the global capitalist system.

The ruling elites have no solution to the crisis, but they have a definite agenda which is now being carried out: to return the working class to the conditions of the 1930s and worse, together with the promotion of fascism, dictatorship and war.

The rapid rise of the Greek fascist movement Golden Dawn—virtually unknown just a few months ago but now commanding 15 percent support in opinion polls—points to the dangers. Such movements are present in every European country.

They will continue to fester and grow until the working class begins to advance and fight for its own independent political program based on the overthrow of the European Union—the dictatorship of finance capital—and the bringing to power of workers’ governments committed to the expropriation of the banks and finance capital, the implementation of a socialist program and the establishment of the socialist united states of Europe.

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