

EUROPE'S ECONOMIC CRISIS: Unraveling the "Welfare Safety Net". Europe Moves Closer to Banktatorship

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Yields on 10-year Treasuries plunged to a record-low 1.56 percent on Thursday morning as panicky investors stormed out of European financial assets into German and U.S. government bonds. Deteriorating credit conditions, a flurry of ratings downgrades, and bank runs in Spain and Greece have triggered a flight-to-safety which has pushed the benchmark 10-year below its previous all-time low of 1.67 percent. Falling yields indicate that investors have lost confidence in the ability of EU policymakers to resolve the ongoing debt crisis, particularly as it relates to growing troubles in Greece and Spain.

The present crisis, which is largely the result of excessive credit expansion and poor risk management by EU banks, is being used by the European Commission and the ECB to establish a euro-wide "banking union" and to impose savage cuts to social programs, health care, and pensions. The response by EU policymakers is a social counterrevolution designed to transform the 17-member monetary union into a permanent "austerity zone" ruled by corporate elites and big finance. Here's more from Reuters:

"The eurozone must boost growth and cut debt to regain investor confidence but it should also move towards a banking union, consider eurobonds and the direct recapitalisation of banks from its permanent bailout fund, the European Commission said on Wednesday as it laid out year-long recommendations."

"A closer integration among the euro area countries in supervisory structures and practices, in cross-border crisis management and burden sharing, towards a "banking union", would be an important complement to the current structure" of Europe's economic and monetary union, the Commission said.

"In the same vein, to sever the link between banks and the sovereigns, direct recapitalisation by the European Stability Mechanism (ESM) might be envisaged," the document said. ("EU calls for eurozone banking union, direct bank recapitalisations", IFR, Reuters)

The eurozone's permanent bailout fund, the ESM, has not yet been ratified by all 17 members and already the European Commission wants to change its mandate to include direct bailouts to banks. The direct funding of underwater banks is a blatant power-grab, an attempt to establish the primacy of banks in the same way that the TARP was used to create Too Big To Fail in the US. TBTF means that the banks have merged with the state and that taxpayers provide blanket guarantees for their survival. Europe is moving fast towards this same model.

German chancellor Angela Merkel is opposed to allowing the ESM to recapitalize Spanish banks, but she's likely to capitulate if the crisis worsens. If she does give in, then the mismanaged banks will not be required to restructure their debt, wipe out bondholders and shareholders, remove bad assets, and replace management. All of the costs for such a bailout would fall on taxpayers, which is exactly what leaders of the European Commission and the ECB want. At the same time, the deepening crisis will be used to impose more fiscal reforms, which have already pushed unemployment to 20 year highs while submerging most of the south in a severe recession. Here's more from Reuters:

"....ministers in private are clear about their wish to see European-wide bank deposit guarantee measures put in place quickly to avoid the risk of what could be a catastrophic event. There are signs the European Central Bank favors deposit guarantees. Problems are mounting on other fronts. With the cost of borrowing heading rapidly towards 7 percent and most foreign investors already shunning Spanish debt, the government will find it increasingly difficult to refinance 98 billion euros of debt and find another 52 billion euros to fund its deficit this year. Local banks are barely lending, or offering loans at prohibitively high rates, squeezing companies and increasing the risk of a chain of bankruptcies which could send the economy into a nosedive. The banking system's total loans to the business sector were 44.6 billion euros at the end of March half of what they were at the end of the boom in 2007, and the contraction continues almost every month, according to Bank of Spain data. Consumers are postponing big purchases and cutting back spending. Spain's soaring borrowing costs have become a national obsession since the crisis....The government acknowledges that the situation is critical." ("Spain cries for help: is Berlin listening ?", Reuters)

The EU Commission and ECB are allowing the crisis to grow to achieve their goal, which is the creation of a fiscal union controlled by banks that has unlimited access to funding and the power to impose policy ("austerity") through coercion. Here's a clip from economist Mark Weisbrot who sees the political motive behind the debt crisis:

"I have argued for some time now that the recurring crisis in the eurozone is not driven by financial markets' demands for austerity in a time of recession, as is commonly asserted. Rather, the primary cause of the crisis and its prolongation is the political agenda of the European authorities - led by the European Central Bank (ECB) and European commission. These authorities (which, if we included the IMF constitute, the "troika" that runs economic policy in the eurozone) want to force political changes, particularly in the weaker economies, that people in these countries would never vote for." ("Europeans' economic future has been hijacked by dangerous ideologues", The Guardian)

It's all politics. Right wing politics. 100 percent of the reputable economists that have commented on the debt crisis have criticized the way it has been handled, particularly in regards to austerity measures. Do you really think that Merkel or Draghi think that they're smarter than Stiglitz, Krugman, Reich, Eichengreen, Thoma, Weisbrot, Galbraith, Baker, Roubini, etc.? No. Merkel has no background in economics at all, and Draghi was formally an investment banker for Goldman Sachs.

These people are not interested in fixing the EZ economy. They are engaged in a stealth campaign to radically restructure EU society, to unravel the welfare safety net, to roll back the progressive gains of the last century, and to reduce much of the continent to 3rd world poverty. A banking union will further solidify the power of big finance over the

individual states, and that is the main objective.

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