Financial Turbulence Shakes the Eurozone: Facing the Debt Crisis in Europe

The blatant social injustice of macro-economic policy

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One of the avatars of the financial sector crisis that began in 2007 in the United States and spread like wildfire to Europe, is the enthusiasm shown by Western European banks (especially German and French banks[2], but also Belgian, Dutch, British, Luxemburg and Irish ones) in using funds lent or donated massively by the Federal Reserve and the ECB to increase their loans to several Eurozone countries between 2007 and 2009 (Greece, Ireland, Portugal, Spain) racking up juicy profits due the higher interest rates there. For example: between June 2007 (beginning of the subprime crisis) and September 2008 (Lehman Brothers bankruptcy) loans by private Western European banks to Greece rose by 30%, from 120 to 160 billion Euros. Western European bankers jostled to loan money to the European Union periphery to anyone prepared to incur debt. Not satisfied with taking extravagant risks across the Atlantic in the subprime market with the money of savers who made the error of trusting in them, they repeated the same operation in Greece, Portugal and Spain… Indeed, the fact that some peripheral countries were in the Eurozone convinced Western European bankers that the governments, the European Central Bank (ECB) and the European Commission would come to their aid in the event of problems. They were not mistaken.

By the time heavy turbulence shook the Eurozone from Spring 2010, the ECB was lending to private banks at the advantageous rate of 1%, and these banks in turn demanded a far higher return from countries such as Greece: from 4 to 5% for three-month loans, approximately 12% for 10 year securities. The banks and other institutional investors justified such requirements by the "default risk" among the so-called "risky" countries. As a consequence the rates increased considerably: the IMF and European Union loan to Ireland reached 6.7%, compared with 5.2% to Greece six months earlier. In May 2011, the ten-year Greek rates exceeded 16.5%, meaning Greece could only borrow for three or six months, or resort to the IMF and to other European governments. Heretofore, the ECB had to guarantee debts held by private banks by buying State securities from them … despite its stated policy against lending directly to the States.

Seeking to reduce risks, French banks diminished their exposure in Greece in 2010. It melted by 44%, falling from 27 to 15 billion dollars. German banks made a similar move: their direct exposure fell by 60% from May 2010 to February 2011, from 16 to 10 million Euros. The IMF, ECB and European governments gradually replaced bankers and other private financiers. The ECB holds an amount of 66 billion Euros in Greek securities (20% of the Greek public debt), which it acquired on the secondary market from banks. The IMF and the European governments lent 33.3 billion Euros up to May 2011. Their loans will increase further in future. But that is not all; ECB accepted the equivalent of 120 billion Greek debt securities as guarantees (collateral) for the loans it had granted to them at a 1.25% rate. The same process has been undertaken with Ireland and Portugal.

There we find all the ingredients of Third World debt crisis management with the implementation of the Brady Plan[3]. At the beginning of the crisis that broke out in 1982, the IMF and governments of major powers, above all the United States and Great Britain, came to the rescue of Northern private bankers who had taken huge risks by lending to countries of the South, especially Latin American ones. When countries such as Mexico found themselves at the brink of payment default due to the combined impact of the rise in interest rates and the fall in their export revenues, the IMF and the countries belonging to the Club de Paris lent them capital on condition that they continued to make repayments and implement austerity plans (the notorious structural adjustment plans). Then, as the South's debt load was ballooning due to the snowball effect (as we now see happening in Greece, in Ireland, in Portugal and elsewhere in the EU), they implemented the Brady Plan (named for the US Secretary of the Treasury at the time) which involved restructuring the debt of the main debtor nations with an exchange of securities. The debt volume was cut by 30% in some cases and the new securities (Brady bonds) guaranteed a set interest rate of approximately 6%, which was very much in the bankers' favour. This also ensured continuation of the austerity policies under IMF and World Bank control. In the long term, the total sum of the debt rose none the less and the sums repaid were huge. If we only take into account the net balance between amounts lent and the amounts repaid since the Brady Plan was implemented, developing countries offered creditors the equivalent of six Marshall plans, or approximately 600 billion dollars. Mustn't we avoid repeating such a scenario? Why should we accept that peoples' economic and social rights are once again sacrificed on the altar of bankers and other financial market operators?

According to the business banks Morgan Stanley and J.P. Morgan, in May 2011, the markets estimated that there was a 70% probability that Greece would default on its debt, up from 50% two months earlier. On 7 July 2001, Moody's put Portugal in the high-risk debt category. That is a further reason to opt for cancellation: debts must be audited with citizen participation to cancel the illegitimate portion. If this option is not taken, the victims of the crisis will serve a life sentence of double jeopardy, to the benefit of the guilty bankers. We can see this clearly with Greece: austerity therapies follow one another with no improvement in the public accounts situation. The same will happen in Portugal, Ireland and Spain. A large portion of the debt is illegitimate because it is the result of a policy favouring a tiny minority of the population at the expense of the overwhelming majority of citizens.

In countries that made agreements with the Troika (IMF, EC and ECB), the new debts are not only illegitimate, but also odious, for three reasons: 1. The loans are on conditions that violate the economic and social rights of a large portion of the population; 2. the lenders are blackmailing these countries (there is no real autonomy on the borrowers' side); 3. Lenders are making an abusive profit by skimming off prohibitive interest rates (for example, France and Germany borrowing at 2% on financial markets and lending at more than 5% to Greece and Ireland; private banks borrowing at 1.25% from the ECB and lending to Greece, Ireland and Portugal at over 4% per three months). For countries such as Greece, Ireland, Portugal or Eastern European countries (and outside the EU, countries such as Iceland), i.e. countries subjected to speculator blackmail, it is appropriate to resort to a unilateral moratorium on public debt repayment. It is an unavoidable means of resetting the balance of power in their favour. This proposal is becoming popular in the countries most heavily impacted by the crisis.

Public debt also has to be audited under citizen control. The aim of the audit is to conclude with a cancellation/disavowal of the illegitimate or odious portion of the public debt and to cut the balance of the debt.

A radical reduction in public debt is a necessary but not sufficient condition to get European Union countries out of the crisis. This must be rounded out by a whole series of large-scale measures in different arenas (taxation, transfer of the banking sector to the public domain, resocialisation of other key economic sectors, reducing working hours while preserving incomes and ensuring compensatory hiring, etc.[4]).

The flagrant injustice of the regressive policies underway in Europe is feeding the powerful mobilization of the "outraged" ("indignés") in Spain, Greece and elsewhere. Thanks to these movements that got underway in the wake of people's uprisings in North Africa and the Middle East, we are seeing an acceleration of history. The public debt issue calls for a radical response.

Translated by Maria Lagatta in collaboration with Christine Pagnoulle.

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Notes

[2] At the end of 2009, German and French bankers alone held 48% of Spanish foreign debt bonds (French banks held 24% of these debts) ; 46% of Portuguese bank bonds (French banks held 30%) and 41% of Greek debt bonds (French banks led with 26%).

[3] Éric Toussaint, The World Bank: A Critical Primer, Pluto Press, London, 2008, chapter 15.

[4] See http://www.cadtm.org/Eight-key-proposals-for-another

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