Debt crisis supplement

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The sovereign debt crisis in Europe's periphery

AS the sovereign debt crisis in the European Union's peripheral countries—most notably in Greece, Portugal, Ireland, and Spain—gathers pace, its severity has begun to threaten the very existence of the euro, a central component of both the political and the economic project of centralisation and control by monopoly capital throughout the continent.

Some statistics

Irish government debt, 2007	€47 billion (25% of GDP)
Bank guarantee (September 2008)	covers €440 billion of liabilities
Irish government debt, 2010	€148 billion (96% of GDP)

Irish household debt, 1993	40% of a household's disposable income
Irish household debt, 2010	180% of a household's disposable income

Cost of bail-out of banks so far	€46 billion (with at least a further €24 earmarked)
ECB loans to banks covered by guarantee	€150 billion (this is potential state debt)

Unemployed, 2007	103,000
Unemployed, 2010	300,000

GDP, 2007	€189 billion
GDP, 2008	€179 billion
GDP, 2009	€159 billion
GDP, 2010 (estimate)	€154 billion

The CPI sees debt—private institutional debt, sovereign debt, and personal debt—as a crucial weakness in monopoly capital. The system today requires debt: debt to fund consumption, debt wrapped up in "financial products" to fund investment and gambling on the international money markets, and debt in businesses to fund growth and increase profits.

While credit and debt has always been a feature of the system and has been used to fund progressive developments it is the dominant and distorting role it plays today that marks it out as a new and destabilising feature of monopoly capitalism.

The indebtedness of families, small farmers, small businesses and states is a deliberate consequence of the increasing monopolisation of the economy. As the big become more powerful, and capital concentrates in fewer and fewer companies, the small require more and more debt to survive. Likewise, the increasing concentration of capital is gambled on international money markets, where debt is often sold in complex financial and currency products.

The European Union, and its member-states, also saw debt as essential to the system and so at the first sign of crisis stepped in and guaranteed, i.e. socialised, hundreds of billions in private monopolies' debt, in order to save the system by transferring the debt to the people's shoulders. It is far more important that profiteers can continue to profit than that people can have decent jobs and services. Facilitating the further concentration and monopolisation of wealth is the essential role of the European Union and of the state, at our expense; they call this "growth."

This socialisation of private debt—not public services, and not government borrowing—created the sovereign debt crisis in Ireland.

For years it was the policy of the European union and the European Central Bank to support the export of capital from core countries, such as Germany and France, to peripheral countries, as these economies created huge surpluses of capital that could not be reinvested in their own countries, as that would create a crisis there. So instead they created crisis in the peripheries by exporting this cheap and easy credit, to blow up superficial and short-term property bubbles that enriched the few and greatly distorted entire economies. Once this debt was realised, the state stepped in and guaranteed it, ultimately bankrupting the state and creating the sovereign debt crisis today.

For working people to secure jobs and decent social services it is vital that we fight back against this socialisation of debt, against the policies that created it, and against the institutions that imposed it. The people's fight-back must be against the ECB and the EU.

It is in this context that the CPI has called for a European-wide struggle of people, to rise up against the monopoly power that exists in the form of the EU and to reclaim control over our economy and development. We cannot build a recovery that creates sustainable jobs while we are subject to the conditions imposed by the EU and IMF.

While there is no pain-free solution, should we not at least try to build an economy for the future and for the common good, under our own terms and for our own benefit, not for that of monopoly capital?

As part of this call, the CPI wrote to a number of fraternal parties in peripheral Europe for their view on the debt crisis. We share these in order to enhance the debate on the left and to strengthen the resistance throughout Europe to the onslaught led by the European Union.

We asked the following questions

1. What is the extent of the debt crisis in your country—both personal and state debt?
2. What is the nature of the debt?
3. Who borrowed the money, and from whom?
4. What proportion of the debt is corporate debt? Has the state socialised any private debt?
5. How much of what the ruling class calls sovereign debt is socialised private debt? And whose private debt is this?
6. What role is the European Central Bank playing?
7. If the state has bailed out private businesses by taking on their debt, is there a demand among working people for this debt to be repudiated as not being sovereign debt? If so, is the Communist Party involved in a "repudiate the debt" campaign?
8. Is systemic and structural debt now a central feature of monopoly capitalism? If so, is it a weak link in imperialism, particularly for peripheral countries within the European Union?
9. Is there a potential for united action and campaigns against the European Union and the European Central Bank, in collaboration with the establishment in your country, against the imposed policies of bailing out monopoly finance capital, and against the euro, especially in peripheral countries?
10. If we weaken and ultimately break the euro, would this weaken the forces of monopoly capital? Would it be a significant advance?

KKE

Communist Party of Greece

The basic cause of the assault which the ruling class in all the member-states of the EU has unleashed on the income and rights of the people goes beyond the management of the economic crisis and public debt. The basic goal of the assault is the reinforcement of the competitiveness of the monopoly groups in the EU. For this reason the anti-people attack is apparent both in Germany, which has temporarily left the crisis phase and has a comparatively lower public debt, as well as in Britain, which is outside the Eurozone.

A basic goal of the assault is to ensure cheaper labour power and push forward the restructurings which attempt to stem the tendency for the rate of profit of big capital in the EU to fall. The capitalist path of development periodically leads to crises of capital over-accumulation and many bourgeois states to become heavily indebted. The ideological struggle in relation to the increase of the public debt must in the final analysis highlight the role of the bourgeois state and the monopolies, which determine production on the basis of profit, the role of the EU as an interstate imperialist alliance, and the capitalist relations of production.

The capitalist crisis in Greece is deepening. This is a crisis of capital over-accumulation which is expressed by a 2.5% rate of reduction of GDP in 2009, 4.5% in 2010, and is predicted to exceed 3.5% in 2011. Official unemployment has already exceeded 15% and is expected to reach 20% by the end of the year.

Within the framework of the capitalist crisis public debt has sky-rocketed. At the end of 2010 the overall state debt had reached €330 billion, corresponding to 144% of GDP, while in 2008 it was €262 billion and 110.6% of GDP, and in 2009 €298 billion and 127% of GDP.

The explosion of public debt due to the crisis is caused by two factors. On the one hand it is due to the massive state support packages to the monopoly groups and the reduction of tax income and GDP which has been observed due to the economic crisis.

Private debt in the banking sector has reached €257 billion, of which €139 billion is company debt and €118 billion is household debt. The overall foreign debt of the banking sector is €202 billion. The overall debt is about €790 billion. The overall foreign debt is €410 billion.

The basic cause of the creation of the public debt is the extensive support of the Greek state for a series of monopoly groups in order to safeguard and maintain their profitability.

The fiscal derailment of Greece does not demonstrate the lack of management ability of the one or the other government but uneven capitalist development in the various countries of the Eurozone. The exposure of Greek manufacturing businesses (less developed and competitive) to a sharpened competition within the framework of the Eurozone meant that they required more support from the bourgeois state in order to safeguard their profitability.

The mechanism for the expansion of the debt was the borrowing of the government to cover the budget deficit of the state budget. The state's support for the monopoly groups was conducted

(1) directly, in the form of financial subsidies through development legislation, in the form of subsidising social-security contributions, in the form of low-interest and no-interest loans for major works, in the form of concessions of public works—road networks etc., constructed mainly through public funding—to the private corporations for exploitation and

(2) indirectly in the form of reduced tax rates and special tax exemptions (the taxation of shipping capital is minimal, while the taxation of fuel for the ship-owners is also very low and the tax rate for capital was reduced from 45% to 25%), in the form of a series of favourable provisions for taxation etc.

This state support is demonstrated in the profitability of capital, which only in the seven years before the crisis recorded profits of over $70 billion. In addition, in previous decades (mainly in the 1980s) the phenomenon of nationalising private enterprises which had accumulated large debts contributed to the creation of the public debt.

At the beginning of the first decade of the new millennium, public debt had reached €146 billion, while at the end of the decade public debt had exceeded €343 billion. Within the same decade the Greek state had paid, in the form of interest, €114 billion, ensuring for its creditors, the banking monopoly groups, foreign and domestic, massive profits. In the same period, in the Programme of Public Investment, over €9 billion were expended. Tens of billions of euros of subsidies were provided for the monopoly groups through the Community Support Frameworks, the National Strategic Reference Framework, and the contracts for the concession of public works. A large portion was invested in "non-productive" investments (e.g. investments for the Olympic Games in 2004, for which over €10 billion were spent). In addition, even the investments for the construction of public works were carried out on the basis of capitalist profitability and the strategic choices of the EU and not for the satisfaction of the expanded needs of the people.

Of course the €91 billion is only the tip of the iceberg. We must add to this amount tens of billions of euros of state money spent on the investments of state enterprises which are ceded to big capital for a plate of beans. Possibly the most characteristic example of this was the €9.1 billion of OSE's debt (railway transport), the largest part of which is related to the construction of the railway network—construction which was carried out on the basis of the profitability of the construction monopolies, securing huge profits from the construction of the lines, and on the basis of the profitability of the banking groups which ensured profits for themselves through lending. The inflation of the state debt in the last decade includes over €12 billion of spending on defence armament, an important section of which are weapons systems destined for NATO-related needs.

The Greek bourgeois state borrowed from the domestic and foreign market, from the banking groups at home and abroad, from foreign insurance groups and from the social-security funds of the domestic market.

In addition, it borrowed from the temporary support mechanism of the EU and from the IMF. 45–50% of the state debt is to foreign banking and insurance groups; 15–20% is due to loans, chiefly from the European Support Mechanism, 20–25% to Greek banks and 10–15% to social-security funds in Greece.

An important section of the bonds of the Greek public sector have been deposited as security for liquidity in the ECB, both for Greek and foreign banks.

Particularly for banking groups, their direct exposure within the overall Greek debt (public and private) has reached €120 billion, while together with the securities which have been issued their total exposure within the Greek debt reaches €200 billion. Of these, the banking groups of France comprise 32% of the total exposure, German ones 25%.

It is calculated that 20–25% of the state titles which are found abroad are in insurance groups, 30–35% in banking groups, 20–25% in social-security funds and 15% in monetary authorities. Monopoly groups from France possess 28%, from Germany 14%, from Holland 7.5%, from Luxembourg, Belgium and Italy about 6%, from Ireland 4.2%.

The largest part of the state debt was utilised for the profitability of the monopoly groups. The taking on of the debts of the monopoly groups by the state so that their bankruptcy could be avoided happened in previous years as well, but its contribution to the enormous growth of the state debt was smaller than in other capitalist countries such as Ireland.

The possibility that new debts will be accumulated by the state mainly from the banking groups is real. The state securities in the non-banking sector have reached $26 billion. In addition, the state securities to the banking sector approach €85 billion, raising the overall level of state securities, which the public sector could be potentially called on to repay, to about €110 billion.

The European Central Bank is an essential pillar of support so that the united monetary policy of the Eurozone can be implemented, that is to say it serves the strategy of the EU. Another tool which serves these policies is the Stability Pact as a framework for the supervision of the national governments in regards to the fiscal policy which the member-states follow.

To begin with, we must not forget that the common monetary policy and the euro constitute means of welding together the economies of the EU member-states, which have uneven levels of productivity, industrial production and more general development. Uneven development and the uneven relations between the member-states are intrinsic to the nature of the EU as an interstate imperialist alliance.

The "democratic control" of the ECB constitutes a goal which completely violates the relationship between economics and politics. The only negotiation which can take place regarding the administration of the ECB is one that would demonstrate the real balance of power between the bourgeois member-states. This negotiation does not concern the satisfaction of the people's needs and the labour movement.

Over the recent period the ECB has been linked with the discussion on the role of the European Support Mechanism. This specific mechanism cannot deal with the cause of the crisis of over-accumulation or with the intensity of unevenness within the Eurozone. It aims at shoring up the euro, supporting the banking groups which are the creditors of the heavily indebted states (German, French banks etc.).

The bourgeois disagreements concerning the role of the mechanism are also related to the controlled depreciation of capital, the distribution of the losses amongst the imperialist states and monopoly groups in the financial sector. This struggle also has nothing to do with the working class.

The KKE [Communist Party of Greece] stresses that the people are not responsible for the massive increase of the public debt, nor did they benefit in the previous years, and for this reason they should not pay for anything. At the same time it makes it clear that the real cause of the escalation of the anti-people assault goes beyond the management of the public debt and has to do with the strategic choice to reduce the cost of labour power in the EU in order to safeguard the profitability of the monopolies. The working class is on the receiving end of the assault not only in the countries which have borrowed but also in those which have lent money.

The demand for the "people to refuse to pay the debt" could contribute to the escalation of the struggle only if it is included in a political line of overthrow in relation to the power of the bourgeois class. There could be a refusal to pay the debt which would be in the people's interests in the conditions of socialist power and the withdrawal of Greece from the EU. On the contrary, in conditions of capitalist power the "refusal to pay the debt" could be used by a bourgeois government at the expense of the people, as the example of Argentina demonstrates.

The law of uneven development impacts within the EU, for example Germany was the big winner in the decade after the formation of the Eurozone. The massive increase of the public debt of some member-states constitutes, as we mentioned earlier, one of the consequences of this situation. The EU more generally constitutes an imperialist alliance of member-states, with deep unevenness amongst them regarding the development of industrial sectors, competitiveness, political and military strength.

It is of particular importance for it to be understood that the uneven relations between states and uneven development are intrinsic to the imperialist system. It must be taken on board that all the bourgeois classes in the EU are jointly responsible for the escalation of the assault against the working class. For this reason the KKE is against any alliance of the labour movement with the Greek bourgeois class so that the foreign monopolies do not become dominant. This proposal of co-operation impedes the opposition of the people in relation to its own ruling class.

The illusion that a capitalist country outside the Eurozone or with a reduced public debt can guarantee prosperity for the people must be smashed. We should look at the examples of Britain, Sweden and Denmark to learn this lesson.

The slogan which can rally the peoples in a revolutionary direction in the weak links in the Eurozone is "disengagement from the EU and cancellation of the debt by means of popular (socialist) power." The goal of the "disengagement from the EU" included in a political line of overthrow must constitute a goal of struggle for all the peoples of the EU member-states.

Portuguese Communist Party

The PCP has long denounced our country's net foreign debt as one of the more visible results of the policy of national disaster that the PS [Socialist Party], PSD [Social-Democratic Party] and CDS [Democratic and Social Centre] have imposed on Portugal for the past thirty-five years.

This debt, public and private, with the private debt being higher than the public debt and which, at the end of 2010, represented in net terms 107% of GDP, while in 1996 it did not even reach 10% of GDP.

The private debt, which despite the State getting deeper into debt to save the private financial sector, continues to represent at least 67.2% of our gross foreign debt, which on its part, at the end of 2010, represented around 238% of GDP. This private debt, in which the financial sector weighed around 70%, grew as a result of joining the Euro as the financial sector exchanged the attraction of domestic savings for foreign bank credit, which was available at low interest rates.

This growth of foreign indebtedness of our country is inseparable from deindustrialisation, from the abandonment of our agriculture and fishing sectors, from a strong drop in national production, from increased privatisations, from submission to EU impositions and to big national and international capital.

In our view, this high level of indebtedness did not result from our people "living beyond their means," as the neoliberal right and the PS try to make believe, but from the huge increase in our foreign dependence which occurred after our joining the Euro and the subordination to the economic and financial groups.

With the indebtedness of the country those who imposed the extinction of our productive apparatus—like France and Germany—gained as we were forced to buy what the country had ceased to produce.

With the indebtedness of the country the bankers, whose losses the State cleaned (like BPP and BPN) and put forward guarantees, gained by changing their private debt into public debt, and then distributing these sacrifices among the workers and the people.

With the indebtedness of the country the banks from Germany, England, Spain, France and also Portugal gained, who scandalously get financial loans from the ECB at 1% interest rates and later buy public debt, collecting 6%, 7% and even 8% from the Portuguese State, in an illegitimate usurpation of national resources.

As a result of this indebtedness, the complicity and role of the European Union and the framework resulting from capitalism's nature and functioning, Portugal today faces an unbearable and illegitimate process of extortion of its natural resources by means of the worsening of the interest on the Portuguese public debt.

This is a process which occurs with the complicity and active role of the European Union which, engaged in guaranteeing the interest of the financial capital and of the big powers (particularly Germany), connives with this speculative wave, when there are conditions—even in the current political and institutional context—to put an end to it. Instead, the EU supports the IMF's concepts and policies, calling it the European Financial Stabilisation Facility, with devastating effects in several countries—like Greece and Ireland—where the results were quite visible with an increase in interest rates, worsening of economic recession, growth in unemployment and in social injustice.

Portugal cannot accept that those who benefited most from the process of our country's indebtedness—big national and foreign capital—should dictate the way and conditions on which our country is being looted.

The PCP believes that there is no other answer but a firm refusal of this course of "austerity" either via SGP, or via IMF. The answer cannot be other than a clear affirmation that Portugal cannot continue to pay loan shark interest and remain a victim of the speculators, now called markets.

In view of the created unsustainable situation and its possible developments in the coming times, the PCP considers that the Portuguese State should rupture the current policy, through:

- An immediate renegotiation of the current Portuguese public debt—

with a reassessment of the terms, interest rates and payable amounts—to unburden the State from the weight and effort of the present debt servicing costs and channel resources to promote productive investment, create jobs and provide for the other needs of the country.

● Act with other countries facing similar problems of public debt—Greece, Ireland, Spain, Italy, Belgium, etc.—aiming at a joint action to hinder the current speculative spiral, together with a revision of the statutes and objectives of the ECB and the adoption of measures aiming at economic growth, creation of jobs and improvement of wages.

● Adoption of a policy aimed at economic growth with the defence and promotion of national production playing a leading role—produce increasingly more to owe increasingly less. Take the right measures to strengthen public investment, betting on producing marketable goods and an exceptional framework to control the entry of goods into Portugal, to replace imports.

● The diversification of funding sources, resuming an active policy of issuing Savings and Treasury Certificates and other instruments to attract national family savings, as well as undertaking bilateral relations to find more advantageous forms of funding. A policy of diversification also in trade relations, mutually advantageous, with other countries, namely from Africa, Asia and Latin America.

The Portuguese workers and people cannot continue to feed the huge profits of the banks with obscene interest, nor save the shareholders of bankrupt banks as was the case of BPN and BPP.

The Portuguese workers and people cannot continue to make sacrifices to fill the pockets of the speculators and banks, while the country plunges into economic recession, unemployment grows and the cost of living increases.

Communist Party of Spain

Public debt in Spain will reach 68.7% of GDP in 2011. Private debt has remained at its 2008 level, when it reached €1,850,000 million, that is to say 190% of GDP. Put together and the debt level in Spain is in the region of 260% of GDP.

As a federal state the public debt is half due to the State Central administration and the other half to the regional administrations. Private debt is mainly due to the building sector, where we were building 700,000 houses per year at the height of the finance speculation bubble. This private debt was mainly borrowed from the European private finance sector, and mainly from German banks and finance houses.

Corporate debt in Spain is one of the largest (147% of GDP) in the world, with Portugal, Italy, Korea, Hong Kong and Malaysia. The Government has given to the bank system more than €100,000 millions but has not nationalised them. The bulk of this private debt is coming from saving banks and financial banks due to the building industry and the loans and mortgage system (property boom).

The ECB is trying to keep inflation under the Maastricht agreement level through monetary measures like the price of the Euro, and also the control of the public deficit. There is nothing about employment or giving loans to industry or to other economic models.

We are strongly in favour of nationalising the banking system. We criticise the amount of public money given to the private banking system while it remains private and while nothing is given to unemployed people or invested in job creation. We are against the government policy of transferring public finances to the private system. The crisis has been created by the private finance system, not by the working class, and we do not want to pay the cost of the crisis.

This crisis is global, and no country is in a safe position due to the intimate link between the different economies. The question would be how to increase the class consciousness among the European working class in order to push for another model in a democratic way.

We are not against the EU per se, we are against the neoliberal way the EU is being built mainly since the Maastricht Treaty in 1992, after the so-called Washington Consensus of 1989 (social-democrats and conservative forces, together with liberals and greens) that put forward the neoliberal globalisation model that gave more and more power to the market dismantling the Welfare State.

The real fact is that class struggle is mainly being played at the European level and not so much at the national level. That is why we, the Spanish Communist Party, are in favour of having a political European tool of the revolutionary forces like the European Left Party in order to fight at the level of the European Parliament and also at the level of European society together and in parallel to the national fights.

The eventual breakdown of the Euro does not mean a victory for the working class but, on the contrary, it means a failure of the neoliberal model. We do not have an alternative model prepared for a European level because we still remain largely under the influence and politics of the nation-state.

We must have an alternative model to be able to design a European economic model with European wages, European public services, European finances, European working class tools in order to intervene in the political and economic arena, and so on.

Communist Party of the Peoples of Spain

In October 2010, the public debt reached 67% of GDP and the personal debt reached 170% of GDP. The addition of both numbers shows that the overall debt in Spain was nearly 300% of GDP.

The real estate boom that took place in the last decade made families and companies acquire loans with banks. The credit given to fund private consumption and to companies in order to increase production were the other side of this boom. The burst of the real estate bubble showed that those debts were established on the basis of subprime loans and that the ability of companies and families to fulfil the loan payments were really weak. The increase in unemployment and the decrease in sales provoked the difficulties in the payment of debts. The public debt in Spain was within official EU standards before the beginning of the crisis.

The borrowers were mainly banks and savings banks, and the State, via different special funds, has recapitalised them to the important sum of €220,000,000,000 (two hundred and twenty billion euros). Recently, due to the burden of the real estate debt in the hands of the Savings Banks, some extra money from the FROB (Fund for Orderly Bank Restructuring, created in 2009 by the Government) is being used to accomplish the minimum requirements of solvency demanded to the financial institutions (8% of liquidity for banks and 10% for savings banks).

In October 2010, the public debt reached 67% of GDP and the personal debt reached 170% of GDP. This means that private debt is three times bigger than public debt. The public debt in 2008 reached 35.8%. It is evident that, in order to cover the rescue funds of the financial sector, new public debt has been issued. To make it clear, that €220 billion were not in “the cash desk” and has created the new crisis of public debt.

The difference between the 35.8% and 67% above mentioned is the bailout of finance houses. The debt comes from the banks and savings banks and it is mainly due to the real estate collapse.

The ECB is forcing the State to adopt policies of social cuts and labour adjustments in order to try to contain the public deficit.

The truth in Spain is that, in this very moment, some savings banks are on the eve of “nationalisation,” so later they can be privatised, and there is no popular response. Our work is focused in the slogan of nationalisation of the banks or savings banks without any compensation and not to be re-privatised.

Debt is basic to the system today. In order to increase production and fund consumption levels debt must be used by people and companies. This means that monopoly capitalism is mostly dependent on the financial sphere.

The class character of the state is seen quite clearly in these situations of crisis, and the ruling politicians, regardless of which party they belong to (PP [People’s Party], PSOE [Spanish Socialist Workers’ Party] or United Left) are managing affairs in the interest of the ruling classes.

Breaking the euro would be a really significant advance. Our central slogan in this field is “no to the euro and no to the EU.” One of the first steps in order to advance in the weakening of monopoly capitalism is to recover the sovereignty of the countries in these matters. The EU cannot be reformed in a social way, basically because it is a tool of monopoly capital in order to guarantee a wider open market and a single capitalist economic policy for all the member states.