## Greece: A New Phase in the World Economic Crisis

*A new phase in capitalism's global economic crisis appears to be opening up. As is usual, this crisis has first hit the financial sector of capitalism. First, it was in the privately-owned banks and other financial institutions. Now the contagion has spread to public treasuries. The sovereign debt crisis in Dubai was the first warning. Now it is Greece.*

Unlike private banks, sovereign governments can print up their own money to pay back loans (through repurchasing bonds sold to traders). In this way, they can operate at a deficit year after year. In normal times, and depending on the size of it, there is nothing wrong with a government running a deficit, which is simply borrowing from future revenues. As long as the economy is expanding as rapidly as the deficit, such borrowing can act in effect as investment. That has not been what has been happening, however. On the contrary, what has happened is that regimes run budget deficits for several reasons: First, there has been a massive reduction in revenues from corporations and the rich. On the other hand, these same corporations are looting the public treasuries. Finally, although some cuts in public services have been carried out, in countries such as Greece with a traditionally militant working class, the regimes have been reluctant to cut to the degree "necessary".

The world economic crisis has enormously exacerbated this process. Mainly as a result of steep declines in government revenues, sovereign (national government) debt jumped from 62% of world production in 2007 to 85% in 2009. *(Source: Carnegieendowment.org)*. Naturally, this crisis hits first in the weaker economies, such as Greece. There, the crisis threatens the entire financial arrangements of the European Union and its currency, the euro.

### Euro Established

The euro was first established as a physical currency in 1999. This was after several decades of economic upswing and relative stability, and it was these conditions that made the euro possible. In turn, its establishment further boosted the upswing by helping the European nations partly and (as we are now seeing) temporarily overcome the contradiction of the nation state in the era of global production and distribution of goods. Because of the economic boom,major differences in level of economic development, as well as in culture, traditions and politics, were papered over by the establishment of the euro. This step boosted regional trade and commerce, thus encouraging even further economic development in the EC. Even outside of the EC, the establishment of the euro boosted the confidence of international investors.

However, even at that time, some said it was "putting the cart before the horse." This is because a currency's value (relative to other currencies) is partly determined by a host of government economic policies that the European Union (EU) as a whole lacks the power to institute. An important power is the one to levy taxes. This remains with the national governments, as do other financial policies, including interest paid on national debts and social welfare spending. (EU treaties limit government deficits to a percentage of that nation's Gross Domestic Product – GDP – but this only places certain pressures on these governments.) Caught in the vise of a plummeting economy, falling government revenues, and a militant working class unwilling to surrender certain benefits, the Greek sovereign debt rose massively. It reached the point where ability to repay the debt began to be questioned. This meant that the government would have to raise the interest rate it pays on the debt, making it all the harder to repay it.

## Contagion to Spread

This crisis threatens to engulf the entire EU, first and foremost Germany. On the one hand, German banks are one of the foremost holders of Greek debt. If Greece has to default on its loans, then this will threaten the lenders – German banks. However, there is an even deeper problem: Given the different levels of economic development and different cultures and history, different countries in the EU strive for a different economic/financial policy of the European Central Bank. As the most developed country, and also one whose past history of devastating inflation (pre WW II) is not forgotten, Germany seeks a more restrictive economic policy, meaning higher interest rates. Greece seeks just the reverse.

The situation would not be so threatening to world capitalism if it were only Greece. Within the EU, however, it is widely believed that Spain, Italy and Ireland are teetering on the brink. Britain is likely not far behind. This threatens the very existence of the euro. A collapse of the euro would impact not only the EU countries but world capitalism, as a host of other currencies will be brought into question. Amongst these is the Japanese yen, as the national debt there moves up towards 250% of its GDP. As the world's second largest economy, a sovereign debt crisis of the yen would have an absolutely massive impact. Thus the collapse of the euro would be a devastating blow to the confidence of international investors and, as a result, to the world capitalist economy.

So far, the US dollar has benefited from this crisis as it is considered a "safe haven". This means that global investors prefer to put their money into dollars, given the alternatives. However, as the US national debt continues to increase, this cannot continue indefinitely. Already, Chinese capitalism has started to show wariness in buying US treasury notes. As the US debt increases as a percentage of its GDP, the same wariness will become outright reluctance. Then, the US central bank will have to start raising interest rates, which will choke off any economic recovery here. Either that or it will see its currency – the dollar – decline in value. All currencies are valued in relation to two things: First is relative to other currencies. When other currencies decline in value relative to the dollar, then the dollar "strengthens." What happens, however, when investors lose confidence in all currencies, including the dollar? Then this is expressed through a general decline in the value of all currencies… relative to real goods. In other words, more of the currency is required to purchase the same amount of goods. This is inflation.

The only means that capitalism has to thwart generalized inflation in the medium term is through raising interest rates. However, this step would tend to choke off any economic recovery.

The result of this crisis appears to be having contradictory results on the consciousness in Greece. On the one hand, tens of thousands of Greek public sector workers have struck to protest the proposed attacks. They have been joined by hundreds of thousands of other workers. On the other hand, it appears (from this distance) that another sector of the working class is holding back, aware of the crisis but also of the fact that Greece cannot continue along these same lines. If nothing is done, then the regime there will be unable to finance its debt and government operations will grind to a halt. Thus it is that a public opinion poll from the Greek newspaper *Proto Thema* showed that Sixty-five per cent of those polled said the austerity measures were necessary and overdue. It is very possible that the polling methods prejudiced the outcome, but even so this is a significant figure.

Meanwhile, as the economic contagion threatens to sweep Europe, so does a strike wave. British air workers have voted to strike and French air traffic controllers are already out. This can be the first wave of a fight to prevent further cuts in the standard of living of European workers. Ultimately, though, they will be faced with one of three options: Either concede to government austerity programs or face a similar austerity as imposed by the forces of the “free market”. The third option will be to build the coming strike wave into a movement to overthrow capitalism itself and build a democratic socialist society in its place.