

# Mouvement Communiste

## STATE FISCAL CRISES AND THE GREEK EXAMPLE

### Maintaining our theoretical course

The following text tries to explain the causes and consequences of the eurozone states fiscal crisis and to illustrate it through the Greek example. The fiscal crisis is a consequence of the latest cyclical crisis of capitalism, the one that was triggered by the so-called “sub-prime” financial crisis of 2007. As we have already said many times (and will continue to do so), we have to remember some simple points (although we’re not going to develop them too much here) about capitalist crisis inherited from what we understand from Marx, using his categories and his method.

*“The difficulty of converting the commodity into money, of selling it, only arises from the fact that the commodity must be turned into money but the money need not be immediately turned into commodity, and therefore sale and purchase can be separated. We have said that this form contains the possibility of crisis, that is to say, the possibility that elements which are correlated, which are inseparable, are separated and consequently are forcibly reunited, their coherence is violently asserted against their mutual independence. Crisis is nothing but the forcible assertion of the unity of phases of the production process which have become independent of each other.” - Marx<sup>1</sup>*

- ◆ Capitalism has a *cyclical functioning delimited by crisis*, the first one being in 1825. Valorisation crises of productive capital (industrial crises) generally return every 4 to 6 years. Since the nineteenth century, the frequency of crises has increased – originally it was once every 10 to 11 years. This is because of the increase in the rate of turnover of capital.
- ◆ Along with some wars, the periodic crisis of valorisation offers to capital the opportunity to speed up selection among individual capitals and productive sectors by hastening the transformation or disappearance of those whose rate of profit is lower than average. If such a crisis does not initiate the independent political struggle of the proletariat, the periodic crisis of valorisation systematically leads to a broadening and deepening of the domination of capital. Cyclical crisis also allows capital to redefine, more in its favour, the social relations of production. If workers do not find a way to rebel, the crisis for them results in a balance of power with the bosses where they are obviously weaker in the immediate process of production, in their real relation towards socialised work, as well as on the level of the conditions of reproduction of their labour power (wages both direct and indirect, social safety nets, contractual conditions). As *a general rule*, crisis is a more favourable ground for the ruling class than for the exploited.
- ◆ Financial crisis is always a consequence of the difficulty of valorisation for productive capital. It is a symptom of this difficulty. A financial crisis can trigger a new crisis of valorisation for productive capital. But this relation is not a mechanical one. Financial crises of lesser gravity than the present one are not forced to become general crises of valorisation.
- ◆ The early evolution of capitalism was marked by the realisation crisis of value (commercial crisis), a crisis where there is an overproduction of commodities.

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<sup>1</sup> Theories of Surplus Value, Chapter 17, § 10.

- ◆ With the development of the credit economy along with big Taylorist mechanized industry, and thus of the planning capacity of social production, the overproduction crisis of commodities doesn't break out so often because the capitalists have learned from the functioning of their system and put measures in place which diminish stocks of goods, thanks, in part, to the mechanism of "just in time". The valorisation crisis appears then under the form of a crisis within the financial sphere, a crisis of realisation of money into capital, of a general incapacity to transform the specific commodity that is money, into new capital.
- ◆ Relationships between the financial sphere and the productive sphere are more and more direct and inextricable. The "sub-prime" crisis that started in summer 2007 "infected" new value production a little bit more than a year later. The beginning of the last industrial crisis happened between autumn and winter 2008, following the failure of Lehman Brothers in mid-September 2008.
- ◆ As with any crisis, whatever its nature may be, whatever the intensity and whatever sphere is affected (productive, financial or commercial), the "sub-prime" crisis is a product of previous expansion (in this case, in 2001-2006), and thus of the good health of capitalism.
- ◆ Capitalism satisfies needs (whatever we might think of those needs) on two conditions: they favour the accumulation of capital and they present themselves in the form of commodities. We are thinking, for example, about what happened during the last proletarian political cycle, from 1968 to 1976, when the capitalists were forced to concede wage increases (because of relative full employment, the post-war reconstruction, and the intensity of struggles) to maintain valorisation. On the contrary, for our essential need, as revolutionaries, of immediate sociality (without commodity mediation), capital bypasses it, or worse, destroys it. Its goal is the "production" of surplus-value (and not just the production of commodities in themselves). Its blood is credit.
- ◆ Credit presupposes continuity of production and realisation of new value. It is both its strength and weakness. Its strength, because while postponing payments, it allows to it mobilise in anticipation a part of the new value to come, without waiting for its production and realisation. Its weakness, because its presupposition, as recalled before, is fluidity and the continuity of capital's reproduction cycle. That means unlimited religious confidence in the ability of the system to avoid valorisation pitfalls, to plan its development and to maximally smooth its cyclical trajectory, unlimited confidence in the modern state and its political and social democracy as a bundle of social relationships definitively normalised, formatted for the service of capital.
- ◆ Surplus-value is extracted during production but can be realized only by the sale of the commodities that include it. This implies the existence of a solvent market. And this requires the distribution of the goods and purchases at average prices at least (every boss dreams of super-profits, the genuine engine of the increase in capital technical composition) by the "final consumer". In the contrary case, the market determines the incapacity of surplus-value to transform itself under good conditions into capital in its more accomplished form, money. In this case, capital, partially or totally, fails to valorise itself, and thus loses its quality of capital, along with the credit and commercial capital that are associated with it.
- ◆ The present crisis in Europe, and to a lesser extent in the USA, is the fiscal crisis of states as specific individual capitals (equipped with unique prerogatives, of which the most important is to represent the general interest of capital in a given area). It is a liquidity crisis that shows the selective incapacity of states to acquire credits with a rate of interest which is sustainable on a long term basis. A liquidity crisis that, in some cases (Greece for example) transforms itself into a solvency crisis (inability to give back part or all of the borrowed money as a "commodity" and the interest that is associated with it). The present "systemic" stake, the scarecrow against which the European transnational government in progress is fighting, is to avoid the liquidity crisis degenerating into a general solvency crisis. One hypothesis is that this one will bring down agents of the credit sphere that insure hedge funds, investment funds and financial intermediaries. Two second class agents from this sphere have just fallen: Franco-Belgian bank Dexia and MF Global, a British financial intermediate (broker-dealer for third parties).

- ◆ The fiscal crisis is a direct consequence of the banking crisis of 2007 to 2009. It is a very indirect effect of the valorisation cyclical crisis from 2008 to mid-2009. The financial system was weak for a long time and convalescent financial markets (systematic hostility towards any risk-taking) made for a general rise of interest requested for investments in credit instruments, including those issued by numerous states, states whose indebtedness levels rose considerably because of their recent counter-cyclical action of saturating the transmission channels of the credit crisis towards the production sphere (in the case of Greece, to preserve “social cohesion”). The related perspective of a new cyclical crisis of valorisation has lately worsened the hopes of sufficient fiscal income by adding to the fears of financial “investors”.
- ◆ The present form of the over-production of commodities is that of the over-accumulation of money. Confronted with the fall in demand for their commodities, the capitalists have drawn lessons from the financial crisis of 2008-2009. The brutal fall in demand spread rapidly from means of consumption to means of production and raw materials. The considerable stocks of products in various stages of production thus weighed heavily on the prices of commodities, leading to their drastic depreciation. Faced with the new fall in demand in the second half of 2011, they adapted their supply to changes in demand, just like the steel producers in Europe. They thus prevented stocks from piling up, slowed down the fall in prices and maintained their rates of profit at a high level. The classic phenomenon of over-production thus did *not* manifest itself in the form of the accumulation of commodities which didn't find a buyer and could not valorise themselves in the process of sale. It took the form of an over-accumulation of the particular commodity which is money and which became cyclically incapable of valorising itself, thus of becoming capital.
- ◆ In terms of our categories, the “health” of capitalism, the definition of its periodic cycles, depends on the evolution of the profit margins of big companies: the top 40 (or so) in the world made double digit profits again in 2011. We don't share the idea that the cycle is defined by GDP trends. This is because calculation of GDP comprises the totality of exchanges, including exchanges that do not realise new value. If we refer to GDP, Europe and Japan, for example, could be considered to be in a kind of “recession” or “stagnation” for decades. In a word, “decadence”. But how do we explain the healthy profits of big Japanese and European companies? The same goes for the extension and densification of capitalist social relations in those countries? What is their material basis?
- ◆ As we said above, to a certain extent (up to the revolutionary rupture point), capitalism broadens and deepens its global domination by and through its crisis. *The final crisis of capitalism is the one that will be triggered by the revolutionary proletariat rising on a world wide level.* This kind of “crisis” is the only “systemic” and “structural” one that we really think exists.

Finally, in the midst of this financial crisis, we can hear the refrain which credits (if that is the right word) all the evils to the financial sphere and the numerous speculations which it is felt to regularly produce. The latter have once again been presented as the fig leaf of industrial capital. Following the example of “globalisation”, this provided a cheap pretext for the bosses who declared themselves to be so upset at having to increase the exploitation of workers to protect their shareholders and to obtain the necessary capital to develop their businesses. As if they were only concerned with the product and production and indifferent to profit, the industrial and commercial bosses never missed an occasion to say that they were in the grip of the “pitiless short-term logic” of profitability.

Now please permit us to recall for the benefit of all those who believe in the all-powerful nature of finance that:

- Firstly, the price of any good is only expressed in money. There is no product in capitalism which is not “financialised” in the form of price.
- Secondly, in the final price we naturally count the industrial profit which, because of this, largely determines the level of added value produced. In capitalist accountancy, there is no contradiction between the two “standards of management”. The proof? It's enough to open a

company report or even the national accounts to find two types of figures.

Also, if capitalism cannot conceive of itself without the existence of a monetary economy, the credit economy is at the same time a product of modern industry because financial interest is, like commercial and industrial profit, a portion of surplus value *and* an essential condition of its development.

“The necessary tendency of capital is therefore *circulation without circulation time*, and this tendency is the fundamental determinant of credit and of capital's credit contrivances.” Marx<sup>2</sup>

“*Credit renders the reflux in money-form independent of the time of actual reflux both for the industrial capitalist and the merchant. Both of them sell on credit; their commodities are thus alienated before they are reconverted into money for them, hence before they flow back to them in money-form. On the other hand, they buy on credit, and in this way the value of their commodities is reconverted, be it into productive capital or commodity-capital, even before this value has really been transformed into money, i.e., before the commodity-price is due and paid for.*” Marx<sup>3</sup>.

Far from considering shares as the enemy of production, Friedrich Engels stated that “...the stock exchange becomes the most prominent representative of capitalist production itself”<sup>4</sup>, the capital market being all the more indispensable to capitalist production as the state is plunged into a fiscal crisis which reduces the scale of its intervention in the economy.

The unity between the three different forms of the function of capital (productive capital, interest-bearing capital and commercial capital) is not permanent. If we insist on that unity, it is to counter the point of view of those, in France and elsewhere (including almost all of the left and far left), for whom all the evils of the system lead back to the financial sphere.

The main grievance against the “greedy bankers” is that they choke off production by imposing “a logic which is purely parasitic and short-termist which doesn't defend the interests of the national economy but those of global finance”. To put it another way, and without distorting the intentions of our adversaries, the situation can be summed up as a “good” productive capital, which is national and hard-working, and a “bad” capital which is interest-bearing, cosmopolitan and idle. The first doesn't expand as hoped for because of the attacks of the second, the privileged carrier of the terrible “international capital” and “globalisation”. We should remember that the unity between the various forms of capitalist function is the rule and that, what's more, there would not have been capitalist development of this type without the transformation of the monetary economy of merchant society into an economy of credit.

Certainly, the opposition between forms of capitalist function exists and when it is apparent, it is the most obvious sign of the existence of a periodic crisis of the valorisation of capital in its entirety (total capital). But this is not the general rule of the history of the capitalist mode of production.

## **The fiscal crisis, second phase of the global financial crisis**

“*National debts, i.e., the alienation of the state – whether despotic, constitutional or republican – marked with its stamp the capitalistic era. The only part of the so-called national wealth that actually enters into the collective possessions of modern peoples is their national debt. Hence, as a necessary consequence, the modern doctrine that a nation becomes the richer the more deeply it is in debt. Public credit becomes the credo of capital. And with the rise of national debt-making, want of faith in the national debt takes the place of the blasphemy against the Holy Ghost, which may not be forgiven.*”

*The public debt becomes one of the most powerful levers of primitive accumulation. As with the stroke of an enchanter's wand, it endows barren money with the power of breeding and thus turns it into capital, without the necessity of its exposing itself to the troubles and risks inseparable from its employment in industry or even in usury. The state creditors actually give nothing away, for the sum lent is transformed into public bonds, easily negotiable, which go on functioning in their hands just as so much hard cash would. But further, apart from the class of lazy annuitants*

<sup>2</sup> Grundrisse, Notebook VI

<sup>3</sup> Capital, Book 3, Part V, Chapter 28

<sup>4</sup> Supplement to Capital vol. 3, The Stock Exchange, Point 1

*thus created, and from the improvised wealth of the financiers, middlemen between the government and the nation – as also apart from the tax-farmers, merchants, private manufacturers, to whom a good part of every national loan renders the service of a capital fallen from heaven – the national debt has given rise to joint-stock companies, to dealings in negotiable effects of all kinds, and to agiotage, in a word to stock-exchange gambling and the modern bankocracy.” - Marx<sup>5</sup>*

It all started in spring 2007, when several US financial institutions found that about 300,000 households were unable to repay on time the mortgages incurred during previous years. First to sound the alarm was the British bank HSBC. At the beginning of August 2007, the crisis became public. Used as collateral for financial derivatives (securitization, in financial language, duplication of credit instruments according to Marx) saleable on the capital markets, become components of the so-called structured products (baskets made of different credit derivatives) widely used to finance private financial institutions (banks, investment funds, insurance, etc.), mortgage derivatives of troubled US households can be found all over the assets of credit institutions or their pipes into off-balance-sheet financing, the SPVs (Special Purpose Vehicles, structures of securitization having a structure of investment funds). These organizations provide *“decorrelation between the risks borne by the securities from the securitization transaction (in the case of real estate securitization, investors will take on part of the risk of borrower default) sold to investors and the risks borne by the entity issuing the underlying assets of the securitization transaction”*<sup>6</sup>.

The financial crisis broke out when these guarantees, the mortgages of struggling American families, no longer acted as such, that is to say they stopped acting as a counter-party (or subjacent) to their derivatives included in structured products. As a result, economic agents in the financial sector, banks in the first place, no longer trusted each other. The dash for cash then led to catastrophe, triggering a global financial crisis that can be summarized as follows: the chaotic degeneration of the credit economy into a monetary economy. In other words, credit instruments of more limited circulation must immediately give way to those with wider circulation. The prized credit instruments become those that can still function both as a means of payment, as units of account and as general equivalents recognized as widely as possible.

In a word, currencies, but not all currencies, only the currencies of the strongest in terms of their capacity for valorisation or, as in the case of the United States, countries able to compensate for the present weaknesses of the valorisation of their national section of total capital by a dominant global position on the financial, political, diplomatic and military planes. The global financial crisis has significantly reduced the volume of the credit which is available on favourable terms to businesses and individuals.

It is through this channel that the financial crisis has turned into a crisis of valorisation. However, the reduction of the debt of companies, successfully completed in the years preceding the outbreak of the financial crisis, and the large accumulation of liquidity in companies made possible by higher rates of exploitation, have mitigated the negative impact of the financial crisis on the process of the direct production of capital. The increase in the technical composition of total capital carried out notably by the mechanization of the financial and commercial spheres (widespread computerization of payments and the movement of goods in the 1990s) is the fundamental reason for the relatively strong resistance of the productive sphere to the crisis in the financial sphere. This resistance has proved even more successful when we move away from Wall Street, the City of London, Frankfurt or Paris. The capitalist development of countries such as China, India, Brazil and Turkey was scarcely affected by the first phase of the financial crisis precisely because the technical composition of capital had been considerably strengthened allowing the preservation of the functioning of their machines productive of additional capital.

<sup>5</sup> Capital Vol. 1, Section VIII, Chapter 31

<sup>6</sup> French Wikipedia article on “titrisation”.

The so-called revolution in information technology of the 1990s was global. National banking systems with less sophisticated financial techniques have also helped to prevent these countries becoming heavily contaminated in the first wave of the financial crisis. The process that depreciates, in concentric circles, starting with the credit instruments of restricted circulation and then those with wider circulation is described by bourgeois political economy as “monetization of debt”. This process is controlled by states, the only institutions with the power to print money and bills. Their main weapon to improve the financial sphere saturated with credit instruments that are no longer exchangeable is the central bank. *“It’s a matter of central banks buying assets that investors refuse (temporarily) to buy to expedite the return to normality in the markets for these assets,”* says Patrick Artus, chief economist at Natixis.

The central bank most active in this field is the US Federal Reserve. At the end of the third quarter, the Fed had absorbed from the sick US financial system, about \$2,900 billion of so-called toxic financial assets or federal Treasury Bills and similar (\$1,800 billion). Even very recently, it held up to 70% of short-term maturing Treasury bills (that is, maturing within 5 years). The ones with approaching due dates were the most exposed to the disaffection of investors if the financial crisis worsened. The titles to the federal debt are not “toxic” assets but may become so in a context where the major players in the financial markets judge that they have become too risky. Hence the redemption in advance, “prudent” in financial jargon, of government bonds on the part of the major central banks. The massive buybacks of federal Treasury Bills succeeding in keeping their rates at historically low levels. And this is in spite of soaring federal debt and the degradation of its rating by the leading global private rating agency: Standard & Poor's. The Fed has taken out of the financial sphere over \$1000 billion in non-tradable assets by injecting into the circulation of money and the credit institutions the equivalent in dollars. In Japan, the central bank went on to take to 55,000 billion yen its buyback program for “toxic” assets and Treasury bills (12,500 billion yen).

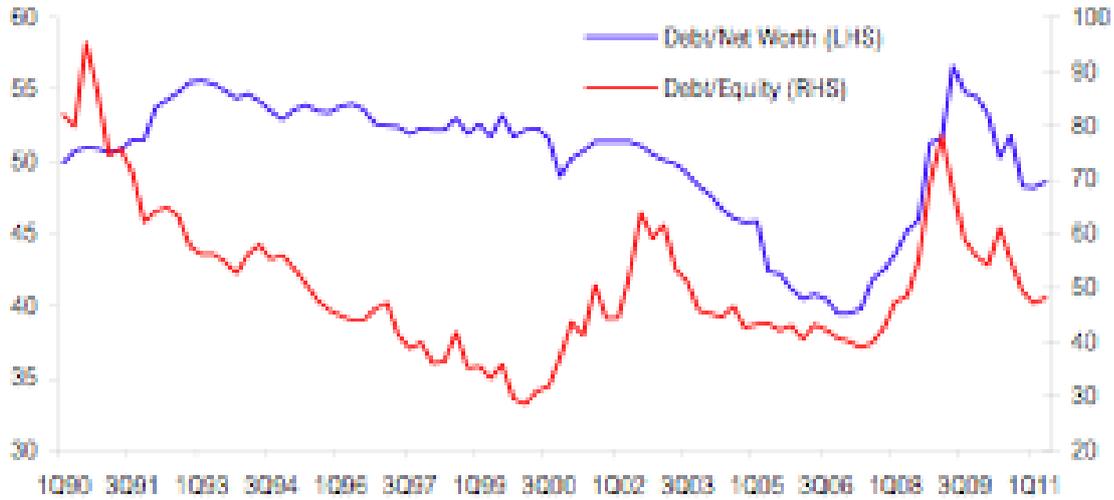
In the eurozone, the European Central Bank (ECB) acted in the same way, albeit with far less firepower: about 350 billion euros to mid-November 2011, including almost 190 in bonds of the eurozone states. In addition to helping to keep rates at sustainable levels, buybacks by the ECB of titles to the sovereign debt of countries in severe financial difficulties in the eurozone reduces the exposure of several European banks to these claims. The ECB acquired the outstanding claims of the “market makers” (banks, above all, who are the first served in bond issuance) on the “secondary” bond market (not to be confused with the “primary” market of issuance). In the UK, the Bank of England has followed the US example by purchasing £200 billion of “toxic” assets from troubled banks and set out to increase the plan by £75 billion more in October 2011. The UK has also carried out the nationalization of several large banks with balance sheets in a critical condition (Royal Bank of Scotland, Lloyds TBS).

The US has nationalized nothing, but has re-floated, with tens of billions of dollars to Wall Street banks, the big four banks that survived the 2008 crisis (Goldman Sachs, Citigroup, Bank of America and Morgan Stanley), and recapitalized with hundreds of billions of dollars the two financial institutions specializing in mortgages (Freddie Mac and Fanny Mae<sup>7</sup>) and a large insurance company (AIG), all on the verge of bankruptcy. Thousands of billions of dollars have followed the path of the global financial sector. Meanwhile, central banks have held interest rates down and have expanded and extended short-term credit to banks. In exchange for these monumental gifts, governments and central banks have required lending institutions to resume normal financing throughout the economy, while adopting more conservative modes of conduct by booking more cash in to protect their lending activity. This massive bailout has avoided a chain of bankruptcies of banks with an international reputation but has not restored “normal” conditions of credit. The bankers have tightened access to credit and remained suspicious of their direct competitors. However, companies have delayed investment programs and made use of their own reserves.

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<sup>7</sup> “Freddie Mac” being the nickname of the “Federal National Mortgage Association”; “Fanny Mae” being the “Federal Home Loan Mortgage Corporation”.

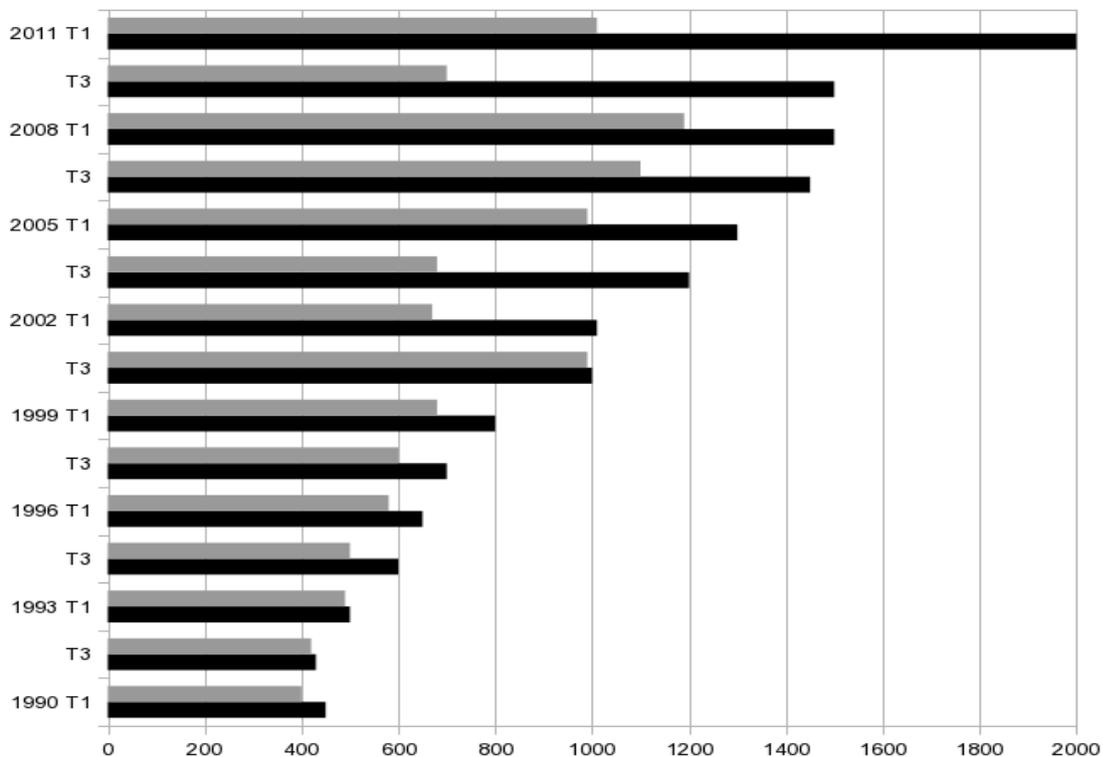
**Indebtedness of non-financial US businesses:**



Source: RBS, Fed Flow of Funds

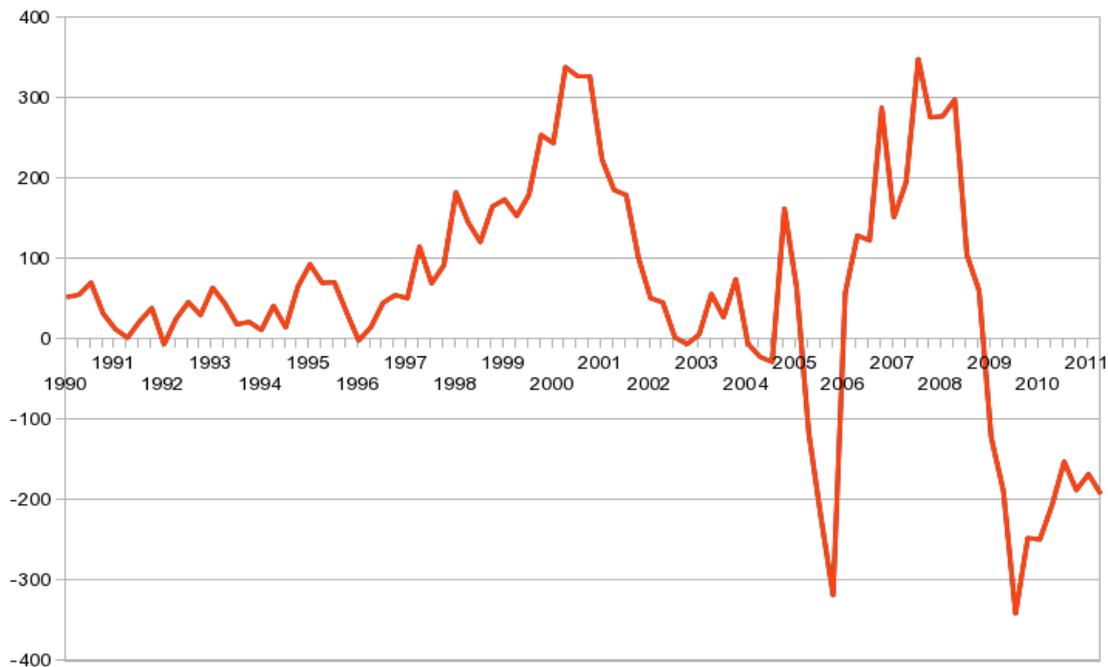
**Note:** This graph shows the ratio of the net debt of US non-financial firms to their net value (the estimated value of their assets) in one case, and to their market value in the other. We can see the scale of the movement of debt reduction since the last cyclical crisis of valorisation of late 2008 which ended in the second half of 2009. See below.

**Comparison of investments and liquid assets for non-financial and non-farm US businesses (\$US billions):**



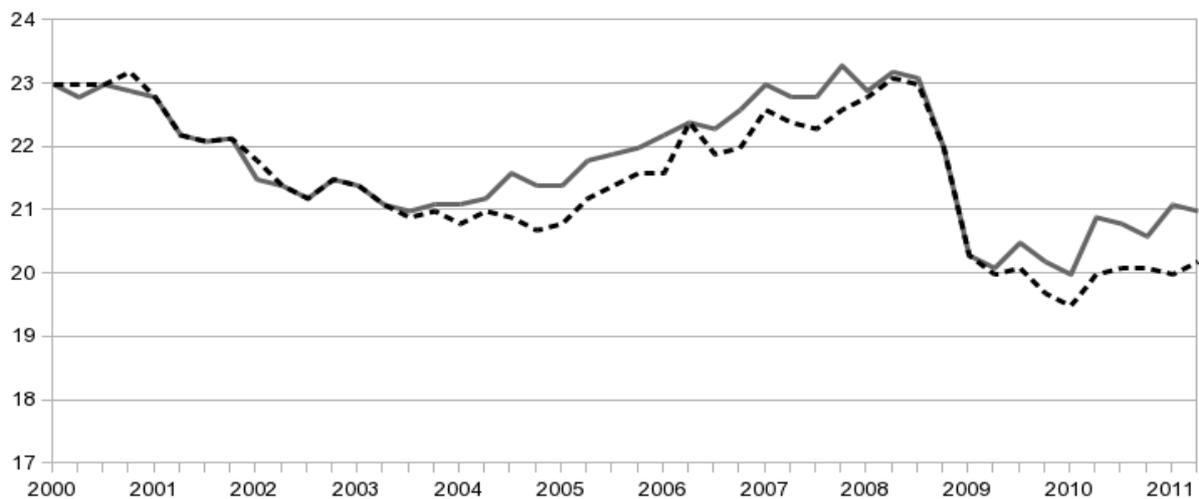
Source: Federal Reserve Statistical release 2011 (black line = liquid assets; grey = investments)

**Finance gap for non-financial and non-farm US businesses (\$US billions):**



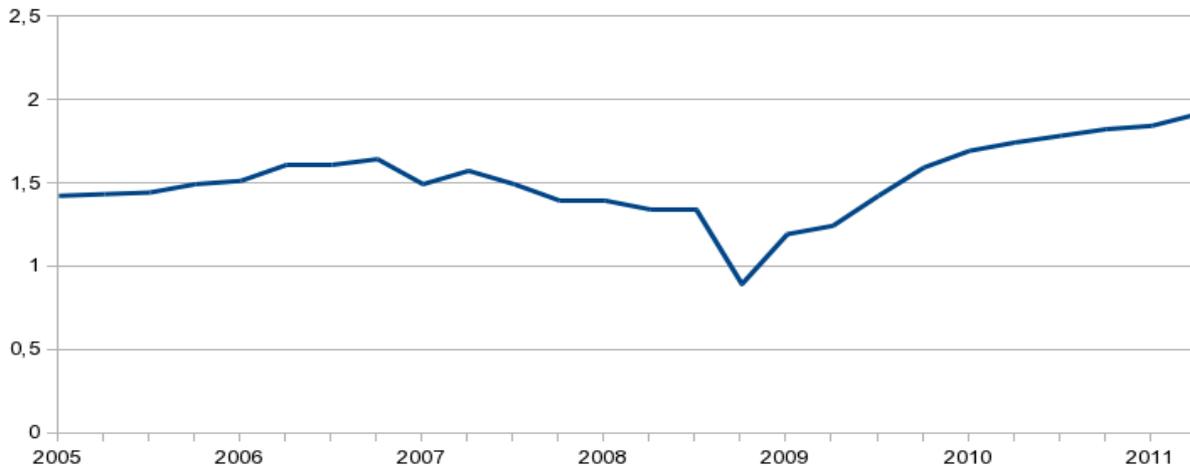
**Note:** this last diagram, “Finance Gap”, represents the subtraction of capital expenditures (productive investment) from profit after tax and dividend payments to shareholders adjusted for stocks of goods. It shows that companies spend less on productive investments that they fund with assets they own.

**Rate of investment of non-financial firms (eurozone and 27 EU countries) as %:**



Source : Federal Reserve Statistical release 2011 (Solid line = eurozone; broken line = EU)

**Note:** “The gross investment rate of non-financial corporations is defined as gross fixed capital formation divided by gross value added. This ratio relates to the investment in non-financial fixed assets (buildings, machinery, etc..) And the created value added during the production process” (Eurostat). In the definition of political economy, the “value added” is not, as for Marx, the addition of surplus value and wages. It corresponds to the value expressed in the market price of output less the price paid for the production equipment, intermediate goods and services purchased.

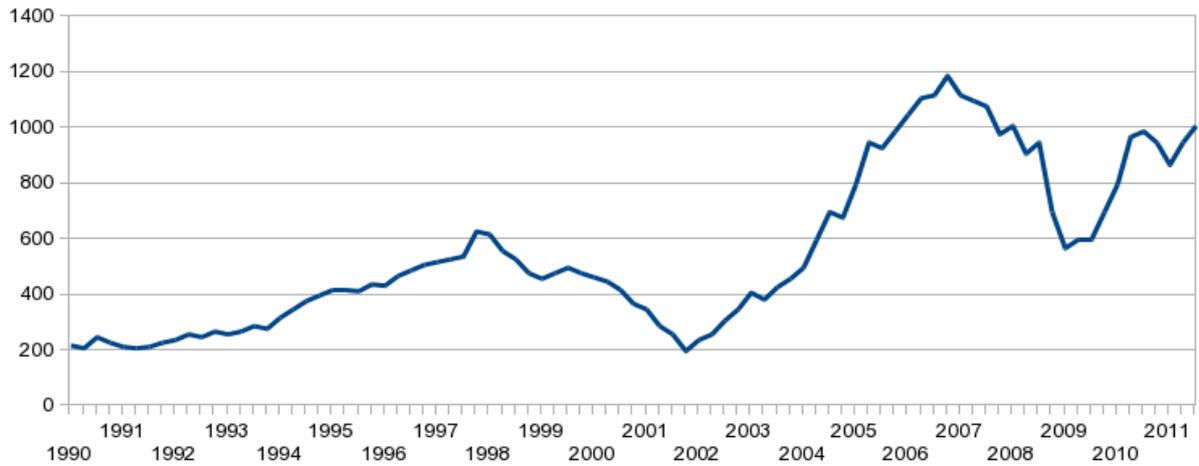
**Profits of US companies (\$US thousand billions):**

Source: US Department of Commerce

**Note:** The best indicator of the productive cycle of capital is the profits posted by non-financial firms. If the definition of profit proposed by bourgeois political economy is not identical to that of Marx, the reported profits of companies that are not in the financial sector remains the most reliable data available on changes in the valorisation of capital. This is in contrast to the GDP, which counts all exchanges, including those which don't create new value. Profits posted by non-financial companies include many of the profits of industrial and commercial companies, coming from the realization of the value generated in the sphere of production. The adoption of the accumulated declared profits as an indicator of the cycle rather than GDP is not some useless subtlety. Its trajectory is not the same. You can have profits that increase and a GDP which decreases. If the State, by far the largest contributor to GDP in the mature capitalist countries, reduces its spending, GDP is likely to decline. Naturally, business activity suffers. But they can continue to earn profits by seeking private clients and markets elsewhere. Japan's GDP has been "stagnant" for ages but not the profits of the major Japanese business groups which have experienced a cyclical evolution comparable to that of their US and European competitors.

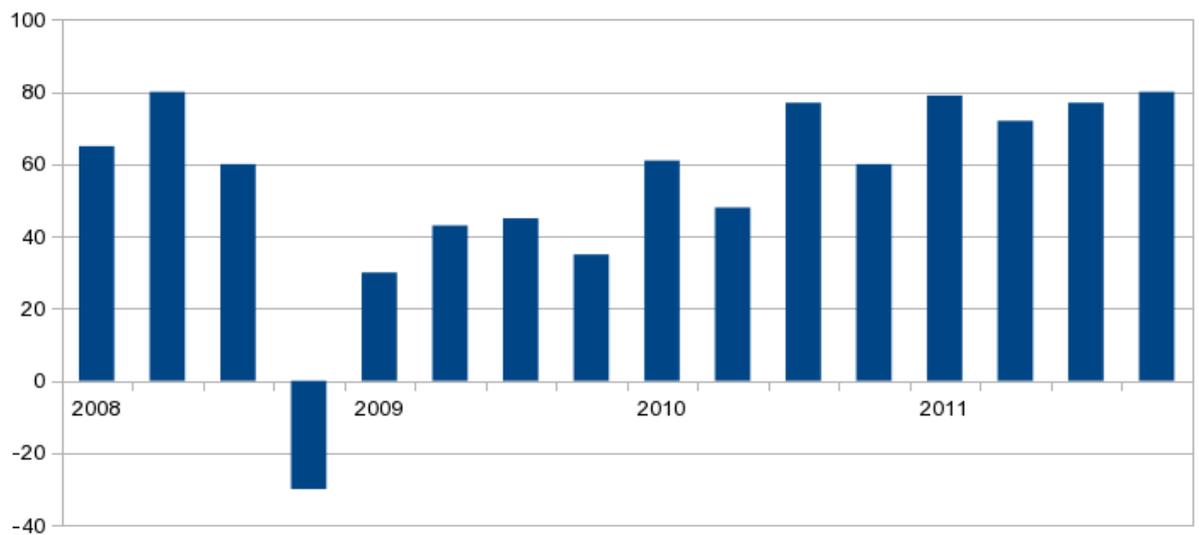
Huge liquidity is accumulated in the financial sphere without it turning into means of payment and then means of production, without it becoming capital. The absence in the short term of prospects for significant increase in the rate of profit other than by cutting costs of production and, above all, the payroll, did the rest. Productive activity advances slowly or shrinks in the developed West. Productive enterprises have pulled through so far and have preserved their ability to generate profits by acting almost exclusively on the plane of the extension and intensification of the hours of work. This choice is imposed in the absence of a new "technological revolution" and re-organization of work. Sometimes some companies have created new markets on the basis of existing technologies, but this is relatively rare and is unlikely to reverse the general trend. High profits in a context of weak productive investments have only been made possible by increased pressure on the workforce and their wages.

**Quarterly profits before tax of non-financial European businesses (\$US billions):**



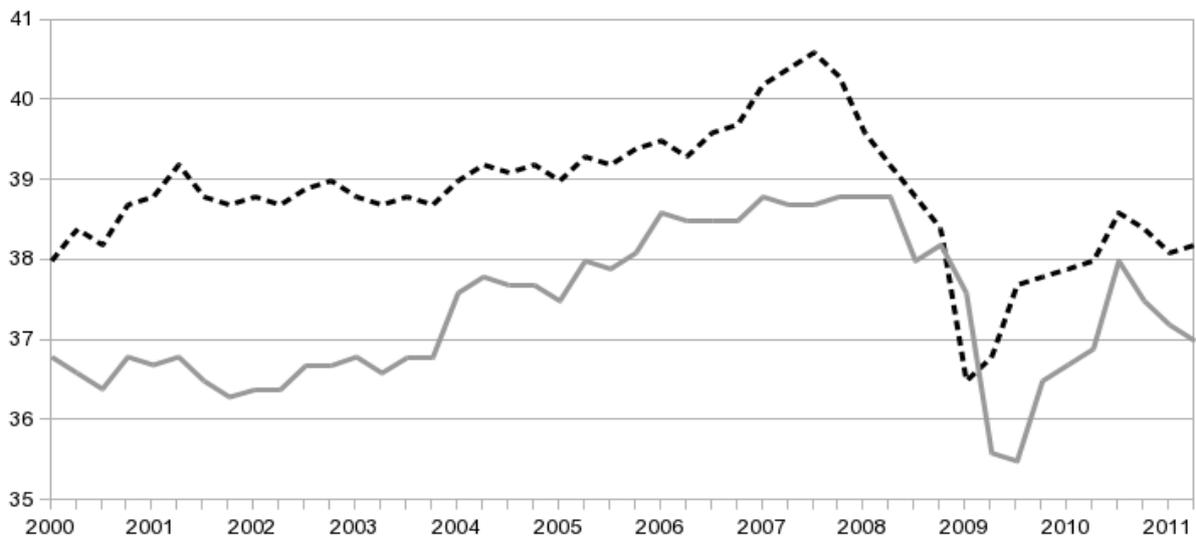
Source: ECB (European Central Bank)

**Quarterly profits for the 241 biggest companies in Europe (euro billions):**



Source: BEA (Bureau of Economic Analysis, US Department of Commerce)

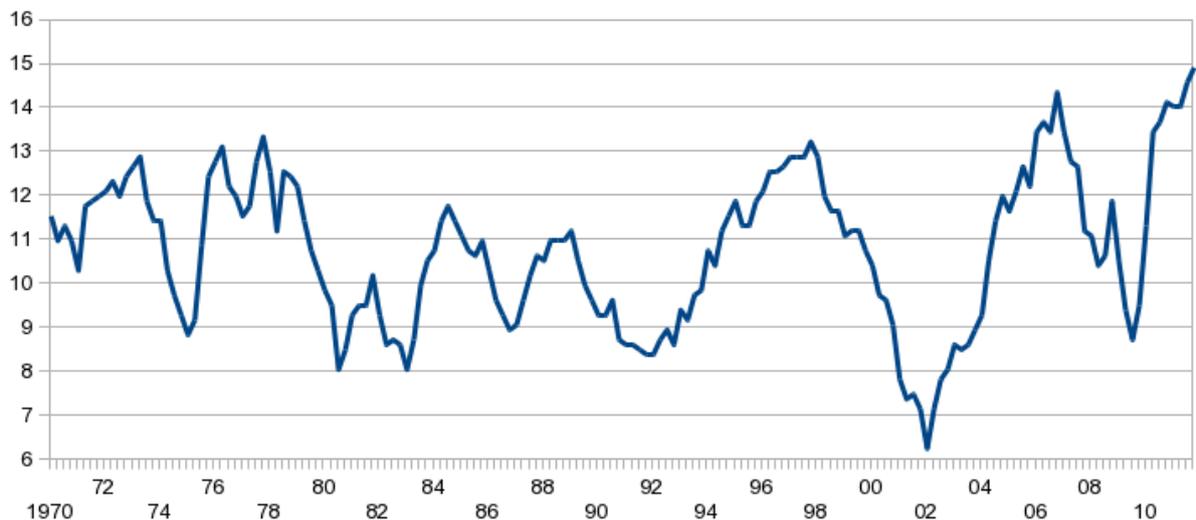
**Profit share of non-financial companies (eurozone and the 27 EU countries) as %:**



Source: BEA (solid line = EU; broken line = eurozone)

**Note:** “The profit share of non-financial corporations is defined as gross operating margin divided by gross value added. This indicator of profitability indicates the share of created value added during the production process which serves as the return on capital. This is the complement of the share of wage costs (plus taxes less subsidies on production) in value added” (Eurostat). The gross operating profit made by the company corresponds to profit before depreciation, interest and taxes.

**Margins of non-financial European companies (%):**



Source: BEA

**Note:** the size of the margin is calculated by dividing the EBITDA (Earnings before interest, taxes, depreciation and amortization) by the gross value added. This rate defined by political economy is something which approaches the rate of exploitation of Marx (surplus value / variable capital). In the non-financial sector, the margin for businesses reached 15% in Q3 of 2011, 0.5% more than the preceding peak of 2006.

The financing needs of companies have decreased but those of banks and states that have heavily monetized their debt have increased. The eurozone has issued treasury bonds to about 900 billion euros in 2011 (870 billion euros expected in 2012). The United States this year will have issued some 1.2 trillion dollars of federal state debt securities. More states are engaged in counter-cyclical manoeuvres of considerable size to swell their means of refinancing. But at a time when investors and “market makers” are cautious and reluctant to take risks on credit markets, the competition among securities issued is tough. The differentiation of required yields increases with the increase in competition. In other words, the rates of borrowing money are all higher when “the market” believes the loan is risky. The measure of risk is the probability of loan default.

## Greece is everywhere

After our voyage around the financial markets, let's return to Greece. Up until the outbreak of the financial crisis, Athens had been able to refinance its public debt at rates of interest not so different from those of the more well-behaved pupils in the eurozone classroom. Then in October 2009, the new Socialist government of George Papandreou brutally forecasted a 2009 public deficit for the country of 12.7% against the previous 6%. The ratings agencies did not miss their target and downgraded the bills of Greek sovereign debt. The “market makers” stood in the way of new bond issues and deserted them. On 23 April 2010, the government requested international “help”. On 2 May, the IMF and the EU promised 110 billion euros over three years against the adoption of measures of fiscal discipline. This is the beginning of the second phase of the global financial crisis, the fiscal crisis of states. The so-called rescue plan for Greece was in fact to prevent the Greek fiscal crisis from spreading to Europe through the intermediary of the financial sphere. Greek debt (347 billion euros at the end October 2011) is 36% owned by foreign banks, investment funds and insurance companies, 21% by Greek and Cypriot banks and 8% by Greek non-bank financial institutions and pension funds. The remaining 35% is loans from May 2010 to October 2011 by the IMF and European states added to buybacks of debt by the ECB.

### Greek debt by owner (in billions of euros and as %)

Owners	Amount	%
Market (foreign banks, investment funds, insurance companies)	125.9	36
EU states	55.0	16
IMF	17.9	5
Bilateral loans	47.7	14
Greek and Cypriot Banks	73.9	21
Greek non-bank financial institutions and pension funds	26.0	8
<b>TOTAL</b>	<b>346.4</b>	<b>100</b>

Source: Bloomberg, UBS

Several large Greek and Cypriot banks counted European banks amongst their reference shareholders (that is, shareholders with strategic influence). And what applies to Greece applies even more strongly to other countries whose states suffer grave refinancing difficulties.

The comprehensive table below shows the “exposures” criss-crossing the financial sphere in the eurozone, in billions of dollars.

To:	Exposure of Spain		Exposure of Italy		Exposure of France		Exposure of Netherlands		Exposure of Germany	
	Active	Passive	Active	Passive	Active	Passive	Active	Passive	Active	Passive
Portugal	48.5	71.4	14.4	14.2	23.2	86.9	30.2	25.9	27.5	62.5
Ireland	106.2	37.6	196.8	57.5	112.5	173.9	82.2	157.1	156.4	379.1
Greece	1.1	5.4	1.6	26.1	5.6	72.1	6.4	31.0	5.8	55.5
Spain			137.6	121.3	157.3	396.7	143.3	236.4	87.9	374.7
Italy	0	0			228.8	447.8	207.8	162.3	195.7	289.5
France	0	0	0	0			481.9	329.1	590.4	527.9
Netherlands	0	0	0	0	0	0			272.2	316.3

Source: C. Waysand & K. Ross, 2010 IMF WP

Any default in payment which is not “organized” (that is, not prepared and spread out over time) of one of the European states targeted by the “market” would cause a large shock wave to hit the banking, insurance and investment funds of the whole European continent and, thus, large parts of the global credit system. In this sense, as with the US “sub-prime” before it, Greece becomes the paradigm and the trigger of a new phase of the global financial crisis. “Saving” Greece is not the objective of the European government in the making. Its purpose is to save the global credit system of forced monetization that could result in a new series of bankruptcies of financial firms. The cascading bankruptcies that would follow would interrupt the circuit of credit at several points, striking at the heart of the productive sphere. The financial crisis will turn into a crisis of the magnitude of valorisation, an outcome that was only narrowly averted in the “sub-prime” crisis, during the first phase of the global financial crisis.

### “Saving” Greece?

The austerity imposed on Athens plunged the country into a prolonged crisis, a crisis which began in 2008 and which will not be interrupted before 2013 at least. The measures of budgetary discipline painfully imposed on Greece by the European government in formation have affected the activity of the primary economic actor in Greece: the state. Public spending and nationalized industries account for half of GDP. Of the 4.9 million Greeks with a job, about 1.15 million are employed by the state. According to economists of the IOBE (the Foundation for Economic and Industrial Research, a Greek non-profit research body), only a quarter of Greek companies are capable of generating profits (the export industries, food processing, pharmaceuticals, raw materials, some products of middle-level technology). The grey area of the economy makes up about 30 to 35% of GDP. It is mainly composed of very small companies that can survive only on condition of not paying taxes. A substantial portion of these companies are now on their last legs.

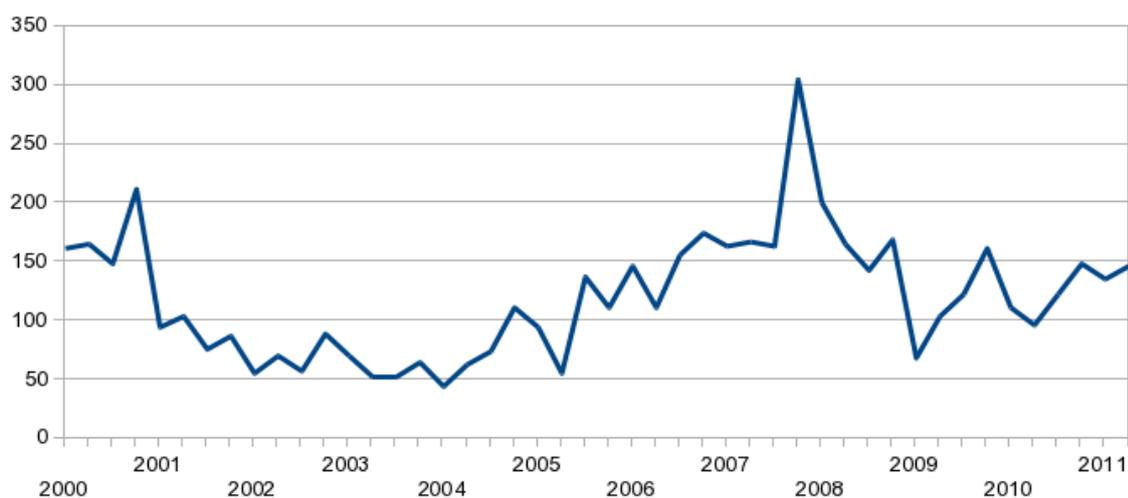
Michalis Chrysohoidis, the Minister for the Economy, explained the reasons for the Greek crisis in a recent interview with Les Echos: *“The problems of Greece come from its economic model. The productive structure is very different from that of the large countries in the eurozone. In Germany, 95% of people with jobs are waged employees; in Greece, only 65% of the employed labour force is composed of employees. We have 900,000 firms employing 10 people or less. Most of them are one-person businesses. It is the only country in Europe to have a sector of very small enterprises of this magnitude. Of course, investments have suffered and with them new jobs and rising incomes. In the 1980s, we did not use European aid to enhance production, exports and competitiveness. In the early 1990s, we lost thousands of jobs due to relocation to the Balkans and Eastern Europe which offered lower production costs. Therefore, the public sector has swelled enormously thanks, upon adoption of the euro, to the low cost of state debt”.*

An economy uncompetitive on the world market and therefore not internationalized (exports account for only 10% of GDP), a production base dominated by smaller SMEs, often run (badly) by families, under-capitalized, highly dependent on public spending, an almost total dependence on the global market for supplies of raw materials and production equipment mean that the Greek economic and social formation has only been able to reproduce itself over the decades by virtue of the expansion of public spending and tax exemption for economic activity. Public expenditure has been able to develop massively with the introduction of the euro. Since the adoption of the single

currency, Greece has borrowed cheaply and spent without counting the cost. But when the “market makers” stopped lending to the Greek state at interest rates close to those of Germany, the Greek “development model” collapsed in an instant. But if Greece is an extreme case of the fiscal crisis, it is not an isolated case. The growing discrimination of the “market makers” against the sovereign debt securities of eurozone countries has punished in turn Ireland, Portugal, Spain, Italy and now it starts to apply to Belgium and France, as yet still highly rated by rating agencies. “*The debt crisis has become systemic*”, admitted Jean-Claude Trichet, the outgoing President of the ECB. Systemic and potentially global, say the administrations of the United States and the so-called emerging countries.

As at the time of the “sub-prime” (low-quality mortgages) crisis, “the market” demanded the immediate monetization of credit instruments - in this case, the securities of sovereign debt considered at risk of default. The states of the developed West have access to fewer financial resources than they did at the time of the outbreak of the global financial crisis in 2007 to plug the channels of transmission of the credit crisis to the valorisation process of total capital, to the productive system of new value. States who have difficulty refinancing act less as representatives of the general interest of the capitalist system and more as individual capitalists willing to sacrifice the “growth” of their country to clean up their budgets. The threat to valorisation of austerity policies is more concrete when government spending in these countries often corresponds to half of GDP, as in the more mature capitalist countries. In 2010, according to Eurostat, the tax revenues of states of the European Union accounted for 44% of GDP of the area and 50.3% of spending. It is not uncommon these days to see employers' organizations “indignant” about the manoeuvres of ongoing budget consolidation. In Greece, the worst enemy of austerity required by the European government in formation and applied by the Socialist PASOK is the SEV, the organization of large firms. The prospect of a global contagion of the crisis of European sovereign debt pushes national governments to try to create instances of supra-national leadership. This process was predictable and inevitable but is thwarted by the polarization and growing segmentation of the global market. The approach of the next cyclical crisis of valorisation that might occur in 2012, hastened by the fiscal crisis, now determines the shrinking volume of trade in goods and capital.

### Global FDI (Foreign Direct Investment):



Source: UNCTAD, Baseline 100 in 2005

**Note :** Foreign direct investment (FDI) includes productive investments and cross-border share ownership. The latest report of the United Nations Conference on Trade and Development (UNCTAD), published in mid-October, predicted a sharp slowdown in the second half of 2011 in the growth of FDI due to the financial crisis. Preliminary figures from the Mergers & Acquisitions

activity in the third quarter and the first data on direct investment themselves reflect this. *“Investors have become more and more cautious when the global economy urgently needs to be driven by private investment, generating growth and jobs”*, says UNCTAD.

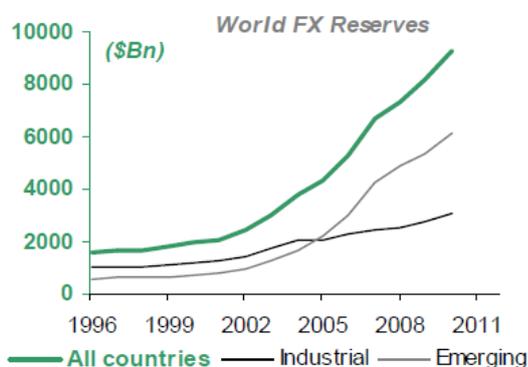
## Towards the third phase of the financial crisis

The news came suddenly. Three days before the G20 in Cannes in early November 2011, the Japanese government and the Bank of Japan intervened heavily in the foreign exchange market by selling 8 trillion yen (102 billion US dollars). The highest amount ever sold in one session of the market. The objective of this third intervention on the foreign exchange market conducted from March to October 2011 was to stop the yen's appreciation against the dollar. *“There is a risk of escalation of the currency war after the G20”*, an analyst at a large French investment bank immediately commented. Between 2004/2005, when each dollar was trading at nearly 130 yen, and today, when it is 75/80 yen, the appreciation of the Japanese currency has been over 70%. Imagine the despair in an industry like that of Japan which is so strongly export-oriented (about 15% of GDP). Honda has announced a decrease of 80% in its profits in the first half of 2011 especially due to the strong yen. Japanese companies are increasingly eager to export at a time when their economy is stagnant at best (-0.5% of GDP growth according to the OECD).

The search for foreign markets becomes more than ever a critical need for companies in the sphere of production and distribution from the major countries. Shrinkage, stagnation or low growth in domestic demand is not conducive to maintaining profitability in recent years. The tight control of public spending in states weakened by the outbreak of the sovereign debt crisis deprives them of juicy solvent markets. Worse, the impact on the currency markets of this crisis puts capital accumulation even more at risk. The case of the yen, but we could also cite those of the euro and the British pound, which appreciates as the economy which it represents weakens, is revealing, as is the fact that financial assets in dollars continue to attract buyers despite its depreciation against these currencies. In fact, these various phenomena express the dialectic between different functions of money (unit of account, means of circulation and means of payment) and their internal relations to each of them. The dollar always, and above all in the current financial crisis, enjoys a position as an international currency representing more than 60% of the allocated foreign exchange reserves of central banks worldwide.

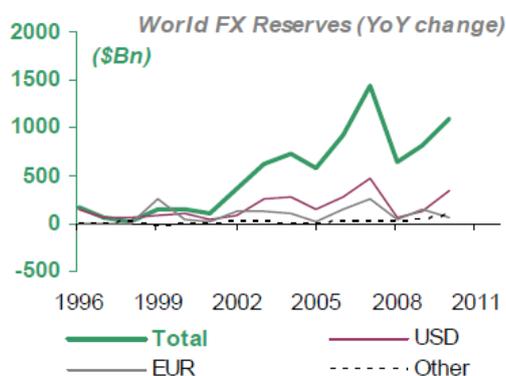
## Global reserves by types of country (industrial and emerging) and currency (dollar and euro):

World FX reserves *still* rising...



Source: IMF CoFER

...and *still* dominated by USD



Source: IMF CoFER

With their coffers stuffed with dollars and financial assets expressed in dollars (including a substantial portion of federal treasury bills), the issuing institutions in China and Japan show no signs of disaffection from the American currency. Not while it is true that their exports to the

United States would suffer if the dollar depreciated excessively against their currencies. The power of American and British financial markets, which quote the vital financial derivatives in dollars, including raw materials, does the rest. Paradoxically, the euro is also subject to the relative success achieved since its inception eleven years ago as a reserve currency.

*“According to statistics of the IMF published in late September, the euro reserves of banks worldwide amounted to nearly 27% of the total. In late 1998, foreign exchange reserves accumulated in the mark, French franc and Dutch guilder were less than 17% of the total allocated foreign currency assets of the issuing institutions. However, the game is far from won against the greenback”,* we can read in *Les Echos*.

At a time when so-called “green shoots” are rare and where every man for himself is the easiest and fastest card to play, competitive depreciation is proving to be a formidable weapon. The workforce is hired at a lower relative price and the final product trades at a more competitive price. Competitive devaluation is a weapon all the more attractive in that it translates, amongst other things, into a relative decline in public debt denominated in the currency which is depreciated. This is all on the condition that the depreciation is not so high that the price of imported goods grows excessively. Competitive devaluation is therefore also a rather unwieldy weapon to be used preferably by surprise against competitors. The geopolitical consequences are obvious. Competitive devaluations are considered deliberate acts of trade war. But the generalised currency war is also the final stage of the financial crisis, the most ruinous to the accumulation of capital because all the functions of currencies are thrown into question, including those of general equivalent and unit of account that are the basis of the capitalist economy.

*“Money implies the separation between the value of things and their substance. Money is originally the representative of all values; in practice this situation is inverted, and all real products and labours become the representatives of money. ... Money can overcome the difficulties inherent in barter only by generalizing them, making them universal.”* - Marx<sup>8</sup>

It is obvious that the gravity of this third phase of the financial crisis is directly related to the involvement of the major currencies in the currency war. The yen and the euro are already affected. The Chinese yuan is only partly affected due to its parity link with the greenback and its absence from the global foreign exchange market. The dollar, meanwhile, remains relatively preserved. Therefore we can not yet speak of global monetary crisis in its most accomplished form, and that is why the outbreak of a general currency war is more and more likely but not certain at this stage.

## **The policy of the proletariat**

The outcome of the fight between the centripetal and centrifugal forces of capital in the European area isn't clear at this stage. But however the internal combat within the dominant classes goes, the consequences for the workers are already known. Capital and its states try to take advantage of the financial crisis in their relations with waged workers. The declared objective is to reduce even more the use of collective contractual arrangements. The re-individualisation of work relations, the restoration of the direct relation of the isolated worker to their employer, is the condition for raising the rate of exploitation in a period of weak productive investment and counter-cyclical state policies cut back by the fiscal crisis. Deferred and indirect wages are also frontally attacked. Pensions and public expenditure on reproduction of labour power (education, public transport, health, social welfare etc.) are destined to fall drastically – everything to restore the state to its function of representative and guarantor of collective capital and to normalise the sphere of credit.

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*Grundrisse*, Notebook I, The Chapter on Money

Proletarians must refuse to shoulder the losses of credit institutions, states and firms in the spheres of production and circulation. The Greek workers who have marched for more than a year in the streets of that country shout that they don't want to pay and that they don't owe anything to anybody. They are right. Unfortunately, the illusion of a capitalist economy which could become more just, if only speculation was opposed by states and banks were nationalised, is still very widespread. Revolutionary proletarians know that capitalism can only be understood on the basis of the economics of credit. Without credit there is no valorisation of capital. If we want to put an end to financial speculation and the banks, it is capitalism as a whole which must be fought so as to replace it with a free association of producers in a world freed from commodities, money and states. To do this, we have to start at the beginning, from the reason for being of the present system: the valorisation of capital. *The heart of capitalism is in the production of commodities.* It is on this level that we must strike the hardest blows. Militant demonstrations are not enough. The strike is the most formidable weapon that workers have. The strike and their ever-growing unity across borders in the struggle for a society which puts the satisfaction of their social needs at the centre. More than ever, the world proletariat is the decisive social force in the present fight against the capitalist crisis and the relations of production which generated it.

On the first of May 2009, a few months before the outbreak of the Greek "episode", we distributed a leaflet, in four languages, containing these comments:

*This is why, for proletarians, the after crisis period is very likely to be harder than the crisis itself. The bosses manage their current difficulties with great efficiency while shouting from the rooftops that the crisis is terrible, on an almost unprecedented scale. Amongst themselves they show a great creativity in imagining viable solutions to their problems and in public they say they are in despair, helpless in the face of unforeseen circumstances.*

*The truth is that they take advantage of the crisis to reduce even more the initiative and the power of the workers over working conditions and the labour market. The bosses are undertaking a veritable psychological war against the working class to gain even more positions, to reinforce their dictatorship in workplaces and in society.*

*The capitalist utilisation of the crisis is translated for proletarians into a massive wave of "preventive" redundancies, a fall in real wages, the tightening of the bosses' authority in the factories and offices and by bringing the most recalcitrant sectors of the workforce, with or without employment, to heel.*

*If the workers let it go on, this offensive will not stop with the end of the crisis. After having dealt with the most urgent cases, it will still be necessary to make up for the enormous budget deficits accumulated following the reflation plans and bail-outs for companies. Inflation will begin again, gnawing away at the purchasing power of wages. Well before they start to invest again the bosses will try to increase the productivity of labour and cleanse the balance sheets of their companies by speeding up work, increasing working hours, imposing more flexibility and lowering the wage bill.*

*Attacked at work and outside it, proletarians will be the major losers of the crisis, the only ones to pay for it completely, if they don't react quickly and strongly against the plans of capital. Calling for a relaunch of the economy by raising household consumption and wages, as the unions have done, shows a willingness (deliberate or not, it doesn't matter) to pull the wool over the workers' eyes.*

*The capitalists know very well what is good for them and for their economy. Their project is to restore health to their businesses by squashing the wages and the energy of the workers. It is not for us to explain to them how to restore their profits. It is not for us to save their economy and their states. On the contrary we must defend inch by inch our wages and our working conditions, even if this comes into conflict with the survival of such and such a business, such and such a state or with the capitalist economy in its entirety. Workers must not be afraid of their own strength. Isolated struggles, even where the workers quite rightly fight very hard (with occupations and boss-napping) to get better treatment, are not enough to hold back an attack on such a scale. It is only by starting out from the full exercise of this unified force that the bosses and their states will be made to lower their sights.*

*For now it is necessary to work towards a common way forward for the specific struggles which are carried out in the factories and offices where there are redundancies, and for them to link themselves as far as possible with the struggles for wages in other companies. The means to reach that point are to be decided by the workers but nothing should be ruled out.*

*To get to that point the workers can only count on themselves, turning their backs on their false friends and defenders that are the unions, the parties of the left and the far left and other associations of that kind.*

*The autonomous organisation of the workforce comes about through the constitution, in the heat of combat against the capitalist crisis, of a capillary network within work-places and neighbourhoods of base structures capable of uniting the most combative and lucid proletarians around a perspective which does not confine itself to the simple defence of workers' immediate interests.*

*The bosses and the states do not hesitate to use the economic crisis of their system to increase their political hold over the working class. For them the distinction between politics and economics doesn't exist. They show us this every day. This separation shouldn't exist for us any more either.*

Two and a half years after writing it, we have nothing more to add.

17 December 2011

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