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Economic crisis

Banks versus the People: The Underside of a Rigged Game!

- Features -

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Since 2007-2008, the major central banks (the ECB, Bank of England, the "Fed" in the USA, and the Swiss National Bank) have been making it their absolute priority to attempt to avoid a collapse of the private banking system. Contrary to what has been said more or less everywhere, the principal risk threatening the banks is not that a government will suspend payment of sovereign debt. [[1]**]** None of the bank failures since 2007 have been caused by that kind of payment default. None of the bank bailouts organized by the various governments has been made necessary by suspension of payment by an over-indebted State.

What has threatened the banks since 2007 is the structured private-debt holdings they have gradually built up since the major deregulations, which began in the late 1970s and culminated during the 1990s. The balance sheets of private banks are still packed with bad assets [2]. which range from completely toxic assets – veritable time bombs – to non-liquid assets (meaning they cannot be sold or shifted on financial markets), and include assets of which the value is completely over-estimated in the banks' balance sheets. The sales and depreciations of assets banks have booked until now in order to reduce the weight of these explosive assets have been insufficient. A significant number of them depend on short-term financing (either provided or guaranteed by the Public Authorities with taxpayers' money) to stay afloat and handle debts that are themselves short-term. [3]

That explains why the Franco-Belgian bank Dexia, which in fact amounts to a very large hedge fund, has been on the brink of bankruptcy three times in four years – in October 2008, in October 2011. [4], and again in October 2012. During the most recent episode, in early November 2012, the French and Belgian governments provided aid amounting to 5.5 billion euros (53% of which was borne by Belgium) to recapitalize Dexia SA, a moribund financial company whose equity has melted away. According to Le Soir: "The equity of the Dexia parent company dropped from 19.2 billion to 2.7 billion euros between the end of 2010 and the end of 2011. And at group level, total equity has become negative (-2.3 billion euros on 30 June 2012)." At the end of 2011, Dexia SA's immediately outstanding debts amounted to 413 billion euros, and the amounts due under derivative contracts stood at 461 billion. Added together, those two figures amount to more than 2.5 times Belgium's GDP! And yet Dexia's senior executives, Belgian vice-prime minister Didier Reynders, and the dominant media are still claiming that the problem afflicting Dexia SA is largely caused by the sovereign debt crisis in the southern part of the Euro zone. The truth is that Dexia SA's holdings in Greece did not amount to more than 2 billion euros in October 2011 – 200 times less than the amount of its immediately outstanding debts. In October 2012, Dexia's shares were worth approximately 0.18 Euros – 100 times less than in September 2008. Despite this, the French and Belgian governments have decided once again to bail out this uncharitable organization at the cost of increasing the public debt in their own countries. In Spain, the near failure of Bankia was also caused by unsound financial packages, and not by a default on the part of any government. Since 2008, the same scenario has been replayed at least thirty times in Europe and the United States. Each time, the public authorities have come to the aid of the private banks (as they systematically do) by financing their bailouts with government debt.

Return to the beginning of the crisis in 2007

The gigantic private-debt house of cards began to collapse when the speculative real-estate bubble in the United States burst (followed by Ireland, the UK, Spain, etc.). The real-estate bubble burst in the United States when the price of homes, of which there was an oversupply, began to fall because more and more homes were without buyers.

The interpretations given by the mainstream media were dominated by partial – or deliberately fallacious –

explanations for the crisis that struck the United States in 2007 and had a tremendous contagious effect, mainly on Western Europe. Regularly in 2007 and during the better part of 2008, it was explained to the public that the crisis had started in the United States because low-income people had gone into too much debt to acquire homes they were not able to pay for. Irrational behavior on the part of the poor was pointed to as the cause of the crisis. But beginning in late September 2008, after the failure of Lehmann Brothers, the dominant narrative changed and the finger was pointed at certain black sheep of the world of finance who had perverted the virtuous operation of capitalism. But the lies and partial explanations continued to circulate. Low-income families were no longer responsible for the crisis; it was the rotten apples in the capitalist class – Bernard Madoff, who put together a 50-billion-dollar swindle, or Richard Fuld, the boss of Lehmann Brothers.

The beginnings of the crisis go back to 2006, when the drop in real-estate prices began in the United States, caused by overproduction, itself caused by the speculative bubble that inflated real-estate prices and drove the construction sector to overheat and increase its activity far in excess of solvent demand. The collapse of real-estate prices is what caused the increase in the number of households unable to meet their payments on subprime mortgages. In the United States, households often refinance their mortgages after 2 or 3 years when home prices are trending upward in order to get more favorable terms (especially since, in the subprime-loan sector, the credit rate for the first two or three years was low and fixed, around 3%, before increasing sharply and becoming variable in the third or fourth year). When real-estate prices began to drop in 2006, households who had contracted subprime loans were no longer able to refinance their home loans favorably, and payment defaults began to multiply greatly starting in early 2007, causing the failure of 84 mortgage companies in the USA between January and August 2007.

As is very often the case, whereas the crisis is explained simplistically by the bursting of a speculative bubble, in reality the cause lies both in the production sector and in speculation. Of course, the fact that a bubble was created and eventually burst only multiplies the effects of a crisis that began with production. The entire rickety structure of subprime loans and structured products that had been under construction since the mid-1990s, collapsed, which had terrible repercussions on production in various sectors of the real economy. Austerity policies then amplified the phenomenon further by leading to the extended period of recession-depression in which the economies of the most industrialised countries are now floundering.

The impact of the real-estate crisis in the United States and the banking crisis that followed has had an enormous contagious effect internationally, due to the fact that numerous European banks had invested massively in US structured products and derivatives. Since the 1990s, growth in the United States and in several European economies had been supported by hypertrophy of the private financial sector and by a huge increase in private debt – household debt. [5] and debts of financial and non-financial companies. On the other hand, public debt had tended to decrease between the second half of the 1990s and 2007-2008.

Thus there was a hypertrophy of the private financial sector. The volume of assets of European private banks compared to gross domestic product ballooned extraordinarily beginning in the 1990s to reach 3.5 times the GDP of the 27 member countries of the European Union in 2011. [6] In Ireland in 2011, banks' assets amounted to eight times the country's gross domestic product.

The debts of the private banks [7] in the Euro zone also amounted to 3.5 times the Zone's GDP. Debt in the British financial sector has reached unheard-of heights in proportion to the GDP – it is 11 times greater, whereas public debt represents approximately 80% of GDP.

The gross public debt of the countries of the Euro zone amounted to 86% of the GDP of the 17 member countries in 2011. [8] Greek public debt was 162% of Greece's GDP in 2011, while debts in its financial sector amounted to 311% of GDP – double the amount of public debt. Spain's public debt was 62% of GDP in 2011, whereas debts in the financial sector were at 203%, or three times the amount of public debt.

A little history: The implementation of strict financial regulation after the crisis in the 1930s

The crash of Wall Street in October 1929, the enormous banking crisis of 1933, and the prolonged period of economic crisis in the United States and Europe during the 1930s led President Franklin Roosevelt, and then Europe, to strongly regulate the financial sector in order to avoid the repetition of serious stock-market and banking crises. As a result, during the thirty years following the World War II, the number of banking crises was minimal. That is demonstrated by two neoliberal North American economists, Carmen M. Reinhart and Kenneth S. Rogoff, in a book published in 2009 entitled *This Time Is Different: Eight Centuries of Financial Folly*. Kenneth Rogoff was chief economist of the IMF, and Carmen Reinhart, a university professor, is adviser to the IMF and the World Bank. According to these two economists – to whom it would never occur to call capitalism into question –, the very low number of banking crises can be explained mainly by "the repression of the domestic financial markets (in varying degrees), and the heavy-handed use of capital controls that followed for many years after World War II." [9]

One of the strong measures taken by Roosevelt and the governments of Europe (in particular due to pressure from popular mobilization in Europe after the Liberation) consisted in limiting and strictly regulating the uses banks could make of the public's money. This principle of protection of deposits resulted in a separation between commercial banks and investment banks, of which the US's Glass-Steagall Act was the best-known example, but which was also applied, with certain variants, in European countries.

With this separation, only commercial banks could receive deposits from the public and benefit from government deposit guarantees. In parallel, their field of activities was reduced to making loans to individuals and businesses, and excluded the issuance of securities, shares, and all other types of financial instruments. Meanwhile, investment banks were required to derive their resources from the financial markets to be able to issue securities, shares, and other financial instruments.

Financial deregulation and the neoliberal turn

The neoliberal turn of the 1970s called those regulations into question. Within about twenty years, the deregulation of banks and the financial sector in general was complete. As Kenneth Rogoff and Carmen Reinhart point out, banking and stock-market crises multiplied starting in the 1980s, and also became more and more acute.

In the traditional model inherited from the long period of regulation, banks evaluate and bear risk – that is, they analyze credit requests, decide whether or not to meet them, and, once the loans are granted, keep them on their books until they come due (this is what is called the "originate and hold" model).

Taking advantage of the profound movement towards deregulation they brought about, the banks abandoned the "originate and hold" model in order to increase their yield on equity. To do that, banks invented new processes – in particular securitisation, which consists in converting bank loans into financial securities. The goal was simply to no longer keep credit and its associated risks on their books. They transformed these loans into securities in the form of structured financial products, which they sold to other banks or private financial institutions. This is a new banking model, known as "originate to distribute," also called "originate, repackage and sell." For the bank, the advantage is twofold: It reduces its risk by removing the loans it has granted from its assets, and it has additional resources to use for speculating.

Deregulation made it possible for the private financial sector, and banks in particular, to take full advantage of what is known as the leverage effect. Xavier Dupret describes the phenomenon clearly: “The banking world has accumulated large amounts of debt in recent years via what is called leverage effects. The leverage effect consists in using indebtedness to increase the profitability of one’s equity. And for it to work, the rate of return of the selected project needs to be higher than the rate of interest to be paid on the borrowed amount. Leverage effects became stronger and stronger over time. Obviously this causes problems. As an example, in the spring of 2008, the Wall Street investment banks had leverage rates of between 25 and 45 (for each dollar of shareholders’ equity, they had borrowed between 25 and 45 dollars). Merrill Lynch had a leverage rate of 40. That was obviously an explosive situation, since an institution that is leveraged 40 to 1 can lose its shareholders’ equity with a drop of 2.5% (1/40th) of the value of the assets acquired.” [10]

Thanks to deregulation, banks were able to develop activities requiring gigantic amounts of financing (and therefore of debt) without accounting for them on their balance sheet. They engaged in so much off-balance sheet activity that in 2011 the volume of the activities in question exceeded 67,000 billion dollars (which is approximately equivalent to the sum of all the GDPs of all the countries on the planet). This is what is referred to as shadow banking. [11]

When off-balance sheet activity leads to massive losses, sooner or later it will affect the soundness of the banks who initiated it. The major banks are far and away the ones who dominate shadow banking. The threat of failure has prompted governments to come to the aid of these banks by recapitalizing them. Whereas banks’ official balance sheets show a reduction in volume since the start of the crisis in 2007-2008, the volume of off-balance sheet or shadow banking activity has not followed the same pattern. After declining between 2008 and 2010, in 2011-2012 it returned to 2006-2007 levels, which is a clear symptom of the dangerousness of the situation of private finance worldwide. As a result, the range of action of the national and international public institutions, which are in charge of – to use their vocabulary – seeing to it that finance behaves more responsibly, is very limited. Regulators have not even provided themselves with the means of knowing what the banks they are supposed to control are really doing.

The Financial Stability Board (FSB), the entity created by the G20 forum to be in charge of financial stability around the world, has issued its figures for 2011. “The amount of the shadow banking that escapes any regulation is 67,000 billion dollars according to its report covering 25 countries (90% of financial assets worldwide). That is 5,000 to 6,000 billion more than in 2010. This â€˜parallel’ sector alone represents half the size of the total assets of the banks. Compared to the countries’ gross domestic product, shadow banking is prospering in Hong Kong (520%), Holland (490%), the UK (370%), Singapore (260%), and Switzerland (210%). But, in absolute terms, the United States remains in first place, with the share of this parallel sector representing 23,000 billion in assets in 2011, followed by the Euro zone (22,000 billion) and the UK (9,000 billion).” [12]

A large share of financial transactions totally escapes any official control. As we said previously, the volume of shadow banking represents half of the total assets of the banks! The over-the-counter (OTC) market, which is subject to no control by the market authorities for derivative financial products, must also be taken into account. The volume of derivatives developed exponentially between the 1990s and 2007-2008. While it declined a little at the start of the crisis, in 2011 the notional value of derivative contracts on the OTC market reached the astronomical sum of 650,000 billion dollars ($650,000,000,000,000), or approximately 10 times the worldwide GDP. The volume for the second semester of 2007 has been exceeded, and that of the first semester of 2008 is in sight. Interest-rate swaps accounted for 74% of the total, while currency-market derivatives accounted for 8%, credit default swaps (CDS) 5%, and equity derivatives 1%, with the rest distributed among a multitude of products.

Since 2008, bank bailouts have not resulted in more responsible behavior.

With the financial crisis of 2007, the banks, despite being guilty of reprehensible actions and of having taken reckless risks, were given massive injections of funds through numerous and costly bailout plans. In a well-documented study [13], two researchers set out to verify “whether the rescue operations were followed by a greater reduction of risk in new loans made by rescued banks compared to those that were not rescued.” To do that, the authors analyzed the balance sheets and the syndicated loan issues (loans granted to a company by several banks) of 87 large international commercial banks. The authors determined that “rescued banks continued to write riskier syndicated loans,” observing that “the syndicated lending of banks that later received a bailout was riskier before the crisis than that of non-rescued institutions.” Rather than serving as a remedy and an effective safeguard against abuses by banks, for a number of them the government bailout plans instead acted as a powerful incitement to continue and intensify their reprehensible practices. As the authors put it, “The expectation of state support may give rise to moral hazard and lead banks to engage in higher risk-taking” [14].

In short, a grave crisis of private debt caused by the irresponsible actions of the major banks prompted leaders in the United States and Europe to bail them out using public funds. It was then that the “sovereign debt crisis” tune was struck up as background music to the brutal sacrifices imposed on the people. The financial deregulation of the 1990s was the fertile ground out of which this crisis grew, with its dramatic social consequences. Until they take control of international finance, the world’s peoples will be at its mercy. The struggle must be intensified, and quickly. [15]

Part 2 :The actions of the European Central Bank and the “Fed” [16]

Beginning in June 2011, the European banks entered a highly critical phase. Their situation was almost as serious as on 15 September, 2008, after the failure of Lehmann Brothers. Many of them were threatened with asphyxia because their massive needs for short-term financing (a few hundred billion dollars) were no longer being met by the American money market funds, who felt that the situation of the European banks was decidedly becoming more and more risky [17]

The banks were in danger of being unable to honor their debts. That is when the ECB, following an emergency European summit held on 21 July, 2011 to deal with the prospect of a series of bank failures, resumed massive purchasing of Greek, Portuguese, Irish, Italian and Spanish public-debt securities from the banks in order to provide cash flow and relieve them of a part of the securities they had greedily purchased during the preceding period. But it was not enough to prevent the banks’ shares from continuing to drop. The executives of these banks spent August on a tightrope. The decisive action that kept the European banks afloat was the extension by the ECB, beginning in September 2011 and in consultation with the Fed, the bank of England and the Swiss National Bank, of an unlimited line of credit. Banks that were starved for dollars and euros were put on life support. They began to breathe again ; but the treatment was insufficient. Their share prices continued to plunge. Between 1 January and 21 October, 2011, the price of shares in France’s BNP Paribas dropped 33.3%, and in Deutsche Bank 28.8%; Barclays dropped 30.5% and Crédit Suisse 36.7%, and Société Générale plummeted 52.8%. The ECB was forced to bring out its heavy artillery – an LTRO (Long Term Refinancing Operation). Between December 2011 and February 2012, it lent more than 1,000 billion euros for a duration of 3 years at an interest rate of 1% to just over 800 banks.

The Fed had been doing no differently since 2008, at an even lower official rate. A July 2011 report from the GAO (US Government Accountability Office) revealed that the Fed has lent 16,000 billion dollars at below 0.25% [18].

The report shows that in pursuing such policies, the Fed did not adhere to its own prudential rules and did not inform Congress. According to an investigative commission of the United States Congress, there was clearly collusion between the Fed and the major private banks : “The CEO of JP Morgan Chase served on the New York Fed’s board of directors at the same time that his bank received more than $390 billion in financial assistance from the Fed. Moreover, JP Morgan Chase served as one of the clearing banks for the Fed's emergency lending programs." [19]

According to former French Prime Minister Michel Rocard and economist Pierre Larrouturou, based on research done by the New York financial agency Bloomberg, the Fed lent part of the amount mentioned above at a rate that was even much lower : 0.01%. Michel Rocard and Pierre Larrouturou stated in the daily *Le Monde* : "After studying 20,000 pages of various documents, Bloomberg shows that Federal Reserve secretly lent the troubled banks the sum of 1,200 billion at the incredibly low rate of 0.01%. [20] They ask the question : "Is it normal in a crisis for the private banks, who are usually financed at 1% by the Central Banks, to benefit from a rate of 0.01%, when in times of crisis certain States are obliged to pay rates 600 or 800 times higher ?"

The major European banks also had access to such loans from the Fed until early 2011 (Dexia received a loan of 159 billion dollars [21], Barclays $868 billion, the Royal Bank of Scotland $541 billion, Deutsche Bank $354 billion, UBS $287 billion, Crédit Suisse $260 billion, BNP-Paribas $175 billion, Dresdner Bank $135 billion and Société Générale $124 billion). The fact that this financing of European banks via the Fed dried up (in particular due to pressure from the US Congress) was one reason why the American money market funds also began shutting off the spigot of loans to the European banks as from May-June 2011.

What were the effects of the ECB making 1,000 billion euros available to the banks at 1% ?

In 2012, the banks used the new flow of cash to make massive purchases of public debt securities in their own countries. Let's take the example of Spain. The Spanish banks borrowed 300 billion euros from the ECB at 3 years at a rate of 1% in the LTRO framework [22].

With part of that money, they greatly increased their purchases of debt securities issued by the Spanish authorities. The evolution is quite striking : As of late 2006, the Spanish banks only held 16 billion euros of public securities from their own country. In 2010, they increased their purchases of Spanish public securities, to a level of 63 billion. In 2011, they again increased their purchases, and their holdings in Spanish securities amounted to 94 billion. But thanks to the LTRO, their acquisitions literally exploded – the volume of their holdings doubled in a few months to reach 184.5 billion euros in July 2012. [23] Clearly the operation was very profitable for them. Whereas they were borrowing at 1%, they could buy 10-year Spanish securities with an interest rate that varied between 5.5 and 7.6% in the second semester of 2012.

Now let's look at the example of Italy. Between late December 2011 and March 2012, the Italian banks borrowed 255 billion euros from the ECB within the LTRO framework [24]. Whereas in late 2010 the Italian banks held 208.3 billion euros in bonds from their country, that amount increased to 224.1 billion in late 2011, a few days after the start of the LTRO. Then, they used the credits they received from the ECB to make massive acquisitions of Italian securities. In September 2012, the total value of the securities amounted to 341.4 billion euros [25]. As in the case of Spain, it was a very profitable operation – they borrowed at 1% and by purchasing 10-year Italian securities, they obtained an interest rate that varied from 5% to 6.6% in the second semester of 2012.

The same phenomenon was repeated in most euro zone countries. A part of the assets of the European banks were relocated to their countries of origin. Concretely, what happened is that the share of public debt of a given country held by the financial institutions in that same country increased very perceptibly during 2012. That development reassured the governments of the euro zone, in particular those of Spain and Italy, since they found that they had less difficulty in selling their bond issues. The ECB seemed to have found the solution. Lending massively to the private banks saved them from a critical situation and spared certain governments the pain of launching new bank bailout plans. The money lent to the banks was used in part to purchase public debt securities from euro zone States. This stopped the increase in interest rates in the most fragile countries and even resulted in lower rates for certain others.

It's easy to see that, from the point of view of the interests of the populations of the countries concerned, a very different approach should have been adopted – the ECB should have lent directly to the governments at less than 1% (as has it done for the private banks since May 2012), or even without interest. The banks should also have been socialized under citizen control.

Instead, the ECB put the private banks on life support by extending an unlimited line of credit at a very low interest rate (between 0.75 and 1%). The banks used this windfall of public financing in different ways. As we just saw, on the one hand, they purchased sovereign-debt securities from countries like Spain and Italy who, under pressure from the banks, granted them high rates of remuneration (between 5 and 7.6% at 10 years). On the other hand, they deposited a part of the credit that had been extended to them by the ECB… in the ECB ! Between 300 and 400 billion were deposited by the banks with the ECB as call money at a rate of 0.25% in early 2012 and 0% since May 2012.

Why did they do this ? Because they needed to show other bankers and private suppliers of credit (money market funds, pension funds, insurance companies) that they have ready cash to face the potential explosion of the time bombs that are on their books. Without this, potential lenders would shun them, or else demand very high interest rates. With the same objective of reassuring private lenders, they also purchased sovereign bonds from governments who are free of risk in the short or middle term – Germany, Holland, France, etc. The demand was such that 2-year bonds of the governments in question sold at a rate of 0% or even with a slightly negative yield (not counting inflation). The rates paid by Germany and the other countries that are considered financially sound dropped considerably thanks to the ECB's policy and the increasing seriousness of the crisis affecting the periphery countries. This resulted in a flight of capital from the European periphery towards the center. German securities are so sure that in need of cash, they may be negotiated overnight without loss. Banks acquire them not for the purpose of earning money, but to have deposits or highly liquid securities in the ECB that are immediately available, so as to create the impression (often a false one) of solvency and to deal with unforeseen events. They make profits by lending to Spain and Italy, and that averages out certain losses they might take on the German securities. It is very important to stress the fact that the banks did not increase their loans to households and companies, whereas one of the official goals of the ECB loans was to increase such credit in order to stimulate the economy.

What do the elites feel about the ECB ?

For a moment, let's judge the ECB's actions from the point of view of the wealthiest 1% of the population. The official discourse insists that the ECB has made a successful transition between its former president, France's Jean-Claude Trichet, and the new president, Mario Draghi [26], a former governor of the bank of Italy and former Vice-President of Goldman Sachs Europe. The ECB and the leaders of the main European countries negotiated a reduction of the Greek debt by convincing the private banks to accept a "haircut" of approximately 50% on their holdings and by getting the Greek government to undertake a new, radical austerity plan that includes massive privatizations and abandon of a large part of the country's sovereignty. As from March 2012, representatives of the Troika took up permanent residence in ministries in Athens in order to keep a close watch over the country's accounts. New loans to Greece are granted through an account directly controlled by the European authorities, who thus have the power to block them. What takes the cake is that new Greek debt issues are no longer under the jurisdiction of the Greek courts ; the new bonds are subject to English law, and any disputes between the Greek State and private creditors will be settled in Luxembourg [27].

That's not all : Under pressure from the ECB and European leaders, Giorgos Papandreou's PASOK government, which was very docile but more and more unpopular, was replaced – without election – by a New Democracy-PASOK national unity government, with key roles given to ministers who are directly linked to the banking world.

To complete the picture of the situation, there were three other key advantages for the ECB and the European leaders :

– Silvio Bersluconi was forced to resign and was replaced by a government of technicians, led by Mario Monti, a former European commissioner who is very close to the banking world and capable of imposing an extension of neoliberal policies on Italy [28].

– In Spain, the head of the government that has been in place for a few months, Mariano Rajoy of the People's Party, is also preparing to radicalize the neoliberal policies of his predecessor, Socialist José Luis Zapatero.

– The European leaders [29] have agreed on a stability pact that will institutionalize budgetary austerity, abandonment by the Member States of more of their national sovereignty, and further submission to the logic of private capital. Finally, the European Stability Mechanism (ESM) will soon enter into force and will make it easier to bail out States and banks [30] during inevitable future banking crises, and also EU Member States in need of financing.

These various examples show that European leaders serving the interests of capital have succeeded in marginalizing the legislative powers even further by simply riding roughshod over democracy. In any case, how can we call "democracy" a system under which voters who want to massively reject austerity can no longer express their choice through their vote, or in which the political force of the vote is canceled because the result is not in conformity with the wishes of those in power – as in 2005 in France and in Holland following the rejection of the European Constitution Treaty, or in Ireland and Portugal after the elections in 2011, or again in France and Holland after the 2012 elections. Everything is being set up so that the room for manÅ"uvre of the national [31] governments and public authorities is limited by a European contractual framework that is more and more constraining. This is an extremely dangerous tendency – unless, of course, those governments, with the support of their populations, decide to disobey.

So if we put ourselves in the place of Mario Draghi, the main European leaders, and the banks, we can see that they must be extremely pleased with the events of March-April 2012. Everything seemed to be succeeding.

The limits of the success of the ECB and the European leaders

Then the dark clouds began to gather. The trouble began in May 2012, when Bankia, Spain's fourth-largest bank, headed by the former Managing Director of the IMF, Rodrigo de Rato, announced its state of virtual insolvency. Depending on the source, the Spanish banks needed to be recapitalized to the tune of somewhere between 40 and 100 billion euros, and Prime Minister Mariano Rajoy, who did not want to ask for a bailout from the Troika, was in a very difficult position. [32] Added to that was a series international banking scandals – the one involving manipulation of the Libor, the London interbank lending rate, being the most sensational – involving a dozen major banks. The Libor scandal came on top of revelations of reprehensible conduct by HSBC involving laundering drug money and other criminal dealings.

In France, a majority of voters rejected Nicolas Sarkozy. François Hollande was elected on 6 May, 2012 ; but that was not really a disquieting development for international finance, since the French Socialists, like the other European Socialist parties, can be counted on to show pragmatism and to continue austerity policies. Still, the French people are unpredictable and capable of various types of excesses once they decide that a real change is needed...

In Greece, the situation is more difficult for the ECB, since SYRIZA – the radical-Left coalition who promise to abrogate the austerity measures, suspend reimbursement of the debt, and defy the European authorities – could well win an electoral victory. For the champions of European austerity, such an occurrence must be prevented at any cost.

On the evening of 17 June, 2012, there was great relief at the ECB, in Europe's seats of government, and in the boardrooms of the major corporations : The rightist party New Democracy was ahead of SYRIZA. Even France's new Socialist president expressed satisfaction with the results. The following day, the markets breathed again, and austerity, stabilization of the euro zone, and the balancing of the accounts of the private banks could continue.

Part 3: We should not underestimate the capacity of the elites to make the most of a crisis situation

The mainstream media regularly deal with the questions of a possible breakup of the eurozone, the failure of austerity policies to revive economies, discord between Paris and Berlin, and London and eurozone members, contradictions within the ECB, the enormous difficulties in reaching an agreement on the European budget, and the tensions between certain European governments and the IMF concerning levels of austerity. All of these points are true, but one fundamental issue must not be forgotten: the capacity of the elites, who have meekly put themselves at the service of the multinationals, to manage crises, even chaotic situations, in the interest of these big companies. The complicity between governments and big business has gone public. At the head of several governments, in important ministerial posts and at the presidency of the BCE, are men who are part and parcel of the world of high finance, in particular ex-directors of Goldman Sachs. Certain high-level politicians find their rewards in jobs with big banks once they have fulfilled their loyal service to Big Capitalism. This revolving doors complicity is not new, just more candid and systematic than at any time over the last fifty years.

To imagine that the policies applied by the European elite have failed because economic growth has not reappeared is to be somewhat mistaken on the criteria of analysis. The goal of the board of the ECB, the European Commission, the governments of the strongest EU economies, the boardrooms of the banks and other big companies is not a quick return to growth, nor the reduction of inequalities in the eurozone and the EU, in order to create a more coherent structure that would favour the return of prosperity.

Two of their principal objectives must be noted in particular:

– Avoiding banking and financial crash that could be worse than that of 2008 (the first two parts of this series dealt with this subject, which will be further developed in the fourth part);

– The use of a choice of weapons (rampant unemployment, public debt repayment, balanced budgets, promoting unfettered competition between EU member states and between rival companies from other continents) to carry out the greatest aggression by Capital against Workers, on a European scale since the second world war.

Capital's objective is to further menace stable employment, radically reduce the capacity of the workers to organise, substantially push down direct and indirect wages while at the same time maintaining enormous disparities, within the EU, so as to sharpen the blade of labour competition. First, there are the inequalities between women and men, permanent and temporary, full time and part time. The inequalities gap has widened over the last twenty years, pushed by employer's initiatives and helped along by successive governments (including left wing governments that have played an active role). Then, there are the different inequalities between workers in the different EU countries. The differences between workers in the principal economies and the secondary economies within the EU are complementary to those within national boundaries.

Profound disparities between workers in different EU countries

Workers' wages in the stronger countries (Austria, Denmark, Finland, France, Germany, the Netherlands, and Sweden,) are double or triple the wages of Greek, Portuguese, or Slovenian workers, ten times more than Bulgarian workers, seven or eight times more than that earned by Romanian, Lithuanian, or Latvian workers. [33] In South America, although there are great disparities between the stronger economies (Argentina, Brazil, and Venezuela) and the weaker ones (Bolivia, Ecuador, and Paraguay), there is no more than a fourfold difference in the legal minimum wage there, which is much less significant than in the EU. This difference clearly shows how strong competition is among European workers today.

The major corporations in the stronger European economies profit greatly from this wage disparity. German corporations have chosen to greatly increase their production in the EU countries where the wages are the lowest. Partially finished goods are then reintroduced into Germany, without paying import/export taxes, for assembly and re-exportation, principally to the other European countries. This reduces production costs, puts the German workers into competition with their foreign comrades, and increases company profits. In addition, these assembled and re-exported goods appear, of course, in Germany's export figures, whereas they are, largely, produced from imported goods. Corporations in the other strong European countries are doing the same thing, but proportionally speaking the German economy profits the most from the low wages and precarity of the eurozone workforce (including within Germany's national boundaries [34]) and the EU.

In 2007, 83% of German exports went to other EU countries (145 billion euros to eurozone countries, 79 billions to non-eurozone EU countries, and 45 billion to the rest of the world) [35].

The German example is the result of the neoliberal offensive

Between 2003 and 2005, German employers were assisted by Gerhard Schroder's Socialist government to impose sacrifices on the workers. The paper En finir avec la compétitivité (Putting an end to competition) published jointly by ATTAC and the Copernic foundation sets out the steps taken and the attacks against social and economic rights: "The Hartz acts (named after Volkswagen's Human Resources Director who was also Schroder's advisor) were passed between 2003-2005. Hartz I obliges the unemployed to accept any job that is proposed to them, even if the pay is less than unemployment benefits. Hartz II created the mini-job at less than â‚¬400 a month (exonerated from social contributions). Hartz III limits to one year the right to unemployment benefits for ageing workers and makes access more difficult. Hartz IV merged long term unemployment benefits with other social aid, and installed an aggregate maximum amount of â‚¬345 a month. To this was added successive retirement and healthcare reforms: capitalisation of pension schemes (Riester retirements), contribution increases, later retirement ages (objective of 67 years in 2017)" The authors of this paper mention in particular that "Together these reforms have contributed to an impressive rise in social inequalities. This point is often forgotten in the 'German example' which may be demonstrated by some precise figures. Germany has become a very elitist country: a parliamentary draft report on wealth and poverty [36] has recently established that the poorest half of the population possess only 1% of the assets, compared to 53% for the richest. Between 2003 and 2010, the purchasing power of the median average wage decreased by 5.6%, but the effect was very unequally spread: -12% for the lowest paid 40%, -4% for the highest paid 40% [37]. Official statistics show that the proportion of the low salaries increased from 18.6% in 2006 to 21% in 2010. It must be mentioned that 'West Germany' suffered the most".

According to the same study, the number of employees increased by 1.2 million between 1999 and 2008, reflecting an increase of 1.9 million precarious jobs corresponding to a loss of half a million full time permanent jobs. A quarter of wage earners today occupy unstable jobs and this proportion (as in the US) is 40% for women. "The majority of precarious jobs (70%) are considered women's jobs [Source: destatis.de (Federal German Office of Statistics).]. The proportion of unemployment benefit claimants dropped from 80% in 1995 to 35% in 2008 and all the people unemployed for over a year have been transferred to welfare".

As noted by Arnaud Lechevalier, this trend lies within the general framework "of a context of erosion of the collective bargaining agreements protecting employees: the percentage of employees covered decreased from 76% to 62% in ten years, and in 2008 these agreements only apply in 40% of German firms. In addition, the unions have had to make many exemptions to sector-based, and/or company-wide collective bargaining agreements" [38].

The ulterior motives of European leaders and elites

When we try to explain the current attitude taken towards the eurozone crisis by German leaders, we can express the hypothesis that one of the lessons they have learned from the absorption of East Germany at the beginning of the 1990's is that important wage disparities between employees can be greatly exploited to the advantage of employers. The massive East German privatisations, the attacks against the job security of ex-GDR workers, along with an augmentation of German public debt due to the costs of this absorption (which have been used as the pretexts for austerity programmes) have permitted the employers to greatly erode the situation of East as well as West German workers. The present German leaders see the eurozone crisis, and the brutal conditions imposed on the Greek people, as an opportunity to push further and to reproduce at the European level, the gains they have made at home. The leaders of the other strong European countries and the Presidents of their major corporations are not to be left behind; they make the most of the common European political, commercial and economic zone. The northern European economies and transnational companies are exploiting the strife in the eurozone's southern economies to improve their profitability and to take competitive advantages over their North American and Chinese competitors. Their objective at this point is not to revive growth and to reduce differences between the stronger and weaker economies of the EU. They are most interested in using the strife in the south to grab privatised sectors at give away prices, helped by the Troika and the southern governments themselves. Big Capital in the southern European countries is in favour of this prospect, hoping to get a piece of the cake it has been ogling for a long time. The grabbing of public sector companies in Greece and Portugal foreshadows what will happen in Spain and Italy where public companies are much bigger, as a percentage of their economies.

The will to push down wages

Let us return to the question of wages. According to Michel Husson, Real unit labour costs were compressed 10% in

Germany between 2004 and 2008 [39]. In the rest of Europe these costs also decreased, but to a lesser extent. Since the 2008-2009 crisis, the eurozone has been severely affected by a clear drop in real wages in the most exposed countries. This is what is underlined by Patrick Artus "We remark an important reduction in real incomes in the eurozone countries having the most difficulties (Greece, Italy, Portugal, and Spain)" [40].

Patrick Artus claims that European leaders are applying a deliberate pay reduction policy, and he adds that it has neither boosted investment in the countries just mentioned nor helped their exportations to become more competitive. The favourable effects of "pay reductions are not showing in competitiveness, foreign trade, or business investments", he writes, adding that lower wages have two clear effects: on the one hand they have raised profits (in Marxist terms, a reduction in variable capital investment leaving a greater margin of absolute surplus value, see boxed article "Essential elements on absolute and relative surplus-value and its relation to wages") ; on the other hand, it has reduced consumer demand, which in turn has contracted the economy [41]. This report by Natixis confirms that the goal of the European leaders is neither to revive economic activity, nor to improve the situation of the peripheral countries in comparison with the central countries. These pay reductions aim to weaken workers resistance in the concerned countries, increase profits and to make progress in the destruction of what is left of the welfare states built up over the three and a half decades following the Second World War (the following period was that of the neoliberal turn-around of the end of the 1970s and beginning of the 1980s).

In the 'Global Wage Report 2012-2013' published by the International Labour Organisation' in December 2012, the authors reveal that "In developed economies, the crisis led to a "double dip" in wages: real average wages fell in 2008 and again in 2011, and the current outlook suggests that in many of these countries wages are growing marginally, if at all, in 2012) [42]. This is the only part of the world along with the Middle East where wages have decreased since 2008. In China, the rest of Asia, and Latin America, wages have increased. In Eastern Europe they have recovered to a certain extent after plummeting in the 1990s. This report confirms the reorientation of capital's offensive against labour towards the developed countries.

Essential elements on absolute and relative surplus-value and their relationship to wages [43]

From the moment the worker starts a day's production, a value of raw materials (or of intermediate goods for assembly) is immediately incorporated into the process. After a certain number of hours the worker has reproduced the value of the expected wages. If the worker stops working at that precise moment, the capitalist would not make a penny in surplus value and therefore see no interest in further purchasing the worker's labour force. Like the usurer in the middle ages, he 'buys in order to sell'. He buys the labour force to obtain from it a product of higher value than that value which he has spent to purchase it. This 'left-over' is precisely his surplus value, his profit. So if the worker reproduces the wage value in say 4 hours the working day must necessarily be 6, 7, 8, or 9 hours. During these extra 2, 3, 4, or 5 hours the worker produces surplus value for the capitalist in exchange for which there is no retribution. The origin of surplus-value is therefore extra work, free work appropriated by the capitalist. Must we cry, "Thieves!"? The reply must be "yes and no". Yes! From the workers point of view; No! from the point of view of the Capitalist and the laws of the market. In fact, the capitalist has not purchased the value produced or to be produced by the worker (if that had been the case it would be a clear case of theft: he would have paid â‚¬25 for merchandise worth â‚¬50), he has purchased the worker's force of labour. Like any merchandise this labour has its own value. The value of labour power is determined by the amount of that labour which permits its renewal, in other words, by the survival of the workers and their families. The surplus value originates in the difference between the value produced by the worker and the value of the goods necessary for the worker's survival.

The value of the force of labour has one particular characteristic that sets it apart from all other commodities: it contains not only a precisely measurable element but also a variable element. The stable element is the value of the goods that are needed to reconstitute the physiological labour force of the worker (intake of calories and vitamins sufficient to reproduce the muscular and nervous energy capable of furnishing the normal working rhythm that the capitalist foresees as necessary), the variable element is the value of the goods in a given place and at a given moment that are not part of the physiological minimum. Marx calls this part of the force of labour the historical – moral fraction. This means that it is not arbitrary. It is the result of a historical process and a given situation which determines the balance of power between Capitalists and Labour. It is at this precise point in the Marxist analysis that the past and present class struggle becomes an important determining factor in the capitalist economy.

Wages are the market price of the force of labour. As all market prices, they fluctuate around the value of the considered merchandise. Wage fluctuations are determined, notably, by the fluctuations in the number of reserve workers, that is; the unemployed.

To achieve maximum profits and accumulate as much capital as possible, the Capitalists reduce as much as possible the portion of new value created by the force of labour that must be returned to the workers as wages
The two principal means by which the Capitalists try to increase the part of surplus-value are:

– Longer working hours, reduction of real wages and the lowering of subsistence levels. What Marx calls "growth in absolute surplus value".

– Increased work rates and competitiveness without increase in wages. What Marx calls "growth in relative surplus value".

The offensive of capital against labour in perspective

The rigours imposed on the workers and benefit claimants in Greece, Ireland, Portugal, and Spain had already been imposed on the populations in developing countries by the 1980s and 90s debt crisis. Throughout the 1980s, the offensive attacked North American workers under the Reagan presidency, in connivance with Margaret Thatcher, the Iron Lady, and their emulators in Europe quickly followed suit. The workers in the ex-Eastern European bloc were also subject to brutal policies during the 1990s, imposed by their governments and the IMF. According to the 2012-2013 global wage report previously cited: "In Russia, for example, the real value of wages collapsed to less than 40 per cent of their value in the 1990s and it took another decade before wages recovered to their initial level" [44].

Then starting in 2003-2005, certainly in a less brutal manner than in the way the people in the Third World (from the poorest countries to the emerging economies) were treated, the offensive turned its regard towards German workers. A large part of the German working population still feels the harmful effects today even if the success of German exports [45].

The ILO concentrates its analysis on a shorter period (1999–2011), and the data is clear: "Between 1999 and 2011 average labour productivity in developed economies increased more than twice as much as average wages. In the United States, real hourly labour productivity in the non-farm business sector increased by about 85 per cent since 1980, while real hourly compensation increased by only around 35 per cent. In Germany, labour productivity surged by almost a quarter over the past two decades while real monthly wages remained flat have limited unemployment and part of the working class has not felt the effects directly. This offensive, which has accelerated since 2007 – 2008, took off worldwide at the beginning of the 1980s [46] have limited unemployment and part of the working class has not felt the effects directly. This offensive, which has accelerated since 2007 – 2008, took off worldwide at the beginning of the 1980s [47]”. What Marx calls “growth in relative surplus value” (see text box).

Further on: “The global trend has resulted in a change in the distribution of national income, with the worker’s share decreasing while capital income shares increase in a majority of countries. Even in China, a country where wages roughly tripled over the last decade, GDP increased at a faster rate than the total wage bill – and hence the labour share went down. [48].

This strong worldwide tendency demonstrates the increase in surplus – value extracted from labour by capital. It is important to note that during much of the 19th century the principal means of increasing surplus-value was by increasing absolute surplus-value (lower wages, longer working hours). Progressively, in the developed economies, during the second half of the 19th century and throughout the 20th century (except under Nazism, fascism, and other dictatorial regimes that imposed wage reductions) this was replaced or outstripped by increases in relative surplus-value (productivity increases without the corresponding wage increases). After several decades of neoliberal offensives, increases in absolute surplus-value have become, once again, a major element in the extraction of surplus-value and add to the relative surplus-value. The employers, using crisis based campaigns are now gaining on both surplus values, thus showing the magnitude of the current offensive.

Whereas for several decades, employers basically increased the relative surplus value, principally through gains in labour productivity, since 2009-2010, they have succeeded in increasing absolute surplus value by cutting real wages and in certain cases increasing the number of hours worked. They have been using the crisis to combine an increase in the relative surplus value with an increase in the absolute surplus value. This tactic gives us an idea of the extent of their current offensive.

More and more oppression of workers

In a European Commission document entitled “The Second Economic Adjustment Programme for Greece” from March 2012 [49], it is clearly indicated that the wage reduction program must be continued. Table 14 on page 41 shows that the Greek minimum legal wage is five times that of Romania or Bulgaria (neighbouring countries to Greece), three times that of Hungary and the Baltic States, double that of Poland and the Czech Republic and superior to the minimum legal wage in Portugal and Spain. The objective is to line-up Greece with the more ’competitive’ countries, in other words the lowest paid. Evidently, if Greek wages continue their vertiginous fall as the Troika and Capital wish, wages in Ireland, Portugal, Spain, and the stronger economies must follow this downward trend, and at an accelerating pace.

European leaders are at the service of a logic that increases the surplus-value extracted from European labour for Capital, and permits it to strike points against Asian and North American competitors.

These leaders are prepared to push the European unions to the wall by seriously reducing the negotiating options that they have enjoyed for decades

Capital scores more points against Labour

In several EU countries, the offensive of Capital, the European Commission and its leaders, against social protection systems has succeeded in radically reducing the reach of inter-professional collective bargaining. This is the case in the ex-Eastern bloc countries, and in Greece, Ireland, Italy, Portugal, and Spain among others. In several countries, they have also succeeded in lowering the national minimum wage and retirement benefits. They have succeeded in radically reducing protection against redundancies and in imposing later retirements.

The worsening of the crisis in the peripheral eurozone countries

During 2012, the crisis worsened in Greece, Ireland, Portugal, and Spain as a result of the brutal austerity policies applied by their governments in line with the requirements imposed by the Troika. In Greece, the aggregate drop of GNP since the crisis has attained 20%. The purchasing power of the great majority of the population has been reduced by 30% to 50%. Unemployment and poverty have literally exploded.

The mainstream press announced, in March 2012, the official line that Greek debt had been cut by half [50]. However, according to official estimations made public in October 2012, Greek public debt, which was at a level of 162% of GNP before these reductions, is expected to attain 189% in 2013, and 192% in 2014 [51]. This information does not often appear in mainstream press headlines.

The press mentions Ireland much less often. Since the beginning of the crisis in 2008, [52]. bank welfare has sucked 40% of GNP from the economy (Close to 70 billion euros out of 156 billion euros in 2011)) [53], unemployment has risen to enormous proportions, forcing 189,200 young Irish to leave the country, one in three young workers who previously had employment has lost their jobs, the economy has contracted 20%, the government in Dublin has confirmed that it will axe 37,500 public sector jobs by 2015.

In Spain, youth unemployment is up to 50%. Since the beginning of the crisis 350,000 families have been expelled from their homes because of repossessions [54]. In one year, the number of families in which everyone is unemployed has increased by 300,000, bringing the total to 1.7million (10% of all Spanish families) [55].

In Portugal, austerity measures have attained such violence, and the economic situation has become so degraded that one million people rallied spontaneously on 15 September 2012. This was the biggest demonstration since the first of May 1974, which celebrated the victory of the Carnation Revolution.

The situation in the ex-Eastern bloc countries continues to worsen, especially for those that have joined the eurozone.

In short, Capital has engaged in an offensive against Labour throughout the world. It is in Europe that this takes the most systematic nature, starting with the peripheral countries. Whereas the banks (and the capitalist system as such), which have caused the crisis are systematically protected. Public debt is the pretext used to justify the elimination of people's economic and social rights everywhere. If the social movements and, amongst them, the unions, are really serious about opposing this devastating attack and coming out on top, they must take up the question of public debt to show that the principal argument put forward by the dominant powers is false. The abolition of the illegitimate part of the public debt and expropriation of the banks, to integrate them into a public service of savings and credit are essential measures in any programme that would be considered an alternative to the capitalist management of the crisis.

The author thanks Patrick Saurin, Daniel Munevar, Damien Millet, and Virginie de Romanet for their help in writing this article.

Translation: "Snake" Arbusto, Mike Krolikowski and Charles La Via

[1] Sovereign debt is the debt of a state and the public entities attached to it.

[2] Many banks depend on short-term financing because they have great difficulty in borrowing in the private sector at a sustainable (meaning the lowest possible) cost, in particular in the form of issuing debt securities.

As we shall see, the ECB's decision to lend slightly over 1,000 billion euros at an interest rate of 1% for a period of 3 years to more than 800 European banks was a lifeline for many of them. Subsequently, thanks to these ECB loans, the strongest ones were again able to issue debt securities to finance their activities. That would not have been possible had the ECB not acted as lender of last resort for 3 years

[3] Many banks depend on short-term financing because they have great difficulty in borrowing in the private sector at a sustainable (meaning the lowest possible) cost, in particular in the form of issuing debt securities. As we shall see, the ECB's decision to lend slightly over 1,000 billion euros at an interest rate of 1% for a period of 3 years to more than 800 European banks was a lifeline for many of them. Subsequently, thanks to these ECB loans, the strongest ones were again able to issue debt securities to finance their activities. That would not have been possible had the ECB not acted as lender of last resort for 3 years.

[4] On the October 2011 episode, see Eric Toussaint, "Krach de Dexia : un effet domino en route dans l'UE ?" ("The Dexia crash: Is a domino effect underway in the EU?"), 4 October, 2011,.

[5] Household debt includes the debts American students have contracted to pay for their education. Student debt in the United States stands at a colossal 1,000 billion dollars, more than the total of the external public debt of Latin America, (460 billion dollars), Africa (263 billion) and Southern Asia (205 billion). On the debts of these "continents," see: Damien Millet, Daniel Munevar, Eric Toussaint, 2012 World Debt Figures, table 7, p. 9. Downloadable: An English version will soon be available.

[6] See Damien Millet, Daniel Munevar, Eric Toussaint, 2012 World Debt Figures, table 30, p. 23. This table is based on data from the European Banking Federation, See also Martin Wolf, "Liikanen is at least a step forward for EU banks," Financial Times, 5 October 2012, p. 9. Banks' debts should not be confused with their assets; they are part of their "liabilities." See the footnote on bank' "Assets" and "Liabilities" above.

[7] Banks' debts should not be confused with their assets; they are part of their "liabilities." See the footnote on bank' "Assets" and "Liabilities" above.

[8] See Damien Millet, Daniel Munevar, Eric Toussaint, 2012 World Debt Figures, table 24, p. 18. This table uses the Morgan Stanley research database, as well as http://www.ecb.int/stats/money/aggr... and http://www.bankofgreece.gr/Pages/en....

[9] Carmen M. Reinhart, Kenneth S. Rogoff, This Time Is Different: Eight Centuries of Financial Folly. Princeton University Press, 2009.

[10] Xavier Dupret, "Et si nous laissions les banks faire faillite ?" ("And what if we allowed the banks to fail?"), 22 August, 2012,

[11] See Daniel Munevar, "Les risques du système bancaire de l'ombre" ("Risks of the shadow banking system"), 21 April, 2012, See also: Tracy Alloway, "Traditional lenders shiver as shadow banking grows," Financial Times, 28 December, 2011.

[12] See Richard Hiault, "Le monde bancaire â€˜parallèle' pèse 67.000 milliards de dollars" "The â€˜parallel' banking system is worth 67,000 billion dollars"), Les Echos, 18 November, 2012,.

[13] Michel Brei and Blaise Gadanecz, "Have public bailouts made banks' ..., Bis Quarterly Review, September 2012, pp. 61-72. The citations in this paragraph are from this paper.

[14] Ibid

[15] Tobias Buck, "Spain's deepening lack of hope takes its toll", Financial Times, 6 November 2012, p. 4.

[16] The Bank of England and other central banks follow more or less the same policy.

[17] In August 2011 I described the situation at a time when few financial commentators were mentioning it. See the series entitled "In the eye of the storm : the debt crisis in the European Union" : "They (= the European banks) have always financed their loans to European States and companies using loans they themselves took out from the US money market funds – and they continue to do so. Those money market funds were scared by what is happening in Europe … So by June 2011, that source of low-interest finance had just about dried up, which has hurt major French banks most. This was what precipitated the tumble they took on the Stock Exchange and led to the increase of pressure on the ECB to buy back their bonds and thus provide them with new money. In short, this demonstrates the extent of the knock-on effect between the economies of the USA and the EU. It further explains the continual contact between Barack Obama, Angela Merkel, Nicolas Sarkozy, the ECB, the IMF… and the major banks from Goldman Sachs to BNP Paribas and the Deutsche Bank. A breakdown in the flow of dollar-loans to European banks could cause a very serious crisis in the Old World, just as difficulties encountered by European banks in repaying their US lenders could trigger off a new crisis on Wall Street". See on ESSF (article 22830), In the eye of the storm : the debt ..., September 2011). A recent study by the bank Natixis confirms the distress of the French banks during the summer of 2011 : Flash Economie, "Les banques françaises dans la tourmente des marchés monétaires", 29 October 2012. We quote : "Between June and November 2011, the American money market funds suddenly withdrew the bulk of their financing from the French banks. (…) The French banks faced a shortfall of 140 billion USD in short-term financing in late November 2011, and none of them was spared."http://cib.natixis.com/flushdoc.asp.... That cut-off also affected the majority of the other European banks, as the study published by Natixis also shows.

[18] GAO, "Federal Reserve System, Opportunities Exist to Strengthen Policies and Processes for Managing Emergency Assistance", July 2011, http://www.gao.gov/assets/330/32150... This report by the United States Government Accountability Office was conducted thanks to an amendment to the Dodd-Frank Act (see below) introduced by senators Ron Paul, Alan Grayson and Bernie Sanders in 2010. Bernie Sanders, an independent senator, made it public http://www.sanders.senate.gov/imo/m...). Also, according to an independent study by the Levy Institute, whose collaborators included such economists as Joseph Stiglitz, Paul Krugman and James K. Galbraith, the Fed's credits reached an even higher level than that revealed by the GAO. The figure given was not 16,000 billion dollars, but 29,000 billion. See James Felkerson, "$29,000,000,000,000 : A Detailed Look at the Fed's Bailout by Funding Facility and Recipient,"

[19] http://www.sanders.senate.gov/newsr...

[20] Michel Rocard and Pierre Larrouturou : "Pourquoi faut-il que les Etats payent 600 fois plus que les banques ?payent ("Why should States pay 600 times what banks pay ?"), Le Monde, 3 January 2012 http://www.larrouturou.net/2012/01/...

[21] See page 196 of the GAO report mentioned above, which refers to loans to Dexia amounting to 53 billion dollars, which represents only a part of the loans granted to Dexia by the Fed.http://www.gao.gov/assets/330/321506.pdf

[22] Financial Times, "Banks plot early repayment of ECB crisis loans", 15 November, 2012, p. 25.

[23] According to the Spanish financial daily El Economista,http://www.eleconomista.es/espana/n...

[24] *Financial Times* Ibid

[25] See http://www.bancaditalia.it/statisti... table 2.1a

[26] Mario Draghi became president of the ECB on 1 November, 2011.

[27] See http://fr.wikipedia.org/wiki/Crise_... See also Alain Salles and BenoÃ®t Vitkine, "Fatalisme face Ã un sauvetage échangé contre une perte de souveraineté," Le Monde, 22 February 2012http://www.forumfr.com/sujet448690-...

[28] Mario Monti, prime minister since 13 November, 2011, was appointed senator for life by the President of the Republic, Giorgio Napolitano. On the occasion of his appointment, he left several positions of responsibility : the presidency of Italy's most prestigious private university, Bocconi ; the European chairmanship of the Trilateral Commission, one of the most important forums of the international oligarchic elite ; his participation in the Steering Committee of the powerful Bilderberg Group, and the presidency of the neoliberal think tank Bruegel. Monti was an international advisor to Goldman Sachs from 2005 to 2011 (as a member of the Research Advisory Council of the Goldman Sachs Global Market Institute), and was appointed European Commissioner for the Internal Market (1995-1999), then European Commissioner for Competition (1999-2004) in Brussels. He has been a member of the Senior European Advisory Council of Moody's, an advisor to Coca Cola, and is still one of the presidents of the Business and Economics Advisory Group of the Atlantic Council (an American think that promotes US leadership) and a member of the Praesidium of Friends of Europe, an influential think tank based in Brussels.

[29] With the exception of those of the United Kingdom and the Czech Republic

[30] At a European summit held 21 June, 2012, it was decided that the ESM would also be used to bail out banks. At the time, this was presented by Mariano Rajoy as a victory that would enable Spain to escape the new conditions imposed by the European Commission or the Troika. Rajoy explained that the aid to be granted by the ESM to the Spanish banks would not be counted as part of Spain's public debt, which the leaders of several Euro zone countries (Germany, the Netherlands, Finland, etc.) contested, as did the IMF. As of the end of November, 2012, there was still no consensus on the matter.

[31] With the exception of those of the United Kingdom and the Czech Republic

[32] With the exception of those of the United Kingdom and the Czech Republic

[33]] See Le Monde 22 and 23 January 2012, based on Eurostat statistics

[34] According to Le Monde 17 May 2011.; in Germany, in September 2010, 7.3 million workers were earning barely â‚¬400 a month. The number of part time workers increased by 46% between 2000 and 2010, whilst in France the increase was 17%.

[35] OECD, International Trade by Commodity Statistics (SITC Revision 3) mentioned in ATTAC and Copernic Foundation, En finir avec la compétitivité (Putting an end to competition), Paris, October 2012,http://www.france.attac.org/article...

[36] Lebenslagen in Deutschland. Entwurf des vierten Armuts- und Reichstumsberichts der Bundesregierung, Project of 17 September 2012, http://gesd.free.fr/arb912.pdf

[37] Karl Brenke and Markus M. Grabka, "Schwache Lohnentwicklung im letzten Jahrzehnt", DIW Wochenbericht, nÂ° 45, 2011, http://gesd.free.fr/brenke11.pdf

[38] Arnaud Lechevalier, Â« Un modèle qui ne fait guère envie Â» (A model that is hardly envied), Alternatives économiques, nÂ° 300, March 2011,http://gesd.free.fr/allmodel.pdf cited by ATTAC and Copernic Fondation

[39] See Michel Husson, "Economie politique du Â« système-euro Â»" (Political economy of the "euro-system", July 2012, or http://hussonet.free.fr/eceurow.pdf

[40] Patrick Artus: Â« La baisse des salaires dans les pays en difficulté de la zone euro est-elle utile ? Â» (Is the drop in salaries in distressed eurozone countries really useful?), Flash Economie nÂ°289, 18 April 2012.

[41] Patrick Artus: "The only remaining effect is on consumption, resulting in a fall in activity of which the only good point is a reduced balance of payments deficits" (which reduces imports). Patrick Artus also demonstrates graphically that company profits have increased in the four countries studied.

[42] ILO, Global Wage report 2012-2013, Geneva, December 2012http://www.ilo.org/global/research/...

[43] This text is a free adaptation of passages from Ernest Mandel's Introduction au marxisme (Introduction to Marxism), Edition Formation Léon Lesoil, Brussels, 2007, p. 59, p. 68, p. 66, and 67.

[44] See note 12

[45] Germany continued to register economic growth carried by bouyant exports whilst most of its EU partners and in particularly in the eurozone have been hard hit by the crisis As all of the EU is feeling the pinch of decreased consumption described above exacerbated by a decrease in public consumption, the market for German exports has become seriously restricted. The boomerang effect is already hitting the German economy.

[46] See Eric Toussaint,"In the South as well as the North: from the Great Transformation in the 1980s to the current crisis", September 2009: http://cadtm.org/In-the-South-as-we...

[47] See note 12

[48] See note 12. The same report also shows the increasing income disparities within each country.

[49] See European Commission, General Directory of Economic and Financial Affairshttp://ec.europa.eu/economy_finance...

[50] From the beginning, the CADTM has denounced the disinformation campaign by the Troika and the Greek government. See "The CADTM condemns the disinformation campaign on the Greek debt and the rescue plan by private creditors", press release 10 March 2012: http://cadtm.org/The-CADTM-condemns-the. See also, Christina Laskaridis, "Greece already defaulted on the creditors' terms; what they fear is that Greece imposes its own terms", published 31 May 2012:http://cadtm.org/Greece-already-def...

[51] Financial Times, 1 November 2012, Front page.

[52] Financial Times, 1 October 2012.

[53] Financial Times, 29 December 2011, p. 2.

[54] Miles Johnson, "Suicides spark call for Madrid to halt evictions by banks", Financial Times, 13 November 2012, p. 2.

[55] Tobias Buck, "Spain's deepening lack of hope takes its toll", Financial Times, 6 November 2012, p. 4.