Securitisation as Class Formation—Finance, Geopolitics and the Eurozone Crisis

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Kees van der Pijl
University of Sussex

This paper interprets the financial crisis in terms of capitalist class formation. As with the 2nd and 3rd World debt crisis of the 1980s and 90s, debt, once acknowledged as sovereign, provides a lever for deepening market discipline on society. In the case of the banking crisis of 2007-8, the end of a speculative bull-run enabled by securitisation has had the same effect, inaugurating a new round of intensified exploitation of labour and nature.

The paper outlines how the crisis, initially recognised as a banking crisis, was restructured into/redefined as a debt crisis through bail-outs, bad banks etc. Finance used the money thus obtained (and through quantitative easing, tax breaks) to continue speculating although the shadow banking system has been downsized from twice the size of regular banking to 120%.

The Eurozone is at the epicentre of this process. The restructuring of bank debt into sovereign debt is being used to force through neoliberal reform in the southern member states in particular. The paper looks at how this strategy, dictated by capitalist interests, is pursued through the popularisation of neoliberal restructuring by attacking Southern European countries as lazy, spoiled etc. and claiming that 'our' money is being spent on 'them'.

In issue eight of a ten-part series of 'master classes' in global business published by the Financial Times in early 1998, at the outset of the securitisation bull run of the ensuing decade, Oxford academic Rory Knight warned that 'derivatives are a kind of corporate leisure drug promoted by international banks—expensive, fun in moderation but potentially addictive and dangerous' (Knight 1998: 4-5).

Meanwhile the crisis caused by the collapse of the global circuit of money capital has brought home this warning. The crisis marks an important rupture, but so far not the end, of neoliberal capitalist market discipline. Neoliberalism as a comprehensive concept of control (a cohesive set of practices guiding all aspects of the political economy) from the mid-1970s began replacing corporate liberalism. Corporate liberalism was dominated by Fordist mass production industry in a class compromise with organised labour, and with finance placed under a control regime imposed in the 1930s; it enabled the accumulation of capital in the context of welfare state at home and nuclear imperialism abroad (Davis [1982] uses this term to capture the duality of cold war stalemate on the East-West axis and neo-colonial wars of intervention in the south). Neoliberalism is based instead on the ascendancy of finance, indeed a veritable resurrection of the rentier/investment bank nexus suppressed in the 1930s (Epstein and Power 2002). Neoliberal 'reform' has worked to abrogate the class compromise with organised labour, to liberalise finance and the economy generally, and replace it by a compromise with the asset-owning middle classes (and eventually, anyone taking on a debt).

The paper will first set out the connections between finance and neoliberalism, and then look at how, following the crisis of speculative finance, bank losses were socialised as sovereign debt, allowing money capital to continue to speculate. I will argue that the thus redefined/restructured 'debt crisis' not only allows the US and UK to force the Eurozone to submit to neoliberal discipline and redistribute markets at the expense of European industry. It also once again serves to liberalise societies not (yet sufficiently) opened up to exploitation, of which I will take the Southern European Eurozone members as the example.

Transnational Finance and Class Formation

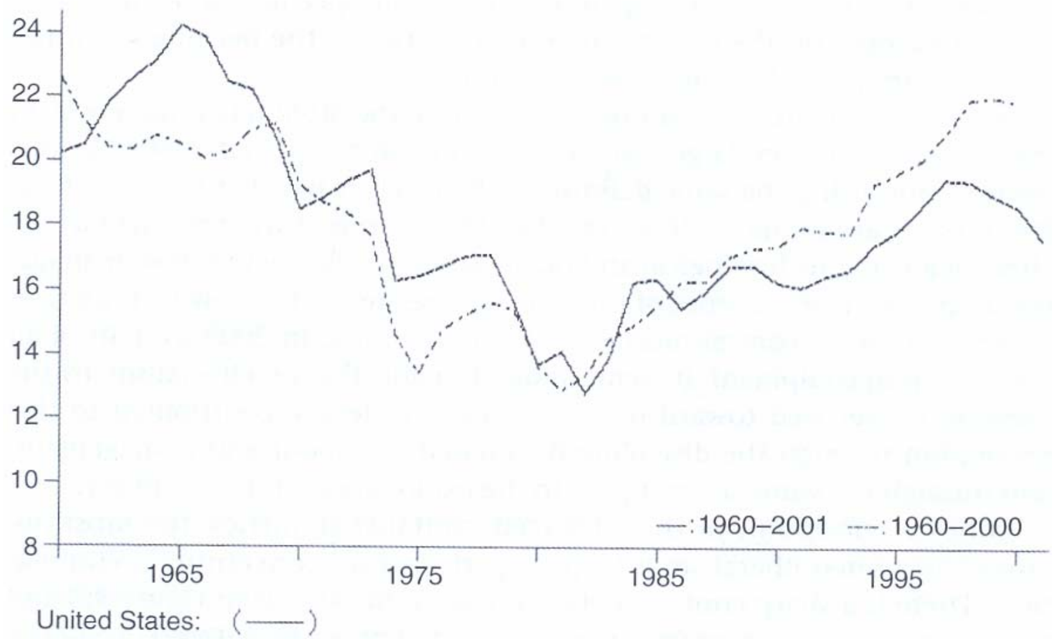
The resurrection of a global circuit of money capital, from which the forces driving neoliberalism emanated, had its pivot in the London Eurodollar and Euro-capital markets, in which (mostly) US dollars were traded outside the jurisdiction of the United States (and given that the City of London itself is an offshore location, also outside the jurisdiction of the UK—Burn 1999, 2006). Between 1971, when the Nixon administration cut the dollar from its gold cover to avoid a default, and 1973, when its main economic partners accepted the unsecured US dollar as the main reserve currency in a system of flexible exchange rates, the unregulated capital/money market system slipped into a highly inflationary cycle, with dollar inflation at a rate of ten percent per year (Parboni 1981: 8). In response to this, OPEC raised the price of crude oil, recycling a substantial part of additional revenue to the Euro-markets, greatly increasing the extension of credit globally. This lasted until Paul Volcker, the chairman of the Federal Reserve, in 1979 slammed the brakes on the expansion of credit, inaugurating the 1980s debt crisis that spelled the end of the Third World/socialist bloc industrialisation and modernisation project (Greider 1989: 207).

In 1979 Margaret Thatcher was elected in Britain, mandated to execute the neoliberal programme after both her own Tory predecessor, Edward Heath, and the Labour government of James Callaghan had failed to terminate the era of class compromise (see my 2006: 164-7). In 1980, Ronald Reagan won the US presidency with Donald Regan as his Secretary of the Treasury. Regan was the head of Merrill Lynch, the financial supermarket hailed by Bank of America CEO Samuel Armacost at the time as the epitome of 'nationwide banking of the future' (cited in Jorgensen 1986: 26; ironically, in 2008 Merrill Lynch was taken over by Bank of America to escape bankruptcy). It was Regan who in 1981 urged the IMF to apply strict conditionality on debt restructuring, stating that the US would apply 'stringent limitations on what we can do and can't do for [the Third World]' (cited in my 2006: 191). The switch to neoliberalism certainly turned around the declining profitability of capital, as illustrated in Figure 1.

As profits went up in the West, debt service entailed expropriation and restructuring of social relations to capitalist patterns elsewhere. Sovereign debt is always a driver of further liberalisation and capitalist class formation, as it allows the forcible opening up of entire societies and their natural resources for exploitation by capital from creditor countries and local compradors. 'Public debt becomes one of the most energetic levers of original accumulation' wrote Marx in Capital, vol. I (MEW xxiii: 782). Today the debt crisis once again is causing, in the phrase of Saskia Sassen, 'a savage sorting of winners and losers' (Sassen 2010).

This is never a universal, geopolitically undifferentiated process, but proceeds through the hierarchical structure of the imperialist system. Neoliberalism has its ideological roots in what I call the Lockean heartland, historically configured around the English-speaking West (see my 1998 and 2006). Resurgent finance not only scored its first major political victories there (if we discount the Pinochet dictatorship in Chile, admittedly its first real-life laboratory, cf. Letelier 1976). London remains the biggest market for transnational financial activities, with a share of 36.7% of total transactions, followed by the US (17.9%) (Chesnais 2011: 48). US and UK military

Figure 1. Profit Rates on US and European Capital, in Percentages



Europe (Germany, UK, France)(- - -)

Source: Duménil and Lévy 2004: 35, Fig. 3.3

power, the operations of their intelligence services, and their ability to conduct economic warfare (by extraterritorial application of sanctions, denial of market/bank access, denial of shipping insurance, and the like) are part and parcel of this hegemonic order. Only so-called contender states like China today, can attempt to hold their own against it, although the historical record suggests this is usually a temporary posture.

One reason for this is the fact, as Nikos Poulantzas argued in 1973, that all states, even those resisting the West politically, must necessarily adopt the practices of capital in the directive centres in order to compete. ‘The states themselves assume responsibility for the interests of the dominant imperialist capital in its extended development actually within the “national” formation’ (Poulantzas 2008: 245). Gramsci’s concept of ‘passive revolution’ in this connection highlights the actions by a state to defend itself/catch up (Gramsci 1971: 119-20; cf. editors’ notes in Ibid: 46). In the process it must modify its economic structure to accentuate the ‘plan of production’ element, and hence give the state a much greater role in guiding social development. But since its model is the society of the liberal heartland, passive revolution also elicits a ‘molecular’ advance of a domestic class mimicking the hegemonic pattern. This in turn broadens the social base for a transformation of the society seeking to adjust, potentially entailing the dispossession of the class guiding the contender effort, and hence, regime change.

Neoliberal financialisation gives the state/society complexes of the Lockean heartland an even greater advantage over societies in which the state guides social development. Contender states, especially those presiding over the rise of second-generation heavy industry (Germany, Austria-Hungary, Japan…) found the commanding heights of global finance already occupied by the City and from 1914, Wall Street too (Paris remained a secondary centre of the global circuit of money capital, although France in the 18th century was the first contender against the West). German investment banks, however, tended instead to combine with national industries under state auspices into what Rudolf Hilferding in 1910 famously called 'finance capital' (1973). Financial groups combining a financial pole (one or more banks) with a group of companies connected to it by interlocking directorates and cross-participations thus became a feature of late industrialisation, even in the case of the United States, which until the 1980s also had such financial groups in spite of its liberal antecedents (Menshikov 1973). Britain on the other hand never had stable links between banks and industry, except for the exceptional early 1970s when prime minister Heath, enamoured by the continental way of doing business, encouraged the formation of financial groups in Britain too.

From the 1980s onwards the trend everywhere was to break up existing bank-industry combinations, liberalise finance, and privatise assets. However, the Anglo-American neoliberal drive profited from the Lockean antecedents of their state/society-complexes, property-focused political culture, and in the final analysis, the readiness to use force; for the state-led economies including those of continental Europe, it was a process of painful and intensely contested adjustment,.

The Securitisation Revolution

Right after the Volcker shock that tightened the grip of the US on the global credit economy by raising real interest rates, the liberalisation of the domestic financial market was accelerated by the securitisation revolution. The 1974 ERISA law that allowed retirement benefits to be securitised, cleared the way for the 1980 Banking Act which removed the control of money creation by the Federal Reserve. Banks were henceforth permitted to tap into financial markets, borrow from pension funds and mutual funds and turn their debt into securities. In turn pension funds restructured their investment strategies, for which the emission and securitisation of government bonds offered new opportunities (Chesnais 2011: 37-8, 53).

Building on departures from deposit rules such as the 'negotiable order of withdrawal' (NOW) savings account in Massachusetts, US mutual funds, brokers and insurance companies meanwhile had begun to set up 'limited service banks' offering financial services such as banking, real estate brokerage, stocks and bonds discounting, insurance and consumer finance. Sears Roebuck, K Mart and other retailers began to give out their own interest-bearing certificates of deposit which were federally insured. These initiatives prompted the adoption of the Banking Act (officially, the Depository Institutions Deregulation and Monetary Control Act), which began the process of financial deregulation that by several steps completely removed the deposit requirements for all US financial institutions in 1986. Paying record interest rates, the newly operating money brokers collected funds from investors, broke them up into $100,000 lots to qualify for federal deposit insurance and then sold them on whoever offered the highest interest rate.

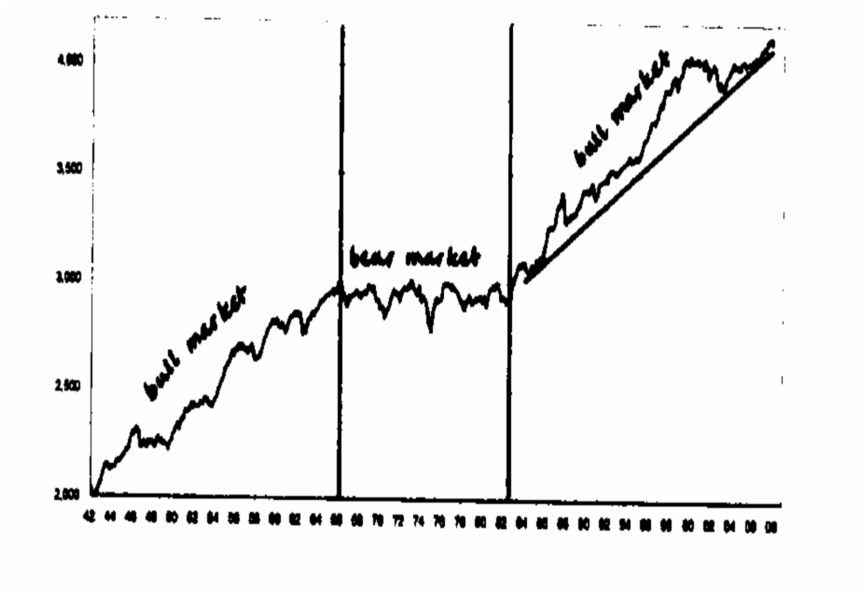
As financial radio-show host James Jorgensen commented at the time, 'In many respects, we've come full circle to the bargain-hunting 1920s… except for one big difference: <u>The risk-takers today are playing with money that's federally insured</u>' (Jorgensen 1986: 20, emphasis added). As illiquid credit was turned into tradable securities on which variable profit can be made depending on the risk involved, an entire financial economy began to grow up that would eventually land states again with this insurance risk (Nesvetailova 2010: 9-13).

Also in the 1980s 'junk bond' capitalists started purchasing corporations through new techniques such as leveraged buy-outs. They then asset-stripped them, made parts of the workforce redundant, and sold off the surviving parts again at a profit.

After a first cohort of swash-buckling operators (Michael Milken the most notorious among them, Warde 1993: 21), specialised firms such as Kohlberg, Kravis & Roberts and Forstmann Little, took over (Business Week, 10 February, 1992; Financial Times, 13 September, 1994). The upshot of a record number of share flotations was that US stock market assets, worth $3.1 trillion in 1990 (when US GDP stood at 5.8 trillion), climbed to $ 16.6 trillion in 1999, almost twice the size of US GDP (9.3 trillion) (Houben 2004: 48). Figure 2 depicts the resumption of the rise of stock market assets (Dow Jones industrials) after the flat 1966-1982 interlude.

Figure 2. Long-Term Trend in Stock Market Asset Prices (Dow Jones Industrials, log scale) 1942-2008.

1966 1983



Source: Van Duijn 2008: 125, Fig 16.

By 2000, all major stock exchanges had followed the examples of New York and London and operated as private companies, competing against largely unregulated ‘dark pools’ operated by multilateral trade facilities (MTFs). Set up by investment banks such as Goldman Sachs, Nomura, UBS, Crédit Suisse and others, these MTFs, of which some one hundred are now in existence, have taken over a fast growing part of the trading volume, by 2010 surpassing the volume traded at stock exchanges. This has made corporations extremely vulnerable to erratic share price movements which result from dark pool transactions (Lagneau-Ymonet and Riva 2011).

Banking, expanded by new types of financial operators, in the same period created the shadow banking system in which banks engage in over-the-counter (OTC) securities transactions in which traders directly deal with each other. Using special investment vehicles or special purpose vehicles (SIV/SPVs), off-balance-sheet entities often located in offshore jurisdictions and beyond regulatory oversight, according to the Federal Reserve Bank of NY grew to a trading volume twice the size of transactions in the regulated banking system in 2007 (Chesnais 2011: 71-2).

In response to the Asian crisis and the collapse of the LCTM hedge fund, the 1999 G 7 meeting in Cologne agreed that the financial system required strengthening. But countries the world over were also expected to pursue ‘capital account liberalization… in a careful and well-sequenced manner, accompanied by a sound and well-regulated financial sector and by a consistent macroeconomic policy framework'. Thus they would be able to stick to tight monetary and fiscal policies keeping wage and social security costs at a minimum (Rude 2008: 214). Since the underlying aim was to raise the rate of exploitation of labour and remove obstacles to the exploitation of nature (mining, fisheries, deforestation) and not the regulation of finance, its liberalisation continued. In 1999, the Clinton administration suspended the Glass-Steagall Act of 1933 that separated (international and risk-seeking) investment banking from (national and risk-avoiding) deposit banking. In all, the circuit of money capital (total value of the world's financial assets) ballooned from $12 trillion in 1980 to $142 trillion 2005, about three times the combined domestic product of all countries on the planet (Sassen 2010: 38-40).

It was against this background that from 2002-3 banks began to buy mortgages from specialised mortgage providers and packaging them into synthetic assets of different maturities, 'collateralised debt obligations of asset-backed securities' (CDOs/ABSs). In 2006, the US sub-prime mortgage market was worth $600bn, 20 percent of the total mortgage market of $3 trillion, whilst US mortgage-backed securities were the largest component, one-fifth, of global fixed income market in value terms (Nesvetailova 2010: 25). Although the free-market ideology of spreading risks suggest that these were then sold on and on, in fact they were mostly fed into the shadow banking system, with offshore jurisdictions account for 28 per cent of the global circuit of money capital—5.8% passing through the Caymans, 4.8 through Switzerland, 4.2 through the Netherlands, 4.2 via Ireland, and so on to smaller-sized tax havens (Ibid.: 15, 49-50).

From Banking Crisis to Debt Crisis

In 2007 and '08 the bubble burst after house prices began to stall in the US and subprime-mortgage holders were beginning to default. In Table 1, the key dates and events in the Anglo-American heartland have been listed.

Although ultimately, the crisis has to do with the global restructuring of productive capacity towards China and other Asia and the devalorisation of capital in the West (itself postponed by credit), there can be no doubt that the immediate cause of bringing the circuit of money capital to a standstill was the ballooning of unregulated finance. In 1980 the debts of the US financial sector amounted to 18% of GDP; in 2008, it was the largest debtor with 119% of GDP (overall the US total debt had grown from 155% of GDP to 349%, Chesnais 2011: 79, Table 2). Nesvetailova (2010: 103) speaks of 'sub-crime' given the proportion of so-called 'liars' loans' (to completely uncreditworthy clients), $80bn of which were securitised and sold on in 2006 alone by IndyMac, the first US mortgage lender to go down.

At the G-20 in London in May 2009 there was general acknowledgement that the crisis was a banking crisis. But the strong rhetoric about banks, bonuses and greed was not matched by serious surveillance measures. Instead the financiers demonstrated that they had a hold on policy-making that would not easily be dislodged.

> The massive aid extended to the banks and the investment funds in September-October 2008 expresses the social and political power of the shareholders and owners of the banks and the industrial groups, of fund managers and directors paid

in stock options. The success of the rescue operations has allowed them to preserve their domination (Chesnais 2011: 66, emphasis added).

Table 1. Key Moments in the UK/US Financial Crisis and the Socialisation of Bank Losses, 2007-2008

Date	Event	State Intervention	Specifics
Feb 2007	HSBC declares $10.5bn loss on mortgage subsidiary HSBC Finance	--	Largest investor in US sub-prime
Sept 2007[1]-Feb 2008[2]	Northern Rock close to bankruptcy	£50bn aid package[1], nationalised[2]	5th largest UK mortgage lender
March 2008	Bear Stearns taken over by JPMorganChase	Purchase backed by $30bn of Fed loans	
July[1]-Sept[2] 2008	Fannie Mae/Freddie Mac solvability warning[1]	Nationalised[2]	Accounting for 5 out of $12 trillion mortgage market; nat'lised apparently under Chinese pressure
Sept 2008	1)Lehman Bros bankrupt; 2)Merrill Lynch taken over by Bank of America; 3) AIG risks bankruptcy 4) HBOS taken over by Lloyds TSB 5) Washington Mutual taken over by JPMorganChase 6) Bradford & Bingley part-taken over by Santander	$85bn rescue package in exchange for 80% Fed share Part-nationalised US Treasury package of $700bn to buy up toxic debts	Largest UK mortgage lender Largest UK buy-to-let mortgage lender
Oct 2008		UK rescue package for banks £50bn, £200bn loans $250bn US fund for state participation in banks	

Source: compiled from Nesvetailova 2010: 27-37

Taking on a large slice of the bank losses and translating them into sovereign debt, the states involved (including the Eurozone) helped transmute the crisis of speculative banking into a debt crisis. In 2009 the public debt of the ten richest countries was expected to rise from 78 per cent of GDP in 2007 to 114 per cent in 2014 (Nesvetailova 2010: 90). Table 2 illustrates that sovereign debt inflation in the four main currency zones was well on the way to reach that level.

Table 2. Relative Size of Outstanding Debt (Gross Government Financial Liabilities as a Percentage of Nominal GDP). Eurozone, UK, US, and Japan, 2007-2012.

	2007	2008	2009	2010	2011	2012
Japan	162.4	171.2	188.8	192.7	205.5	214.1
UK	67.0	75.9	89.7	98.3	102.7	108.6
US	71.8	77.0	87.8	93.1	95.1	99.1
Euro Area	74.5	81.0	92.5	98.7	103.0	107.6

Source: OECD 2012.

The socialisation of bank debts raised sovereign debt relative to GDP in five years' time by 51.7 percentage points in Japan, 41.6 points in the UK, 33.1 in the Eurozone, and 27.3 in the US. It also worked to transmit the moment of crisis from a crisis of speculative finance to a crisis of sovereign debt, in the words of Christos Lynteris 'an officially sanctioned and governmentally organised Economic Crisis, a structural counter-event … that … manages to substitute [the initial crisis] as the true field of decision, as the real crisis' (Lynteris 2011: 210). Well might Wolfgang Münchau comment in the Financial Times (21 June 2010) that the Eurozone crisis is not about public debt but the result of a bank crisis aggravated by a crisis of policy coordination in the EU. However, as a British banker observed, it is much easier and politically advantageous to talk about 'saving Greece or Spain or Portugal' than to admit that we must save and help the banks (cited in Chesnais 2011: 12).

The transformation of bank losses into public debt has allowed the speculative circuit of money capital to resurrect itself from the initial credit crunch to a considerable degree. The money that central banks, led by the US Federal Reserve, have provided to bail out the financial sector has given the beneficiaries free funds to buy up interest-paying assets. Thus the vast sums poured into AIG in September 2008 (cf. Table 1) were discovered by Congress a few months later to have ended up in the hands of Goldman Sachs ($12.9bn), Merrill Lynch and Bank of America (together 12bn), Société Générale (France) and Deutsche Bank (12bn each), Barclays (8.5bn) and others (Nesvetailova 2010: 35). Besides buying up stocks and bonds, free money also encouraged a 'dollar carry trade', which consists of borrowing low-yielding currencies to finance the purchase of riskier, high-yielding assets (Hoogvelt 2010: 60). Within the Eurozone, this is replicated by 'euro carry trade', in which banks but also governments of the low-debt, low-interest rate countries, pursue speculative hedging operations targeting southern Europe.

In the first nine months of 2010, a record $275 billion of new semi-creditworthy assets were issued, up more than 100 billion compared to the same period in 2009 (International Herald Tribune, 9-10 October 2010; compared to $450bn in 2006 and early 2007, Nesvetailova 2010: 15). According to a researcher at bond-rating agency Standard & Poor's cited in the IHT article, this has triggered a wave of debt-refinancing in which 'the market [has got] ahead of itself', creating new risks on an economy 'that is not on solid ground'. Yet the bottom line is the relative unscathed position of the financial world. As Le Monde put it in an editorial on 21 August 2010, almost two years after the collapse of Lehman Brothers,

> Banks have returned to dazzling profits, hedge funds are speculating as ever, traders again pick up bonuses that will make footballers green with envy. The dream of a grand demise of global finance—in the shape, for instance, of a nationalization of the credit institutions—has quickly evaporated. As soon as they had the chance, the

states have disengaged from involvement with the banks they had saved from bankruptcy by injecting public money. Rather than building a new edifice, the political and monetary authorities of the Western countries have preferred to renovate the old to make it more solid.

The review committees that might have removed the veil over the financial sector and exposed its culpability and criminality, have so far chosen to lie low. The Financial Crisis Inquiry committee of the US Congress created by president Obama in May 2009 preferred not to challenge the fundamentals of neoliberal globalisation which among other things have made the United States the debtor of the Gulf Arab states, China, and Japan. Certainly the Democrats on the committee did not subscribe to the Republican claim that the mission of the US Congress is to serve the banks and not to regulate them. But as Duménil and Lévy write (2011), their references to the need to return to a growth policy were only a faint echo of the New Deal rhetoric that Franklin Roosevelt used when attacking the banks and made him sign the aforementioned Glass-Steagall Act.

Likewise in Europe, a report to the European Parliament on the Markets in Financial Instruments Directive (MiFID) by Kay Swinburne, UK Conservative Party MEP and a former investment banker at Deutsche Bank, also chose to continue the rhetoric of competition. MiFID, decreed in 2004 and entered into force in November 2007 (just when the Lehman crisis broke), imposes a competitive regulatory regime on stock exchanges, forcing them to accept the dark pool culture propagated by the investment banking community (Lagneau-Ymonet and Riva 2011).

In 2010 the shadow banking system that by all accounts was at the origin of the financial collapse was still 20% larger than the regulated banking sector (Chesnais 2011: 72-3). Of course this is a sizeable shift from twice its size, but not a real correction in terms of the mode of operation. Derivatives trading, which prior to the crisis accounted for more than two-thirds of total market transactions worldwide ($ 2355.5 trillion out of 3478.1 in 2007, sixty-four times world GDP of that year; Chesnais 2011: 46, Table 1), has certainly been cut back, and far fewer asset-backed securities are being issued; from around $ 1 trillion in 2007 to just above 200 billion in 2012 (cf. the earlier cited figures of $ 450bn in 2006 and $ 275bn in ¾ of 2010). As reported in September 2012, this decline has been most pronounced in Europe because here banks have the opportunity to deposit assets with the European Central Bank (ECB) and the Bank of England, whereas in the United States, the Federal Reserve is equally supportive of private financiers but ABSs are still being sold to investors (Financial Times, 17 September 2012).

The Eurozone in the Bank/Debt Crisis

The euro was conceived in 1988-89 by a committee mainly consisting of central bankers in the run-up to the Maastricht Treaty, and agreed by eleven countries on 1 January 1999. Its introduction was relatively smooth although the Treaty itself provoked serious opposition in many countries. The expectation that the euro was to become a rival to the dollar has not been realised. Saddam Hussein briefly before the Anglo-American invasion in Iraq had announced that payment for Iraqi oil was to be made in euros (not the only explanation of the invasion of course), but that was it. The United States continues to enjoy seignoriage by issuing the world reserve money, backed up by its unparalleled political and economic power. It can cover its budget deficits by borrowing without having to fear for the value of its currency which it can expand at will (as long as investors buy up its bonds): ‘quantitative easing’ by the Fed (printing of more dollars) forces all countries to accept devalued dollars even if they grumble doing so.

Hence the US and Britain, the original constitutive entities of the Lockean heartland, continue to occupy the commanding heights of the global political economy. They can pass on adjustment costs to lower-placed states. As Christopher Rude writes (in the spirit of Poulantzas cited above),

> Neoliberal global capitalism is a world economic system wherein the financial and economic turmoil is distributed internationally depending on the strength and resilience of the national banking and financial systems that make up the imperial chain, and in which persistent financial and economic instability reproduces capitalist and imperialist social relations by punishing and disciplining subordinate classes and nations (Rude 2008: 219).

Since the euro does not enjoy the advantages of the dollar (as long as trade in oil and other raw materials, arms and many other goods continue to be priced and paid in dollars) this means that the Eurozone is subject to this punishing and disciplining too. The US-based rating agencies, nowhere to be seen in the run-up the Asian and LCTM crises, have taken on the task of identifying the target countries.

According to François Chesnais, it was the intention of those who advised on the conditions of the adoption of the euro that its role as a means of exchange was to be confined to the Eurozone, making the euro an investment object first of all. He sees the creation of the ECB as a high point of the power of bank capital (Chesnais 2011: 120, 90). Its only monetary policy instrument is the regulation of short term interest rates which it set above the US rate, making euro investments attractive. The European treaties also forbid that the ECB extends credit to the EU institutions, governments and other public authorities (articles 101, Maastricht Treaty and 123, Lisbon Treaty, Chesnais 2011: 121-2, 153 n. 145), although the recent measures regarding the stability fund, validated by the German Constitutional Court in September this year, have begun to make slight dents in this armour.

Not all Eurozone sovereign debt of course originates in the socialisation of bank debts. The Eurozone countries followed the Anglo-American neoliberal trend in lowering top tax rates as part of an upward redistribution of income from the poor to the wealthy, directly and by the substitution of income and property taxes to sales tax (VAT). (Table 3).

Table 3. Top income tax rates in key Eurozone countries, 1986 and 2007.

	1986	2007
France	65%	40%
Germany	53%	47.5%
Belgium	72%	50%
Spain	66%	43%
Italy	62%	43%
Netherlands	72%	52%

Source: Chesnais 2011: 113, Table 5.

This in itself is a major cause of the budget deficits and mounting debt; effectively, governments reduce taxation and then borrow from those it no longer taxes. Debt servicing (in France, the second-largest budget item after education), is a direct transfer of public wealth to those owning public bonds (Chesnais 2011: 111, 113).

Another source external to the transformation of bank into sovereign debt are military outlays and adventures in the Middle East etc. French debt grew from 20% of GDP in 1980 to 35% in 1990, accelerating since and reaching 60% in 2007 under the Juppé government already; the Military Programming law for the period 1987-1991, with the Rafale fighter jet and more nuclear aircraft carriers and submarines, was crucial in this rise (Chesnais 2011: 111). The black sheep of the Eurozone, Greece, spends most on defence of all NATO countries: 5.5% of the budget, 3.1% of GDP. It has the largest number of military personnel in NATO relative to population (Bulgaria is second) and the second-highest ratio of police to people after Italy. This is not so much to fight crime which is among the lowest in Europe, but to continue the battle with the Left (Graeber 2011: 229-30). In the Constitution of 1975, adopted after the downfall of the NATO-supported dictatorship imposed in 1967 (in which Greek debt quadrupled), the Greek arms industry, the families owning it and their associates are expressly exempted from taxation (Chesnais 2011: 105-6).

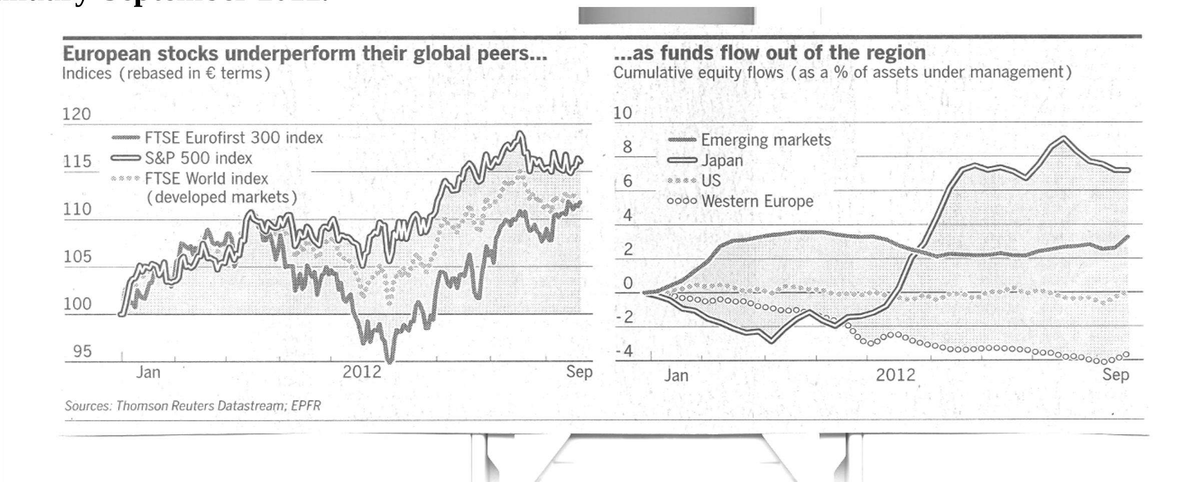
Greek arms imports according to a SIPRI report account for the haemorrhage of public finances. Between 2005 and 2009 Greece was among the top-five arms importers in Europe, with F-16 fighter jets from the US and Mirage 2000 from France, armoured vehicles (VBL), NH 90 helicopters, MICA, Exocet and Scalp missiles and Sperwer drones from France, Leopard tanks, a 214-type submarine, and munitions from Germany, and further hardware from the US, Russia, and the UK, all on credit (Chesnais 2011: 107-8; Graeber 2011: 230). And so on and so forth.

Yet it is the continued speculative attacks on the Eurozone countries that stand out as the most destabilising in the short run. With US rating agencies prescribing countries' rates of interest, the resurrected circuit of money capital operates here as 'capital-in-general', distributing itself in response to profitable investment opportunities in the globalised economy (cf. the title of the Knight paper cited earlier, 'Global finance—the great equalizer'). Made up of competitive units and internally, functionally differentiated, Anglo-US finance is a key player in the new environment created by the transformation of the bank crisis into a sovereign debt crisis. The big US investment banks such as Morgan Stanley, Goldman Sachs and others, rely on money funds for short-term loans to finance their trades and daily operations. This as we saw goes back to the origins of the US banking revolution. Prime money funds can spread their investments into high-risk areas in search of speculative gain; treasury-only money funds confine themselves to sovereign debt. Prime funds comprise roughly 40 percent of the US money fund industry, which in May 2012 controlled a total of $2.55 trillion (Leong 2012a). In that month alone banks borrowed a combined $510 billion from prime funds through repurchase agreements (repos) (Leong 2012b).

The speculative attacks targeting the Eurozone, in which Anglo-American banks and funds predominate but from which European players are not absent, appear to be conducted in ways suggesting that the level of debt plays less of a role (or none at all) in investment decisions. What counts are profit rates and expected profits on account of the rate of exploitation, liberalization/privatisation policies, and the like. Thus in the course of 2012, as EU stocks quotations signalled that these expectations were low, capital moved out, with Japan (debt level above 200 percent of GDP) a key destination (Figure 3).

The interest rate, apart from being a transfer mechanism of social wealth to bondholders, also indicates the targeting of specific countries seen as valid targets for restructuring ('reform') in order to raise the rate of exploitation and accelerate the

Figure 3. Relative Performance of European Stocks and Capital Outflow, January-September 2012.



Source: Financial Times, 22-23 September 2012.

process of original expropriation/accumulation. When the Eurozone was formed in 1999, interest rates on 10-year government bonds averaged between 4.5 and 5 percent, with the exception of Greece at 8.5 (Christian Science Monitor, 2 December 2011). 'The credit boom from 2003 lasting till early 2007 was supported by falling interest rates. But from 2006, interest rates across the euro zone started to diverge, marking out the weak from the strong economies' (Anand et al. 2012: 7). Indeed from Table 4 (Estonia not included because of its negligible debt), it would seem that notably between 2011 and mid-2012 the opportunities for speculative capital movements (including euro-carry trade by low-interest Eurozone countries) have increased along a fracture of countries with rates going down between 2011 and '12 (Germany to Belgium) and those with rates going up (Slovakia to Greece, highlighted except for Ireland which 'recovered' a bit).

Table 4. Outstanding Public Debt as a Percentage of Nominal GDP. Eurozone Countries, 2007-2012, and Long-term Interest Rates, May 2011-May 2012.

	2007	2008	2009	2010	2011	*Rate*	2012	*Rate*
Germany	65.6	69.8	77.4	86.8	87.2	*3.06*	88.5	*1.34*
Luxemburg	11.3	18.3	18.0	24.7	23.9	*3.29*	26.0	*1.71*
Finland	41.4	40.4	51.8	57.6	57.2	*3.32*	59.1	*1.82*
Netherlands	51.5	64.8	67.5	70.6	75.2	*3.40*	81.0	*1.96*
Austria	63.4	68.7	74.4	78.1	79.7	*3.53*	83.0	*2.49*
France	73.0	79.3	91.2	95.8	100.1	*3.49*	105.5	*2.75*
Belgium	87.9	92.9	99.9	100.0	102.3	*4.21*	103.1	*3.30*
Slovakia	32.9	32.0	40.4	47.1	46.8	*4.33*	52.1	*4.80*
Slovenia	30.7	30.4	44.3	48.4	56.4	*4.43*	60.3	*5.28*
Italy	112.1	114.6	127.7	126.5	119.7	*4.76*	122.7	*5.78*
Spain	42.3	47.7	62.9	67.1	75.3	*5.32*	87.9	*6.13*
Ireland	28.6	49.5	71.1	98.4	114.1	*10.64*	121.6	*7.12*
Portugal	75.4	80.7	92.9	103.2	117.6	*9.63*	124.3	*11.53*
Greece	115.4	118.7	134.0	149.6	170.0	*15.94*	168.0	*26.90*

Source: debt levels: OECD 2012; interest rates: ECB and European Commission. (ECB 2012)

As opportunities for ABS issuance are growing again after the collapse in 2008 (as noted, from a high of $1 trillion in 2007), the US players are once more in the forefront whereas European banks are lying low (Financial Times, 17 September 2012). However I would argue that speculative strategies targeting the Eurozone from Anglo-America (perhaps less so from Germany and other low-interest rate countries) are specifically aimed at southern Europe (including France), both in terms of redistribution of capital at the expense of European industry. Key targets are the labour movement and the welfare state, the bulwarks of the corporate liberalism that in the English-speaking heartland and in northern Europe has been superseded by neoliberalism.

Southern Europe as the Target of Neoliberal Reform

Redefining the bank crisis caused by reckless speculation as a crisis of state finances and sovereign debt, with the attendant rhetoric of clearing the desk, honouring ‘our’ debts and not passing them on to future generations etc., allows attacking the remaining structures of social protection in separate countries. In the Eurozone, the main effort is directed at liberalising the southern European countries including France through a shock-therapy. The aim is their ‘transformation from an outdated rigid public-sector-dominated capitalist economy to a modern flexible capitalist haven’ (Kaplanis 2011: 215), in other words, from corporate liberal ‘Rhineland’ capitalism, to neoliberalism. When Jean-Claude Trichet, the outgoing president of the ECB, gave his farewell speech on 8 September 2011, he summed up the programme to be executed to deal with the financial crisis as follows:

> We should see the elimination of automatic wage indexation clauses and a strengthening of firm-level agreements so that wages and working conditions can be tailored to firms’ specific needs. These measures should be accompanied by structural reforms that increase competition in product markets, particularly in services—including the liberalisation of closed professions—and, where appropriate, the privatisation of services currently provided by the public sector, thereby facilitating productivity growth and supporting competitiveness (cited in Dumini and Ruffin 2011).

These recommendations, far from being extraneous to the crisis, as one would think at first sight, go to its heart. The myth that the cobbling together of special funds etc. is about ‘saving Greece, Spain or Portugal’ rather than to save the banks has sunk in deeply. The populist mobilisation of sentiment against southern member states depicted as lazy, easy-going etc. and the calls for a halt to ‘aid’ has taken hold across the political spectrum. In the Dutch election, when asked if ‘any more money should go to Greece’, even the leader of the Socialist Party, to the left of the mainstream Social Democrats, replied with a firm ‘no’.

That the bottom line of the crisis is still a bank crisis is illustrated by Table 5 below. The exposure of US banks to the Eurozone periphery, as listed in the table, was $725bn a year ago but since then the banks have kept their distance or reduced exposure, leaving French and German banks most exposed.

Table 5: Bank Exposure to Eurozone Periphery

US$ Billion Position as of March 2011

	Greece	**Portugal**	**Ireland**	**Italy**	**Spain**	**TOTAL**
Direct exposure to public and private debt						
France	56.9	28.3	30.1	410.2	146.1	
Germany	23.8	38.9	116.5	164.9	177.9	
UK	14.7	26.6	136.6	68.9	100.8	
US	8.7	5.6	58.9	44.1	57.9	
Indirect exposure through derivatives / guarantees						
France	8.3	5.7	25.3	85.6	37.7	
Germany	5.2	12.5	38.8	61.6	45.8	
UK	4.6	4.7	47.6	30.0	30.2	
US	38.4	49.4	59.7	248.0	154.6	
Total exposure						
France	65.8	34.0	55.4	495.9	183.7	**834.0**
Germany	29.0	51.4	155.3	226.5	223.6	**685.8**
UK	19.2	31.3	184.2	98.9	131.0	**464.6**
US	47.0	55.0	118.6	292.1	212.5	**725.2**

Source: Anand et al. 2012: 15, Table 2 (BIS, , July,2011, Preliminary International Banking Statistics, Q1, 2011); total bank exposure added by author.

French banks are particularly vulnerable; their exposure to Italian debt of almost half a trillion (US$) is the largest single amount in the table. The weak deposit base of German banks and of Italian, Portuguese and Spanish savings banks make them vulnerable to new shocks too. German regional banks, thought to be models of prudence, were actually deep into sub-prime and other doubtful investments. But then, even Greek and Irish banks hold foreign public bonds; Portuguese sovereign debt is held by Santander, etc. This has already removed a number of European banks from the top ranks. In 2007, there were still 7 European banks among the global top ten; since then the powerful rise of Chinese banks but also the strong resurgence of US banks which were historically the initiators and drivers of the neoliberal project, left only three European banks in 2010 (Chesnais 2011: 55, cf. 99-101). As Anand et al. write, 'Ironically, it is the integration in the financial and money markets, that in part was due to a common currency, which makes the euro zone crisis harder to untangle'. Per January 2011 58% of Greek bonds, 54.2% of Irish, 66% of Portuguese, and 38.7% of Spanish were held abroad (Anand et al. 2012: 15, cf. Table 1), although this is subject to continuous capital movements as we saw earlier.

Since we are dealing with a banking crisis redefined/restructured as a sovereign debt crisis, the Stability Fund and other rescue operations are devised with the banks in mind; but their funding is connected to conditionalities imposed on the southern Eurozone states, which as a result of the flaws in the monetary union, are faced with an inflationary effect of the common currency, are open to foreign capital, and have higher sovereign debts. Because they are still entrenched in a corporate liberal class configuration with capital/labour compromise surviving, welfare state elements likewise, and an unbeaten labour movement, they are bearing the brunt of neoliberal reform.

The introduction of Eurobonds would in one sweep remove the default prospects for the southern states, and this would at least cover one side of the crisis. But those who have demonstrated, like Belgian specialist Paul de Grauwe, that this is a perfectly feasible option (de Grauwe 2011), overlook the strategic aim of financial interests in breaking the corporate liberal shell protecting the working classes of southern Europe. Also the populist campaign against these countries has already raised the temperature to such an extent by spreading absurdities such as 'not a cent more to Greece' that Eurobonds have become a political impossibility (it was reported in Dutch newspapers that tourists from Holland last summer refused to pay restaurant bills in Greece, claiming 'they already paid').

The model for a neoliberal populist campaign against corporate liberal holdovers was unintentionally pioneered in Italy with the Northern League, and also in Belgium. Here the linguistic divide makes it come closest to the current trans-European divide along national lines. In Flanders neoliberal practices were adopted to a much greater extent than in French-speaking Wallonia, because the Walloon workers organised in the FGTB trade-union and the French-speaking Socialist Party, the strongest party in the whole of Belgium in spite of the many scandals it had been involved in, held out against the neoliberal onslaught by successive right-wing federal governments (Bailly 2010). The populist neoliberal majority in Flanders is spearheaded by the N-VA party. Unlike the neofascist Vlaams Belang, formerly Vlaams Blok, the N-VA attacks the state as a too costly mechanism for redistribution from the north to the south. As emotions are whipped up over language issues (with an immigrant sub-population as a catalyst for mutual animosity), what should be a rational debate about social and economic policy, is turned into heated 'nationalist' discourse from which compromise is easily removed.

This has become the model for European neoliberal populism throughout, with the 'EU' in the role of the Belgian state, and the racist-labelled 'PIGS'—Portugal, Italy, Greece and Spain—in the role of unreformed Wallonia. In 2010, according to data collected in nine countries, more than one person in five lived in households that reported a major drop in income in the previous 12 months: Ireland (20.4 %), Latvia (21.8 %), Bulgaria (21.9 %), the United Kingdom (22.2 %), Lithuania (23.1 %), Portugal (25.4 %), Hungary (26.4 %), Spain (26.6 %) and Italy (33.2 %). (European Commission-Eurostat 2010). The 'working poor' according to the latest available ILO figures make up around 20 percent of the workforce in Hungary, Germany, and the UK (South Korea, US and Canada top the list, ILO 2010: 36, Figure 21). Greece had 'only' 14% working poor (Kaplanis 2011: 221), so there was still work to do. In late August, Greek Development Minister Kostis Hatzidakis announced that the government was in talks with the EU about establishing free economic zones offering tax and other advantages to investors (Athens News, 28 August 2012); when Chancellor Merkel visited the country in October 2012, it was reported that German business would profit most from these zones (never mind the need to boost tax income), whilst a spokesperson for the Federal government expressed satisfaction that the drop in Greek wages had meanwhile reached 'double-digit' level (German Foreign Policy, 10 October 2012).

That the Eurozone design flaws are not the only or even the main factor in the 'bank/debt crisis' but that were are in fact looking at attempts of deepening neoliberal reform, is also brought out by Hungary's performance on the poverty indicators cited. After the election that gave the Right under Viktor Orbán a two-thirds majority in parliament with 25% of the vote, Hungary has inaugurated a radical neoliberal policy with ultra-nationalist overtones. Combining a flat tax of 16% with highly repressive labour relations legislation and dismantling the remaining structures of social security, Orbán's party is creating a social order that is authoritarian and highly centralist and favourable to his own business allies as well to those of the young accepting flexible employment. Like all neoliberal governments from Thatcher onwards, it has attacked the idea of social protection and redistribution by the state as its central plank, but paradoxically has also limited the power of (international) finance by limiting the independence of the Central Bank, and partially converting foreign currency mortgages (the EU equivalent of US sub-prime) into forint-denominated debt (Tamás 2012: 3).

As the crisis deepens, its restructuring from a bank crisis (with its corollaries of popular indignation against the shadow world of finance and potentially, anti-capitalist sentiment) into a sovereign debt crisis, carries grave political implications. For the sovereign debt crisis, met in Europe through bail-outs (nominally of countries but in fact of banks which speculate against them), also shifts the ground of popular sentiment from an anti-bank/anti-capitalist potential to one of nationalist stereotyping and name-calling. This today is resulting in a build-up of aggression along 'national' lines, people against people, with anti-immigrant sentiment as a catalyst intensifying the process. In a climate of proliferating international violence, the political consequences of this should not be underrated.

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