

# What to do about the debt and the euro?

## A manifesto

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### The crisis

Europe is sinking into crisis and social regression under the pressure of austerity, recession and the strategy of “structural reforms”. This pressure is tightly coordinated at the European level, under the leadership of the German Government, the ECB and the European Commission. There is a broad consensus that these policies are absurd and even “illiterate”: fiscal austerity does not reduce the burden of the debt but generates a spiral of depression, more unemployment and despair among the European peoples.

Yet, these policies are rational from the point of view of the bourgeoisie. They are a brutal way - a shock therapy - for restoring the profits, for guaranteeing the financial rents and for implementing the neoliberal counter-reforms. What is going on is fundamentally the validation by the states of the financial claims on future production and GDP. That is why the crisis takes the form of a sovereign debt crisis.

### A false dilemma

This crisis reveals that the previous neoliberal project for Europe was not viable. It presupposed that the European economies were more homogeneous than they actually are. Differences between countries increased due to their place in the global market, to their sensitivity to the euro exchange rate. Inflation rates didn't converge and low real interest rates favored intense capital flows among countries and financial and housing bubbles. All these contradictions - exacerbated with the implementation of the monetary union - existed before the crisis but they have exploded with the speculative attacks against the sovereign debts of the most exposed countries.

The social and popular alternatives to this crisis require a daring refoundation of Europe, because European and international cooperation are required for the reconstruction of the industrial pattern, the ecological sustainability and the employment structure. But as such a global refoundation seems out of reach in the immediate relationship of forces, the exit from euro is proposed as an immediate solution in different countries. The dilemma seems to be between a risky ‘exit’ from the eurozone and a utopian European harmonization emerging out of the workers’ struggles. In our view, this is a false dichotomy and it is important to work for a viable political strategy for the immediate confrontation. Any social transformation implies the questioning of dominant social interests, their privileges and their power and it is true that this confrontation takes place primarily within a national framework. But the resistance of the dominant classes and their possible retaliatory measures exceed the national framework. The strategy of leaving the euro does not necessarily concentrate on this effort for a European alternative and in this sense, a strategy of rupture with “euroliberalism” is required in order to generate the means for an alternative policy. This text is not about the program for this rupture but rather concentrates on means to implement such a program.

## What should a left government do?

We are in the midst of what can be technically called a “balance-sheet crisis”. This is a crisis triggered by private sector deleveraging and debt minimization, caused by the accumulation of an enormous amount of fictitious assets, not backed with real fundamentals. In practical words, it means that citizens have to pay for the debt or in other terms validate the claims of the finance on current and future production and taxes. The European states, in an action strictly coordinated at European and even at the global level, have decided to nationalize the private debts by converting them into sovereign debt and to impose austerity and transfer policies in order to pay for such debts. It is the justification, the motivation and the opportunity for the implementation of “structural reforms” whose objectives are classically neoliberal, shrinking the public services of the welfare state, cutting social spending and flexibilizing the labour markets, in order to lower the direct and indirect wage.

In our view, the political strategy of the left must concentrate on the fight for a majority for a left government, able to get rid of this straightjacket.

*Getting rid of the financial markets and managing the deficit.* In the short term, as an immediate measure, a left government should find ways to finance the public deficit outside the financial markets. The European rules forbid some of them and this is the first rupture. Technically, there is a wide range of possible measures which are not new and have been used in the past in various European countries: a forced loan on the richer households; the prohibition to borrow from non-residents; the obligation for banks to a quota of public bonds; bold taxes on international transfers of dividends and capital operations, etc. and of course a radical fiscal reform.

The simplest way would be to have the deficit financed by the national central bank, as it is the case in the United States, Great Britain, Japan, etc. It is possible to create a special bank allowed to refinance itself with the central bank, but principally devoted to buy public bonds (the ECB has done the same in practice).

Of course this is not mainly a technical issue. It is a political rupture with the European order. Without such a rupture, any heterodox policy would be immediately thwarted by an increase in the cost of the financing of the public debt.

*Getting rid of the financial markets and restructuring the debt.* However, this first set of immediate measures does not reduce the burden of the accumulated debt and of the interests on this debt. The long-term alternative is then the following: either an everlasting fiscal austerity or a policy of cancellation of the debt and an immediate moratorium on the public debt. A left government should say: ‘we cannot serve the debt stealing wages and pensions, and we won’t’. After this moratorium it should organize a citizens’ audit to target illegitimate debt, which corresponds for instance to four elements:

- the past “fiscal gifts” to richest households, corporations and “rentiers”
- the “illegal” tax privileges: tax evasion, tax optimization, tax havens and amnesties
- the bailouts of banks since the burst of the crisis
- the debt created by the debt itself, through the snow ball effect created by the difference between interest rates and GDP growth rates, as damaged by austerity and unemployment policies.

This audit leads the way for the imposition of a swap of titles of the debt canceling a large part of it, as required. This is a second rupture.

But the sovereign debts are also totally intermingled with the private banks. That is why the bailout of a country has been in general a bailout of banks. A third rupture from the neoliberal order is needed: the control of international movements of capital, the control of credit and the socialization of banks. This is the only rational mean of untangling the skein of debts. After all, this has been the option taken in Sweden in the 1990s (nevertheless followed by their reprivatisation).

To summarize, opening an alternative road requires a coherent set of three ruptures:

- financing of the past and future issues of sovereign debt
- cancellation of the illegitimate debt
- socialization of banks for the control of credit.

These are means for a social transformation. How can we get there?

A left government is necessary

In order to develop these three main ruptures that are required for resisting the financial blackmail, a left government must be in place. Although the social and political conditions for a strategy of convergence and fight for such a government widely vary according to the countries, all Europe focused in the summer of 2012 on the possibility for Syriza to win the elections and to constitute the axis for such a government in Greece. At the time and afterwards, Syriza led a campaign on the essential themes we stand for in this manifest: a left government is an alliance to cancel the memorandum and to restructure the debt protecting the wages and pensions and the social services of health, education and social security. Our approach here chimes with the “no sacrifice for the Euro” approach of Syriza.

An exit of the euro is not a guarantee for rupture with ‘euro-liberalism’

It is obvious that a left government delivering such measures must be very bold, very concentrated on a socialist program and must have a large popular support. This popular support can only be obtained if the platform is clear on the main task of fighting the financial interests and to reconstruct an economy for full employment and the social management of the common goods. We should not deviate from this strategy. If the cancellation of the debt is the goal, we should not deviate from the goal. To win and to deserve to win strictly depends on political coherence and clarity. The first measures of the left government is the fight against the debt and austerity.

For this effective policy against the debt, a left government, provided it has the required popular support, must be ready to use whatever democratic means necessary to confront the financial interests, including measures of nationalization of strategic sectors and a direct confrontation with the Merkel government, the ECB and the European Commission. The defense of democracy and social achievements should be deepened at a supranational level. However, if the Brussels policy prevents it, that defense will ultimately have to be ensured from already existing national frameworks. This confrontation should not see the euro as a taboo, and have alternative options open including leaving the euro either if no other alternative is possible in the European framework or if the European authorities force it. However this should not be the starting point.

For any left government, the difficult consequences of leaving the euro must be clarified. First, it would not necessarily restore democratic sovereignty: the financing of the deficit would escape the control of financial markets, but this control could be exercised by speculation against the new/old currency whenever a country has a current account deficit.

Second, the global weight of the debt would not be reduced. Instead, it would be increased in proportion of the rate of devaluation, since the debt is denominated in euros. In this case, the government would be forced to redenominate the public debt in the new national currency, what is equivalent to a partial cancellation of the debt. The State has the power to do that, even if an international judiciary conflict is to be expected, but private firms and banks do not have the same sovereign power; consequently, the value of private and financial debt would increase in the national currency equivalent. In this framework, a nationalization of the banks would be eventually required by no other need than the bankruptcy of all the credit sector, but this also means an increase of the public debt towards the international financial sector.

Third, an inflationary process would be ignited by the devaluation and therefore interest rates would tend to be increased, generating new problems of internal debt and unequal distribution of income.

Fourth, the exit of the euro is typically presented as a strategy designed to gain market shares through a competitive devaluation. This type of approach does not break with the logic of competition of all against all and abandons a strategy of a common European fight against austerity.

Finally, continuing the fight without proposing an exit of the euro and the EU as an alternative, increases the area of maneuver and bargaining power of a left government, as well as the chances of spillovers of resistance to other countries in the EU. Hence this strategy is progressive and internationalist as opposed to isolationist and national.

#### For a strategy of unilateral rupture and extension

In contrast with the neoliberal vision of competition, progressive solutions are based on cooperation and will work even better if they are generalized to a larger number of countries. For example, if all European countries reduced working time and charged a uniform tax on capital income, such coordination would avoid the backlash that the same policy would undergo if adopted in only one country. To pave the way for cooperation, a left government should follow a unilateral strategy combining:

- 'good' measures unilaterally implemented as, for example , the rejection of austerity or the taxation of financial transactions;
- accompanying plans for protection such as capital controls.
- The political risk of challenging European Union rules to implement these initially nationally-based policies should be acknowledged. The idea is to extend these policies on a European scale to allow these measures to be adopted by member states, for example, in the extension of fiscal stimulus, or a European tax on financial transactions.

However the political confrontation with the EU and other European states' elites, in particular the German government, cannot be avoided and thus the threat of exit from the euro is not excluded as a viable option.

This strategic scheme acknowledges that the refoundation of Europe cannot be the precondition to the implementation of an alternative policy. The eventual retaliation measures against a left government must be neutralized through counter-measures that effectively involve resort to protectionist measures if needed. But the strategy is not protectionist in the usual sense since it defends a social transformation emerging from the people and not from the interests of national capitalism in its competition with other capitalists. It is, therefore, a *'protectionism for extension'*, whose very logic is to disappear

once the social measures for employment and against austerity have been generalized across Europe.

The rupture with the European Union rules is not based on a petition of principle, but rather on the efficacy, fairness and legitimacy of measures that correspond to the interests of the majority and are equally proposed to neighboring countries. This strategic challenge can then rely on social mobilization in other countries and hence build a relation of forces that can challenge the EU institutions. The recent experience of the neoliberal rescue plans implemented by the ECB and the European Commission has shown that it is quite possible to bypass a number of the provisions of the EU Treaties, and that European authorities do not hesitate to do so for the worse. As a consequence, we reclaim the same capacity for measures for the best, including the imposition of capital controls and other instruments for the defense of the wages and pensions. In this scheme, the exit of the euro is a threat or a weapon of last resort, as we pointed out previously.

This strategy relies on the legitimacy of progressive solutions that arise from their highly cooperative class nature. It is a cooperative strategy of rupture with the current EU framework because it is undertaken in the name of another model of development based on a new architecture for Europe: a larger European budget financed by a common tax on capital that finances harmonization funds and socially and ecologically useful investments. But we do not wait for this change: the fight against the debt and austerity is the task of the day, such as fair measures defending the wages and pensions as well as the social services and common goods.

In short, a popular strategy for a left government must be ready to do whatever necessary for this democratic fight. We stand for that strategy.