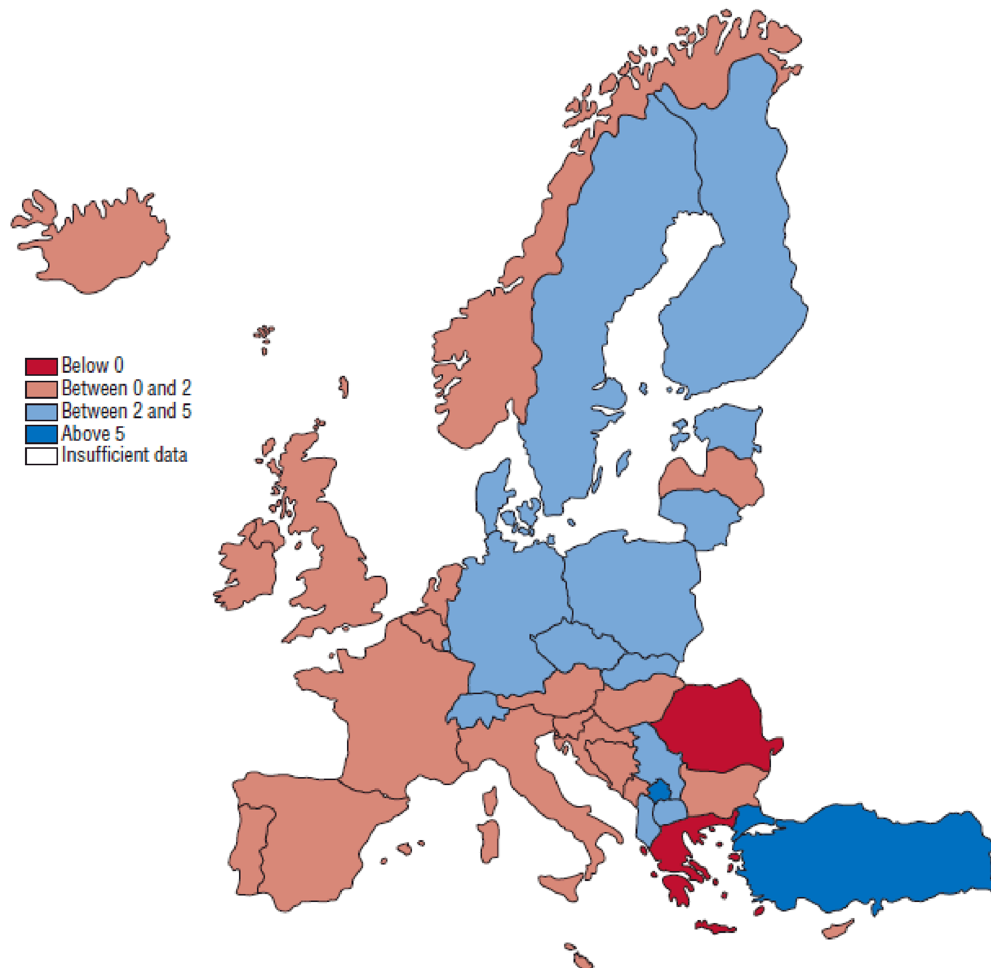
Neoliberal Europe vs. Social Europe:

Can the EU be changed from within?



A compilation of articles on

the Left Debate on the euro-crisis

The EU as a barrier

By Asbjørn Wahl

(Extract from the forthcoming book by Asbjørn *Wahl: "The Rise and Fall of the Welfare State", Pluto Press. Not to be published or distributed further before the book is out in August 2011)*

In Europe, the EU increasingly seems to be an extra barrier to economic and social development as well as to the social struggle. There are various aspects of the EU as an institution that contribute to creating these barriers. *Firstly*, we have the democratic deficit. This deficit has actually increased over the past years. The official message from the EU and governments of member states, supported by the ETUC and other sections of the European trade union movement, is the opposite. They claim that the Lisbon Treaty took a step in democratic direction since the elected Parliament gained increased influence in a number of areas.

However, in the opposite direction we can see that member states, in the wake of the economic crisis, are almost being placed under administration by the European Central Bank (ECB) and the Commission – with drummed-up support from the IMF. The new proposal to introduce economic sanctions against a member state that does not follow the strict (and economically and politically destructive) Maastricht criteria will further contribute to de-democratising the EU as a supra-national construction.

Secondly, neoliberalism has been constitutionalised as *the* economic system of the EU (in the Lisbon Treaty and earlier treaties). The free movement of capital and freedom of establishment have been carved in stone in the EU, with all other considerations subject to these principles – something we have also clearly experienced within labour legislation over the last few years (see below). Free competition on all markets is another fundamental principle of EU treaties. In recent years, this has increasingly also been applied to the services market, which differs from the commodity market in that the sale of services mainly has to do with the sale of mobile labour power.

For a long time, it has been a common saying among many on the political Left in Europe that socialism is forbidden according to the EU treaties. With the Maastricht criteria and the new sanction measures to force member countries to keep their budget deficit below 3% and national debt under 60% of GDP, traditional Keynesianism (or what we could call Social-Democratic regulatory policy from the post-war years) is also forbidden. This amounts to a further dramatic restriction on democracy in the EU member countries and it represents a major step in the direction of a more authoritarian EU.

Thirdly, the decision-making process of the EU helps to make the above principles almost irreversible. While all nations have certain protective measures built into their constitutions, e.g. the need of a qualified majority (2/3 or 3/4) if the constitution is to be altered, in the EU there has to be unanimity (100% of the at present 27 members) before any alterations can be made. This means that

the chances of changing EU treaties in a progressive direction via ordinary political work are virtually non-existent. It only needs *one* right-wing government in *one* country to prevent it.

Fourthly, the existence of a common currency, the euro, in at present 17 of the 27 member countries contributes to putting many of the countries involved in an economic straitjacket. As long as the countries in the euro region experience highly diverging development of their economy and productivity, and do not have any large, common budget to even out the differences, they will also need highly different currency policies. In the current situation, it is Europe's 'economic locomotive' Germany in particular that gains from this, with its strategy of exporting itself out of the crisis, while the countries most badly hit by crisis and debt (Greece, Ireland, Spain, the Baltic countries, etc.) are the losers.

Since the possibility of devaluing is gone, these countries – with their greater domestic consumption and weaker competitiveness – are then forced to implement a so-called 'internal devaluation', i.e. to strengthen their competitiveness via wage cuts and cutbacks in public social expenditure. This is certainly in accordance with the EU as a neoliberal project, but it is ruinous for the development and social situation of these countries. It was this that caused Michael Hudson to state that the EU is now using the crisis 'as an opportunity to fine governments and even drive them bankrupt if they do not agree roll back salaries. […] "Join the fight against labor, or we will destroy you," the EC is telling governments.'[1] This economic straitjacket can also easily contribute to developing contradictions between workers in countries with very different policy needs.

Fifthly, the uneven development in the various EU countries constitutes a barrier to developing coordinated union mobilisation and popular resistance to the neoliberal, reactionary policy. Even though much of EU policy is decided by EU institutions, it takes place in such a way that it is implemented in different ways at different times in the various member states. The attacks and weakening of the pension systems, for example, have taken place over a long time and in different forms from one country to the next – on the basis of recommendations from the EU, but not direct legislation. This makes it impossible to create coordinated European mobilisation against the attacks.

The same applies to the EU privatisation policy. The EU rarely decides that this or that activity should be privatised. It decides to liberalise, and that more and more areas should be subject to its rules on competition. The market takes care of the rest, which results in privatisation, as we have seen within energy, transport, telecommunications, etc. Also this therefore occurs at different times and in different ways in the various member states (including the EEA countries), which makes it difficult to mobilise coordinated resistance across national borders. The EU's special legislation process constitutes a problem in itself – because directives do not become laws in themselves, for example, but the content has to be transposed into the member countries' own legislation – here too at different times and in different ways. As if that was not enough, EU legislation is also characterised by an almost impenetrable bureaucratic language. This is exploited by national governments and

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[1] Michael Hudson: A Financial Coup d'Etat. *Counterpunch* , October 1-3/2010 - <http://www.counterpunch.org/hudson10012010.html>.

politicians, who often trivialise the effects of various law proposals which later prove to have far more comprehensive, negative effects when implemented in a particular country.

Sixthly, the EU Court of Justice has assumed a more important role in recent years in re-interpreting and in reality extending its area of influence to some of the EU treaties and legislation – particularly within dealing with services (i.e. mobile labour). This specially applies to the four judgments passed from December 2007 to summer 2008 (the Viking, Laval, Rüffert and Luxemburg cases[2]), all of which contributed to restricting the trade unions' right to take industrial actions, but promoting social dumping within the EU.

Before these judgments were passed, the prevalent view was that the laws and agreements concerning the labour market lay outside the EU's domain. It belonged to the jurisdiction of the nation states. This argument, among others, was actively used by the government and the Social Democratic leadership when Sweden became a member of the EU in 1994 – warmly supported by the leadership of the national trade unions.[3] The Laval case was an eye-opener for large sections of the Swedish trade unions, for this and the three other judgments have made it clear that the exact opposite applies: labour-market legislation is subject to EU legislation on competition, to the free movement of capital and freedom of establishment. Among other things, the judgments have led to the so-called Posting of Workers Directive being in fact changed from a minimum to a maximum directive regarding the wages and working conditions that are to apply for workers in companies in one member country that carry out work in another country. ILO Convention 94, which also seeks to ensure wages and working condition in similar cases, is quite simply ignored by the court.

Taken together, all this has led to a dramatic, serious situation in Europe. The development of the EU in a more authoritarian direction and the limitation of the unions' legal right to fight go hand in hand with draconian cutbacks, with massive attacks on wages, working conditions, pensions and public welfare in an increasing number of crisis-hit countries. While the establishment of The European Coal and Steel Community and the EU were motivated, among other things, by wishes for peace in Europe – in the wake of two world wars that had had their origin there – the present-day EU project of the European elites is contributing to a formidable economic, social and political polarisation in Europe. *The European social model* is strongly being undermined. We are then faced with the paradoxical situation that the 'peace project' EU is now that which most threatens European unity – initially not on a national but on a social basis. That this may change into increased national contradictions in given situations is, however, something we cannot ignore. Bearing in mind the history of Europe, this is a dangerous game of playing with fire on the part of the European economic and political elites.

In this situation, it is actually only the trade union and labour movements along with social movements that have the potential to secure a social, united Europe by fighting for solidary solutions and a development based on people's material and social needs. Time is short, but the matter of the

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[2] A good presentation of the cases is to be found at: <http://www.lavalvikingruffert.eu>.

[3] The same thing happened in Norway, but there – for the second time – there was a majority against EU membership at the referendum in 1994.

fact is that we are far from having a European trade union movement which can take on such a role at present, given the massive social mobilisation that is required to be able to bring out necessary changes. With all the barriers just summarised, the question is also if it is realistic to believe that the whole EU can be changed via broad, pan-European mobilisation. Perhaps we will have to do what the progressive Canadian professor Leo Panitch suggests in an interview which, in this particular case, is related to the economic crisis in Ireland:

> [T]he only real solution here is for Ireland to lead the way by defaulting on the debt, to do what Argentina did at the beginning of this century. But that will mean, and I hope it will mean, a much more radical set of responses in Europe, not only in Spain and Portugal and Greece, but much more broadly, whereby people are given a lead in terms of not just socializing the private banks' bad debts but actually nationalizing the banking system and turning it into a public utility. It'll mean breaking up the European Union, but reconstructing it on a basis of democratic and cooperative economic planning, where the money […] is actually allocated in a democratic way.[4]

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[4] Leo Panitch, interviewed in Global Research, 5 December 2010. <http://www.globalresearch.ca/index.php?context=va&aid=22263>.

New York Times, May 10, 2011

Why Greece Should Reject the Euro

By MARK WEISBROT

SOMETIMES there is turmoil in the markets because a government threatens to do what is best for its citizens. This seemed to be the case in Europe last week, when the German magazine Der Spiegel reported that the Greek government was threatening to stop using the euro. The euro suffered its worst two-day plunge since December 2008.

Greek and European Union officials denied the report, but a threat by Greece to jettison the euro is long overdue, and it should be prepared to carry it out. As much as the move might cost Greece in the short term, it is very unlikely that such costs would be greater than the many years of recession, stagnation and high unemployment that the European authorities are offering.

The experience of Argentina at the end of 2001 is instructive. For more than three and a half years Argentina had suffered through one of the deepest recessions of the 20th century. Its peso was pegged to the dollar, which is similar to Greece having the euro as its national currency. The Argentines took loans from the International Monetary Fund, and cut spending as poverty and unemployment soared. It was all in vain as the recession deepened.

Then Argentina defaulted on its foreign debt and cut loose from the dollar. Most economists and the business press predicted that years of disaster would ensue. But the economy shrank for just one more quarter after the devaluation and default; it then grew 63 percent over the next six years. More than 11 million people, in a nation of 39 million, were pulled out of poverty.

Within three years Argentina was back to its pre-recession level of output, despite losing more than twice as much of its gross domestic product as Greece has lost in its current recession. By contrast, in Greece, even if things go well, the I.M.F. projects that the economy will take eight years to reach its pre-crisis G.D.P. But this is likely optimistic — the I.M.F. has repeatedly lowered its near-term growth projections for Greece since the crisis began.

The main reason for Argentina's rapid recovery was that it was finally freed from adhering to fiscal and monetary policies that stifled growth. The same would be true for Greece if it were to drop the euro. Greece would also get a boost from the devaluation's effect on the trade balance (as Argentina did for the first six months of recovery), since its exports would be more competitive, and imports would be more expensive.

Press reports have also warned of a sharp increase in Greek debt from devaluation if it were to leave the euro zone. But the fact is that Greece would not pay this debt, as Argentina did not pay two-thirds of its foreign debt after its devaluation and default.

Portugal just concluded an agreement with the I.M.F. that projects two more years of recession. No government should accept this kind of punishment. A responsible leader would point out to the European authorities that they have the money to support Greece with countercyclical policies (like fiscal stimulus), though they are choosing not to.

From a creditors' point of view, which the European Union authorities have apparently adopted, a country that has accumulated too much debt must be punished, so as not to encourage "bad behavior." But punishing an entire country for the past mistakes of some of its leaders, while morally satisfying to some, is hardly the basis for sound policy.

There is also the idea that Greece — as well as Ireland, Spain and Portugal — can recover by means of an "internal devaluation." This means increasing unemployment so much that wages fall enough to make the country more internationally competitive. The social costs of such a move, however, are extremely high and it rarely if ever works. Unemployment has doubled in Greece (to 14.7 percent), more than doubled in Spain (to 20.7 percent) and more than tripled in Ireland (to 14.7 percent). But recovery is still elusive.

You can be sure that the European authorities would offer Greece a better deal under a credible threat of leaving the euro zone. In fact, there are indications that they may have already moved in response to last week's threat.

But the bottom line is that Greece cannot afford to settle for any deal that does not allow it to grow and make its way out of the recession. Loans that require what economists call "pro-cyclical" policies — cutting spending and raising taxes in the face of recession — should be off the table. The attempt to shrink Greece's way out has failed. If that's all that the European authorities have to offer, then it is time for Greece, and perhaps others, to say goodbye to the euro.

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CEPR Website: http://www.cepr.net/

Response to Krugman on Greece and the Euro

Mark Weisbrot

The Guardian Unlimited, May 13, 2011

Paul Krugman **responds** to my **op-ed earlier this week** on Greece and the eurozone with agreement and disagreement. He agrees that "Argentina is the right parallel" for the Greek situation, and that "the program for Greece is not working; it's not even close to working." But he disagrees on exiting the Euro, for two reasons:

(1) Argentina "still had peso notes in circulation, so the mechanics of exit from the peg were much easier than exiting the euro would be."

(2) "Greece, as a relatively poor country with a history of shaky governance, has a lot to gain from being a citizen in good standing of the European project."

These are good points, and I think reasonable people can disagree on whether Greece should consider leaving the Euro; there are a number of risks and uncertainties with that path as well as the current path.

Before addressing these points I should clarify that although the headline assigned to my article said "Why Greece Should Reject the Euro," I did not argue that Greece should simply exit from the Euro. My argument was that this has to be on the table, and that if the European authorities continue to offer Greece only punishment, rather than help, then the Greek government – as well as others – should be prepared to leave.

This first point about the difference between Greece and Argentina, in terms of Greece having already given up its currency, is very true. This does complicate matters. Greece would have to re-introduce its currency, something that Argentina did not have to do. However, Argentina did suffer a serious financial collapse, even with its own currency. In the fall of 2002, with the recovery already underway, the International Monetary Fund (IMF) **projected** just 1 percent growth for 2003. Actual growth turned out to be 8.8 percent.

And it faced other very tough challenges that Greece might not. For example, for nearly two years after the default, the IMF was pressing Argentina to adopt policies that would have inhibited its recovery and refusing to roll over its debt unless the Argentines signed an agreement. At the time, only a handful of failed states (such as Iraq and Congo) had ever defaulted to the IMF. The Fund was believed to have the ability to cut off private trade credits to a defaulting country, so that it would not be able to obtain the necessary credits to even carry on normal trade. This was the threat under which the Argentine government had to decide what to do in 2003. Many people assumed that it was too much to stand up to.

At the time, I argued that while the Fund might have the ability to inflict this "ultimate punishment," that it would not, as a political matter, be able to do so – in the same way that Nixon could not use

nuclear weapons in Vietnam. Argentina and the IMF came to a showdown in September of 2003, and Argentina temporarily defaulted to the IMF. The Fund backed down and rolled over the loans.

I think that are even more limits to what the European authorities can do to punish Greece today, without the consent of its government. In fact, I would argue that the European authorities – the European Commission, the European Central Bank (ECB), and the IMF – are only getting away with the punishment to which they are currently subjecting Greece is because of a false narrative that prevails. The narrative is that Greece has no choice but to cut spending, privatize, and enact other "reforms" because it is "broke." In this narrative, the European authorities are helping Greece, forcing the country to take the necessary "tough medicine" and restore its solvency, so the economy can grow again. There are even many Greeks who believe this, and many journalists. (Krugman, of course, does not accept any of this.)

The Greek government (as well as those of Portugal, Ireland, and Spain) needs to shift this narrative toward the truth. One way to do this in practice is to confront the punishers. That is what the Argentine government did, and that is one reason it had popular support to take the big risks that it did, and ultimately to succeed. The more accurate narrative today is that Greece is bargaining with creditors, as well as the European authorities, who are pursuing their own interests in opposition to the interests and well-being of the vast majority of Greeks. They have over a trillion dollars at their disposal and could easily "bail out" Greece with interest-free loans, and even a real (not **Jamaican-style**, as is currently being discussed) debt restructuring, that would allow for counter-cyclical fiscal policy and growth. But they have opted to punish Greece – for various reasons, including the creditors' own interests in punishment, their ideology, imaginary fears of inflation, and to prevent other countries from also demanding a "growth option." They are sticking to this route even if it means an indefinite recession, and to force 50 billion Euros of privatizations that will very likely enrich some Europeans at the expense of Greek taxpayers.

In other ways Greece is better situated than Argentina was **when it defaulted**. Most importantly, Greece is a much more developed country: its income per person, at $28,400 (purchasing power parity dollars) is nearly three times (in real terms) that of Argentina in 2001. A financial crisis does not so easily cause long-term damage to a developed economy; the damage is more likely caused by years of bad policy in response to it, as we are now witnessing in the eurozone periphery (and "deficit hawks" are attempting in the United States).

As for the advantages of the European project, I would argue that these must be separated from the monetary union. The monetary union is a right-wing project; ECB makes Ben Bernanke, a Republican, look like a socialist by comparison. It is a major impediment to social progress in the eurozone countries, and will likely remain so for the foreseeable future. And then there are **all the economic reasons** – mainly having to do with the difficulties of having countries with different productivity levels and growth paths share a common currency – why the currency union was not such a great

idea to begin with. So Greece would probably gain more than it loses by getting out of the Euro, in terms of its own long-run development.

A default and exit from the Euro could possibly cause as much trouble for Germany and France as for Greece, given their holdings of Greek debt and the effect on European banks generally. So that is why I would argue that Greece needs to put these options on the table; default and exit are its big bargaining chips. Without them, the European authorities could squeeze Greece indefinitely, causing irreparable harm to the economy and subjecting millions of people to unnecessary unemployment.

A Greek threat to exit the euro could cause a rethinking in Portugal, Ireland, and Spain, where they are suffering hundreds of billions of euros worth of lost output due to bad macroeconomic policy. Whether or not these countries decide to rethink the euro itself, simply reconsidering – in all of Europe – the right-wing economic policies of the eurozone authorities would be a big step forward for the region.

EXITING THE EURO?

Mark Weisbrot, Hans Werner Sinn and Nuriel Roubini versus the eurozone's Eagles' Doctrine

Yanis Varoufakis

11 May 2011

Thankfully, last Friday's Der Spiegel article (as I had imagined it would [1]) opened a Pandora's box of views on the state of the eurozone. Why thankfully? Because, until now, Europe has been living in denial, imagining that the crisis could be dealt with by a mix of expensive loans, deep austerity and tighter fiscal discipline. It is now clear that this mix only accelerates the crisis and multiplies its eventual cost. A new tack is, therefore, of the essence.

Recalling that the ball started rolling when *Der Spiegel* inaccurately reported that Greece was contemplating a heroic exit from the euro, the past few days saw a candid debate on the pros and cons of such an exit. Mark Weisbrot weighed in with a piece in the New York Times entitled Why Greece should reject the euro. While his take on the impossible situation that Greece is now in is spot on, and he demonstrates a touching sympathy with the Greeks' predicament, he errs in the same manner that Hans Werner Sinn (an austere critic of Greece who believes that Greece has laid its own procrustean bed) erred in calling for Greece to exit the euro as the best of all evil scenaria. And what is their shared error? To imagine that leaving the eurozone is equivalent to being kicked out of a club for misbehaviour.

Watching this debate unfold reminded me of another interesting split within the group of commentators who like Weisbrot, and unlike Professor Sinn, express sympathy with Greece's plight. On the one hand, there is the American perspective from which things appear as relatively straightforward: Countries caught in a debt-recessionary spiral which cannot inflate their way out of debt have no alternative but to default. And if default is not allowed within a eurozone that refuses to finance the debt (by means of low interest loans), then the country in question must consider leaving. Nuriel Rubini's point the other day was precisely that, namely that Greece's exit from the euro is one of the few feasible strategies available to Athens. However, those who understand the profound difference between a currency union and a fixed exchange rate also understand what I call the **Eagles-doctrine**.

The **Eagles-doctrine**? In their hit *Hotel California*, the Eagles' last verse was: "You can check out any time but you can never leave".[2] Thus the… **Eagles-doctrine for a currency union** (like the eurozone). How exactly does this doctrines hang together, preventing a checked out (i.e. insolvent country like Greece) to leave? In two ways: First, by ensuring that any such move will return the country to the Stone Age. Secondly, by guaranteeing a series of cascades that will cause the whole union to collapse. Let's take these two ways in turn.

Suppose the Greek PM were to announce that tomorrow morning he will be tabling a piece of legislation in Parliament that paves the way to (a) an exit from the euro, to be effected by next week (an extremely short space of time in which to organize a new drachma issue capable of financing economic activity nationwide), and (b) a default on Greece's debt (which would be essential given that Greek debt is denominated in euros and a new drachma would devalue to such an extent that the debt mountain would be impossible to scale, even in theory). I submit to you dear reader that within minutes all ATMs in Greece would dry up, as Greeks withdraw all the cash they can. Within an hour, banks will have to shut shop, overwhelmed by the queues of customers demanding their savings (and if the announcement is made after hours, the banks will simply not open the next morning). In short, all economic activity will cease for at least a week. For a country already in recession, this would be tantamount to collective suicide.[3]

But let's for argument's sake assume that the Greeks decide to risk such a catastrophe, and that our German partners are only too happy to see the back of us. Soon, I suggest, their joy will turn to despair. Why? Consider the chain reaction that will begin with the collapse of the Greek banks. The ECB will have lost more than €110 billion in one instant (money owed to the eurosystem by the Greek banks) plus up to €40 billion of the Greek bonds that it has purchased on its own account since May 2010. Someone (call me Germany) will have to recapitalise the ECB. Moreover, the eurozone's private banks will start falling like sad dominoes not only because they are owed serious money by the Greek state but also because they are owed money by others who are owed money by the Greek state. Again, someone will have to prop up the remaining eurozone's banks at a cost that is better left uncontemplated. And as if this were not enough, the money markets will start betting on who will follow Greece into the wilderness. I am prepared to bet many months' salary that the punters will put much money on Ireland coming (or leaving) next. These bets will, by themselves, increase fears within Ireland (and in the mind of Irish asset-holders) that Ireland's euro membership may be in peril, thus liquidating their real estate holdings and taking every euro they have off the Emerald Isle.

There is no need to continue to drive my point home: Once these events occur, the markets will turn to the next exit prospect and then to the next until Germany will decide it has had enough. At that point it will bail itself out of the eurozone and the common currency will perish. Could that be a good thing? Why should Germans fear such a prospect, especially if they can then forge a new currency union with 'like-minded' nations, like Holland, Austria and Finland? Because, the simple answer is, if they do this, the new currency (an NDM?) will skyrocket, propelled by the collapsing economies around this new union and, importantly, against the backdrop of a global currency war that will ensure a massive drop in the demand of Germany's exports.

In the United States Paul Krugman seems to understand this, [4] even though he is tempted by the thought that a desperate government may adopt the desperate exit strategy. In Europe, with the exception of some German austerians (like Professor Sinn, who seem unaware of the hideous truth that producing gleaming products which foreigners want to buy is no guarantee that they buy them), almost everyone understands that a Greek exit from the euro is a catastrophe of the highest order not just for Greece but for Europe as a whole (even for the global economy, one might add). Wolfgang Münchau, as reported by eurointelligence.com today, impresses upon his reader the crucial point that "monetary union has some state-like characteristics" and that, as with any state, its disintegration is fraught with dangers and traps.

Having said all that, Mark Weisbrot's concerns (as well as Roubini's Krugman's etc.) remain in force: "Greece" he writes poignantly "cannot afford to settle for any deal that does not allow it to grow and make its way out of the recession. Loans that require what economists call "pro-cyclical" policies — cutting spending and raising taxes in the face of recession — should be off the table". Unfortunately, not only do they remain on the table but new loans made conditional on fresh, harsher pro-cyclical policies are imposed as well. So, is there an alternative?

The obvious alternative that anglo-american pragmatic minds (including Nuriel Rubini and Martin Wolf, see his piece in the Financial Times today) immediately think of is a default. Indeed, if Europe is unwilling to finance a burgeoning Greek debt forever, and an exit from the eurozone is ruled out, default within the eurozone is the only option. Now, there are those who argue, with some justification, that a Greek default within the eurozone will trigger a series of similar defaults that may end up being as devastating in their effect as that of a series of exits (beginning with Greece) from the euro area.

First and foremost among these anti-default polemicists is Lorenzo Bini Smaghi, the ECB board member (who uniquely manages to retain a modicum of independent thinking while still an ECB functionary). In a recent talk he rounded up his narrative by quoting from David Marquand's book ***The end of the West***: "The economic crisis itself, like its predecessor in the 1930s, is political, not technical… The world's economic blocs will have to find painful answers to urgent problems; and the

allocation of the pain will be a supremely high-political matter. It will raise profound questions of distributive justice… the proper balance between the claims of poor and rich nations…But for **the Union's leaders** to opt out of the global search for answers would be a betrayal of their citizens. And they **will be unable to opt in if they cannot speak with one voice and lack the democratic legitimacy to carry their people with them.**" [Emphasis added.]

This conclusion to an important talk sounds all too cryptic at first. But soon enough the message shines through: High interest loans, austerity and denial are jeopardizing the European Union's democratic legitimacy, both with German voters (who are exasperated by the vicious cycle of throwing good money after bad, and end up concluding that the Greeks et al must be kicked out) and with Greek, Irish etc. voters (who feel that they are assigned a Sisyphean task by a heartless Goth taskmaster).

What might a new path look like? What do we put in the place of new expensive loans for insolvent eurozone nations, in exchange for destructive austerity? Stuart Holland and I have suggested one such path ('The Modest Proposal').

Others may come up with alternatives. The one option we do not have is the one that the European Union is, currently, insisting upon against all rhyme and all reason.

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[1] Click here for a related article in Die Zeit and here an interview in Seudedeutsche.de

[2] Click here and jump to 5' 32'' if you are too young to remember that 70s hymn. Thanks are due to my friend and colleague Gary Dymski, of the University of California, for bringing up the significance of this line (in the context of California's deficit woes).

[3] Weisbrot writes: "You can be sure that the European authorities would offer Greece a better deal under a credible threat of leaving the euro zone. In fact, there are indications that they may have already moved in response to last week's threat." Sure. The only problem, of course, is that the threat of an exit from the Europe is hardly credible, if my analysis is correct.

[4] He, correctly, writes: "Argentina had a supposedly irreversible peg; it still had peso notes in circulation, so the mechanics of exit from the peg were much easier than exiting the euro would be. And the mechanics matter a lot; they could make all the difference between a brief period of shock and an extended financial breakdown."

A European strategy for the left?

Michel Husson

The global effects of the crisis have been made even worse by what is happening in Europe. For thirty years the contradictions of capitalism have been overcome with the help of an enormous accumulation of phantom rights to surplus value. The crisis has threatened to destroy them. The bourgeois governments have decided to preserve them claiming that we have to save the banks. They have taken on the banks' debts and asked for virtually nothing in return. Yet it would have been possible to make this rescue conditional on some assurances. They could have banned speculative financial instruments and closed the tax loopholes. They could even have insisted that they take responsibility for some of the public debt that this rescue increased so dramatically.

We are now in the second phase. Having shifted the debt from the private sector to the public the working class has to be made to pay. This shock therapy is delivered through austerity plans which are all broadly similar – a cut in socially useful spending and hiking up the most unfair taxes. There is no alternative to this form of social violence other than making the shareholders and creditors pay. That is clear and everyone understands it.

The collapse of a ruling class plan

But the European working class is also being asked to pay for the collapse of the ruling class project for Europe. The ruling class thought that it had found a good system with the single currency, the budgetary stability pact ("Stability and Growth Pact"), and the total deregulation of finance and the movement of capital . By creating a competition between social models and wage earners squeezing wages became the only means of regulating inter-capitalist competition and intensifying the inequalities that benefitted only a very narrow stratum of people in society.

However this model put the cart before the horse and wasn't 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 and their sensitivity to the euro exchange rate. Inflation rates didn't converge and interest rates favoured property bubbles and so on. All the contradictions of a curtailed programme of European integration which the Euro liberals are discovering today existed before the crisis. But these are blowing apart under speculative attacks against the sovereign debts of the most exposed countries.

Underneath the abstract concept of "financial markets" there are mainly European financial institutions which speculate using capital which states lend to them at very low interest rates. This speculation is only possible due to the states' policy of non-intervention and we should understand it as a pressure applied to consenting governments to stabilise budgets on the back of the people of Europe and to defend the banks' interests.

Two immediate tasks

From the point of view of the working class it's obvious what has to be done: we have to resist the austerity offensive and refuse to pay the debt which is nothing but the debt from the banking crisis. The alternative plan on which this resistance must be based demands another way of sharing society's wealth. This is a coherent demand. It is in fact against the squeezing of wages, in other words the appropriation of an increasing portion of surplus value by capital.

The alternative requires a real fiscal reform which takes back the gifts which for years have been given to businesses and the rich. It also implies the cancellation of the debt. The debt and the interests of the majority of the population are completely incompatible. There can be no progressive outcome to the crisis which does not put the debt in question, either by defaulting on it or restructuring it. In any case some countries will probably default and it's therefore important to anticipate this situation and say how it should be managed.

Leaving the euro?

The offensive, which the peoples of Europe are facing, is undeniably made worse by the European straightjacket. For example the European Central Bank, unlike the Federal Reserve in the United States, cannot monetise public debt by buying treasury bonds. Would leaving the euro allow the straightjacket to be loosened? That is what some on the left like Costas Lapavitsas and his colleagues are suggesting for Greece as an immediate step. He proposes that it is done immediately without waiting for the left to unite to change the euro zone, something he thinks is impossible.

This idea is put forward elsewhere in Europe and is met with an immediate objection that even though Britain is not part of the euro zone it has not been protected from the climate of austerity. It is also easy to understand why the far right, such as the Front National in France wants to leave the euro. By contrast it is hard to see what could be the merits of such a slogan for the radical left. If a liberal government were forced to take such a measure by the pressure of events it is clear that it would be the pretext for an even more severe austerity than the one we have experienced up to now. Moreover it would not allow us to establish a new balance of forces, which is more favourable to the working class. That is the lesson that one can draw for all the past experiences.

For a left government leaving the euro would be a major strategic error. The new currency would be devalued as that is, after all, the desired objective. But that would immediately open up a space, which the financial markets would immediately use to begin a speculative offensive. It would trigger a cycle of devaluation, inflation and austerity. On top of that, the debt, which until that point had been denominated in euros or in dollars would suddenly increase as a result of this devaluation. Every left government which decided to take measures in favour of the working class would certainly be put under enormous pressure by international capitalism. But from a tactical point of view it would be better in this test of strength to use membership in the euro zone as a source of conflict.

It is basically true that the European project based on the single currency is not coherent and is incomplete. It removes a variable of adjustment, the exchange rate, from the set of different prices and salaries inside the euro zone. The countries in the periphery thus have the choice between the German path of freezing wages or suffering a reduction in competitivity and loss of markets. This situation leads to a sort of impasse and there are no solutions that can be applied straight away: going backwards would throw Europe in a crisis which would hit the most fragile countries hardest.; and beginning a new European project seems out of reach at the moment.

If the euro zone explodes the most fragile economies would be destabilised by speculative attacks. Not even Germany would have anything to gain because its currency would appreciate in value uncontrollably and the country would undergo what the Unites States is today trying to impose on several countries with its monetary policy.[ii]

Other solutions exist which need a complete recasting of the European Union: a budget which is financed by a common tax on capital and which finances harmonisation funds and investments which are both socially and ecologically useful and richer countries help poorer ones with their

public debt. But again this outcome is not possible in the short term, not through lack of alternative plans but because implementing them requires a radical change in the balance of forces at the European level.

What should we do at a very difficult moment like this? The struggle against the austerity plans and refusing to pay the debt are the launch pad for a counter offensive. We then have to make sure that the resistance is strengthened by arguing for an alternative project and work out a programme which offers both “practical” answers as well as a general explanation of the class content of the crisis.[iii]

The specific task of the radical, internationalist left is to link the social struggles happening in each country with arguing for a different kind of Europe. What are the ruling classes doing? They are facing up to the policies they have to follow because they are defending interests which are still largely nationally based and contradictory. Yet as soon as they have to impose austerity measures on their own working classes they present a solid united front.

There are better things to do than emphasise the very real differences that exist between the countries. What’s at stake is having an internationalist point of view on the crisis in Europe. The only way of really opposing the rise of the far right is by suggesting other targets than the usual scapegoats. We can affirm a real international solidarity with the peoples who are suffering most due to the crisis by demanding that the debts are shared equally across Europe. Thus we have to oppose an alternative project for Europe to that of the European bourgeoisie which is dragging every country backwards socially. How is it possible not to understand that our mobilisations, which are faced with coordination of the ruling class at a European level, need to be based on a coordinated project of our own? While it is true that struggles happen in a national framework they would be strengthened by a perspective like this instead of being weakened or led down nationalist dead ends. The students who demonstrated in London chanting “all in this together, all in this together” are a symbol of this living hope.

For a European Strategy

The task is as difficult as the period which the crisis has opened. However the radical left must not get locked into the impossible choice and start the risky adventure of leaving the euro and a utopian idea of currency harmonisation. We could easily work on some intermediate targets which challenge the European institutions. For example:

· The states of the European Union should borrow directly from the European Central Bank (ECB) at very low rates of interest and private sector banks should be obliged to take over a a certain proportion of the public debt.

· A default mechanism should be put in place, which allows public sector debt to be written off in proportion to tax breaks for the rich and money spent on bank bailouts.

· Budgetary stabilisation has to be reformed by a fiscal reform which taxes movements of capital, financial transactions, dividends, large fortunes, high salaries and incomes from capital at a standard rate across Europe.

We have to understand that these objectives are neither further or closer away than an “exit from the euro” which would be beneficial to working people. It would definitely be absurd to wait for a simultaneous and co-ordinated exit by every European country. The only strategic hypothesis that one can then conceive of must take as its starting point the experience of a social transformation which starts in one country. The government of the country in questions takes measures, for example imposing a tax on capital. If it is thinking clearly it will anticipate the retaliation for which

it will be the target and will impose controls on capital. By taking this fiscal reform measure it is openly in conflict with the rules of the European game. It has no interest in unilaterally leaving the euro. This would be an enormous strategic mistake since the new currency would immediately come under attack with the aim of pulling down the economy of the "rebel" country.

We have to give up on the idea that there are "technical" shortcuts, assume that conflict is inevitable and build a favourable balance of forces of which the European dimension is a part. One point of support for that is the ability to damage capitalist interests. The country, which starts, could restructure the debt, nationalise foreign capital etc, or threaten to do it. The "left" governments of Papandreou in Greece or Zapatero in Spain have not even dreamed of doing this.

The main point of support comes from taking the measures cooperatively. This is completely different from classic protectionism, which basically always tries to gain ground by nibbling at parts of the global market. Every progressive measure on the other hand is effective to the extent that it is shared across a number of countries. We should therefore be talking about a strategy, which is based on the following idea: we are willing to tax capital and we will take the necessary steps to protect ourselves. But we are also hoping for these measures, which we propose, to be implemented across Europe.

We can sum up by saying that rather than seeing them in opposition to each other we have to think hard about the link between breaking the neoliberal European project and our project of creating a new Europe.

[ii] Michael Hudson, "US Quantitative Easing Is Fracturing the Global Economy", http://gesd.free.fr/hudsonqi.pdf [iii] Bloco de Esquerda (Left Bloc) Portugal: "On the crisis and how to overcome it", May 23rd 2010, http://gesd.free.fr/bloco510.pdf

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A left strategy for Europe - A reply to Michel Husson

Costas Lapavitsas

In his response to Michel Husson, Costas Lapavitsas argues that the euro is irreformable and advances an alternative strategy. A fuller version of this article will appear in Socialist Register, 2012, The Crisis and the Left, in a forum discussion with Elmar Altvater and Michel Husson.

Crisis and Austerity

The roots of the turmoil in Europe lie in the world crisis that commenced in 2007. Briefly put, the bankruptcy of Lehman Brothers in September 2008 led to a banking crisis, which ushered in a global recession. European economies were hit by collapsing exports and contracting credit. The worst was averted through state intervention, partly to support banks, partly to sustain aggregate demand. But state intervention led to the next and more severe stage of the crisis, that of public debt. And as the public debt crisis got deeper, it threatened to reignite the banking crisis.

It cannot be overemphasised, however, that the specific character and ferocity of the European turmoil are due to the monetary union. The euro has acted as the mediator of the world crisis in Europe. From the perspective of Marxist theory, this is hardly a surprise since the euro is a form of world money and not just a common currency. The euro is designed to act as means of payment and hoarding in the world market or, in the language of mainstream economics, as a reserve currency. It serves the interests of the major states that command it as well as of the large financial and industrial enterprises that deploy it internationally. But, by the same token, the euro has crystallised the tensions and imbalances of European capitalism, acting as the epicentre of crisis. This has been a classic feature of world money since gold played that role and dictated the pace of crises through its hoarding, inflows and outflows.

The euro is an unusual form of world money created afresh by an alliance of states, with Germany at its core. It contrasts sharply with the dominant form of world money, the dollar, which is a national money catapulted into its world role due to the imperial power of its unitary state and economy. For the euro to be able to act as world money it has been necessary to create institutional machinery suited to an alliance led by Germany, a nation state considerably weaker than the USA. Three elements have been instrumental to it: first, an independent central bank in full command of monetary policy and presiding over a homogeneous money market for banks; second, fiscal stringency imposed through the Growth and Stability Pact; third, relentless pressure on labour wages and conditions to ensure competitiveness for European capital.

The institutional machinery of the euro has catalysed the crisis in Europe. Pressure on labour has been most relentless at the core of the eurozone, resulting in rising competitiveness, primarily for Germany. The result was an entrenched gap between core and periphery, reflected in current account surpluses for the former and deficits for the latter. The gap was bridged by huge capital flows from core to periphery which took the form mostly of bank loans. [1] In the periphery, furthermore, banks engaged in rapid expansion thus adding further to debt. By the end of the 2000s, the periphery had become enormously indebted – domestically and abroad, privately and publicly.

When the world crisis hit Europe, leading to recession and state intervention, it inevitably turned into a crisis of peripheral debt in all its dimensions. In turn the debt crisis threatened to become a banking crisis that could potentially destroy the euro. The response to the crisis by the European ruling classes – of both core and periphery – has cast a harsh light on the entire European 'project'. Their paramount concern has been to rescue the euro. To achieve this aim, policy has focused on saving the banks exposed to peripheral debt. Thus, the ECB has advanced abundant and cheap liquidity to banks; in contrast, miserly liquidity at high interest rates was made available to states. At the same time, unprecedented austerity was imposed on peripheral countries, while welfare provision was cut and labour conditions were worsened. The costs of the crisis were thus shifted onto the shoulders of working people as far as possible. By early 2011 the class content of the policy to rescue the euro had become crystal clear: first, to defend the interests of financial capital by protecting bondholders and other lenders, second, to promote the interests of industrial capital by crushing labour costs.

These policies have been dictated by Germany, the main beneficiary of the euro. German ascendancy is now stronger than at any time in the history of the European Union. By the same token, the imperial interests at the heart of the eurozone have become transparent. If the current policy to rescue the euro succeeds – and there are grave doubts that it will – Germany will emerge as the undisputed master of the eurozone and the dominant force across Europe. The periphery, meanwhile, will stagnate with high rates of unemployment and worsening income distribution. Even so, a thin layer of financial and industrial capital within the periphery will probably continue to do well.

The crisis has been a momentous event for Europe. It has forced through rapid social change in favour of capital and against labour. It has also encouraged geopolitical change, turning the eurozone into a German backyard. At the same time, it has put paid to the hackneyed ideas of European partnership and federalism that have provided the ideological cover of the eurozone. The crisis should have thus provided an opportunity for the Left to recover its poise putting forth anti-capitalist proposals to take Europe in a socialist direction. Unfortunately this has not yet happened. Much of the continental Left is still in the grip of Europeanism, and is concerned to develop strategies that have a European rather than a socialist character. Above all, it is in fear of disrupting the monetary union. The result has been the absence of effective Left opposition to the social and imperial transformation currently taking place in Europe.

A 'good euro'?

The Europeanist Left clings to the notion that the eurozone could be reformed in the interests of working people, creating a 'good euro'. Advocates of the 'good euro' can be split into two currents, both of which are prominent within the newly formed Party of the European Left but also more broadly across Europe. [2] One current are ardent Europeanists who generally downplay the class and imperial interests at the heart of monetary union. The other current are reluctant Europeanists who, despite stressing class interests, do not fully appreciate the implications of creating a new world money. Both are terrified of the dangers of nationalism and isolationism, should the eurozone collapse. The monetary union might have been ill-conceived, but now that it has become a reality, it would not be advisable to break out of it. [3]

For reluctant Europeanists this position also leads to what might be called 'revolutionary Europeanism', overthrowing capitalism on the supposedly privileged terrain of European integration. Logically this should also entail creating a unitary (and revolutionary) European state, but this demand is not often stated explicitly. Whether ardent or reluctant, 'good euro' proposals demonstrate considerable convergence. There is, for instance, general agreement that austerity and liberalisation ought to be resisted, and that Europe needs major redistribution of income and

wealth. There is also agreement that a coordinated investment policy would be desirable to raise productivity in the periphery and to restructure the European economy.

These are creditable ideas and much of the Left - Europeanist or not – would probably concur with them. The trouble is that they do not deal with the pressing nature of the crisis. By far the most acute aspect of the crisis is the debt of the periphery. It has eventually become accepted across the Left that the burden of debt on several peripheral countries must be lifted for economies to recover. Beyond this point, however, agreement is hard to find. Ardent Europeanists, such as those within the Party of the European Left, tend to favour consensual restructuring of debt (in effect, creditor-led default) which would lower the level of peripheral debt without upsetting the mechanisms of the eurozone unduly. The trouble is that creditor-led default is unlikely significantly to reduce peripheral debt. Lenders are not generally known to welcome losses. Reluctant Europeanists, consequently, tend to favour radical restructuring of debt, often at the initiative of the borrower. But they propose to write debt off unilaterally while remaining within the framework of the eurozone, the main powers of which will have to take the losses. Quite how this will be achieved has not yet been explained.

Against this background, Europeanists have put forth a variety of specific proposals regarding debt. Here the ground becomes treacherous because it leads to the outer reaches of actual policy-making by the governments of Europe. The proposals have typically revolved around lending by the ECB and issuing Eurobonds, aspects of which are already present within the current policies of the eurozone.

Summarising ruthlessly and across a variety of suggestions, the general idea appears to be that the ECB should expand its current practice of purchasing public debt in secondary markets (and lending against collateral of peripheral public debt.) The ECB should acquire much of the existing debt of peripheral countries and it should also finance the fresh borrowing of eurozone states in the future. It is further suggested that the issuing of Eurobonds – which is already undertaken by the European Financial Stabilisation Facility to obtain funds for lending to countries in difficulties – should be expanded to meet the regular lending needs of eurozone states. [4]

Nothing precludes crossbreeding between these suggestions, including the notion that the ECB should be financing itself by issuing Eurobonds. Such proposals appear as the analogue of the operations of Federal Reserve in the USA, and thus as an important step toward creating fiscal as well as monetary homogeneity within the eurozone. Unfortunately, there are major problems with these proposals, which help explain why they have generally been given short shrift by the eurozone establishment. One problem relates to the losses from bad peripheral debt. If, for instance, the ECB were to acquire existing peripheral debt at a deep discount, the capital of banks would have to be replenished to prevent failure; if debt was acquired at face value, there would probably be substantial eventual losses for the ECB which would have to be made good. There is a prevalent confusion among much of the Left as to what a central bank can do. The ECB indeed possesses an enormous ability to act as lender of last resort, i.e., to advance liquidity to banks and states. But lender of last resort has nothing to do with handling bad debts, i.e. solvency. Guaranteeing solvency is a matter for the Ministry of Finance which must mobilise tax income to make good the losses represented by bad debts. In the context of Europe this means drawing on the tax income of core countries, and therefore imposing burdens on working people. The ECB has no power to make good the foolish lending that European banks indulged in during the 2000s. Recapitalising the banks means committing tax revenues, a step that would have profound class and power implications

Furthermore, the suggestion that the ECB should systematically acquire peripheral debt and, even more, that it should have an open commitment to finance the future borrowing of eurozone

countries would pose a threat to the euro as world money. If the ECB were, for instance, to begin financing the regular borrowing of all eurozone countries, there would be heightened risks of inflation which would lower the credibility of the euro in world markets. There is no comparison with the dollar in this respect. The dollar is the incumbent form of world money that draws on established institutional and customary mechanisms for its acceptability. The euro is a competitor that has not yet developed a firm framework of acceptability for itself in the world market. The German ruling class is unlikely to accept state borrowing arrangements that might jeopardise the global acceptability of the euro.

Similar considerations apply to issuing Eurobonds in order to replace existing peripheral debt. The borrowing difficulties of peripheral states can certainly be managed through Eurobonds, though this would be a slower method than the ECB providing liquidity directly. But confronting the likely losses from bad debts is an entirely different matter, which requires committing capital from tax income. And that is without even mentioning the additional cost to core countries from borrowing at higher interest rates, if they were to issue Eurobonds jointly with peripheral countries.

Finally, there is a further problem which is often not appreciated. 'Good euro' proposals essentially aim at overcoming the contradiction between fiscal heterogeneity and monetary homogeneity within the institutional machinery of the eurozone. Presumably, if a common fiscal space was created across the eurozone, either through loans by the ECB, or by issuing Eurobonds, the functioning of the euro would become smoother and crises would be eliminated. But the problem is that the financial sphere of the eurozone is not nearly as homogeneous as is often imagined. There is indeed a homogeneous money market, which regularises the terms of bank borrowing across the eurozone, but the ownership of banks remains resolutely national. Similarly, there is no homogeneity in supervising and regulating bank activities, both of which are largely left to each nation state. Consequently, if bank solvency became problematic, banks would only be able to seek recourse to their own state, as happened in Ireland in 2009-10 and Belgium in 2008-9. There are no European mechanisms to handle the losses that European banks would inevitably make if peripheral debt was written off. And nor is there any obvious way in which German or French workers could be made to accept higher taxes to rescue, say, Italian banks. Each state would have to deal with the losses of its national banks. The euro remains a creation of nation states in this regard, and its implications for workers have a clear national aspect.

A radical left strategy

A radical alternative to the policies currently adopted across the eurozone should offer a resolution of the crisis that would shift the balance of social forces toward labour and push Europe in a socialist direction. For the Left to develop a distinctive position, it would have to challenge the strategic choices of the rulers of Europe instead of merely focusing on malfunctioning institutional arrangements. The first step would be to acknowledge the class and imperial relations at the heart of the eurozone. Working people in both core and periphery have no stake in the success of the European Monetary Union. On the contrary, the attempt to create a world money that serves the interests of European capital has meant worsening labour conditions at the core and major crisis in the periphery.

A radical alternative should also recognise that the current policy of imposing austerity and promoting German ascendancy has a high probability of failure. The main reason is that austerity leads to recession which worsens the problem of debt. Even worse, the long term prognosis for the periphery is for low growth. Greece, Ireland and Portugal will find it increasingly difficult to service their public debt and will probably have to restructure, or even default. The inevitable losses would impact upon core countries, and the sums are likely to be large. Greece alone, if it is to have decisive relief, would require a reduction of public debt by perhaps 50%-60%, approaching 200 bn euro. Should this eventuality materialise, continued membership of the eurozone would be

put on the table, partly by core countries, and partly by defaulting peripheral countries themselves. The rickety structures of the eurozone would then come under even greater pressure. The Left ought to be preparing for such a turn of events, instead of recoiling from it in horror.

The division between core and periphery implies that a radical left alternative would necessarily differ across the eurozone. For workers at the core, particularly Germany, it would be vital to break the relentless pressure on wages imposed by monetary union. But note that it is fallacy to think of higher wages as a means of rescuing the euro on the grounds that they would, presumably, rebalance competitiveness across the eurozone and boost domestic consumption in the core. There is no capitalist class that would systematically aim at raising the wages of its own workers, since it would then be ruined in competition. If wage restraint was broken in Germany, the monetary union would become a lot less attractive for the German ruling class, raising the issue of its own continued euro membership. After all, Germany has long experience in deploying the Deutschmark strategically to improve its share of world production and trade.

A radical strategy in core countries ought to include further steps that could complement the reversal of wage restraint while preparing for the failure of monetary union. An important element would be control over the financial system. Tax and other impositions to rescue banks from their reckless exposure to the eurozone periphery ought to be resisted. Indeed, the Left ought to be making the case for bank nationalisation that could act as lever to rebalance core economies, assuming that the mechanisms of control over banks would also be changed to reflect broader social interests. Above all, the weight of the German economy ought to be shifted away from exports and toward improving domestic consumption, public provision, and infrastructure. For this, it would be necessary to recapture command over monetary policy from the ECB and to impose controls on capital flows.

In the periphery, on the other hand, the immediate focus of a radical alternative must be to confront the burden of public and private debt. Public debt, in particular, has to be renegotiated with the aim of writing off its greater part. To this purpose there should be debtor-led default drawing on grassroots participation. There are certainly costs to defaulting and unilaterally writing off debt, including being shut out of financial markets for a period and paying higher interest rates in the future. But even mainstream literature points out that – to its surprise – these costs do not seem to be very substantial. [5]

Debtor-led default would be immeasurably strengthened by establishing independent Audit Commissions on public debt across peripheral countries. They would facilitate workers' participation in confronting the problem of debt, not least by allowing for independent knowledge of the causes and terms of indebtedness. The Commissions could make appropriate recommendations for dealing with debt, including debt that is shown to be illegal, illegitimate, odious, or simply not sustainable.

Debtor-led default in the periphery would immediately raise the issue of eurozone membership, given that the lenders are the core countries. Exit is an important component of a radical Left strategy that could annul austerity while restructuring economies in the interests of labour. But changing the monetary standard is a major shock that would require a broad programme of economic and social change. The most important concern would be to prevent the monetary shock from becoming a banking crisis, for then the repercussions on the economy would be severe. It follows that banks would have to be placed under public ownership and control, protecting depositors, avoiding bank runs, and creating a framework to restructure the economy. Needless to say, it would also be necessary immediately to impose capital controls.

The new currency would depreciate thus putting added pressure on banks borrowing abroad, but also removing the shackles from the productive sector and boosting exports. Regaining command over monetary policy while defaulting on the debt would also immediately remove the stranglehold of austerity on the productive sector. On the other hand, rising import prices would put pressure on workers' incomes, thus necessitating redistributive measures through tax and wage policy. Finally, industrial policy would be introduced to restore productive capacity in the periphery and to create employment. A concerted effort could then be made to raise the productivity of labour allowing peripheral countries to improve their position in the international division of labour. Naturally, such a dramatic shift in the balance of social forces in favour of labour would require democratic restructuring of the state improving tax collection and dealing with corruption.

A radical left strategy for both core and periphery would comprise transitional measures in the most profound sense of the term. Its precise character would depend on the social forces that would be mobilised to support it and on the types of struggle that would emerge. But the great merit of the strategy is that it could change the balance of forces against capital, creating better conditions to resolve issues of distribution, growth and employment. In this respect, a radical left alternative would create a favourable environment for socialist change by improving the social and economic conditions of workers.

There is no need for such a strategy to lead to isolationism and nationalism provided that the European Left regained a modicum of confidence in itself and in its historic arsenal of socialist ideas. Indeed, the danger of a nationalist backlash is likely to become worse as long as the Left continues to disappoint working people. 'Good euro' proposals offer no means of stopping the ruthless re-assertion of class and imperial interests in the eurozone. A strategy that confidently detached itself from the failing project of monetary union would provide a basis for solidarity among European people. For that, the Left would have to abandon Europeanism, the official ideology that has for long haunted its collective mind.

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NOTES

[1] As is fully established in RMF (2010).

[2] Both were very much in evidence at the conference 'Public Debt and Austerity Policies in Europe" The Response of the European Left', held in Athens in March 2011 http://athensdebtconference.wordpress.com/about/

[3] Witness, for instance, ATTAC-Germany (2011) and Husson (2010).

[4] The idea of systematically issuing Eurobonds gained considerable influence when proposed by the official voices of Juncker and Tremonti (2010). But it had already been circulating among left currents for some time.

[5] As is repeatedly noted by, for instance, Sturzenegger and Zettelmeyer (2007).

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An internationalist transitional program towards an anti-capitalist Europe

A reply to Costas Lapavitsas

Özlem Onaran

The crisis laid bare the historical divergences within Europe, and led to a European crisis and a new stage in the global crisis. The existing policies in Europe has three fundamental flaws: First, they assume that the problem is a lack of fiscal discipline and repeats the old faith in strengthening the surveillance of budget deficits; it does not question the reasons behind the deficits; it ignores all the structural problems regarding divergence in productivity, and imbalances in current accounts due to the "beggar my neighbour" policies of Germany. Second, they are based on the argument that Europe has a sovereign debt crisis, which ignores the fact that public debt would not have increased at the current rates if it were not for the financial crisis, which was prevented by unprecedented bank rescue packages; which in turn increased the budget deficits along with loss in tax revenues and increased social spending because of the crisis. Third, they deny the underlying reason behind the current crisis, which was increased inequality in the distribution of income and wealth –a fundamental feature of neoliberal capitalism.

Emerging consensus within the anti-capitalist left

A consensus among the anti-capitalist forces for a strategy against the crisis is emerging across Europe around four pillars: i) resistance against austerity policies and all cuts, ii) a radically progressive/redistributive tax system and capital controls iii) nationalization/socialization and democratic control of banks, iv) debt audit under democratic control followed by default. These demands find their echo also among a broader left opposition, albeit in a descending order according to support. I find it crucial to start any tactical debate within the anti-capitalist left by emphasizing these four pillars as an extremely positive and important starting point to build a coordinated campaign across Europe.

How about the Euro?

The controversial issue of the Euro in the peripheral countries of Europe must be contextualized in the background of the above common points. There are two positions within the anti-capitalist left: a position, which promotes the exit from the Eurozone as suggested by e.g. Lapavitsas et al. (2010) or de Santos (2011), and a position, as suggested by e.g. Husson (2011), Samary (2011) or myself (Onaran, 2010a and 2010b), which primarily aims at building an alliance for alternative policies across Europe that could build a bridge to an anti-capitalist transition rather than seeing the currency as the core of the debate. The starting point of this second position is to push for an alternative Europe and changes in the economic policy framework within which the Euro operates. In a recent article, Costas Lapavitsas (2011) criticises the latter approach, and calls the supporters "reluctant Europeanists", i.e. those who are aware of "class interests", but are "terrified of the dangers of nationalism and isolationism". Costas' expression of "Europeanism, the official ideology that has for long haunted (the Left's) collective mind" seriously misrepresents the internationalist and anti-capitalist character of this latter approach, which has little to do with an abstract defence of the capitalist EU with its current structures, but is committed to building a bridge from the

urgent current demands of the broad opposition movements to an internationalist, ecosocialist Europe of people. Costas' assertion that "much of the continental Left is still in the grip of Europeanism, and is concerned to develop strategies that have a European rather than a socialist character" seems to place most of the emphasis on the Party of the European Left despite his attempt to distinguish between "ardent Europeanists" and the others in his terms and misses the relevance of the European Anti-capitalist Left –a European front, which brings together around 40 organizations in Europe, and aims at a programme "that can lift the economy out of crisis on the basis of giving priority to people's needs rather than profits and imposing democratic control over the market," and stands "for an anti capitalist answer". [1]

Coming back to the issue of the Euro, tactically, I see the issue of debt audit/default campaign to be a much more important departure point for mobilization than the debate around the Euro. The most important obstacle today to initiate any progressive economic policy in Europe and individual nation states is the speculation on public debt and the governments' commitment to satisfy the financiers. Public finance has to be unchained via debt default in both the periphery and the core following a process of debt audit.

A debtor-led default is fundamentally different from the current creditor-led debt restructuring plans of the European elite, which are attached with further austerity policies. Debt default is also not just a question of solvency as in the case of Greece or Ireland; but it is also a question related to the origins of the public debt: thus the question is not only "can we pay the debt?", but "should we pay the debt?" In Britain the newly generated debt because of the crisis that amounts to 33.4% of GDP raises the question why taxes of working people should be used to pay this debt. The recognition of the need for default is also important given the ecological limits to growth, which poses a constraint to the traditional Keynesian policies of growing our way out of debt. In Greece already activists, academics, and parliamentarians from across the world have supported a call to audit public debts, of which Costas has been one of the important initiators. [2] A similar campaign is about to take off in Ireland, and both initiatives have obvious importance for Portugal and Spain and hopefully for the core countries like Britain. A pro-labour solution of the crisis in the periphery as well as the core requires debt default, and a joint, coordinated struggle at the European level can create a stronger offense to the multi-national ruling elite of Europe.

The attack is international: multinational bank and business lobbies are determining the policies of the national governments as well as EU institutions by using boycotting of government bonds as a threat; thus the opposition also needs to be internationally organized. A European network of movements -broad fronts as well as anti-capitalist organizations- could be turned into a leverage to bring together peoples' opposition to austerity in different countries. An internationalist solution might generate a more powerful front in the core and the periphery compared to national alternatives.

The relevance of a Europe-wide mobilization in the core and the periphery derives from the common interests of the working people. I disagree with Costas that "a radical left alternative would differ across the Eurozone". The austerity packages throughout the EU are pushing the countries into a model of chronically low internal demand based on low wages. In the past in Germany low domestic demand was substituted by high demand for exports. But it is not possible to turn the whole Eurozone into a German model based on wage suppression and austerity, since without the deficits of the periphery German export market will also stagnate.

Particularly for the periphery of Europe contraction in domestic demand means prolonged recession, which may turn the problem of debt to insolvency for private as well as the public sector. The existing wage suppression policies hurt all working people alike. The popular discontent in Germany about Greece misses the fact that the German workers' loss of wages,

unemployment benefits, and pension rights created part of the problem. Uncovering this fact along with the idea of unequal distribution as the main cause of the crisis is an important step towards building a progressive alliance and a bridge to an alternative ecosocialist Europe. A pro-labour shift in the balance of power relations in Germany could certainly increase the area of manoeuvre in the periphery as well –not just politically but also economically by increasing aggregate demand as well as relieving part of the pressure on wage suppression policies in the periphery. Similarly the European austerity policies to deal with debt is a package to bail out the European banks, mostly based in the core countries; however these policies bring the countries of the periphery to the edge of insolvent via recession; thus austerity in Greece or Ireland will have consequences for the tax-payers in Germany, France, or Britain, who will again be pressurized to bail out their banks' losses.

A major debtor-led default will obviously have similar consequences for banks, and precisely therefore demands for socialization of banks under workers' control in both the periphery and the core form a natural compliment to debt default to end the vicious circle of austerity, deepening crises, and bail-outs. These struggles need to be coordinated as part of a broader campaign for progressive taxation of income and wealth to make the responsible pay for the costs of crisis and to reverse the origin of the crisis, i.e. pro-capital redistribution. Again these demands face broader acceptance by the masses when they are formulated as part of a European campaign for capital controls and tax coordination, since a united campaign is a stronger weapon against the threats of capital flight by a multi-national and mobile European finance capital. The demands for turning the European Central Bank (ECB) into a real Central Bank accountable to supply the funds for productive green investments across Europe and in particular in the periphery again makes sense when it accompanies debt default and a socialized banking system.

The solution to the problems in the periphery of Europe would also be tremendously facilitated by fiscal transfers within Europe as opposed to isolated national solutions in small countries, which can easily lead to a persistence of underdevelopment. This position is also consistent with the interests of the working people in the core countries: a low wage periphery as an alternative location for MNEs is a treat to the wages and jobs in the core as well.

Furthermore, I do not share the optimism about the international competitiveness effects of devaluation, which would follow an exit from the Eurozone in the periphery. Devaluation means an increase in the costs of imported inputs, and the pass-through effect of import costs to domestic prices in an import dependent country soon erodes the international competitiveness effects. Empirical evidence shows that the initial positive effects of devaluation on exports are offset within a couple of years via inflation in import dependent countries; at the end of the day competitiveness is about real forces of productivity rather than monetary variables like the exchange rate. Furthermore devaluation leads to devastating real income losses for workers.

Last but not least, in the current situation, anti-European and anti-Euro positions are more likely to mobilize nationalist, right-wing currents. Nationalism is certainly a problem among the working class in the core; the far right is also quickly mobilizing the discontent in the periphery. I share the concerns of Michel (Husson, 2011) and the Scientific Committee of ATTAC-Germany (2011) on both economic and political grounds, which Costas seems to disagree. As the Scientific Committee of ATTAC-Germany (2011) writes, "the Euro is still no 'optimal currency'", but given its existence, we need to think of alternative policies to bring together broad opposition movements. As Cédric Durand (2011) writes "in the absence of political perspectives in each country and at the European level, these movements might collapse and leave room for nationalist forces of the most violent and reactionary kind which are reinforcing themselves already everywhere in Europe. The dislocation of neoliberal Europe could then become a nightmare." This is not about "fear of

disrupting the monetary union," as Costas sees it, but a sober recognition of the consequences of a failure to build an internationalist strategy.

History will show us how much of the mobilization for default in the periphery will find echoes in the core –we may see multi-speed reactions. An anti-capitalist radicalisation in the periphery of Europe is in its early growth phase and simultaneously there are core countries, e.g. France, with mass anti-capitalist parties, which are already discussing the issue of default. It is yet to be seen whether there will be a synchronisation of mobilization or rather significant differences in the speeds of mobilization. Thus we could well start with an internationalist strategy as opposed to putting more hope in nation state level alternatives. Clearly, both are at their initial phases.

Obviously without a major Europe-wide mobilization in both the periphery and the core for debt default as well as institutional and political change, if one or more countries in the periphery succeeds in pushing for debt default and if the existing institutions of the European Union cannot be captured and forms a barrier to progressive economic policy, an exit from the Euro can follow default. No socialist would ask the people of the periphery to stay in the Eurozone at all costs. However, this is a rather tactical issue, and not the crucial starting point. Thus Euro is not a taboo. Furthermore, we should not underestimate the power of the threat of a coalition of peripheral countries to leave the Eurozone. Given the interests of the European capitalists, these countries certainly have a bargaining power. At this stage it is crucial to work for mobilizing the working people across Europe for a joint struggle and make use of the areas of manoeuvre that may open up, rather than having now a pre-mature and technical debate around the currency itself.

An internationalist transitional programme

A radical transformation in Europe requires a major change in the institutions and policy framework that builds a bridge from the urgent demands of people for decent living standards and a sustainable environment to an alternative democratic, participatory, ecosocialist, feminist alternative. In the following I briefly outline alternatives for such an anti capitalist agenda for Europe. [3]

Along with debt default, a radical restructuring of public finance has to involve a highly progressive system of taxes, coordinated at the European level, on not only income but also wealth, higher corporate tax rates, inheritance tax, and tax on financial transactions.

Fiscal, monetary, and industrial policy should aim at full employment, ecological sustainability, and equality. The reconciliation of full employment with a low carbon economy based on possibly zero/low growth requires three policies: creating labour-intensive public jobs (e.g. social services such as education, child care, nursing homes, health, community and social services), public ecological investments, and a substantial shortening of working time. This complements our aims of creating gender equality.

This programme requires a socialized banking sector under workers' control. Financial regulation and capital controls are important but not enough.

On the incomes and labour market policy level, there is need for a fundamental correction of the wages in both the periphery and the core of Europe to reflect the productivity gains of the past three decades. To facilitate convergence within Europe a minimum wage should be coordinated. Higher productivity growth in poorer countries of Europe will help to create some convergence in wages, but regional convergence should be supported by fiscal transfers and public investments to boost productivity in poorer regions. Furthermore a European unemployment benefit system should be developed to redistribute from low to high unemployment regions. This requires a significant Europe budget financed by Europe level progressive taxes.

Last but not least, the coordination of economy-wide vital decisions requires public ownership and the participation and control by workers in the firms, of consumers, and regional representatives in critical sectors such as finance, housing, energy, infrastructure, pension system, education, health, and major productive sectors. Such a transformation will build the bridge to a democratic, participatory, feminist ecosocialism.

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NOTES

[1] See Statement on the European crisis, and Third European Anti-capitalist conference.

[2] See Toussaint (2011) for more details.

[3] See Onaran (2010a and c) for a fuller version.