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Debt crisis

# The Left against Debt-tatorship

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**The debate on the left over how to respond to the debt crisis is fundamental for defining socialist policies. That is what this text is about. [1]**

In the first part, I look at the crisis of the euro. I will argue, as many others have, that this crisis is structural and permanent, contrary to the claims of both social democracy and the right. In the second part, I look at the two options that have been put forward as alternatives to the strategy of left-wing europeanism [2] : first the nationalist exit strategy and second the leap towards a European State. I aim to show that both these alternatives have three problems : they are profoundly contradictory, they depend on concealing their real economic and social effects, and they ignore the balance of forces in which choices have to be made. In the third part, I take a fresh look at left-wing europeanism and seek to show that an economic alternative demands a strategy of class struggle. For that, we need to go back to basics.

## 1. The euro crisis is structural and is going to get worse

The founding principles of the European Union and especially the single currency bear the mark of a historic consensus between social democracy and the right. In fact, in the fundamental choices that underpin this institutional structure we have not seen, to date, a single significant difference between these two partners. It was a large majority of social democratic governments that agreed the founding pillar of the euro, the Maastricht rules (a maximum permitted deficit of 3%, a maximum debt of 60%, and even more important, an obligation to keep inflation permanently at insignificant levels). These dogma are at the root of the current problems and are the instruments used by the right to control the European Union. No others are needed to drive through the destruction of social rights and the welfare state.

The problem is that the currency created through this consensus is a time bomb. It is incoherent, vulnerable, unfair, damaging to most states and, above all, deeply anti-democratic. We need to analyse in detail why the euro is failing.

### 1.1 The euro is the crisis

The policy of EU leaders is stuck in a consensus that was initially very strong : the creation of a dominant system of financialization via the euro, which would impose its conditions on each national economy and drive down social spending. This consensus has been blown apart as far as responses to the crisis go, because the euro is the crisis : some governments now accept the eurobonds they always opposed, some want to reduce debts with a small haircut, others defend a model that strips bare Greece and other peripheral economies. The lines that follow discuss these two points : the reason for the euro crisis and the attempts to find a solution within the euro.

To this end I will summarise the analysis of Paul de Grauwe, a Belgian economist who is one of the best known critics of the euro model and who tries to improve it with a number of proposals ("The Governance of a Fragile Eurozone", working paper, University of Louvain).

De Grauwe writes that, when you have a common currency area, all the states begin to emit sovereign debt in euros but, because there is no national control over the currency, they become more vulnerable to speculative attack which

could force them into bankruptcy - or default (a suspension of payments). In other words, the euro increases the risk of bankruptcy.

He makes the comparison between Spain and Britain. The debt to GDP ratio is bigger in Britain (in 2011 it was 17% higher than in Spain), yet Britain pays lower interest rates on its sovereign debt, even though it is more indebted. There is, of course, a first reason for this difference which De Grauwe completely ignores : the financial markets set interest rates in relation to their expectations, but also according to their power relative to a given economy, and Britain's power, as one of the biggest financial centres and a major world economy, is far greater than Spain's.

But the second reason, which De Grauwe analyses in detail, is very important in order to understand the failure of the euro. This is that, if there were a speculative attack, Britain has an ability to respond that Spain or Portugal do not have. Let's imagine that speculators fear Britain will not meet its commitments. They therefore sell British government bonds. In response, the Bank of England buys up these bonds. The monetary mass is not reduced (it might even increase) and no problem of liquidity arises. In such a situation, the bond sellers would normally change the pounds they receive into another currency, producing an automatic effect : the pound sterling is devalued (25% since the beginning of the crisis), making it easier for Britain to export (because British goods become cheaper). In other words, there are tools to correct the problem if the Bank of England acts decisively.

On the other hand, if the same happens in Spain - or some other country in a similar situation - the finance houses will also sell their Spanish bonds. But it is quite uncertain what they will do with the euros they receive for them. They may simply invest them or deposit them in some other economy. This will create a problem of liquidity because the monetary mass in Spain is reduced when these euros are transferred abroad. At the same time, the interest on Spanish debt will increase because the Bank of Spain, which is now effectively a branch of the European Central Bank, doesn't want and isn't authorised to buy up these bonds. So the money supply in Spain drops and there is no correction of relative prices, producing restrictions that make the austerity worse.

There is then another effect on the country's banks, for these hold a large part of the public debt. As the price of government bonds falls, value is wiped off their balance sheets, they find it more difficult to get credit and therefore they make fewer loans.

And yes, there is also a problem with private debt, which, in Portugal as in many countries, is bigger than public debt. This makes it more expensive for the country's banks to borrow from international banks. Indirectly it is the workers who pay the price, with higher interest rates when they ask for a new loan and rising taxes to pay for the interest the State pays to the banks (private-public partnerships went up by 4 billion euros this last year, to be paid by future taxation). But let their be no illusions : even if private debt were not huge, the pressure on sovereign debt could still have disastrous consequences, as it is having now.

The domino effect is very strong. Financial speculation can threaten a vulnerable economy. And the State can go bankrupt just because the markets fear it might go bankrupt. The only response that European orthodoxy can imagine is that of austerity, which means recession.

However, this threat to the euro economies is not the only threat in Europe. Britain, De Grauwe's example, is currently applying the most savage austerity - tripling university fees, cutting health, attacking the poor, reducing investment and increasing unemployment - even though it has all the monetary instruments to protect the economy from speculation. In other words, Europe's problem is not just the euro. It's really the class struggle.

### **1.2 The European solution has been to increase exploitation through austerity**

The European response to these national crises, accentuated by the vulnerability of the euro, is well known : austerity plans to restore competitiveness by driving down both direct incomes (doing away with Christmas and holiday bonuses, lower wages and longer hours) and indirect ones (higher charges for healthcare and education, cuts in pensions). Austerity provokes recession, which deepens the budget deficit, which requires new tax increases, which makes the recession worse. The recession turns into a prolonged depression, as may be happening in Portugal.

This is good news for finance and the bourgeoisie, because it changes fundamentally the relation between the classes and opens the door to a new social regime - easier layoffs, the end of collective bargaining, weaker trade unions and minimal public services, with services that are essential to people's lives being increasingly pushed into the marketplace. 21st century finance wants to live off not only the stock markets but also the administration of hospitals and social security funds. But, at the same time, the depression reduces the value of some productive capital, and that is bad news for the capitalists who go bust. So we have two poles of tension within the ruling class : between financial funds and commercial banks, on the one hand, and between these two sectors and parts of productive capital on the other.

But depression is mainly bad news for the majority of the population, because it means a generational fall in wages, in other words, an increase in exploitation. So the structure of the euro accentuates the worst policy, which is the reduction of wages.

I will come back to this conclusion, because it is the key to the whole political debate : with the euro, the devaluing of wages is the be all and the end all of dominant economic policy.

### 1.3. Some new and old short-term solutions

It's worth recalling De Grauwe, because he expresses very clearly the difficulty of seeking alternatives in the current economic situation ; however, he proposes three main alternatives to the present approach of the ECB and EU leaders. Let us look at these and whether or not they are feasible.

The first proposal is for the European Central Bank to buy sovereign debt bonds from the countries in difficulty and accept these as collateral for private banks when these ask for loans. This is already happening to some extent, even though it goes against everything the ECB has ever said. But this isn't enough. To have an impact, the ECB would need to become a decisive player in the debt market, which would mean it buying up all the debt issued - as Cavaco Silva, the president of Portugal, recently proposed, with so many others. It would mean buying directly from the states and not just in the secondary market at moments of acute stress. This will not happen on the scale needed, because Germany will not allow it.

De Grauwe's second proposal is to reduce the interest rates on loans to countries in difficulty. The reason is obvious : high interest rates increase the difficulties and give a signal that the EU itself thinks these states may not meet the obligations on their debt, which just invites speculative attacks against them. There was a small reduction (about 1%) in July, but interest rates (for Portugal) are now more than 2% above the cost of financing them, which itself stands at around 2%.

The third proposal put forward by De Grauwe is the emission of eurobonds, which would underpin the equivalent of 60% of each country's sovereign debt, with the State having to guarantee the rest. This would mean each country had two kinds of sovereign debt obligations : the European ones, with lower interest rates (although these would vary according to the level of risk in each economy), and the national ones, which might carry higher interest rates. This is an old proposal of Jacques Delors that has been around for 20 years or so. It was never put into practice, and it is unlikely that it will be, because the German government is vetoing it.

For all three proposals, De Grauwe suggests a counterpart : a shared fiscal authority, in other words, political unification. However, the emission of eurobonds or loans at reasonable interest rates to the most affected economies, do not necessarily require Mrs Merkel to lead a united European government - it would be enough just to have a set of agreed rules that ensured these.

As we will see further on, the fact that European leaders have long rejected the logic of these measures does not mean that they will not give way and apply them to some extent, along with a cocktail of other measures, to prevent the collapse of the euro. The reduction of interest rates negotiated with the troika will continue, and there will be a major restructuring of Greek debt, with losses for finance capital (and with the ECB partially compensating the banks). The euro cannot collapse, as long as German capital defends its interests. Therefore there will be an active attempt to reorganise the credit system and institutional arrangements, with the ECB systematically doing what doctrinally, and even in terms of its statutes, it had always rejected.

### **1.4. Europe's policy is authoritarian, bur shared by the right and social democracy**

Given these arguments, the current impasse can be summed up as follows : the euro served to organise European capital during the years of growth, but falters when there is a financial crisis, because speculators successfully attack the weakest economies creating a dangerous domino effect. The response is simply "austeritarian", authoritarian austerity. But the domino effect is profound, because more than half the different countries' sovereign debt is held by financial institutions in other countries. As recession spreads, financial instability gets worse. So the euro becomes a decisive factor in the crisis.

This structure of Europe's financial and decision-making power is supported by a consensus between the right and social democracy, which has lasted a considerable time, and always benefited the right. This has a solid basis : Kohl, Schroeder or Merkel in Germany, defend exactly the same European policy, as do Prodi and Berlusconi in Italy, Aznar or Zapatero in Spain, or Durao Barroso and Socrates in Portugal. If politics is not to be a mere game of fantasy, I would invite those economists that argue for leaving the euro to recall the political line-up that drew up these rules, imposed them and sustains them. This is essential if we are to seek really viable alternatives, capable of identifying who are our opponents and who could be genuine allies. In this regard, I would suggest that they don't count on European social democracy : this is incapable of coming up with a European alternative, because it defends the Europe of the Lisbon Treaty with its Directorate and the euro as it currently exists.

## **2. Austerity against austerity ?**

This crisis is accelerated by the euro, which produces contagion. But it is not created by the euro. To understand the general framework, we need to go deeper and do what most economists refuse to do : consider the economy on the basis of social classes. This is what I will seek to do now, by looking at the two alternatives which have been put forward recently by some sectors of the left (and the right) : the nationalist alternative of leaving the euro and the other, federal, alternative of the creation of a unified European state.

### **2.1. Forward to the left, or if that's not possible, to the right**

Much of the critical left shares this diagnosis of the euro crisis (and so do some of the most traditional economists, as we have seen). It is not new. It has been around since the euro was created. It is why we rejected, at the time, both its structure and the artificial value put on the escudo at the time of joining - which did much to destroy the Portuguese economy - as well as the over valuing of the euro later on. So yes, we told you so. In this framework, the ECB was always going to be what it became : a tool for liberalizing financial markets and protecting the banks, which

would prevent the choices needed in the face of any recession. In this framework, too, the European Commission could only become what it did become : a tool of the main governments, with the legislative powers the European Parliament never had and which national parliaments are in the process of losing.

It was in the full knowledge of all this that the left developed its responses. No one can claim now that they didn't know or hadn't seen. Or that, with these treaties, the EU could be something it wasn't. Or that the institutions could be regenerated and could save the economies from recession. It's no use. There's no way you can now imagine that the EU and its directorate could be different, that it could have had social priorities or even that it could have been economically competent.

That is why the Left Bock defined itself from the beginning as "left Europeanist", and took this definition seriously. This means fighting against the whole structure of de facto powers and against the policies of Europe's leaders, because these are causes of the crisis and a negation of democracy. It means rejecting the Lisbon Treaty, because it subjects Europe to the Directorate, and rejecting the rules of the ECB, because these make the recession worse. It means demanding withdrawal from NATO and rejecting European militarism, because they are part of an imperialist policy. It means clearly demanding a refoundation of the European Union and that has a consequence which is fighting without concessions against its present structure and policies.

This fight, however, is not new. Nor is it new that this differentiates us from a nationalist left that has been reluctant to declare its position in favour of leaving the euro and the EU, in the name of an alternative - in defence of sovereignty - that is not clearly explained and is probably not viable. What is new, however, is that some sectors of the left, traditionally pro-European and even quite uncritical of the way Europe is governed, are now looking for other solutions. This shift is in itself a positive sign. It shows that, faced with the present impasse, some are looking for new alternatives. But these alternatives need to be stronger and more coherent than the positions they replace.

What may surprise even those who thought they'd seen it all, is that some manage to defend both positions simultaneously, leaving the euro and moving to a European state ; what one of its proponents calls, quite elegantly, overcoming the crisis either from "above" or from "below". Indeed, the overlaying of these two radically contradictory proposals shows how the human imagination can stretch to anything. Anyone who wants the extreme solution of a European State that would control national economies can surely not also want the extreme nationalist solution of leaving the euro (and applying policies that would mean leaving the European Union) - at least it would seem strange to argue for both at the same time. In fact, these two solutions have contradictory aims, serve the interests of different sections of society, mobilise different forces and invite different sets of alliances. The first favours the financial sectors that are most integrated into Europe, the second is likely to be led by export-oriented sections of the national bourgeoisie. The first depends on agreement from the German government and looks to the federalist sections of the Socialist Party, the second is limited to an alliance with the most conservative sector of the Portuguese Communist Party and doesn't even have the support of the trade union movement. So the task of debating with this idea of "one party, two policies" is one of the most demanding you could ask for. Either of the alternatives, in itself, is coherent and has solid arguments behind it. Either could mean a shift in the left. But what I cannot understand is the complicated argument that says, if one proves to be impossible, then we want the other. If we ask the way and someone says "if you don't go left, then go right", the chances are we'll get lost. I'm afraid this is undeniable : having two contradictory proposals is the same as having none.

That is why you can never argue for something and its opposite. Imagine what would have happened, in the recent election campaign, to a party that argued simultaneously for leaving the euro and for a unified European state. In the debate with Socrates (ex-prime minister and ex-leader of the SP) and Passos Coelho (now the PM and president of the largest rightwing party), would it argue for leaving the euro, and with Jeronimo de Sousa (general secretary of the PCP) argue for the European State ? Or would it be the other way round ? Or would it argue for both with all of them ? And it would ask people to vote for what, if that's not an indiscreet question ?

For its part, the Left Block assumes its political responsibility, because it knows that politics means choosing a path.

### 2.2. The first authoritarian answer to "austeritarianism" : federalism

I therefore prefer to discuss each of these proposals separately, on its own merits and not as part of a strange amalgam. The question that needs to be asked then, is this : does the new proposal help to respond to the recession and austerity, serve as a lever for mobilization and developing an alternative ? If it does, we should adopt it without hesitation.

Let's start with federalism. According to this proposal, if there is a debt crisis, the solution would be to transform the European Union into a unified State, with a single fiscal authority, a single government and a single budget. This is the solution "from above". There is a debt, so let the European State deal with it and control our budget from now on. They can solve the problem.

Federalism is a fairly self-explanatory concept : the federation is a form of organizing a state with regions or provinces (in the United States and Brazil they are called states) which have a degree of autonomy, but are subject to a centralized political power, which decides the budget and economic and social policy, and which has a common legal framework, army and foreign policy. In other words, a federation is a unified state. Joshka Fisher, leader of the German Greens and a prominent federalist, wrote recently, not without a certain arrogance, that in this European State, the national states could have a bit more autonomy than the German lander (provinces) have today.

It is easy enough to see why this proposal disguises itself with the argument that it is only suggesting small steps, with faits accomplis, on a road whose destination remains concealed. The reason is obvious : there is absolutely no chance of getting agreement in Europe for such a European State at the present time.

And there is no chance of this for two reasons. The first is that these small steps create big tensions, as is the case with the behaviour of the directorate, currently a Franco-German axis revolving around Merkel. It was with such small steps that we got to where we are, and it's not a pretty sight. The second is that none of the bourgeoisies - nor public opinion - in the big countries would accept the unknown quantity of a European government. This would need a social assent and ideological hegemony that does not exist.

A European government would mean that Britain or France might be governed from Berlin. Impossible. Or that Germany might have to accept a government led by a Polish prime minister elected in a coalition with Italian populists. Unacceptable. Or that Portugal, the only Iberian nation that over the centuries managed to free itself from the kingdom of Castille, might now have to give up its historic achievement of independence. Unlikely, isn't it ?

Clearly, the current impossibility of creating this European state may not be a reason for dismissing it in the future or not wishing for it now. The left could argue for it as a model, as a strategy or, in more modern terms, as a horizon. But for my part, I can only see reasons to reject categorically the threat of a European state.

I'll begin with the most circumstantial reason. Let's imagine that there was no resistance, that there was a strong consensus, federalism had won the day and the European state was created and its government elected - all very far-fetched hypotheses. The trouble is, as we saw in the last elections to the European parliament, the results of this election would be a resounding victory for the European right, including its most populist and aggressive sectors. As a result, the ability of the workers movements to fight back would be reduced, particularly in those countries where a balance of forces has been created that has made it possible to fight for alternatives. For the left, this would be a suicidal course.

But let's ignore that objection. After all, if the proposal were absolutely essential, the European state would be a victory for democracy and we would all be better off in the long run. But is it essential ? Would Europe benefit from such a state ? My answer is decidedly no : a democratic European state will never be democratic. This is the most important objection, because it has to do with the nature of the left and with our commitment to represent and fight for the emancipation of the exploited.

The EU can have democratic or authoritarian procedures, and this makes a big difference. We have always proposed democratic procedures and rejected authoritarian ones : the current system of the directorate is one of the worst characteristics of federalism. So the Block has always argued for a referendum on each Treaty (and we argued for a "No" to the Maastricht Treaty, and later to the Nice and Lisbon Treaties, for very good reasons). We denounced the European powers and governments that conspired to conceal a Constitutional Treaty as a common treaty and impose it without the referenda they had solemnly promised. We laid down a motion of censure against prime minister Socrates because of this.

We take very seriously the struggle for democratic procedures. We know there is a big difference between governments legislating through the European Council and its Commission, or being subjected to parliamentary control and scrutiny. There is a big difference between the possibility of Europeans deciding and having power locked up with the leaders in the directorate.

But let us stop a moment to consider what our struggle for democratic procedures has been all about. When we propose a referendum in Portugal and we want the "no" to win against the directorate and its treaty, we are certainly arguing for a solution for Europe. In this we are completely European. But we do it where we can, as we can and as we want the question to be decided democratically - where we recognize this, in Portugal. Why didn't we propose a simultaneous, Europe-wide referendum to decide on the Treaty, where the vote of a German or a Pole would be worth the same as that of a Portuguese ? Because the people we recognise as having the right to decide on a treaty for Portugal is the Portuguese electorate. It is with them that we speak. It is their decision that we accept as legitimate, even if we think it is wrong and fight against its consequences.

The reason for this legitimacy is of cardinal importance for the left. And it is quite simple. It is that parliamentary democracy was created historically in the nation-state, based on society's acceptance of representatives enjoying legitimacy : everyone has the right to vote, there is pluralism and we accept that the party that wins most votes represents the state and forms the government. This system is fragile, open to manipulation, hugely influenced by the weight of dominant ideology and the manufacture of consensus ; it is not a democracy where the people can fully participate and act freely, but it is part of the democracy that resulted from social struggles for universal suffrage and against the dictatorship, and we are not going to give it up. It is the starting point for struggles, because it is verifiable and can be disputed by the force that comes from popular struggle. This is why representative democracy within the country is a space of confrontation for everyone, but European democracy doesn't exist. There are democratic or authoritarian procedures in Europe, but there is no European democracy in the sense of a shared space with a single, agreed legitimacy.

The European state is therefore not democratic, because it excludes the really existing representative democracy, which is that which exists within the nation-state. There is not yet and never has been any form of international democracy, with any real basis of legitimacy for a global population. We need it, but it doesn't exist.

A commentator has written that, if Merkel rules over us, at least we should be able to vote in the elections that choose her. The same goes for the rest of Europe : if they tell us what to do, we want to vote whether we agree or not. But the problem is this vote makes no sense. We cannot communicate with a German brewery owner in Munich as we do with an unemployed woman in Figueiro dos Vinhos (or the brewery owner of Figueiro dos Vinhos). We don't speak the same history, the same culture. We don't share the same discussions and disagreements. We

cannot all together decide on a government to rule over all of us, because, as Linecker used to say, in this game there are two teams and in the end Germany always wins. What's worse, when we do elect the government of the European state, all we will get will be a provincial governor ensconced in the Sao Bento palace, to whom we can make requests. But with him we will not be able to discuss laws, budgets, taxes, defence, foreign policy or public services. Such a democracy would not be democracy.

I will be told that, in the end, Merkel and Passos Coelho think and propose the same thing for society. Yes, but the difference between having a German government for the EU and having a Portuguese government within the EU, albeit subordinate and supine, is that we can fight the latter and influence its political choices. That fight is ours, the people's.

More fundamentally, a single European people that sees itself as such does not exist ; there are European peoples. Being Portuguese and being European are two identities, not one. It is still within national frameworks that the main processes of accumulation take shape, as do most importantly decisions about wages and conditions, in other words about the distribution of income, exploitation and the fight against it - a fight we have to conduct where we have the power to do so.

This is what we always said about Europe. That it should be a place for common policies, including with a negotiated pooling of common decisions -if leading to a common plan on employment -, but also a convergence of nation-states. All left Europeanist politics is based on this firm conviction. Europe has to be a combination of European policies and areas of action by national states. We want to strengthen both, making clear what the EU should do : a better common budget for full-employment measures, while also giving each country more control over its own financial, fiscal, budgetary and social policies. All good reasons to reject the European state.

Finally, there are two more reasons for rejecting the federalist trap. The first is that any slide towards an inevitably authoritarian, European state, will strengthen the various nationalisms - and we definitely want to avoid that nightmare, because we know how it starts but we don't know where it ends. Already many European countries have radical nationalist right wings on 20%. Federalism feeds this. Rejecting nationalism and reducing its influence means, as always, the left fighting for hegemony among its people, seeking to build a majority to lead the nation. This struggle for hegemony is the left's reason for existing, and woe be to the left that gives up this struggle or, on the contrary, becomes itself nationalist - it will end up, like the Greek CP, systematically voting with Le Pen in the European parliament. It may win electoral support, as the Greek CP has, but nationalism will never be make a left for the struggle we need. The reactionary utopia of a European state creates its anti-bodies that destroy the left in every country.

The last reason is about ourselves being consistent. I have left this reason to last, because it is only our own political culture that is at stake. Still, it is important. It was quite deliberate when we wrote in the "Contract for Europe" - which is one of the Left Block's three founding documents - that we are for "a new left perspective for Europe, against federalism", and that the "main enemy of our alternative project is the federalism" that "turns Europe into a marketplace for capital". At the time, we also pointed to the imperialist aspect of the idea of a European state : it would come together with a unified army and repressive apparatus.

I recognize there may be some who approved that position ten years ago and now regret it. Or who think that the crisis in Portugal is now so serious that even that solution is better than things continuing as they are. And indeed they cannot continue as they are.

But I ask : is it just immediate urgency that would move us to abandon our long-held position ? Is it the emergency that would lead us to accept the European power we always rejected ? If that is the case, why argue for something that is not viable in the near or foreseeable future ?

That said, my conclusion is this : the idea of a federal European state will not play any decisive role in either Portuguese or European politics in the current period. There will be steps to strengthen the Council, the Commission and the ECB, to create common funds and strict rules, and to supervise budgets and policies, but nothing we haven't already seen with the control now being exercised by creditors. There will be those small steps, forwards and backwards, but there will no be any great leap towards a federal European state.

Neither will those parts of social democracy that argue for this - and we are only talking about some parts when they are in opposition, not all parts and not always - acquire sufficient strength to force this solution onto the agenda. Nor will it win support among other sectors of the left. Purely and simply, it does not exist as a political option.

### **2.3. The second authoritarian solution to austeritarianism : leaving the euro and the European Union**

The second solution, on the other hand, will be increasingly important in the debate. The proposal to leave the euro will not go away and we will have to face up to it. It will be supported by two types of current : the economists who reject the corset imposed by the euro and cannot see any other alternative, and those on the left who prefer nationalism to the spread of the European crisis. They are two different sectors, with different ideas and proposals, and it is only out of dilettantism that the latter resort to the arguments of the former.

Among the economists who argue for leaving the euro are some who have long been its critics, like Joao Ferreira Amaral in Portugal or, more prudently, Paul Krugman and Nouriel Roubini in the United States. For them, it is no longer a matter of choice, it is (or begins to be) inevitable. According to these economists, the recessionary spiral produced by budget cuts will make the situation ungovernable, with tax increases that no longer increase revenues, paralysis of the economy and an absence of policy options. Therefore they argue that the only alternative is to leave the euro, thereby devaluing the new currency and hoping that the economy re-balances by increasing exports and reducing wages. It should be pointed out that none of them are in favour of reneging on the debt. Rather they hope to gain time to pay the debt by other means, with a growth in exports. And they all agree that the workers should pay for the adjustment with lower wages. In this there are good arguments and bad ones, as I wrote above on whether the euro was a cause of the crisis. But it is above all a response that advocates permanent wage restraint and cares little about how the economy affects everyday lives.

What is more, it is ingenuous to think that the EU would finance an exit from the euro or that the financial markets would remain neutral towards a new currency.

Everything would be up for grabs : if a right-wing government did this with the aim of producing a sharp and permanent drop in workers' wages, it might get some support from international finance, but this probably wouldn't last when it came to the drastic measures that would inevitably follow.

Let us now look at how an exit from the euro would be carried out, and invite those on the left who argue for this to defend it in terms of workers' living standards.

We'll begin with the first step, the decision to create a new currency, which we'll call the escudo. Given its economic difficulties, the government decides to leave the euro and begin to use the escudo as the national currency (or is expelled from the euro, which amounts to the same in terms of economic and social effects). It orders the notes to be printed in secret and gets ready to make the big announcement on a Friday night, at the time of the main news, after all the banks have closed. That week-end, all the banks work overtime to get the notes to all the cash machines, so that the new currency can be in circulation on Monday morning.

The problem is that this operation involves thousands of people, who transport and distribute the notes, and they tell

their families. And, anyway, for weeks everyone has been hearing ministers declare that things are going very badly and how we need courageous decisions to save the country from ruin. In other words, everybody knows what is going to happen.

So what do people do ? It doesn't take much guessing : they race to the banks to take out all their money and keep it in euro cash. If they don't, all their accounts and savings will be turned into escudos, whose face value will fall with the sharp devaluation which, after all, is the point of this operation. That is, their savings will be devalued just as much as the currency in which they are now held.

However, the banks don't want to pay their clients all their balances and savings, because this bank run will ruin them. They don't want to and can't, because they simply don't have enough money for this - nor are there enough notes to cover all the liquid monetary mass that exists in Portugal (the monetary mass is the total of notes and coins in circulation plus bank deposits, and the banks don't hold that much money because they lend it out). The banks will therefore close their doors as the alarm spreads, and the government will call out the army to guard the buildings. That is what happened in Argentina, and in all the cases where sharp devaluations have been announced (and they didn't involve leaving one currency and creating another, something never done in the history of the European Union).

The left that favours leaving the euro finds here its first difficulty. It will have to defend the army against the people. And it will have to accept its first victim, the holders of bank accounts. The numbers are clear : if the devaluation were 50% (Ferreira Amaral calculates it at 40%, others put it much higher), workers' savings and bank deposits will lose half their value. Wages and pensions are consequently devalued as well.

The initial shock passes. But there is more to come, and it's worse. The escudo has, as we said, lost 50% of its value against the euro. The government and the nationalist left are hoping for the following beneficial effect : exports increase because they become cheaper (because their price in foreign currency becomes cheaper, and because wages fall), while imports decrease because they are now more expensive in escudos. This will mean capital moves into export-oriented industries and services, while consumption and imports are reduced. All this greatly improves the balance of payments. The guiding principle is this : if life gets better for Amorim, owner of the biggest Portuguese industrial multinational, it will also get better for the economy as a whole.

It seems to make sense, but there is a problem. This is that, with devaluation, the price of imported products increases the very same day. Fuel costs one and a half times as much as before (and all forms of transport as well), and the same happens with imported foodstuffs, clinical drugs and so many other goods. Since two thirds of Portuguese people's income goes on consumption, imagine the immediate effect of these two sets of price increases. This effect means wages are worth even less.

As for exports, yes, they will grow, as long as buyers abroad want to buy more because the price has gone down (and as long as there is not a recession abroad, and Portuguese products match markets where demand is increasing, and that they are of the kind foreign consumers are looking for, etc.). Yes, they will grow, but slowly : the income from sales only comes in after the sale is made, and you have to wait for production to be completed and even for productive capacity to be increased. Then, the price of our exports includes the cost of raw materials and other products that have to be imported, which account for more than half the value of the exports, and which are now more expensive. Thus the income from exports increases only slightly, slowly and later on.

Then comes the second shock. A half of Portuguese families have long-term debts to the banks that lent them money to buy a house. They borrowed in euros. There are two possibilities : either, on the day it leaves the euro, the government accepts what the banks want (that this debt be considered at its real value, which is in euros, not in devalued escudo), or, to protect the borrowers, it decrees that the debt must be converted into escudos.

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In the first case, borrowers see their debt multiply. Imagine someone with a debt of 50 thousand euros, converted, in devalued escudos, into a debt of 15 thousand contos. If they were previously earning 1000 euros a month (in the new currency, 200 contos... which are now worth 500 euros) and they were using half this income to pay the bank, then they needed 100 months, with a rope round their necks, to pay the debt. Now they will need 150 months with the same difficulties, paying half their wage to the bank. They have lost five years of their life.

In the second case, where the government protects borrowers, someone with a debt of 50 thousand euros now has one of 10 thousand contos... which are worth 25 thousand euros. The bank lost half. The problem is that it goes bust, because it now has a massive hole in its balance sheet. This is why those who support leaving the euro explain, quite honestly, that it will be necessary to nationalize all the banks, no so much to socialise finance capital as to save it. And saving a bank can be very expensive, as we know from the case of the BPN (a bank nationalized after bankruptcy). Because when you nationalise a bank you are left with its debts, which are debts to the bank's depositors and debts to those who lent it money, usually foreign banks. Now this debt is in euros, but the bank which has gone bankrupt and been nationalised will be getting its income and deposits in devalued escudos, while continuing to make payments in euros. Its foreign debt has gone up 50% overnight. Saving banks has a cost, and it is not a small one.

So here we have the nationalist left defending the banks and asking for tax increases to pay the international banks. The worker, whose home-loan was protected, has to pay by another route (new taxes). Of course, the spokespeople of this nationalist left can tell me that the government should simply refuse to pay the international debts of the banks it has nationalised. But, forgive me, what concrete government are we talking about here ? Weren't we speaking of Portugal in 2011 ? Does anyone think that you could nationalize the banks, which had collapsed as a result of devaluation ; then propose as a solution a break with foreign creditors ; and still hope to find markets open for those exports that are meant to be saving the economy ? In other words, the socialization of capital and at the same time an alliance with export projects favoured by capital around the world ?

I'll make an aside here to clarify my opinion on an ideological question : yes, I am convinced that nationalizing the financial system is a strategic necessity for socialist politics, because the credit system should be a public asset. And I am also convinced that a government of the left will have to confront the resistance of finance capital, which is its biggest enemy, and may therefore be forced to take the only realistic decision of nationalization in conditions that are not the most desirable for its success. But I also think it must do everything possible to develop the best possible conditions for its action..

In any case, to win it is necessary to have sufficient social strength and, to have a public credit system that works, we need the capacity to defeat the speculators. Now, let us be quite clear, none of the current discussions on leaving the euro involves a hypothetical left government carrying this through. So what matters now is the concrete balance of forces that exists now and that we can create through a very strong social response to the dictatorship of debt. This is what we can do and what we will do, not a tale of political fiction. End of the aside.

Let us return now to the problems our nationalist left run into as they support the government that has decided to leave the euro. It already faces opposition from those who have to pay more taxes or have seen their debts multiply, those who are paying more for their food and transport or have lost part of their savings. With all this, workers will quickly see that they have lost part of their wages (or pensions), and that budget restraint is no less than before (in fact it's got worse, because now the debt has to be paid in euros while the state receives tax income in escudos), so there are fresh cuts in health and education. For all these reasons, workers will struggle to restore their wages.

Now the government will argue that this could ruin everything. Exports are cheaper because the escudo is worth less, the goods got cheaper, and because companies are paying lower wages in escudos. If wages go up, competitiveness will be again be lost. How will our nationalist left respond to the workers' justified protests ?

The answer is simple, argues one of the sages of the nationalist left, we just need a miracle : we'll have a meeting of social conciliation and convince the bosses to increase wages and compensate workers for whatever they have lost through devaluation. Imagine this meeting to form a social pact : the country is boiling over, with riots outside the banks as prices and taxes go up, inflation is back, wages are falling, and the bosses offer to sacrifice their profits for the sake of labour. It's such a curious hypothesis that it's hardly worth arguing about.

In other words, the nationalist left that favours leaving the euro has got itself stuck in a dead end. It wanted to stop continuing austerity and was quite right to do so. But it put forward an alternative that results in more austerity, all to the benefit of the exporting bourgeoisie, while accepting a cut in wages and pensions with the devaluation or the escudo. It didn't solve any problem and it created new ones. And the ability to develop a socialist perspective has been lost, because it cannot be remotely understood by workers who are paying the cost.

For socialist politics there is a basic principle which is the defence of the working class. Socialist politics means defending wages and fighting to increase them, not sacrificing wages. The authoritarian solution of leaving the euro is a proposal for more austerity.

### 3. Left europeanism is the basis of socialist politics

I therefore reject both these proposals, the federalism of the European state and the exit from the euro. They are not alternatives for the left in Portugal (of course, this does not apply to Greece since I make no claim on Greece : I simply don't know and only those fighting there or knowing it in great detail can appreciate the level of social mobilization, the alternatives and the configuration of their social struggle). Both try to respond to the dramatic worsening of the crisis, but lead to authoritarian and austeritarian policies that make the crisis worse. The fact that the crisis really is getting worse, is not a reason for us to give up on analysis or on getting our politics right.

I suggest that our discussion of the response that is needed should begin at the beginning, with the nature of the crisis we face.

#### 3.1. After thirty years of feeble growth

The Second World War was a turning point in the 20th century. It produced horrendous massacres, from Auschwitz to Hiroshima. But, from the economic point of view, it was also a process of radically destroying productive forces, workers and capital. It was this destruction that opened the way to a reshaping of modern capitalism, a new arrangement of world powers, the creation of a new monetary system tied to the dollar and, in the developed countries, the encouragement of mass consumption based on the spread of assembly line production. It was only this gigantic destruction and the reorganization which followed, that brought to a close the great crisis of 1929.

It is worth noting, however, one fact about this crisis : the recovery of the already dominant economy, that of the United States, took 25 years - it was only in 1954 that stock markets returned to the level they'd been at before the crash. And it required a war and the creation of a new world for such a recovery to become possible. The key to recovery was precisely this massive destruction of productive forces and the reshaping of a new framework for capital accumulation.

This made it possible to create new, rapid-growth industries, new financial markets, new multinationals. The same thing had happened before : modern industrial capitalism has developed in long waves, some of growth and others of crisis, which last for decades and which set the rhythm of the accumulation process. During the long periods of

growth (like 1945-1974), crises are rare, short-lived and shallow. While in the long periods of crisis, they are frequent, longer-lasting and deep (1974 to the present).

In each of these epochs of capitalism, or long waves of capitalist development, its structure adapts. The push that electricity gave to industry, along with the driving force of steel production, from the end of the 19th century, gave way to a new push from the motor engine, oil derivatives and refined chemicals in the period after the 2nd World War. This new model of production provided the framework for new social relations, a new contract between labour and capital, with rules that meant workers' wages accounted for a large part of the consumption that companies needed. The new technologies of mass production corresponded, in Europe and North America, to an institutional arrangement that combined the labour contract with a significant indirect wage, through access to social security and healthcare. It was through this increase in demand that the mass markets were created which enabled the capitalist economy to grow in the Thirty Glorious Years of the post-war period. The schedule of the rate of profit and accumulation overdetermine these technological and social processes, as the prime-movers of the transformations in the economy and society.

This system worked without major difficulties for those three decades. Then it ran out of steam, its end being marked by the second generalized recession of the century, in 1973-4. After that, the easy combination between the way production worked and its social institutions was lost, the technological push petered out, the profit margin was systematically reduced and accumulation and investment were put in doubt. What followed were several decades of mediocre growth, financed by credit and indebtedness, with frequent and sharp recessions (1973-4, 1981, 1993, 2003, 2008-9), exactly as in the long decades of crisis after 1929. The profitability of capital recovered slowly, but accumulation remained at exceptionally low levels.

This is the situation today. The creation of vast financial markets is the key characteristic of this new epoch of capitalism - what Ernest Mandel aptly called "late capitalism" - in which available capital goes into speculation and not investment, generating ever more "fictitious capital", as Marx called it, seeking guaranteed profits. This is what explains everything we have seen, from the property bubble to privatizations of social security and public-private partnerships.

To return to growth, the bourgeoisie is trying to create a new economy with a new social regime : precarious employment, that is an end to the labour contract, to make full use of new production technologies with cheap labour, an increase in absolute surplus value (longer hours and lower wages) and a reduction in the social wage (the cost of essential public services). This new regime therefore needs a destruction of social conditions that would have the same effect as the massive loss of labour and capital that occurred in the Second World War. But the popular movement, although under prolonged attack from structural unemployment, still has the capacity to fight back.

This is what we base ourselves on, the core of our realistic politics. Everything is up for grabs. We know very well that, as Warren Buffet, the second richest man in the world said, "there is a class struggle, and it's our class that's winning" : the 1% that dominate the economies received 40% of the profits and dividends ten years ago, 60% five years ago and 70% now. The concentration of capital is immense. But the new society is yet to be defined, and in truth the most surprising thing, from a historical point of view, is not its advance but just how difficult it is proving to impose it. The 1% the dominate the economies have not succeeded in crushing the other 99%, because these, when they mobilize, have the strength of democracy behind them.

Since the 1% have more power, it is against them that the fight needs to be waged : the policy of the right and the bourgeoisie is to devalue wage, the policy of the workers is to devalue capital and defend wages. Our battle is with finance, which is in charge of the debt-tatorship. It is true, this is an epochal struggle. Which is why do not need ideas that divide the capacities for popular struggle and sow confusion. We need clarity and mobilization. And we need now, not tomorrow, a broad alliance in the struggle for wages.

### 3.2. Left Europeanism and the struggle against debt-tatorship

In this situation, what should we do ? We cannot, or should not, in my opinion, encourage the dream of a European state - rather we should fight against this - and we cannot and should not foster nationalist illusions in an autarchic solution, which needs to be rejected. On the contrary, we should fight for European solutions, which do not give up on what is essential : a European alliance of the political and social left for the struggle against austerity. And we should decide where we concentrate our forces for the broader struggle for wages.

I'll begin with Europe. I am aware that, since the waning of the European Social Forums, it has not been possible to recreate even a minimal instrument of response. The European Left Party is extremely limited, as are the other networks in which we take part. We never managed to pull off our proposal for a big congress of European social and political movements ; and the left parties in the north of Europe fear the electoral consequences of defending the Greek people against the strangulation of the debt and they do not want anything to do with a European strike.

We should, therefore, with our allies, explore the possibility of reviving the Social Forum - or of opening the way to a new form of global network - maybe to meet in Spain, with the indignad@s movement, to launch a European agenda of struggle against austerity. And with them, hold up the basic aims we have been defending :

- Obligation of the ECB to back and buy up the sovereign debt of each state ;
- The launching of eurobonds to mutualize part of the debt ;
- The devaluation of the euro to relieve pressure on the economies ;
- A tax on capital and an end to offshore havens, particularly those in London and Luxembourg ;
- The creation of a European ratings agency to evaluate private debt ;
- A plan for job creation supported by the European budget ;
- The creation of common fiscal rules with a minimum rate of corporation tax, to avoid fiscal competition between states ;
- A thorough-going restructuring of Greek debt at the expense of creditor banks.

Finally, the proposal to refound Europe is the centrepiece of left europeanism. It needs to be spelled out. We need to work on the detail, proposing for example a new Treaty to create two chambers, one directly-elected parliament and another that gives all the states equal representation, in order to mobilize the two dimensions of Europe, or a single chamber with a system of representation that does not marginalize the small and medium-sized countries.

It will not be easy to create a movement with these political characteristics. But today the possibilities are greater than they were a month ago (this text was written at the end of November 2011). It is these possibilities that interest us and I think we have to take them very seriously, making a big effort to put this line into practice. I am convinced we can and must do more in this direction.

But what we say about Europe, to be realistic and as I suggested earlier, is a matter of proposals, it is inviting and getting closer to others on the left, but it is certainly not where our main ability to wage a political battle lies. Our greatest strength is where can count on our own forces. If it were possible to have a European forum of some kind, that could bring together movements and create a political agenda, then we would be advancing to a new threshold,

as we want. But in any case, this possibility does not lessen the importance of our day-to-day struggle with the government and the plan of the troika, the debt-tatorship.

## This is where we need to get it right

In the first place, we reject the idea that there are no alternatives to the troika's plan. And we need to launch a counter-offensive on this question. It is already possible to do this because a sharp shift in popular perceptions has been produced by the violence of the budget cuts with the elimination of holiday and Christmas bonuses. After the 15 October and the call by the CGTP-UGT for a general strike, the situation has begun to change. This demands a more aggressive approach, to shake off the social lethargy and seize the initiative. Thus our argument should be :

- Portugal needs to defeat the troika plan, because this means impoverishment and unemployment only to end up with more debt (the biggest increase in debt ever, 125% of GDP in 2014, according to the Bank of Portugal). Ending the submission to austerity is the condition for democracy being able to decide. This is what defines the whole range of our discussions, invitations and alliances.
- We should present a plan for jobs, indicating the areas where it is possible to develop the economy : create jobs on the basis of an industrial policy based on new strategic sectors, public investment, reducing rather than increasing the working day by half an hour, forbidding layoffs in profitable companies, etc.
- The immediate alternative for boosting the economy is to print more money, and the state can do this through the state bank, the capitalization of the CGD (Caixa Geral de Depósitos, state-owned, is Portugal's largest bank), and the multiplier effect that an injection of liquidity can have on investment in jobs, the creation of new industries, exports and above all import substitution. Such liquidity should not be used to provide credit for consumption or for housing, because this will just create more debt ; it must be managed by a bank of the CGD to promote industry. This is the immediate weak point in the Portuguese economy and it is by this means that the crisis can be overcome, with job creation. One further word on the printing of money. This is a concrete alternative to leaving the euro and devaluing the escudo, and it has the enormous advantage that it doesn't damage the wages and incomes of the working class, but on the contrary allows an increase in economic activity through cheaper credit, oriented towards production and therefore making it easier to achieve a balance of payments on the foreign account.
- We support, as ever, a fiscal revolution based on taxing capital and high levels of wealth.
- But we can and should go further in recovering capital, imposing anti-speculative rules on the banks : controls on international capital movements, a prohibition on banks investing in risk funds, and the separation of commercial and speculative banking.

Secondly, and because presenting such alternatives will lead to social confrontation, we should concentrate on the struggle against the debt. Here I suggest the following approach :

- The idea of renegotiating the debt needs to take on a more concrete form : restructuring. In other words, the cancellation of part of the debt. This proposal, which was correct and grew in strength, is increasingly supported by a variety of economists, and even by politicians of different stripe.
- In the social movement and in the thick of the battle, our focus should be on a debt audit. And let's be clear : the point of an audit is to reject all of the abusive debt. That's right, it helps to refuse to pay the abusive debt. This is the coherent version of "We won't pay". It attacks the creditors where they are weakest, because they are guilty. Examples :

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- In the most recent debt issues, rates were charged above the real costs, as a result of punitive and speculative interest rates. We reject this debt, which amounts to billions of euros, and we will not pay it.
- Payments for military equipment were written off by the creditor, which was the Portuguese state. This means almost 3 billion euros were lost without any legal challenge.
- The 78 billion euro debt pays 34 billion in interest. Almost 20 billion of these are abusive interest rates.

In the fight against the debt, our strongest point is then to attack the main debtors. Yes, you read that correctly, the debtors : we have to turn around the debate on the debt. And speak about the biggest debt of all. This is the most difficult thing, but also the most important, because it's aimed at the target that really matters, finance capital. That's why we need to talk about what they owe, what capital owes, to the tax payers, to the workers, to the people :

- What they took in the scandalous privatizations of public enterprises producing public goods as monopolies (water, electricity, etc.).
- What they transferred to offshore havens without paying taxes (6.6 million per day this year).
- The dividends and profits they paid themselves when they were financed by the state.
- The fiscal distortion created with the increase in taxes on labour and consumption while real taxes on profits fell.
- The outstanding taxes, particularly those of the banks, and what tax payers and other contributors paid towards these unpaid taxes through exemptions and other fiscal benefits.
- What they spent in under the counter payments and other unjustified payments.
- What they expect to receive from public-private partnerships, the great hidden quantity of the state's debt.

Just look at this debt : the more than 4 billion euro growth in public-private partnerships, equivalent to four years of confiscating Christmas and holiday bonuses, which I already referred to. These partnerships provide finance capital's biggest guaranteed return, and should be the centre of our attack. If anyone asks what the alternative is to budget cuts, here is one of the most important.

This debt has to be present in everything we say ; it is the centre of the struggle against the debt-tatorship. The money for job creation and settling the external account can only come from those who are owing it, from finance capital.

This orientation has one central idea : yes, it's called resistance. And if the only alternative to this resistance that aims to build a social movement is to chase after a fantasy - nationalism, export-oriented capital, or the federalism of Antonio Jose Seguro (leader of the Portuguese Socialist Party since July 2011) - then it is surely preferable to go for resistance. As ever, we will throw ourselves into resistance with a European perspective and we will seek to build the bridges to make this resistance a European struggle. And at the national level, we will not be restricted to resistance in the trenches ; we want this to be a governmental alternative, a proposal to lead the country, a global struggle, action here and now, in the streets.

And if this is to be serious politics, we need to discuss the key issue in politics : alliances. Federalism would enable us to link up with the Socialist Party. But frankly, what would be the difference between that left and the authoritarian impositions of Merkel with the EU's "European semester" for economic policy coordination ? With such a political line, how could we refuse to hand over national budgets for inspection and approval by Berlin, which after all is the

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preferred model of the federal state ? As for nationalism, that would link us up with the Portuguese Communist Party, which so far is barely murmuring about leaving the euro, walking on eggshells because it knows the fears this raises among workers who have already been scalded by devaluations and inflation. The main beneficiaries of such a strategy, export capital, flee from the idea like the devil before the cross. In other words it does nothing but give a voice to despair.

On the other hand, a platform of struggle against the austerity measures allows us to speak to the majority of these sectors, to bring them together, including sections of the SP and the CP, the trade union movement, the " indignad@s" occupying the streets, the unemployed and precarious workers. It is in this struggle, and only in this struggle, that we can achieve our strategic aim : to punish capital and defend wages.

The general strike that was called today will be a real test of this policy. It does not seek any dream of a European state, nor does it make any demand to leave the euro. Nor could it, of course. It has the correct platform that brings together most people, rejection of the cuts in benefits or tax increases, defence of wages and job creation. This is what is called resistance and it speaks for the country as a whole - it is the struggle for hegemony and it generates social action.

It is in this action that people learn and develop alternatives. As someone used to say, it is always from practice that come the best ideas. Let's struggle.

**Francisco Louçã**

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*Post-scriptum :*

\* From *International Viewpoint* <http://internationalviewpoint.org/>

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[1] This text was written at the end of November 2011.

[2] "Left Europeanism" is how the Left Block has characterized its approach to Europe since its very earliest days.