Europe: A strategy to break with the Europe of Capital

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Soon the Spanish Government, through an agreement with the Popular Party, will pose the question, unprecedented since entry into the EU, of reforming the Constitution to enshrine budgetary stability, further tightening the criteria of the Euro Pact. Thus the current PSOE government, together with its presumed successor, the PP, are again posing as exemplary champions of rigor, submitting to the demands of the financial oligarchies and the governments of Merkel and Sarkozy.

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The chosen path of approval, at the end of a moribund legislature of an unrepresentative Parliament under a disoriented government without consultation through a referendum shows once again the compliance of institutional political power with the requirements of European economic power. And as is increasingly clear, that “what is called democracy is not so...”.

The social response is an outcry, ever louder as society shows its outrage and until now unarmed actors express their rejection. Also, this social rage materializes in the visualization of horizons of emancipation and solidarity-based alternatives. To sketch these new horizons, we need to explore new divergent paths out of the quagmire that the current European policies are pushing us into. In what follows we are going to try to synthesize some political-economic interpretations given by the left in recent times. We will try and to identify a possible course free of the shackles of the EU model and its oligarchical political management.

1. The EU model and the trend towards the abyss at its periphery.

Different authors like, among others, Costas Lapavitsas [1] or Pedro Montes [2] have developed a diagnosis of the existing European model and its consequences. A model which has been established since at least Maastricht and continued in its many successor treaties (Lisbon, Euro Pact, and so on). The EU model has promoted and institutionalized freedom of movement of capital and goods within a single market and a monetary policy at the service of the central countries. All this without observing the heterogeneity of a large and mixed group of countries on which the same policies do not have the same effects. All this without any significant solidarity balances which could counteract the imbalances inherent to the market economy; or provide for just compensation for the most dependent regions or those with lower productivity; without real convergence projects and shared investments; and, last but not least, with a derisory public budget unable to correct the divergent tendencies which the said model causes. Structural dependency, the practical oligopoly of the Central European economies and capital, the divergence between centre and periphery, seem to have no limits.

The presence of the single currency, with a single interest rate for countries with production capacities of different scope and efficiency, with a chain of value and profitability dominated in its strategic phases by the core countries (Germany, France, United Kingdom and so on) that reinforces this hierarchy, in structurally divergent inflationary contexts, leads to a permanent imbalance in the balance of payments between countries. The financing needs of the peripheral countries become chronic, while the core countries become creditors and, therefore take ownership gradually of the wealth of the economically most vulnerable regions, in collusion with local oligarchic capital that can also take advantage of its space of profitability.

The EU also turned its back the possibility of the development of supportive policies, based on a harmonized, progressive and direct taxation and a public budget much higher than the current one (which does not exceed 1.2% of GDP), harmonization upwards of social models, a system of compensation and social and inter-territorial solidarity counteracting capitalist inequality, or a coordinated advanced and socially and environmentally sustainable plan of investment and international cooperation. Instead it advocates a model of concentration of privileges and benefits for the big banks and big industrial and energy corporations, by sacrificing the workers, by destroying a part of the less profitable productive tissue, and through relocation in emerging countries and the South.

The European Union’s rescue plans, with the Euro Pact as a general outline, are leading the euro area into the abyss. Its austerity policies engender a depressive spiral in the peripheral countries of which draconian conditions are demanded. If Greece is now the first in line, others will soon follow.

The demands of this “competitive model” restrict the room for manœuvre in public spending and investment policies, and make “fiscal devaluation” the main variable of adjustment, with concomitant reduction of public expenditure, cost-cutting and the degradation of working conditions on a permanent basis.

At the same time, the imposition of a recessionary policy that socializes losses to rescue capital characterizes the guiding orientation of this perverse model. We have successive bank bailouts, and an ECB policy which lends money to financial capital at 1%, but will not lend directly to states or - except in the recent desperate situations and only in secondary markets – buy public debt securities, while banks acquire public securities at considerably higher rates (above 4 per cent). These mechanisms lead to a drying up of credit for investment and consumption which is also explained by the degradation of anticipations of growth and profitability in numerous saturated sectors.

This model is accentuated by the pressures of finance capital which, taking advantage of the permanent blackmail of private risk rating agencies dedicates itself to extorting public debts to blackmail states. In a context of huge private debt, and in a framework of overproduction, financial capital makes the public debt its business, at the same time requiring that public authorities consider policies that make citizens and the working class pay for this crisis (through adjustment plans) and mitigate the situation of insolvency. Big industrial capital also contributes to the hegemonic financialised logic, profiting from the quasi stagnation of the economy to strengthen its oligopolistic positions in basic goods and services (such as energy, food, insurance, health, security, and so on). Thus it succeeds in protecting itself from the crisis to the detriment of the living conditions of the population, by denigrating the public sector and appropriating the sectors privatised by the state.

_1.1. Exit from the euro as option and scenario

So, authors such as the aforementioned Lapavitsas and Montes envisage no other solution than a break with the euro and a unilateral exit in the Greek or Spanish cases, or other countries that may be in a comparable situation. According to these analysts, this route would recover sovereignty over monetary policy, and would make it easier to get out of a disastrous spiral. The central mechanism they propose involves regaining control over taxation, public investment and social expenditure and, in particular, the devaluation of the new currency. Devaluation would lead to an improvement in the conditions of export and economic recovery, and break with the logic that pushes the weakest nations in Europe towards a constant regression. Which would mean that countries could use their currencies to compete with each other and compete for market shares rather than, as happens now, compete on the basis of low wages.

This line of interpretation is exhausted at this point because we still would not find answers to the questions and scenarios that are, in our view, key. Certainly these authors support further solutions, but if we are left only with the above there would be much unresolved.

First, debt, both public and private, despite the new currency, would be denominated in euros. Devaluation would entail not only a deep impoverishment of purchasing power (due to the cost of imports), but also a worsening of the conditions of borrowing (the value of the debt would soar). So what to do about the debt? And how would people respond to deterioration in their purchasing power which could lead to it falling by half? It is not certain that proportion would be reached and one can assume a bearable level, but we also should anticipate and deal with such circumstances, particularly in view of the deterioration in the purchasing power already suffered by the population. Maintaining such a situation would require social support from the population to bear the sacrifice.

One might also ask perhaps if European countries that are not in the euro are experiencing crisis. Casuistry requires the introduction of nuances, but the truth is that none of these countries is escaping from the crisis. In this context, the worst situated are the countries of Eastern Europe, if one takes the United Kingdom as point of comparison, or obviously Switzerland, which today serves as a refuge and above all a tax haven. In any case, the evidence shows that being outside the euro, by itself, is not a magic formula in any way.

Either departure or expulsion from the Eurozone requires facing an adverse scenario, and we should not ignore the question of how to face it. This scenario would arise whether there was a voluntary exit from the euro or in the context of an expulsion from the single currency. Exit from the euro would lead to a significant deterioration in the purchasing power of the population. This deterioration would also continue within the euro area in the framework of the European neo-liberal policies in place, but outside it would go further in a faster manner, possibly. It would also be a scenario in which a portion of capital, presumably, would flee the country.

Claudio Katz [3] is currently reflecting on the Argentine experience. In 2001, it ceased to pay 48 per cent of the public debt contracted, within a framework of peso dollar parity, in a situation comparable to that of Greece today. His analysis is certainly enlightening. The default (suspension of payments), was of a partial nature, not voluntary but caused by exhaustion of funds - which suggests that it is better to take to take this decision as quickly as possible. Katz shows that this choice provided the conditions for the economic recovery of the country [4]. The subsequent recovery did not happen without a high social cost, with the extension of unemployment, poverty and hunger. This analysis leads us to concentrate on measures which can reduce the social cost. The keys are in the need for tight control of capital movements to avoid flight, not to mention some sort of transitional trade protectionism. And, needless to say, a redistributive policy combined with strong public investment to bring about a self-centred economic recovery.

All this is not enough to ensure that an isolated country could exit the euro without serious consequences. It is necessary to examine the place its economy has in the international division of labour, what markets it trades on, what financing it would have access to. In other words: Although remaining in the euro may not be an orientation to follow at all costs, it is not the only question posed, nor even the most important first to be raised. It is essential to anticipate what problems can come later.

2. A strategy to reform the EU

Michel Husson [5] and Ozlem Onaram [6], among others, have been arguing that the first option should not be to ask about whether or not to leave the euro, given the desperate situation of Greece, and what could happen to other countries of the European periphery.

Of course, monetary union, the Euro, multiplies the effects of the economic foundations on which the EU stands. These must alter deeply in a radically different direction. It is not in itself the Euro causing the crisis: the Euro is the vehicle. The fundamental issue is not exit, and neither is staying under any circumstances. It is, in their view, to try to correct the path of the EU, and if that is not possible, to shield against its policies by disobeying the neoliberal schema to build another Europe.

This does not involve waiting for the EU to reform itself, which would be naive. Staying in the euro could protect the economy from financial attacks on the currency and would not prevent in any way a strategy of disobedience of those treaties with a neo-liberal orientation. Among them should be noted, firstly, those which require a permanent adjustment on wage incomes and public policies, opposing this with expansionary measures in the monetary, fiscal, or investment areas and spending on public services and development of social policies. This disobedience might multiply if it was followed by more countries, which could require initiatory exemplary initiatives. This active exercise could be used as an instrument of pressure for a change in the EU, an economic space on a very significant scale, with a wide margin of manœuvre to circumvent the worst tendencies of capitalist globalisation.

However, although this strategy does not require perfect synchronization between the political practices of the disobedient European countries, in our opinion, nor would it be optimal in itself. It would be more effective to propose the deployment of proactive initiatives for cooperation and supra-national alliances. This option would not occur, presumably without recourse to sanctions and isolation policies and, probably, could end up leading equally to expulsion. And in this case, we must also plan for what to do.

This, any left course of action would only be sustainable socially within the framework of the partnership of several countries able to withstand the shocks of financial and commercial isolation, and with a minimum breadth to start an endogenous development which, to be viable and fair, must be redistributive, and based on radically democratic participation.

3. A supranational proactive strategy to build a solidarity-based economic area.

Saying no to neoliberal EU policies and adopting another model inviting anyone who wants to join is, in our view, a course of action which is both necessary and feasible. Whether inside or outside the

Eurozone or the EU. This is the role of the left; through government or through political pressure but, above all, from the street, to shift policies from country to country. Before considering a solution which is qualitatively superior, this is the way to undertake a change.

But once it was possible, in a less unfavourable scenario, to count on governments disobeying the neo-liberal EU, it would immediately be necessary to complement the policies of redistribution and endogenous and sustainable investment with international cooperation policies. Cooperation above all at the levels of complementary commercial, financial and common investment policies; but also integration of the institutional economic apparatus to form an economic area which, while being open to the world, allowed strengthening ties and mutual support among alternative orientation countries.

There is no point waiting for an unlikely EU-wide change (although we should not despise this possibility), or for all countries to agree a turning point. Especially when most if not all of them are under the control of bourgeois governments at the service of finance capital and large private corporations. A state, nationality or region can develop a policy of solidarity, cooperation and convergence, a project of integration between those who take this initiative and it should not be delayed. Before envisaging the appearance of a new "common currency", the first measures of integration should concern investment and preferential cooperative exchanges, redistributive measures, but also the establishment of a financial policy of solidarity-based protection against tax evasion, or attack by hedge funds. Which requires a public bank, expropriating the banks that caused and took advantage of the crisis, and that can begin construction of a central politically directed bank, to implement strong regulation of the financial system, establishing a comparatively expansive monetary policy with other monetary areas but necessarily ending the logic favourable to financial hypertrophy and the massive indebtedness of the economy.

Moreover, we should avoid Eurocentric stereotypes. In this new club we should include all countries committed to the agreed parameters, regardless of continent. It should for example accept the countries of Eastern Europe, the Maghreb or Asia.

In short, we cannot simply be saying no, or stick with developing measures at national level. It is necessary to devise a proactive, supranational and solidarity based project open to whoever engages with it, without looking at their origin, but with a shared will for common practical solidarity being the sole criterion.

4. A vehicle for popular mobilization: the citizens' audit of the debt

It is necessary to fight for another Europe, another supportive supranational framework, with a profile of solidarity, redistributive and integrative policies to make the capitalists pay for their crisis. It is necessary to fight for an internationalist economic model in which financiers cannot continue blackmailing governments and parliaments, and use European institutions as puppets to pressure government after government.

But so that this can be a project to fight the turn to the right in Europe and the undemocratic kidnapping of European institutions by the financial oligarchies, it is necessary to find a space to open in favour of progressive and innovative policies. A space that only can be built from the bottom up, from the labour and social movements.

A campaign that could lead to this is the development of a citizens' audit of the debt with a participatory, open and educational character, so that citizens can provide information and analysis that identifies the fundamental problems. This audit should clarify, as recently in the case of

Ecuador, with effective subsequent success, who are the creditors, the weight of public and private debt, how to decrease that debt, the conditions of payment and schedules, the legitimacy of the latter, as well as the uses of this financing. This campaign seeks transparency in accounts and assessing the situation, addressing the main current threat to the economy and society: debt, particularly private debt. This pedagogical exercise would allow the social majority to understand not only the reason for this obstacle to any progress, but also shed light on possible solutions.

It would clarify the choices which have led to a preference for indebtedness of the public sector rather than a financing based on a fair taxation of income from capital. We would see that many creditors have benefitted from an endless array of privileges and benefits. We would see how monetary policy, particularly unfavourable for the peripheral countries, has led to a completely irresponsible financial policy, in a context of deliberate policies of deregulation. This financial policy chose to stimulate demand via debt and not via wages or services and public investment, granting loans and credits conditioned by assurances and guarantees that made the borrowers bear all the risks of the operations.

The class struggle today takes a unique form: creditors against the indebted. And, therefore, if the capitalists are to pay for the crisis it is necessary to determine how creditors will face it and impose the necessary restructuring, in such a way that they are designated as having provoked this crisis of hyper-financialised overproduction.

Therefore, we need a cancellation of a good part of the debt, first of all that part of the public debt which is odious or used unlawfully. Then, strong regulation on private debt to attribute specific losses according to the responsibility of each party, which implies that the big banks should shoulder much of the cost. There should be a regulation on debts between public and private sector or vice versa, or between companies, normally with asymmetrical relationships that should compensate for monopoly abuses.

In the mortgage chapter, the claim for payment in kind [7] is not enough. It should be completed by a mechanism for control on empty homes, and where appropriate an expropriation of housing which is poorly maintained or not environmentally adapted to a sustainable urban model, as well as the establishment of a publics stock of rentable housing, and the regulation of a universal right to housing with rents adjusted to available resources.

We believe that another world is possible, and that we need to start somewhere in building it. What is proposed can be a good start though, of course, it is not exactly a path without major obstacles and conflicts. But unless we start on this path, the scenario will certainly be even worse.

P.S.

* First published in "Viento Sur" August 2011. English version from International Viewpoint http://internationalviewpoint.org/

Footnotes

[1] Costas Lapavitsas, "Euro exit strategy crucial for Greeks", The Guardian, June 21, 2011, http://tinyurl.com/lapagua. See also on ESSF (article 22922) his later Guardian contribution:

Greece must default and quit the euro. The real debate is how.

[2] Pedro Montes, "¿soluciones a la crisis?", June 26, 2011, http://tinyurl.com/solupedro

[3] http://katz.lahaine.org/

[4] 4 / It was also helped by being a country with significant natural resources for export (soya, and beef, among other commodities) as well as having an influential role on it environment. The loss of value of the debt on the market also contributed to reducing the amount of debt that would be subsequently paid.

[5] See on ESSF (article 23337), "A crisis without end".

[6] See on ESSF (article 21142), "An internationalist transitional program towards an anti-capitalist Europe".

[7] (Payment in kind (dación en pago in Spanish) is a legal arrangement which allows cancellation of a debt by restitution of housing