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# Will the Merkozy deal save Greece and the Euro?

Sunday 6 November 2011, by [DOVE Fiona](#), [GEORGE Susan](#), [HAAR Kenneth](#), [PLIHON Dominique](#), [VASSALOS Yiorgos](#)  
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**In a podcast debate, four activist researchers debate why the European Union is wedlocked to economic policies that will only worsen the crisis and further undermine democratic control of public budget: Susan George Fiona Dove, Yiorgos Vassalos, Dominique Plihon, Kenneth Haar.**

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## **Fiona Dove:**

Hello, today is Tuesday 1 November 2011 and this is the Transnational Institute. I am its director Fiona Dove.

Today, we are going to be talking about the latest wave of the economic crisis in Europe. Earlier last month, the European Parliament voted in favour of the so-called 6-pack of laws on economic governance. Last week, the 'Merkozy' deal to solve the crisis was announced, to a clamour of criticism that reigning in debt is being emphasized at the expense of employment, public services and measures to jumpstart the economy.

Meanwhile, we have the Occupy movement catching on across Europe and gaining increasing public sympathy. And today we heard, most surprisingly, that President Papandreou is calling a referendum on the austerity measures planned for Greece.

Joining me here today are:

Dr Susan George from the Transnational Institute and author of *'Whose Crisis, Whose Future?'*

Professor Dominique Plihon from the Department of Economics of Paris-Nord University (France)

Yiorgos Vassalos, a researcher with Alter-EU, a network campaigning against the corporate capture of EU policy

Kenneth Haar, a researcher with the Corporate Europe Observatory based in Brussels

**Fiona Dove: Susan, let's start with you...could you explain to us briefly and simply what this crisis is about?**

Susan George: Well I think it is based in the bad design of Europe and the Euro. When they decided to create Europe there was no policy to have a common treasury and when they invented the European Central Bank it turned out to be the only Central Bank in the world that does not lend to

governments. It will only lend to banks so it lends to the banks at very low interest rates and then the governments of the European Union are obliged to go back to the banks and beg for money when they need to borrow. And then the banks, the markets lend to them at much higher interest rates. So you don't have to be a financial genius to make money by borrowing from the Central Bank at 1 per cent or less and then lend onto governments, to up to, what is it now 20% for Greece? For France it's 3%, for Germany, it's the lowest around 2%.

The other issue is we don't have common bonds. When you are borrowing from the US Federal Reserve for example, people are not asking: Is this a bond from North Dakota, Florida or what is it? No you are buying US government bonds but we don't have a European government bond. So people thought they were buying European bonds, but turned out they happened to be Greek or Italian. And now this is coming to a head because it turned out it is not the same to be borrowing from Greece or Germany or Europe as a whole, so the design is bad, we can't go on this way.

Every time they make a decision and hail it as if it was saving the entire universe, the markets go up for 24 hours and then down again, and everyone recognises this is not going to do the job. So here we go again with the psychodrama cycle, because no-one wants to fix it, particularly the Germans. They want to make sure the Central Bank stays exactly as it is and that there are no common bonds.

**Fiona: Kenneth, you have been following the so-called "six pack" legislation that the European parliament voted on last month. As I understand it it is to do with economic governance. Tell us more about it.**

Kenneth: The six pack is a package of EU legislation rules and a key part of the EU response to the crisis. It does three things. First it is meant to enforce more systematically the stability pact, to put a squeeze on member state budgets; second it is to ensure surveillance of member state budgets and define the kind of expenditure the EU favours; and third it includes a surveillance of what they call "macroeconomic imbalances" which is not very well defined, and is practically an open door to influencing all areas of national economic policy.

And their intention with this measure is firstly to keep expenditure low in an anti-keynesian package with very limited room for public investment. Second they are targeting social expenditure. Expenditure which is seen as conducive to growth is to be maintained, while social expenditure such as health and pensions is targeted to be cut. Third it is about attacks on social rights. From the very beginning the Commission has made it clear that the Six pack will be used to tackle wages particularly in those countries seen as lagging behind in competitiveness. That in broad terms is the six pack.

**Fiona: In terms of the framework, is it possible for us to have the Euro without some kind of political union or control from the centre?**

Kenneth: I don't think so and this has been clear from the beginning. I have heard many commissioners stress just that, that the crisis proves some kind of political control of EU member state policies is indeed necessary. In that way, this crisis is not a surprise, but the real question is what kind of economic cooperation do we want in Europe? What they are presenting to us at the moment is neoliberal authoritarianism from the centre. Although I can see the logic it is very important to look for alternatives to this kind of response to the crisis.

**Fiona: I picked up in debate in the German parliament last week about the need for the six pack to be accompanied by more direct democracy from EU citizens, talking about direct elections for example of commissioners. Is democratisation on the cards or is it a big battle that will need to be fought from the outside?**

Kenneth: It is definitely something that has to be fought from the outside because what they are cooking up inside is very far from a democratic Europe.

**Fiona: This could be something of an agenda that could be built around as a serious alternative.**

Kenneth: Absolutely, I think in terms of a political Europe, we have two choices based on our experience of this crisis.

One possibility, that many in German parliament favour, is to work towards a federal state that is able to deal with this kind of crisis. I think we are very far from that at this moment. I think it should be noted, according to some experts at least, that for a federal state to handle a crisis of this kind it would have to handle something like 5 to 10 percent of Europe's GDP so that would require massive transfer of power and money to Brussels. But that could be one way out.

The second way out, and I think we have to mention it, is that the Euro collapses. I am not saying that just because we hear such proposals from some movements; it is just that the Euro might collapse under its own weight. Like it or not that is another plausible scenario which would mean a less ambitious kind of European cooperation and would mean social struggles would shift to having the national scene as its main stage.

**Fiona: Dominique, do you agree? Do you think the Euro might collapse under its own weight?**

Dominique Plihon: Yes it is a real possibility. Because due to the levels of financial speculation, the markets can put countries in real trouble. More than one country could go into default on their payments, and then the whole institutional framework, which is not working very well, could collapse in Europe. Some countries may need to leave Euro zone, situation may be worse for them but some could be tempted to leave.

**Fiona: How far does the Merkozy deal go? Is it a real solution or more of the same?**

Dominique: There is nothing new in the 'merkozy' deal. There are two kinds of measures. One is to deepen austerity policies which are dangerous on economic and social grounds, because they will push countries further into austerity, and into recession in countries like Greece. And the second part of the deal is to invent some kind of refinancing of countries in trouble, with the funding of the European Financing Stability. However it is not enough, as we can see very well. After Greece it is likely we will have contagious process affecting Italy and Spain.

**Fiona: A big deal has been made of the 'haircut' with commentators saying that banks are finally being asked to share burden of the crisis. Is this true?**

Dominique: In some ways yes, banks will have to take losses so will take haircut, but they certainly won't share the brunt of crisis because they are getting strong support from the EU. They are getting advantageous funding from the Stability fund and insurance from the governments in case they make losses. In fact we can see that the burden of debt will remain on the people in countries like Greece. So we are likely to have more trouble in the future.

**Fiona: On the question of Greece, I would like to ask Yiorgos what he thinks about Papandrou's proposal of a referendum?**

Yiorgos: Everyone seems to be surprised by this decision. Not sure if it is honest surprise, but I think he is mainly doing it for two reasons. The first reason is that he is buying political time. We have to

remember he is under immense political pressure in Greece. Two weeks ago we had a 48 hours general strike that was very successful. Last week a national day that commemorates World War II was turned into a massive protest throughout the country against his government and these measures. So he really has to deal with the situation where the majority of people want him to resign and where he is struggling to remain in power and keep his party together. This way he postpones the political battles by saying: Hold it, let's come back to this in the new year.

The second aim is to bring to a final stage his campaign of terrorising the Greek people by presenting the dilemma as either you accept a deterioration of your living standards or this country goes bankrupt. This line of thinking is very present in the last two years, and now he wants to take it to the last stage. People are beginning to grasp, that a default is already happening. The haircut decisions in July and October are nothing more than steps in an orderly default procedure. The real question is under whose conditions the default is happening, under conditions of creditors of banks and creditors as the situation is now or under conditions set by working people. What is happening now means all decisions will be under permanent control of the IMF and European commission and where the last thing served are the people of this country. Instead people could default on the banks and rebuild the country according to their own needs.

**Fiona: What do you mean by default on the banks?**

Yiorgos: I mean a progressive government could declare a cessation of payments to the banks, and say like leaders have done in other countries such as Ecuador that we will put the needs of people as our priority. So we will pay when we can but first we need to rebuild our economy and prioritise the needs of the people.

**Fiona: Presumably there is a big chance of Greek people voting against the measures saying they prefer bankruptcy to sacrificing their futures. What are the alternatives?**

Yiorgos: First of all we have to see if the referendum will happen. It is not a given as there is a big faction within the government party that proposes revoking referendum and forming a national unity government that would implement the agreement and stick with the deal. But if the referendum happens and if the deal rejected as it is likely, then the alternative is as I said the cessation of payments to banks and bringing back under public control a number of enterprise which have been privatised.

**Fiona: Thanks Yiorgos. We are coming towards the end of our podcast so I wanted to put to all of you: What are the key issues, questions, impressions of the crisis that you feel should be tabled here or things that have been left out.**

Susan: Well I am struck by two things actually. I would like to go back to Kenneth's contribution about the six pack because as I understand it there are another set of provisions that say if a country has not submitted a budget to the Commission before its parliament has seen it and is too slow in reducing debt or budget deficit as proportion of GNP, then the Commission can either demand a financial guarantee it won't give back unless the government makes an effort or it can impose a fine, which I calculate for France for 0.1 0.5% of GNP would come to 20- 100 billion Euros high would make countries think. One of the main jobs of government is to produce a budget, but if it can no longer do that and have to submit them to the European Commission and council before we can look at them, I call that a coup d'etat.

The other thing that strikes me is the incredible ideological victory of austerity. It is all we hear, but we know what it does. In the South, IMF imposed these programmes on at least 100 countries and everyone calls that now the lost decade of development. It shrinks economies, people have nothing

in their pockets, as they are scared about the future, they try to save, spend as little as possible so shops are not selling, suppliers not supplying, investors stop investing because there is overcapacity so we have more business failures, more unemployment, state revenue falls, cuts to budgets on health and education and misery steps in. How anyone can see this is a road to growth? We are back to 1928 before Roosevelt came to power. I can't see how they imposed this and people didn't sit down and laugh. I wanted to say to Yiorgos that at least banks don't have armies so can't occupy Greece whatever happens.

**Kenneth:** I think Susan's term coup d'état hits the nail on the head. Because in a very short time we have seen serious and far reaching reforms adopted. Very good example is the European 'semester' process: Under that procedure countries will have to send budgets to the Commission and Council before they are presented to national parliaments, and that reform which is a big step, was adopted only 3 months after it was tabled and few if any parliaments had chance to influence that decision. On economic policies, as Susan says, countries can face fines of up to 0.5% of GDP if they don't abide by the rules of the stability pact, and another thing to add is that these fines can be applied almost automatically. When the Commission proposes sanctions, it can only be stopped by qualified majority in the council of voting against it, and have to be done very quickly so it is more or less an automatic fine.

One economic policy, I can't solve the riddle or mystery Susan talks about. It is very difficult to understand the illogic in the European Union, because if you look at the 1930s the main lesson was that you should not impose austerity during times of financial crisis as this will cause a meltdown or depression. Even so this is the kind of policy the European Union is pursuing. Maybe we can find explanations in the tendency of people in the Commission and Council to listen almost exclusively to what the financial markets are saying so that is one possible reason. Second, maybe we should take a look at the obsession with inflation that has dogged the European Union from the beginning. But even if we find some explanations, it is pretty clear that if the European Union follows that track that they are on at the moment, we will all have an even more serious crisis in coming years.

**Dominique:** I think Susan partly gave the answer, to start with as it stems from the neoliberal ideology which has the idea of reducing government and social spending. They are taking advantage - government and business elites - to use the crisis as a way of reducing government spending and taxation. Among economists, supply side thinkers, think that reducing taxation will be good for the economy as it will become more dynamic.

I think though there are two other explanations. The second one would be the moral dimension, the fact that too much debt is understood as countries spending too much, so they must pay by reducing social expenditure. So countries like Greece are told they must reduce expenditure because they spent too much. It is given a moral dimension

I think there is also a third explanation. I would call that the TINA explanation. There Is No Alternative which is the expression of Thatcher which can see no other policies except austerity, austerity, austerity.

But I should add that the political elites may be divided. For example in Germany some business elites are saying this is going too far. So perhaps in the future, there might be a new approach, when they realise austerity is forcing all countries downwards. So this might happen: division in elites and possible policy change in future. Maybe I am too optimistic but meanwhile austerity is seen as only way forward.

**Fiona: Let's hope you are right in your optimism, Dominique**

Yiorgos: But I think it is becoming really urgent, as we can see with the Greek people, it will be ever more important to find alternatives. The movements we have seen – like the indignados and occupy movement and trade unions – give a lot of hope and there is a pan European dimension as we are facing common problems and can find alternatives we need.

Dominique: I think another source of hope is if we look at countries like Argentina which faced deep crisis in 2001, and escaped by defaulting on debt. We have to look at this, as it shows there are alternatives that have worked before. So this gives us hope that we can implement different policies.

**Fiona: Thank you. Very last thing: If there are there three things the occupy movement and indignados should be prioritise calling for, what do you think they should they be. Sounds like No to Austerity, Default? And ??? What other things?**

Kenneth: Hands of democracy!

**Dominique:** In terms of democracy, we must have social control of banks, as banks are playing a very important role. Also in post-capitalist countries, we will need banks but must have social control. Plus we must disarm financial markets, for example forbidding instruments like Credit Default Swaps which they are using today to impose austerity policies. So this is important work.

**Fiona:** Thanks again. For listeners I want to draw attention to a pocket guide to the crisis that you can download on [www.tni.org](http://www.tni.org) which outlines some of the causes of the crisis and alternative ideas for taking the European Union forward in a more people-friendly direction. Thank you to the panel and thank you to the listeners. Good night.

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## **P.S.**

\* From the TNI. Transcript of discussion. Please refer to recording for actual words:

<http://www.tni.org/multimedia/will-mercozy-deal-save-greece-and-euro>

\* Susan George. TNI fellow, President of the Board of TNI and honorary president of ATTAC-France [Association for Taxation of Financial Transaction to Aid Citizens]

Susan George is one of TNI's most renowned fellows for her long-term and ground-breaking analysis of global issues. Author of fourteen widely translated books, she describes her work in a cogent way that has come to define TNI: "The job of the responsible social scientist is first to uncover these forces [of wealth, power and control], to write about them clearly, without jargon... and finally..to take an advocacy position in favour of the disadvantaged, the underdogs, the victims of injustice."

Fiona Dove. Director of TNI. Fiona Dove has been Executive Director of TNI since 1995. She holds degrees in Development Studies and Industrial Sociology, and a post-graduate Diploma in Monitoring and Evaluation Methods.

A second generation African of Anglo-Irish descent, Dove was born in Zambia and grew up in South Africa. As a teenager, she became active in the anti-apartheid movement within South Africa. Dove played a leading role in feminist and anti-militarist organisations and from the mid-1980s, served the non-racial labour movement. She worked as a trade union magazine editor for Umanyano Publications in Johannesburg, and as an official of the South African Commercial Catering and Allied Workers' Union.

Dove came to The Netherlands at the end of 1994 to take up a scholarship at the Institute for Social Studies in The Hague. She was offered the directorship of TNI on graduating at the age of 34.