

Interview

# **Working people have no interest in saving the euro**

Monday 20 August 2012, by [LAPAVITSAS Costas](#) (Date first published: 9 January 2012).

**Costas Lapavitsas, Professor of Economics at the School of Oriental and African Studies, University of London, spoke to Stefan Bornost about the crisis in the eurozone.**

---

## **Stefan Bornost - For starters the crystal ball: Will we still pay with euro in 2015?**

Costas Lapavitsas - Some countries will probably still pay with euro in 2015 but it is highly unlikely that all present members of the eurozone will continue to use it.<sup>1</sup> The euro in its current form is unsustainable and it will not be sustained. The pressures making for collapse are evident—even as we speak the European bond market is seizing up because financial investors are moving into German bonds, selling other bonds due to the fear of insolvency. Consequently, they are pushing up interest rates and disrupting state borrowing as well as the normal functioning of financial institutions. If this process is intensified, the euro will be finished in weeks.

## **Merkel makes a distinction between the banking crisis, triggered by irresponsible bankers who let speculation get out of hand, and the debt crisis triggered by irresponsible (Mediterranean) governments which let debts get out of hand. Is this distinction meaningful?**

No, it is not. This is one crisis. It began in 2007 in the US because of the real estate bubble caused by the speculations of bankers and other financiers. German bankers were also heavily involved in this process, buying US subprime paper. When the bubble burst, a banking crisis emerged which led to a global recession. The recession led to unprecedented state intervention to rescue the banks and sustain demand. The soaring public debt in many countries in Europe is a direct consequence of state intervention in the years 2008-9 as economies moved into recession, not of spendthrift governments. And now it is banks that are again in danger, especially European banks because they hold a lot of public debt. The crisis of 2007-9 was never properly resolved either in Europe or elsewhere. As the European states face a disaster of public finance, the main threat is again to the banks. The crisis is about to go full circle.

## **That is the story as you tell it. But how about this one: The Germans went through hard times of privatisation, austerity and wage restraint and under severe pain got their house in order. Meanwhile, everyone else partied and lived the good life and would now like the Germans to pay the bill. Germans, understandably, do not want to pay the bill.**

It is perfectly understandable that German workers look at the euro with suspicion. They are

reluctant to commit public money—mostly out of direct and indirect taxes paid from wages and salaries—to rescuing the euro, which at the moment means rescuing the big banks yet again. For more than 15 years German workers have gone through a tough period of stagnant income, loss of trade union power, and general tightness of welfare. The costs of unification and restructuring German capitalism have been borne by workers. The single most important cause of competitive success and rising exports has similarly been pressure on workers. Germany began with higher levels of competitiveness than others, but really pulled ahead because it has kept labour costs frozen for years. The secret of its success has not been strong increases in productivity, general effectiveness or special ingenuity—all the platitudes usually connected with German capitalism. Many countries in the periphery have performed better in these respects. German pre-eminence has been achieved purely because of pressure on workers and wage stagnation.

Therefore it is easy to understand the instinctive reaction of German workers when it comes to committing public money to rescuing the euro and, much more, the banks. But I would say that this is in part a misconceived reaction. It is not true that workers elsewhere in Europe have been living the good life during the last 15 years. Pressure on working people across the whole of the EU has been intense and labour has generally lost income share to capital. Other ruling classes have tried to go in the same direction as German rulers, but they were less ruthless and therefore less successful.

If German workers feel troubled and angered, they should address their anger at their own employers and government. That is the source of the pressure on them and not Greek, Italian, Spanish or other workers.

**Volker Kauder of the German Christian Democratic Union said Europe should “learn German” to get out of this mess, meaning austerity and export orientation across the board. A viable strategy to end the crisis?**

No, that is a sure recipe for destroying the eurozone. The reason for German success is pressure on German workers that has given German employers a competitive advantage. They used this advantage to secure trade surpluses originating in the largest part within the eurozone. The eurozone has become effectively a domestic German market and this is the greatest advantage offered by the euro to the German capitalist class. But if someone is making great surpluses, someone else is making big deficits: European periphery deficits are a reflection of German surpluses. This imbalance is at the root of the instability of the eurozone. If the German ruling class had any real wisdom, they would address the imbalance by trying to limit their surplus, perhaps through boosting domestic consumption. Instead they tell everyone else to strive to have a surplus too. This is nonsense: not everyone in the eurozone can have surpluses, especially when the euro has a high exchange rate relative to the dollar that makes it difficult to trade outside the eurozone. To force everyone to cut wages and also to reduce general demand in the eurozone, as the current German policy appears to be, is to lay the foundations for the destruction of the eurozone.

**This makes no sense. Why should the German ruling class put forward a strategy that destroys the eurozone when they draw the biggest benefits from the eurozone?**

This also puzzles many economists. It is, of course, true that the German ruling class is not out to destroy the eurozone since it makes substantial profits out of it. But that does not mean that it fully understands the contradictions and consequences of what it is doing. The pursuit of immediate national interest could well threaten the stability of the system as a whole, even if unintentionally. For one thing, no ruling class would willingly raise the wages of its own workers since it would immediately lose out in competition. Second, surpluses are a source of hierarchical power among capitalist states, and German capitalists are reluctant to relinquish theirs—there is a mercantilist core to capitalist thinking that has never gone away. By insisting that everyone must “become

German” they are basically saying that countries with deficits should accept permanent austerity while applying permanent pressure on their workers. They are probably hoping that this would lead to a new equilibrium at a lower level of income across Europe, and perhaps after several years there might be renewed conditions for general growth, somehow. But it is very unlikely that it would—it is more likely that the eurozone would collapse before that.

**Several economists now advocate use of the “bazooka” - an aggressive intervention by the European Central Bank (ECB) to buy up state debt and print money to do so. Would this be helpful?**

It is a sign of the desperation of commentators and economists that they are now calling stridently for vast ECB intervention. They have realised that the crisis is far more severe than they imagined when Greece faced borrowing difficulties in late 2009. The various proposed solutions of the last two years have come to nothing, including the idea of eurobonds. The most abject failure has been the European Financial Stability Facility (EFSF), and for a simple reason. Core powers put in very little real money—even less than €100 billion. They then leveraged this sum once to make it look like €440 billion. And in October 2011 they proposed to leverage it again turning it into €1.5 trillion or even more. This ridiculous idea has been shot down by the Russians, the Chinese and others who were asked to buy the leveraged liabilities of the EFSF by putting in real money. They politely declined and told the Europeans to use their own wealth.

The EFSF has not worked because the core powers are refusing to carry any of the costs of rescuing other states, or the banks of other states. This is a structural weakness of Economic and Monetary Union (EMU) that will also hamper the operations of the ECB, which is the last line of defence for the euro. The current suggestion is that the ECB should buy sovereign debt freely in the secondary markets, driving down interest rates and pacifying the crisis. This is not as easy as many people imagine, and the difficulty has little to do with a putative German obsession with hyperinflation that, apparently, the Germans have carried in their collective unconscious since the interwar years.

The difficulty has to do with the make-up of the ECB itself. This is not a normal central bank since it does not have a single state behind it to guarantee its liabilities through sovereign power. It is, rather, a collection of national central banks among which the German Bundesbank is supreme. The ECB is now called upon to buy huge amounts of sovereign paper issued by 17 states, some of which are manifestly insolvent. It is not asked to buy the debt of one state, which is also its own backer, as happens in the US, Britain or Japan. The risk from the insolvent sovereigns would migrate onto the balance sheet of the ECB and, given its structure, effectively onto the balance sheet of the Bundesbank. The credibility of the ECB would decline, the euro would be threatened, and the potential risk for the German state would rise. And German national debt is far from negligible at present.

Germany will resist this demand for as long as it can. Naturally, if the bond market continues to seize up, it will have to relent somewhat, allowing the ECB to buy Italian and Spanish bonds to lessen the pressure, if anything to avoid rapid collapse of the monetary union. But Germany knows that this cannot be a long-term solution—it is merely the provision of desperately needed liquidity, in moderate volumes, which still creates risk for the central bank. If Germany agreed to heavy ECB intervention, it would also demand severe changes in the fiscal arrangements of EMU.

**The long-term fix the latest European Summit agreed on is a “Common European Economic and Financial Policy”. The German Social Democrats welcomed the declaration, saying that this is what they always wanted. Are we witnessing the “social democratisation” of Europe?**

Certainly not. The Social Democrats continue to misinterpret what Europeanism and the existing process of European integration are about. They hear “coordination” and “state intervention” and think that the EU is some kind of progressive, Keynesian, welfare state oriented project. They imagine that, if the left became more heavily involved in it, the EU could be pushed in an even more progressive direction—for example, by developing the Social Charter and similar ideas. But this was never true and it has been shown to be absolutely false in the last two years. Take the suggestions of the summit. If a stable common economic and financial policy in the EU was agreed upon by the various governments—which I doubt—it would definitely not be a policy of raising wages, extending workers’ rights, investing publicly to raise productivity, improving welfare and the like. It would be more in the direction that Volker Kauder indicated—permanent austerity, heavy pressure on wages, fiscal discipline imposed from the outside. This is the long-term solution that is likely to emanate from the German ruling class, and it is nothing to be jubilant about.

**You advocate exit of the Greeks from the eurozone. In Germany that would position you on the hardcore nationalistic right wing. Anything to say in your defence?**

There is no need at all to defend the exit proposal in the way you suggest. On the contrary, official left parties in Germany and many other European countries should defend the line they have taken on the eurozone crisis. It seems to me that, at least in Germany and France, large parts of the left have effectively sided with the predominant strategy of the German and the French ruling class, that is, to defend the euro. The main political problem in Europe at the moment is not the position of the extreme right in either Germany or France. It is rather what Angela Merkel and Nicolas Sarkozy are saying and doing: promoting Europeanism, rescuing the euro, changing the institutional framework of the euro, all at the expense of working people. To my amazement large chunks of the German left and the German trade unions as well as parts of the French left have sided with these policies in practice. They accept that Merkel and Sarkozy are building a common “European home” and only seek to change the doors, polish the floor, put in a new kitchen. It seems that the main parties of the left have lost the capacity to put forward policies that are independent of their ruling class.

The argument for exit by the periphery is about a radical break with the class interests and national hierarchies that are currently dominating Europe. EMU is not some kind of Alliance for Solidarity, Peace and International Understanding. The monetary union is a mechanism designed to defend primarily the interest of big banks and big business in Europe. It does that while also promoting the interests of core countries, like Germany and France, at the expense of peripheral countries, like Greece, Portugal and Spain. In standard Marxist language, EMU is an imperialist device. The ruling classes of Germany and France naturally wish to rescue the euro—which does not necessarily mean they will succeed in their efforts. It seems to me that the left, especially the radical left, should recognise that this is the main battle line and thus position themselves accordingly. They should not be in the game of protecting the monetary union since the European working class has no stake in it. The left must place the interests of working people first, and if this means abandoning the euro, so be it.

It is true that parties and organisations on the right are also advocating exit. This is why the left should call for progressive exit. A profound social transformation should take place in the interests of the working class in Greece and elsewhere in the periphery, and exit from the euro could act as the catalyst for the change. This transformation should involve public ownership of banks, the imposition of capital controls, deep redistribution of income and wealth, command over the means of shaping industrial policy. The paramount aim should be to protect employment and to defend the income and conditions of working people. There should be a radical break with neoliberal policies that have prevailed over the last three decades. Exit from the eurozone would also be the first real blow against the trend of globalisation that we have lived through for decades. In this light, Greece and other countries in the periphery should adopt a transitional programme that would change the

balance of power in favour of labour creating better conditions to fight for socialism. This path is impossible within the confines of the monetary union.

But if the left refuses to confront the issue of the euro and to build on the completely justified euroscepticism of the European working class, it is possible that the extreme right would benefit. As the collapse of the euro nears, right wing views could become prevalent among large numbers of people across Europe as long as the left does not offer a radical alternative. We had a taste of this danger with the outrageous things said in Germany about Greeks and in Greece about Germans. This can turn very nasty if the left does not get its act together realising that the euro is not what it imagines it to be.

**Sorry, but after centuries of warring states in Europe and two world wars the left should be entitled to view the EU as something progressive. What option are you offering? Back to the good old nation state without some kind of common political superstructure?**

This argument is heard all the time, from governments, mainstream parties, the trade unions and even from the left. I do not accept it. The EU is not a progressive project of the type that is being implied here. Moreover, its content has changed greatly over time—the EU today is not the same as it was 50 years ago. As it has developed, the EU, and especially the monetary union, has become a mechanism that defends clear and uncompromising class interests associated with finance and big business. In addition to this, since the crisis started, the EU has revealed two further and extremely problematic aspects.

The first is that the sovereignty of several smaller nations has been transgressed openly and without excuse. In several parts of Europe there are frequent visits by committees comprising people from the core—Germans usually being very prominent among them—who tell other countries what to do. They dictate terms of national economic and social policy. The second, and even more serious, is that democracy has been transgressed, and not only in the periphery. For a long time the EU has been painted as the guarantor of democracy, as a mechanism for securing the democratic rights of European people. It now turns out that this is not the case. We see that the EU, and especially EMU, is a mechanism for imposing sectional interests—in this case those of finance—directly onto the political sphere. The bankers not only dictate economic policies, which they have done for a while, but also the political process. They are appointing prime ministers and governments.

It is no exaggeration to say that things in the EU are becoming reminiscent of the Weimar Republic in Germany in the inter-war years. There is a rising perception among European people that parliamentary democracy is failing, that it is corrupt, controlled by people outside the electoral process, and guided by sectional interests that prefer to rule by decree. A dangerous political configuration is emerging. Those who defend the EU based on the promises and words of the past should think very carefully about the present.

Against this background, I want to stress that the argument for exit is not at all about isolationism, or against the notion of the unity of European people. Rather, it is an argument about the class nature of the monetary union, recognising what is happening in the EU and taking action to fight for European unity. There can be no genuine European unity other than that based on working class interests, on the solidarity of working people. At present Europe needs a major shock that would move it in that direction which can only come from working people. The fight has to start in the periphery, but it is necessary to spread to the core. The rest of Europe looks to German working people to take on their government by challenging the policies of Merkel at home and abroad. Action in Germany would immediately relieve the pressure on the periphery and be a giant step toward European unity from below.

**You seem to be saying that the European left and especially the left in the core - Germany and France - should be putting forward an independent position on the euro against their governments. What should this position be?**

You are asking me to give you a programme for the whole of the European left, in addition to explaining how exit could rebound in the interests of working people in the periphery. Such a broad programme could only result from a collective effort and from debate among socialists who know the particular conditions of their countries. But I can make some points about the requirements of programmatic convergence based on the idea of striving for a new European unity.

We need, first, to break with Merkel's Europeanism, rejecting the notion that the monetary union is a step towards unity. The idea of a shared European identity is noble and touches European people, but an EU created by a hierarchical alliance of capitalist classes is not the way to deliver it. On the contrary, the current set-up of the EU brings people against each other, as we have seen with the Germans and the Greeks. We need to re-define unity and that can only be done on the basis of respect for national sovereignty and for democracy in both periphery and core.

European unity should be based on the struggles, demands and aspirations of working people; it should draw on genuine solidarity from below. To do that we need to find common areas of struggle and the crisis gives us the opportunity. There are major national differences, of course, as the crisis has taken a different aspect in the periphery compared to the core, but there is also plenty of ground that makes for common aspirations. We are agreed, for instance, on the necessity of redistributing income and wealth. German workers definitely need higher wages and the balance of German national product should change in their favour. Germany should move away from a model that emphasises exports at the expense of domestic consumption. Working people must struggle to break with wage restraint, reversing the policies imposed by the German ruling class. Redistribution is also vital in the periphery, but the burning issue at present is the euro. So the left in the periphery needs to fight for redistribution within a context created by exit from the euro. The left in the core ought to support the periphery in this endeavour demanding fiscal and financial support for the periphery as it restructures its economy.

We are also agreed that there should be public ownership and control over banks and other financial institutions. In addition, there should be capital controls given that the free movement of loanable capital offers no benefits to working people. It is not a great step from here to realise that monetary policy should not be the exclusive preserve of so-called experts in Frankfurt, whose performance during the last few years has been appalling. Monetary policy should be subject to democratic control and it should meet the needs of particular countries. We do not need an elitist ECB deciding on policy without electoral accountability.

It is also vital to have cancellation of debt across Europe. Workers at the core ought to realise that the so-called bailouts are simply expensive loans given to the periphery to rescue the banks of the core. The burden then falls on workers in the periphery who suffer unemployment and huge wage and welfare cuts. These issues offer grounds for common struggles in Europe but also across other parts of the world.

If workers at the core began to explore these avenues pushing for such demands in a systematic way, they would see the euro with different eyes. If German workers won significant gains, the German ruling class would also treat the euro very differently because it would no longer be a mechanism for structural surpluses. Then we might have a real basis to struggle for European unity in the interests of working people. The left in both core and periphery is perfectly capable of taking Europe out of this crisis while strengthening genuine European unity. But for that it must shake off the stranglehold of mainstream Europeanism and put forth a coherent independent programme.

## Costas Lapavitsas

---

---

### **P.S.**

\* From International Socialism. Issue: 133. Posted: 9 January 12.

<http://www.isj.org.uk/index.php4?id=776&issue=133>

\* The original version of this interview was published in the German magazine marx21, 29 November 2011, <http://marx21.de/content/view/1572/34>. A translation has also been published in Greek in Aristero Vima, <http://aristerovima.gr/details.php?id=2921>