Workers' Liberty

For international working class solidarity and socialism

The endless bailout of Europe

Michel Husson, *workersliberty.org*, 2 November, 2011

The decision by Greek prime minister Georges Papandreou to put the Eurosummit agreement to a referendum marks a new step in the European crisis. To understand the causes and what is at stake in this crisis, we must first situate it in the broad sweep of events.

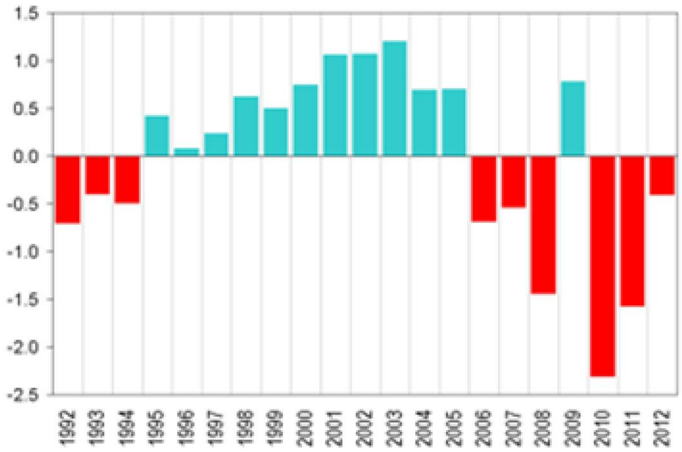
It is not just a sovereign debt crisis. It is also, and more fundamentally, a crisis of the European construction. Today it is obvious that neo-liberal-style Europe was botched.

The single currency was supposed to serve as a wage-control instrument, since it became impossible for governments to devalue. But that constraint was in part evaded circumvented by over-indebtedness, boosted by low real interest rates and growing external deficits.

For a decade, 1995-2005, the countries of Europe's "South" (Spain, France, Greece, Ireland, Italy, Portugal) had a growth rates almost one per cent higher than the countries of the "North" (Germany, Austria, Belgium, Finland, Netherlands).

That could not last, and the situation reversed from 2006. Since the crisis, and except in 2009, the growth of the countries of the "South" has been clearly lower than that of the "North". The crisis has thus exposed the incoherences of the European model and deepened the divergence between the trajectories of the different countries.

Growth gap between countries of the South* and the North of Europe**



* South: Spain, France, Greece, Ireland, Italy, Portugal.
** North: Germany, Austria, Belgium, Finland, Netherlands.

The growth of public debts itself has three causes: the mechanical effect of the recession, the costs of bailing out the banks, and also the poisoned fruit of the policies carried through for many years of reducing the taxes paid by business and the richest households. The brutal shift to budgetary austerity thus sets a vicious circle going: by cutting expenditure, they slow down economic activity, and that cuts tax receipts and so the deficit is not cut.

A priori there were several possible scenarios. The austerity scenario meant getting into a long period of social regression to bring down the debt bit by bit at the expense of the living standards of the majority of the population. But it was known that a certain number of countries, in the first place Greece, could not meet their debt payments. Thus the risk of contagion to other countries, leading to a scenario of the breakup of the eurozone.

The scenario of federalisation would have meant taking responsibility for the totality of the European debts in a pooled way by various methods of which the main one is the monetarisation of the European debts by the European Central Bank. That is in fact the only way to avoid exposing the financing of the states to speculation on the financial markets.

Finally, the radical scenario would, since the sovereign debts are in large part held by the European banks, mean nationalising those banks and organising default for the most exposed countries.

For almost two years the governments of Europe have been feeling their way between several pitfalls. The first is what economists called moral hazard: looking after a Greek default could be a signal encouraging other countries to evade austerity measures. The cost of the default would fall back on the " virtuous" countries, especially Germany, and the financial markets would put the debt of numerous other countries under the rule of speculation. But a break-up of the eurozone is also seen as a major risk, including by Germany, which through such a break up would lose its advantages in world competition.

The 27 October 2011 agreement was, like the previous ones, a provisional and cobbled-together solution which confirmed Germany's refusal to accept a change in the statutes of the European Central Bank which would allow it directly to finance states. The Greek debt was theoretically cut by half, but at the cost of a veritable placing under supervision, sharpened austerity, and a massive programme of privatisation.

Technically, the weak points of this agreement, which was probably stillborn, were obvious. The debt cutback is voluntary, as the text of the agreement explains: "We invite Greece, private investors and all parties concerned to develop a voluntary bond exchange with a nominal discount of 50%". Indeed, they wanted to avoid declaring a Greek default which would unleash the diabolical mechanism of the CDS (Credit Default Swaps), whose owners would then come to demand their dues.

To avoid contagion for other countries, appeal was made to the European Financial Stability Facility. This fund, created in May 2010, had been endowed with 440 billion euros, but after the bail-out plans for Greece, Ireland, and Portugal, it had only about 200 to 250 billion left.

For it to serve as a firewall, it had to be able theoretically to command 1000 billion euros. But the states do not want to pay, and this sum was to be got by the same methods which led to the financial crisis: leveraging and a "Special Purpose Vehicle", with an appeal to the emerging powers and especially to China.

The banks were also to be recapitalised, but not too soon, so that they should not be obliged to cut back their profits and their dividend distributions. As one of the negotiators of the agreement puts it: "You don't have to be paranoid to be terrified"[1]. The most terrifying thing, however, is the drive of the ruling classes to make the peoples of Europe pay the cost of the crisis.

Quit the euro?

Quitting the euro is presented as a miracle solution. It would allow the country involved, Greece for example, to devalue and re-establish its competitiveness. This claim is based on the observation that the European construction was flawed from the start in so far as it did not take account of the divergent trajectories of the different countries of the eurozone.

The serious response would be to introduce mechanisms of harmonisation: a large European budget, a unified system of taxation of capital, funds for social harmonisation, a European minimum wage. That solution may seem out of range. Quitting the euro is not however a better solution: to think that would be to put the cart before the horse and to make a strategic error.

The debt would indeed be increased in proportion to the devaluation rate, and the new currency would be exposed, without defence, to speculative attacks. Those pressures would then serve to justify an even harsher austerity policy.

In France the supporters of "deglobalisation" do not all advocate quitting the euro, but their preoccupations are similar. Since they make free trade the source of all our ills, they mainly propose fiscal protectionism, or in other words taxes on imports. There too, the aim is to re-establish competitiveness.

[1] See: "The euro deal : no big bazooka", *The Economist*, 29 October 2011

It is hard to see how such measures could, as if by magic, re-establish a fairer distribution of income: it is not a border tax that will make the profiteers give up their privileges. In any case, competitiveness depends on many other factors besides commodity prices.

And, above all, this approach would mean getting into a doubly perverse logic. First into the logic of competition: but a country can improve its situation by better competitiveness only by taking market share (and thus jobs) from neighbouring countries. And then into the logic of productivism, which sees no way to create jobs other than more economic growth.

Qutting European neoliberalism

The preconditions for a way out are to establish a balance of forces favourable to the working class and to wipe out at least a portion of the debt. A feasible strategy is thus composed of unilateral measures which clash with the rules of neo-liberal Europe but which would aim at the extension of progressive measures across Europe[2].

The technical responses exist and are based on this coherent triangle:

1. Monetarisation of the debts by the European Central Bank;

2. Nationalisation of the banks;

3. Cancellation of the illegitimate portion of the debts.

This combination of measures would allow for settling the crisis by way of making those who profited from the frenzies of financialised capitalism pay. But the issues at stake are above all social, and the situation is in the last analysis simple to sum up: thanks to deregulation, financialisation, etc., a small minority grabs the wealth produced, as the rise of inequality shows.

It goes further: that minority organises economic and social life in line with its interests, and has the power to decide social priorities and deprive the peoples of any say in their fate. That minority will not give up those privileges without a powerful social intervention which must combine a global point of view with local or sectoral initiatives.

In any case, capitalism is in an impasse: the neo-liberal model can no longer function, and return to capitalism of the "golden age" of 1945-75 is impossible.

A progressive solution must therefore involve a radical questioning of this system: the redistribution of wealth is the immediate point of leverage, but the approach must include a total inversion of the capitalist logic.

We must make the satisfaction of social needs the decisive priority, and from that work out what are the necessary and useful jobs, and prioritise non-market public services and the development of free time above the search for profit and individual consumption. Those are, besides, basic preconditions if we want to meet aims for the reduction of greenhouse-gas emissions.

Since such a project puts the very logic of capitalism in question, a very broad alliance is necessary, between the social movements defined in the broad sense.

[2] See: Michel Husson, "Exit or voice? A European strategy of rupture", *Socialist Register 2012*.