



EXIT OR VOICE? A EUROPEAN STRATEGY OF RUPTURE

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The course of the economic crisis that erupted in late 2007 can be simply summarized as follows: during the two decades preceding the crisis, capitalism has been reproducing itself by accumulating a mountain of debt. To avoid the collapse of the system, states have taken over some of these debts, in transferring from the private to the public sector. The project of the ruling classes is now to present the bill to citizens through budget cuts, increases of the most unfair taxes and frozen wages. In a nutshell, the majority of the population – as workers and pensioners – must sacrifice through austerity to ensure the realization of the fictitious profits accumulated over many years.

THE WORM IS IN THE FRUIT

In Europe, the effort to build an economic integrated area via the European Union (EU) with a single currency in the form of the euro, but without a matching budgetary capacity, was not a coherent project. A truncated monetary union became an economic framework to generate heterogeneity and divergence in the countries of Europe. Countries with above average inflation and below average productivity lose competitiveness, and are encouraged to base their growth on overindebtedness; while countries with below average inflation and above average productivity gain competitiveness and sustain structural surpluses.

In retrospect, the choice of the euro (with its launch in 1999) had no obvious advantage over a common currency system – a convertible euro for relations with the rest of the world, and adjustable currencies inside the zone. The euro was designed as an instrument of budgetary and above all wage discipline (following on the EU's Growth and Stability Pact): the use of devaluation is no longer possible, and the wage becomes the only adjustment variable for addressing competitiveness and external imbalances.

In practice, the Economic and Monetary Union also worked through overindebtedness and, at least initially, the decline of the euro against the dollar. These expedients eventually had to run out. Things started to go off-track with the German policy of wage deflation through the 2000s which has led to an increase of Germany's market share in Europe. Although the euro area was broadly in balance with the rest of the world, the gap has widened between the German surpluses and the deficits of most other countries in Europe. As a result, the growth rates inside the euro zone have tended to diverge, right from the first introduction of the euro.

This market configuration inside Europe has proven, not surprisingly, unsustainable. The crisis has sharply accelerated the process of fragmentation and financial speculation and it has exposed the tensions inherent within neoliberal Europe. The crisis has deepened the polarization of the euro area. On the one hand, Germany, the Netherlands and Austria enjoy trade surpluses and their fiscal deficits have remained moderate. On the other, the famous 'PIGS' comprised of Portugal, Italy, Greece and Spain (Ireland being partly another case) are in a reverse situation: high trade deficits and fiscal deficits above average and rapidly climbing. Although the depth of the economic crisis has led to an increase in fiscal deficits everywhere, it has been much less in the first group of countries.

The sovereign debt crisis has accelerated the move toward austerity which was, in any case, already the neoliberal policy of adjustment and the planned policy response as the economic crisis stabilized. Speculation against Greece, then Ireland and Portugal, has been possible because no systematic measures have been taken to regulate banks in the wake of the crisis. The pooled management of the debt on a European scale, through the European Financial Stabilisation Mechanism and the European Financial Stability Facility, remained partial and always came late in the day. The central banks themselves have provided ammunition for this speculation by lending to banks, at a very low interest rate, money which the banks in turn lent to governments at the higher rates paid on sovereign debt, neatly pocketing the difference.

As sovereign debt takes over from private debt, the financial crisis moves into the public sector. The bailouts of the peripheral European countries under attack from financial capital are, in fact, the bailouts of European banks (concentrated in Germany, France and Britain, with US banks also implicated) that hold much of their debt. Speculative attacks are used as an argument in favour of moving quickly to drastic austerity plans, as in the cases of Greece and the Iberian countries. This strategy is a nonsense that can only lead to another recession, including in Germany, whose exports to

emerging markets outside Western Europe might not offset its losses internal to European markets.

European governments and the European Commission have had one overriding goal: to return as quickly as possible to 'business as usual'. This goal is, however, out of reach, precisely because everything that had helped manage the contradictions of the flawed form of European integration, such as peripheral Europe indebtedness and internal European trade imbalances, has been rendered unusable by the crisis. These elements of the analysis of the current European economic conjuncture are now quite widely shared. However, they lead to quite opposite predictions and orientations, particularly on the Left: the bursting of the euro area, or overhaul of the pan-European political project.

FOR A REFOUNDATION OF EUROPE

The main objective of any Left alternative for Europe must be the optimal satisfaction of social needs. The starting point is, therefore, the distribution of wealth. From the capitalist point of view, the way out of the crisis requires a restoration of profitability through additional pressure on wages and employment. But that approach does not take into account the real causes of the crisis. It is the decline of wage share which has fed the financial bubble. And the neoliberal fiscal counter-reforms have deepened deficits, even before the eruption of the crisis.

The political equation for the Left is simple: we will not emerge from the crisis on top without a radical change in income distribution. This question comes before economic growth. Certainly, higher growth in itself could lead to more employment and higher wages, although such a growth-fixated strategy needs to be assessed from an ecological point of view. In any case, we cannot rely on growth if, at the same time, income distribution becomes increasingly unequal.

We must therefore squeeze inequalities from both sides: by an increase in the payroll for workers and by a tax reform. The upgrading of the wage share could follow *the rule of three thirds*: one third for direct wages, one third for socialized wages (or welfare) and one third to create jobs by reducing working hours. This rise of wages would be at the expense of dividends, which have neither economic justification nor social utility. The fiscal deficit should be gradually reduced, not by cuts, but by a re-fiscalization of all forms of income (bringing them back into public finances), which have gradually been exempted from taxes. The immediate cost of the crisis should be borne by those responsible: this means that the debt should be in large part cancelled and the banks nationalized and socialized.

Unemployment and job insecurity were already two of the most serious social ills of neoliberalism and the capitalist system. The crisis worsens both of them as the austerity plans hit the living conditions of the poorest. Here again, a return to some hypothetical new growth regime should not be considered as the solution – producing more in order to create more jobs. This is to take things in reverse. What is needed is a total change of perspective that takes the creation of useful jobs as a starting point. Whether by reduction of working time in the private sector, or by *ex nihilo* creation of public jobs, the objective must be to respond to social needs, and create ‘true wealth’, not necessarily in the form of commodities. Such an approach is both economically coherent and consistent with environmental concerns: the priority to free time and useful employment are two essential elements of any radical programme to fight against climate change.

The issue of income distribution is the correct starting point for a socialist response to the crisis based on the simple – but entirely correct – principle: ‘we will not pay for their crisis’. Such an approach has nothing to do with a Keynesian ‘wage stimulus’, but with a defence of workers’ wages, employment and social rights, none of which should be a matter of discussion. A socialist strategy would then also highlight the complementary notion of control: control over what they (the capitalists) do with their profits (dividends versus jobs) and control over the use of taxes (subsidize banks or finance public services). Such an approach would allow, in turn, the indictment of the private ownership of the means of production, and the central anti-capitalist message to acquire a mass audience in Europe.

As Özlem Onaran puts it: ‘A consensus among the anti-capitalist forces for a strategy against the crisis is emerging across Europe around four pillars: i) resistance against austerity policies and all cuts; ii) a radically progressive/redistributive tax system and capital controls; iii) nationalization/socialization and democratic control of banks; and iv) debt audit under democratic control followed by default’.¹

LEAVING THE EURO?

It is certainly true that the merging of national currencies within the eurozone has removed a crucial adjustment variable, namely the exchange rate. Countries with declining price competitiveness have no other options than a wage freeze and fiscal austerity or a further headlong rush into overindebtedness. Still, the ‘exit from the euro’ scenario is inconsistent economically and politically miscalculated.

Leaving the euro would not solve the issue of sovereign debt loads in peripheral Europe, but worsen it insofar as the debt owed to non-residents

would be immediately increased by the rate of devaluation. The return to a national currency would directly expose the countries with a large external deficit to speculation. In any case, the debt restructuring should be made in the first place.

Devaluation makes a country’s exports more competitive, at least against the countries which do not devalue. It is a non-cooperative solution in which a country seeks to gain market share against its trading partners. Moreover, by increasing the price of imports devaluation leads to inflation, which partly offsets the initial gains in competitiveness. Jacques Sapir, a French economist who supports the exit from the euro for France, acknowledges that inflation will impose ‘devaluations every year or every 18 months to keep the real exchange rate constant’.² This means accepting an endless inflation-devaluation loop. Yet, a country’s competitiveness depends on many other elements: productivity gains, innovation, industrial specialization, and so forth. To suggest that the manipulation of exchange rates may be sufficient to ensure competitiveness is an illusion, and, by the way, a central postulate of the ‘Pact for the Euro’.³ There is little or no experience of devaluation that has not resulted in an increase in austerity that ultimately falls on workers.

A different distribution of income and an alternate mode of growth require as a prerequisite a profound change in the relation of social forces: this cannot be achieved by a currency devaluation. Taking devaluation as a starting point is equivalent to the reversal of priorities between social transformation and exchange rates. It is an extremely dangerous mistake. In his essay, Sapir stresses that the ‘new currency should be embedded in the changes in macroeconomic policies and institutions... if it is to give all the desired effects’.⁴ Among these changes, he cites a recovery of wages, the perpetuation of social systems, strict control of capital, requisition of the Bank of France, and state control over the banks and insurance companies. But all these measures should be imposed *before* any political project for leaving the euro.

A government of social transformation would, indeed, commit a terrible strategic mistake by leaving the euro, exposing itself to all kinds of speculative retaliation. The political risk that it would give legitimacy to the programmes of the far right is great. In France, the exit from the euro is one of the cornerstones of the National Front. The exit strategy revives a national-socialist logic that combines xenophobia and a discourse denouncing European integration as the ultimate cause of all economic and social ills.

While it is true that globalization and neoliberal European integration has strengthened the balance of power in Europe in favour of capital, it is not

the only factor. It is, therefore, a fundamental error to suggest that an exit from the euro would spontaneously improve the balance of power in favour of workers. It is enough to consider the British example: the pound keeps Britain out of the European Monetary Union and the euro, but that has not protected the British people from an austerity plan which is among the most brutal in Europe.

Supporters of the exit from the euro advance another argument: it would be an immediate measure, and relatively easy to take, while the strategy of a refoundation of the European project would be out of reach. This argument misses the very possibility of a national strategy that does not presuppose a simultaneous rupture in all European countries.

FOR A STRATEGY OF RUPTURE AND EXTENSION

As often put, the dilemma seems to be between a risky adventure of 'exit' from the euro and a utopian European harmonization giving 'voice' to workers' struggles. The central political issue for socialists is to get out of this false choice. The main distinction here is between ends and means. The objective of a programme of social transformation is to guarantee to all citizens a decent life in all its dimensions – employment, health, retirement, housing, and so on.⁵ These can be achieved by a change in the primary distribution of income between profits and wages and by tax reform. But advancing the struggles for these goals implies the questioning of dominant social interests, their privileges and their power. This confrontation takes place primarily within a *national* framework. But the resistance of the dominant classes and their possible retaliatory measures *exceed* the national framework.

The only viable strategy is to rely on the legitimacy of progressive solutions that arise from their highly cooperative nature. All neoliberal recommendations are ultimately based on the search for competitiveness, such as reducing wages, trimming social contributions, and cutting taxes to win market share. As European growth levels will continue to be weak in the period that has opened up with the crisis in Europe, the only way for any individual country to create jobs will be by competing for them with neighbouring countries, especially since the largest part of foreign trade of European countries is within Europe. This is true even for Germany as the second largest world exporter: it cannot rely only on emerging countries. The neoliberal way out of the crisis is inherently non-cooperative: you can only win against the others, and this is the ultimate cause of the deepening crisis of European integration.

In contrast, progressive solutions are cooperative; they will work even better if they are generalized to a larger number of countries. For example,

if all European countries reduced working time and charged taxes on capital income, such coordination would avoid the backlash that the same policy would undergo if adopted in only one country. It is incumbent, therefore, that a government of the radical left follow *a strategy of extension*:

- (1) 'good' measures are implemented unilaterally as, for example, with the taxation of financial transactions;
- (2) accompanying plans for protection such as capital controls are adopted;
- (3) the political risk of breaking European Union rules to implement these radical, initially nationally-based, policies is accepted and challenged;
- (4) the proposition is made to amend these rules by extending them on a European scale to allow these measures to be adopted by member states, for example, in the extension of a European tax on financial transactions; and
- (5) the political showdown with the EU and other European states is not avoided and thus the threat of exit from the euro is not excluded as a viable option.

This strategic scheme acknowledges that the making of a 'good' Europe cannot be the precondition to the implementation of a 'good' policy. The retaliation measures must be neutralized through counter-measures which effectively involve resort to a protectionist policy arsenal if needed. But the strategy is not protectionism in the usual sense: this protectionism defends an experience of social transformation emerging from the people and not the interests of the capitalists of a given country in their competition with other capitalists. It is, therefore, a '*protectionism for extension*', whose very logic is to disappear once the 'good' measures have been generalized across Europe.

The rupture with European rules is not based on a petition of principle, but rather on the fairness and legitimacy of measures that correspond to the interests of the majority and are equally proposed to neighbouring countries. This strategic challenge for change can then rely on social mobilization in other countries and hence build a relation of forces that can influence EU institutions. The recent experience of the neoliberal rescue plans implemented by the ECB and the European Commission has shown that it is quite possible to bypass a number of the provisions of the EU Treaties.

For this strategy of rupture, exit from the euro is not a prerequisite. It is rather a weapon to use in the 'last resort'. The immediate break should proceed on two points which would allow real room for manoeuvre: the nationalization of banks and the restructuring of debt.

The first point of support is the ability to harm capitalist interests: the innovating country can restructure its debt, nationalize foreign capital, and similar steps, or threaten to do so. Even in the case of a small country, such as Greece or Portugal, the capacity of response is considerable, given the intertwining of economies. Many could lose; the showdown is not wholly unequal. But the main point of support lies in the collaborative nature of actions taken. It is a profound difference than the classic strategy of protectionism which occurs on the plane of a single state striving to succeed against its competitors.

Quite the contrary, all progressive measures are most effective when they are generalized to a larger number of countries. This strategy of rupture is ultimately based on the following discourse: we affirm our will to tax capital and we take the necessary protective measures to do so. But we propose the extension of this measure to the whole of Europe. It is on behalf of another Europe that the rupture with really existing Europe would be initiated. Rather than seeing them as opposing courses of action, we must consider the relationship between the rupture with neoliberal Europe and a project for the refoundation of Europe.

THE PROJECT AND THE RELATION OF FORCES

A programme aimed only at regulating the capitalist system at the margins would not only be undersized but insufficiently motivating. Conversely, a radical perspective can seem discouraging because of the sheer magnitude of the tasks at hand. What we need, as socialists, is somehow to determine the optimal degree of radicalism in this conjuncture. The difficulty is not, as so often suggested, to develop technical devices: such capacities are obviously essential and many of these capacities well advanced. But no clever measure can avoid the inevitable political clash between conflicting social interests.

Concerning the banks, the strategic range of possible departures stretches from full nationalization to more or less restrictive regulations, through the establishment of a public financial entity. Similarly, public debt could be cancelled, suspended, renegotiated, all along innumerable lines. Full nationalization of banks and the renunciation of public debt are measures that are both legitimate and economically viable. But they seem out of reach, due to the current balance of forces. Herein lies the real debate: what is the degree of radicalism in the strategy of rupture that is most capable of mobilizing workers and the political movements? It is clearly not for economists to decide. That is why, rather than proposing a complete set of economic measures and plans, the emphasis here has been to ask questions of method and highlight three essential ingredients for a radical Left response

to the crisis: (1) a radical change in the distribution of income; (2) a massive reduction of working time; and (3) a rupture with the capitalist world order, starting with 'really existing' Europe.

This debate cannot – and should not – be summarized as an opposition between anti-liberals and anti-capitalists, or between Europeanists and progressives. These distinctions obviously have a sense, depending on whether the project is to get rid of finance or of capitalism. But this tension should not prevent us from beginning a long journey together, with the Left leading this debate. Such a 'common programme' as presented here could be based on the will to impose other rules on the functioning of capitalism. And this is, indeed, a dividing line between the radical Left and the social liberalism of centre-left political forces. The priority today for the radical Left is, in any case, to build a common European horizon as a basis for a genuine internationalism.

NOTES

- 1 Özlem Onaran, 'An Internationalist Transitional Program Towards an Anti-Capitalist Europe: A Reply to Costas Lapavistas', *International Viewpoint Online*, 435, 2011, available at <http://www.internationalviewpoint.org>.
- 2 Jacques Sapir, *S'il faut sortir de l'Euro*, Document de travail, 6 avril 2011, at <http://gesd.free.fr/sapirsil.pdf>.
- 3 The 2011 'Pact for the Euro' was a demand, led by the German and French governments, that member states make concrete political commitments to improve fiscal positions (via austerity) and competitiveness (via cutting labour costs) as a condition for increasing funds for financial stability. See: 'The Euro and the European Union: Can Angela Merkel Hold Europe Together?', *The Economist*, 10 March 2011.
- 4 Sapir, *S'il faut sortir de l'Euro*.
- 5 For further analysis along these lines see, among others, my: *Un pur capitalisme*, Lausanne: Éditions Page Deux, Collection Cahiers Libre, 2008; 'Toxic Capitalism', in Raphie De Santos, et al., *Socialists and the Capitalist Recession*, London: Resistance Books, 2009; 'La nouvelle phase de la crise', *ContreTemps*, 9, 2011; 'A European Strategy for the Left', *International Viewpoint Online*, 432, 2011.