Crisis in the Eurozone: Between Austerity and Default

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Exactly five years ago the French bank BNP suspended its sub-prime mortgage funds in the US because of "an evaporation of liquidity". The greatest economic crisis since the 1930s had begun, leading to the Great Recession of 2008-9 and now the Long Depression. The crisis has been a defining event for Europe: it has forced through geopolitical change by turning the Eurozone into a Germany-led project and it has created enormous social change in favour of capital and against labour. But, it has also exposed the beast and given lie to the European ideals of partnership, equality and social justice. However, while it is still too early to accurately predict how the current crisis will play out, what looks increasingly certain is that it will leave behind at least one casualty: the so-called "European Project" of European integration the core of which is the euro. Considering, as Stathis Kouvelakis argues, that this project has been the only one of any real importance, consciously designed by the ruling class, it becomes clear that we are "witnessing a turning point of significance"[1].

Global Dimensions

Despite some of the more optimistic economic commentators predicting a slow end to the recession and a return to economic growth, the state of the global economy remains precarious. The pages of the financial press are littered not with optimistic cries of recovery, but rather with loud sighs of relief that the economy has not nose-dived into another recession. Last year it appeared that economic growth had returned to the global economy but this year that growth has, once again, stalled. *The Financial Times* reported in June that "the engines of world growth are running out of steam while the trailing wagons are going off the rails"[2]. The latest *World Economic Output* (April 2012) an annual report produced by the International Monetary Fund (IMF), suggests that the prospects of global recovery are, at best, fragile with debt levels remaining dangerously high:

> Despite substantial fiscal consolidation efforts, cyclically adjusted deficits continue to be elevated in many advanced and some emerging economies, and in the short run debt ratios are still rising in many cases. Although conditions are in place for a stabilization of debt ratios

[1] Stathis Kouvelakis, "Introduction: The End of Europeanism" in Costas Lapavitsas et al., *Crisis in Eurozone*. London: Verso, 2012.

[2] Chris Giles, "Global Recovery Has Stalled Again", Financial Times (17 June 2012), www.ft.com/cms/s/0/fb7b2ab8-b882-11e1-a2d6-00144feabdc0.html

> in many advanced economies over the next few years, in some cases countries have little margin for error in fiscal out turns or little space in current policies to absorb growth or interest rate shocks without the debt ratio's continuing to rise ... Overall, risks in this area remain broadly unchanged[3].

Alex Callinicos has argued that the world economy remains heavily dependent on state action; not in the shape of fiscal stimuli but in the form of ultra cheap money policies pursued by leading central banks[4]. Furthermore, he argues that global economic problems are much broader than the famous "imbalances" in the world economy on which institutions like the IMF focus, arguing instead, that the recovery is both shaped and undermined by the desperate measures that leading capitalist states took in the autumn of 2008 to prevent the financial crash producing a global economic depression on the scale of, or perhaps even deeper than, that of the 1930s[5]. The sheer scale of these efforts, particularly by the Federal Reserve Board (the Fed), the US central bank, is only now becoming clear. For example, between March 2008 and May 2009 the Fed pumped a total of $9 trillion into American banks and international banks with US interests. A Bank of England study estimates that "intervention to support the banks in the UK, US and the euro area during the current crisis . . . totals over $14 trillion or almost a quarter of global GDP"[6]. Despite these unprecedented levels of investment the IMF estimates that the major US and European banks are carrying $2.8 trillion worth of losses, and have yet to own up to $1.5 trillion of this total[7]. The eurozone banking system continues to remain heavily dependent on aid from European Central Bank (ECB) with the Bank committing a further billion in January of this year.

What the crisis has revealed is the underlying contradictions of capitalism; above all the long-term crisis of profitability that has gripped advanced economies since the late 1960s. Increasingly the leading capitalist states, and in particular the United States, sought to manage these contradictions by encouraging the development of financial bubbles based on cheap credit as a way of sustaining demand and growth. The deflation of the latest bubble, centred on the US housing market, has shattered the global banking system and precipitated a global economic slump. The flows of manufactured goods and capital across between China and the US drove the economic boom of the mid-2000s-and financed the speculative bets by Western banks and shadow banks that precipitated the crash and the slump at the end of the decade. The tactics employed by ruling elites - rescuing the banking system, flooding the markets with vast quantities of effectively free money, and in some cases, increasing public spending to counter the fall in demand for goods and services - brought a degree of temporary stability to the world economy and succeeded in averting a total collapse of capitalism. What

[3]World Economic Outlook, International Monetary Fund. "Growth Resuming, Dangers Remain", (April 2012), `http://www.imf.org/external/pubs/ft/weo/2012/01/pdf/text.pdf`

[4]Alex Callinicos, "Contradictions of Austerity", *Cambridge Journal of Economics*, 36 (2012).

[5]Alex Callinicos, "Shifting Sands of the Crisis" *International Socialism* 125 (winter 2010), `http://www.isj.org.uk/index.php4?id=602&issue=125`

[6]From a Bank of England presentation by Piergiorgio Alessandri and Andrew Haldane, available online at `www.bankofengland.co.uk/publications/speeches/2009/speech409.pdf`

[7]James K. Jackson

these tactics did not succeed in doing was preventing the system entering the most severe economic crisis since the 1930s. Indeed, they ultimately exacerbated the crisis and are now continuing to dog the recovery.

Eurozone

While the origins of the current crisis – the famous subprime mortgages – were American, it is in the Eurozone that the epicentre of the crisis can be located. In the five years since the onset of the crisis there have been literary hundreds of analyses outlining the casual chain linking the US subprime mortgage crisis to the current ongoing crisis in Eurozone. Simply put, the crisis in the US sub-prime market led to the collapse of Lehman brothers in autumn 2008. This led to a major financial crisis that ushered in a global recession resulting in increasingly large fiscal deficits for some the world's leading economies. For example the US currently owes around $15.5 trillion, Japan owes around $11.5 trillion, whilst all of the key European economies have debt to GDP ratios in excess of 75%. Countries in the eurozone periphery, Ireland and Greece in particular, already deeply indebted after years of weakening competitiveness compared to the European core, found their access to international bond markets restricted. Facing insolvency, these countries posed a serious threat to the solvency of the entire European banking sector that had over the previous decade lent billions to the periphery. To rescue the banks the eurozone had to bail out the periphery. However these bailouts were accompanied by severe austerity requirements that resulted in deeper recessions and made it increasingly difficult for these countries to remain in the Eurozone.

The response to the crisis by the European ruling class - of both core and periphery - has been profoundly neoliberal: cutting public spending, raising indirect taxes (the most inequitable form of taxation), reducing wages, attacking the welfare state, privatising public assets and further market liberalisations. Their paramount concern has been to rescue the euro. In order to calm the markets the European ruling class announced the establishment of the European Financial Stability Facility (EFSF), an emergency fund of €440 billion. It quickly proved to be inadequate and will be replaced in September by a larger permanent €700 billion fund, the European Stability Mechanism (ESM), although this too is considered largely inadequate to deal with the pure scale of the crisis. They also introduced a Long-Term Refinancing Operation (LTRO) by the ECB which provides unlimited amounts of liquidity at very low interest rates to European banks for up to three years. This is a very good example of the priorities of European ruling class. They are prepared to allow the ECB to advance hundreds of billions of euros to European banks while peripheral countries have been forced to accept bailout packages at the punitively high interest rates and have been forced to accept unprecedented levels of austerity. In other words, the cost of the crisis was shifted onto the backs of working class people. As Lapavitsas argues: "By early 2011 the class content of the policy to rescue the euro had become crystal clear: first to defend the interests of financial capital by protecting bondholders and other lenders, second to promote the interests of the industrial capital by crushing labour costs."[8] Furthermore, there is little evidence to suggest that these policies of imposing austerity on peripheral countries will succeed as an exit strategy out

[8] Costas Lapavitsas et al., *Crisis in Eurozone*, London: Verso, 2012.

of the crisis. Greece, Ireland, Portugal, along with Spain and Italy, are all finding it increasingly difficult to service their public debt and it is looking increasingly likely that many will probably default anyway. And here lies the conundrum: Europe must endure apparently perpetual recession, including the economic enslavement of millions of people. It is also failing as a strategy. Five months after the Greek government accepted yet another new rescue plan of €174 billion it was once again on the brink of default, forced to appeal to Germany and the EU for a further two extensions on its second bailout.

The Euro

In the context of this unprecedented crisis there has been much debate within the European left on the question of the euro. Party of the European Left, ATTAC, sections of the Fourth International and Left Bloc in Portugal have all argued against exit from the Euro. The Greek economist Yanis Varoufakis has advanced a pro-euro strategy for the European left that he aptly titles, 'A Modest Proposal'[9]. His proposal has proved quite popular with sections of the Irish left including Sinn Féin. What all these pro-euro proposals share is the position that the eurozone can be reformed in the interests of working people, creating a 'good euro'. They can broadly be divided into two currents which the economist Costas Lapavitsas refers to as the 'ardent' and the 'reluctant' Europeanists. The ardent Europeanists tend to ignore or downplay the class and imperial interests at the heart of monetary union and the EU as a whole. They argue for consensual or creditor-led default which, they claim, would lower the level of peripheral debt without disturbing the mechanisms of the eurozone. The reluctant Europeanists acknowledge the class interests of the European project but argue that if euro collapsed nationalism and isolationism would dominate working class politics. They argue for a radical debt-led default, but writing debt off unilaterally while remaining within the framework of the eurozone, and forcing the main powers to take the losses.

There are various problems with both of these strategies but what they share is a profound misunderstanding of the systematic nature of the current crisis and a failure to grasp that the euro has served to mediate that crisis against labour and in favour of capital. First, as we have seen, the eurozone crisis must be understood in the context of the current crisis of capitalism. The worst was averted through state intervention, partly to support the banks, partly to sustain demand. This action however led to the next and most severe stage of the crisis, that of public debt; as economies everywhere went into recession and tax revenues began to decline, the result was ballooning public deficits. Once the sovereign debt crisis had acquired these enormous dimensions in the Eurozone, it became clear that European and other banks were at risk, threatening to reignite the global banking crisis. The peripheral countries of the EU were hit especially hard leading to loss of control over public finances in Greece, Ireland and Portugal, while Spain continues to struggle to avoid the same fate. Core countries like Germany, saw exports collapsed and their banks exposed to bad banking debts. The persistence of the crisis also led to the spectre of contagion for core countries, primarily Italy.

It cannot be overemphasised how the tendencies of the global crisis were mediated in Europe by the institutional mechanisms of the Eurozone. Indeed, the spe-

[9] Yanis Varoufakis, 'A Modest Proposal' available at `http://yanisvaroufakis.eu/euro-crisis/`

cific character and ferocity of the European turmoil are due to monetary union. Therefore, the second point that needs to be understood is the nature of the Euro itself. The Euro is not simply a EU common currency designed to make trade, finance and travel easier; it is an international reserve currency. This means that it is a form of world money. As Costas Lapavitsas argues "The euro is designed to act as a means of payment and hoarding in the world market"[10]. It serves the interests of the major states like France and Germany, which control it, as well as the powerful capitalist enterprises that use it. The euro attempts to compete against the dollar but without a powerful state to back it up. Relying on an alliance of disparate states with economies of divergent strengths, it is considerably weaker than the dollar. The Euro has also crystallised the inequalities and tensions that are inherent within European capitalism. The European Monetary Union (EMU) has created a split between core and periphery. The periphery lost competiveness in the 2000s developing deficits with the core and accumulating large debts to the financial institutions of the core. As a result Germany has emerged as the economic master of the Eurozone. Therefore we need to understand that the euro is not just an economic project it is also a political one and this is why the president of the ECB, Mario Draghi, proclaimed earlier this summer that the euro was "irreversible" and that the ECB would do everything in its power to protect and save it[11]. However what the European elites have done is forced the cost of defending the common currency onto the working people of Europe. In other words, saving the euro means that a fifth of the population of Greece and Spain are now unemployed and that the welfare state must be destroyed.

In order to ensure that this burden is accepted leading European governments have spared no warning of the dire consequences that would follow the dismantling of monetary union. In doing this they have found enthusiastic cheerleaders everywhere from academics to the media; all of whom are only too willing to paint apocalyptic pictures of life after the euro. As Lapavitsas writes: "The inculcation of fear has been made easier by the domination of Europeanism among the intellectual and political forces that could have offered an alternative narrative. For more than two decades, the notion that the euro is the epitome of European unity has grown in influence among the politicians and the option makers of Europe. Even more strikingly, a form of money that aims at serving the interests of big banks and big business has been presented as an inherently social-democrat project."[12]

This brings us to one of the key, although largely ignored, problems with the European project itself; the profoundly anti-democratic nature of the European Union. The European Union has, since its inception, struggled with democracy, considering it to be a problematic concept that interferes with the grand designs of elites who think they know best. When Ireland voted no to the Nice Treaty and later again to the Lisbon Treaty, it was told to come up with the right result in a second ballot. Yet as Perry Anderson argues insulation from any form of popular control and accountability is the founding logic of all the

[10] Lapavitsas, *Crisis in Eurozone*, 29.

[11] Josephine Moulds, "Euro is irreversible, declares European Central Bank president Mario Draghi" The Guardian 26 July 2012. `http://www.guardian.co.uk/business/2012/jul/26/euro-irreversible-mario-draghi-ebb`

[12] Lapavitsas, *Crisis in Eurozone*

complex nexus of technocratic and expert-staffed agencies which form the backbone of the EU institutions[13].

For example, the European Central Bank wields immense power, indeed since the onset of the current crisis it power has dramatically increased, yet no one knows how the unelected members of its governing council vote because no minutes of meetings are ever published. Europe today is run by a cabal of technocrats make decisions that result in the immiseration of millions of people across the continent. They include: the head of the IMF and former French Finance Minister, Christian Lagarde; the President of the European Central Bank (ECB) and former vice-President of Goldman Sachs, Mario Draghi; the President of the European Commission, José Manuel Barroso; the chairman of the Eurogroup, Jean-Claude Juncker; president of the European Council, Herman van Rompuy; and Olli Rehn, Europe's economic and monetary affairs commissioner. These individuals who are unelected and therefore unaccountable, increasingly make all of the most important decisions in Europe. They decide if and when Greece or Italy can hold elections. They decide when Ireland, Greece or Portugal get the next tranche of bailout cash and, crucially, at what cost. The only thing that matters to these individuals is what the markets think.

When addressing the question of exit from the Euro we need to keep a number of factors in mind. Firstly we need to focus and challenge the strategic choices of the European ruling class instead of focusing on malfunctioning institutional arrangements. This involves acknowledging both the class and imperial nature of the European project. Workers in both the core and periphery have neither stake nor interest in the success of the euro. Indeed, the attempt to create a currency which is a major player on the world stage has resulted in the worsening of pay and conditions for European workers. Yet, because the European ruling class have managed thus far to present exit from the euro as the nuclear option, we need to think strategically about how we present our arguments. There is no easy solution to the crisis and in the absence of sustained levels of workers struggle options are limited. It would be a mistake to argue that the solution to Ireland's and Europe's problems is just to exit the euro. Indeed some right wing economists make similar arguments as they argue that exit from the euro would force down the cost of wages and make countries like Ireland and Greece more competitive. As socialists we have to offer a different logic; one that favors the interests of labour not capital. Therefore instead of arguing in the abstract for an exit from the euro we should combine this with a call for a cancellation of all sovereign and banking debt and an end to austerity. This would allow for a reassertion of democratic control of monetary and fiscal policy and for the creation of an economic policy designed to stimulate job creation in the interests of workers and the poor. Certainly such policies would create a collision course with the EU and ECB and the success of such a strategy is not predetermined. It would depend on the balance of forces and the levels of struggle and resistance in Ireland and other European countries.

Conclusions

While we cannot yet predict the long-term trajectory of this crisis, four things are already very clear. First, this recession is no mere hiccup; it is a deep, long-term systematic crisis. It has revealed what, from a Marxist perspective, has been clear for

[13] Perry Anderson, *The New Old World*, London: Verso 2009.

many years; that capitalism is suffering a long-term decline in profit rates and has been for some time. Fears of a sovereign default are now not only stalking weaker eurozone economies like Greece, Ireland and Portugal but core countries like Spain and Italy. The implications of a Greek default (€250-€350 billion) are enormous. If Greece defaults it will be the biggest sovereign default in history and would certainly have contagion effects throughout the entire capitalist system in the same way as the US subprime crisis and the collapse of Lehman Brothers did back in 2008. Second, those who control and run capitalism have no real understanding of their own system. Third, and this is particularly evident within the Eurozone between Germany and France, the crisis is exacerbating political divisions within the ruling class over how to solve capitalism's problems. Finally and most importantly we have seen the reemergence of a global resistance to capitalism.

After the initial onset of the crisis back in the autumn of 2008 there was a general ideological malaise among sections of the left who argued that when confronted with a genuine once-in-a-century crisis of global capitalism, the radical left has fumbled and missed a major political opportunity. Others argued that neoliberal capitalism had produced a widespread sense that not only is capitalism the only viable political and economic system, but also that it is now impossible even to imagine a coherent alternative to it. The crisis had reinforced and accelerated this rhetoric and that we all must face the hard facts of economic 'reality' and that there was little real hope of change. The problem with this argument is that it ignores the depth and nature of the current capitalist crisis. If the crisis were simply a relatively short, severe shock whose effects were largely absorbed by the bailouts it might be possible to conclude that the radical left had missed its opportunity. However the deep, systematic and prolonged nature of the current crisis means that there are deep stress fractures emerging and placing severe pressure on capitalist political structures, exposing their fault lines.Moreover, as Callinicos has argued, "one of the most important variables in politics is time". A key lesson of the Great Depression was that a major economic crisis is itself a historical phenomenon that passes through different stages and that the process is uneven. In the early stages of the current crisis there was precious little evidence of any wide scale resistance to the system. Yet, in the past twenty-four months this situation has been dramatically reversed crucially with the Arab revolutions but also with the emergence of the occupy movement. The spread of austerity across Europe provoked powerful outbreaks of resistance, from general strikes in Greece, France, Spain and Portugal to student resistance in Britain. These powerful movements of resistance have challenged the widely accepted belief that the spread of neoliberal globalisation has destroyed the collective power of workers as footloose capital and insecure employment supposedly erode bargaining strength. Indeed the opposite is now the case with globalisation creating powerful new concentrations of workers around the world.

Politics, Lenin famously remarked, is concentrated economics. The politics of the period ahead will be determined by the clash between the pressure for governments to impose harsh austerity and the reluctance of the mass of people to accept them. The key question will be what form those politics take. As we have been arguing since 2008 this crisis reflects a long-term systematic crisis in the capitalist system and as such it is likely to be a long, slow and deep recession. There is no easy “exit strategy”. Indeed, attempts by governments to find an “exit strategy” are leading to an ideological crisis as tensions emerge within and between states. It is likely that we will continue to see conflicts emerge between nation states over the measures needed to overcome the crisis as they defend their national capitalist interests. All this means that the current period will present enormous opportunities for the left to grow provided it opens itself up to the swathes of people who are becoming politicised everyday.