European Monetary Union - A Rod for the Backs of Working People

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Since the election of Syriza in January the Eurozone crisis has become intensely political. In February, Syriza extended the previous governments' debt-deal with the Troika (EU, ECB and IMF) for an extra four months. Since then, they have come under increasing pressure to do their own deal with these same institutions. If they relent, Syriza will continue imposing the very austerity they were elected to reverse. Paying off their international creditors will come with significant conditions, such as structural reforms to labour markets, cuts to public sector pay, a complete overhaul of the pensions system and a further round of privatisations. This will obviously constitute a significant victory for European capital and their political backers in the EU institutions. On the other hand, a default by Syriza in the coming weeks could see the entire monetary integration project called into question. This strategy is not without significant risk for the people of Greece, but it would undoubtedly be preferable to an all-out political retreat. In this interview, political economist, Brian O' Boyle, explains the class dynamics of European Monetary Integration, defending the idea that working people have nothing to gain from remaining within its current structures.

IMR - *The Eurozone crisis has been raging for nearly a decade now. Most readers will have some sense that the banking crisis exploded in 2008, but when did the euro project first come into being?*

Brian - The European Monetary Union (EMU) was established as part of the wider neoliberalisation of Europe that began in the early 1980's. Like the rest of the system, European capitalism gradually got stuck in a long-term profitability crisis that became particularly severe from 1973 onwards.[1] In response, capitalists began to reduce their investments causing inflation, unemployment and economic stagnation. Sensing an opportunity, right-wing ideologues pinned these problems on 'big government' and rigid labour markets. According to neoliberal orthodoxy, government spending was both wasteful and inflationary, leading to what has since been defined as 'stagflation'. These same economists argued that workers conditions were over-generous leading to a problem termed as 'Eurosclerosis'. Gradually, the European capitalist class adopted neoliberal policies in an attempt to revive profitability. The first of these involved increasing the flexibility of European labour markets to reduce wages, increase exploitation and overcome stagnation. The second involved prioritising contractionary monetary policies (high interest rates) to discredit Keynesianism and reduce inflation. Much of this was pioneered by Thatcher's governments from 1979 onwards, through her attacks on the unions and her

[1] Carchedi and Roberts 2013, p 87

[2] Monetarism is an economic doctrine that argues against discretionary monetary policies on the basis that governments will print money to pay their debts and in-so-doing generate unwanted inflation. The way to avoid this was to move monetary policy away from elected governments, forcing the monetary authorities to give up Keynesian discretion. In the early 1980's Thatcher's government restricted the supply of money to ramp up interest rates. Officially this was to purge the economy of unwanted inflation. Unofficially, it was to break the power of organised labour by driving the British economy into a recession. Thatcher's economic advisor Alan Budd admitted later that 'there may have been people making the actual policy decisions... who never believed for a moment that this was the correct way to bring down inflation. They

adoption of monetarism.[2] Continental capital soon wanted to follow suit, but there were limits to what could be achieved under the then existing European Economic Community. From 1983 the *European Round Table of Industrialists* began to push the idea that Eurosclerosis was tied to generous working conditions and inflexibility in European labour markets. The response to their call for greater labour market flexibility was the Single European Act (SEA) of 1986. Along with the increased liberalisation of European Competition Policy, SEA helped to put downward pressure on wages and conditions. However, without stricter monetary policies there was always the temptation for governments to engage in Keynesian expansion (printing money) in the face of a crisis. This had the ability to undermine 'competitiveness' gained through wage moderation and so the two sets of policies (labour market flexibility and monetary inflexibility) soon became inseparable.

By 1987, the call was out for a unified European monetary policy away from the reach of elected representatives. This time it was another big business lobby known as the Association for the Monetary Union of Europe (AMUE) that did most of the heavy lifting. AMUE argued that the German Bundesbank was the perfect model for a European Central Bank dedicated to maintaining price stability.[3] This intervention helped to secure the demise of Keynesian expansionary policies and paved the way for the institutionalisation of neoliberalism. EMU was signed into European law after the Maastricht Treaty of 1992 and came into effect in two phases -1999 and 2002.

IMR - *There seem to be two themes emerging here. First off, you are arguing that behind the technical policy changes, EMU was actually part of a wider class project designed to revive the profits of European capitalism. Secondly, you are starting to explain how technical policies like labour market flexibility actually achieved this. Perhaps we could address these issues in turn, starting with the ruling class nature of the European project?*

Brian - From the outset, the European project has always been pushed by capitalist interests. In the late 1940's, the US State Department was particularly keen on a European capitalist club to oppose the forces of the Soviet Union. This interest was supported by German capitalists anxious to shake off their association with fascism and a French ruling class anxious to reassert itself on the global stage. Behind all of this was the unified interest of European big business keen to get back to peace time profit-making. Through successive treaties, the European working class has been systematically locked out of key decision making. Meanwhile, the advantages for capital are clear. In the first instance the European project was designed as a free trade club exclusively for capitalist countries. Article 3 of the founding Treaty of Rome (1957) argues that the EEC must institutionalise 'a system ensuring that competition in the common market is not distorted'.[4] The same article also argues that capital must therefore be free to move as it pleases. This proved extremely important both for core capital in the major European powers and for peripheral ruling classes anxious to get in on the action.

Take the Irish case for a moment. After three decades of nationalist protectionism, the Irish ruling class decided on a strategy of foreign direct investment from 1958 onwards. Through initiatives like a 10 percent corporation tax rate and the Shannon Free Trade Zone, the Irish state attracted foreign capital to locate in Ireland precisely in order to sell without barriers into Europe. This policy would not have been possible had the potential of 350 million European customers not been on the table.

If we now turn to the broader neoliberal-

did, however, see that it would be a very, very good way to raise unemployment, and raising unemployment was an extremely desirable way of reducing the strength of the working classes - if you like, that what was engineered there in Marxist terms was a crisis of capitalism which re-created a reserve army of labour and has allowed the capitalists to make high profits ever since'. Interview in the *New Statesman* `http://www.newstatesman.com/blogs/the-staggers/2010/07/class-war-budd-thatcher-cuts`

[3] Hermann 2009, p 15.

[4] See `http://www.eurotreaties.com/rometreaty.pdf` for more details.

isation of the European Union, the SEA has helped to further entrench the principles of market freedom and capital market liberalisation. This agenda has been pushed relentlessly by the Competitiveness Advisory Group (CAG) in order to ensure that the lowest labour standards prevail everywhere.[5] European Competition Policy and the directives of the Single Market are designed to allow capital to move around the continent forcing states and workers into competition. This has led to a race to the bottom, as labour standards and wages are forced down by employers in the least regulated countries. The flipside of this is downward pressure on corporate taxes, very little taxing of wealth, falling taxes on higher incomes and no real appetite for financial transactions taxes. EMU is merely the cherry on top of this capitalist cake.

IMR - *So European Treaties, particularly since 1986, have laid the basis for sustained attacks on wages and conditions, but what extra advantages does EMU give to European capital?*

Brian - According to mainstream economics, European Monetary Union is designed to increase business certainty by fixing exchange rates. The effects of this are supposedly higher trade and investment flows, a reduction in financial speculation and a more efficient allocation of economic resources. Many commentators would dispute these claims, but in any case, the most important benefits of EMU are actually to do with Europe's imperial rivalry with the USA and the class struggle within the continent.[6] Let's take each of these issues in turn.

When it was first conceived, EU leaders understood that a currency backed by the might of the European economy could potentially challenge the dollar for what is known as the *global reserve currency*. Currently most economic assets are denominated in dollars as investors prefer to hold their wealth in a currency backed by the world's strongest economic and military power. This fact gives the US capitalist class significant economic and political advantages. Unlike every other government, the US authorities can consistently run budget deficits safe in the knowledge that foreigners will continue to lend them money at very low interest rates.[7] More importantly, the US gains considerable economic and political influence over those countries and corporations that have built up large reserves of dollars. Take China for example. Over the last 35 years, China has amassed nearly €4 trillion through the exploitation of Chinese workers and a consistent trade surplus with the US economy. Chinese workers had to do real labour to generate this value, but the US can merely turn on printing presses to create the same quantity of paper money. Controlling the *global reserve currency* therefore has the potential to capture unearned value from a whole variety of sources.[8] Instead of handing over goods and services (embodying real labour value), the US can hand over pieces of paper. This was the important advantage that was being courted by the European elites with the creation of the euro.[9]

Turning to the class struggle, the combined effects of EMU rob states of crucial macroeconomic policies from the Keynesian era.[10] Firstly, states lose interest rate policy to a fiercely neoliberal European Central Bank (ECB). Secondly they are corralled into conservative taxation policies by the Stability and Growth (S&G) Pact. Under S&G rules, states commit to running more or less balanced budgets, whilst keeping their long term debt below 60 percent of GDP. In the previous era, governments

[5] Hermann 2009, p 14.

[6] See Onaran 2010 and Stockhammer 2010 for two such sceptical analyses.

[7] This is because the money to fund these deficits continually flows back into the US in order to buy up dollar backed securities.

[8] Carchedi, 2001, p 158

[9] See Carchedi, 2001 Chapter five for more details

[10] See Bainbridge and Whyman, 2015 Chapter 8 for more details on this.

[11] Printing money makes each unit of currency less valuable. This, in turn, means that foreign buyers need to give less of their own currency to buy your products. This makes goods and services more competitive and helps to stimulate export demand. By depriving states of this policy, EMU leaves internal devaluation

regularly used expansionary policies to reduce their interest rates, devalue their currencies and generate demand.[11] This blend of Keynesian macro-flexibility provided the tools of choice for many governments trying to manage their economies during the pre-neoliberal era. Now, however, this flexibility has been effectively outlawed and replaced by a labour market flexibility imposed on workers. EMU supports this process by leaving wage moderation and attacks on conditions as the only real channel for generating competitiveness outside industrial policies (which are harder to finance now thanks to the S&G Pact). This being the case, EMU cements the neoliberalisation of Europe by ensuring that capital everywhere must keep sustained pressure on wages and conditions.

Moreover, if monetary union supports capital across the continent, the benefits are not shared equally. Rather it offers disproportionate support to corporations that already have superior technologies by depriving laggards of the macro tools they formerly relied upon to sustain competitiveness. In the open market supported by EMU, capitalists in the periphery are likely to lose market share on the basis of their inferior commodities. Previously, the way to even up the playing-field was to devalue one's currency, but this option is no longer allowed under the rules of EMU.[12] Removing Keynesian policy options has therefore seriously undermined competitiveness strategies throughout the periphery. In these circumstances the calculus for their continued membership is very simple. Remain within a club with superior competitors and be prepared to attack your domestic workers in the hope of surviving. This is obviously a recipe for super-exploitation throughout the least developed parts of the system.[13]

IMR - *Economists like Guglielmo Carchedi have similarly highlighted the extra benefits accruing to capital in the core of the system. Carchedi argues that this gives EMU a second imperialist dimension as policy is specifically designed to support core European business to exploit workers throughout the periphery. How would you respond to these claims?*

Brian - Carchedi is absolutely right in this assessment. Historically, capitalism centred on Northern Europe (Germany, Austria, Finland and the Netherlands) has been technologically superior to that found in Eastern Europe and the Periphery (the Mediterranean, Ireland and the Baltic countries). A quick look at the latest World Economic Forum's Global Competitiveness Report shows Finland in 4th, Germany in 5th, the Netherlands in 8th and Austria in 21st. On the other hand, none of the so called PIGS (Portugal, Italy, Greece and Spain) even make the top 30.[14]We have previously explained how monetary union supports corporations all over the continent in their bid to extract surplus value from European workers.[15] However the technological gap between these various corporations means that the spoils of this exploitation are not shared equally. In general, corporations with higher than average levels of technology (in a given industry) are able to capture some of the value that was actually produced by workers in corporations with less than average levels of technology. The precise way that this is achieved is through the redistribution of surplus value that takes place through the price mechanism. Corporations with superior technologies produce more products embodying less surplus value. Those with lower levels of technology produce fewer products with more surplus value. All things being equal, market competition ensures that commodities are sold at prices set by the modal (average) corporations. This effectively allows those corporations that can produce at less than this average to capture value through price competition.[16]

Prior to monetary union, peripheral cap-

(wage cuts) as the main mechanism to sustain competitiveness.

[12]See Carchedi, 2001, p 159 for more details.

[13]Lapavitsas et al 2012, p 119.

[14]World Economic Forum - *The Global Competitiveness Report 2014-2015*. `http://www.weforum.org/reports/global-competitiveness-report-2014-2015`.

[15]This value is then divided into profit, interest and rent.

[16]Carchedi 2001, Chapter 3 takes the reader through this process of value redistribution in detail.

italists used Keynesian tools to even up the playing field. Internally they held down the value of the social wage (welfare and services), whilst reducing workers (real) wages through aggressive monetary inflation. Together these policies ensured that the amount of value (wages) going to workers continually lagged behind that captured by capital. This process also allowed industrial capital to gain at the expense of finance capital as interest rates were kept relatively low. Finally, on export markets the currency lost enough of its value to allow foreigners to gain a share of the spoils. Peripheral commodities could be made cheaper through monetary inflation which allowed them to compete with their more technologically superior rivals. This would still involve a transfer of value to the more technologically advanced economies but the mechanism through which this was achieved allowed peripheral capital to compete. Within the rules of monetary union each of these macro tools has been taken away. Governments are forced into a neoliberal policy straightjacket that leaves no room for inflating one's currency to gain competitiveness. Instead, the architects of the Eurozone predicted that the monetary flexibility lost due to EMU could be replaced by flexibility in labour markets. Workers should be pushed harder, accept zero hour contracts, work for longer and generally accept more precarious living conditions to allow their bosses to sustain competitiveness. The problem with this, of course, is that there is nothing stopping German bosses from squeezing their workers every bit as hard as their rivals. This has indeed occurred, but even if it hadn't - core technological advantages are so significant as to make their competitive position basically unassailable.

IMR - *So core capital essentially gains on the double. Firstly, it gains from the continent wide move towards neoliberalism. Secondly, it gains from the ability to take key macroeconomic tools off its peripheral rivals. Many of our readers will likely have a sense that core (particularly German) capital gains most from the structures of EMU, but perhaps you could now explain how these very advantages helped to generate the crash of 2008?*

Brian - Since its inception, the Eurozone has allowed the most competitive corporations to gain progressively more of the value being produced within the system. This obviously generates powerful interests (such as German big business) that are determined to sustain the structures of EMU. However, sooner or later, the growing imbalances between workers and capitalists, core and periphery were bound to create an economic catastrophe. This is particularly true as one of the most important ways to redress these imbalances used to be the flexibility that came from floating exchange rates. Prior to monetary union, Germany and Holland already had healthy export sectors, but there were automatic checks on their international competitiveness. If enough foreigners wanted German output, the demand for the deutsche mark would automatically increase, appreciating its value. This made German exports gradually more expensive, reducing their competitiveness. Under the rules of the common currency, German exports no longer face this automatic drag. Instead, the strength of the German economy is counterbalanced by the weaknesses in its peripheral rivals, allowing German business to drive domestic growth through massive export surpluses. In a policy reminiscent of the mercantilist era, Germany sees it economic success as being tied to continually running an export surplus with the rest of Europe.[17]Already controlling the best technologies, German business has recently extended its competitive advantages by holding down wages.[18] This has allowed Germany to produce cheaper products than many of rivals, but the cost has

[17]Mercantilism was a policy that dominated the nascent capitalist powers from the 16-18th centuries. The idea was to use economic policy to support the state by accumulating monetary reserves (gold and silver). Mercantilists thought that a nation's power resided in these reserves and so they prioritised trade surpluses above all other considerations. Germany currently prioritises its trade surplus with the rest of the EU meaning that other states have to run deficits. See Bainbridge and Whyman, 2015, p 3 for more details.

[18]Lapavitsas et al, 2012, p 27.

[19]This is because German workers have been squeezed.

been lower demand at home.[19]Germany gets around this problem by selling more to the rest of Europe than she buys from them. The flipside is that other Eurozone countries are forced to buy more than they sell. This has indeed been the case as persistent export surpluses in Germany have been mirrored by persistent deficits in the periphery.[20]

How did the periphery get the constant flow of borrowed funds to buy up all these extra commodities? Here the integration of the European financial systems played the leading role as value was transferred from the periphery into the core, before being lent back again through channels established by EMU. According to research by Costas Lapavitsas, the exposure of core banks to peripheral debt stood at €1.4 trillion by the end of 2008.[21] Peripheral capital has worked hard to hold down wages in their respective countries, but it was primarily this wall of debt that sustained the mirage of successful integration. The mirage was sustained in a variety of ways. In Ireland and Spain, right-wing governments stuck steadfastly to the rules of the Stability and Growth Pact (unlike Germany or France). Public debt was kept in check by allowing private banks to go berserk. In Ireland for example, the size of the balance sheets of the six main banks exploded from €85 billion in 1999 to over €600 billion in 2008.[22] This was a disaster waiting to happen as the resulting debt was not only used for personal consumption, it was also creating asset (housing) bubbles. When these bubbles eventually burst, the private debt was quickly moved onto the public balance sheet. In Portugal, the government amassed steadily growing public debt, whilst private saving completely collapsed.[23] In Greece, meanwhile, Goldman Sachs helped a succession of right-wing governments to effectively cook the books in order to give off the veneer of successful integration. After only one decade of monetary union, all of the peripheral nations were dangerously overladen with debt (public and private) primarily held by European financial corporations. When the crisis eventually broke, these institutions made sure to protect their loans by moving them onto workers shoulders.

IMR - *So this is presumably where the austerity drive began as governments tried to resolve the problems in the private economy with tax payer's money and citizens services?*

Brian - Exactly right. However, before we move onto explain this process, it might be useful to consolidate the analysis so far. The euro project is part of a wider political strategy to re-establish capitalist power through reviving corporate profitability. This strategy essentially revolves around increasing the exploitation of labour, whilst forcing governments to follow monetarist economic doctrines. Marxist political economists generally agree that profit rates did recover to a certain extent. Between 1948 and 1973 the profit rate fell by around 50 percent only to recover around half of this loss by the mid 1990's.[24] Much of this was down to significantly higher rates of exploitation. However to really prosper over the longer term, the capitalist system requires continual destruction of unprofitable companies. Neoliberalism has proven relatively efficient at disciplining labour, without finding ways to efficiently check the build-up of unprofitable capital. This has put a significant drag on capitalism in the Eurozone and the imbalances mentioned in the previous answer must therefore be understood against the backdrop of this secular decline. German capitalism may be relatively robust, but this has come from beggaring its peripheral neighbours. When the crisis emerged core capital understood this clearly, setting out to make sure that they didn't have to take any of the losses. All of the value that had been funnelled into peripheral loans had to be recouped by pushing the burden onto workers and the poor. This became a centrepiece of European policy making through neoliberal austerity.

[20]De Grauwe 2015, p 1 -http://www.voxeu.org/article/secular-stagnation-eurozone.

[21]Lapavitsas et al, 2012, p 49.

[22]To put this in context, the Irish economy was only creating about €160 billion in goods and services annually at the time. See Honohon, 2009, p 12 for more details.

[23]Lapavitsas et al, 2012, p 91

[24]Carchedi and Roberts 2013, p 89.

From the outset the ECB made it clear that no significant European bank could be allowed to fail. To drive this perspective, the ECB immediately extended its long term refinancing operations, allowing banks to swop assets with long-term horizons for instant liquidity.[25] In 2011 this process was beefed-up significantly as Mario Draghi pumped €1 trillion into European banks at extremely low rates of interest. Finally since the start of this year, the ECB has begun to engage in quantitative easing, pumping around €60 billion of liquidity into the Eurozone until at least the middle of 2016. Contrast this with the treatment reserved for peripheral governments. In 2008 the ECB along with the European Commission used back channels and outright threats to ensure that sovereign governments pick up the tab for their countries bankers. We now know that the then ECB president, Jean-Claude Trichet, threatened to pull the plug on their emergency liquidity assistance, if the Irish state was not prepared to move private debt onto the public balance sheet. The financial collapse was already causing major economic dislocation as credit dried up, investment collapsed and unemployment exploded. This put significant pressure onto public finances which were seriously exacerbated by bailing out peripheral banks.[26] Governments everywhere began to engineer austerity budgets as a financial crisis was morphing rapidly into an economic meltdown. Each of these austerity budgets was designed to grab resources from workers and the poor to pay off bankers and shore up fiscal positions.

Ireland actually had three austerity budgets in two years, eventually slashing somewhere in the region of €30 billion from its public expenses. In Greece the contraction has been on a scale not witnessed since the Great Depression. Around 25 percent of the total economy has been washed away, as Greek governments along with those in Spain and Portugal have sacrificed their own populations on the altar of austerity. In Greece, working people have actually lost between 30-40 percent of their incomes to the crisis. Yet the disastrous cycle of debt and deflation have meant that none of this was ever enough. By 2010, peripheral states were rapidly running out of fiscal options. Governments refused to tax their wealthiest citizens, whilst private markets were increasingly excluding them through extremely high interest rates. Ordinarily the central bank becomes the lender of last resort in these circumstances. However the ECB initially allowed the banks to capitalise on the high interest rates attached to sovereign debt before sitting back to let the crisis escalate. Finally, when sovereign debt became unsustainable, the ECB engineered so-called 'Troika bailouts' with the support of the International Monetary Fund and the European Commission. Each of the peripheral nations has had to take some form of 'bailout package' designed to ensure that bondholders would be repaid, whilst each economy could be opened up to a further round of neoliberal restructuring. Cheered on by governments and corporate interests everywhere, the dominant narrative was shifted quite deliberately from the reality of financial crisis and economic collapse, to the fantasy of peripheral workers living beyond their means. This narrative became the stock in trade of the austerity merchants across the system as a crisis of neoliberal exploitation was used to increase that very exploitation.

IMR - *This point seems particularly important given the levels of austerity meted out to the European working class over the last seven years. In many ways it seems like the elites have taken the advice of Winston Churchill in never letting a 'good crisis go to waste'?*

Brian - This has turned out to be (at last partly) true, but at first the political establishment was on the back foot. In the first months of the crisis, bankers and their bonuses came in for a torrent of anger and

[25] Long Term Refinancing Operations involved the ECB accepting assets that would not be worth anything for a considerable period of time and swopping them for immediate cash and/or credit. This helped banks to move some of their worst assets onto the balance sheet of the ECB.

[26] In 2008 Irish state debt was around €40 billion. Today it is just over €200 billion with the increase flowing from direct bank bailouts (€60 billion) and the collapses caused by banking speculation in the context of falling rates of profitability (€100 billion).

popular abuse. Most people understood the role that financial speculation had played in the carnage, aided and abetted by neoliberal governments everywhere. The fact that people could suddenly see the golden circles ensured that European voters punished the incumbent political parties in almost every subsequent general election. In Ireland, Fianna Fail were destroyed in the election of 2011. In Greece and Spain, the dominant social democratic forces (PASOK and the PSOE) were similarly battered and dumped from office. In Britain, the Labour Party bore the brunt of the anger, whilst in France, Nicolas Sarkozy's UMP were summarily expelled from government. The one notable exception to this general trend was Angela's Merkel's Christian Democratic Party. In 2013, the CDU had its best election since 1990, gaining 42 percent of the popular vote and almost 50 percent of the seats.

How did Merkel remain so successful in a world populated with the corpses of her former colleagues? In general, this is down to the structures of EMU and the underlying value flows that the system has supported. Recall that the benefits of monetary union flow disproportionately toward capitalist mega-corporations in the core of the system. Capital exploits working people across the continent, but the nature of price competition ensures that a disproportionate amount of the resulting (surplus) value makes its way into the core. When the crisis broke the value flows responsible for this process were hard to see, whilst the loans that resulted from this process were much more visible. Through a combination of superior technologies and ruthless exploitation, German capital generated reasonable profits rooted in a neo-mercantilist policy of selling more than it was willing to buy. The flow of exports into the rest of Europe was facilitated with loans into the periphery that gave German capitalism two incredibly important strategic advantages. First off, it displaced the worst effects of the crisis into its rivals, as the asset bubbles that have accompanied neoliberalism everywhere burst within the periphery. Secondly, it ensured that Germany and its Northern allies became the great creditors in the European system, extolling the virtues of hard work and thriftiness against the 'excesses' of their peripheral neighbours.

Based on these surface appearances it was possible for elites in the core to make a case about hardworking Northern Europeans being made to pay for a crisis within the periphery. Right-wing parties such as Ukip and the Party for Freedom worked hard to capitalise on this sentiment, pushing the idea that workers in the core should protect what they have from their poorer counterparts. Unfortunately, there has been a shift to the right in many of the Northern European countries, despite the fact that austerity has also been the order of the day for workers in the core. For their part, peripheral ruling classes have reinforced the narrative of PIGS societies living beyond their means, even if they have had a more delicate balancing act to defend this. One the one hand, peripheral elites have worked hand-in-glove with European capital to sacrifice their own populations in return for sustaining their domestic privileges. On the other hand, they have been happy to blame Europe for most of the austerity, particularly when under the supervision of the Troika. By and large workers in the periphery have moved to the left, understanding clearly the implications of bailouts for bankers and austerity for the rest of us. In the main, working people in the PIIGS simply haven't bought into the austerity agenda because life has become intolerable for so many of them.

Any number of statistics can make this case, but the effects of austerity on the youngest members of peripheral societies are perhaps the most damning. According to a recent report by *UNICEF*, Ireland and Greece are the worst of 41 developed countries when it comes to increases in child poverty since 2008.[27] In Greece, the increase has been almost 100 percent as two fifths of Greek youngsters are now being forced to suffer the pain of unrelenting poverty. In Ireland the increase has been around 60 percent, with 28 percent of children suffering a

[27] *Children of the Recession. The Impact of the Economic Crisis on Child Well-being in the Rich Countries.* http://www.unicef-irc.org/publications/pdf/rc12-eng-web.pdf.

similar fate. In Spain, Italy and Portugal the numbers are 36 percent, 30 percent and 25 percent respectively.[28] This is a terrible indictment on neoliberal Europe as around a third of children outside the core are left in dire circumstances. Meanwhile, for their slightly older counterparts things are hardly any brighter. Youth unemployment remains at over 50 percent in Greece and Spain with around 32 percent unemployed in Portugal and 22 percent in Ireland. When one considers the safety value of forced migration and the effects of labour activation programmes, these figures are likely to be even worse. Austerity has laid waste to the hopes of entire sections of Europe's youngest citizens and the cruellest part is that there is little hope of things improving.

IMR - *According to our rulers the end of austerity is nearly in sight. Cut backs and wage losses were undoubtedly painful, but the effects of this are finally bearing fruit. What would you say to this optimistic rhetoric so favoured by the Irish Labour Party recently?*

Brian - This is sheer nonsense for a number of reasons. First off, the underlying health of the Eurozone was questionable even before the economic crisis. We saw earlier that European capitalism has been in relative decline for at least thirty years, thanks to an inability to write-off unprofitable capital.[29] Neoliberalism may have helped to discipline labour, but it has also led to investment, growth and employment levels well below the post-war era. Moreover, even within a global economy in relative decline, the Eurozone has fared considerably worse than its principle rivals.[30] At the start of 2015 the Centre for Economic Policy Research commissioned Paul de Grauwe from the London School of Economics to take a detailed look at the problem of European 'secular stagnation'. De Grauwe has since confirmed that the Eurozone entered the crisis on a slower growth path than its major rivals and has continued to diverge.[31] In the six years from 2008-2014 the Eurozone actually shrank in size, entering a double dip recession in 2009-2010 and 2012-2013 thanks largely to the disastrous impact of peripheral austerity.

Over the last few months the combined effects of quantitative easing, a cheaper euro and unusually cheap oil prices have given the Eurozone a bit of a bounce. However to suggest that the crisis is nearly behind us is dishonest in the extreme. After seven years of brutal austerity it is hardly surprising that some corporations are regaining competitiveness, but there are two important facts that should be borne in mind. Firstly, any recovery on the backs of workers is very different to a recovery in wages and conditions. Secondly, the policy of escaping the crisis through working class austerity is exacerbating the dysfunctional imbalances that have come to characterise EMU. Remember that it has been in a context of general malaise that core capital has used the rules of the monetary union to beggar its peripheral neighbours. The overall levels of value creation have been anaemic, but core corporations have been able to sustain their profitability by stacking the system decisively in their favour. In practical terms, this has meant grabbing a disproportionate share of the total surplus value, whilst funding the on-going consumption of the resulting commodities through neo-mercantilism and peripheral loans. This has undermined wages and welfare across the continent, whilst leaving a progressive solution to the problems of the Eurozone as far away as ever.

When the crisis broke, many (post) Keynesian economists naively called for a mutual re-balancing across the EMU.[32] Those economies with persistent trade deficits were supposed to increase their competitive-

[28] *ibid*

[29] Carchedi and Roberts 2013, p.90 track this build-up on a world level where they show a steady increase in the organic composition of capital since the 1980's.

[30] See Stockhammer 2010, p 12 for an assessment of the anaemic investment levels; and Bainbridge and Whyman, 2015, p 3 for a table referencing weak Eurozone GDP growth rates.

[31] De Grauwe P, *Secular Stagnation in the Eurozone*, 2015 `http://www.voxeu.org/article/secular-stagnation-eurozone`

[32] This has been the standard call from economists like Joseph Stiglitz and Paul Krugman. See Bainbridge and Whyman 2015, Chapters 10 and 11 for more details on what this might entail.

ness, whilst cutting their spending. Those economies with trade surpluses were supposed to decrease their competitiveness, whilst increase their spending. Given the political economy of the euro area this was never likely to happen. After all, why would the most powerful corporations give up their competitiveness when they had worked so hard to create it? The 'real politik' of crisis management was always going to involve forcing the entire 'adjustment' onto the periphery.

In the short term, austerity policies have been the principle means by which capital has ensured that workers pay for the crisis. Troika austerity has been enforced across the periphery in terms of wage cuts, welfare reductions and deteriorating services. The main goal has been to achieve primary budget surpluses to pay back debts that were illegitimately foisted onto taxpayer's shoulders. Over the longer term, the goal has been to ramp up the neoliberal restructuring of the periphery. Here privatisation, further labour market flexibility, overhauling pension systems and shifting taxes onto labour have been the order of the day. This policy is designed to allow capital to cherry-pick key national assets on the cheap. According to the Eurogroup for example, there are €50 billion worth of national assets that should be moved into the private sector in Greece alone.[33] Added to this is the firm belief that only a more neoliberal economy will allow peripheral capitalists to remain within the Eurozone. Here the logic assumes that workers who are even more vulnerable will take wage and welfare cuts that will eventually allow their local capitalists to compete. To this end, peripheral workers have been squeezed extremely hard under the cover of the crisis. According to statistics from the European Commission, unit labour costs have fallen by 20 percent in Ireland, 19 percent in Greece, 12 percent in Spain and 5 percent in Portugal.[34]

But instead of austerity leading to meaningful recovery, Europe's periphery has been trapped in a cycle of austerity, deflation and recession. Greece is an obvious example, having lost more than 25 percent of its GDP, but the picture is mirrored to a lesser extent in Spain and Portugal. When all is said and done, neoliberal austerity is doing the job expected of it. Core capital has been largely protected and remains unassailable in terms of its competitiveness. Peripheral capital has survived the crisis on the backs of its citizens, whilst workers (particularly in the periphery) are forced to remain in a club characterised by endless oppression and austerity? Whether the Eurozone will work for capital over the longer term is an open question. Whether it will work for ordinary people isn't. The Eurozone is a prison house for the working classes and we need to find a way to move beyond it.

IMR - *This brings us nicely onto the current impasse between Syriza and the Troika. Given their political tradition, it seems that Syriza are firmly committed to remaining within EMU even if they are daily being reminded of just how costly this will be for the Greek working class. What, finally, are your thoughts on the next steps in the fight to builder a more progressive Europe?*

Brian - In many ways the Greek case is particularly revealing about the true nature of monetary union. Greek capitalism is so weak historically, that by 2011 the state had accumulated debts of €350 billion (180 percent of GDP).[35] This level of debt is unprecedented in a developed economy, forcing the Troika to engineer 'bailout loans' to protect their positions. According to Yiannis Mouzakis, 89 percent of the Greek bailout funds were immediately earmarked for Greece's international creditors.[36] In return, the Troika got to lay waste to large sections of the Greek population. Over the

[33] Statement by the Eurogroup on Greece 20 June 2011 `http://europa.eu/rapid/press-release_MEMO-11-426_en.htm?locale=en`

[34] Annual Macro-economic Database `http://ec.europa.eu/economy_finance/db_indicators/ameco/zipped_en.htm`

[35] Euro state figures for Gross Domestic Product `http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=teina225&plugin=1`

[36] Yiannis Mouzakis - 'Where did all the money go' `http://www.macropolis.gr/?i=portal.en.the-agora.2080`

last four years, pensions have been cut by around 50 percent - leaving 45 percent of Greece's 2.5 million pensioners on less than €650 per month.[37] A quarter of the Greek workforce has also been dumped out of work and household incomes have fallen by nearly 40 percent. Thankfully, Greek workers have been fighting back. Syriza have obviously captured much of the popular mood, but Antarsya and the KKE have also helped to build the resistance. Since the start of the crisis, Greek workers have engaged in 32 general strikes. They have also occupied workplaces, taken ownership of media outlets and camped in squares for days on end. All of this has helped to give working people the confidence to break from the politics of despair. At home, the austerity forces have been more or less annihilated. The Greek Tories (New Democracy) currently stand at around 20 percent in the polls with Pasok (the Labour Party) on 3-4 percent and the fascists on 5 percent. Meanwhile, Syriza have managed to gain the support of around 48 percent of the population.

How have they achieved this feat? Primarily this is the result of two key factors. Firstly, the fact that Greek workers are struggling against austerity has given them the courage to look beyond the political establishment. Secondly, Syriza have been able to cash in on this anti-austerity sentiment by promising workers what seems like the impossible - namely to end austerity whilst remaining within European Monetary Union. As a pluralist organisation with roots in Euro-communism and the wider social movements, Syriza is committed to remaining within the EU in an effort to democratise it. Sections of Syriza (around 10-15 percent) are revolutionary socialists, but the bulk of the organisation is best defined as radical reformist. In this sense they desire to move towards socialism through the current institutions of the bourgeois state. Instead of setting out to smash the capitalist state and exit the euro, they are trying to prise them open from the inside out. This is not an insurrectionary strategy based on mass struggle and workers councils. Rather it is one that emphasises the building of a dominant (hegemonic) block with parliamentarians in the vanguard of the struggle. One of their leading thinkers, Stathis Kouvelakis, recently defined it as 'seizing the state from outside and inside, above and below'.[38]

How has this strategy fared? Prior to their election Syriza promised to write off Greek debt through a European debt conference. They also promised a €4 billion stimulus package, 300,000 new jobs, more funding for the welfare state and a national reconstruction plan to replace the hated 'memorandum'.[39] Unfortunately, since January much of this has been rolled back under relentless attack from the European establishment. From the very beginning the Troika has played hard ball, turning off liquidity assistance to the Greek financial system and insisting that the government sign up to even more austerity. For their part, Syriza's determination to remain within EMU has seen it cross a number of the red lines it had previously set for itself. In February they signed a continuation of the memorandum that effectively took unilateral debt cancellation off the table. This is crucial given the size of the debt and the impossibly of moving away from austerity until much of it is written off. Since then, Syriza have signalled their willingness to privatise key strategic assets, whilst delaying or cancelling support for workers and pensioners. Predictably enough, the Troika wants far more than this. Specifically, it wants to humiliate Syriza in order crush resistance to neoliberalism across the continent. At the end of May, Syriza had apparently come three quarters of the way to meeting the Troika, only to have a raft of new austerity measures pushed onto the agenda. As part of their Thessaloniki Programme, Syriza promised free electricity to 300,000 families. In re-

[37] 'Fight to save Greek Pensions takes centre stage in Brussels and Athens' *Guardian* `http://www.theguardian.com/world/2015/may/21/fight-save-greek-pension-centre-stage-brussels-athens`

[38] Stathis Kouvelakis in debate with Alex Callinicos on Syriza and Socialist Strategy `http://isj.org.uk/syriza-and-socialist-strategy/`

[39] Syriza - *The Thessaloniki Programme* `http://www.syriza.gr/article/SYRIZA---THE-THESSALONIKI-PROGRAMME.html#.VXlMc89Viko`

sponse, the Troika has demanded a 10 percent hike in electricity prices and further energy privatisation. Syriza also promised to increase support for the country's most vulnerable pensioners. In response, the Troika has demanded a pensions cut of 1 percent of national income and an increase in the retirement age. These demands are not being chosen lightly. Rather, they are designed to discredit Syriza by punishing the very people that the latter have sworn to protect.

Faced with this relentless aggression Syriza will soon have to make a decision - either it submits to the bullying tactics of the Troika institutions or it faces them down and refuses to pay. One path leads back into the mire of austerity, the other to a potentially progressive future outside the constraints of monetary union. Unfortunately it now looks like Syriza are going to capitulate. According to reports in the *Financial Times*, Syriza submitted an 11 page document on Monday 22 June which agreed to cross their final red lines. Specifically, the government has agreed to nearly €8 billion in additional austerity over the next two years.[40] Of this, around €1.8 billion is due to come from pension reform via restrictions in early retirement and rising contributions from wage-earners. A further €2 billion will come from VAT rises - €680 million this year and €1.36 billion next year. Much has been made of Varoufakis' strategic capabilities, but the Troika have consistently outmanoeuvred their opponent's, safe in the knowledge that Syriza are unwilling to exit the euro. Despite this, it is becomingly increasingly clear that remaining in the euro is not compatible with reversing austerity.

All of their options are extremely difficult at this point but Syriza nevertheless do have options. If the EU wants to play hardball, then the Syriza leadership have the ability to reciprocate. Taking control of the Greek financial system is absolutely crucial is any battle with the euro elites. Cancelling debt is the obvious first step, but Greece could also simultaneously impose domestic capital controls. If they refuse to take ownership of their banking infrastructure, then matters could be taken out of their hands. Once Syriza miss a payment the ECB reserves the right to cut off the emergency liquidity (around €85 billion so far) to Greece's banks. This would cause widespread devastation, unless it can be countered with a more radical set of socialist strategies. What specifically can Syriza do? First off, they could socialise the banking system, creating a currency that can be used by citizens inside the country. Thereafter, they could force big business to open their books to public scrutiny. As the currency inevitably devalues, Syriza could force capital to drop its prices to protect worker's wages. They could also provide essential services throughout any transitionary period and protect workers savings. Once this is achieved, Syriza could aim to redistribute wealth through progressive taxation and begin to reorganise the economy for human needs rather than private profit.

All of this is extremely difficult, particularly in the face of international capital, the Greek generals and the fascist boot boys. Most Greeks also remain wedded to the euro, but Syriza can still rely on the loyalty of millions of workers if they call on them to resist the Troika. The alternative is to become yet another loyal agent for European capital. Syriza's achievement may seem spectacular in the context of three decades of neoliberal defeats, but taking office will prove less than worthless without a strategy to bring the workers' movement steadily forward. If Syriza capitulate the 'Left platform' should break from the party and join the anti-capitalist resistance. Syriza were elected on a promise to make life better for the Greek working classes. If they do another austerity deal, workers should resist by moving quickly towards a more consistently anti-capitalist alternative. Every day the European elites add bricks and mortar to the prison house of EMU. Further compromise with the prison guards is no longer an option. The only escape route is to knock down the walls and blow up the gates.

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[40] Greek reform prioritises tax rises over pensions *Financial Times* 2-06-2015 `http://www.ft.com/intl/cms/s/0/f6c48a0a-1900-11e5-a130-2e7db721f996.html#axzz3ds33InjR`

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