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TRADE AND CAPITAL RELATIONS, CAUSES OF THE CRISIS AND DEVELOPMENT PERSPECTIVES OF THE EURO AREA

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CONTENTS

Preface	2
1 Did salary increases or wage restraint cause the crisis?	4
2 Trade and financial relations in the euro area	6
2.1 Before the crisis: unequal competition and finance-driven integration	7
2.2 Crisis of financial integration, export driven recovery and exhaustion of the potential for integration	10
3 The future of the euro area	23
Bibliography	28

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PREFACE

Europe can't get rid of its crisis. Seven years of bank rescue loans, economic stimulus, state bailouts, austerity, ECB emergency measures, as well as countless reforms at the EU and EU member state level have not been able to prevent the most recent deepening of Greece's debt crisis. Nor have they been able to halt the European economic growth crisis, the social costs of which have been imposed mainly on workers and vulnerable groups in the periphery of the euro area.

At the same time, disagreement over how to end this crisis is growing. Criticism of German-made austerity policies is becoming louder, but also increasingly toothless, as many observers of the fateful EU summit in July 2015 noted, when a position paper by German Minister of Finance Wolfgang Schäuble drew massive international criticism, but was subsequently adopted by the Eurogroup, basically without changes (see Vogel 2015). Discussions surrounding possible ways out of the crisis are intrinsically related to the underlying diagnosis of its causes. The business-friendly mainstream and its most pronounced critics share the opinion that current account imbalances in the euro area are the fundamental cause of the crisis. They also agree that the divergent development of unit labour costs can explain these imbalances. The contentious issue between these positions lies in the question of who is responsible for these developments. Is it the people in countries with current account deficits who are to blame for their "profligate spending", or is it the countries with current account surpluses (in particular Germany), because their strategies amount to wage dumping? Both arguments tend to neglect the significance of the capital account and the rapid development of financial ties within the euro area prior to the crisis, which other authors consider to be the true causes of the crisis. In our view, it is problematic that in each case one part of the transactions that make up the balance of payments is simply seen as the epiphenomenon of another part: international credit relations are seen as either the consequence or the cause of current account imbalances. Furthermore, current account surpluses and deficits in the euro area are seen as complementary or as the result of bilateral relations between surplus and deficit countries in the euro area, wholly abstracted from their relations to third countries.

In the following, we critically revisit these explanations of the crisis. We base our findings not only on theoretical considerations, but also on an analysis of the changes in trade and capital relations in the euro area that occurred before and after the outbreak of the 'Great Crisis'.[1] We treat trade and capital relations as the economic basis of European integration. Analysing these ties not only provides a deeper insight of the underlying causes of the crisis, it also allows an evaluation of the perspectives of European Monetary

1 The empirical data this article is based on stems from an analysis of trade, direct investment and portfolio investment ties in the euro area commissioned by the Rosa-Luxemburg-Stiftung (Heine 2015). The data covers the period between 2000 and 2014 and varies depending on availability. We distinguish between and compare the period before the crisis (2000-2007/8) and the crisis period (2007/8-2014). Whereas the level of cross-border portfolio investments peaked in 2007 and dropped significantly in 2008, the same happened with commodity trade in 2008 and 2009. Only taking into account this asynchronous development, allows us to clearly distinguish the periods before and after the crisis.

Union. We argue that the euro crisis is far better explained by financial than trade imbalances. At the same time, however, foreign trade played a crucial role in the dynamic after the outbreak of the crisis. We show how Germany managed to shift the costs related to the risks taken by German banks onto the euro area, and how the country indirectly profited from the recession in the euro area as it was able to strengthen its global market position. The criticism of Germany's crisis policy has focussed too narrowly on the economic unreason of neomercantilism. It therefore misinterprets Germany's medium-term interests (see Demirović/Sablowski 2013; Milios/Sotiropoulos 2013; Heinrich 2015).

1 DID SALARY INCREASES OR WAGE RESTRAINT CAUSE THE CRISIS?

Economists broadly agree that 'macroeconomic imbalances' between EU member states are the euro area's greatest problem. As a root cause of the crisis, business friendly (Busch et al. 2011) and conservative (Sinn 2012) authors particularly point to the current account deficits of a number of countries. In their view, unsustainable over-consumption causes these deficits, which leads these countries to finance the difference between imports and exports through foreign debt. Long-term imbalances lead to a spiral of increasing debt, and ultimately to the threat of insolvency. They explain the loss of international competitiveness through 'a strong orientation towards private and state consumption' (Busch et al. 2011: 540) and a 'lacking orientation towards stability' (ibid. 542), whereby the 'main causes' are seen in 'relatively high inflation rates and most of all excessive wage increases' (ibid. 539). Accordingly, they call for 'internal devaluation', a drastic reduction of unit labour costs achieved through 'reforms' to labour markets and social security. Neoliberal economists such as Hans-Werner Sinn see one alternative to 'internal devaluation': 'crisis countries' should leave the euro area. They expect the ensuing devaluation of national currencies would increase the competitiveness of these countries.

However, these proposals can just as well be inverted, as many critical researchers have done (Flassbeck/Spiecker 2012; Flassbeck/Lapavitsas 2013; Lucarelli 2011). In their view, the true problem is the 'mercantilist model' (Flassbeck/Lapavitsas 2013: 38) maintained by surplus countries and in particular Germany. According to this interpretation, wages increased too slowly in Germany, thereby unfairly increasing the country's competitiveness and enabling it to profit from high demand in deficit countries. Faced with a cumulative loss of competitiveness and historically low interest rates, deficit countries had no other option than to increase their foreign debt (Lapavitsas 2012: 90). As currency devaluation is no longer an option in the euro area, levels of competitiveness became increasingly polarised between the two groups of countries. Deficit countries cumulatively lost competitiveness and the differences in current account balances became ever more permanent. Flassbeck and Lapavitsas (2013: 24) therefore conclude that a coordinated wage policy would provide a way out of the crisis, whereby wages in Germany in particular would have to rise significantly (and only to a lesser degree or not at all in southern European countries). They maintain that the only other option would be an orderly exit from the euro to a system of semi-fixed exchange rates modelled on the European Monetary System (1979–1999).

Notwithstanding the strong political differences between these two interpretations and despite their distinct economic-theoretical foundations, remarkably, both lines of argument agree on a number of questions. In both analyses, diverging levels of competitiveness at the level of the 'real economy' constitute the key to understanding the euro crisis. Whereas conservative authors credit the moderate increases to wages in Germany as the basis of the country's export

successes, Flassbeck and Lapavitsas (2013: 11f.) point to France as the model to follow. In France, wage increases more or less correlated with increased labour productivity; this generated neither a current account surplus nor a deficit. Both approaches treat the development of competitiveness within the euro area as exemplary for the rest of the world and consider the world market as uniform, i.e. as a space in which all countries compete under the same conditions. Most importantly, however, both positions assume that the current account and in this sense the 'real economy' causes the disequilibrium in the balance of payments. In this analysis, the capital account is a secondary phenomenon that passively reflects shifts in the 'real economy'.

A number of publications by authors from diverse theoretical backgrounds, however, see capital flows as the root cause of current imbalances (Chang/Leblond 2015; Hale/Obstfeld 2014; Hobza/Zeugner 2014; Lindner 2013; Milios/Sotiropoulos 2013). According to this view, institutional innovations in the euro area created or helped to enable a financial boom. Depending on the authors in question, this corresponds to a non-sustainable, self-fulfilling prophecy (Chang/Leblond 2015), or to a real opportunity for profit (Milios/Sotiropoulos 2013). They argue that the central actors in this boom were Germany's and France's financial institutes, as these fuelled lending in the euro area and particularly in crisis countries. To a certain degree, these analyses appear incompatible, for example when current account deficits are interpreted as either the cause or the consequence of international debt. As such, they can only partially explain the realities in the euro area before and after the outbreak of the crisis. Therefore, the literature on the financial causes of the euro crisis cannot explain Germany's subsequent economic and political dominance, in particular vis-à-vis France. In contrast to these analyses, we consider that trade and financial relations are not reducible to each other. Rather, both are constitutive elements of the balance of payments. In an ex-post view, the various components lead to a balance of payments, i.e. current account and capital account are more or less complementary. This, however, does not imply that this congruence is a given fact ex-ante or that trade determines capital movements (or capital movements determine trade movements). The balance of payments is the result of numerous individual decisions made by private economic subjects. As the recent crisis and the resulting violent adjustment processes clearly show, there is no overarching subject who can bring the balance of payments into equilibrium. The circuits of commodity, money and productive capital are not mutually reducible. It is only by considering them jointly that it will be possible to gain insights into the true causes of the crisis and the perspectives for the euro area, as well as to contribute to a politically effective critique of the dominant crisis policy.

2 TRADE AND FINANCIAL RELATIONS IN THE EURO AREA

The following empirical data stems from a study commissioned by the Rosa-Luxemburg-Stiftung (Heine 2015). We focus on commodity trade and portfolio investment ties.[2] Commodity trade data is based on foreign trade statistics provided by the statistical office of the European Union (EUROSTAT) on its website (Comext database). Trade statistics are recorded separately from balance of payment statistics and are not congruent with these (Eurostat 2004). This is important to remember, as we calculated trade balance values based on Comext data. Furthermore, any interpretation needs to factor in the 'Rotterdam effect', i.e. the statistical inflation of exports from the Netherlands and Belgium due to the important harbours located in these countries (Eurostat 2015).

The analysis of bilateral portfolio investments is based on the IMF's Coordinated Portfolio Investment Survey (CPIS). Here too, the data provides some challenges. This is partly due to the trading of some shares on secondary markets, meaning that borrowers often do not know who actually owns their debt or shares. The IMF's database, therefore, relies on the data provided by portfolio investors. The ownership of liabilities is deduced from the data provided by asset holders (they are not directly recorded by debtor nations). However, this method cannot account for all investments made. Private household tax avoidance strategies mean that around 10 per cent of global investments do not figure in asset based statistics, while they do form part of the statistics of liabilities (vgl. Zucman 2013). The IMF therefore does not publish aggregates of state liabilities.

To provide such data for selected states that reflect trade flows, we used the total of liabilities documented in the balance of payment statistics (international investment positions) as a total aggregate of liabilities for each country. The resulting discrepancy in the data needs to be treated with utmost care.[3]

To compare trade and financial ties we raised data for three indicators: structural share (SA),[4] change of the structural share (SV)[5] and the annual growth rates (WR) of exports, imports and inward and outward portfolio investments of individual countries and groups of countries. The analysis differentiates between a phase prior to the crisis and a post-crisis-phase. For portfolio investments, the turning point was in 2007, for merchandise trade in 2008.

2 Trade and portfolio investments – foreign capital investments in the form of shares, bonds etc., which, unlike direct investments, do not stand under the active influence of a company – do not, however, form a complete balance of payments. Unfortunately, the level of international, comparable, disaggregated data on the individual components of current account (services account, income and asset balance, balance of transfers) and capital account (direct investments, derivatives, further capital flow, foreign exchange account) that would be needed to conduct an even more encompassing analysis of international economic ties between EU states were not available. Statements on the relations between the components of the balance of payments can therefore only be interpreted to a limited degree. Trade and portfolio investments, however, constitute, in differing proportions, the quantitatively largest components of the current and capital accounts of the countries analysed here. **3** This particularly applies to non-euro area values. As these are deduced from total liabilities (directly reported liabilities) and euro-area country liabilities ('deduced' liabilities), the values could be too large, because hidden assets are included in total liabilities, whereas they are not included in bilateral, deduced liabilities. **4** The structural share refers to a unit's share of the total (in per cent) – for example, the share of German exports to the Benelux countries in total German exports. **5** Change of the structural share (Strukturanteilsveränderung – SV) refers to the change of a structural share over time. SV for the years 2000 to 2008 is simply $SV_{2000-2008}=SA_{2008} - SA_{2000}$.

2.1 Before the crisis: unequal competition and finance-driven integration

Fundamentally, the theory maintained by Flassbeck and others that German low-wage policies led to the decreasing competitiveness of southern European nations is based on a comparison of unit labour costs. Unit labour costs are indeed an indicator of international competitiveness (see Hübner/Bley 1996 for a detailed analysis). However, unit labour costs are a synthetic value based on both the development of wages and productivity. From a Marxist point of view, the development of productivity and wages have very different implications in capitalist competition. Developments in labour productivity provide the basis for the value of commodities and are therefore a primary factor in determining price competition, whereas the wage level (at a given level of labour productivity) primarily defines the profitability of capital.[6] The development of productivity and wages depends on a variety of factors; the innovation regime too, for example, plays a role in the development of labour productivity (Hübner/Bley 1996: 31ff.). As Hall (2014: 1226f.) emphasises, the varieties of capitalism are not only marked by different wage regimes, but also by specific training regimes or bargaining regimes between employers and employees and, as such, are the result of long historical developments. Whilst they cannot be easily 'reformed', they heavily influence the potential for success of different economic strategies. Too often the debate treats these questions superficially. This has led German wage restraint to be understood as the fundamental cause of the discrepancy between unit labour costs in Germany and the rest of the euro area, whereas other factors influencing unit labour costs have been left unconsidered (see for example, Schlecht 2014: 9f). This leads to a clear diagnosis: because nominal wage costs stagnated in Germany, southern European countries lost competitiveness to a degree that they had to finance the consumption of mainly northern European (primarily German) products by taking on debt. At a first glance, developments in German foreign trade and the aggregate of the 'crisis countries'[7] appears to confirm this analysis (figure 1). The trade balances of the countries in question nearly mirrored each other before the crisis, both in terms of overall developments and in bilateral trade.

Needless to say, actual developments are more complex than this.[8] The world market is by no means a homogenous entity in which all companies in all countries compete at the same level. There are numerous divisions in the world market. Whereas German exports are dominated by highly complex technological products, the exports from crisis countries are characterised by products of medium technological complexity (with the exception of northern Italy; see Pradella 2015; Abdon et al. 2010: 39). In addition, we must consider more than the bilateral relations between Germany and crisis countries and take into account a multiplicity of relations between numerous countries in and outside of the euro area. We cannot, therefore, simply assume that the increas-

6 Following Marx's argument, the distribution of the produced value and salary level influence the prices of production, but not in the way that mainstream economic theory believes. Whereas salary increases in sectors with a below-average value composition of capital lead to increased product prices, they reduce the cost of products in sectors with an over-average value composition of capital (see Marx 1991: 302ff.). **7** If not stated otherwise, in the following, 'crisis countries' refers to Greece, Portugal, Ireland, Cyprus, Spain and Italy. **8** For a criticism of the wage-dumping hypothesis, see also Schulten 2015.

ing competitiveness of German companies and an increase of German market shares automatically translates into the loss of market share for other European countries holding the same currency. Taking a closer look at developments in the destinations of German foreign trade and that of countries on the periphery reveals an entirely different picture.

In 2000, Germany and the crisis countries were important trade partners: 13.9 per cent of exports from crisis countries went to Germany, and 14.5 per cent of German exports were destined for crisis countries. Exports from crisis countries to Germany increased annually by 1.6 per cent between 2000 and 2008, which is less than the growth of these countries' total exports, so that the structural share of exports to Germany decreased by 2.6 per cent (see table 1). Up to this point, the figures appear to confirm the hypothesis that these countries now have a lower level of competiveness in relation to Germany. A look at German imports, however, leads to the first incongruities. In contrast to the postulated stagnation of German domestic demand, German imports grew by 5.2 per cent annually, which is only slightly less than the 5.4 per cent growth in imports seen by crisis countries. The difference can be explained by the fact that Germany simply replaced its imports from crisis countries with imports from other countries, an option not open to the same degree to the crisis countries. The simple, but probable explanation for this mirror-like development is that countries on the European periphery suffered more from the new levels of competition coming from China and Eastern Europe, and particularly when it comes to technological goods of medium complexity; consequently, they lost market share to these countries. Germany, situated at the top end of the global market hierarchy, however, continued to sell its complex products both in the euro area and globally. For Germany and the countries in crisis, the significance of the euro area as a market for imports and exports has decreased. This indicates that developments on the world market, where Germany and the crisis countries are positioned differently, exerted a greater influence on foreign trade and that developments within the euro area played a lesser role.

Even this, however, does not sufficiently explain the euro crisis. Before 2009, the export performance of crisis countries was not as low as it is made to appear today. A comparison of countries shows that the inferior export dynamic of crisis countries was mainly due to Ireland's and Italy's poor export dynamic. Before the crisis, Greek exports were growing more strongly than German exports. Nevertheless, Greek imports were growing even more strongly than Greek exports, which explains the current account deficit; however, this is not necessarily a sign of a lack of international competitiveness (see table 2).

An even greater problem with the standard explanations of the causes of the crisis is, as mentioned above, that they consider the capital account a secondary balance, which only reacts to current account developments and hence the 'real economy'. We, however, maintain that the decisive economic dynamic in the phase prior to the crisis was not industry and foreign trade, but financial integration. A comparison of foreign trade turnover and portfolio investments quickly reveals which of the two was the more dynamic and important (see figures 2, 3 and 4).

We cannot of course directly compare the values of these factors, one is a stock parameter (portfolio investments), the other a flow parameter (trade). Due to the data on transactions of individual countries not being publicly accessible, it was not possible to compare trade with the annual flows of portfolio investments in the euro area (Hobza/Zeugner 2014: 294). These figures nonetheless show the enormous increase in importance of cross-border portfolio investments, which are not only economically relevant as a flow (at the specific moment of a transaction), but also in stock because they embody investor debt claims or expected future profits.

They reveal the more rapid growth of portfolio investments (PFI), and, in contrast to foreign trade development, a positive correlation with the euro area. German (+5.2 per cent) and French (+6.3 per cent) euro area PFI assets increased significantly before the crisis, which in both countries was mainly due to investment in what were to become the crisis countries (Germany +5.5 per cent, France +6.3 per cent). An analysis of the significance of the crisis countries for the structure of German and French foreign economic relations reveals the dominance of financial relations over the trade in commodities. In 2008, only 12.9 per cent of German exports (France 19.6 per cent) went to crisis countries; in 2007, however, these countries accounted for 26.6 per cent of German portfolio investments (France 27.4 per cent), (see table 3).

The ratio between PFI stocks and foreign trade turnover further highlights these facts. This indicator confirms that PFI increased particularly strongly in the euro area compared to foreign trade (see tables 4 and 5). This demonstrates that in 2007 the euro area ratio of PFI assets to exports for France and Germany was significantly higher than the global ratio. At the same time, the euro area ratio of PFI liabilities to imports in the crisis countries was significantly greater in 2007 than the corresponding global ratios. Compared to commodity trade, therefore, the relative importance of portfolio investments was significantly greater for internal than external euro area economic relations. Now, if the disequilibrium of the balances of payments within the euro area played an important role, but the euro area's global balance of payments was balanced, this leads to the conclusion that the dynamics of portfolio investments played a decisive role in the development of internal imbalances. Theoretically, at least, one could still object that crisis countries lost competitiveness at the international level, which they then compensated for by indebting themselves with France and Germany. As described above, however, the problem for crisis countries was not weak exports but rather the intensity of imports. Secondly, portfolio investments are made in part in shares; for example, when investors buy shares because they expect a company to make a profit or grow. We agree with Milios and Sotiropoulos (2013) that capital inflow created the strong drive for imports and hence the current account deficits in the crisis countries. Capital partially came from surplus countries' savings, but was partially imported from capital centres outside of the euro area and exported into the periphery by a carry trade (see Hale/Obstfeld 2014).

Based on this data, imbalanced financial integration and not divergent developments in competitiveness was the primary cause of the economic and social catastrophe. Before the crisis turned in-

to a national debt crisis, it was a financial crisis. When financial actors, under the stress of the financial crisis, critically reviewed their investments, primarily German and French investors (in particular banks) faced large losses of capital. By this point, the German and French governments had already invested considerable sums of taxpayer's money to recapitalise the banks (Germany around 3.1 per cent of GDP; France 1.8 per cent, see Thompson 2015: 8). The bailout of Greece set a precedent, and it was pushed through by France and Germany against resistance.[9] Germany in particular bought its banks time, at the cost of future economic and social development in Greece (Thompson 2015: 9ff.). An analysis of the outbreak and causes of the crisis, therefore, needs to focus on the high-risk practices of banks from the core European countries, as well as the decision of the German and French governments, to Europeanise and socialise the costs of saving their banks. The growth crisis and Germany's aggressive policy of deflation are only secondary explanations.[10]

2.2 Crisis of financial integration, export driven recovery and exhaustion of the potential for integration

The crisis had a devastating impact on financial integration. Figures 2, 3 and 4 show the strong decrease of portfolio investments after the outbreak of the crisis in particular in Spain and France. Overall, the volume of portfolio investments grew faster than exports before the crisis and slower after the crisis (table 6). In Germany and Ireland, the two exceptions to this pattern, investment growth slowed significantly compared to export growth.

Countries that have returned to economic growth have done so mainly due to exports. Overall, the euro area's trade balance is positive. However, if we take Germany out of the calculation, the trade balance is even at best (see figure 5).

This suggests that the relation between foreign trade and financial relations is being turned upon its head. The contraction in finance is greater than the contraction in trade, and dominant policies aim to create new export-driven economic growth.

This development, however, is not based on euro area trade. On the contrary, the significance of domestic euro area trade for all of the euro countries continues to decrease and at a far greater pace than in the phase before the crisis (see table 7). If Germany's trade surplus with the crisis countries was the problem, it would already have been solved, because this surplus has now almost dropped to zero (see figure 1). The real terrain of competition, however, is the world market, which is precisely what Germany's bitter medicine was prescribed for. Analysed superficially, the improved foreign trade balance of the euro area as a whole and of the crisis countries should provide initial evidence of the potency of this medicine. Splitting this analysis according to indi-

9 Doubt was expressed from the outset about whether it would be possible to maintain the strategy in the long-term, and about the intentions of the rescue package. This is documented in the internal discussions at the IMF, when the decision on the rescue package was taken on May 9 2010. For example, the Brazilian IMF delegate stated that '... it may be seen not as a rescue of Greece, which will have to undergo a wrenching adjustment, but as a bailout of Greece's private debt holders, mainly European financial institutions' (WSJ 2013). **10** Institutional shortcomings of the euro area, which are not part of this investigation, play a further and significant role. In particular the fact that there is no lender of last resort, and the resulting extreme dependency of states on capital markets, had the catastrophic consequence of empowering markets to head a 'self-fulfilling speculative attack' (Chang/Leblonde 2015: 627) against the euro area as a whole and against individual euro area nations. Obviously, this was not a construction error, it was politically intended, in particular by Germany (Lucarelli 2011: 210ff.).

vidual euro area countries, however, reveals an extremely uneven 'recovery'. The accumulated differences in the level of competitiveness only come to bear since economic growth, driven by international trade, has (slowly) picked up again. Crisis countries' improving trade balances are, hence, based foremost on contracting imports and only in second line on increased exports, in particular to countries outside of the euro area.

Germany's post-crisis recovery, in contrast, is clearly export driven. The country's source of growth lies outside of the euro area. Whereas in 2014 German euro area exports were still below 2008 levels, its exports to countries outside of the euro area were increasing by an annual 4.2 per cent (table 7). Accordingly, euro area exports as a share of total German exports dropped from 42.7 per cent in 2008 to 36.4 per cent in 2014. Moreover, the crisis countries are far less significant for Germany than they used to be. Whereas in 2008, 12.9 per cent of German exports were destined for these countries, today they take up a mere 9.5 per cent of total German exports.

The Keynesian criticism of Germany's crisis policy, with its focus on the contradictions inherent to Germany's focus on exports, and which hopes that the German government at some point will understand that a recession in southern Europe will harm Germany's export potential (see Lucarelli 2011: 218) therefore falls short of the mark, in our opinion. Promoting economic development and thereby demand in southern Europe is by no means necessarily in the enlightened self-interest of the German ruling class. On the contrary, Germany profits from the recessionary trend in the EU at least to a certain degree. The weakness of the euro provides an additional competitive advantage that aids German companies and corporations in the face of global competition and helps them win market shares on the potentially far more important world market. Certainly, devaluation has also helped other euro area nations to improve their trade balance with non-euro area countries. However, because France in particular, just as the crisis countries, exports a far greater share of its goods to other euro area countries, Germany remains the main beneficiary of the low euro exchange rate.

What proves advantageous for Germany, however, will not work for the crisis countries. A convergence of EU states at a higher level of prosperity is an illusion under austerity, as the example of Greece shows. The slump in demand and financial contraction demonstrate this; even a slight increase of exports will not enable crisis countries to emulate the German model. The development paths of southern European societies are far less globally focused. It will also not be possible to simply turn these societies on their heads in such a short time span and against the resistance of numerous actors. The project of 'internal devaluation' is based on reducing unit labour costs. However, this only aggravates the growth problem in 'peripheral' EU societies, which surfaced before the crisis: the dependency on relatively labour intensive, low wage sectors. If the German strategy of assigning the crisis countries to a lower tier in the hierarchy of the international division of labour were to bear fruit, it could lead to greater exports in the short-term. During the past decades, however, wage cuts tended to be easier to implement in the countries of the Global South and the eastern European periphery than in the

southern European periphery. Workers and employees in southern Europe look back on a long history of achievements that they will not give up willingly. The relocation of companies from Greece to Bulgaria, notwithstanding the drastic cuts to wages in Greece, show how futile the strategy of 'internal devaluation' has been, even without taking into account the competition from South and East Asian business.[11] Once a dynamic of internal devaluation has been set in motion, it requires increasing cycles of cost reductions to remain competitive in the face of new competitors on the global market. The efforts of European administrations to perpetuate the process of internal devaluation (see Bieling 2013) bears witness to this fact. This policy merely exacerbates Europe's unequal development. A mercantilist and ordo-liberal solution to the crisis that reinstates the profitability of capital could work, if non-European markets continue to grow strongly. Considering the decline of growth in China, however, this is certainly questionable. A further condition, which is just as uncertain, is the importance of ensuring that foreign trade surpluses in the euro area do not lead to a currency war, in which one state after the other attempts to lower the external value of its currency. Such a capital-friendly solution to the crisis would be accompanied, even if it were to be successful, by a massive and long-term magnification of the inequalities between – and within – euro area countries.[12] The economic crisis has long, however, been accompanied by a political crisis. Even though the German government's position provisionally triumphed once more on the issue of Greece, this cannot conceal the fact that the political basis of Germany's solution to the crisis is eroding. Syriza's success in the parliamentary elections in January and the 'OXI' in the Greek referendum are not the only testimony to this fact.

2.3 Increasing asymmetry in the Franco-German axis

The legitimacy of the mercantilist, ordo-liberal approach to the crisis is crumbling from the European periphery inwards. Additionally, the central Franco-German axis is losing strength. While it was strong at the outset of the crisis mainly because German and French banks had invested heavily in risky bonds in southern European countries and many faced bankruptcy (see Thompson 2015: 13ff.), German and French economic interests separated some time ago.

The French trade balance slumped (figure 6), and after the crisis broke out, French exports grew on average by a mere 0.8 per cent. To a certain degree, this can be explained by the differences between the structure of French and German exports. Immediately before the crisis, French exports were focussed more strongly on the euro area (49.6 per cent) than German exports (42.7 per cent). In particular, the crisis countries played an important role for French exports (19.6 per cent; Germany 12.9 per cent). At the same time, France was in a far weaker position to conquer global markets and stabilise its exports than Germany.

11 On August 12 2015 Deutschlandfunk reported that there had been around 1,500 Greek companies in Bulgaria at the outset of the crisis. Today this figure has risen to 14,000. The report also points out that that is related (alongside other aspects) to the lower tax rates in Bulgaria. See, http://www.deutschlandfunk.de/griechenland-unternehmen-zieht-es-nach-bulgarien.795.de.html?dram:article_id=328059, accessed on September 16, 2015. **12** Germany also leads in the concentration of wealth, see Bach et al. 2015.

The trend in German and French portfolio investments also illustrates this development. Whereas Germany coped relatively well with the crisis-related slump in PFI, and liabilities and assets developed in parallel, French assets stagnated, while liabilities increased strongly. To a certain extent, this is due to Franco-German relations. German PFI assets in France grew disproportionally fast at a rate of 9.7 per cent, whereas the German share in French PFI assets collapsed from 14.3 to 8.4 per cent. Moreover, Germany has withdrawn far more strongly from the crisis countries than France, which has led the share of investments in crisis countries in German PFI assets to drop to 18.7 per cent, whilst the share of French investments is at 25.6 per cent, which is only marginally lower than its pre-crisis level (table 8).

In all phases of its economic development, the German economy greatly profited from the euro area. During the phase of financial integration before the crisis, German and French investors profited in particular from investments in the future crisis countries, which accounted for a quarter of the German and French portfolio. The turmoil in the wake of the financial crisis first hit the banks and then pushed several states onto the brink of financial collapse. Germany and France were able to push the entire costs of the necessary structural adjustments onto debtors and the citizens of debtor nations. German exporters only suffered for a short time during the crisis, and from today's perspective, they suffered far less than exporters in other countries. The devaluation of the euro since the outbreak of the crisis, which resulted from the outflow of capital from the euro area, granted German exporters an unexpected advantage on the world market. Germany became the main beneficiary of this development as a far lower share of German exports are destined for the euro area compared to exports from other euro area nations.

In this situation, the hopes of some Keynesian critics that the German government would eventually understand the economic nonsense of its policies and give up its obsession with austerity are unfortunately misplaced. Moreover, it remains debatable whether an increase of German domestic demand or rather a reduction of German exports – as desirable as this may be at the domestic and global level – would actually provide a viable solution to the crisis of the euro.

Table 1: Goods trade 2000—2008

	Germany			France			Crisis countries		
Exports	WR	SA 2008	SV	WR	SA 2008	SV	WR	SA 2008	SV
Total	6.4 %	100%	0%	2.1%	100%	0%	4.2%	100%	0%
Euro area	5.6%	42.7%	-2.7%	1.8%	49.6%	-1.0%	3.6%	48.1%	-2.2%
Non-euro area	7.1%	57.3%	2.7%	2.4%	50.4%	1.0%	4.8%	51.9%	2.2%
Germany				2.2%	15.7%	0.1%	1.6%	11.4%	-2.6%
France	4.2%	9.5%	-1.8%				3.2%	12.3%	-1.0%
Benelux	6.7%	12.3%	0.3%	2.4%	12.0%	0.2%	4.6%	7.1%	0.2%
Crisis countries	4.9%	12.9%	-1.6%	1.1%	19.6%	-1.6%	4.9%	14.1%	0.7%
Eastern Europe	13.5%	16.9%	6.8%	11.6%	7.4%	3.8%	12.9%	10.7%	5.1%
BRICs	17.3%	8.4%	4.6%	12.1%	5.4%	2.9%	13.7%	4.9%	2.4%
China	17.4%	3.5%	1.9%	12.8%	2.1%	1.2%	16.1%	1.5%	0.9%
USA	1.8%	7.2%	-3.1%	-3.0%	5.7%	-2.9%	0.0%	7%	-2.7%
Imports	WR	SA 2008	SV	WR	SA 2008	SV	WR	SA 2008	SV
Total	5.2%	100%	0%	3.6%	100%	0%	5.4%	100%	0%
Euro area	5.0%	45.2%	-0.4%	4.0%	57.1%	1,6%	4.4%	47.0%	-3.7%
Non-euro area	5.3%	54.8%	0.4%	3.1%	42.9%	-1,6%	6.4%	53.0%	3.7%
Germany				4.0%	19.1%	0,6%	4.8%	14.5%	-0.7%
France	2.8%	8.0%	-1.6%				1.4%	9.1%	-3.3%
Benelux	7.3%	20.2%	3.0%	5.2%	18.8%	2,2%	5.2%	8.8%	-0.2%
Crisis countries	2.2%	10.1%	-2.7%	2.6%	17.0%	-1,4%	5.8%	11.6%	0.4%
Eastern Europe	10.5%	17.2%	5.6%	15.9%	8.5%	5,0%	13.2%	10.3%	4.5%
BRICs	13.2%	12.3%	5.4%	11.1%	8.0%	3,4%	13.7%	10.7%	4.9%
China	14.7%	6.4%	3.2%	11.3%	3.9%	1,7%	17.4%	5.5%	3.2%
USA	-1.6%	4.3%	-3.0%	-3.2%	4.2%	-3,0%	-0.7%	3.6%	-2.2%

Comparison of trade in goods in the euro area between 2000 and 2008. 'Crisis countries' is the aggregate of Italy, Spain, Ireland, Portugal, Greece and Cyprus. 'BRICs' is the aggregate of Brazil, Russia, India and China. WR = average yearly growth rate; SA = structural share, SV = change to structural share. Source: Eurostat, Comext database; own calculations.

Table 2: Average annual growth of trade 2000–2008

	Germany		France		Italy		Spain	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Total	6.4%	5.2%	2.1%	3.6%	4.5%	5.0%	5.5%	6.8%
Euro area	5.6%	5.0%	1.8%	4.0%	3.4%	3.4%	4.6%	5.0%
	Ireland		Portugal		Greece			
	Exports	Imports	Exports	Imports	Exports	Imports		
Total	0.2%	0.4%	5.0%	5.1%	6.7%	7.6%		
Euro area	1.2%	3.3%	4.5%	5.2%	5.6%	5.8%		

Comparison of euro area and country groups' trade between 2000 and 2008. WR = average annual growth rate. Source: Eurostat, Comext database; own calculations.

Table 3: Portfolio investments

Germany	Assets			Liabilities		
	WR	SA 07	SV	WR	SA 07	SV
Total	12.1 %	100 %	0 %	10.8 %	100 %	0 %
Euro area	13.6 %	67.7 %	5.2 %	10.5 %	47.0 %	-0.8 %
Non-euro area	9.4 %	32.3 %	-5.2 %	11.1 %	53.0 %	0.8 %
Crisis countries	16.6 %	26.6 %	5.5 %	9.7 %	11.7 %	-0.7 %
Benelux	12.9 %	26.9 %	1.1 %	6.7 %	18.7 %	-4.8 %
France	12.3 %	9.5 %	0.1 %	19.7 %	12.9 %	4.8 %
Greece	8.8 %	1.5 %	-0.3 %	74.0 %	0.3 %	0.3 %
Ireland	26.9 %	5.4 %	2.8 %	16.2 %	4.2 %	1.0 %
Italy	7.9 %	8.1 %	-2.1 %	5.5 %	4.2 %	-1.4 %
Portugal	8.7 %	1.2 %	-0.2 %	11.8 %	0.6 %	0.0 %
Spain	26.5 %	10.2 %	5.3 %	6.2 %	2.4 %	-0.7 %
UK	8.6 %	7.6 %	-1.6 %	-1.4 %	6.1 %	-6.2 %
USA	6.0 %	9.8 %	-3.9 %	11.1 %	12.8 %	0.2 %

Continued on page 16

France	Assets			Liabilities		
	WR	SA 07	SV	WR	SA 07	SV
Total	16.5%	100%	0%	10.1%	100%	0%
Euro area	18.6%	62.4%	6.3%	15.0%	40.3%	9.2%
Non-euro area	13.5%	37.6%	-6.3%	7.5%	59.7%	-9.2%
Crisis countries	21.7%	27.4%	6.3%	18.3%	13.1%	4.6%
Benelux	14.2%	17.7%	-2.3%	14.1%	16.9%	3.2%
Germany	19.7%	14.3%	2.1%	12.3%	8.5%	1.0%
Greece	23.7%	2.1%	0.6%	29.7%	0.2%	0.1%
Ireland	40.6%	5.2%	3.5%	29.1%	4.0%	2.5%
Italy	15.6%	9.9%	-0.5%	10.7%	4.6%	0.2%
Portugal	16.4%	1.6%	0.0%	21.3%	0.7%	0.3%
Spain	23.5%	8.5%	2.5%	21.1%	3.5%	1.5%
UK	14.9%	8.9%	-0.7%	-3.5%	6.0%	-7.2%
USA	4.6%	8.6%	-7.8%	10.8%	15.2%	0.6%

German and French portfolio investments 2001–2007. Sources: IMF, Coordinated Portfolio Investment Survey (CPIS); Balance of Payment (BOP)/International Investment Positions (IIP); own calculations. WR = average yearly growth rate; SA = structural share, SV = change to structural share.

Table 4: Ratio of portfolio investment to exports

	France		Germany	
	2002	2007	2002	2007
World	2.5	4.9	1.3	1.8
Euro area	3.2	6.1	2.0	2.9
Non-euro area	1.9	3.8	0.8	1.1

Ratio of portfolio investment asset stocks to goods exported for France and Germany. Sources: Eurostat, Comtext database; IMF (CPIS/BOP (IIP)); own calculations.

Table 5: Ratio of portfolio investment and imports

	Italy		Spain		Ireland		Portugal		Greece	
	2002	2007	2002	2007	2002	2007	2002	2007	2002	2007
World	3.0	3.4	2.1	3.8	8.1	21.7	2.0	2.8	6.8	12.2
Euro area	3.3	4.3	2.1	4.2	9.0	26.8	1.8	3.2	12.1	18.6
Non-euro area	2.7	2.6	2.0	3.4	7.8	20.0	2.4	1.9	2.5	7.3

Ratio of portfolio investment liabilities to imported goods for Italy, Spain, Ireland, Portugal and Greece. Sources: Eurostat, Comext database; IMF (CPIS/ BOP(IIP)); own calculations.

Table 6: Growth of exports and portfolio investments

		DE	FR	IT	SP	IR	PT	GR
Total goods exported	2000–2008	6.4%	2.1%	4.5%	5.5%	0.2%	5.0%	6.7%
	2008–2014	2.4%	0.8%	1.3%	4.2%	0.6%	3.7%	4.1%
Total PFI assets	2001–2007	12.1%	16.5%	5.1%	17.0%	18.2%	16.9%	45.6%
	2007–2013	3.8%	0.7%	-0.3%	-8.9%	4.1%	-2.8%	3.7%
		DE	FR	IT	SP	IR	PT	GR
Goods exported, euro area	2000–2008	5.6%	1.8%	3.4%	4.6%	1.2%	4.5%	5.6%
	2008–2014	-0.3%	-0.2%	-0.5%	2.1%	-1.7%	2.2%	-0.6%
PFI assets, euro area	2001–2007	13.6%	18.6%	9.6%	16.3%	23.4%	20.8%	39.7%
	2007–2013	3.3%	0.9%	1.1%	-7.6%	0.7%	-0.2%	19.6 %

Comparison of average annual growth rates of exported goods and portfolio investments. Sources: Eurostat, Comext database; IMF (CPIS/ BOP(IIP)); own calculations.

Table 7: Goods trade 2008–2014

	Germany			France			Crisis countries		
Exports	WR	SA 2014	SV	WR	SA 2014	SV	WR	SA 2014	SV
Total	2.4%	100%	0%	0.8%	100%	0.0%	2.2%	100%	0%
Euro area	-0.3%	36.4%	-6.3%	-0.2%	46.9%	-2.7%	0.4%	43.3%	-4.8%
Non-euro area	4.2%	63.6%	6.3%	1.6%	53.1%	2.7%	3.8%	56.7%	4.8%
DE				1.6%	16.5%	0.8%	1.7%	11.0%	-0.4%
FR	1.4%	9.0%	-0.5%				0.9%	11.3%	-0.9%
Benelux	0.0%	10.7%	-1.6%	0.7%	12.0%	-0.1%	2.0%	7.0%	-0.1%
Crisis countries	-2.7%	9.5%	-3.4%	-2.1%	16.4%	-3.1%	-1.9%	11.0%	-3.1%
Eastern Europe	1.4%	15.9%	-1.0%	0.9%	7.4%	0.0%	1.3%	10.1%	-0.6%
BRICs	6.9%	10.9%	2.4%	4.9%	6.9%	1.5%	4.2%	5.4%	0.6%
China	14.1%	6.6%	3.1%	10.3%	3.7%	1.5%	8.6%	2.1%	0.6%
USA	5.2%	8.5%	1.3%	2.4%	6.3%	0.6%	4.2%	7.8%	0.9%
Imports	WR	SA 2014	SV	WR	SA 2014	SV	WR	SA 2014	SV
Total	2.1%	100%	0%	0.8%	100%	0%	-1.4%	100%	0%
Euro area	2.0%	44.9%	-0.3%	0.9%	57.6%	0.5%	-2.0%	45.5%	-1.5%
Non-euro area	2.2%	55.1%	0.3%	0.6%	42.4%	-0.5%	-1.0%	54.5%	1.5%
DE				1.0%	19.5%	0.3%	-2.6%	13.6%	-1.0%
FR	1.8%	7.9%	-0.2%				-1.6%	9.0%	-0.1%
Benelux	2.3%	20.3%	0.1%	1.1%	19.2%	0.4%	-1.1%	9.0%	0.2%
Crisis countries	1.3%	9.6%	-0.5%	0.3%	16.6%	-0.4%	-2.3%	11.0%	-0.6%
Eastern Europe	5.0%	20.4%	3.1%	1.0%	8.6%	0.1%	2.9%	13.4%	3.1%
BRICs	1.7%	11.9%	-0.3%	1.3%	8.2%	0.3%	-0.2%	11.5%	0.8%
China	2.8%	6.7%	0.3%	4.8%	5.0%	1.0%	0.2%	6.1%	0.6%
USA	1.1%	4.0%	-0.3%	3.7%	5.0%	0.8%	-1.5%	3.5%	0.0%

Comparison of euro area trade 2008-2014. WR = average annual growth rate; SA = structural share, SV = change of structural share. Sources: Eurostat, Comext database; own calculations.

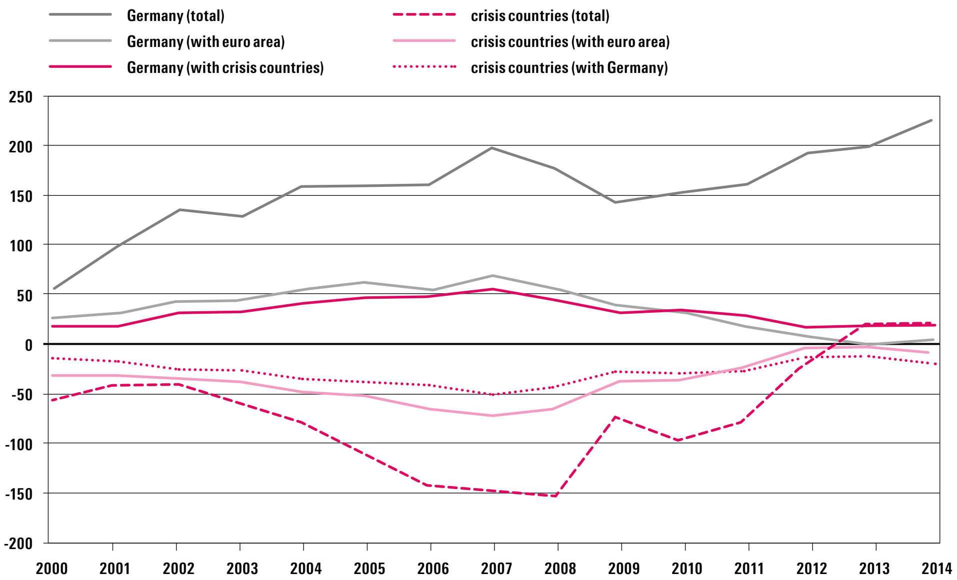
Table 8: Portfolio investments 2007–2013

Germany	Assets			Liabilities		
	WR	Sa 13	SV	WR	Sa 13	SV
Total	3.8%	100%	0%	2.5%	100%	0%
Euro area	3.3%	65.5%	-2.2%	-1.9%	36.2%	-10.8%
Non-euro area	5.0%	34.5%	2.2%	5.7%	63.8%	10.8%
Crisis countries	-2.1%	18.7%	-7.9%	-4.3%	7.7%	-3.9%
Benelux	4.7%	28.2%	1.3%	2.3%	18.6%	-0.2%
France	9.7%	13.1%	3.7%	-7.9%	6.8%	-6.1%
Greece	-20.7%	0.3%	-1.2%	-22.0%	0.1%	-0.3%
Ireland	1.0%	4.6%	-0.8%	3.1%	4.3%	0.2%
Italy	2.5%	7.5%	-0.6%	-7.7%	2.2%	-1.9%
Portugal	-4.0%	0.7%	-0.4%	-9.8%	0.3%	-0.3%
Spain	-6.3%	5.5%	-4.7%	-14.4%	0.8%	-1.6%
UK	3.3%	7.4%	-0.2%	7.4%	8.0%	2.0%
USA	1.5%	8.5%	-1.2%	-0.4%	10.8%	-2.0%

France	Assets			Liabilities		
	WR	Sa 13	SV	WR	Sa 13	SV
Total	0.7%	100%	0%	6.0%	100%	0%
Euro area	0.9%	63.4%	1.0%	5.1%	38.4%	-1.9%
Non-euro area	0.2%	36.6%	-1.0%	6.6%	61.6%	1.9%
Crisis countries	-0.5%	25.6%	-1.8%	0.0%	9.2%	-3.8%
Benelux	7.4%	26.2%	8.5%	6.3%	17.2%	0.3%
Germany	-7.9%	8.4%	-5.9%	9.7%	10.4%	1.9%
Greece	-26.1%	0.3%	-1.8%	-2.8%	0.1%	-0.1%
Ireland	-1.7%	4.5%	-0.7%	4.1%	3.6%	-0.4%
Italy	4.0%	12.1%	2.1%	3.0%	3.9%	-0.7%
Portugal	-6.7%	1.0%	-0.6%	-7.2%	0.3%	-0.4%
Spain	-1.0%	7.7%	-0.8%	-10.3%	1.3%	-2.2%
UK	-0.3%	8.4%	-0.5%	11.0%	7.9%	1.9%
USA	0.2%	8.3%	-0.3%	1.7%	11.9%	-3.3%

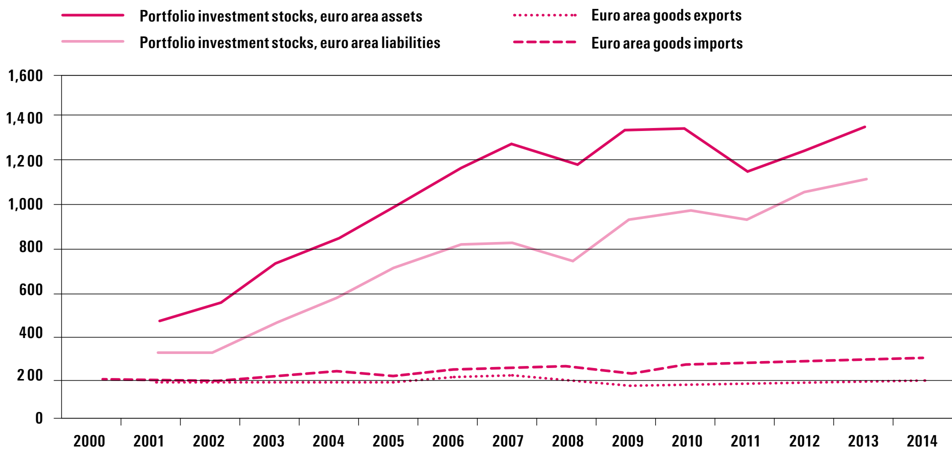
German and French portfolio investments 2007-2013. Sources: IMF, Coordinated Portfolio Investment Survey (CPIS); Balance of Payment (BOP)/International Investment Positions (IIP); own calculations.

Figure 1: Balances of trade: Germany and the crisis countries
(in billions of euros)



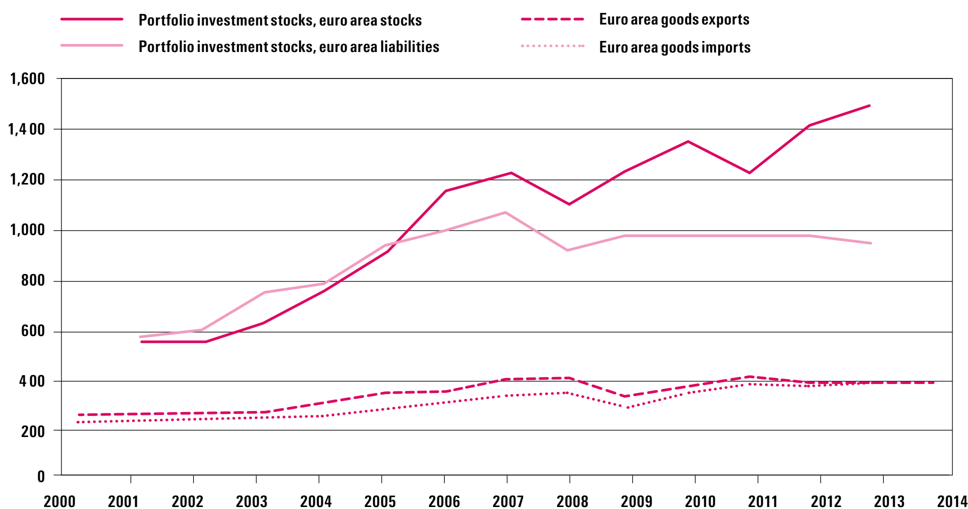
Source: Eurostat (Comext); own calculations

Figure 2: France: Portfolio investment and foreign trade compared
(in billions of euros)



Source: IMF (CPIS/BOP(IIP)), Eurostat (Comext)

Figure 3: Germany: Portfolio investment and foreign trade compared
(in billions of euros)

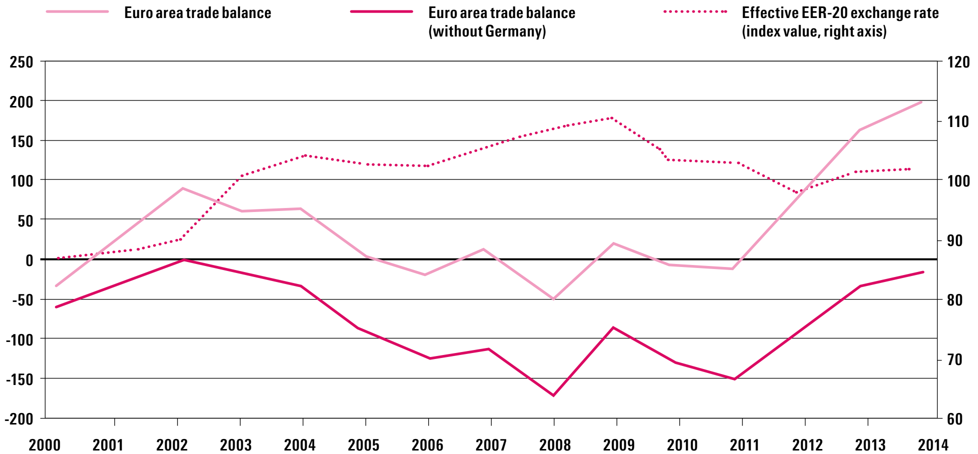


Source: IMF (CPIS/BOP(IIP)), Eurostat (Comext)

Figure 4: Spain: Portfolio investment and foreign trade compared
(in billions of euros)

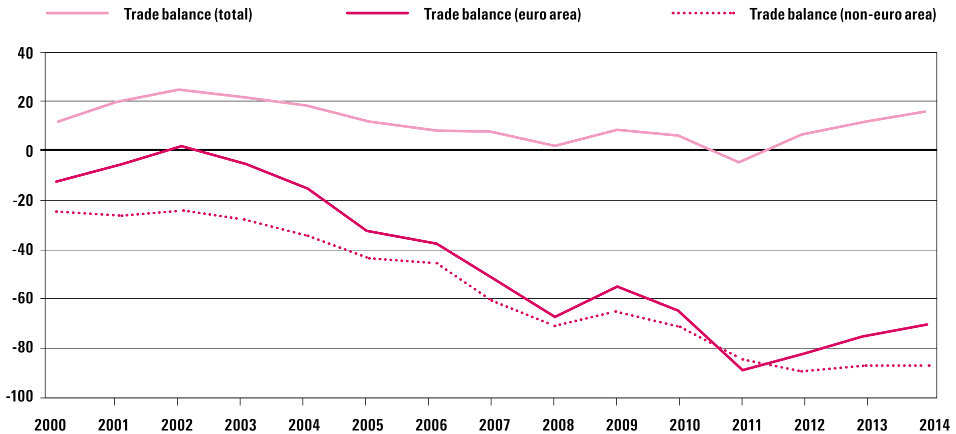
Source: IMF (CPIS/BOP(IIP)), Eurostat (Comext)

Figure 5: Balances of trade and nominal effective euro exchange rate
(in billions of euros)



Sources: Eurostat (Comext), German Bundesbank (effective exchange rate), own calculations.
The effective exchange rate (EER-20) is calculated on the basis of a weighted currency basket, consisting of the currencies of the 20 most important trade partners of the euro area.

Figure 6: French trade balance
(in billions of euros)



Sources: Eurostat (Comext), own calculations

3 THE FUTURE OF THE EURO AREA

The unequal development of the countries of the euro area since the outbreak of the crisis is causing increasing friction that threatens to tear the monetary union apart. Contrary to what many critics of the monetary union suggest, responsibility for this development lies not alone with its internal structure, but is rather a general feature of capitalist development. It is illusionary to believe that under the dominance of the capitalist mode of production a spatially even development would ever be possible. Rather, the current monetary regime reinforces the cycles of capitalist crisis. During the boom phase of the economy before the crisis, the economic and social gap between the centre and the periphery within the EU decreased due to a strong growth of capital flows towards the periphery. Because inflation rates in Europe's periphery were higher than in the centre, the ECB's key interest rate led to lower actual interest rates in the periphery and this provided an incentive to borrow and hence to greater growth than in the centre (Heine/Herr 2006: 367). However, this financialised form of development was not sustainable. Since the outbreak of the crisis, financial integration has begun to unravel, and the differences in structures of production are again gaining greater importance. Austerity policies underpin this unequal development. Currency devaluations, typically used by less competitive nations as a mechanism to adapt to changing world market conditions, are not an option within the euro area, pressure is therefore chiefly on wages and working conditions. Furthermore, the monetary union has no adequate fiscal clearing mechanism. The budget of the European Commission is negligible compared to the budgets of individual member states. This form of integration, however, is not a product of chance; it was intended. Historically, it was imposed by the dominant groups in Germany and is in the interests of capital in as far as it puts pressure on and disciplines wage earners across Europe (see Stützle 2013; Milios/Sotiropoulos 2013).

The unequal development of the euro area increases the pressure to reform or abandon monetary union. The current monetary regime, therefore, has no long-term future. There are two options for the future: a deepening of European integration that removes the shortcomings of the monetary regime and increases opportunities for political intervention to compensate for unequal development, or the break-up of monetary union. The question of whether to deepen or reverse European integration is increasingly leading to divisions across the political landscape (see Nölke 2015). Depending on how the relations of power develop within the EU, a deepening of ties or a break-up of the euro area could take very different forms and imply very different situations for the subjugated classes in the EU. For the future development of the monetary union, we distinguish between four broad scenarios:

1. Deepening of European integration under the hegemony of the globally oriented fractions of capital. The European banking union and the attempts to increase the control of national fiscal policies by changing European treaties or by developing additional treaties (European semester, six-pack, two-pack, fiscal compact), already point in this direction, as

do Chancellor Merkel's plan for a 'compact for competitiveness',[13] Juncker's plans to 'complete' economic and monetary union[14] and the European Commission's action plan to create a 'capital market union'.[15] The final form of deepened integration is relatively unclear, because numerous differences between the central actors remain unsolved. The French government emphasises the need to strengthen supranational institutions and the fiscal capacities of the EU, whilst the German government would prefer a permanent institutionalisation of a restrictive fiscal policy and intergovernmental control of the EU administration. Whether the German or the French version of deeper integration prevails, will depend greatly on developments within the resistance against austerity policies, the future orientation of social democrats within the EU and on whether an alliance of social democratic governments in the crisis countries headed by France establishes itself. Despite the differences between neoliberal-conservative and social-liberal forces, this scenario would imply the continuation of the authoritarian neoliberal form of integration that has dominated development in the EU over the past years; notwithstanding the various possible modifications that would have to be made in the case of a compromise between the German and the French approach. The current plans are not yet suited to counter effectively unequal development. Depending on which version of the authoritarian neoliberal deepening of European integration wins the upper hand, the EU could plunge into an even deeper crisis. The EU's blatant democracy deficits would increase in an economic union designed foremost to block expansive economic policies in individual countries and curtail the budgetary competencies of national parliaments. This would not solve the crises of the EU and the monetary union but rather provide them with a form of movement and muddling through would continue for some time. This scenario would require progressive as well as reactionary nationalist forces to be fenced in or integrated as subalterns. Both sides however are becoming stronger with their criticism of the EU. Despite the growing strength of opposition, this scenario is currently the most likely because it is supported by the hegemonic fractions of capital in Germany and the EU that are focused on the world market (see Heine/Sablowski 2013, Georgi/Kannankulam 2015). Nonetheless, a possible conflict between German and French economic interests could block this scenario and open the door for another scenario.

2. Breakup of the monetary union under the hegemony of right-wing populist and nationalist forces. If right-wing populist forces continue to grow stronger and form governments in individual euro area countries, it is possible that these countries would exit the monetary union. Currently, this scenario does not seem particularly likely. Even if parties such as the Front National were to form the government, they would probably have to make concessions to their policy stance towards Europe, under the pressure of the globally oriented fractions of capital, and renounce their plans to exit the monetary union. This is however far from certain. In the case of an 'exit' under the hegemony of right-wing populist and nationalist forces, the process of 'internal devaluation' would not necessarily be brought

13 See Merkel 2013. **14** See Juncker et al. 2015. **15** See European Commission 2015.

to a halt. Rather, it would be combined with a devaluation of the country's currency, with the goal of enhancing the competitiveness of domestic capital at the cost of others. Like the first scenario, this would have multiple negative implications for subordinated classes. Particularly, it would lead to the devaluation of work, wages and benefits compared to other currencies; rising costs of imported goods, loss of purchasing power, acceleration of social inequality between those possessing assets in foreign currencies and those who own nothing, and an accelerated sell-out of the country's wealth to international investors etc. This of course would occur alongside the nationalism, racism, sexism and the suppression of minorities that characterises the politics of the extreme right. The first two scenarios do not mutually exclude each other, as remarks by German Federal Minister of Finance Wolfgang Schäuble clearly demonstrate. Individual countries could even exit the euro area (or be de facto excluded, as proposed in the case of Greece), whilst other countries deepen integration.

3. Exit of individual states under an anti-neoliberal or socialist hegemony. The experiences of the first Tsipras government in Greece demonstrate that it is impossible for individual countries to block austerity policies inside the euro area as long as a conservative neoliberal majority controls the ECB and can use its power as an instrument to extort a left-leaning government. The left in the EU is therefore increasingly discussing a 'plan B', the possibility of left-wing governments exiting the euro area. If left-wing governments were to form again in the euro area and if they decided not to bow to the demands of the conservative-neoliberal block, a 'lexit' (left-wing exit) would be an important element of self-assertion. Of course, this would require overcoming the left's 'sacralisation' (Wahl 2015) of the euro and the EU, and that there are majorities in the concerned countries in favour of an exit from the monetary union and the EU treaties. As is well-known, the polls in Greece showed a lack of support for this aspect. A unilateral exit from the monetary union would be very hard to achieve under conditions of sabotage against left-wing governments, and this needs to be reckoned with. The introduction of a new currency would require several months of preparation (see Sapir 2011), whereas the ECB could wreak havoc in a matter of days by denying cash to banks. Furthermore, even introducing a new currency would not prevent the possibility of an economic war against a left-wing government. A left-wing government would not only face the hazards of devaluation (see above), but also of capital outflow and other acts of sabotage, because the ruling classes would not 'trust' a left-wing government. To cushion the negative effects of currency devaluation and the economic war waged against it, a left-wing government would have to take drastic measures. Banks would have to be nationalised, and controls on capital and foreign trade would have to be imposed etc. Countering social inequality and ending mass unemployment would require large-scale investment programmes, radical measures to redistribute wealth and imposing strict controls over key economic sectors even beyond the banks. Only in combination with such measures would exiting the monetary union make sense from a left-wing perspective; this is what differentiates a 'lexit' from an 'exit' guided by

a conservative-nationalist block. However, a 'lexit' would also imply a break with the European treaties, in particular with the free movement of goods and capital. Whether and for how long such a left-wing government would remain in power in an environment characterised by dependency on the international division of labour and faced by an economic blockade is difficult to say. The example of the left-wing French government at the beginning of the 1980s under Mitterrand shows that even when a country has its own currency, serious external economic restrictions remain that limit a left-wing government's scope for action – not to mention the option of taking military action against a left-wing government, such as happened with the Unidad Popular government in Chile. Even for countries with a weak industrial structure, however, taking an alternative developmental path is not completely impossible, although it would be very precarious, as developments in Cuba show.

4. Re-foundation of Europe under an anti-neoliberal and socialist hegemony. Neoliberal principles are so deeply engraved into the EU treaties and the monetary union that a rupture with neoliberalism automatically implies a rupture with the EU treaties and monetary union in its current form. When more countries break away, the easier it becomes for further countries to do so. Asynchronic national political developments, however, pose the greatest difficulty here. If a number of countries were to break with the neoliberal EU treaties, this would not necessarily lead to nationalist isolation and competitive devaluation, but could instead create the space for the re-foundation of Europe. A re-foundation of Europe would be hard to implement in the current EU framework, because changes to the EU treaties require consensus among all EU member states. A single country can veto progressive changes to the treaties. This would obviously find the support of the ruling classes of all countries. It is therefore illusory to believe that a left-wing government in Germany or even left-wing governments in the central EU countries would have the power to enforce such treaty changes. The German government's current power in the EU is based on the support of German capital. This would no longer be the case, if Germany had a left-wing government. Changing the EU treaties in a progressive direction would require a simultaneous revolt and switch of government in all countries, which is a highly unrealistic scenario. More likely are successive ruptures in a number of countries and subsequent alliances between the left-wing governments of these countries and social movements. These alliances could lay the foundations for a new solidarity-based form of European integration. In our view, this is the most desirable scenario, yet also the hardest to achieve. It would require a hegemony of anti-neoliberal and/or socialist forces in each country. Whether the left can become hegemonic also depends on the degree to which it can prevent divisions, such as the division between the so-called eurosceptics and the pro-European left. Whilst the question over whether it is necessary to exit the monetary union and/or the EU currently divides the left, there is general agreement in the criticism of austerity policies, the EU's refugee policy and the Transatlantic Trade and Investment Partnership (TTIP). Emancipatory forces should therefore explore the possibilities for joint action, even if their approaches

to European policy goals and strategies differ. Initially this would require further struggles against the crises strategies of the German government and of the fractions of capital that are focused on the world market, i.e. against austerity policies, privatisation, the dismantlement of workers' rights, and the planned free trade agreements. These struggles will need to be coordinated more strongly at the European level than they have been before. To the extent that these struggles are successful, it will also become possible to develop and to implement from below a joint programme for a different Europe.

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“The unequal development of the countries of the euro area since the outbreak of the crisis is causing increasing friction that threatens to tear the monetary union apart. Contrary to what many critics of the monetary union suggest, responsibility for this development lies not alone with its internal structure, but is rather a general feature of capitalist development.”

FREDERIC HEINE AND THOMAS SABLOWSKI