ROSA LUXEMBURG STIFTUNG

MARIO CANDEIAS

A CIRCLE OF MISERY

FROM NEOLIBERAL GLOBALIZATION TO EURO CRISIS

The Euro zone today has become the central battle field of the crisis of neoliberal globalization. Therefore, the most critical point of the current situation – is the euro crisis. One of the key features of neoliberal globalization was to remove national borders for the flow of capital and commodities. But as we know, this does not mean to dismantle the state, but to give him a new form: the so-called «competitive state», were social interests and welfare of a whole society are only a secondary result of competitiveness.

In a global economy competitiveness has a lot to do with the realization of large scale economies – if you have a huge home market, you can use it to build your own champions, able to jump on the global arena, to become global players. So, on every continent the ruling classes try to build a regional block: the NAFTA around the US, ASEAN in East Asia, Mercosur in Latin America. The oldest of them is the European Union.

The creation of the common market was the big first step to a neoliberal integration of European economies, enabling the free flow of capital and commodities as the first principal of regulation – some call it deregulation, later this became also true for services and labor power – the so-called four freedoms. The next big step was the European Currency Union, fixed in the Maastricht Treaty and later in the so-called Stability Pact.

In that time critical scientists questioned the structure of the European Currency Union. They were not against the Euro, but they were critical that it could work this way. The so-called «monetarist» form only considered accumulated debt, new debts and inflation. They disregarded current account balances, productivity, social standards and wages. This means, that the very different productivities between, for example, Germany and Greece could no longer be balanced through adjustments between Deutsche Mark and Drachma, no currency revaluation was possible with only one currency, the Euro. But at the same time, there was almost no other adjustment mechanism such as alignment of social minimum standards, current account balancing, common tax policies and a real transfer union, like in Germany between the different federal states. The only adjustment mechanism left was bringing down labour standards and wages and competing out social standards and welfare as such. It was social democratic hope that the regional and structural funds of the EU would generate an alignment between the very different economies inside the Euro zone. But integration into the common market led to a – wanted – differentiation: the massive investments in infrastructures and European nets such as highways, railways, internet were means for opening up the markets the European periphery. European integration meant globalization and abolition of national boundaries for trade and capital flows that used to protect the existing national industries. The effect was a massive de-industrialization of southern Europe because of the low productivity; which could not be compensated by low wages. Investments from transnational corporations like VW did not compensate job losses either.

Especially the combination of high productivity increases and wage stagnation in Germany was and is a constant pressure for other economies, competing out south European industries. And a perspective as a low wage economy was also not possible for these countries, because they were not cheap enough compared to Eastern Europe and especially East Asia. Only farming was quite stable because of its transformation to a high-tech agro-industry, with much less and cheap migrant workers, massive overuse of water and destruction of soil and biodiversity. In effect export beyond the food industry does not play a significant role. And countries like Greece or Portugal had to accept massive and rising trade deficits. This means that a government in these peripheral countries has no other choice but to boost low growth through state expenditures and private debt increases – which in turn led to fast rising current account deficits. But massive unemployment could be reduced by expanding the construction industry, the finance industry – both very speculative sectors - and by expanding almost unexciting public services. The following «boom» was driven by a mechanism that even the critics have not seen when the Euro was born: a wave of cheap credits. That was no problem, as long as interested rates were low, liquidity was flowing, credit was easy to get and state bonds easy to sell. Especially the big German banks and insurance companies loved state bonds from the south and elsewhere. This massive circle of capital flows from

surplus countries like Germany, Netherlands, Austria to the poorer but growing countries in the peripheries was «good» for all sides: the consumption based on credit and speculation in the periphery was a necessary means for the German export boom – thus stabilizing very low growth rates in Germany, because the internal German market is very weak due to the stagnation of wages since the year 2000. And in the fast expanding low wage sector in Germany wages fell by 20 per cent and more in the last ten years.
This speculative boom in the peripheries led to increasing prices: prices in the south European metropolis like Athens or Madrid are high above price levels in most of the German cities – while people getting much lower wages. This is why unions in the peripheries were forced to close the gap between price increases and wages: in effect real wages between 2000 and 2008 increased 40 per cent in Greece but also in Poland, 26 per cent in Great Britain, ten per cent in France, 4.5 per cent in Spain, but decreased one per cent in Germany. This means competitiveness gets lost more and more for economies in the Euro zone, competing with Germany.
Private households try to stabilize their consumption and future perspectives through credit too – especially when you consider, that these countries have almost no developed market for rented housing – people are forced to buy their own property, a flat or a small house of their own. No problem when every bank was offering aggressively cheap credit. This inflation of financial or better fictitious assets on basis of huge current account deficits and surpluses in Europe postponed the pressure for adjusting the economies inside the Eurozone. Until this situation crushed with the global financial and economic slump that started in the US in 2007 – the result of an even bigger and prolonged increase of over-accumulation of fictitious capital, capital that is not able to find enough possibilities for profitable investments, therefore it is driven to financial speculation. This was the point, when European imbalances became a real problem. Like in the US states have to rescue the banks, what led to exploding state deficits and debts. And the same financial sector which produced the crisis then started to blame the states, especially the weak peripheral states for their deficits and high debts – quite clear in their inner logic, but in fact a real scandal. That is the short version of the story.
In this situation of financial attack the so-called Troika, advisers from IMF, European Commission and European Central bank, forced these countries, especially and foremost Greece, to organize a so-called «inner devaluation». A real currency devaluation is not possible because there is no more Drachma or Peseta. So what does inner devaluation mean in a relatively poor country compared to northern Europe? In Greece the average wage is about 700 euro. To regain competitiveness wages would have to be reduced up to 30 per cent. But even this in a situation of deflation and crisis would not lead to increasing exports. And what should they export when we remember deindustrialization and low productivity? The result at the moment: A circle of misery. Collapsing production, mass redundancies in times of 25 per cent and more of official unemployment, youth unemployment rates up to 60 per cent in Greece and Spain, 80 per cent in the group of 50 to 60 year old employees in Spain. This also means drastic wage and pension cuts; longer working times in public services; partial collapse of public services, most important in the health sector; more than half a million evictions in Spain, throwing whole families onto the street; fast rising charges for everything from highway toll to medicine, higher taxes, especially value-added tax – the burden on the popular classes is for many of them almost unbearable: the cases of depression exploded, suicide has become a daily practice, hundreds of thousands are leaving, nearly a million in Spain. But also protest increased, leading to a huge social mobilization in most of the sectors of society.

WHAT DOES IT MEAN FOR THE LEFT?

Since decades the majority of the European left has an ambivalent position towards European integration. Their critique on liberalisation and deregulation, on the problems of monetary union and stability mechanisms, on narrow-minded competitiveness and Lisbon Treaty was up to point. And in an internationalist tradition the left continued to advocate for pro-european positions, to present reform concepts and ideas, to struggle against nationalism and right-wing protectionism against migrant workers; for instance. But facing adverse relations of power this pro-european attitude could come (maybe already had come) close to a naïve, idealistic hope. Conversely public opinion often puts euro-sceptical positions on the same level as right-wing views. Sometimes - without wanting this, they sustain nationalist positions. Theoretically it seems to be easy to bridge position for a left european perspective with critique against the neoliberal dismantling of social right in the EU. Practically real politics force them into wrong oppositions: You can not continue to advocate for an European Social Model, like the famous philosopher Jürgen Habermas, when authoritarian, postdemocratic neoliberalism is dismantling important parts of that model. But at the same it would be regressive to have a narrow focus of defense of social achievements on a national level. So the European left needs to reorient its strategies. And this will be my last point: Interruption. Banks and corporations are being saved at cost of everyone else. This is not only a new wave of wealth redistribution from the bottom to the top, it also intensifies the economic crisis without actually alleviating debt in any way. There should be a democratic consultation and decision-making process regarding the illegitimacy of the debt, a kind of debt tribunal or debt audit, like the one in Ecuador in 2010: what debts should be serviced at all and at what rate? How much should remain free for investment?

These are not problems exclusive to peripheral states. It would seem that a significant haircut comparable to a currency reform is necessary on a more general level, not just in Greece. In conjunction with more just tax policies that bind capital and the wealthy into financing public goods, in other word returning social surplus to the general public, the current forms of redistributive politics could be stopped and even reversed. This could make way for completely different policies. Rescue packages need to be geared towards a renewed social security for everyone and by everyone. This has to be based on solidarity not on private and individualized financial precautions, nor on a class divide within medical care coupled with poor service provision. It has to be in the spirit of a comprehensive idea of a social Europe with common basic standards and transnational social rights. Redistribution is an essential precondition of any left-wing politics. And the left has a lot of good concepts. But a debt audit could be a forum for a comprehensive approach beyond the experts, connecting the struggles. This is what movements struggle for. This has to be combined with an interruption. For a re-foundation of Europe from below – which is the position of the left parties – we need to construct a point of crystallization: taking up the movements' position a broad left is discussing to organize a constitutional process from below. The Institutions of the EU and of representative democracy as such are no basis for reforming. Thus we need a kind of re-foundation instead of the actual dissolution of Europe. With philosopher Walter Benjamin a debt audit and a constitutional process from below could be an emergency break of the catastrophic machine of cutting everything.

MARIO CANDEIAS IS CO-DIRECTOR OF THE INSTITUTE OF CRITICAL SOCIAL ANALYSIS AT ROSA-LUXEMBURG-STIFTUNG