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Economy

Europe: facing the “crisis of our time”

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During the 1930s, US president Herbert Hoover liked to say that recovery was “just around the corner”. During the current crisis and most especially in Europe it would be difficult to count the number of statements by leaders (Nicolas Sarkozy was a specialist at this) periodically announcing either the end of the crisis, or more prudently, for example after a European summit, that we are now on the right road.

The situation in June and July 2012 shows, if it were necessary, that nothing of the sort is true. After so many European summits presented as decisive, the Spanish bank crisis combined with the situation in Greece marks a new stage of the financial crisis in Europe.

At almost any time, there could be an acceleration of events in the Euro zone leading to a serious undermining of the single currency and a banking crisis. In this context, it is especially interesting to consider the possible trajectories of European construction.

The economic crisis cannot be reduced to the European crisis

An erroneous vision of the situation tends to be advanced by some economists and journalists: the current phase of the crisis would be linked to the financial difficulties of the Euro zone and this latter would imperil the whole of the world economy. Some leaders, notably those in the United Kingdom and US President Barack Obama, find it useful to project onto Europe the responsibility for the bad conjuncture in their countries. Thus the British Chancellor of the Exchequer George Osborne told the “Sunday Telegraph” on June 10: “our recovery – already facing powerful headwinds from high oil prices and the debt burden left behind by the boom years – is being killed off by the crisis on our doorstep.”

There is no doubt that the situation in the Euro zone amplifies the crisis but the latter is far from being summed up thus. In fact, as Alex Callinicos puts it in an article entitled “The crisis of our times” [\[1\]](#), there are three dimensions to the current situation:

- the weakness of US and European growth, showing that the initial causes of the crisis have not been surmounted: the accumulated weight of debt, uncertainties about the bank balance sheets, compression of wage demand;
- the paralysis of the main dominant classes of the Western countries torn by their divisions: ultra neoliberal Republicans vs. Democrats in the USA, divisions between countries in Europe;
- the end of the illusion that the emergent economies and notably China could come to the aid of the OECD economies.

The uncertainties about world growth have been confirmed by the new projections of the IMF published in mid July, 2012 which note that the recovery of the world economy is showing new signs of weakness.

The economic crisis cannot then be reduced to the European crisis. However, Europe certainly appears as the weak

link in the current configuration of capitalism. The Euro zone is indeed experiencing the most calamitous growth of all the big economic zones (-0.3% in 2012, +0.7% in 2013 according to the IMF projections) and its recession in 2012, through the slowing up of its imports, weakens world trade and thus the activity of other countries. It could be added that its financial crisis (the situation of the banks, public debt) increases world uncertainty.

A structural crisis of the Euro zone

Michel Husson's study "Political economy of the Euro system" analyses the current crisis of the Euro zone with regard to its structural contradictions. At the risk of being schematic, his reasoning can be summed up in three points:

1. The countries of Southern Europe have lost competitiveness because of high inflation of a structural nature. The latter stems from the process of catch-up (more rapid growth), the mode of training of employees in services and what he characterises in his text as a “distribution conflict” linked to income inequality.
2. The early years of the Euro allowed the countries of Southern Europe to benefit from lower real interest rates (that is, taking inflation into account) than the countries of the North and the possibility of “risk free” trade deficits. The situation changed with:
 - the policy of wage squeeze in Germany introduced by the Schroeder government (with the Hartz reforms) which improved German competitiveness and thus strongly reduced that of its partners.
 - the crisis and the policies implemented to deal with it, which have increased public deficits and the rate of indebtedness of states and seen the reappearance of external constraints through the interest rates the states have to pay to refinance themselves.
3. Resolving the debt problem would not deal with the structural difficulties resulting from the heterogeneity of the countries of the zone and the absence of sufficiently serious resources for a convergence policy (weakness of the community budget and so on).

These three elements are especially pertinent. We see now the consequences of the neoliberal turn of European construction. The European Union has always been in its very conception a project of capitalist integration but its development has involved a passage from “Keynesian” economic policies to a neoliberal mode of economic regulation. We can date this turn from the Single European Act, signed in 1986 and entering into force in 1987.

What potential trajectory?

There is however room for discussion around the conclusions that Husson draws from this analysis and concerning the potential trajectory of the EU. One senses some hesitations in reading the text. Husson specifies in his first paragraph that “there are only two responses adapted to the structural nature of the European crisis: either the breakup of the Euro system, or its radical refoundation. The others confine themselves to staggering the contradictions over time or programming a socially unacceptable regression”. At the end of the text he specifies: “the only coherent road is that of cooperative harmonisation. This would rest on a European budget based on a unified tax on capital incomes which would finance the necessary transfers (a harmonisation fund) and socially and ecologically useful investment”. He recalls correctly that the “sweet” variant of the dominant policies (in the manner of Hollande)

prolongs the current situation and leads to decades of adjustment imposed on the peoples of Europe. And finally puts forward a variant based on a national but non-nationalist rupture with neoliberal capitalism (with a reference to the programme advanced by Syriza during the Greek elections of 2012).

The debate here goes back to those of nearly a century ago. Leon Trotsky examined thus the possible outcomes of the First World War: “In the case of an “undecided” issue of the war, Liszt thinks the indispensability of an economic and military understanding of the European Great Powers would come to the fore against weak and backward peoples, but above all, of course, against their own working masses. We pointed out above the colossal hindrances that lie in the way of realizing this program. The even partial overcoming of these hindrances would mean the establishment of an imperialist Trust of European States, a predatory share-holding association. The proletariat will in this case have to fight not for the return to “autonomous” national states, but for the conversion of the imperialist state trust into a Republican European Federation.” [2]

We can discuss the concrete relevance of Trotsky's analyses of the time. But the concerns which underlie them remain pertinent. Certainly, as has been said above, the European Union is a capitalist project, and that has been strengthened with the Single Act and the Euro. But this does not reduce the illusory, indeed dangerous character of national inflections.

In fact, the question is: how can Europe, and more particularly the Euro zone, survive the crisis? This crisis is a “big crisis”, “the crisis of our time” as Callinicos puts it. We could specify the different potential trajectories as follows, trying not to mix the possible with the desirable:

- the realist scenario today implemented in the “German” manner is that of an adjustment based on “social savagery” and Hollande’s scenario is only a variant of it
- these hard line scenarios have a rationality (contrary to what many critical economist think) and they can succeed;
- but they can also founder on national and/or social contradictions and end up with a redrawing or complete breakup of the Euro zone.
- the capitalist “cooperative and European” scenario is unlikely;
- the most probable progressive scenarios are seemingly national ones, but they are not without risk.

The dominant scenario risks break-up

Economists of a progressive Keynesian inspiration tend to stress the limits and illusions of the austerity remedies summed up today by the macro-economic policies advocated by the European Union, for which the Troika (ECB, European Commission, IMF) now constitutes the strong arm. It is indeed perfectly correct that austerity weighs down on activity and public income and thus makes deficit reduction more difficult. But leaving it at this would be a superficial analysis. The economist Costas Lapavitsas has tried to shed light on the rational core of the German policy: “By insisting that everyone must “become German” they [the German leaders] are basically saying that countries with deficits should accept permanent austerity while applying permanent pressure on their workers. They are probably hoping that this would lead to a new equilibrium at a lower level of income across Europe, and perhaps after several years there might be renewed conditions for general growth, somehow”. [3]

In fact, as Yves Salesses has pointed out, the EU is without any doubt a capitalist Europe but it is not “the Europe of capital” in the sense that the big European companies are not the motor force of its construction. Big European capital, financial but also industrial, is globalising and alliances between firms are based on this logic. Rapprochements sometimes take place between European firms, not seeking to constitute “European champions” but above all with regard to the state of the world market. Generally, the links of these firms with national territories grow more distant. A significant part of their profits are realised on non-European markets and their nationality only becomes important in periods of crisis: to obtain aid; to have their interests supported in international trade negotiations; to see their sales facilitated by a President or Prime Minister transformed into a commercial traveller. The recent decision by Airbus to set up an assembly site in the USA (in Mobile, Alabama) is emblematic in this respect. It is about limiting the risks of losses linked to variations in the exchange rate of the dollar, and easier access to Pentagon contracts thanks to the jobs created. Also, Alabama is a state where trade union organisation is rendered difficult by local legislation [4]. Yet initially Airbus was a typical case of a European project initiated in 1969 by the French and German governments (after the British withdrawal).

From this viewpoint, the idea of imposing a budgetary straitjacket on the peoples of Europe and the challenge to their social model is rational. A first experience has been had in Germany with the Hartz reforms mentioned above which have strongly improved industrial competitiveness at the price of significant social costs and increased inequality.

As Lapavistas says, this scenario could well lead to a break-up of the Euro zone, even if the German bourgeoisie profits from its existence. If we make an analogy with the USA, at the end of the Second World War, the latter spent significant sums (through the Marshall Plan) building an international architecture which politically, militarily and economically suited them. One could imagine the bourgeoisie and the German state making a similar choice in Europe. That would suppose a little less austerity and more flexible rules for the functioning of the ECB and more so-called “stability” funds. That would limit, but not suppress (for the structural reasons given by Michel Husson), the risks of a redrawing or a break-up of the zone.

No European New Deal

The configuration of this possible rupture of the Euro zone would depend fundamentally on social resistance in the countries subject to enforced austerity policies. It is impossible to specify the modalities of this and the consequences which could be devastating for the zone as a whole. But for now, in line with the wishes of the dominant sectors of industry and finance, it is the hard line which prevails.

A European progressive “New Deal” which Michel Husson characterises as “cooperative harmonisation” appears to say the least improbable, as he says himself. There is for now no essential sector of the bourgeoisie which supports it and there is no effective pressure from the European labour movement in this direction. Certainly for the first time the European Trade Union Confederation has opposed a European treaty, rejecting the budgetary Treaty, characterised as a “permanent austerity treaty”. After the European summit of June 28-29, 2012, its general secretary Bernadette Ségol said: “The banks will perhaps be saved, but we see nothing which will save wage earners. The pact for growth envisages nothing new”. but there is a gap between such statements, more radical than in the past, and the preparation of movements of European employees as a whole. Movements which would go beyond days of action or demonstration tending to substitute for strikes and faced with which the governments are not ready to make the slightest concession (as has been shown in Spain and Portugal).

Thus to the great chagrin of those who see it as the sole rational solution, there will be no New Deal at the European level, without unexpected developments. And the radical opponents of neo-liberalism and capitalism are too weak and too uncoordinated at the European level to press radical solutions. The global justice movement is no longer capable of demonstrations like that in Genoa in 2001 which brought together youth and workers (and was subject to

strong police repression). The movement of the indignant has for the moment serious difficulties in accumulating enough forces to regain the offensive.

Towards national crises?

There remains then the hypothesis of “big national crises” which lead, in some states, to a situation where those who rule can no longer govern as before and those they rule can no longer bear being oppressed as before. Among the European bourgeoisies there will be winners and losers from austerity policies and globalisation: the winners in the most internationalised sectors, the losers, for example, in the small and medium enterprises, some liberal professions and the state or regional bureaucracies. The challenge to social gains, the dismantling of the right to work, will weigh on all. Greece gives of a foretaste of what such a crisis could look like.

In such a situation several camps would face each other, as in Greece today: those ready to continue to play the card of austerity in the context of the EU, nationalists and anti-capitalists (with of course at the political level many intermediary nuances). The anti-capitalists should be in a position to exert weight and rally a social and political front, both through their radicalism and their ability to provide a solution in terms of political power and the management of society. For Europe, they should make themselves the bearers, as Michel Husson puts it, of “a unilateral rupture with the actually existing Europe in the name of another project for Europe”. That would suppose unilateral measures, in contradiction with the European treaties, both to improve living conditions and set up the bases of a social and ecological development, but simultaneously with the will to aid mobilisation in other countries, broadening the process begun in one state. All this without falling to quote Trotsky’s “Programme for Peace” again, into social patriotism: “it must not be forgotten that in social patriotism there is active, besides the most vulgar reformism, a national revolutionary messianism, which regards its national state as chosen for introducing to humanity “socialism” or “democracy,” be it on the ground of its industrial or of its democratic form and revolutionary conquests”. Because it is certainly another kind of Europe that needs to be built.

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[1] Which can be found on the site of the South African magazine *Amandla!*: <http://www.amandlapubl...>

[2] 6. Leon Trotsky, “The Program for Peace” <http://www.marxists.org/archive/tro...>

[3] “Interview: Working people have no interest in saving the euro” <http://www.isi.org.uk/index.php4?id...>

[4] “I think it’s extremely unfortunate that a company that has been as successful as Airbus with a fully unionized workforce is choosing to go to a ‘right-to-work’ state to build that plant. It doesn’t make sense”, said Paul Shearon, Secretary-Treasurer of the International Federation of Professional and Technical Engineers [(<http://www.reuters.com/article/2012...>