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European Union

A new social war is opening up

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1. Since May 8, 2010 - i.e. the emergency meeting of the European Central Bank (ECB), ECOFIN (finance ministers of the EU) and the International Monetary Fund (IMF) held in order to establish a rescue plan for various countries of the EU - all the governments are announcing plans for budgetary austerity "to save the eurozone". A class war on a new scale has been declared in Europe: what remains of the social state, resulting from the period following the Second World War, must be dismantled, except for a "social safety net" of the World Bank kind.

On May 10, a British banker found a good political formula: "It is easier to sell such a plan by saying that it must be used to save Greece, Spain and Portugal, than to admit that it must first of all save and help the banks." These banks (German, French, Spanish…) held a mountain of titles of national debt of the "shaken" countries (Greece, Portugal, Spain…). According to Citigroup, the exposure of US banks to Greece, Ireland, Italy, Portugal and Spain amounts to some 190 billion euros. Friday May 7 was a massacre: there were no takers for the banks and other investors who wanted to get rid of their bonds. "There was no more market", as an operator at the ECB admitted, under cover of anonymity. And the balance sheets of the banks still camouflage mountains of toxic products, evaluated at an artificial price. The German banking control committee (Bafin) estimated at 800 billion dollars the "toxic products" still held by banking institutions (*Financial Times*, May 24, 2010).

Do we have to recall that out of the 16 members of the eurozone, only six are favoured - if we can use this verb - by the credit rating agencies with an AAA rating? They are Germany, Austria, Finland, France, Luxembourg and the Netherlands. A kind of "hard core" - the AAA club – of the eurozone, even though France is sometimes regarded as being on the borderline of this domain where Germany has eloquent power.

Besides, such a rating allows the French Treasury Agency (AFT) – the agency that manages the French national debt - to issue a loan of 5 billion euros repayable in April 2060, so 50 years from now, approximately 90 per cent of which was taken up by non-French investors. On May 21, 2010, the most reputable French Government loan – the Assimilable Treasury Bond (OAT) - found borrowers who accepted an interest rate of 2.9 per cent. Which might provoke some reactions in Greece, when interest rates on "its" 10-year loans turn around 10 per cent. And Greek bonds expiring in March 2012 had a gross return of 7.27 per cent, compared with O.61 per cent for those of France (with the same maturity) (*24 Ore/Il Sole*, May 24, 2010). Between the economies of the "centre of the EU" - or quasi in the centre, like France - and those situated on the periphery, the difference is clear. The discourse on European convergence has taken a blow.

2. Similarly, there is the demonstration of one of the functions of the euro: it has become a currency that has acquired an important place… but in the international bond market. And thus, in the possibility of the markets (i.e. various financial investors), as creditors, exerting strong pressure on debtors. Some two thirds of French debt is acquired outside France. Admittedly, it is possible that French capital that has taken refuge in Luxembourg or in Switzerland also represents a fraction of the purchasers of this debt.

On this subject, we can examine the graphic "Web of Debt" which was published in the *New York Times* on 2nd May 2010. Banks and governments in the five shaky economies (Greece, Italy, Portugal, Spanish, Ireland) owe each other many billions of euros and have even larger debts to Britain, France and Germany. Arrow widths are proportional to debt amounts. The figures are from the Bank for International Settlements. It illustrates the amounts of the national debt and the intertwined dependences of the debtors-creditors of the various countries of the European Union. This evolution, which has been accentuated in recent years, represents the liberalization of capital flows as well as the take-off of "credit-debt" aiming at responding to the difficulties of reproduction of the capitalist system and

capitalist society.

A theme the substance of which was explained by Marx in Book III of *Capital*. Marx insists there on the fictitious capital nature of title-deeds to debt [1]- fictitious, but quite real. This fact sheds light, in part, on the "vast cuts in public expenditure", one of the conditions for creating a primary budget balance making it possible to face up to the "weight" of a debt which represents, to some extent, a socialization of the losses of "private economic actors".

3. So on the level of political discourse, the period of the G20 in September 2009 in Pittsburgh is certainly over. At that time Sarkozy proclaimed: "We need to re-found capitalism", "We have to wring the neck of speculation". The markets - i.e. the banks, the financial investment funds, the pension funds, the insurance companies, the big highly globalized transnational firms – have simply demonstrated who is really in charge.

The scenario is pretty clear. Banks, insurance companies and investment funds were saved from bankruptcy in 2008 by governments and thus by workers-taxpayers. Since 2009, these financial actors have again been doing good business. Banks and hedge funds - which compete strongly with each other on the international level - want to neutralize a possible - and even anticipated – fall in their incomes from shares and dividends, because the revival is very weak. To do that, they have an essential objective: to ensure that they can pocket interest on the national debt and consolidate profits resulting from speculative operations on currencies (volatile foreign exchange rate) and on debts (bonds). One of the speculative strategies (of attack and anticipation) consists of short-selling government bonds of the most vulnerable countries - without owning them and by acquiring them in the form of loans from those who have them in their portfolios. The operation is carried out, in general, in two phases. For example, you sell 5 million euros of government bonds at 88.76 euros, thus taking in 4.3 million euros. Then, three days afterwards, once the price has gone down to 87.76 euros, you repurchase them, gaining the difference between the two prices, minus the commission paid for borrowing these bonds. The operations with CDS (credit default swaps) are of the same type.

4. From this point of view, Paul Krugman is correct when he explains why, contrary to the sacred official doctrines, the attraction of investors for US 10-year Treasury bills - whose interest rate was at less than 3.3 per cent on Friday May 21, 2010 - originated in: "The rise of pessimism concerning the prospects for an economic recovery, pessimism which meant that investors moved away from anything which appeared risky to them, to take refuge in the apparent safety of US government debt." (*El Pais*, May 23, 2010).

That the generalized austerity adopted in Europe - at a time when the economic revival is wishful thinking – is leading to an economic and social depression, as various not very heterodox economists recognise, does not enter into the concerns of the "operators". This concern belongs to the governments - of centre right or centre-left - which will either have to rely directly on the bureaucratic trade-union apparatuses, or use their "hesitations" to purge the system and to get the purging accepted. All this while evoking "national unity", "saving the country", "the necessary productive and administrative modernization", because the force of the coming shock will destabilize quite a few people.

5. In December 2009, the Monthly Bulletin of the ECB, in its leading article, already affirmed two priority goals for the EU. The first: flexibilise industrial legislation in Europe. The IMF, in its report on Greece, dating from May 2008, insisted with force on this same objective. Let us translate: liquidate the remaining labour laws, this in a context of unemployment and more and more precarious employment, in order to reduce "wage costs". The second: the Draconian reduction of public deficits and debts. This in a very short time and massively: to go from a deficit of -14.3 per cent of GDP in 2009 in Ireland to -2.9 per cent in 2014; from -11.2 per cent in Spain to -3 per cent in 2013; from -9.3 per cent to -2.8 per cent in 2013 in Portugal. Which means reducing public services (education and health, etc.), the wages and the number of those employed in the public and semi-public sector, and retirement pensions. And favouring privatizations in certain sectors, with the possibility of testing their profitability during a period of public-private participation (PPP).

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Romania is already providing an example. From June 1, 2010, wages in the public sector will fall by 25 per cent and pensions by 15 per cent. This is in a country where the minimum wage is approximately 150 euros per month! The experiment was conducted with similar energy in the Baltic States.

6. The hysteria of the "experts" against the deficits passes over four elements in silence. Firstly, the origins of public deficits and debts, i.e. the crisis of 2007-2009, the rescue of the banks and assistance to industry and construction. Secondly, without these shock absorbers (public expenditure and social transfers), the drop in GDP in France would not have been 5 per cent but 10 per cent. Thirdly, the reduction of the public deficit in Sweden in the 1990s - always quoted as an example - was possible because of the economic growth during that decade and because the social transfers started from a very high level. Moreover, Sweden could devaluate its currency (the crown) in order to export. And it had export capacities. Fourthly: but Greece, Spain, Portugal… do not have monetary sovereignty (to devaluate and increase the money supply) and, in the euro area, there is no common and "solidarity-based" economic and budgetary policy. Their "sovereignty" is put in question, such as the elementary right to define their budgets which expresses, in its way, a "choice of society".

On the other hand, today, a general austerity policy is imposed by "the markets" and the ruling classes of the countries of the centre of the EU (Germany with its hinterland and its allies), with a particular burden imposed on the populations of the "peripheral" countries. And this is done in the name of re-launching an export dynamic. It will be based on the contraction of direct and indirect wages, with the objective of reducing unitary labour costs.

One wonders how in all the countries of the EU, together, wages can be cut and unitary labour costs reduced, in order to increase revenue from exports in order to face up to the burden of the debt. However, exports essentially take place within the EU. A selective cannibalism is being put in place.
This is a choice of German capital (and its close allies) which, on the one hand, use to their advantage the international division of labour within the EU and, on the other hand, plan to move, gradually, the centre of gravity of their exports away from the EU, while gaining market shares within the EU.
This policy of competitive social deflation will lead to millions of social casualties. It will impose decisions which completely ignore the most elementary rules of bourgeois parliamentary democracy.

However, the ECB (European Central Bank) accepts the devalued titles of public debt which the banks hold. And these banks get themselves refinanced by the ECB at less than 1 per cent of interest rate and continue speculative operations on debt and currencies.

7. The *New York Times* (in an article by Steven Erlanger) of May 23, 2010, writes on its front page: the "European social model" is being challenged. What is at stake in the coming battles - during this war - is above all social and political. It is the European working class which has the greatest socio-political traditions - despite all the past defeats - which is the target.
Unitary defensive mobilizations - refusal of cuts and rejection of the debt (with opening of the books, both public and private), a different tax system, etc. - are decisive. This is necessary in order to accumulate forces and to give workers the feeling that they have the power to resist and counter-attack. Not to suffer the numbing effect of "shock therapy". Following on from there, elementary and essential questions will come to the centre of the political stage.

We can formulate them as follows: in order to direct investment towards the production of goods and services meeting social and ecological needs, it is necessary to have control by workers over the resources that they produce; a democratically controlled public banking service; control over the operations of enterprises, over the appropriation of wealth and its distribution, and a reduction of working time. So: what are the priorities that European societies adopt?

The difficulty of the situation should not lead us to renounce a socialist perspective, at bottom the perspective of the

Socialist United States of Europe.

Furthermore, such a perspective is rooted in the problems that the workers are encountering. Failing that, it cannot be excluded that after a certain time there will be a dramatic reversal of the political situation.

Lausanne, May 25, 2010

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[1] "The accumulation of the capital of the national debt does not mean anything other [...] than the development of a class of creditors of the state, who are authorized to take for themselves certain sums from the total amount of taxes raised[...]. These facts show that even an accumulation of debts manages to pass for an accumulation of capital [...]. " Karl Marx, *Capital*, Book III, Tome II, pp.138-139, Éditions sociales, 1959. In other words, the money lent to states by their creditors is duplicated by the title-deeds which represent it: bonds, Treasury bills, etc. These title-deeds duplicate this money, but, as it is spent mainly in an unproductive way - to pay the interest on the debt, for example - they do not even represent functioning capital. These title-deeds are only fictitious capital. The states thus create fictitious financial capital. But those who govern these states denounce irrational financial "exuberance"! However, the growth of the national debt originates in the difficulties of reproduction of the capitalist system and capitalist society. On the one hand, the rescuing of banks which are on the verge of bankruptcy – and which have inflated the mass of credits, and therefore taken part in the increase in fictitious financial capital, as so many private economic agents - and aid to "private sectors" in difficulty (the car industry with its subcontractors, the building industry). On the other hand, "social expenditure" to absorb the effects (in terms of demand) of recessions and to aim at stabilizing the government in power. However, today, it is these social shock absorbers which are being attacked. Priority to the creditors! This is a social and political test on a historical scale on the European level for the ruling classes… and for the working class.

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