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Economy

**For a Federal United Eco  
Socialist States of Europe:  
Another world is possible but  
not through reforming the  
European Union and staying in  
the Euro!**

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**Michel Husson** [1] in more general broad terms and **Ozlem Onaran** [2] in more concrete ones put forward a strategy for solving the crisis in Europe. Michel's is a first shot across the bows at how to tackle the European wide crisis that has evolved from the summer of 2007's global crisis of credit. Ozlem's contribution seeks to answer one of the critics of Michel's suggested strategy, **Costas Lapavistas** [3], while putting some meat on the bones of Michel's outlines.

There is much to admire and agree with about Michel and Ozlem's analysis of the roots of the crisis and we have offered a similar analysis [4]. There is also much to agree with on the solutions to the crisis: full public control and ownership of the banking system; progressively taxing the rich and wealthy and corporations; opposing all the austerity measures that Europe's ruling class is trying to impose on the working class, students and poor of the continent; and a debt audit to identify the source of the debt, its legitimacy and where the debt is held.

What we disagree with is the political premise, which suggests reform of the European Union in a general anti-capitalist direction while staying in the Euro is both possible and desirable. It is also claimed that staying in the Euro is more "European" and will strengthen internationalism rather than accommodate to an anti-European, rightward, nationalist shift.

Also, they argue, staying in the Euro will shield the working class from setbacks and defeats while fending off financial speculators. In addition, there is the implication that general blanket demands such as default should be raised in all the countries of Europe. Some Eco Socialist slogans have been added to make the whole project appear more appealing.

There are several problems with this approach.

The anti-capitalist demands that they propose are not compatible with membership of what is essentially a neo-liberal institution such as the EU. If any country followed such a programme they would be thrown out.

Some have argued that it is better for tactical reasons to be thrown out of the Eurozone rather than leave because the left should not associate itself with reactionary nationalist forces, who also campaign to leave. Of course we should denounce right wing nationalism and argue that the working class maintains its independence from them, but their position assumes that staying in the Euro and in the EU is somehow neutral. We disagree with this because the EU is a neo-liberal capitalist club that not only facilitates and imposes massive austerity on the weaker economies in Europe, but is also deepening the inequalities between the larger economies and the smaller economies in the interests of French and particularly German capitalism.

Membership of the Euro does not protect the working class from epoch-defining defeats - quite the opposite. The Euro is the umbrella that the ruling classes are using through the EU, together with the IMF, to impose a massive austerity attack on the European working class to make them pay for the crisis. If it succeeds then the European working class will have suffered an historic defeat. As we have pointed out previously they do not face up to the fact that the contradictions of the Eurozone mean it cannot be reformed but needs to be broken up. [5] The Marxist economist Ernest Mandel pointed to these likely contradictions and consequences in 1992. [6]

Nor does the general demand for a debt default recognise the diverse sets of circumstances across Europe. Where this is a credible demand in the smaller near bankrupt economies, Greece, Ireland and Portugal, we can support it,

but in most of the major economies of Europe a default is first of all not necessary, as there is sufficient wealth through the banking system and in the rich corporations to avoid one, and second It fails to recognise the likely effects the general call for a default would have if implemented on the global financial system – a second credit crunch and depression as happened in the 1930s. That historic crisis was mainly due to major European governments' defaulting on their debt. [7]

There is no recognition of the effect a default would have on jobs, rapidly creating mass unemployment, and on the working classes' pensions as the bulk of these pensions are invested in government debt. That is why a debt audit is vital: Toussaint's six demands for Europe [8] address some of these shortcomings with dispensation for public holders of the debt. But it does fail to recognise the effect that a generalised debt default across Europe would have on the financial system.

In our view, the left should not be associated with demands that would have such serious and immediate consequences for the working class. It is not the job of Marxists to put forward demands that would immediately deepen the capitalist crisis in a way that would further batter working class living conditions. The consequent freezing of world credit and rapid descent into slump that would result from a default of a major economy would not create the best conditions for a fight-back, as the catastrophe of the 1930s has shown us. Our task is to put forward anti-capitalist demands, including transitional demands that would defend jobs, services and living standards and lead in the direction of revolutionary solutions to the crisis. Only this would be in the interests of the working class.

As Ernest Mandel stated : “For revolutionary Marxists, this, conflict is a typical inter-imperialist competitive struggle in which the working class has no reason for supporting one side against the other. [2] To the policies of both sides, they must counterpose the struggle for a Socialist United States of Europe, for a really unified Europe which could effectively surmount the antagonisms bred by capitalist competition; that could only be a Europe which has abolished both capitalist property and the bourgeois state. It is not by accident, moreover, that the present crisis in the Common Market coincides with a slackening of economic expansion which could be the preliminary signal of an opening recession in all capitalist Europe”. [9]

Also, Ozlem overestimates the popularity of a general default demand in the major economies. The NPA in France, which has raised this demand is a significant formation but has membership of only a few thousand and is not a mass party with mass influence. Default on the debt would not be understood in rich counties like France, Germany or Britain.

More importantly, membership of the Euro has not protected counties from financial speculation; quite the opposite is the case. The financial markets can see the contradictions in the Euro that we have pointed out. They have seen that the peripheral countries would need a bailout and bet against their governments and corporate bond and share markets until the point of the bailout is announced. They can also see defaults coming and are betting now that these will happen.

Greece was the subject of derivative manipulation to hide its deficit to meet the budget conditions to enter the Euro. The investment bank responsible for these derivatives tipped off its hedge fund clients about the cover up and they speculated against Greek debt. [10] The way to end speculation is in fact to leave the Euro and deal with debt swiftly either through default as in the case of the peripheral countries or in the case of the major economies through taxing the rich and taking control and ownership of the banking system and setting out an orderly plan for dealing with the debt.

Without full control and ownership of the banking system even a debt default by a country like Greece would see a freezing of credit, leading to a deeper recession and big losses to workers' pensions because the majority of a country's debt is held by domestic banks and domestic pension funds.

In fact sections of the European ruling class [11] are setting the scene for defaults by the periphery countries because they realise that the losses will be mainly borne by these countries themselves and the effects across the European banking sector would be minimal. They think it better to have an orderly default rather than spook the markets with a sudden one.

Many capitalist economists think the break-up of the Euro is inevitable and countries such as Greece would be better outside it. [12]

Attempts at putting forward proposals that reform the European Union lead Ozlem into dangerous territory. There is much talk of socialisation, a term associated with the public bearing the losses of the financial system, rather than outright public ownership and control.

Ozlem advocates improving productivity in the periphery countries as a solution that is shared with the ruling class as they seek to heap the blame for the crisis on the periphery countries' working classes for not working hard enough. Portugal's problem is not that it is uncompetitive but that it came into the Euro with its currency at too weak a level. This has seen its economy under perform compared to the major European economies and unemployment rise since it entered the Euro. [13] Leaving the Euro would see its economy become more competitive and allow it to fully utilise its food production potential. Becoming self-sufficient in food and improving its competitiveness would boost exports and reduce the amount of imports making it less vulnerable to importing inflation. This of course would not in itself be a long-term solution for the working class.

But those who say leaving the Euro would leave to economic isolation by the EU erecting trade tariffs misunderstand their use. These tariffs are in general a reaction to other major trading blocs e.g. the USA and China putting up barriers to European trade. [14] This argument also ignores the fact that states such as Britain while outside the Euro still have the Eurozone as their major trading partner. But a country leaving the Euro would be moving in an anti-capitalist direction and would seek to develop different trading relationships with other countries which are moving in a similar trajectory based on an exchange of goods to meet basic needs.

Finally, Ozlem advocates increasing pension payments while implicitly advocating cuts in pensions through defaults instead of looking to alternative retirement provision.

This is not to say that independence from the Euro and the EU will solve the problems of these economies, but it will create better conditions: a weakening of pan-Europe capitalism, greater clarity and transparency, for the working classes in these countries to begin to deal with their own ruling classes. Rather than being an isolationist policy leaving the Euro and breaking up the European Union while putting forward radical anti-capitalist solutions will lead to more, not less international solidarity across Europe. Self-determination is essential for real international solidarity. It will inspire workers in other countries to follow and lead to the break-up of what is the major neo-liberal block in the world.

As socialists we would welcome the break-up of Britain by supporting demands for Scottish and Welsh independence because we see it as a step to breaking the British capitalist state. The same is true for the break-up of the Spanish State. Socialists should welcome the break up of the Euro zone and European Union. Both are key steps to creating an alternative, federal Eco Socialist Europe. Workers in England, Germany and France will see that there is a way to break the grip of European capital and its ruling classes and move in an anti-capitalist direction.

To stay in the European Union and the Euro the periphery countries in particular will see immigrants blamed for the austerity and very high levels of unemployment, which is already happening, while in the major economies we will see a strengthening of the political right as their populations face cuts to fund bailouts of the periphery countries.

These are the contradictions of the Euro that are not sustainable.

The European Union and the Euro are tools to manage the crisis in the interests of capital and protect banks from collapsing with the debt on their books. They are not the framework for progressive policies and Eco Socialism to be pursued.

Debt is not just an issue in the periphery but across the larger European economies too. The EU is now swinging into fighting inflation by raising interest rates – the first amongst the major mature economies to do so. The EU is dominated by the needs of Germany that has benefited from being a major manufacturing economy and by Chinese demand for engineering goods to be used in infrastructure projects. The German ruling class has improved the rate of profit by attacking German workers' wages and conditions.

Attacks on wages and conditions and budget restraint (massive cuts) are not as easy in other parts of Europe. But that is what the EU wants to do as its conditions for bailouts to the periphery countries. Is that what Ozlem wants? To punish the periphery countries and raise the cost of borrowing, slowing economies and creating bigger debts and deficits? This will have a major impact on Spain that has high exposure to variable mortgages. With 21% unemployment and a rise in interest rates Spain will be exposed to more house price falls and more real losses for the Cajas (Spanish building societies) which will eventually lead to more state bailouts for them and bring a Spanish bailout closer, with all its consequences for the Spanish working class.

Rather we should focus on key demands that can unite the working class across Europe and put a stop to austerity now.

These demands should include:

• leaving the Euro which would help lead to the break up of European Union and defaulting on unsustainable debt for periphery countries faced with EU/IMF imposed austerity. This would allow the working class of each country to face up to their own domestic and weaker ruling class. This would not be a move to save capitalism but to weaken pan-European capitalism and break it at its weakest links on the periphery; and it would be part of a series of anti-capitalist demands which we expand on below that could lead to the construction of a socialist economy and society;

• a full debt audit, overseen democratically, to reveal who is responsible and who holds the debt;

• taking banks under public control and ownership that can nullify a credit crisis in defaulting nations and provide resources to cancel and pay off large chunks of debt in major economies; Financial resources could then be directed to useful, green, planned investment.

• alternative retirement provision which means pension fund debt can be cancelled without a loss to workers – basic needs met through free on-retirement: housing, utilities, transport, basic food, education, health, culture and sport;

• a wealth tax on the superrich and a progressive tax on better off, increased corporation tax and a clampdown on tax avoidance;

• build green sustainable economies – free public transport, renewable energy, stop nuclear power, self-sufficient food production and distribution taking these industries under public control and ownership, sustainable affordable

social housing;

â€¢ encourage the exchange of goods and services across Europe rather than neo-liberal trade and become more self-sufficient and green through internal production for need rather than profit.

This is the way that we can begin to create a real internationalist Federal United EcoSocialist Europe based on the institutions and relationships created by the working class and their allies through their struggles against the neo-liberal austerity policies of the European Union and the Euro. It will be based on new equal relationships and forms of power. Not ones based on the rule of Europe's finance capital and its multinationals.

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[1] [A European strategy for the left](#), Michel Husson December 2010.

[2] [An internationalist transitional program towards an anti-capitalist Europe](#), Ozlem Onaran, April 2011.

[3] [A Left Strategy for Europe](#), Costas Lapavitsas, April 2011

[4] [Sub-Prime Driven Recession: Coming Soon To a Neighbourhood Near You](#), Raphie De Santos May 2008

[5] [Will the Euro Survive](#), Raphie de Santos, October 2010 and [Boom to Bust](#), Dave Packer and Fred Leplat, March 2011.

[6] [Why Keynes isn't the answer](#).

[7] E. Borenztein & Ugo Panizza: 'The Costs of Sovereign Default, IMF Working Paper,' October 2008, concluded that sovereign defaults tended to cause banking crises rather than be caused by them. The current situation is different, and like the 30s, in that we already have a banking crisis, but this time the risk of default has been caused by the banking crisis and its bail out while in the 30s the debt had been accumulated by the cost of the First World War. Today we risk a double whammy, which will have an effect not just on US banks but banks globally. We have already seen through the sub-prime and Lehman's crisis how global and interconnected the global financial system is (much more than in the 1930s) with a much greater and more immediate impact on the global economy.

[8] [Six demands for Europe](#), Eric Toussaint, April 2011.

[9] Ernest Mandel [Crisis is the Common Market](#).

[10] <http://www.businessinsider.com/goldman-sachs-shorted-greek-debt-after-it-arranged-those-shady-swaps-2010-2>

[11] [Greece might need debt restructuring](#).

[12] [Greek deal may collapse](#) and [Greece restructure debt](#).

[13] [Portugal: The prospect of a full bailout and more austerity looms in 2011](#), Raphie de Santos, January 2011.

[14] [Generalised system of preferences](#).