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Europe

# Radicalisation of the financial, economic, social and political crises at the European level

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**On Sunday November 21, 2010 Irish prime minister Brian Cowen formally requested international assistance from the European Union (EU) and the International Monetary Fund (IMF). Subsequently, EU finance ministers gave their agreement in principle on condition that a drastic austerity plan was implemented. Throughout the week speculative attacks against not just Ireland but also Portugal - in spite of the announcement of a new austerity plan - and Spain intensified. Five months after Greece, the "rescue" of Ireland marked the beginning of Act II of the Euro crisis and opened a social-political sequence which looks particularly agitated.**

Liberalised finance – which is nothing other than the power of capital magnified by its centralization – is unleashed against the peoples of Europe. The rickety institutional arrangements of European construction are cracking, giving credibility to the scenario of a dislocation of Economic and Monetary Union. Among employees, the structural deterioration of the relationship of forces in favour of capital prevents any adequate reaction to the attacks. However, the synchronization and brutality of anti-social measures across the continent open the possibility of a wave of European mobilisation, opening a small window of political opportunity.

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## **Ireland, Portugal, Spain, seemingly dissimilar situations**

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Ireland was the teacher's pet of the neoliberal school: champion of fiscal dumping, it was far advanced in terms of liberalisation of the labour and investment markets and very rigorous in its public budgets - it had a budgetary surplus in 2007! Following this model, the country's economy experienced a real boom for two decades, bringing it up to second place - behind Luxembourg - in terms of GDP per capita. This performance was obviously misleading: in 2007, the country fell to fifth place in terms of GNI (Gross National Income) i.e. when the profits exported by the multinationals were subtracted and it fell to tenth place in terms of standard of living (median income). Nevertheless, this illusionary growth reflected a real economic dynamism. The recipe? Attracting multinational companies – particularly U.S. companies in the IT sector - by providing a gateway to European markets on extremely favourable terms. Secondly, the rate of household and banking debt favoured the establishment of a housing bubble following a similar logic to that of the subprime mortgages in the United States. With the international financial crisis of 2008, the bubble was brutally deflated. The country was then weighed down by a large private debt leading its banks to bankruptcy. And if Irish public finances were affected at a staggering level - a deficit of 32% of GDP in 2010, as against the threshold of 3% set by the Maastricht Treaty - it was because the State assumed responsibility for the bad debts of its banks in order to guarantee the repayment of their creditors who are mainly large European banks, first and foremost British ones. In short, Irish citizens must pay for undue risks taken by private actors.

The situations of Portugal and Spain are different. These two countries have not yet had recourse to the EU and IMF, but might do so very soon. In the case of Portugal, the country has low growth and trade deficits indicating low competitiveness. The pre-existing public deficits have grown quickly with the crisis without any prospect of being rapidly filled. In Spain as in Ireland, the management of public finances has been very rigorous but private debt has exploded and fed a growth mainly led by a housing bubble. Now that the latter has burst, activity and therefore public finances have plunged into the red while the Spanish banks are undermined.

Beyond these circumstances, the “rescues” which have either taken place (Ireland) - or are predicted (Portugal, Spain) - are part of a broader story: the shockwaves of the global crisis striking against an incoherent European institutional architecture; while imbalances sharpen, to the point where they crack the edifice, governments - paralyzed by their competing interests - submitting their peoples to a dictatorship of finance whose social violence is unleashed by the losses ahead.

## Public finances strangled by the financial markets

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The crisis of the public debt inside the Euro zone is of course a replica of the financial explosion that shook the world economy starting from September 2008. By bringing about a rapid contraction of credit, this initially financial crisis stifled economic activity in most countries. With the resultant decline in tax revenues, the fragility of public finances in the European peripheral countries appeared in broad daylight. Likewise, the banks of the countries hardest hit also saw their bad debts explode. In anticipation of the possibility of a default, the markets then demanded to be paid still more to accept lending to these countries. In addition, many investment funds profited by gambling on these defaults, including via the securities insuring these debts, the Credit Default Swaps. The game of speculation thus feeds by itself the increases in interest rates... and thus the risk of payment default.

Since they are forced to finance themselves on the international financial markets - European treaties prohibiting the European Central Bank from financing them directly - countries are required to pay ever higher interest which encumbers still further their public finances. Thus, on November 26 markets demanded a return of 11.89% to purchase Greek securities, 9.37% for Irish securities, 7.317% for Portugal and 5.21% for Spain compared to 2.74% for German public debt securities, considered the safest. Such rates imply that already over-indebted governments are in practice unable to finance themselves on the markets. In fact, since the rate of increase in interest rates is higher than the rate of inflation, debt increases mechanically. This is what might be called the snowball effect. From this point of view “rescue” plans are a poor recourse: the aid to Ireland will be at a rate of about 6%, compared with 5.2% for Greece in May. Such a rate is all the more shocking when at the same time the European Central Bank provides liquidity to banks at a rate of approximately 1%!

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## The generalization of austerity

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To please the markets and to attempt to reach less extravagant levels of borrowing, governments first on the periphery and then across the EU adopted policies of austerity during 2010. The recipes are always the same: sharp cuts in public budgets and increases in the most unfair taxes, such as VAT where everyone pays the same rate on consumption regardless of income. In the case of Ireland, the plan announced on Tuesday, November 23 (the third since the beginning of the crisis) provides for a reduction of 10% in family allowances, the abolition of 25,000 civil service posts, a one euro cut in the minimum hourly wage, and increased VAT and income tax. Only taxes on corporate profits remain unchanged at the scandalously low level of 12.5% (compared with 33% in France and 27.5% on average in the EU). It must be said that on the eve of the announcement of austerity measures, the directors of

Microsoft, HP, Google, Intel, and Bank of America Merrill Lynch addressed the government to oppose any such possibility, making barely veiled threats of relocation [1]. In Portugal, public sector wages will be reduced by 5% on average, with pensions frozen, while taxes will be increased and social benefits reduced.

The generalisation of austerity across Europe - and not only in the countries of the periphery - marks a sharp reversal of economic policy in 2009 when recovery was the theme. This synchronization is still worse in that each state depresses its own demand when external demand for its products is also undermined by austerity in neighbouring countries. Thus, Ireland, Greece and Spain as well as Latvia and the Lithuania experienced in 2010 a continuation of depression. At the same time unemployment spreads. In September 2010, it stood at 9.6% for the EU as a whole (10.1% for the Euro zone) - but it reached 10.6% in Portugal, 14.1% in Ireland, 12.2% in Greece and 20.8% in Spain - and everything indicates that it will worsen in 2011.

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### The inconsistency of European institutional architecture

The European governments' untenable bet is that the most fragile countries will succeed in paying their debt. The transitional mechanism designed immediately after the rescue of Greece to reassure the markets - we see with what success! - provided a single solution to potential crises through which European countries would provide emergency funding in connection with the IMF in exchange for a deficit reduction program. On November 28th EU finance ministers outlined a new mechanism which provides that countries in difficulty should renegotiate their debt via a rescheduling or a partial cancellation. Clearly, their creditors should bear a portion of the losses. This new mechanism, however, does not change much in terms of the current crisis because it concerns only debt securities issued from 2013 and therefore repayments which could be renegotiated will not take place before 2016.

Yet the prospect of such an eventuality poured oil on the flames in recent weeks. The markets, which do not intend to concede a penny, have anticipated that if they were to get paid at any time, they might just as well do so earlier. Therefore, they have demanded higher returns. This market reaction also shows that they do not believe in the fables of governments on the ability of vulnerable countries to pay current debts. From a strictly economic standpoint, and without changing the existing institutional framework, things are squalidly simple: without the possibility of devaluing their currency - which would end their participation in the Euro - and without any European tax redistribution mechanism as exists in nation states or federal states, these countries have no opportunity to adjust other than by generalized lower salaries and expenditures; and even in this case, it is not very probable that the gains in competitiveness they could thus achieve will arrive in time to enable them to maintain themselves in the neo-liberal yoke of Economic and Monetary Union. As a fund manager bluntly put it in relation to Ireland: "the question is knowing how long the people will endure being burnt alive like this" [2].

## Synchronization of social and political crises across the continent

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The week of November 22-28 probably gives a taste of what 2011 might look like when widespread austerity wreaks its effects on the continent. A general strike in Portugal on Wednesday 24, student demonstrations in Britain and Italy, a huge protest in Dublin on Saturday 26. Mass mobilizations accompanied by spectacular actions such as the occupation of the Conservative Party headquarters in London, an attempt to enter the Italian Senate and the intrusion on the residence of the Prime Minister in Dublin. Barely a few weeks after the great movements of autumn 2010 in France, resistance develops at a European level. Given the magnitude of the attacks of which a detailed inventory

should be drawn up country by country, there is nothing surprising about this. But the hardest part is to come: most of the measures adopted in 2010 will make their effects felt only in 2011. In most countries, governments, whether they are right wing or social-liberals (if this is still has a meaning), are politically very weakened, and it does not seem unreasonable to imagine that they will not be able to cope with the broad social shocks that these attacks might cause. It is not certain that they are in a position to reach agreement on the inevitable restructuring of the European Union that any institutional response would require.

In such a context, one can imagine that left or nationalist social forces could come to the fore in peripheral countries and decide to break with the single currency in order to facilitate their adjustment by devaluation. There are however many obstacles and inconveniences to this scenario, not the slightest being that nothing of this kind is provided for in the treaties, and that a gigantic banking mess will ensue. Another scenario, envisioned by a columnist for the "Financial Times", is that Germany renounces the single currency [3]. This could result in the multiplication of financial crises in the euro area whose outcome could be massive fiscal transfers which are for the moment, politically impossible. Another option, more likely, would be that the new treaty, which is demanded by Germany to stiffen budgetary orthodoxy in each State, is not ratified in all countries. The excuse would be then found to disengage from a Euro zone considered as unmanageable. Staggering as these options appear, it could well that a status quo of the EU in its present form is no more realistic a scenario.

For the anti-capitalist forces these speculations have no other interest than to grasp the magnitude of the changes that lie ahead. The first issue is of course to promote coordination of resistance and the emergence of an internationalist movement to demand at the continental level the discontinuation of the austerity plans, suspension of debt repayments and the establishment of an audit under democratic control of the latter, the challenging of the independence of the ECB, the financing by the Central Bank of the states, the socialisation of the banks, control over capital flows, the launching of a massive investment and job creation plan for ecological transition and European public services, a coordination of redistributive tax policies. But do not underestimate the fact that these responses can be borne by the social movements alone. In the absence of political perspectives in each country and at the European level, these movements might collapse and leave room for nationalist forces of the most violent and reactionary kind which are reinforcing themselves already everywhere in Europe. The dislocation of neoliberal Europe could then become a nightmare.

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[1] "Us Firms warn Irish over tax move", November 20 2010, "Daily Telegraph",  
<http://www.telegraph.co.uk/finance/financetopics/financialcrisis/8148882/US-firms-warn-Irish-over-tax-move.html>

[2] 2. Cited in Frédéric Lordon, "La crise européenne, deuxième service (partie1)", November 8, 2010.  
<http://blog.mondediplo.net/2010-11-08-Crise-europeenne-deuxieme-service-partie-1#nb11>

[3] 3. Gideon Rachman, "How Germany could come to kill the Euro", November 22, 2010,  
<http://www.ft.com/cms/s/0/85b62490-f66e-11df-846a-00144feab49a.html#axzz16306HSUj>