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An agenda for Europe

# The struggle for the solution of the debt and the Euro

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**In this brief text I reflect on the international context and the European crisis on the basis of the experience of Portugal under the Troika and the political change that has happened since then. The first part presents a map for 2016, the second deals with Europe, the struggle for the restructuring of the debt and the question of exit from the Euro.**

# 1. A prolonged stalemate that feeds successive crises

1. The world economy is stagnant. The international system is in transformation and crisis. In transformation, because new centres of profitability of capital and therefore of political power arise, with the Chinese economy being the most powerful while that of Brazil is experiencing a sharp fall. In crisis, because this mediocre growth maintains a high rate of unemployment in the more developed countries and because the difficulty of recovery of the rate of accumulation precipitates austerity measures and modification of the distribution of income between capital and labour, with effects which are socially regressive and economically recessive. This results in the weakening or disturbance of political regimes, as shown in the instability in France, in the referendum in the United Kingdom, the governmental impasse in Spain and the emergence of xenophobic populism, in Hungary and Poland but also in Belgium or the Netherlands. Finally, the centre of the empire, Washington, is a decadent power, with a decomposing hegemony and as such is even more dangerous.

2. The USA represents one third of the global economy. In the political arena, more than that. In demography and geography, much less. In currency, still almost everything. In military technology, the same. This monumental power, that dominated the last century and that now slowly degrades in the twenty-first century, is one of the greatest threats to global stability. For three reasons: its external action accentuates conflict, its policy is dangerous, and its economy is extractive and therefore decadent.

3. Foreign policy was the main factor in Obama's election. He promised decompression (the closure of Guantanamo) and multilateralism (a minimum form inclusion of allies). But neither one nor the other has transpired and in all these areas of intervention he has retreated. In Europe, he has drawn Germany into a conflict in the East, in Ukraine, trying to place the boundary of NATO at the edge of Russia. Meanwhile, the three pillars of the US's relationship in the Middle East have suffered serious disturbance or increasing risks: in Egypt, with a popular uprising and then with a military coup, while Israel and Saudi Arabia are both risking a suicide note through complacency or support for the Daesh. The foreign policy of the USA has failed because it allowed in the first case the resurgence of Russia as a military power and in the second Iran's assertion as a regional force.

4. The biggest problem, however, is that for the USA, from its privileged position, foreign policy is determined by internal politics (in Europe is the opposite). This is imposed by the drift to the right of the US political system with the emergence of isolationist populism in the two major parties, moving from an imposing imperial leadership towards a hesitant government, with brutal and disjointed disciplinary actions that inflame the world. Also, the U.S. no longer has control as a territorial power. The defeat in Vietnam seems to have closed an epoch. Attack and withdrawal has become the US practice, so that internal politics becomes volatile in its external actions. This is a "drone militarism". The technology allows air wars, with the immediate effect of amplifying the conflict and facilitating conditions for the globalization of terror, from Afghanistan to Iraq, Libya Syria.

5. Since internal politics is closed in on itself, the US can no longer lead the world: Obama cannot accept a treaty on

climate change because it would be rejected by the House of Representatives or by the Senate, starting with his own party - and he would be forced to seek legal solutions based on a weak compromise. That is to say, if foreign policy is determined by internal politics, the US also abdicates from offering an external leadership, even when needed. The world is dominated by a state that cannot lead international decisions.

6. The extractive economy is at the root of this contradiction in internal policy. The sovereign privilege of the dollar has been undermined by the existence of a basket of currencies of reference for the creation of a reserve for trade, although none can yet compete in the supreme role that the US preserved to ensure accumulation. Only the *yuan* has the support of a state that can aspire to such a role, but China still does not have a sufficiently powerful financial market to absorb income from savings and direct the financial funds that are the nerve of capital accumulation. Thus, it is still what the US decides which conditions globalization.

7. The US benefits and will continue to benefit from globalization, standing in a privileged and comfortable position to be the first hegemonic leader that imports capital rather than exporting it, making this anomaly one of its forms of domination. This is something unprecedented in the history. This engineering of power requires the dollar to be the reference currency (without being the privileged international reserve currency) and requires control of the main productive forces (without the US being the productive motor of goods or possibly knowledge), of natural resources (although the powder keg of the Middle East threatens this guarantee), of innovative capacity (where space has been opened up for other powers with the change of energy pattern and new essential goods, as in medicine) and even the control of savings and investment (although China will soon have sufficient resources to overtake the USA). That is to say, the reason for its strength today is the cause of its fragility tomorrow, inasmuch as this advantage is transient.

8. Some US economists, alarmed by these vulnerabilities, launched a debate two years ago on "secular stagnation", retrieving a term used in 1939 by a president of the American Association of Economists, Alvin Hansen, ten years after the start of the crisis of 1929, to describe demographic stagnation, the deficit in demand and therefore to a perspective of degradation of investment with consequent reduction of potential growth. Following this analogy, we would now, having entered the twenty-first century, be in a new secular stagnation for reasons similar to those of the Great Depression.

9. The numbers seem to confirm this fear. The IMF revised their forecasts for 2020 at the end of last year, anticipating a GDP for China 14% lower than its previous forecast, with Europe and the US being 6% lower. A previous study by the National Bureau of Economic Research, a research institute in Cambridge, Massachusetts, had already registered this pessimism, subsequently worsened, stating that the production potential of the major economies of the world because of the crash of the sub-primes in the recessions in 2008-9 would be of the order of 9% or, as summarized in *The Economist* (June 14, 2014) would be "as if the entire German economy had evaporated".

10. Hence the extractive economy, in which financial income is parasitic on the system: a shadow banking that absorbs savings, a political system which imposes austerity on the workers, central banks that guarantee the socialization of losses to banking, a voracious capitalism that commodifies social services and that, above all, wishes to privatize social security. Ideologically, the academy, the institutions and the US leaders direct this process. Politically, it is multi-polar, highlighting the growing strength of Merkel in the European Union. Strategically, nobody knows what will happen really, because the finances of the most powerful economies, if they had a heart, would have reasons that reason does not know. Without knowing about them, we do not know anything. The future is not what it was.

11. Europe is at risk in this whirlwind. It is living through a relentless process: its leader, Merkel, now takes advantage of the signals of European disintegration, because it provides the best conditions for attracting capital, with issue of

securities at negative interest, in advantageous conditions for her electoral hegemony; in return, the spiral of debt in the peripheral countries or austerity in the others leads, by the rules of the Euro, to unstoppable processes of internal devaluation, or, in other words, to an increase in the absolute exploitation and the transfer of surplus value of national economies to the international capitalist rentiers. Consequently, the political regimes of Greece, Portugal, Spain, Italy and France lose their capacity of cohesion, or the main parties are eroded or are wrenched apart, with possible sudden electoral changes, favouring in certain cases forces that represent the anti-systemic revolt of the workers or in other cases populist forces that seek to condition the population with xenophobic politics.

## 2. Europe and Portugal in the debt and the Euro

12. The Portuguese problem, as with some of the other countries in the EU, is in the first place a democratic issue because it is social. An immediate response to this problem is a democratic struggle against the blackmail of the debt and the austerity that results from it, with a social impact that is destroying Portugal. That is the problem of problems.

13. Without vanquishing the debt, Portugal and other countries in the same situation will experience a period of social disintegration, driven by the transfer of financial revenue guaranteed on present and future taxes, thus accentuating the neoliberal project of imposition of reducing incomes from labour to the benefit of those for capital, and drain the area of deliberation and the struggle for hegemony in this country. That is to say, either the left leads the opposition and mobilizes the popular classes, or populism will occupy its space.

14. In recent years, it was in response to the debt problem that big changes have taken place in terms of social mobilization and in the perception of Portuguese public opinion (the “Que se lixe a Troika” demonstrations, or the manifesto of 74 in relation to the debt), and this is one of the elements explaining the change that occurred in the elections of October 2015, with the Bloco Esquerda enjoying the biggest electoral increase of any party.

15. None of these changes would have been possible with another political platform that was not centred in the rejection of the blackmail of the debt. Remember that the programme of the Bloco included not only a concrete proposal on the debt but also an explicit declaration stating that, if negotiations with creditors and the European institutions did not permit a solution, exit from the Euro would be the only remaining alternative.

16. To form a left majority against the debt, i.e., a government which rejects austerity and the debt in favour of wage-earners, public services and investment, requires alliance. A left government against the Troika will emerge from this alliance. To work towards such a government, it is necessary to defeat the right, mobilise the workers, win hegemony over the centre and submit to the people a viable solution that changes the political landscape. For such a transformation, it is necessary to concentrate our forces on understanding between the parties and on an engagement: the rejection of the debt.

17. As the strategy of Syriza in Greece showed, the struggle for a left-wing government has a flag, the rejection of the debt. As the Greek experience reflected, the right and the radical centre will use the fear of exit from the Euro as the main political argument because this fear can swing elections. As the experience of Syriza showed, a government can only advance if it acts with tactical rigor, with clarity to formulate proposals, with an alliance and concentrating on the decisive argument: the debt. As the third rescue plan showed, to have the strength to negotiate it is necessary to have a plan B which is concrete and viable. As has been exemplified in Greece, there is only one plan B to support the restructuring of the debt, and that is exit from the Euro.

18. There is a huge amount of work to be done to bring positions closer together and articulate proposals. The left, in

the past, has barely addressed this task. It must be carried out at a European level as quickly and intensely as possible. This road can only be taken through a break with the debt and austerity. This path is viable and it is possible to build such an alliance.

19. The exuberant proposal of a plan A (federalist, resolving the difficulties of the peripheral states, accepting an increase in the power of Berlin) has disappeared from the Portuguese political debate. This proposal started from the principle that a better solution for Portugal and Europe consisted in a constitution for a European state, under federal form. That is to say that Portugal should be a province of that state, of course led by the German government. Such a solution is neither good nor acceptable: it would be a historical regression from which the only exit for Portugal, or any other country of the European periphery, would be a high-intensity conflict for its independence. At best.

20. The federalist proposal remains a farce because neither a doubling of the budget to 2%, for example, nor the same management of a single currency necessarily requires the European government of a European state. It certainly calls for common rules and reinforced cooperation, and therefore a *hegemonic* sovereign authority. In this sense, the federalist proposal intends to submit the left to the acceleration of the authoritarian project of the European bourgeoisie. The left that opposes federalism neither can nor should desist from struggle at the European level. Nor can it expect the forces of federalist centralism to see reason, which would go against their social interests. The left cannot oppose a cordial federalism to a fierce federalism. It has to overcome the forms of federalism, which destroy democracy.

21. The experience of blackmail and the violence of the European authorities in breaking down the Greek government shows that a decision that leads to conflict will always be political and the fruit of a relationship of forces, both local and European. But the Greek experience also shows that all the discourse on “another Europe” is fragile and in itself empty. To appeal to otherness when the dominant forces in Europe are applying austerity and the locking of the European institutions to strengthen the extractive economy and its austerity, is simply an exercise of distraction. It is a left which has been disoriented for too long with promises of Europe. It is necessary to abandon the discourse of “another Europe” and to focus on concrete measures to overcome the actually existing institutions.

22. To achieve a new relationship of European forces it is necessary that governments of the left be elected in the polls, being faithful to the workers who mandate them. To achieve a government of the left is necessary to know where we are going and where we should concentrate pressure, because this path requires clarifying alternatives to change parties and policies. All the pressure should focus on the requirement for the parties to submit a plan to cancel the debt, via European negotiation or, if necessary, the unilateral imposition of a moratorium and cancellation, which can lead to an exit from the Euro. This is only possible with a left government and a radical change in the relationship of forces, so popular mobilization is determinant.

23. A left government will not be constituted by the centre or by a new formation of political forces of the centre. The meaning of left politics is based on this conviction: to overcome it is necessary to want to win and know how to win, it is necessary to reject the financial income that strangles wages, pensions and public services. A left-wing government requires that the left has a left policy. The democratic problem of Portugal is the blackmail of financial capital and it is this financial capital that the left government must confront.

24. There is no smart austerity. Nor means of austerity which is worth it. A new government which accepts financial blackmail will create more austerity and more destruction because every day the imposition of the rules of the Budgetary Treaty will be worse: as it is already clear, its solution for the fire of austerity is to blow on the embers of the fire. Or, to cite someone with authority and experience of negotiating with the Troika, when we are in a hole the European Commission and the ECB require that we continue digging.

25. The amiable hypothesis of alleviating the conditions of financial blackmail to strengthen Merkel, or a recovery in

Europe thanks to the Draghi Plan or the Juncker Plan, is no more than naivety. A political conformation like the German government, with Merkel's alliance with the Social Democratic Party, or SPD, demonstrates how the system of domination is protected. The President of the Euro-group, who is the Dutch Finance Minister, is living proof of how these neoliberal social democrats assume the role of Merkel's Prussian Cavalry. A new government in Portugal cannot count on the facilities of the European institutions; it has to count on its people and their allies on the popular left in Europe.

26. The left government must submit a categorical commitment to initiate negotiations to repudiate the debt from the first day. If a proposal for cancellation of the debt is not accepted by the European authorities, the best answer would be the unilateral imposition of a moratorium on the payment of the debt, and negotiation with the various creditors of an exchange of debt for securities of a lower value and linked to future growth, and the control of capital.

27. The left government needs to have enough strength to impose a fiscal revolution, creating the means for a reorganization of the productive system, including reindustrialization for employment, import substitution, energy and environmental reconversion and a focused investment on these lines. Once more, this economic policy attacks financial capital.

28. In this context, the left government should be prepared for all conflicts, including the pressure to force an exit from the Euro. In *Dividadura [The dictatorship of the debt; 2012]*, with Mariana Mortágua, we wrote that, politically, exit from the Euro would only be acceptable to the population "when there is rigorously no other alternative, when they have exhausted all the alternatives, when survival requires it. There is only one condition in which exit from the Euro may become necessary for the Portuguese people, and that situation cannot be ruled out: if, due to a collapse of the European institutions and rules, the independence of Portugal was questioned and there was no other solution than to leave the European Union and, consequently, the Euro, to regain the power of decision-making. And yet it is necessary that the majority of the population commit itself in this respect, so that the strength of the popular movements and the defence of the interests of labour are reinforced". I maintain this point of view.

29. I do not think that exit from the Euro will be made easy for us. Nor should we expect kindness to support a departure of Portugal. We should not expect the German government to authorize an unconditional loan to promote the policies of a left-wing government that had to exit the Euro. Even if the German government was seeking to impose that exit as Schauble tried in relation to Greece, no funding is likely – rather it would seek to make such a choice a bad example. The hypothesis of a gentlemen's agreement seems politically unviable. Among the European leadership there is no place for chivalry, just extremely authoritarian social interests.

30. An exit from the Euro conducted under the orders of Merkel or of a right-wing government would mean a class struggle with no quarter given against the workers, to transform and accelerate the process of capital accumulation for the exclusive benefit of a part of the oligarchy. And would not give any guarantee for the cancellation of the debt; on the contrary, in such a case, this option could be a way of accentuating the transfer of income from labour towards capital through an austerity which accelerates a violent adjustment. The left that is confused over this hypothesis does not deserve to survive politically, because it would fall on the side of austerity and savagery. Whoever defends exit from the Euro without the cancellation of the debt will not succeed in resolving the democratic problem of Portugal.

31. In the battle against the debt, if the left government was forced to leave the Euro it should be alongside the people, mobilized to reject the threats of Merkel and of financial capital, and be willing to stand up for democracy. The effects of an exit from the Euro are deep and can be justified only by a national emergency, administered by a government to create a great social mobilization. This political question will always be essential, given the pressure and the difficulties involved in the management of this process. Only the democratic power of the people ensures the strength to take the necessary decisions in this context. Those who ignore this threat and high intensity risk are not

prepared to fight for power.

32. Exit from the Euro, whose political difficulties we noted, is however the only alternative when there is no debt restructuring in the negotiations. In this case, it is the only way. For two reasons: first, because exit from the Euro restores a national currency, and therefore allows imposition of the conversion of all public debts in Euros to the new currency, subject to national legislation, devaluing this debt; secondly, it allows the control of capital and the management of a policy of devaluation, the two measures that favour the creation of investment and the revival of demand and employment.

33. So, whoever wants to prepare a left policy against these risks must submit a proposal taking into account all the scenarios and the best alternatives for each problem, including exit from the Euro for the devaluation of the new escudo.

A study of the way to control the negative effects in the short and medium term of a possible exit from the Euro has to consider necessarily the following:

a) Portugal runs the risk that the new currency, the escudo, would be for some months merely scriptural, so that internal transactions take place in foreign currency. Its circulation will tend to decrease and it will be dependent on a European Central Bank with which the country can enter into conflict, so a short term issue of provisional notes would be necessary;

b) Depositors will feel threatened and harmed and will react by withdrawing their bank deposits in Euros. Measures should be taken to generate confidence in the banking system, which will necessarily be under public control;

c) The immediate impact of the increase in import prices following the devaluation of the escudo will only later be compensated in the trade balance by an increase in exports, which will depend on orders. Hence there must be an emergency plan for energy, transport and medicines;

d) Interest rates will tend to rise, with effects on the distribution of national income to the detriment of debtors, while inflation will rise, which also has redistributive effects to the detriment of wages and pensions, which is why it will be necessary to take compensatory tax measures for the popular sectors;

e) The legal redefinition of the value of the internal debt, in defence of debtors, and the effects of this redefinition on the balance sheets of the banks, will require a systemic resolution (which would be already be necessary with the restructuring of the public debt);

f) A study is needed of the forms of social redistribution of the benefits that devaluation would give the export sector;

g) There would need to be an institutional restructuring, including the new definition of the legal functioning of the Bank of Portugal and the public banks like the CGD, as well as the administration of the financial system, which means having as quickly as possible a new law for the resolution of the national bank and appropriate intervention processes.

34. This study would also include the European political conditions for the decision of a left government:

a) Verification that there is the majority required for taking the possible decision of exit from the Euro, taking account of the power of the President and the need for a parliamentary majority that in the long run will be able to overcome the latter's right of veto;

b) Defining the new model of change in a context of conflict with the European authorities and their possible hostility to the inclusion of Portugal in the European system of countries outside the Euro area;

c) Considering that the state can legally claim the sovereign power to re-denominate its debt in local currency, but that companies indebted abroad do not have that legal power and, therefore, their balance sheets would be adversely affected;

d) The redefinition of relations with the European Union, in particular, to allow policies that protect industrialization, the creation of employment and the renationalisation of key strategic common goods for budget management.

35. There are answers, difficult as they are, to all these threats and problems. None of these responses is a slogan. A slogan is useless and does not replace the detailed preparation of responses to economic and social problems. The slogan is a flag. It is legitimate to play politics with a flag. But a flag is not a form of government. We cannot renounce the creation of a left government to search for answers to the problem of democratic Portugal, which is the debt. A winning strategy depends on a thorough job of preparing the responses taking account of the difficulties in carrying them out.

36. Realism is a condition of intelligence. All the realistic responses require an economic policy such as Portugal needs: control of credit, public intervention in the financial system, mobilization of fiscal resources, a strategy for employment. It is not realistic to accept the blackmail of the debt or to oppose it with solutions that do not stand up.

37. My conclusion is the following: the agenda that will create a left-wing majority is the fight against the debt. A left government can only win if forms an alliance and this alliance requires clarity with respect to the cancellation of the debt. This government must be prepared to reject all the pressures of financial capital and take all the necessary measures in this regard, including exit from the Euro if that is the only solution that remains. This preparation requires careful and detailed work, bringing together the best left economists. This work is to be done. And it is better to start now.

38. The current government in Portugal, which results from an electoral defeat of the right, is not a left government with the commitment to restructure the debt. It is a government of a centre party, PS, with the conditional support of the left, in the context of commitments to the recovery of wages and pensions, an end to the privatization process and no rise in direct and indirect taxes on employment. These commitments allow social relief, a recovery of demand, and therefore the living conditions of the majority of the population, and have received the support of broad sectors of the population. In the case of the decision to inject 3 billion Euros into the recovery of a small bank that was going to be sold (150 million Euros) to Santander, the left parties opposed this decision of the government and voted against its law, with a correction of the budget for 2015. The relationship between the different parties will thus always depend on specific decisions, it remains to be seen if these decisions are confronted with the position of the Commission, which is important in the definition of the state budgets for 2016 and subsequent years.