

Crisis of Greece or crisis of the euro? A view from the European 'periphery'

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Introduction: bad things can happen to 'good' economies

One of the major lessons *re-learned* from the recent world economic recession is that vulnerability to capitalist cycles may have little or nothing to do with the 'more fundamental economic strengths and weaknesses' of an economy. In reality 'bad things can happen to good economies'.¹

As has been asserted and also adequately analysed elsewhere, the crisis in the US housing market did not take long to be transformed into a global recession. The panic over the CDOs (collateralized debt obligations) of American banks immediately 'contaminated'—to use a word much favoured of market analysts—a vulnerable world financial system. The problems that soon appeared, for example, in the UK, Spain, Iceland, Ireland, Russia, Hungary, not to mention Greece, have little to do with the 'toxicity' of the specific American CDOs. To put it in the most general terms, capitalism internationally went into a phase of re-pricing of risk, with everything entailed by that process (that is to say, into new arrangements for pricing financial instruments).

Whatever the initial unwarranted optimism, recent economic developments struck at the heart of the euro, plunging into crisis the power strategies linked to it. Above all, however, they left the Economic and Monetary Union (EMU) without a medium-term hegemonic plan. In what follows we shall attempt to interpret the basic relevant question: *why did the strategy of the euro prove so vulnerable to the collapse of the global finance markets?* Our point is that the neoliberal strategy of the EU is in crisis but not for all those reasons that are lately mentioned in relevant discussions. We can summarize our perspective by means of the following four theses:

- The symbiosis of economies with different development levels under the same currency (and the same monetary policy) was responsible for the striking different rates of growth and profitability. The relatively fast growth of the 'periphery' (combined with the moderate growth in the European 'centre') reduced remarkably the 'developmental' gap between European regions.
- At the same time, the higher growth rates in the 'peripheral' economies were accompanied by both a fast reduction in cost of domestic borrowing and a significant inflow of foreign savings (of various forms). This caused lasting surpluses in the financial accounts. The concomitant deficits in the current

¹ Paul Krugman, *The Return of Depression Economics and the Crisis of 2008*, Penguin Books, London, 2008, p. 19.

accounts mirror exactly this increase of the domestic demand and the inflow of foreign investments.

- The imbalances in the financial accounts and the expansion of the domestic banking systems offset the pressures imposed upon labour by the mechanism of the euro mostly in the economies of the European ‘periphery’. In other words, they heavily contributed to the organization of the social consensus, consisting also an organic element of the particular form of intra-eurozone symbiosis.
- At the same time, however, they shaped an unstable and vulnerable context of symbiosis which did not delay to come apart after the recent financial meltdown.

In the case of Greece, the very same form of symbiosis allowed for remarkable tax reductions and tax evasion favouring capital and all those social strata that supported the capitalist strategy of neo-liberalism and the EMU. Yet, all these were taking place before the collapse of Lehman Brothers. In what follows we shall attempt to explain further the above points that comprise our argument.

An outline of the strategy of the euro: what it was all about in the first place?

Present-day neo-liberal capitalism has proved a nightmare for the proponents of protectionism. The same is true of the architecture of the euro. To understand contemporary developments in the organization of capitalism we are therefore required to free ourselves from every ‘mercantilist’ influence so as, hopefully, to achieve a persuasive interpretation of why developed and developing social formations are attracted—despite the reality of uneven development as it impinges on them—to a strategy of exposure to international (economic) competition.²

In all of the texts dating from the period of his theoretical ‘maturity’ (in the sense that Althusser assigned to that term³) Marx never ceased believing that competition is an analytical determination *that is inscribed in the capital-relation itself*.⁴ It is, in other words, an appearing form of capitalist exploitation and a condition for the constitution of capital as a social force. But for Marx capitalist development is at the same time a question of the balance of class forces and depends on the form of capitalist hegemony on the terrain of a specific social formation.⁵ How can these two observations help us to understand the enterprise of the EMU? To answer this question we must first investigate another more fundamental question that has repeatedly been posed, and with some urgency, in the relevant discussions: *why should a social formation with a lower level of productivity ‘want’ to enter into an economic and monetary union with more developed social formations?* The answer is complex but is to be sought in the Marxist argument according to which, for the developed capitalist countries, the strategy of exposure to international competition (promoted on a variety of bases and

² For similar argumentation, see John Milios and Dimitris P. Sotiropoulos, *Rethinking Imperialism: A Study of Capitalist Rule*, Palgrave Macmillan, London and New York, 2009. Also: Dimitris P. Sotiropoulos, ‘The era of Hayek: neoliberalism as discipline’, *Thesiseis*, 108, 2009 (in Greek).

³ For example, see Louis Althusser, *For Marx*, The Penguin Press, London, 1969.

⁴ Milios and Sotiropoulos, *op. cit.*, and Michael Heinrich, *Die Wissenschaft vom Wert*, Westfaelisches Dampfboot, Berlin, 1999.

⁵ See Milios and Sotiropoulos, *op. cit.*, chap. 7.

with various divergences, depending on the corresponding national vested interests) is the strategy par excellence of capital.

The basic idea is simple and perceptively summarized by K. Busch⁶ in the context of more or less the same discussion, albeit in a different historical context. The key prerequisite for unimpeded capital accumulation is that there should be favourable conditions for valorization of capital, and capitalist competition is to be included among such conditions. A country that is not organically integrated into global markets and inserts between its individual capitals and the global market significant barriers and controls of different kinds will not be able to achieve both high rates of capital accumulation and the deepening of capitalist class power over the working classes. This means that if a capitalist country has entered into the phase of developed or developing capitalism, the route of exposure to international competition is the most appropriate strategy for organizing bourgeois power (as a model for continuing reorganization of labour and elimination of non-competitive individual capitals to the benefit of overall social capital).

For a number of specific historical and social reasons to do both with the organization of capitalist power (in the developed European states) and the specific imperialist conditions of the post-war period (these questions will not concern us for the moment) a variety of European state entities set in operation the plan for the 'single market' at least from the early 1980s. The 'plan' in question gradually came to embody a long-term strategy for management of European capitalisms, *predicated of course on introduction of a single currency*. It is certain that 'economic' unification (the single market) could not become a reality without subsequent monetary unification. Nevertheless, it is also certain that every variant of monetary unification would ultimately have difficulty avoiding 'imbalances' between the different member countries, as has been demonstrated in practice in the most unequivocal manner.⁷

In brief, the above-mentioned position is interpretable very simply: it is by no means hard to understand that the plan for the single market should not be achievable in a regime of flexible and floating exchange rates. In all likelihood a devaluation of the national currency of one member would induce the other member states to resort to various forms of protectionism as a 'defensive' response. And from that point onwards, the greater the instability of exchange rates the more powerful the pressure for introduction of protectionist practices, with the result that the goal of economic unification would remain a perennial delusion. (While at the same time the likely growth of commerce within the European community would elevate the derivative markets into the sole mechanism for offsetting the dangers posed by the exchange rates—it would, however, be entirely impossible to imagine a single market being constructed on the basis of over-extended and jittery derivatives markets).⁸ No country could

⁶ Klaus Busch, *Die Krise der Europäischen Gemeinschaft*, Europäische Verlagsanstalt, Frankfurt a.M., 1978.

⁷ This discussion is from a decade ago and has evidently been confirmed, by and large, by developments. In this connection, see Barry Eichengreen, *European Monetary Unification: Theory, Practice and Analysis*, MIT Press, Cambridge, MA and London, 1997.

⁸ On the other hand a solution was certainly not to be found through a hankering for fixed exchange rates. The experience of the last 40 years (that is to say, from the last phase of the Bretton Woods and henceforth) has shown unmistakably that the goal of fixed and controlled exchange rates is virtually unachievable in the long term in an international environment of deregulated capital movements.

therefore support the plan for a single market and at the same time resist the introduction of the single currency: the result would be cancellation of the strategy of exposure to international competition.⁹

Member countries accordingly relinquished the exercise of autonomous monetary policy. It is in any case well known that liberalization of capital movement in conjunction with fixed exchange rates (or alternatively abandonment of the national currency) necessarily amounts to loss of control over monetary policy.¹⁰ The procedure in question represents a certain way of dealing with what has come to be called the 'trilemma' of economic policy and amounts to an extremely aggressive capitalist strategy. In particular, the 'needs' of labour are sacrificed to satisfaction of the demand for capital mobility (i.e. capitalist competition) and exchange rate stability. Indeed the celebrated or notorious Delor's report, which takes for granted and regards as 'natural' the specific power plan of the single market, saw monetary union as something self-evident and inevitable. In reality the institutional framework of the EMU is interpretable as systematic organization of the specific way of solving the policy trilemma.

This is an economic environment that crushes traditional welfare-state policies, imposing the harshest demands of capital over labour. The increase in productivity in relation to real income of labour (the 'terms' of labour, as it were) is the *variable that is called upon to bear the burden of adjustment* to new capitalist conditions and in particular to the environment of the EMU. From this viewpoint too, the age of contemporary neo-liberalism resembles the period of the gold standard.¹¹ What does this mean? It means that pressures from the functioning of the EMU are focused on the core of capitalist exploitation and create the preconditions for continual restructuring of labour. *The EMU puts into effect an extreme variant of the strategy of exposure to international competition which only through continual 'adjustment' of labour can continue to exist.* It follows from this that the EMU strategy is a specific mode of organization for capitalist power.

The specificity of the symbiosis within the eurozone

Much has been written about the crisis of the European economies. Many relevant analyses disagree with the argumentation of the preceding section, considering in one way or another that the problem with the eurozone imbalances has as its fundamental cause the organization of competitiveness (the countries of the 'periphery' are supposed to be beggared by the competitive countries of the European 'centre'). In general terms, the predominant viewpoint argues that the competitive capitalist countries of the European 'centre'—especially

⁹ See in this connection Eichengreen, op. cit., pp. 249–256, and Charles Wyplosz, 'European Monetary Union: the dark sides of a major success', paper prepared for the Panel Meeting of Economic Policy, London, 21–22 October 2005.

¹⁰ See Dick Bryan and Michael Rafferty, *Capitalism with Derivatives: A Political Economy of Financial Derivatives, Capital and Class*, Palgrave Macmillan, New York and London, 2006; Maurice Obstfeld, Jay C. Shambaugh and Alan M. Taylor, 'The trilemma in history: trade-offs among exchange rates, monetary policies and capital mobility', *The Review of Economics and Statistics*, 87(3), 2005. Also: Sotiropoulos, op. cit.

¹¹ Characteristic is the analysis by Bryan and Rafferty, op. cit., pp. 121–123. Also see Ronald I. McKinnon, 'The rules of the game: international money in historical perspective', *Journal of Economic Literature*, 31(1), 1993.

Germany—experienced gains in competitiveness by achieving low labour costs, primarily through a squeeze on wages and a slowing down of inflation. In this manner, the same argument continues, they have improved their exports within the eurozone forcing the less-competitive economies of the ‘periphery’ to ‘underdevelopment’ and causing ‘destruction’ of their ‘productive base’. The persistent current account imbalances are thought to be the immediate results.

For those accepting this line of argumentation, economic and monetary union seems to have been converted into an area for exploitation of the countries of the ‘periphery’ by the economic ‘steam-engine’ of the ‘centre’. And the most ‘moderate’ solution that is being proposed—indeed from the lips of the French Economics Minister Christine Lagarde (in an interview with the *Financial Times* on 14 March 2010)—is increase in workers’ incomes (and so in demand) at the European ‘centre’.

This reasoning entirely fails to explain the dynamics of the eurozone and of the countries that coexist within it. Table 1 shows that the strategy of the exposure of the individual capitals to international competition led (as it was expected) the less-competitive countries of the ‘periphery’ to remarkable higher growth and accumulation rates.

In particular, during the period 1995–2000 Greece experienced a *real* increase of GDP amounting to 61.0 per cent, Spain 56.0 per cent and Ireland 124.1 per cent, quite contrary to what happened to the more developed European economies. The GDP growth over the same time period was 19.5 per cent for Germany, 17.8 per cent for Italy and 30.8 per cent for France. In the following analysis we will return to some of the findings of Table 1. For now, it is enough to underline that the economies which experienced higher growth rates (without this explaining all the cases) ended up with noticeable current account deficits. At the same time, they run higher inflation levels, despite their exposure to international competition. Finally, it is worth noting that during the same period (and contrary to what happened in Spain and Italy and in other European economies) the growth of the Greek GDP was heavily based on investment and on a high growth of employment and productivity (rather than to government consumption).¹²

Towards an analytical (as opposed to a geographical) definition of the ‘centre’ and the ‘periphery’ within the eurozone

One of the most noteworthy features of the first decade of the euro is the persistent current account imbalances: certain countries show chronic surpluses while others invariably suffer deficits. It is moreover true that these differences are linked, as has often been noted, to corresponding differences in unit labour costs and in competitiveness (the countries in surplus have kept unit labour costs down and derived advantages in terms of competitiveness). *Nevertheless*, the causality between these two ‘givens’ may not be what it is often casually asserted to be in the relevant discussions. The current account deficit, in other words, may *not be simply* the immediate result of a corresponding ‘deficit’ in competitiveness.

¹² Alpha Bank, *Greece and Southeastern Europe. Economic & Financial Outlook*, No. 74, May 2010, <http://www.alpha.gr/files/infoanalyses/Greece_&_Southeastern_201005.pdf> .

Table 1. GDP and domestic demand growth in various countries: 1995–2008

	Greece	Germany	Netherlands	Spain	France	Ireland
Real GDP	61.0%	19.5%	42.0%	56.0%	30.8%	124.1%
Real private consumption	55.7%	12.3%	33.1%	55.3%	35.5%	104.5%
Real total gross fixed capital formation	102.8%	18.8%	56.3%	95.2%	55.8%	130.5%
Real public consumption	51.1%	14.7%	41.4%	74.8%	20.0%	97.3%
Current account (2008) %GDP	-14.6%	+6.7%	+4.8%	-9.6%	-2.3%	-5.2%
Export volumes (goods and services)	131.4%	159.0%	114.1%	115.1%	76.0%	232.3%
Import volumes (goods and services)	123.1%	115.5%	117.8%	174.1%	101.8%	222.4%
Export prices (goods and services)	56.4%	2.7%	18.0%	34.2%	7.2%	13.2%
Import prices (goods and services)	51.0%	9.3%	14.3%	28.4%	7.9%	20.9%
Consumer price indices	64.4%	22.2%	33.1%	47.5%	26.0%	47.2%

Source: Authors' own calculations based on data from OECD, Economic Outlook, Volume 2009/2, IMF.

On the contrary, it is quite probable that both will be the outcome of another deeper cause. Namely, of the considerable differences in the level of capitalist growth and of the specific mode of 'symbiosis' within the euro. Let us be more precise.

The exposure to international competition that was effected through integration into the single currency imposed significant restructuring to the benefit of capital while simultaneously securing for the (less competitive) countries of the 'periphery' satisfactory rates of growth and a rise in average productivity (the data of Table 1 are indicative enough). In general terms these countries of the 'periphery' have gone a significant way towards closing the gap in per capita GDP that separated them from the more advanced countries of the European 'centre', registering higher rates of profit, accompanied by correspondingly higher rates of capital accumulation.¹³ But the higher rates of growth at the 'periphery' also led to higher rates of inflation.

To obtain a more comprehensive overview of developments one must, in addition to the above comments, factor in two other basic parameters.

On the one hand, the higher rates of profit at the 'periphery' boosted financial yields as a whole, with the result that international investors became ever keener to finance the high rates of growth at the 'periphery', particularly now that they had been granted dispensation from a number of significant risks in the environment of the euro, such as that of exchange rates, for example. The countries of the 'periphery' thus recorded strong surpluses in their financial account balance. Investments of various kinds in these countries rendered them attractive for capitals from the centre with the result that there developed a channel for transferring to them resources (in the form of private financial investments).

On the other hand, the member countries of the eurozone with their different rates of growth and different rates of profit were without exception incorporated into the same monetary policy regime, that is to say, the regime of uniform nominal interest rate from the European Central Bank. These interest rates were considerably lower for the countries of the 'periphery' than they had been prior to the introduction of the single currency (see below). This fact, in conjunction with the higher rates of inflation prevailing in these countries, translated into even lower real interest rates for the local banking sector. These are the conditions that laid the groundwork for the explosion of (private and public) borrowing.

As was to be expected, the two above-mentioned factors strengthened the potential for borrowing and contributed to a further heating up of the 'peripheral' economy, orienting production to the needs of a considerable

¹³ Here Portugal is the striking exception. While the latter has accumulated over the last years one of the highest net external debts in the euro area, the catch-up process with the rest of Europe stalled. In this sense, Portugal has been over the last 15 years in the paradoxical situation of displaying all the signs of overheating without enjoying any acceleration in GDP. Here the deterioration in the current account did not reflect the fast growth in domestic demand (as in the case of Greece and Spain) but a steady decline in the export performance (this 'singularity' of Portugal can be ascribed to a particular ill-adjusted exchange rate at the onset of EMU). For more in this connection see: Deutsche Bank, *Global Markets Research. Portugal's Difficulties Come from Afar*, 12 March 2010.

domestic demand.¹⁴ This had the effect of further reinforcing the inflationary tendencies. The real level of interest rates fell even further, in this way providing further financial leverage. At the same time conditions of high internal demand brought relative losses in export competitiveness (high unit costs, profits and inflation) increasing demand for imports.

The causal chain is therefore as described above. From this viewpoint countries like Greece, Spain and Portugal can be characterized as 'peripheral', not because of their geographical position but because of their mode of integration into the eurozone, registering: first, higher rates of accumulation (reduction in the 'developmental' gap between themselves and the competitive countries of the European centre) and profitability (thus becoming net capital importers), and second, deterioration in their balance of goods and services, as an immediate consequence. Development at the 'periphery' attracted 'savings' from the 'centre', financing increased demand. In this respect, and on the basis of the above-mentioned reasoning, *it can be argued that financial account surpluses at the 'periphery' are responsible for the ballooning of current account deficits.*

It becomes evident from Table 2 that the deterioration in the current accounts after 2004 for the Greek and Spanish economies is mainly due to the boost of domestic consumption in relation to net (national) disposable income (Germany experienced quite the opposite effect). Hence, despite the fact that exports of goods and services for both economies did not change significantly as ratios to GDP, there was a considerable increase in the relevant ratio of imports. Indeed, in the case of Greece, final consumption exceeded for the whole economy the net disposable income, resulting in negative net saving levels. This saving 'gap' was mostly covered by foreign borrowing under the form of deposits and repos (that is through the liquidity supply to the domestic banking system).

In Table 3 we see the significant increase in private debt of businesses and households in the case of Spain, Portugal and Greece (the leverage for the last mentioned is significantly smaller than for the other two countries). Overall private sector debt in Portugal amounted to 239 per cent of GDP, that is to say 29 units higher than in neighbouring Spain and 116 units higher than in Greece (the corresponding levels in France and Germany are 130 and 140 per cent). Of course the basic reason for the spiralling debt in the countries of the 'periphery' was their participation in the euro and extraordinarily low real interest rates that were the concomitant of that participation (combined with the financial account surpluses). It is for example characteristic that short-term real interest rates in the 1990s for Greece averaged around 5.4 per cent but after 2000 fell almost to 0 per cent and for long periods went even lower.¹⁵

In many cases access to cheap loans contributed to a revival in the housing market.¹⁶ Between 1999 and 2005 house prices in the eurozone increased at around the same rate as the corresponding figures for the USA (moving around levels approximately 40 per cent higher than the corresponding average for the last 30 years), while in specific areas such as, for example, Ireland and Spain,

¹⁴ This, be it noted, does not apply in the case of Ireland.

¹⁵ See Deutsche Bank, *Global Markets Research. Greece: A Herculean Adjustment Task*, 10 March 2010, <<http://www.cre.db.com/marketing-research>>.

¹⁶ See Barry Eichengreen, 'The crisis and the euro', Working Paper, Elcano Royal Institute, Madrid, Spain.

Table 2. Macroeconomic variables as % of GDP.

	1995	1997	1999	2001	2003	2004	2005	2006	2007	2008
Exports of goods and services	22.40%	26.30%	26.70%	28.50%	26.30%	25.90%	25.70%	26.30%	26.90%	26.50%
Imports of goods and services	22.40%	25.40%	28.50%	31.00%	28.70%	29.90%	31.00%	32.70%	33.70%	32.40%
Current account balance	-0.31%	-0.09%	-2.93%	-3.94%	-3.51%	-5.25%	-7.36%	-8.97%	-10.01%	-9.59%
Net investment income	9.99%	10.47%	-1.54%	-1.84%	-1.34%	-1.43%	-1.86%	-2.08%	-2.83%	-3.31%
Net saving/net disposable income			10.76%	9.80%	10.66%	9.04%	8.19%	7.83%	6.53%	4.36%

Source: Authors' own calculations based on data from Eurostat and IMF.

Table 2.2. Germany

	1995	1997	1999	2001	2003	2004	2005	2006	2007	2008
Exports of goods and services	24.00%	27.50%	29.40%	34.80%	35.60%	38.40%	41.10%	45.40%	46.90%	47.30%
Imports of goods and services	23.50%	26.20%	28.50%	32.80%	31.70%	33.30%	35.80%	39.70%	39.90%	41.00%
Current account	-1.17%	-0.46%	-1.25%	0.02%	1.89%	4.65%	5.11%	6.46%	7.62%	6.69%
Net investment income	-0.07%	-0.07%	-0.49%	-0.43%	-0.64%	0.97%	1.17%	1.96%	1.78%	1.69%
Net saving/net disposable income	7.64%	7.04%	6.66%	5.41%	5.44%	8.38%	8.38%	11.03%	13.31%	12.95%

Source: Authors' own calculations based on data from Eurostat and IMF.

Table 2.3. Greece

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Exports of goods and services	23.26%	22.96%	20.15%	18.87%	21.20%	21.22%	21.15%	21.54%	22.53%
Imports of goods and services	32.84%	31.47%	27.79%	25.33%	26.57%	27.45%	30.63%	32.54%	33.78%
Current account balance	-7.70%	-7.23%	-6.52%	-6.53%	-5.77%	-7.55%	-11.29%	-14.40%	-14.55%
Net investment income	-0.95%	-1.58%	-1.50%	-2.40%	-2.40%	-2.94%	3.44%	-4.12%	-4.42%
Other investments (loans, deposits, repos)	-3.52%	-6.69%	1.28%	-4.42%	-4.90%	3.03%	5.47%	5.63%	5.06%
Net saving/net disposable income	-0.14%	0.22%	-2.03%	-0.26%	0.19%	-3.44%	-3.79%	-5.27%	-6.05%

Source: Authors' own calculations based on data from Bank of Greece and Eurostat.

Table 3. Private sector debt as percentage of GDP

	Households		Businesses	
	1995	2008	1995	2008
Greece	13%	61%	38%	62%
Portugal	42%	105%	53%	134%
Spain	42%	88%	47%	122%

Source: Eurostat and Deutsche Bank global markets research (see also Deutsche Bank, *Global Markets Research, Portugal's Difficulties Come from Afar*, 12 March 2010, <<http://www.cre.db.com/marketing-research>>).

price inflation was higher than the corresponding figure for the USA (we should note also that in these countries the proportional contribution of house building to GDP was higher than in the USA). Indeed in 2005 and 2006, when the runaway increases in house prices reached their peak in the USA, the corresponding increases not only in Spain and Ireland but also in France and Belgium were even higher.

The rapid increase in household debt in the case of Greece, Spain and Portugal was accompanied by substantial falls in savings rates over the last decade, mainly after 2004. This means that as individual incomes are shrinking and unemployment increasing there will be a corresponding increase of difficulties in debt repayment, exacerbating problems for the already over-exposed extended local banking systems. The above-mentioned analysis is equally applicable for capitalist businesses. And as the economies of the 'periphery', sinking into recession, are forced to impose austerity measures to improve their fiscal position, it seems that what Fisher feared is making its return to the scene. According to the latter,¹⁷ when an economy sinks into recession without the state having any capacity to implement counter-cyclical policies, reduction of the debt (deleverage) may not be as significant as reduction in incomes (rendering repayment even more difficult). This only serves to aggravate the recession (placing further pressures on the banking system) rather than providing a cure for it.

Neither Greece nor Germany is the problem but the system of the euro

We saw previously that the strategy of the euro corresponds to a mechanism for continuously exerting pressure for reorganization of labour in the various member countries. *In this respect working people are being systematically attacked both at the 'centre' and at the 'periphery' of the eurozone.* And if Germany has succeeded in keeping labour costs low, primarily through squeezing wages, this may be attributed both to the relatively low rate of growth and to the competitive pressures to which their individual capitals are subjected through the self-same mechanism of the euro.

As we said before, the euro mechanism is an ideal diagram for the organization of capitalist power. But in practice its adaptation cannot be perfect,

¹⁷ See Irving Fisher, 'The debt-deflation theory of great depressions', *Econometrica*, 1(4), 1933.

nor could it ever be. When competitiveness (factor incomes + productivity) diverges to any significant extent there has to be some kind of 'rectification'. The exchange rate mechanism cannot play any role inside the euro, *but in any case it was never a reliable mechanism for offsetting differences in competitiveness (in so far as the reference is to developed capitalist countries)*. The possibility of devaluation often works to the advantage of labour, alleviating the pressures that are transmitted from international competition, so that it is never among the 'first options' of the collective capitalist.

Investment capitals in the more competitive countries of the 'centre' sought higher profitability in the financial system of the countries of the 'periphery'. In this way they reinforced the already significant rates of growth of GDP in the latter, themselves 'financing' exports from the centre. The flow of capitals to the 'periphery' on the one hand offset the cost of participation in the single market while at the same time generating preconditions for a restraint in the improvement of competitiveness. As a result, as we saw before, it is the establishment of the euro itself that contributed to the perpetuation of asymmetries in the current account balances and divergences in the unit costs of labour and inflation (competitiveness). This in general terms was the situation that emerged when under the cover of the same monetary policy (i.e. essentially the same nominal interest rates) social formations coexisted which were on different real growth trajectories.¹⁸

It is also entirely mythical that the EMU is exclusively the servant of the 'insatiable' schemes of Germany, with its competitive economy. According to the same myth, the 'profligate' countries of the 'periphery' offset the consuming tight-fistedness of the savings-oriented Germans. We have seen that this line of thought is mistaken and that a different explanation is possible and preferable for the current account imbalances. We should moreover bear in mind that whereas between 1999 and 2007 there was a rapid increase in German exports—in the order of 89 per cent—the contribution to this increase made by the so-called 'black sheep' countries of the 'periphery' (Greece, Ireland, Portugal, Spain) was only 6.8 per cent.¹⁹ But even at the lowest point of their current account deficits these four countries accounted for only 6.4 per cent of German exports.

Two very basic points emerge from this. First, the fall in domestic demand as a result of austerity policies in the countries of the European 'periphery' will have only a marginal effect on German exports as a whole. Over the last 20 years Germany has carried out a strategic reorientation of exports to markets beyond the eurozone, and the advent of EMU has not brought any significant modifications to this trend. For example, in 1991 the countries that were later to

¹⁸ It is nevertheless advisable to be cautious when it comes to generalizing the above-mentioned conclusions. Similarly, according to the data provided by Eurostat the appreciation of Greek real effective exchange rate (based on the unit labour cost, against the 36 countries included in the basket used by the European Commission) was -0.6 per cent in 2006, 1.3 per cent in 2007, 1.5 per cent in 2008 and 3.9 per cent in 2009, compared with -0.4, 1.6, 3.4 and 4.7 per cent, respectively, in the euro area of 16. Therefore, Greek international competitiveness in 2006–2009 (that is during the period of the noticeable deterioration in the current account deficit) 'has actually improved against the Eurozone average, while it has worsened with respect to Germany (a country in which the average annual growth of nominal compensation of employees per head in the period 2001–2009 did not exceed the 1.4 per cent) and with respect to countries which are experiencing exchange rate depreciation with respect to the Euro' (Alpha Bank, op. cit., p. 13).

¹⁹ For more on the following data see Deutsche Bank, *Global Markets Research. Germany and the Euro Area*, 30 April 2010, <<http://www.cre.db.com/marketing-research>>.

Table 4. The specificity of German vis-à-vis other European economies

	Extra-euroland exports in % of total	Total exports in % of GDP
France	50.1%	29.0%
Germany	56.5%	47.8%
Italy	54.2%	27.1%
Spain	42.6%	29.5%
Portugal	36.0%	34.8%
Greece	56.6%	22.8%
Ireland	58.2%	99.4%

Source: Eurostat (see also Deutsche Bank, *Global Markets Research. Germany and the Euro Area*, 30 April 2010, p. 30, <<http://www.cre.db.com/marketing-research>>).

comprise the eurozone absorbed 51.3 per cent of overall German exports. This proportion fell to 45.1 per cent in 1998, on the eve of the freezing of exchange rates. By 2007 the figure had fallen yet further, to 43.7 per cent.

It thus becomes comprehensible why after a recession of the order of 4 per cent in 2009 owing to the downturn in world trade, German capitalism expects to derive benefit from the increase in demand in the rest of the world (outside, that is, the neo-liberal eurozone).²⁰ Despite the fact that demand within the eurozone will remain at low levels for the coming year also, the German economy is expected to have a growth rate of 2 per cent, more than twice the optimistic 0.9 per cent predicted for the rest of the eurozone. As may be seen from Table 4, 56.5 per cent of German exports are to markets outside the eurozone, accounting for 47.8 per cent of GDP. We also see that things are expected to be entirely different in the countries of the European south. Exports from Portugal and Spain go primarily to countries inside the EMU and make only a small contribution to overall GDP. As for Greek exports, despite the fact that they go primarily to countries outside the EMU, in proportions similar to those for Germany, they do not make a significant contribution to GDP.

Moreover, this upturn in the German economy will not have significant effects on the rest of the eurozone. Before explaining why, we should draw attention to another myth, namely, that Germany is the 'black hole' in the eurozone because it exports more and more while accounting for a smaller and smaller proportion of consumption within the eurozone, cutting back on domestic demand. The reasoning behind this assertion is entirely mistaken: for instance, since the time of the euro's establishment in 1999 the volume of imports of both goods and services has increased in Germany much more, for example, than in France (48.1 per cent as against 39.5 per cent). It is simply that imports into Germany (for a number of reasons) come mainly from countries outside the EMU (to a proportion that is now in the order of 60 per cent, more than the

²⁰ State interventions in areas outside the eurozone were decisive for stimulating global demand. For example, the fiscal packages in the USA did extend significant protection to domestic demand and from the summer of 2009 onwards the current accounts deficit did start to grow again. In the developing markets, and particularly in South-East Asia, stimulation of domestic demand in China in March 2010 produced a small trade deficit for the first time since 2004. Something similar occurred in the countries of Latin America. The two last mentioned developed regions accounted in February 2010 for 40 per cent of the 10 per cent increase in European exports. We should not forget, either, that devaluation of the euro played a certain role in this upturn in exports.

corresponding figure for exports, in other words). Thus, because Germany has more trade links with the rest of the world, in terms both of export and import levels, a recovery in GDP and so in domestic demand will not have very much effect on the rest of the eurozone.

The requirement for an increase in demand at the centre as part of an attempt to offset the current account surplus, apart from being incomprehensible in terms of the philosophy of the euro, is also entirely hypocritical when put forward by agencies of state power. For example, what exactly do Greek or French officials mean when they urge their German counterparts to increase demand in their country? To increase workers' incomes and voluntarily reduce German competitiveness vis-à-vis the rest of the world? Are they in other words proposing to others what they have not only not done themselves but which they intend to conserve even if it comes to tanks being dispatched onto the streets! These are declarations that don't carry much weight. They merely serve to reflect the contradictions of the present conjuncture.

Germany needs the euro *primarily* because by means of the mechanism in question it achieves competitive profits, restructuring its labour. It defends exactly the same scheme for the eurozone as a whole: *a scheme of rude readjustment of labour and thus reorganization of competitiveness*. And it is a scheme that would never have obtained support from Germany if the latter were merely thinking about how to 'beggar thy neighbour'. Because then it would not have a vested interest in increasing the competitiveness of the capitalists of the 'periphery', particularly when this improvement would come through temporary recession which in turn would hit the exports of the centre and put at risk the accumulated financial claims. In other words, speaking (in a contradictory manner) in the language of the strategy of the euro, Germany is not simply promoting its own specific interests but is trying to elaborate an overall plan for the specific European mechanism of organizing power for the benefit of all member capitalist states (a procedure not without contradictions and tactical retreats).

The financial account imbalances and the strategic dilemma of the euro

The plan for the single currency very obviously generates strategic 'benefits' for the collective capitalists of all the countries that participate in it. We have already presented the picture in its essential outline. At the same time we see that it is based on a specific form of symbiosis between countries experiencing persistent capital inflows (which amount to current account deficits) and countries experiencing persistent capital outflows (which amount of course to current account surpluses). Hence, in order to comprehend the contradiction of the euro we should approach the imbalances within the eurozone as persistent financial account imbalances.

Let us take the things from the beginning. For a less competitive country, access to international markets can indeed be a way for implementing the strategy of exposure to international competition and for translating this potentially into high levels of growth (and an increase in productivity), but it is a rather 'ambitious' strategy. Let us see why. In the case of the euro, given that member countries cannot adopt a policy of mild protectionism and given that there is no national currency mechanism to moderate the differences in

competitiveness, *then* the less competitive countries (of the 'periphery') must be in a position immediately to impose drastic restructuring of labour. Otherwise there exists the danger of non-competitive capitalist enterprises being downgraded in a first phase (and significant sections of the workforce displaced from them) without any new parallel constitution of other more 'efficient' individual capitals.

Nevertheless, the implementation of the strategy of the euro does not go without contradictions and impediments. The restructuring of labour and the consolidation of new antagonistic forms of exploitation is inevitably a process fraught with delays and resistances. This was more or less well known from the outset. And as it has already been stressed above, the 'cost' of participation in the euro for the labour at the 'peripheral' economies was offset to some extent by the expansion of domestic banking leverage and by the inflow of investment capital (not so much in the form of FDI but mostly in the form of portfolio investments, loans, deposits and repos). At the same time, the economies of the 'centre' finance to some extent the development in the European 'periphery' (with their current account surpluses²¹) contributing to the boost of demand there and, in this sense, they indirectly encourage their own exports.²²

As we have already stressed, because the high rates of growth at the 'periphery' took place in a context of low interest rates and financial account surpluses (inflow of foreign 'savings') they have contributed to an uncontrolled proliferation of financial leverage. And this in turn has strengthened domestic demand and sustained the high rates of growth. The strong domestic demand and the extension of private debt have offset the powerful pressures for continual restructuring of labour in the countries of the 'periphery'. At the same time, this boosted domestic demand, re-oriented production towards domestic uses and arrested the improvement of competitiveness.

We thus end up confronted with what could be called *the strategic dilemma of the euro*. On the one hand, the symbiosis within the eurozone has until now been built upon persistent financial account imbalances mostly due to different rates of growth and profitability. On the other hand, without the latter it would be difficult for the eurozone to exist, because it is at the same time a way of offsetting the pressures imposed upon labour. Finally the contradiction at the heart of the EMU is more strategic in character than it might seem at first sight. Being vulnerable to unexpected and unforeseen events (as it is based

²¹ The surpluses in the current account should be seen as a form of 'national' savings.

²² Revealing are the data of Table 1. It is true that one of the reasons Germany and France have played such an important role in defusing the crisis is the overexposure of their banks to the countries of the 'periphery'. Overall the direct exposure of German banks to Greece, Spain, Portugal, and also Ireland and Italy, comes to 20–23 per cent of German GDP, in the order of 3.6 trillion dollars. The exposure of French banks to the same countries is calculated to be 27–30 per cent of the GDP of France, in the order of 2.8 trillion dollars. It should be noted that this borrowing *also* includes the state debt (yet, government debt accounted for a smaller part of euro area banks' exposure to the countries facing market pressures than claims on the private sector). The states in the eurozone borrow primarily from the banking systems of the eurozone. Indeed at the end of September 2009 the foreign claims of European banks against the public sector of member countries amounted to 2.1 trillion dollars, corresponding to more than 60 per cent of the total foreign bank claims against the states of the eurozone. See: BIS, *Quarterly Review: International Banking and Financial Markets Developments*, March 2010, <http://www.bis.org/publ/qtrpdf/r_qt1003.htm>.

exclusively on financial markets) is actually the fundamental problem with this quasi-federalism. In that case, therefore, which are the future strategic choices within the EMU?

The overall picture is not particularly favourable. The crisis most immediately hit by and large the exporting countries of the 'centre'. The countries of the 'periphery' went into a phase of fiscal crisis, with the extended private debt rapidly being converted into increased public debt and significant fiscal deficits. As a result the differences in the current account balances persisted (in apparently modified form). And it is here that things start to become extremely difficult.

To enable the countries of the 'periphery' to proceed with immediate 'correction' of their public finances and confront the spectre of excessive indebtedness,²³ essentially two possibilities remain: either the preceding mechanism can be revived with the high growth rates at the 'periphery', or there can be radical change to the structure of the balance of payments, which will have to put an end to the imbalances of the past, at least inside the EU. The present conjuncture offers little hope to the former option.

The strategic insistence on the second option means essentially two things. *First*, the EU as a whole will have to shift to a position of corresponding current account surpluses with the rest of the world, an option which will strengthen the hegemonic position of the USA in the global imperialist chain.²⁴ *Second*, improvement in the current account balance at the 'periphery' means overall reorientation of domestic economies, which can be consolidated only through recession and income deflation. What is therefore to be expected on the part of capitalist power is an attack on labour of unprecedented harshness, which will be carried out in the name of fiscal 'rationalization'.

It is however well known that policies of recession imposed in a high-debt environment considerably prolong the time required for dealing with the latter. From the moment that there is no possibility of currency devaluation, the recovery of competitiveness in the current account balance can come only through corresponding price devaluation. To the extent that the labour market is not 'flexible' enough to allow such measures, *competitiveness can be regained only through drastic reduction in incomes, recession, unemployment and a more general offensive against labour for the purpose of securing the celebrated restructuring*. This is

²³ Given the eurozone's insistence on pursuing neo-liberal strategies and the absence of fiscal tools at the federal level and a corresponding European budget.

²⁴ We lacked the time and space in the context of the present study to deal with this subject. Briefly (and more or less indicatively) we might mention the following. If the EU is added to the multitude of regions of the planet that sustain their development through an emphasis on exports, we may expect a world with more net savings at the national level (current account surpluses). The USA does not have any particular reason to pursue such a strategy. They will continue to extract other nations' surplus savings for their own benefit, seeing current account surpluses elsewhere being converted into an accumulation of currency reserves in dollars. The dollar will be reinforced in the international financial markets, where it will be deemed the undisputed international currency. The real dilemma for the USA will be having to choose between a high public or private debt. Nevertheless, the point about the USA is that it possesses a developed and dynamic financial sector which plays a central role in organization of the international financial system and will continue to some extent to 'recycle' the international supply of cheap savings as high-yield portfolio investments abroad. It is worth noting that despite its markedly negative investment position, the USA retains significant net investment income.

the a-b-c of present-day macro-economics, not so clearly formulated. For a country such as Greece this means inability to deal with the high rate of indebtedness (particularly when financial risks are re-priced), something very rapidly anticipated by the 'markets' and it has led to the developments with which we are all more or less familiar.

Let us reformulate our main insight: the fiscal rationalization policies whose implementation is under way, but also those to be imposed in the future, *are not aimed at dealing with debt but (in the final analysis) with the recovering of competitiveness and the reducing of the current account imbalances through recession.* And for precisely that reason they are not able to confront debt directly and effectively. The crisis in Greece, the international financial markets, the EU, the European Financial Stability Facility (EFSF) and the IMF unswervingly serve the harsh options of capital, essentially comprising components of a single mechanism (not without contradictions). What is never predictable, of course, are the unforeseen turns in the class struggle and the degree of social consent to be extended to such nakedly class-based policies.

By way of a conclusion: the Greek crisis

As we said before, the markets take into account the likelihood of a negative development and impose the terms for dealing with it. And to date their line of thought in the case of Greece has been simple. When the sovereign bonds of a country with a high level of debt and inside the euro are subjected to re-pricing, and this moreover in a period of recession, then the bankruptcy scenario cannot be excluded. In such a contingency the increases in the spread of sovereign and CDS (credit default swap) securities impel the decision-maker in the direction of the 'required' governmental strategies: austerity for Greece and specific interventions on the part of the EU (mechanisms for defending the euro along with the political framework necessitated by this). And to the extent that the above-mentioned orientations are not subjected to detailed elucidation, the pricing of risk will not be reduced and the spreads will remain at high levels.

Although the support mechanisms move the discussion into a specifically political framework, the strategic dilemma around the euro remains basically unsolved, and the cost of borrowing is not expected to fall anytime soon to lower levels. *Supervision by the markets will continue to lend supplementary assistance to whatever support mechanisms are implemented and so will continue to produce political results.* So behold the new strategic dilemma: if 'assistance' in the form of loans is made available on the basis of some very strict preconditions, what will happen when the latter are not observed? And how is this to be reconciled with the assurances inside the EU that no member of the EMU will be allowed to go bankrupt? Will it remain forever possible in the eurozone for such decisions to be honoured? These are reservations that emerge out of a continual reevaluation of the potential of neo-liberal hegemony in the Greek case, subjecting to a new scrutiny the limitations of the euro and the structures that support it.

On the subject of the above-mentioned argumentation, we could perhaps reformulate as follows the strategic dilemma in question: if the EU persists in

policies of unconditional support for all countries that find themselves in trouble (something extremely difficult if we are to judge from the variety of strategies clashing inside it) we are speaking about 'another' eurozone, meaning the end of the euro as we know it so far (in economic terms it will mean moral-hazard and a loophole for social benefits). If, on the other hand, Greece is allowed to go bankrupt this will trigger a significant fiscal crisis in the whole eurozone (because of the intra-European character of the debt) and it is by no means improbable that the crisis could spread to other countries with comparable fiscal problems (already there has been mention of Spain, Portugal and Ireland). We understand, then, that it is important for continuation of the euro enterprise that the support mechanism should succeed. And the mechanism will succeed only in so far as it is functioning within a framework of structural changes favouring capital.

The markets have already taken stock of this, which is why they have begun to take into account the risks of renegotiating the debt. This means that the prices of sovereign bonds are not expected to recover to any significant extent in the coming period, so that Greece will be fighting for quite a while against the spectre of bankruptcy. Even inside the support mechanisms it is impossible for the significant primary deficits to be converted into appropriate surpluses, all in the midst of a raging recession. It is entirely to be expected that the austerity to be implemented in Greece will achieve only one of its two objectives: it will smash workers' resistance but it will also usher in a spiralling of state debt. This will mean that a future restructuring becomes very probable. In one of its recent reports²⁵ the Deutsche Bank said that in a possible negative scenario a 'haircut' of the debt to the order of 75 per cent (Argentinean dimensions) would be devastating both for the European and for the international financial system while a haircut of, say, 25 per cent would probably not put Greek government finances on a stable footing. The moderate solution, that is to say, a controlled renegotiation of the order of 50 per cent, is considered more realistic. In this eventuality state debt will fall to levels of around 60 per cent of GDP. With a presumed nominal rate of growth of 4 per cent Greece will be able to run deficits within the Maastricht guidelines without danger of a further increase in its debt. If the average cost of borrowing comes to 4 per cent, the interest payments will be covered by increase in GDP and the deficit of 2.4 per cent will be able to fund public investments.

We see, then, that *creditors can get by with 50 per cent satisfaction of their claims*, an assessment not being put forward by any grouping on the extra-parliamentary Left. And here of course, the disarming question arises: *if the debt is going to be renegotiated finally to the figure of 50 per cent, why do we have to go through the stage of recession, high unemployment, income deflation and the dismantling of all of working people's rights?* Because it is precisely this that is important for the political alliance of capital! The priority is that there should be imposition of the 'laws' of capital and consolidation of aggressive strategies of exploitation, not that there should be a solution to the problem of public debt.

²⁵ Deutsche Bank, *Global Markets Research. Greece: Time to Get Down to the Hard Work*, 14 April 2010, <<http://www.cre.db.com/marketing-research>>.

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