The background to the euro crisis—Part 2

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Below is the second part of a two-part article based on a report given by Peter Schwarz, a member of the Internatinal Editorial Board of the World Socialist Web Site *and secretary of the International Committee of the Fourth International, to a meeting of the Socialist Equality Party of Germany held in Berlin on January 7, 2012. The first part was posted February 7.*

The power of the financial aristocracy

It is significant that, despite the global economic crisis, the total assets of all European millionaires has grown faster in recent years than the combined debt of all the European governments. The fortunes of these 3 million millionaires have doubled in the last 13 years, while it has taken government debt 15 years to record the same percentage increase. The total assets of Europe's millionaires currently stand at about $10 trillion. This would almost suffice to pay off the entire debt of all European countries at a stroke.

Some 830,000 millionaires in Germany alone have at their disposal financial assets amounting to €2.2 trillion. This is more than the combined debt of the country's federal, state and local authorities. One of Germany's leading business publications *Handelsblatt* has estimated that wealthy Greek individuals have stashed away €560 billion in foreign accounts, which is almost twice the entire Greek national debt.

The explosive growth of these assets is due to the intensified exploitation of the working class and massive tax cuts for businesses and top earners. If the tax cuts for big business and finance in Germany over the past decade were reversed, the state's coffers would be boosted by more than €100 billion.

These huge assets have been "leveraged," i.e., inflated by speculation. Interesting statistics are also available in this regard.

At the beginning of the twentieth century, the total assets of Britain's three largest banks equalled 7 percent of British gross domestic product (GDP). By the end of the century, their assets had climbed to 75 percent, and in 2007 they reached 200 percent.

The total assets of the three largest British banks thus amount to a sum more than double the size of the United Kingdom's gross domestic product, while the total assets of the entire UK financial sector are now five times Britain's GDP. In comparison to their own equity capital, British banks now allocate ten times as much in loans as they did a hundred years ago. At that time, the sum of all loans was three times the banks' capital resources; today it is greater by a factor of 30.

Here as well, Continental Europe follows the same trend, with a short delay. The sum of financial sector assets in both Germany and France is three times as large as their respective GDPs; in Switzerland, the record holder, it is six times as large.

As we have seen, these huge sums of capital are concentrated in the hands of a tiny portion of society. But the super-rich cannot simply hoard their wealth in vaults. As Marx put it, capital is "dead labour, that, vampire-like, only lives by sucking living labour." It is continually chasing after interest and profit. If capital is taken out of the economic cycle, it quickly loses its value.

This is the driving force of the current austerity campaign, which, in view of the historic experience of German Chancellor Brüning (1930-1931), appears to verge on madness. Government spending on education, job training, health, pensions, public services and infrastructure is regarded by the financial oligarchy as an illegitimate diversion from their accumulation of wealth, and the same holds true for wage rates and workers' rights. Despite the deep social crisis, the financial elite is unwilling and unable to give up even a fraction of its wealth and privileges. In this respect, it resembles the French aristocracy before 1789. At that time, there was only one way to finally get rid of the aristocracy—by revolution.

In this context, it is significant that all the mainstream parties, whether conservative, social democratic, Green or "left," support the current austerity programs and offer no alternatives.

Social Democratic leaders like José Sócrates (Portugal), George Papandreou (Greece) and José Luis Zapatero (Spain) have sacrificed their personal political careers and the electoral chances of their parties to enforce devastating austerity programs in the face of resistance from their own voters. Conservative leaders like Angela Merkel (Germany), Nicolas Sarkozy (France) and David Cameron (UK) set the tone for the social counterrevolution in Europe. The Greens passionately promote fiscal discipline. And the trade unions stifle any opposition to the austerity measures while cooperating closely with their respective governments.

The fact that not a single one of the established politicians proposes a serious alternative to the current economic course in itself shows that there is no solution to the crisis in the context of the existing social system.

For or against the euro

While the various wings of the national ruling elites agree on the need for austerity measures, the deepening of the crisis is provoking fierce national and political conflicts among them.

An aggressive minority is calling for the abolition of the euro and the European Union. This minority is composed of both right-wing nationalist elements (like the National Front in France, the Northern League in Italy, the UK Independence Party in Britain and ex-Federal Association of German Industry boss Hans-Olaf Henkel in Germany) and pseudo-left petty-bourgeois tendencies.

A typical representative of the latter is Professor Costas Lapavitsas of the School of Oriental and African Studies at the University of London, who writes regularly in the *Guardian* and publications such as *International Viewpoint* and *Marx21*. Lapavitsas advocates Greece's return to the drachma. He justifies his proposal by arguing that this would once again make the country sovereign over its own monetary policy, devalue the currency, increase exports and bring about an economic recovery.

Professor Lapavitsas thus proposes to replace the impoverishment of the Greek working class through the austerity dictates of the troika with an inflationary policy that would slash real wages, pensions and savings and lead to the same type of impoverishment by a different route.

Lapavitsas' recommendation amounts to a proposal for the Balkanisation of a Europe that has become closely interwoven economically. The consequences of such a development would be just as catastrophic as the dissolution of Yugoslavia in the 1990s. It would trigger violent armed conflicts over borders and property as well as ethnic cleansing and civil wars. A study by the Swiss banking giant UBS has warned about the consequences of a possible withdrawal of Greece from the euro zone, stating: “It is noteworthy that hardly any modern monetary union has collapsed without the emergence of some form of authoritarian or military regime, or the outbreak of civil war.”

However, the disastrous implications of a Balkanisation of Europe do not mean that we should defend the euro and the European Union. The claim that the EU is equivalent to the unification of Europe was always a lie. The EU's task has not been to reconcile economic, social and national contradictions, but to strengthen European big business against its global rivals. To this end, it has increased the power of Europe's largest corporations and industrial groupings while reducing wages and social standards, destroying the livelihoods of working people, and driving whole countries into bankruptcy. Ultimately, this leads to the break-up of Europe as well.

The issue of strengthening the global competitive position of European capital underlies all of the debates about the European Union. At the beginning of the new millennium, an EU summit in Lisbon formulated the goal of making the European Union “the most competitive and dynamic knowledge-based economy in the world.” It was left to propagandists like the German philosopher Jürgen Habermas, the historian Heinrich August Winkler and the Greens' Joschka Fischer to portray the EU as the culmination of a long evolution towards democracy and European harmony.

The widely promoted idea that the introduction of a common currency would automatically lead to the mitigation of antagonisms within Europe has also proven to be an illusion. In fact, the opposite has occurred and conflicts have increased.

The German economy has profited most from the euro and strengthened its dominant position, while weak states have grown even weaker. German industry has more than doubled its exports since the introduction of the euro. In 2007, it recorded a trade surplus of nearly €200 billion, while 19 of the 27 EU members recorded a foreign trade deficit.

The euro ensured that the German currency remained stable and comparatively low in value both at the European and international level, which was extremely advantageous for the German export industry. Had the German mark been retained, its exchange rate would have increased significantly. The introduction of the euro had the opposite effect on the economically weaker countries of southern and eastern Europe. Their trade and industry were unable to compete with imports from the stronger member countries. Prices—and, to a lesser extent, wages—rose and undermined competitiveness. Unlike in the past, this situation could no longer be redressed by a devaluation of national currencies.

The widening gap was not immediately visible. The introduction of the euro gave the weaker countries access to loans at favourable rates. This triggered construction and speculation booms in Spain and Ireland. However, only the elite and certain sections of the middle classes benefited, while the euro meant rising prices for the working class from the very start as well as overwhelming competition for small businesses. The boom finally burst with the outbreak of the international financial crisis.

Numerous statistics demonstrate how greatly social and economic divisions within the European Union have deepened since the introduction of the euro. The average annual income of a worker in a larger company fluctuates by as much as a factor of 20—between €43,000 in Denmark and €1,900 in Bulgaria, according to statistics from 2006. Greece and Spain occupy the middle position, at €20,000.

The financial crisis of 2008 brought these underlying antagonisms to the surface. European banks were hit hard. They had invested heavily in toxic US bonds. In Spain, the property bubble burst, and in Ireland, the banking system collapsed. European governments responded by using huge amounts of public funds to rescue the banks and stimulate the economy.

This is one of the main reasons for the rise in government debt. Within a short period, the total debt of the Irish state rose from 25 percent of GDP to 100 percent because the government decided to issue a guarantee covering all of the speculative losses of the banks.

Now, the financial markets are using public moneys from the bank bailouts to speculate against various states that incurred massive debts by rescuing the banks in the first place. The internal contradictions and relatively high public spending ratios make Europe particularly vulnerable.

All of the established parties, as well as the trade unions, are now demanding that the working class make sacrifices for the preservation of the European Union and the rescue of the euro. We categorically reject this position. There is nothing about the EU and its institutions that is progressive or worth defending. We will not be intimidated by the threat that a failure of the EU would have terrible consequences.

Balkanisation (the break-up of the EU into its individual components) and austerity (the “rescue” of the EU through cuts in social spending and the reduction of wages) are merely two different strategies employed by financial capital to attack the working class. It is not our job to support one or another of the bourgeois camps in this conflict. That, however, is precisely what the policy of the pseudo-left organisations boils down to. They are arguing fiercely over whether they should join the EU proponents or opponents in the ruling class.

We stand for an independent perspective that will allow the working class to intervene in political events on its own behalf. Central to our perspective is the unification of the European working class in the struggle for a socialist program.

In the era of the world economy, the economic and cultural potential of the Continent cannot develop without overcoming its division into numerous small states. But such a union is unthinkable under capitalism. At the beginning of the last century Leon Trotsky had already pointed out that the bourgeoisie is organically incapable of uniting Europe. The only conceivable form of “unity” for them is the subjugation of weaker nations by the strongest, as Germany tried and failed to do in the First and Second World Wars.

Trotsky's analysis has been confirmed by the present crisis. The European Union has become a synonym for the destruction of the livelihoods of working people, and its policies have been met everywhere with anger, hatred and opposition. The only conceivable form in which Europe can truly be united is the United Socialist States of Europe: a federation of workers' governments that expropriate the big banks, corporations and assets of the super-rich and place these resources at the service of social need instead of private profit.

Fiscal discipline, or opening the monetary floodgates

Alongside differences over the future course of the EU, the ruling classes are divided over monetary policy. The German government, in particular, insists on rigid fiscal discipline, while the US, British and to some extent the French government demand a more generous fiscal policy. They want to relieve the pressure on interest rates for heavily indebted countries by issuing euro bonds and solve the liquidity problems of banks by allowing the European Central Bank to print money.

They are not proposing job creation schemes, infrastructure projects or other measures like those undertaken by the US administration of Franklin D. Roosevelt in the 1930s as part of the New Deal. Instead, they propose to supply more money to the banks. All of the advocates of a more generous fiscal policy simultaneously demand cuts in public spending.

On this issue as well we refuse to line up with one or the other bourgeois camp. The Social Democratic Party (SPD), the Greens and the Left Party in Germany all advocate euro bonds and a more stimulative monetary policy by the European Central Bank. In the 1930s, Trotsky wrote decisively on a similar issue in his “Program of Action for France.” He said:

To try to emerge from the chaos in which it has plunged the country, the French bourgeoisie must first resolve the monetary problem. One section wants to do this by inflation, i.e., the issuing of paper money, the depreciation of wages, the raising of the cost of living, the expropriation of the petty bourgeoisie; the other by deflation, i.e., retrenchment on the backs of the workers (lowering of salaries and wages), extension of unemployment, ruin of the small peasant producers and the petty bourgeoisie of the towns.

Both alternatives mean increased misery for the exploited. To choose between these two capitalist methods would be to choose between two instruments with which the exploiters are preparing to cut the throats of the workers. (...)

To the program of deflation, of the reduction of their means of existence, the workers must counterpose their own program of fundamentally transforming social relations by the complete ‘deflation’ of the privileges and profits of the band of Oustrics and Staviskys [speculators] who exploit the country! This is the only road to salvation.

Today, little needs to be added to these words. The fight for the United Socialist States of Europe is inextricably connected to the mobilisation of the working class to defend all of its social and democratic gains. This requires a political and organisational break with all parties and trade unions that defend capitalism and the building of sections of the International Committee of the Fourth International all over Europe.

Concluded