IMF calls for radical reform of the European welfare state

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The enormous costs of rearmament, the consequences of the international trade war and the profit demands of banks and companies are incompatible with the welfare state, as it emerged in Europe after the Second World War. Pensions, healthcare and many other government services can no longer be financed in their current form. Rigorous austerity measures and further deregulation of the economy are inevitable.

These are the main conclusions of the International Monetary Fund's report on the economic situation in Europe, which the IMF's European director, Alfred Kammer, presented to a gathering of bankers in Brussels November 4. The report, titled "How can Europe Pay for Things it Cannot Afford?" paints a dramatic picture of the financial and economic situation.

"Europe is facing daunting fiscal pressures from new policy priorities (for example, defense, energy security), the escalating costs of population aging (pensions and health care) and a rising interest bill on already high debt," the report's introduction states. "Without prompt policy action, public debt levels could more than double for the average European country in the next 15 years. This could drive up interest rates, slow down already sluggish economic growth, and undermine market confidence."

As countermeasures, the report calls for structural reforms and budget cuts. However, this is not enough for highly indebted countries, "leaving no option other than a deeper rethink of the scope of public services and the social contract to fill the gap." Delaying action would further deteriorate the fiscal position "and make the task for policymakers even more challenging."

"We are all familiar with the difficult fiscal landscape in the region," said Kammer when presenting the report. In fact, however, the situation was even worse. Additional spending on defence, energy security, higher pensions and healthcare costs would amount to 4.5–5.5 percent of GDP by 2040, rising debt and interest rates would lead to an increase in the interest burden and mediocre growth prospects would weigh on tax revenues and increase debt pressure.

Therefore, it was "abundantly clear that doing nothing is not an option!" If current policies were maintained, the debt ratio of European countries would rise sharply over the next 15 years, reaching an average of 130 percent—40 percentage points above sustainable levels and 70 percentage points more than the European fiscal framework allows. EU countries would then have to save 3.5 to 5 per cent of GDP in order to consolidate their public finances. This "is an almost impossible feat and would require deep cuts into the European model and social contract."

Editorials in the media leave no doubt as to what this means. "It is high time that governments cut back on sprawling social welfare systems. Not with nail scissors, but with a scythe," writes T-Online. Politicians need the "courage to impose tough cuts on citizens—including their voter base."

And further:

> Anyone who sees how difficult it is for the SPD to cut even a few million from the welfare state fat, or how irresponsibly France's left-wing parties prevent any cuts to the luxurious pension system, may doubt that Europe is capable of saving itself from this mess. But there is no alternative; that is the bitter but true message from the IMF.

Workers should take this threat seriously. There is indeed no alternative as long as capitalist private property remains untouched and profit interests take precedence over social needs. Anyone who promises—like the Left Party in Germany or Mélenchon's LFI in France—that all one has to do is vote for them and they will then stop and reverse social cuts without touching capitalist rule is a fraudster.

The attack on the social gains that European workers won in fierce class struggles after the Second World War began more than 40 years ago. And reformist and supposedly left-wing parties have regularly capitulated to the dictates of the financial markets.

This began with François Mitterrand, who was elected French president in 1981 on a promise of social reform and, after less than two years, switched to a brutal austerity program. When the Social Democrats returned to power in most European countries after two decades of conservative rule, it was British Prime Minister Tony Blair and German Chancellor Gerhard Schröder who led the most comprehensive attack on working conditions and social benefits to date. And in July 2015, Greek Prime Minister Alexis Tsipras of the pseudo-left Syriza party capitulated to the austerity dictates of the IMF, ECB and EU, which the people had rejected in a referendum just a week earlier.

As a result of these policies, a filthy rich oligarchy has emerged, owning billions, while the majority of the population finds it increasingly difficult to make ends meet. The oligarchy defends its wealth by any means necessary. In the struggle for markets, raw materials and profits, trade wars and military force have replaced "free competition," while internally, resistance to war and social cuts is suppressed with dictatorial measures.

This is most evident in the United States, where Donald Trump is establishing a presidential dictatorship and sending troops into the cities. But Europe is following the same path, as the IMF report makes clear. The "deep cuts into the social contract" it declares inevitable can only be enforced through authoritarian measures.

However, there is an alternative to this development. It can be stopped by the working class. To do this, action committees must be formed to defend jobs, wages and living standards, resist war and dictatorship, and coordinate these struggles. They must become the starting point for a socialist transformation of society. Nothing can be achieved without infringing upon the fortunes of the billionaires and their control over banks, corporations and real estate. These must be socialised and placed under the democratic control of the workers.

This is the perspective advocated by Socialist Equality Party and its fraternal parties in the International Committee of the Fourth International.