

Austerity is Killing the European Union. The Tremors of “Exits” are Everywhere

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“When you are driving down the autobahn, and everyone else is driving in the opposite direction, you may think what you are doing is right, but you are still wrong.”[1] That, coming from Germany’s finance minister, Wolfgang Schäuble, could not state the position more starkly. Come Sunday, the Greek people may well have a voice in terms of whether they will accept the latest round of brutal austerity measures, but that is no where near as important as the sovereign entitlement of the creditors.

The critics of the Greek crisis continue to demonstrate a profound ignorance of that basic concept of risk in any business of borrowing. The creditor is treated as a supreme being, and can avail itself of a range of options, including that erroneous notion of full recovery of its loan. The debtor is only superficially treated on an equal footing, receiving credit in order to undertake immediate tasks. The freedom to contract has always distorted such relations, hiding inequalities and obscuring the realities of the external environment.

Layer this with a financial zone where decisions are made hundreds of miles away from the relevant country suffering a debt crisis, and the problem is compounded. What the Tsipras government is currently relying upon are decisions being made, to take one example, in Frankfurt, where the ECB is proving drip-feed finance for the Greek banking sector. This is not a sustainable, let alone justifiable arrangement. Europe’s populist parties agree.

Schäuble’s statement also has another, even sinister dimension. It is clear that Germany is driving one way, and other European states are going in another. It might not be an autobahn, and that may be precisely the problem. We can see this manifest in such comments as those of Mike Gonzalez, writing in *Forbes* magazine (Jul 1).[2] His warning starts off with a premonition: what will other anti-austerity parties in Europe do? “Sick of what Greece is doing to your 401(k)? Well, there’s bigger threat looming in the form of a far leftist movement in a larger Mediterranean country.”

That movement finds form in Podemos, a force snaking its way through local elections and threatening at the national level. Their narrative is not so much anti-European as anti-austerity and reformist. Dead ideas should be cut away to make way for the new. That still bothers Gonzalez, as the “We Can” movement “doesn’t care about your capitalist savings.”

Spain’s Podemos, expressing noisy dissatisfaction from the barricades of the Left; the National Front of Marine Le Pen in France articulating her disagreement from the sceptical forces of the Right. All furious at what has gone wrong, all, curiously and in some ways disconcertingly united in one barn storming message. That is what the Greek crisis, and the national referendum on the austerity plan, has done to Europe.

On Bloomberg Television, Le Pen was pointed: “Today we are talking about Grexit, tomorrow it will be Brexit, and the day after tomorrow it will be Frexit.”[3] With a flourish, Le Pen suggested that she would be “Madame Frexit if the European Union doesn’t give us back our monetary, legislative, territorial and budget sovereignty.”

Former UK minister for Europe, Denis MacShane, has peered over the fence of the Brexit camp, and finds enthusiasts chortling with joy at the Greek malaise. “Greece makes their case.” For MacShane, Britain’s conservative politicians have taken the crude tools of 18th century surgeons to bleed the patient that is Europe. “They are gloating in exultation now” (*Politico*, Jul 2).[4] Should Brexit result, however, it will not be because of any cooling to austerity dogmatism. The Tories have always been the party of scorched earth economics. Their loathing is, rather, for Europe as an idea. Brussels was always the enemy in their schema.

To the west, Ireland is also appearing on the radar of anti-austerity politics. Much of this was triggered by the daft proposal for a water tax. Such a measure would have made the Troika proud. For such reasons, Greece’s Syriza can count on friendly support from such groups as the Anti-Austerity Alliance and Sinn Féin. In an *Irish Times* poll conducted in May, the latter party came in behind Fine Gael, with 21 percent.

In Italy, where public debt exceeds 2 trillion euros, the Greek situation is also providing fuel for anti-austerity parties sceptical of Europe’s bullying tactics and pro-creditor bailiffs. While the leadership of Prime Minister Matteo Renzi and President Sergio Mattarella march to the tune of German austerity, the Five Star movement of Beppe Grillo and the Left Ecology Freedom movement of Nichi Vendola do not. According to Metapolls, they trail Renzi’s Democratic Party by only 12 percent, and represent a quarter of Italians at the polls (*International Business Times*, Jul 2).[5]

The tremors of such exits are everywhere and the calculators have come out examining the possible losses that might happen to an assortment of industries. German car manufacturers, to take one example, warn that a British exit from the EU will cause far more harm than any Greek variant. A fifth of all cars made in Germany, totalling some 820,000 vehicles, went to the British market (*Financial Times*, Jul 2).

Ever having his industry’s interest at heart, Matthias Wissmann of the VDA, Germany’s automotive industry association, said on Thursday that, “Keeping Britain in the EU is more significant than keeping Greece in the euro.”[6]

Greece’s finance minister, Yanis Varoufakis, has not suggested that Sunday’s referendum will finalise anything by way of a high noon shoot out. It is, rather, the means of bringing greater negotiating power to the table, in the event that his government gets a “No” vote. “People have described this as a Wild West showdown but it is not a ‘yes or no, take it or leave it’ situation.”

Those on the other side of the monetary equation are suggesting that such a view is sentimental at best. Emergency Liquidity Assistance, claims Josef Bonnici, a member of the European Central Bank Governing Council, “is not an infinite fund.”

Austerity is not only killing Greece; it is poisoning the European idea. Opponents are mustering their forces. The unravelling of that idea will have devastating consequences far

beyond the boring chatter of dividend returns, accumulating interest, and bond yields. That is the calamity the Troika should well worth consider ahead of July 5.

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Note

[1] <http://www.nytimes.com/interactive/2015/07/01/business/international/what--key-players-are-saying-about-greek-crisis.html>

[2] <http://www.forbes.com/sites/mikegonzalez3/2015/07/01/spains-podemos-could-make--greece-look-like-childs-play/>

[3] <http://www.bloomberg.com/news/articles/2015-06-23/call-me-mrs-frexit-le-pen-sees-france--euro-exit-next>

[4] <http://www.politico.eu/article/grexit-brexitee-greece-crisis-eurozone-eu-membership--referendum-uk/>

[5] <http://www.ibtimes.com/greek-default-anti-austerity-dead-european-leaders-watching--greece-crisis-ahead-local-1992523>

[6] <http://www.ft.com/cms/s/0/f6cda050-20bb-11e5-aa5a-398b2169cf79.html#axzz3emkeUT3Q>

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