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# The Euro Crisis, Contradictions between Countries in the Periphery and Centre of the European Union

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*The crisis that started in the United States in 2007-2008, hit the European Union head on in 2008, and has been causing major problems in the eurozone since 2010. |2| Banks from the strongest European countries are responsible for spreading this plague from the United States to Europe, because they had invested massively in structured financial products. It is important to explain why this crisis has struck the European Union and the eurozone harder than the United States.*

18 of the 28 countries in the European Union share a common currency, the euro. |3| The population of the EU is about 500 million people, |4| about half the population of China, Africa, or India, 2/3 of Latin America, and 50% more than the USA.

There are major differences between countries in the European Union. Germany, the United Kingdom, France, the Netherlands, Italy, Belgium, and Austria are the most highly industrialised and powerful countries in the EU. 11 countries are from the ex-Eastern European bloc (3 Baltic Republics — Estonia, Lithuania, and Latvia; Poland, the Czech Republic, Slovakia, Hungary, Bulgaria, and Romania, which were part of the Soviet bloc, and Slovenia and Croatia, which were part of Yugoslavia). Finally, come Greece, Portugal, Ireland, Spain, and Cyprus, which have been brutalised by the eurozone crisis.

Large private corporations are taking advantage of wage discrepancies

Wage discrepancies are very significant: the minimum wage in Bulgaria (in 2013, the gross monthly salary is 156 euros) is less than one tenth of what it is in countries like France, Belgium, and the Netherlands. |5| Wage discrepancies within European Union countries can also be very significant. In Germany, 7.5 million employees earn a paltry monthly salary of 400 euros, whereas the normal monthly salary in Germany is more than 1200 euros (there is no national legal minimum wage in Germany). This discrepancy enables major European corporations, particularly German industrial corporations to be very competitive, because they outsource part of their production to countries like Bulgaria, Romania or to other Central and Eastern European countries, and then transport the parts back to Germany where they are assembled into final products. Finally, they export within the EU or to the global market after having cut the cost of wages to the bone. To top it all off, they pay no import/export taxes within the EU.

Increasingly large differences between countries

The EU's refusal to develop coherent policies to help the new members to reduce their economic disadvantages with respect to the wealthiest European countries has greatly

contributed to exacerbating these structural differences, and thereby undermining the EU integration process. The European treaties have been designed to serve the interests of the major private corporations, which benefit from the differences between the economies in the EU to increase their profits and be more competitive.

The EU budget is minuscule: it only represents 1% of the EU's gross domestic product, whereas a normal budget of an industrialised country would represent 45-50% or more of its GDP, as is the case of the United States federal budget and the French national budget. To give an idea of just how minuscule the budget managed by the European Commission is, it is comparable to that of Belgium that has 10 million inhabitants (1/50 of the EU population), and nearly 50% is earmarked for the common agricultural policy.

The crisis was not caused by foreign competition

The crisis is not due to competition from China, South Korea, Brazil, India or other emerging countries.

For the past 10 years, Germany (and also the Netherlands and Austria) has been pursuing a neo-mercantilist trade policy: it has succeeded in increasing it exports, particularly within the European Union and the eurozone by squeezing workers' wages in Germany. |6| It has thereby increased its competitiveness compared to its partners and in particular countries like Greece, Spain, and Portugal, and even Romania, Bulgaria, and Hungary (which are not part of the eurozone). A trade deficit has piled up in these countries with respect to Germany and other stronger European economies.

The euro straitjacket

When the euro was created, the German currency was undervalued (as requested by Germany) and the currencies of weaker countries were overvalued. That made German exports more competitive in the markets of other European countries, and the weakest, such as Greece, Portugal, Spain, and the Central and Eastern European countries were the hardest hit.

Generally speaking, within the EU, the debt of peripheral countries is essentially due to the behaviour of the private sector (banks, construction companies, big industry, and trade). Incapable of competing with the strongest economies, the private sector in these countries has gone into debt vis-à-vis banks in Europe's Central economies (Germany, France, the Netherlands, Belgium, Austria, Luxemburg,…) and domestic agents, since the economies of these countries have experienced a high degree of financialization since they adopted the euro. Consumption boomed in the countries concerned, and in some of them such as Spain, a real estate bubble developed and subsequently burst. The governments in these countries came to the rescue of the banks, leading to a major increase in public debt.

Obviously, countries that are in the eurozone cannot devalue their own currency, since it is now the euro. Likewise, countries like Greece, Portugal, and Spain are in a catch-22 situation due to their eurozone membership. European authorities and their national governments have been applying what has come to be called internal devaluation: they impose wage cuts on employees, which are transformed into profits for the directors of major private corporations. Internal devaluation is therefore synonymous with decreased wages. It is used to increase competitiveness; however, it has not proven to be very effective in terms of creating economic growth because at the same time austerity policies and salary cuts have

been applied in all of the countries concerned. On the other hand, corporate directors are very happy, because they have been long intent on radically cutting wages. From this point of view, the eurozone crisis, which became very acute as of 2010-2011 has been a godsend for corporate directors. The legal minimum wage has been drastically cut in Greece, Ireland, and other countries.

A single capital market and a single currency

Whereas the crisis first erupted in the United States in 2007, its impact has been much more violent on the European Union than on US political and financial institutions. In fact, the crisis that has been shaking the eurozone is not a surprise. It is an avatar of the two principles governing this zone: a single capital market and a single currency. More broadly speaking, it is the consequence of the mindset shaping European integration, which is based on the priority given to the interests of major private industrial and financial corporations, the active promotion of private interests, the fact that within the eurozone, economies and producers of unequal strength have been put in direct competition with each other, the desire to withdraw a growing number of activities from the public services; the competition created between employees from and within different countries, and the refusal to standardise employees' health care and other social rights upwards. All of these aspects are part of a clear objective – to favour the accumulation of the maximum amount of profit for the private sector, in particular by providing Capital with a labour force that is as malleable and precarious as possible.

The private banks have a monopoly for lending money to the States

In reply to my explanation, some might retort that the same mindset shapes the US economy. We must therefore also consider other factors: whereas the credit needs of the governments of other developed countries, including the United States, can be satisfied by their central bank, notably by printing money, eurozone member states have relinquished this possibility. The European Central Bank is legally forbidden from directly financing its Member States. In addition, in accordance with the Lisbon Treaty, financial solidarity between Member States is expressly forbidden. According to Article 125, the Member States must assume alone their financial commitments – neither the Union nor the other Member States can be liable for or assume them. |7| Article 101 of the Maastricht Treaty, |8| which was included word for word in the Lisbon Treaty, |9| adds:

"Overdraft facilities or any other type of credit facility with the ECB or with the central banks of the Member States […] in favour of Community institutions or bodies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited."

We see then that the EU voluntarily serves the interests of the financial markets, for even in normal times the governments of eurozone countries are totally dependent on the private sector for their funding needs. Institutional investors (banks, pension funds, and insurance companies) and hedge funds pounced on Greece in 2010, because it was the weakest link in the European debt chain, before attacking Ireland, Portugal, Spain, and Italy. By acting this way, they made juicy profits, because they were highly remunerated in terms of the interest rates paid by the various government agencies to refinance their debt. Private banks made the highest profits among these institutional investors, because they could borrow money directly from the European Central Bank at a 1% rate of interest, |10| while at the same time, offering 90-day loans to Greece at rates of 4% to 5%. By launching their attacks

against the weakest links, the banks and other institutional investors were also convinced that the European Central Bank and the European Commission would be forced to assist the States that were victims of speculation by lending them money that would enable them to continue paying back their debts.

They were right. In collaboration with the IMF, the European Commission gave in, and used the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) to grant loans to some eurozone Member States (Greece, Ireland, Portugal, and Cyprus), so that they could first pay back the private banks of the wealthiest countries in the UE. This action was in violation of the aforementioned Article 125 in the Lisbon Treaty. However, it respected the neoliberal spirit of the Treaty: indeed, the EFSF and ESM borrow the financial resources they lend to States on the financial markets. In addition, drastic conditions have been imposed: privatisations, lower wages and pensions, layoffs in the public sector, decreases in public spending in general, and for social services, in particular.

It is worth making a small reminder. Whereas EU regulations do not allow the European Central Bank to lend to EU Member States, the situation is very different in the United States where on average the Federal Reserve loans $40 billion per month to the Obama administration by purchasing treasury bonds (which represents $480 billion per year). The same is true in the United Kingdom, which is not part of the eurozone, where the Bank of England makes massive loans to the British government. The rules being applied in the eurozone are making their crisis worse than it is in the United States or the United Kingdom.

Misguided policies are exacerbating the crisis

The policies applied by the European Commission and national governments since 2010 have only worsened the crisis, and particularly in the weakest eurozone countries. By reducing government demand and market demand, the possibilities for economic growth have been more or less eliminated.

From the point of view of corporate owners, the policies proposed by European leaders are not a failure

The leaders of the wealthiest European countries and the owners of its largest corporations are very pleased that there is a common economic, trade, and political zone in which European multinationals and the economies at the centre of the eurozone can benefit from the fiascos unrolling in the peripheral eurozone countries to make corporations more profitable, and mark points vis-à-vis in terms of their competitiveness with respect to their North American and Chinese competitors. Their objective, in the current phase of the crisis, is not to revive growth and decrease the gaps between the strong and weak economies in the EU.

Indeed, they believe that the economic disaster in southern Europe will present opportunities for the massive privatisation of public corporations and commodities at cut-rate prices. The intervention of the troika and the active complicity of the governments in the peripheral countries are helping them. The major capital owners in the peripheral countries are favourable to these policies, because they themselves are counting on getting a piece of the cake they have been eyeing up for so long. The privatisations in Greece and Portugal prefigure what is going to occur in Spain and Italy, where the public commodities potentially up for grabs are much more significant given the size of these two economies.

To consider that the policies applied by European leaders have failed, because they have not produced economic growth, is to err greatly on the criteria of analysis. The goals of the ECB, the European Commission, the governments of the strongest economies, bank boards, and other big businesses are neither a quick return to growth, nor a reduction of the inequalities within the eurozone and the EU, which would create a more coherent union and a return to prosperity.

One fundamental point should not be forgotten: the ability of the technocrats, who obediently serve the interests of big business to manipulate a crisis, or a chaotic situation, in favour of Capital – they no longer bother to dissimulate their close complicity. Many high ranking politicians, ministers, and the ECB President have spent part of their careers in major financial corporations such as Goldman Sachs. Others have been rewarded by one of the big banks, with a high level post, for having faithfully applied policies favourable to finance while in office. This is nothing new, but it is more apparent and widespread than at any time over the last fifty years. There is a real "revolving doors" phenomenon at play today.

The social effects of the crisis

What wage earners and benefits claimants in Greece, Portugal, Ireland, and Spain are currently experiencing has been imposed on the developing countries since the debt crisis of the 1980s and 1990s. During the 1980s, workers in North America were also attacked, starting with the Reagan Presidency, UK workers were hit by the iron fist of Margaret Thatcher, and their neo-liberal admirers in Europe have applied the same policies. Workers in the ex-Eastern Bloc countries were also subjected to the brutality of their governments and the IMF. Then, in a less malicious manner than in the Third World (from very poor to developing) countries, German workers were attacked between 2003 and 2005. Many of them still feel the unpleasant effects today; even if Germany's exporting success |11| has reduced the effects on unemployment and part of the working classes has not directly experienced the consequences.

In Greece, Ireland, Portugal and Spain the crisis was worsened during 2012 – 2013 by due to the brutal austerity policies applied by the governing bodies in compliance with the Troika. In Greece, the total loss of GDP amounted to 25%, and the loss of purchasing power for much of the population has been between 30% and 50%. Unemployment and poverty have literally exploded. While in 2012 all the media and official announcements claimed that the national debt had been reduced by half, |12| the truth is quite different. Greek public debt, which was equivalent to 130% of GDP, in 2012, after debt write-downs, it had nevertheless jumped to 157% and reached a new peak of 175% in 2013. Over a similar period unemployment has grown from 21.6% in 2010 to 27% in 2013 (50% for the under 25s). In Portugal, austerity measures have been so violent that one million Portuguese rallied spontaneously on 15 September 2012, the biggest turn-out since the 1st May 1974 celebration of the Carnation Revolution.

The failure of austerity measures has caused a government crisis. In little mentioned Ireland, unemployment is enormous, 182,900 young Irish between 15 and 29 have left the country since the crisis began in 2008. One third of the youth have lost the jobs they had before the crisis. The bank bailouts have cost close to €70 billion, about 40% of Irish GDP, which amounted to €157 billion in 2011. The economy has slowed down by 20% since 2008, and the government has reaffirmed that it will eliminate 37,500 public sector jobs by 2015. In Spain, 50% of the young are unemployed, and 350,000 families have been evicted from

their homes because of mortgage arrears. In 2012, the number of families in which there is not one person employed increased by 300,000 to 1.7 million (about 10% of all Spanish families). The situation in the ex-Eastern Bloc countries is getting worse and worse, particularly those in the eurozone.

A People's Europe based on international solidarity

Only powerful popular action can halt the strategy rolled out by the dominant classes. The popular movements must build a continent-wide strategy of resistance. Leaders everywhere are using the pretext of debt to justify and impose policies that are undermining the economic and social rights of the vast majority of people. If the social movements, including the Trade Unions, really want to win this battle, they must take the debt question by the horns in order to deconstruct one of the principal arguments repeated by those in power. The essential measures needed to manage the current crisis of capitalism differently |13| include abolishing the illegitimate part of public debt, abandoning austerity politics, heavily taxing Big Capital, expropriating the banks so they can be integrated into a public deposit and credit service, decreasing the number of hours worked, ending privatisations, and developing public services instead.

This process may start in one country, or spread from one country to another, but it cannot stop at national boundaries. An authentic constituent assembly bringing together European peoples must be created to abrogate numerous European treaties, and give rise to a federation that will be given the responsibility of, above all else, guaranteeing Human Rights in all their aspects. At the same time, policies must be implemented that break with the "productivist" consumer society, so that nature and its limits are respected. From this process will emerge a Europe of its peoples that will reconsider its relations with the rest of the World, and return to other peoples, on other continents, what has been taken from them through centuries of European domination and plundering.

*Translation : Charles La Via and Mike Krolikowski*

Notes

|1| This document is based on a talk I gave on the euro crisis on 31 October, 2013 in the Ethnology Department at Port au Prince University (Haiti). I would like to thanks Michel Carles for taking the notes that inspired me to write this article.

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|3| The eurozone was created in 1999 by eleven countries: Germany, Austria, Belgium, Spain, Finland, France, Ireland, Italy, Luxemburg, the Netherlands, and Portugal. They were joined by Greece in 2001, Slovenia in 2007, Cyprus, and Malta in 2008, Slovakia in 2009, Estonia in 2011, and Latvia on 1 January 2014.

|4| http://en.wikipedia.org/wiki/Demogr...

|5| See in particular http://www.inegalites.fr/spip.php?a..., which unfortunately provides data only up to 2011.

|6| See Eric Toussaint, "The greatest offensive against European social rights since the Second World War," http://cadtm.org/The-greatest-offen...

|7| Article 125 of the Lisbon Treaty (2009): "The Union shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project" (my emphasis).

|8| This is the treaty that created the European Economic Community.

|9| Article 123.

|10| Since May 2013, the ECB has been lending money to banks at a rate of 0.5%. We can also add that the ECB has made its quality requirements (ratings) more flexible for the securities banks provide as a guarantee when they borrow cash. Indeed, the minimum rating required by the ECB for these bank securities has been suspended "until further notice"...

|11| Germany has had economic growth driven by exports, whereas most of its EU and especially eurozone partners have been hard hit by the crisis. As there has been a general decrease in demand, due to cuts in public spending and a drop in household consumption, outlets for German products have sharply decreased. A boomerang effect is already hitting the German economy.

|12| The CADTM denounced the propaganda efforts by the Troika and the Greek government from the outset. See: "The CADTM condemns the disinformation campaign on the Greek debt and the rescue plan by private creditors", http://cadtm.org/The-CADTM-condemns-the published 10 March 2012. See also Christina Laskaridis, "Greece already defaulted on the creditors' terms; what they fear is default on the debtor's terms",
http://cadtm.org/Greece-already-def... published 31 May 2012.

|13| For a development of these propositions, see: Damien Millet, Eric Toussaint. Europe: What emergency programme for the crisis? http://cadtm.org/Europe-What-emerge... published 10 June 2012. See also: Thomas Coutrot, Patrick Saurin, and Éric Toussaint, "Cancelling debt or taxing capital: why should we choose?" http://cadtm.org/Cancelling-debt-or... published 2 November 2013

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