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The Neoliberal Experiment and Europe's anti-Austerity Strikes: Governments must Lower Wages or Suffer Financial Blackmail

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While Labor Unions celebrate Anti-Austerity Day in Europe, the European Neoliberals raise the ante:

Most of the press has described Wednesday's European-wide labor demonstrations and strikes across in terms of the familiar exercise by transport workers irritating travelers with work slowdowns, and large throngs letting off steam by setting fires. But the story goes much deeper than merely a reaction against unemployment and economic recession conditions. At issue are proposals to drastically change the laws and structures of how European society will function for the next generation. If the anti-labor forces succeed, they will break up Europe, destroy the internal market, and render that continent a backwater. This is how serious the financial coup d'etat has become. And it is going to get much worse – quickly. As John Monks, head of the European Trade Union Confederation, put it: "This is the start of the fight, not the end."

Spain has received most of the attention, thanks to its ten-million strong turnout (reportedly half the entire labor force). Holding its first general strike since 2002, Spanish labor protested against its socialist government using the bank crisis (stemming from bad real estate loans and negative mortgage equity, not high labor costs) as an opportunity to change the laws to enable companies and government bodies to fire workers at will, and to scale back their pensions and public social spending in order to pay the banks more. Portugal is doing the same, and it looks like Ireland will follow suit – all this in the countries whose banks have been the most irresponsible lenders. The bankers are demanding that they rebuild their loan reserves at labor's expense, just as in President Obama's program here in the United States but without the sanctimonious pretenses.

The problem is Europe-wide and indeed centered in the European Union capital in Brussels. This is why the major protests were staged there. On the same day that the strikers demonstrated, the neoliberal European Commission (EC) outlined a full-fledged war against labor. Fifty to a hundred thousand workers gathered to protest the proposed transformation of social rules by the most anti-labor campaign since the 1930s – even more extreme than the Third World austerity plans imposed by the IMF and World Bank in times past.

The neoliberals are fully in control of the bureaucracy, and they are reviving Margaret Thatcher's slogan, TINA: There Is No Alternative. But there is, of course. In the small Baltic economies, pro-labor parties have made it clear that the alternative to government shrinkage is to simply repeal the debts, withdraw from the Euro and break the banks. It is either the banks or labor – and Europe has just realized that this is truly a fight to the economic death. And the first test will come this Saturday, when Latvia holds its national parliamentary elections.

The EC is using the mortgage banking crisis – and the needless prohibition against central banks monetizing the government budget deficit – as an opportunity to fine governments and even drive them bankrupt if they do not agree roll back public-sector salaries. Governments are told to borrow at interest from the banks, rather than raising revenue by taxing them as they have done for half-a century following the end of World War II. And if governments are unable to raise the money to pay the interest, they must close down their social programs. And if this close-down shrinks the economy – and hence, government tax revenues – even more, then the government must shut down even more social spending.

From Brussels to Latvia, neoliberal planners have expressed the hope is that lower public salaries will spread to the private sector as well. The aim is to shrink their economies to roll back wage levels by 30 percent or more – depression-style levels – in the belief that this will "leave more surplus" available to pay in debt service. Governments are to tax labor – not finance, insurance or real estate (FIRE), but to impose new employment and sales taxes while cutting back public pensions and public spending. Europe is to be turned into a banana republic.

This requires dictatorship, and the European Central Bank (ECB) has assumed this power from elected government. It is "independent" of political control – celebrated as the "hallmark of democracy" by today's new financial oligarchy. But as Plato's dialogues explained it, what is oligarchy but the political stage following democracy. We can now await the new power elite making itself hereditary – by abolishing estate taxes, for starters – and turning itself into an outright aristocracy. "Join the fight against labor, or we will destroy you," the EC is telling governments.

One can therefore forget the economics of Adam Smith, John Stuart Mill and the Progressive Era, forget Keynes and forget the early 20th-century social democratic traditions. Europe is entering an era either of totalitarian neoliberal rule. This was inevitable since the Chilean dress rehearsal after 1973. After all, one cannot have "free markets" neoliberal style without totalitarian control. This is what Wednesday's strikes and demonstrations were about, after all. Europe's class war is back in business – with a vengeance!

This is economic suicide, but the EU is sticking to its demand that Euro-zone governments keep their budget deficits below 3% of GDP – and their total debt below 60% of GDP. They must not raise taxes on the wealthy, but only on labor and what it buys (via sales taxes). Yet at the same time they must slash wages and pensions, cut back public spending and employment, and shrink the economy.

When an economic problem is as economically destructive as this, it can only be imposed by economic blackmail. On Wednesday the EU passed a law to fine governments up to 0.2% of GDP for not "fixing" their budget deficits by imposing fiscal austerity. Nations that borrow to engage in countercyclical "Keynesian-style" spending that raises their public debt level 60% of GDP will have to reduce the excess by 5% each year – or else suffer harsh punishment. And unlike central banks elsewhere in the world, Europe's central bank is forbidden from monetizing public-sector governments. These governments must borrow from banks, letting these institutions create their own interest-bearing debt on their own keyboards rather than having their own central bank do it without the cost. The financial privatization and monopoly in credit creation that governments have relinquished to banks is now being made to pay off – at the price of breaking up Europe.

The unelected members of the European Central Bank (ECB, independent from democratic politics, not from control by its commercial bank members) has taken over planning power from elected government. Beholden to its constituency, the financial sector, the ECB has had little trouble in convincing the EU commission to back the new oligarchic power grab. It threatens to fine euro-area states up to 0.1% of their GDP for failure to obey its neoliberal recommendations – ostensibly to "correct" these imbalances. But the reality, of course, is that every neoliberal "cure" only makes matters worse.

Rather than seeing rising wage levels and living standards as a precondition for higher labor productivity, the EU commission will "monitor" labor costs on the assumption that rising wages impair competitiveness rather than raise it. The broad spectrum of neoliberal junk economics is being brought to bear. If members of the euro cannot depreciate their currencies, then they must fight labor – but not tax real estate, finance or other rentier sectors, not regulate monopolies, and not provide public services that can be privatized at much higher costs. Privatization is not deemed to impair competitiveness – only rising wages, regardless of productivity considerations.

This economically destructive policy has been tested above all in the Baltics, using countries such as Latvia as guinea pigs to see how far labor can be depressed before it reacts politically. Latvia gave free reign to neoliberal policies by imposing flat taxes of 51% on employees, while real estate is taxed at only 1%. Public-sector wages have been reduced by 30%. Labor of working age (20 to 35 year-olds) are emigrating in droves. Lifespans are shortening. Disease rates are rising. The internal market is shrinking, and so is Europe's population – as it did in the 1930s, when the "population problem" was a plunge in fertility and birth rates (above all in France). That is what happens in economic depressions.

Iceland's looting by its bankers came first, but the big news was Greece. When that nation entered its current fiscal crisis, European Union officials recommended that it emulate Latvia, which stands as the poster child for neoliberal economic devastation. The basic theory is that inasmuch as members of the euro cannot devalue their currency, they must resort to "internal devaluation": slashing wages, pensions and social spending. So while Europe enters recession it is following precisely the opposite of Keynesian policy. It is reducing wages, ostensibly to "free" more income available to pay the enormous debts that Europeans have taken on to buy their homes, to pay for schooling (hitherto provided freely in many countries such as Latvia's Stockholm School of Economics), transportation and other public services that have been privatized (at sharply, drastically increased rates – which the privatizers justify by pointing to the enormously bloated financial fees they had to pay their bankers and underwriters to buy the infrastructure being sold off by governments that the neoliberals blocked from taxing the wealthy).

The result is economic shrinkage. Europe is creating economic suicide – and demographic and fiscal suicide too. Every attempt to "solve" the problem of this shrinkage, neoliberal style, only makes things worse.
Latvia's public-sector workers have seen their wages cut by 30 percent over the past year, and its central bankers have told me that they are seeking further cuts, in the hope that this will lower wages in the private sector as well. What these cuts are doing, hardly by surprise, is spurring emigration – and also is destroying the real estate market, leading to defaults,

foreclosures and a flight of debtors from the country. The emigration is headed by younger workers seeking employment in the shrinking economy. Indeed, Latvia's working conditions also happen to be Europe's most neoliberalized, that is, dangerous, unpleasant and almost neofeudal.

For starters in yesterday's Action Day, there was the usual stoppage of transportation and an accompanying honk concert in Latvia's capital city of Riga for 10 minutes at 1 PM to let the public know that something was indeed happening. What is happening most importantly is the national parliamentary elections this Saturday (October 2), where the leading coalition, Harmony Center, is pledged to enact an alternative tax system and economic policy to the neoliberal policies that have reduced labor's wages and workplace standards so sharply – along with public infrastructure – over the past decade.

Altogether about 10,000 Latvians attended protest meetings, from the capital in Riga to smaller cities as part of the "Journey into the Crisis." Six independent trade unions and the Harmony Center organized a protest meeting in Riga's Esplanade Park that drew 700 to 800 demonstrators, relatively large for so small a city. Another union protest saw about half that number gather at the Cabinet of Ministers where Latvia's austerity program has been planned and carried out.

To highlight the economic issue, a bus tour drove journalists to the victims – schools and hospitals that had been closed down, government buildings whose employees had seen their salaries slashed and the workforce downsized. Crowds were reported to gather, re-igniting the anger expressed early last year in the cold of mid-January when Latvians had demonstrated to protest the start of these cuts.

These demonstrations seem to have gained voter sympathy for the more militant unions, headed by the hundred individual unions belonging to the Independent Trade Union Association. The other union group – the Free Trade Unions (LBAS) lost face by acquiescing in June 2009 to the government's proposed 10% pension cuts (and indeed, 70% for working pensioners). Latvia's constitutional court was sufficiently independent to overrule these drastic cuts last December. And if the government does indeed change this Saturday, the conflict between the Neoliberal Revolution and the past few centuries of classical progressive reform will be made clear.

The Neoliberal Revolution seeks to achieve in Europe what has been achieved in the United States since 1979, when real wages stopped rising. The aim is to double the relative share of wealth enjoyed by the richest 1%. This involves reduce the population to poverty, breaking union power, and destroying the internal market as a precondition for blaming all this on "Mr. Market," presumably inexorable forces beyond politics, purely "objective" rather than a political power grab.

It is not really "the market" that is promoting this destructive economic austerity, of course. Latvia's Harmony Center shows that there is a much easier way to cut the cost of labor in half than by reducing its wages: Simply shift the tax burden off labor onto real estate and monopolies (especially privatized infrastructure). This will leave less of the economic surplus to be capitalized into bank loans, lowering the price of housing accordingly (the major factor in labor's cost of living), as well as the price of public services (by having owners take their returns as a return on equity rather than factoring interest charges into their cost of doing business). The tax deductibility of interest will be repealed – there is nothing intrinsically "market dictated" by this fiscal subsidy for debt leveraging.

No doubt many post-Soviet economies will find themselves obliged to withdraw from the euro area rather than see a flight of labor and capital. They remain the most extreme example of the Neoliberal Experiment to see how far a population can have its living standards slashed before it rebels.

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