

THE FRONTAL ATTACK ON SOCIAL EUROPE

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This article explains the consequences of the way that the establishment of the euro as the currency for the eurozone countries has negatively affected their welfare state. The article analyzes the political events that led to the creation of the euro and its impact on the welfare and well-being of these countries' populations.

One of the phrases frequently written in economic circles in the United States (and to a lesser degree in Europe) is “the euro is going to collapse.” Those who repeat that phrase over and over again do not seem to know how the euro was established, by whom, and for whose benefit. If they knew the history of the euro, they would have noticed that the major forces behind the euro have done very well and continue to do so. As long as they continue to benefit from the euro's existence, the euro will continue to exist.

Let's start with the euro's history and the major reason it was established. After the collapse of the Berlin Wall, it looked like East and West Germany could reunite and—as the Western German establishment wanted—become, once again, a united Germany. That possibility did not please democratic Europe. Twice in the 20th century, the majority of European countries had to go to war to stop the expansionist aims of a united Germany. The European governments were not pleased to see post-Nazi Germany reunited. President François Mitterrand of France even said ironically that, “I love Germany so much that I prefer to see two Germanys rather than one.”

The only alternative these governments saw was to make sure the united Germany would not become an isolated country in front of everyone else. Germany had to become integrated into Europe. It had to become Europeanized. Mitterrand thought one way of doing this was to have the German currency, the

mark, be replaced by a new European currency, the euro. This was thought to be a way of anchoring post-Nazi Germany to democratic Europe.

The German establishment, however, put forth conditions. One was to establish a financial authority, the European Central Bank (ECB), that would manage the euro and have as its only objective to keep inflation down. The ECB would be under the heavy influence of (i.e., controlled by) the German Central Bank, the Bundesbank. The other condition was to establish the Stability Pact, which would impose financial discipline on member states of the eurozone. Their public deficits would have to remain lower than 3 percent of their gross domestic product, even in moments of recession.

To understand why the other countries accepted these conditions, one has to understand that neoliberalism (which started with President Ronald Reagan in the United States and with Prime Minister Margaret Thatcher in the United Kingdom) was the dominant ideology in those countries. A major position within that neoliberal dogma was to reduce the role of the states as much as possible, encouraging private financing and de-emphasizing domestic demand as the way of stimulating the economy. In this view, the main motor of the economy should be the growth of exports. These are the roots of the problem—not of the euro, which is in good health, but of the welfare and well-being of the populations in those countries.

THE EUROPEAN CENTRAL BANK IS NOT A CENTRAL BANK

What a central bank does, among other things, is to print money and, with that money, buy public bonds of the state, making sure the interest rates on those bonds are reasonable and do not become excessive. (The U.S. Federal Reserve, for example, has created more than \$2.3 trillion since 2008 and used it to buy U.S. government bonds and mortgage-backed securities.) The central bank protects states against the financial market's speculation. The ECB, however, does not do this. The interest rates on the states' public debt in some countries have skyrocketed because the ECB has not bought any of their debt for quite some time. Spain and Italy are fully aware of this.

What the ECB does, however, is to lend a lot of money to private banks at a very low interest rate (lower than 1%), with which they buy public bonds with very high interest (6% to 7% in Italy and Spain). It is a fantastic deal for these banks! Since last December, the ECB has lent more than 1 trillion euros (1,000,000 million euros) to private banks, half of it (500,000 million euros) to Spanish and Italian banks. This transfer of public funds (the ECB is a public institution) to the private financial sector is justified by indicating that this aid was needed in order to save the banks and, thus, ensure credit is being offered to small and medium-sized business enterprises and families in debt. Credit, however, has not appeared. Both individuals and businesses continue to have difficulties obtaining it.

Occasionally, the ECB buys public bonds in the secondary markets from states that are in trouble, but it buys them in an almost clandestine way, in very small doses and for very short periods of time. The financial markets are aware of this situation. This is why the high interest of the public bonds goes down for a while when the ECB buys them and then goes up again, making it very difficult for states to sustain them. The ECB should announce openly that it will not allow the interest of the public bonds to go over a certain level, making it impossible for financial markets to speculate with them. But the ECB does not do this, leaving the states unprotected in front of those financial markets.

In this situation, the agreement that Spain and Italy must reduce their public deficits to recover the confidence and trust of financial markets is not credible. Spain has been reducing the public deficit, while the interest of Spanish bonds has been increasing, proving that it is the ECB, not the financial markets, that can determine what that interest rate will be.

WHO CONTROLS THE EUROPEAN FINANCIAL SYSTEM?

In theory, the ECB was supposed to be the manager of the euro. But the one that really controls the euro, and the European financial system, is the Bundesbank, the German Central Bank. It was designed that way, as previously noted. But there was another reason for control of the European financial system by the Bundesbank and the German banks. That influence (almost to the point of control) was the result of a set of decisions made by the German government, specifically by the Schröder social democratic government (Program 2010), and continued by Merkel's conservative governments, which emphasized the export sector as the economy's main motor. Oskar Lafontaine, Schröder's Minister of Finance, wanted to put domestic demand as the main motor of the German economic recovery. He proposed increasing salaries and public expenditures. He lost and left the social democratic party, forming a new party, Die Link/The Left, and Schröder (now working for an export-oriented industry) won. As a consequence of that emphasis on exports (the majority to the eurozone), German banks accumulated an enormous amount of euros. Rather than using these euros to increase German workers' salaries (which would have stimulated not only the German economy, but the whole European economy), the German banks exported those euros, investing in the periphery of the eurozone. That investment was the cause of the housing bubble in Spain. Without German money, the Spanish banks could not have financed that bubble, which was based on a huge speculation.

WHEN DID THE CRISIS APPEAR IN SPAIN?

When German banks stopped lending to Spain as a result of their panic (when they learned that they themselves were contaminated with toxic products from

U.S. banks), the housing bubble collapsed, creating a hole in the Spanish economy equivalent to 10 percent of its gross domestic product, all within a few months. It was an economic tsunami, an authentic disaster. Immediately, the public national budget went from a surplus to an enormous deficit, as a result of the collapse of revenues to the states. It was not a result of growth of public expenditures (Spain had the lowest public expenditures per capita among the EU-15), but rather the dramatic decline of revenues caused by the economic collapse. The emphasis by the “Troika” (the European Commission, ECB, and International Monetary Fund) that Spain needs to cut its public expenditures even more is profoundly wrong because the public deficit has not been caused by a growth of those expenditures (as suggested by the frivolous remarks of Chancellor Merkel about the “extravagance of the Spanish public sector”). Moreover, those cuts have brought about another recession.

WHAT IS THE PURPOSE OF THE FINANCIAL AID?

The official rhetoric is that the financial authorities of the eurozone have made available to Spain 100,000 million euros to help its banks. Reality, however, is very different. The Spanish banks and the Spanish state are deeply in debt. They owe a lot of money to foreign banks, including German banks, which have lent almost 200,000 million euros to Spain. These banks are screaming to have their money back. That is why the 100,000 million euros have been approved by the German parliament. Peter Bofinger, economic advisor to the German government, put it quite clearly: “This assistance is not to these countries in trouble (like Spain) but rather to our own banks who own a lot of private debt in those countries” (1). It could not have been said better.

If the European authorities had wanted to help Spain, they should have lent that money at very low interest to the Spanish public credit agencies (such as the Official Institute of Credit), resolving the enormous problem of lack of credit in Spain. This alternative was, of course, never considered.

WHERE IS THE SUPPOSED PROBLEM WITH THE EURO?

The fact that Spain has an enormous problem of lack of liquidity does not mean the euro is in trouble. Many regional governments cannot pay their public servants because of a lack of money. As a matter of fact, those enormous differences in credit availability within the eurozone are benefiting the German banks. Today, there is a flow of capital from Spain to Germany, enriching German banks and making German public bonds very secure. The fact that there is an enormous crisis with huge unemployment rates in the peripheral countries does not mean, however, that the euro is in crisis. It would be in crisis only if these peripheral

countries, including Spain, would leave the euro. That would mean the collapse of the German banks and the European financial system. But this is not going to happen. The measures being taken in Spain and other peripheral countries, with the support of the Troika, by the Spanish and other governments are the measures that the conservative forces they represent have always dreamed of: cutting salaries, eliminating social protection, dismantling the welfare state, and so on. They claim they are doing it because of instructions from Brussels, Frankfurt, or Berlin. They are shifting responsibilities to foreign agents, who supposedly are forcing them to do it. It is the externalization of blame. Their major slogan is, "There are no alternatives!"

When Mario Draghi, the president of the ECB, calls Mariano Rajoy, the Spanish president of the most conservative government in the European Union, close to the Tea Party of the United States, he tells him that in order to help him, he will have to make reforms in the labor market (i.e., make it easier for employers to fire workers). He is quite open about it. In a recent press conference (August 9, 2012), Mr. Draghi was quite clear. The ECB will not buy Spanish public bonds unless the Spanish government takes tough, unpopular measures such as reforming the labor market, reducing pension benefits, and privatizing the welfare state. The Rajoy government will gladly follow these instructions. It has already made many cuts and projects 120,000 million euros more in cuts within the next two years. The euro and its system of governance are working beautifully for those who have the major voice within the eurozone today. The ECB is instructing the governments of its monetary zone to dismantle Social Europe and they are doing it. It is what my good friend Jeff Faux, a founder of the Economic Policy Institute in Washington, D.C., used to call "the international class alliances," that is, the alliance among the dominant classes around the world. That alliance is clearly operating in the eurozone today. It is because of this that the euro is going to be around for a long, long time.

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