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Europe at the Crossroads

by Steffen Lehndorff

Looking at Europe these days some people (at least of my generation) may remember the lyrics of a famous song of the rock band AC/DC from the late 1970s: "I'm on my way to the Promised Land — I'm on the highway to hell." More and more countries of the Euro zone are drifting into another recession, and some Southern European countries have been driven into an ever deepening economic depression which has lasted for four years already. The stranglehold of cutting public expenditures is not just blocking the road to economic recovery; this obsession with austerity makes it increasingly difficult to draw lessons from the economic policy failures in the pre-crisis period. These lessons, however, are desperately needed for any re-orientation of socio-economic models (or "growth models") in the crisis-ridden countries, but equally in the allegedly "healthy" economies. Moreover, European countries are being directed politically into national egoisms which are about to drive the European project to the brink. Europe is being forced into a fiscal dictatorship which suffers from a fundamental lack of democratic foundations for economic governance at the European Union (EU) level and has already begun to interfere with fundamental democratic rights within member states. The complexity of the challenge to find a way out goes well beyond a more appropriate macroeconomic policy.

The fiscal dictatorship

"Free-market fundamentalists have been wrong about everything — yet they now dominate the political scene more thoroughly than ever."[i] This is what Paul Krugman called a "strange triumph of failed ideas", a phrase which was borrowed by a group of labour market researchers from 10 European countries for the title of their book on the present crisis which has been published by the European Trade Union Institute.[ii] Arguably, the single most important lifebelt for neoliberalism is the all-encompassing focus on public debt. Curbing public debt and deficits is said to be the prerequisite for re-establishing the "confidence of the markets". If it is accompanied by so-called "structural reforms" of the labour market and welfare systems as the story goes, it will clear the path for economic recovery. The focus on public debt serves as an ideological anchor for giving a boost to the impoverishment of the state, for substantial labour market deregulations, and for deep cuts into labour and social standards. It is the old agenda in a new dress. While the old dress was shiny and attractive, the new one is designed to paralyse people in fear.

As Nicolas Pons-Vignon stated in his recent contribution to the Global Labour Column,[iii] "it is indeed impossible to understand the resilience of neoliberalism … without understanding the growing role and influence of finance since the 1980s." In the case of the European crisis additional impetus is given by the strategic concept of a European single market without equal emphasis on social rights, and a monetary union constructed on this fragmented fundament which lacks any serious balancing procedures. This one-sided concept is currently being carved in stone by the so-called New Economic Governance including a "Fiscal Compact" at EU level.[iv] It is underscored by the restrictive monetary policy approach of the European Central Bank (ECB) which is being defended primarily by Germany's central bank the Deutsche Bundesbank in its stubborn and extremely dogmatic pursuit of monetarism.

European business models

How do we then make sense of this? To pick up Pons-Vignon's wording, it is impossible to understand the resilience of the EU economic policy approach without understanding the business model of German capitalism as the single most important driving force behind. From its very beginning the European monetary union has been an interaction between complementary growth models, i.e. an export-focused and surplus-oriented "core" on the one hand and a "periphery" that is dependent on imports and capital inflow on the other. The underlying implication of persistent current account imbalances has been increasingly criticised recently but what is still underestimated by many critics is the basis of the contract on either side of the implicit deal. In Germany, as the forerunner and stronghold of the "core" countries, the ever-increasing current surplus before the crisis was not just built on the well-known product-based capacities of German manufacturing but also, and to an increasing extent, on the weakening and partial dismantlement of social and labour market institutions. The partial dismantling of labour market institutions boosted low-wage work and, in consequence, led to a drop in average (!) wages. The implication was a stagnating domestic market with a lack of capacity to import (rather than "excessive exports" as criticized by some observers).

In consequence, and as the other side of the same coin, debts (mostly within the private sector) piled up in "periphery" countries whose growth models have proved to be equally unsustainable, if for very different reasons in detail. Just to give a few examples, there is the dramatic weakness of the tax base in conjunction with widespread clientelism in Greece; the environmentally-disastrous real estate boom in Spain with its implications for private debt; the virtual non-existence of any industrial policy and the inefficiency of the public sector in Italy; and the Irish concept of growth solely based on FDI and on the attractiveness as a haven for foreign owned shadow banking.[v] Note that these peripheral models (with the exception of Italy) brought about above-average economic growth before the crisis and were regarded, in documents of the Organisation for Economic Co-operation and Development (OECD) and the EU Commission, as much more responsive to EU "stability criteria" than many other countries, including Germany. "The markets" did not complain either, simply because the deal was profitable on either side of the core/periphery coin.

Eventually, the deficit-based business model broke down while the surplus-based business model continues to work (primarily thanks to the world outside the Euro zone). The latter does so, however, at an ever reducing speed and the number of countries involved has melted down to less than five. Of course, at some point the economies will pick up again, as always in the history of capitalism. The upcoming debate is which option would be more costly: the continuation of the current muddling-through approach on the basis of a fiscal dictatorship or the breakdown of the Euro zone. But what is being debated is the cost for finance and business. The social cost entailed attracts less attention. It is the people of Europe, rather than their political and economic elites, that are stuck between a rock and a hard place.

Complex challenges for labour

Which way out? If the Euro zone breaks down, labour confronts the challenge to draw the lessons on the outcomes of the failed-ideas approach. The (far from trivial) consequence is to design fundamental economic and social policy alternatives for each of the countries involved. The environment of this crucial debate would be one of deep economic depression.

A different approach would be to look for ways to rescue the euro through its re-foundation. This option, however, entails the same uneasy challenge as the first option. In this case, the need to develop sustainable "growth models" in each of our countries is even more imperative!

True, alternative approaches in individual countries would be suffocated without a new European reform agenda getting under way. The most crucial measures include new EU-wide regulations on financial markets as well as a reform of the European Central Bank geared to enhance its role as lender of last resort. Equally urgently, the monetary union needs a strategic agreement on solidarity – or transfer – mechanisms between surplus and deficit countries, and a democratic institutional fundament for this supranational decision-making process.[vi]

Nevertheless, there will be no democratic and social European reform agenda unless each country takes on the challenge of re-orientation of its respective socio-economic model. Most people would agree that this statement applies to the deficit countries. However, the punch line of this argument is that it is equally pertinent for the surplus economies in general, and for Germany in particular. Curing Europe requires political *and* institutional reforms in Germany as in many other EU countries, allowing for greater equity both within and beyond their national borders. For example, most Germans are reluctant to "pay for other countries" which, in fact, would happen if there were a European solidarity union with transfer mechanisms between deficit and surplus countries. Ironically, the easiest way to avoid these transfers is the redistribution of income and a better funding of public investment and social services by tax reforms and re-regulations of the labour market in Germany. This, in turn, would give workers of other countries more room to breathe. It is this hidden overlap of workers' interests across country borders within Europe which is so difficult to grasp today.

There are some initiatives at national and EU levels (the latter supported by the European Trade Union Congress) that are trying to combine reform agendas at both levels.[vii] In fact, both levels are equally important as national governments can only be pushed towards alternatives to the failed-ideas approach by domestic social movements, but the latter need a joint European background more than ever.

i) Krugman, Paul (2010): When zombies win. New York Times, 19 December.

ii) Lehndorff, Steffen (ed.) (2012): A triumph of failed ideas. European models of capitalism in the crisis. Brussels: ETUI. Available online at: (http://www.etui.org/Publications2/Books/A-triumph-of-failed-ideas-European-models-of-capitalism-in-the-crisis).

iii) (http://column.global-labour-university.org/2012/06/what-europe-can-learn-from-south.html)

iv) The faulty design of the Eurozone has been analysed in Herr's contribution to the Global Labour Column (http://column.global-labour-university.org/2012/06/europes-lost-decade-paths-out-of.html) and in greater detail by Leschke, Theodoropoulou and Watt in Lehndorff (2012).

v) For in-depth analyses of the Greek, Spanish, Italian and Irish growth models cf. the respective country chapters in Lehndorff (2012). For the analysis of the business model of German capitalism cf. the country chapter on Germany in the same book; see also the contribution of Beck and Scherrer to the Global Labour Column (http://column.global-labour-university.org/2010/08/german-economic-model-emerges.html).

vi) For the debate on sustainable "growth models" and alternative policy options at EU level cf. Coates, David (ed.) (2011): Exiting from the crisis: towards a model of more equitable and sustainable growth, Brussels: ETUI (http://www.etui.org/Publications2/Books/Exiting-from-the-crisis-towards-a-model-of-more-equitable-and-sustainable-growth); see also the suggestions of the "EuroMemorandum" group of critical economists (http://www.euromemo.eu/euromemorandum/euromemorandum_2012/index.html)

vii) See the call for a European "AlterSummit" on http://tinyurl.com/9uozuac with links to various national calls, including the German call for a "Re-foundation of Europe" (http://www.europa-neu-begruenden.de/gb/index.html).

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