Are the member states of the Eurozone responsible for the Euro crisis the ones having problems servicing their debt? The majority of people in Europe believe that this is the case. Therefore, indebted countries like Greece, Portugal and Ireland must subject themselves to a brutal austerity program of savage cuts in welfare spending, diminishing public sector wages, and further privatisation measures in education, health care and in the pension system. In short, the social and cultural rights of trade unions and citizens are being trampled upon, triggering on the one hand applause and on the other social protest.

The austerity imposed is driven by an attempt to free up funds of the primary budget that could then be used in the secondary budget to service the debt and bail out financial institutions on the brink of bankruptcy that are defined as being ‘systemically relevant’. However, the system, i.e. the project of European monetary integration, can only be saved if there is a fundamental reversal in political direction. There are only two paths we can take right now, and they lead in opposite directions: one towards the disintegration of the Eurozone, another towards the strengthening of European statehood. Conservative and neoliberal economists and politicians are playing with the idea of regrouping the monetary union into two (or more) tiers. On one side a strong, monetarily and financially integrated ‘Core Europe’, on the other side the countries that shall be excluded from the Eurozone, with their own national currencies. Thus it would be Germany, France and a few others that would continue using the Euro, but Greece might have to reintroduce the Drachma, Portugal the Escudo, Spain the Peseta and Italy the Lira.

Splitting up the Eurozone would create another area of economic chaos and social and political turmoil. The new currencies that would replace the Euro would most likely suffer an immediate drop in value. Devaluation would increase the value of Euro-denominated debts (which therefore also need to be serviced in Euros). Rating agencies would downgrade the countries’ credit rating. While devaluation would increase monetary competitiveness, this advantage is unlikely to be very useful if real competitiveness does not increase as well. The relevant export industries are missing here.

To the extent that the new currencies are devalued, the remaining Euro will appreciate. This revaluation would limit the competitiveness of the so-called ‘real economy’ in the Eurozone’s member states and encourage financial capital to speculate. What sort of equilibrium would then be achieved after a period of economic turbulence is impossible to predict.

The other path leads towards deeper political integration. The minimal rules on government debt set by the Maastricht Treaty are obviously insufficient to prevent Europe-wide imbalances and crises. These are inevitable if countries like Germany reduce unit labour costs at the same time as they are increasing in other European countries. The current system of crisis management requires indebted countries to adjust, but not surplus countries. The structural flaw that already contributed to the collapse of the Bretton Woods system in the 1970s is being replicated in the Eurozone. The steps required to correct this flaw would be as follows: on the income side of state budgets, develop rules for fiscal policy and for tax competition, and balancing mechanisms for countries with current account deficits and surpluses, respectively. If the Eurozone is to have a future, it is European statehood that needs to be strengthened, not the market.

Today the unequal distribution of income and wealth in Europe together with the rating agencies’ ratings generate large interest rate differentials between indebted and ‘wealthy’ countries. Within countries this applies only to owners of money wealth, not to waged workers. In debtor countries the results are negative capital account balances; as long as the current account generates no or only small surpluses these can only be resolved through inflows of new capital. The compulsion to generate a current account surplus is instrumentalized to justify austerity measures, i.e. cutbacks in wages and social spending. People affected by these policies do not accept this justification, and are taking to the streets in loud and determined protest.
However, it has to be understood that money is always a mutual and contradictory social relationship – this is true also on European and global financial markets. Where there are debtors there are also creditors, and if deficits have to be cut, surpluses cannot grow. Therefore, current public debt levels can not only be blamed on ‘loose’ fiscal and budget policies in today’s crisis-ridden Eurozone countries. Responsibility also lies with a policy of redistribution that encourages the formation of large private asset holdings. Furthermore, we cannot ignore the fact that public debts in the Eurozone are so high mostly due to the giant bailouts of private banks and funds. That states have to pay ever more money to service their debt has a flipside: private financial market actors have to pay ever less. The European Central Bank clearly showed this in its expressively titled report “The Janus-Headed Salvation”: After the collapse of Lehman Brothers in September 2008, endangered banks were able to dump much of their worthless assets in publicly financed ‘bad banks’. In addition, their capital stocks were boosted from public funds, notably without governments asserting any kind of control over the now socialised banks’ business operations. States guaranteed the banks’ debts, as the latter were given almost unlimited access to cheap money from the central bank.

One result of banks being saved by public funds is that the credit default risk of financial institutions is reduced while that of the public sector increases. The above mentioned ECB report refers to a “credit-risk transfer from the banking sector to the government”.

Whenever debts are being rescheduled, governments have to pay correspondingly higher risk premiums, but to whom? To the very banks that were just recently bailed out of lots of cheap money by those governments, and – indirectly – to those owners of money capital who have invested into these banks and funds. In this they are assisted by the rating agencies that downgrade the ‘quality’ of government bonds because of their increasing debt levels. This is a profound encroachment on democratic prerogatives. A lower rating makes it more expensive to borrow and to reschedule debt and it allows private creditors to collect higher interest rates.

We are basically dealing with a self-fulfilling prophecy here: predictions of an impending debt default lead to more expensive debt-servicing, which in turn increases the likelihood of this default: Rating agencies have to be subjected to democratic control. Against this background, doubts about the legitimacy of public debt come up in countries such as Greece.

To be sure, the reduction of debts and of monetary wealth can also be achieved through inflation. The inflation feared by many has already been rearing its head in the form of increasing commodity and gold prices. The causes are complex, and are not exclusively related to financial and currency markets, but also to commodity and energy markets, and they are subject to catastrophic developments such as the explosion of the oil-platform Deepwater Horizon in the Gulf of Mexico, the nuclear meltdown of Fukushima, or the conflicts in the Arab world. Inflation would drastically increase distributional inequality. Central banks fight the so-called secondary effects of price increases. How? By preventing wage increases with a tight monetary policy. This strategy is not addressing the root causes of inflation thus it is unacceptable for trade unions.

The reasonable demand to reduce public debt needs to be complemented by demanding a corresponding reduction in monetary wealth, either by way of a ‘haircut’, regulated by insolvency rules, i.e. getting creditors to play their part in the reduction of debt, or through the effective taxation of wealth, or a combination of both. Wealth taxes have to be reintroduced in all European countries, just as the amount of taxes paid by corporations (especially corporate income taxes) in general will have to go up: by way of a European convergence of the taxable base and tax rates, and through tougher controls of tax havens, tax evasion and money laundering. Insolvency rules are also important for an orderly debt cancellation. Especially in the case of sovereign debts, this is necessary for social and political peace to be secured.

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