Europe - crisis - challenges for the left

- Asuncion / Paraguay 2009-07-21
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Six highlights on crisis (1)

1. World economic crisis - deep crisis in EU
2. Global crisis and internal tensions in EU
3. On the reasons of the crisis
4. Specificities in eastern and central EU
5. The crisis context: financial market capitalism
6. Social divisions and challenges for the left

(1) This presentation is based in part on powerpoint presentations developed by Joachim Bischoff, Richard Detje, Jörg Huffschmid
1. World economic crisis -

deep crisis in EU
• US is the center – but Europe is deeper in
• worst case: Ireland (financial turmoil) and Baltic states (foreign capital)
• fall of the campions: Germany + Netherlands – crash of export strategy
• crisis of the Scandinavian model under neoliberal rule?
The worst cases: Spain

All over Europe: unemployment +50-80% in 2 years (DK+NL: +120%)

Even optimists say: it will stay there (productivity > growth rate)

Outcome: a vicious circle of unemployment – precariousness – demolition of the welfare state
Getting out of the crisis – or into a 2. round?

The hope: recovery in 2010 = V scenario

The perspective: crisis in 2. round = W

- rising unemployment weakens the internal market
- decline of industry and services - negative feedback loop between real and financial sectors
- credit crunch for companies and growing amount of toxic papers within banks
- more pressure on wages
- consumer credits become toxic
- negative feedback loop between wages and social security
- undermining the purchasing power on domestic markets leads to a general reduction in prices (deflation)

recession + deflation = depression
2. Global crisis and internal tensions in EU
1. unsufficient + uncoordinated national stimulus packages – no European programme

- China: switch over from external to internal growth
- US: preparing a third stimulus package
- Germany: switch over from expansionary to austerity policy
Europe: on the way to a desintegrated continent?

The global financial and economic crisis leads to deep tensions between the EU countries.

1. The first time since the introduction of the Euro, bonds are paid more by Greece, Ireland, Spain, Italy, Portugal, and also France, than by Germany.

2. The interest rate differentials between countries (spreads) enlarge the gap between countries.

3. German way: dumping and beggar neighbours
   „Angela Merkel, the German chancellor, and her economic officials have become the biggest obstacles to a much needed European rescue plan.“ (Paul Krugman)

4... Latvia, Estonia, Hungary, Bulgaria: becoming failing states or being pushed into deflation; forthcoming in Spain, France ... 

5. GB, Ireland, Italy, Greece, Spain: forthcoming limits of deficit spending
EU: interior tensions are escalating

The sequence of uncoordinated national responses has revealed this weakness. At the same time the situation of the real estate, loan and bank sectors is highly different in all the member states to such an extent that only a concerted action and its implementation in the responsibility of the nations can lead to a step further. The interior tensions are escalating, so that neither a crisis of the European institutions and of the Euro can be excluded nor a fundamental change of the European conditions as a consequence of the crisis.
Crisis of century - a new paradigm?

- State intervention is called by bankers and bosses as an efficient policy against the crisis.
- The majority of elites interpret state intervention as a mere emergency, temporary measure.
- The « EU economic relance plan » is part of the Lisbon neoliberal competition strategy (2000-2010).
The left: fight for an alternative paradigm

- Public and State interventions
  - have to be steps towards
  - a new economic system,
  - a new kind of development,
  - a new economic democracy
  have not to be a way to stabilize liberalism.
3. On the reasons on the crisis

- The errors and deficiencies of the EU in the crisis are clearly visible.

- The pillars of the European construction are being unhinged by the crisis (stability pact, ECB, Lisbon strategy, the principle of free and unhindered competition which charges the crisis is at the centre of the Lisbon Treaty.....)

- The Lisbon treaty is based not on a unifying vision, but the conception of deregulation, priority for the market, destruction of the social model.
Reduction of the value of labor

share of wages in national income
Wage share in GDP 1975-2005

source J. Huffschmid


* bereinigt um Veränderungen der Beschäftigtenanteile
Shares of profits and investments in the EU*, 1975-2007


Source European Economy, Statistical Annex, Autumn2002 and 2007, Table 32 (p=1-w)
Annual Growth GDP 1960-2005

Sources: European Economy 4/2003 and 6/2007, statistical annex, Table 10
EU:
The share of atypical employment

Source: J. Bischoff
4.

Specificities in eastern and central EU
Eastern and central EU integration is marked by:

- Radical capitalist restauration
- Privatisation and generalized commodification
- Lack of additional UE budget in favour of integration
- Fall of the part of direct wages and social wages (housing, services...) in the GNP
- Spectacular growing of inequality
Growth and debt

The growth is marked by surge in loans and current imbalance

- 2006
  - Lituania: Growth GNP 7,8%, Growth loans 35%, Current balance -9,5%
  - Estonia: Growth GNP 10,4%, Growth loans 53%, Current balance -14,6%
  - Lettonia: Growth GNP 12,1%, Growth loans 52%, Current balance -21,3%

BRI (banques des réglementations internationaux. C. Samary, Vers un tsunami bancaire et social Est/Ouest européen. Transform! 04/09 ed. en français
Part of foreign banks in the bank assets in central and eastern EU

- Estonie 98%
- Bulgarie 90%
- R.tchèque 90%
- Lithuanie 90%
- Hongrie 61%
- Roumanie 55%
- Lettonie 53%
- Pologne 51%
- Slovénie 35%

UE: competition

Minimum wage per hour

- Slovaquia: 2,4E
- Tchequia: 3,0E
- Hungary: 3,2E
- Germany, Belgique, France, Nederlands: between 16,5 and 20E

Productivity: écart de 1 à 3 or 4

The socialdemocratic partis develop policies in order to maintain this 'competitive' differences

EU – crisis – eastern Europe

- EU rescue found (proposed by Hu + Austria) refused
- Eastern countries abandoned to the IMF like a peripheric region
- Packag from 24,5 billion euros announced by the « Eastern Bank » and the World Bank – but in order to remain entirely within the logic of short-term relief measures
IMF in Europe

– Baltic countries: - 25% wages in public services

– Hungary: no help for stabilisation of hungarian banks
In the past 30 years the relations between labour and capital have worsened dramatically within the entire EU.

In the EU 15, the proportion of wages on the national income has decreased from an average of 67% in the first half of the 1970s to 60% at present.

Although in some countries the labour/capital-relation is 60/40, this proportion is the other way round in some of the new member states, which means that should there be any growth, capital is the one benefiting from it.

While new budgetary means have to be raised in Eastern European countries for supportive measures, the colonization of these regions by banks, markets and large corporations in the name of ‘free and unlimited competition’ has to be stopped.
5.

The crisis context: financial market capitalism
Financial market accumulation

Accelerated accumulation of money capital if chronic over-accumulation. The money capital accumulates at the expense of the Industrial and Commercial sectors.

Increasing weight of fund- or asset managers. Financial actors dominate more and more production capital

Even large companies are considered as commodities, i.e. production, research, wage earners are maltreated; investment declines

Deregulation policies, cross-border capital movements. Priority for the capital owners. Neoliberal policies and ideology

Degradation of the redistribution. Devaluation of the labor force

Decoupling financial sector and real economy. Emergence of the conditions of the crisis.

The EU is a driving force behind this remodeling
The EU is undergoing a double crisis.

The neo-liberal content of European integration – combined with militarisation and transatlanticism – has made the EU a major protagonist of the neoliberal offensive while it is the cause of the Union’s fragility under present conditions.

The fierce resistance of peoples in recent years had already led to a profound crisis of legitimacy which is heightening in the face of the slump of Neo-liberalism.
Anatomy 1. trouble spots of a systemic crisis

- World economic crisis
  - (a) financial crisis: crisis of accumulation + regulation regime
  - (b) business cycle: over-accumulation of real capital
  - (c) structural crisis: crisis of „fordist“ model of production
  - (d) global crisis: crisis of Wall-street-Dollar regime, ecological crisis, food crisis
(a) Origins of „financial market capitalism“

neoliberal revolution: „asset based accumulation“ for some = dept based accumulation for most
- 1980ies: indeptedness of the „Third World“ – their „lost decade“
- 1980/90ies: growing public depts in advanced capitalist world
- end of 1990ies: new economy boom
- 2000ff: speculation on property markets (US, UK, IRE, Spain etc)
... and getting out

- transparency rules, closure of tax havens, limitation of bonus-systems for management etc. does not get into the center of the crisis

- a new regulation system requires:
  - banks with systemic risks must shirk or taken into public ownership – bail out and recapitalisation only with public ownership – strengthening of public and cooperative banks
  - regulation of interest rates according to the needs of real economy and public = banks as servants = new rules for ECB
  - redistribution of assets and profits – higher property tax
  - control of capital + currency transactions – Tobin tax
  - bail out for the people (e.g. real estate credits)
(b) from recession to depression?
5. Social divisions and challenges for the left
The division of society

The division of society in relation to 1950.

- GDP
- Total income from corporate and capital
- Average gross income per dependent
- Average net income per dependent

Die Spaltung der Gesellschaft der Bundesrepublik
Neo-liberalism has lost its social basis and its power to convince politically.

The “crisis of the century” of finance driven accumulation from 2007 onwards creates the necessity and the possibility of a fundamental political change, under difficult conditions.

Overnight the majority of the political class has turned from advocating a policy of deregulation, privatisation and flexibility to manifest state interventionism the content of which turns out to be extremely problematic and capital-friendly.

The strategies of the dominating forces aim at securing the system with extraordinary political measures of interference in the economy (cf. the conference in January 2009 in Paris with Merkel, Sarkozy and Blair on the topic “A New World, A New Capitalism”).

While the burdens of the crisis are loaded on the shoulders of the people and the wage earners, left forces have to orientate themselves

• towards fighting both the causes and the consequences of the crisis
• at the same time with the perspective of a different logic.
The European Social Democracy

has actively contributed to neoliberal change, has refrained from meeting the growing power of financial market protagonists with measures of resistance and alternatives.

Crucial parts of the “milieux populaires” have turned away from them and their policies advocating neo-liberalism and social-liberalism.

The present crisis of Social Democracy is the result of their collaboration in the neo-liberal project of restructuring society.

The majority of Social Democratic governments in Europe in 1999/2000 has been replaced by a hegemony of the Right who have themselves moved further to the right in some countries or have entered coalitions with the populist and extreme Right. The Right profits from the shortfalls on the part of the political (Social Democratic and critical) Left.
Challenges for the left

The forces left of Social Democracy did not succeed in stopping the neo-liberal offensive accompanying the formation of finance market capitalism and the dismantling of the European welfare-state model.

The difficulties in finding alternative concepts and strategies of transformation in the face of contemporary capitalism and neo-liberal ideology have not been overcome in spite of interesting experiments at joining different forces and groups of the population. Active trade unions, social movements and the critical Left searching fundamental alternatives – all of them are striving for social and political mobilisation.

Various social movements stamped the last months (Greece, the Baltic countries, Belgium, Spain, Italy, Bulgaria, France, United Kingdom, Iceland, Germany …). The far-reaching process of precarisation meets heightened levels of resistance in particular among the youth who – as “crunch generation” – are facing strongly hampered living conditions and perspectives. While ever higher dividends are cashed, the slogan, “We refuse to pay the bill!” finds growing approval.
New alliances, overcome divisions

Fundamental political change: build alliances between 'milieux populaires' and 'middle classes'

Wages as factor against the reasons and consequences of the crisis, as a way to overcome divisions
The global crisis seems to enhance a process of consciousness

The first consequences of the crisis which are felt by ever more groups of the population are creating new conditions for the development of social, political and ideological struggles.

The convergences between sectors, demands and struggles become ever clearer as the confrontation with the dominant logic goes on.

The challenge consists in bringing together as many as possible in the common struggle – in preventing and overcoming the split among victims – in order to be able to confront the consequences of the crisis as well as its reasons and thus to reduce the effects as much as possible, to prevent an authoritarian way-out of the crisis and at the same time to create the conditions for new relations.
Five steps for a change (R. Detje)

1. Financial regulation: shut down the casino
2. Redistribution: wealth for the people
3. Economic recovery - social + sustainable
4. New industrial policy - further steps to economic democracy
5. Global stabilization - transnational cooperation
Appendice
1. **Public ownership: not only as rescue action**
   - bailout and spending public capital only with public ownership and control
   - strengthening of the public and non-profit banking sector

2. **Regime change: control and regulation**
   - full transparency on all banking transactions – ban of the shadow banking system
   - shrinking of investment banking (state of the art)
   - ban of uninhabited leveraging – higher capital requirement rate (8 to 20%)
   - controlled certification of financial products; public control of rating agencies
   - regulating hedge funds and private equity

3. **Who pays for the crisis?**
   - tax on higher financial assets
   - tax on cross border financial transactions

4. **Closure — at least discrimination — of tax havens**

**Conclusion: determined steps to the end of finance driven capitalism**
(2) redistribution: wealth for the people

- higher wages and a new wage regime with enlarged minimum wages, decent jobs and reduced working hours
- higher progressive taxation on capital, assets and inheritance
- welfare reform: especially pensions and unemployment benefits
- no tax cut policy
- Coordination of collective bargaining (instead of competitive moderation)
- European minimum wage – stop poverty on the labour market
- No dumping policy by European Court (and Commission)
(3) economic recovery on a social and sustainable basis

• public investment programme: 2% of GDP at least

• additional „European Investment Programme for Sustainable Development, Employment and Social Inclusion“: 1% of EU-GDP
  + increased credit lines of European Investment Bank and European Bank for Reconstruction and Development

• common EU-fund (Euro-bonds) should help weaker members to deal with the crisis – revoking the Stability and Growth Pact (state of the art)

• public investments in
  - education: child care, schools, universities, training, lifelong learning
  - infrastructure: public transport, roads, bridges, public places
  - environment: redevelopment in urban centers, housing, sustainable energy, sewage system

This means: more public regulation in the real economy – more inbuild stabilizers
(4) new industrial policy – steps to economic democracy

• in case of public surety, bailout and public capital for companies: full voting rights in the board of directors to safeguard employment

• strengthen employees representation – enlarged rights for employees and trade unions in case of dismissals and relocation concerning

• encourage long term investment - „marry investors to their assets“ (Keynes) – drive back shareholder value-management

• labour policy on a high road: investing in „good work“ and skills

• restructuring of branches, eg. car industry
(5) global stabilization - transnational cooperation

- new Bretton Woods – end of the Dollar-Wall Street regime
  „The dollar-based global reserve system is already fraying ... We need a global reserve system. Keynes called it his Bancor. This is an idea whose time may have finally come“ (Joseph Stiglitz)

- Central Banks: not focused on inflation alone but also paying attention to employment

- commitment that no country be allowed to become insolvent

- international taxation rules

- fair trade – stop trade liberalization (Doha Round) – a worldwide recovery plan