SUSAN WATKINS

Editorial

ANOTHER TURN OF THE SCREW?

Not long ago depicted as a paragon of international virtues, the European Union has become synonymous with never-ending financial instability, the words 'euro' and 'crisis' now automatically conjoined. Anglo-Saxons are impatient: the US and UK have succeeded in shoring up their broken banks and rolling over their debts through state recapitalizations, bond purchases, money printing and devaluation; why can't Europe do the same? Merkel's government has been accused of failing to grasp that this is a banking crisis, not just one of sovereign debt. Headlines clamour for the adoption of the latest trans-Atlantic palliative: first bail-out loan funds, ECB bond purchases, quantitative easing; now direct lending to banks, deposit insurance, regional regulation and eurobonds, or issuance of collective debt. Germany, given leave in crisis conditions to assume an open leadership role in Europe—a position the Maastricht Treaty was designed to neutralize—has naturally asserted its own interests in the process of exercising its hegemony. Loth to become the guarantor of other states' bank and sovereign debt, it is determined to get as much as possible in exchange.

But the new hegemon has been a lame one, as Perry Anderson has argued.[1] Berlin begrudges having to underwrite stop-gap measures to prop up the Eurozone's over-leveraged banks, and thereby British and US ones, via its debt-burdened states; but it is incapable of implementing a decisive alternative programme to restructure the unsustainable banking sector, rather than patch it up. The flawed design of the euro, a currency without an accountable sovereign state, is coming under intolerable pressure, as Michel Aglietta describes below.[2] But Europe's oligarchies baulk at the genuine political union—a true democratic federation—that NLR and others have historically championed. Germany's strategic aims in the crisis are more limited. It has fought for decades to safeguard its manufacturing base, battered (as was Japan's) by US exchange rates in the 1980s and now challenged by the rise of China. The geo-political dimension of European monetary union, as a prospective reserve currency to rival the dollar, will not be abandoned lightly; it was one reason for opening the Eurozone to so many peripheral economies, despite the core states' determination to avoid the federal social responsibilities that political union would bring. Berlin now aims to tighten the Eurozone system, to defend the gains it represents for Germany and to squeeze the bloc into a more competitive position vis-à-vis its rivals to the east and west. Beneath the hubbub of the headlines, this new European integration project is well underway. What political forms is it taking—and what opposition is it likely to meet?

Controls

As with earlier phases of European integration, the current one is structured by Community-level institutional design and nationally ratified treaties. But under conditions of emergency, it has involved more open political struggles between and within member states, as the scale of the transfer of wealth, from working populations to financial conglomerates, and of power, from economically weaker states to institutions controlled by stronger ones, becomes clear. The move was set in train with the European Financial Stability Facility in May 2010, its loans conditional on savage restructuring programmes dictated by officials of the European Commission, European Central Bank and IMF. The terms of the Troika's Memoranda of Understanding (MOU) are well known; their formulae typically assert: 'the amendments'—to amalgamate schools, reorganize local government, chop health spending, cut wages, etc.—'will be presented to Parliament in Quarter 3 and adopted by Quarter 4'. Elected legislators in the target countries are reduced to clerks.[3] The European Stability Mechanism, currently being ratified by

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[1] Perry Anderson, 'After the Event', NLR 73, Jan–Feb 2012, p. 59.

[2] Michel Aglietta, 'The European Vortex', NLR 75, May–June 2012.

[3] Irish TDs have so far internalized their subaltern status that a debate on designating June 16, Bloomsday, a public holiday, to celebrate the country's 'great literary tradition', was brought to a halt by a ministerial reminder that the Troika's permission would need to be sought first: *Irish Times*, 17 June 2011.

national parliaments, will turn this punitive emergency set-up into a permanent system. The ESM directorate will constitute an in-house IMF for the Eurozone, dictating macro-economic policy to states dependent on its loans. Underwritten in the final instance by Eurozone taxpayers (who also undertake to guarantee the interest payments and bankers' fees), the loans themselves will be raised on the international markets, as those of the EFSF have been.[4]

The Fiscal Compact treaty, enshrining a balanced-budget rule in member states' constitutions, is designed to bolster the ESM 'from below'.[5] Deficits must not be above 3 per cent of GDP, nor debt over 60 per cent. If the European Commission deems this breached, automatic correction measures will be implemented that need not be subject to parliamentary deliberation. The Fiscal Compact's economic effects are nugatory: the rule can be dodged if a parliamentary majority declares the country to be facing 'exceptional circumstances', or by employing Special Purpose Vehicles. Its importance is purely ideological, demonstrating that a member state is marching in line behind Berlin. Thus Zapatero and Rajoy scrambled to ram a constitutional amendment through Spain's Congreso de los Diputados at barely a week's notice in August 2011, only the second time the Constitution has been amended. Sarkozy had tried to push a *Schuldenbremse* through the French National Assembly the month before. There was ill-concealed impatience in Brussels and Berlin when the Irish government declared itself obliged to abide by its own constitution and put the Fiscal Compact to a popular vote. The arguments of the Yes camp amounted to dire threats of still harsher budgets cuts if voters delivered the wrong answer. When the referendum was carried, by an underwhelming 30 per cent of the electorate, Kenny rang Merkel directly—so personalized has Eurozone decision-making become—to beg for some debt relief as a reward. In true colonial fashion, it came as a pat on the head—'Ireland is considered a model bailout student'—and demand for payment in full.[6]

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[4] Banks will be able to borrow billions from the ECB at 1 per cent or less to lend to the ESM at a higher rate; the ESM will charge a higher rate in turn to the country whose economy it is restructuring. Those profiting from their assistance to the EFSF include Goldman Sachs, BNP Paribas, Société Générale and RBS.

[5] Formally, the Treaty for Stability, Coordination and Governance in the Economic and Monetary Union (TSCG).

[6] 'Berlin says bank deal for Ireland would send wrong signal', *Irish Times*, 5 June 2012.

Beyond this, designs are being drawn up by EC and ECB officials for a new Euro-group fiscal mechanism, headquartered in Luxembourg, and perhaps making some token nod to democratic principles through the inclusion on its board of the leader of the European Parliament, to control the issuance of new debt.[7] In essence this will take the form of an autocratic and asymmetrical oversight body, lacking any democratic accountability, to impose the diktats of northern states on the south. This is Berlin's condition for any future eurobonds. 'Control' is the key word in Merkel's pronouncements on this: 'Solidarity is possible only with serious controls and collective oversight'—'you cannot have guarantees without control.'[8]

The official architects of the new fiscal body are the ECB's Mario Draghi, European Commission chief José Manuel Barroso, Euro-Group chairman Jean-Claude Juncker and European Council president Hermann Van Rompuy. Their qualifications speak for themselves. Barroso had presided over the catastrophic collapse of the Portuguese economy, before gratefully accepting Blair's nomination to the EC in 2004 as a reward for services rendered on Iraq—hosting the Azores summit in March 2003, from which Bush delivered the warmongers' ultimatum. Barroso spent the summer holidaying on the yacht of Spiro Latsis, a Greek shipping billionaire whose company soon after received the Commission's approval for state aid worth €10m. Draghi was famously a vice-chair for Europe at Goldman Sachs, a position that put him in charge of its 'companies and sovereigns' department, which shortly before his arrival helped Greece and its Central Bank governor Lucas Papademos disguise the state of its national accounts with derivative swaps on its sovereign debt; Draghi himself was an ardent proponent of governments' use of derivatives. Juncker is Prime Minister of Luxembourg, a duchy notorious for the light regulation of its financial companies, among them Clearstream, a Deutsche Börse-owned clearing house with custody of €11 trillion of assets, and the subject of numerous money-laundering allegations, which the European Commission under Barroso has studiously refused to investigate. Van Rompuy, a right-wing Belgian Finance Minister in the 1990s, briefly in and out of the Prime Minister's chair, was the anyone-but-Blair candidate for the EU's unelected presidency, a

[7] 'A sneak peak at tomorrow's Europe', *Spiegel* online, 11 June 2012. At the time of writing, Berlin is describing the plan as insufficiently rigorous.
[8] Statement at the 22 June quadripartite summit of Italy, Spain, France and Germany in Rome: 'Leaders vow to keep eurozone intact', IHT, 23 June 2012.

relic of Giscard d'Estaing's failed Constitution. His spectral presence testifies to the impasse of the Maastricht-model EU, swollen to an unwieldy 27 members, and the autonomous dynamic of the Eurozone.

Values?

The upshot of these processes has been the abrogation of sovereignty in successive member states and its accumulation in Frankfurt, Brussels and Berlin. In place of the Treaty of Rome's 'ever-closer union of the peoples', it sets in place a series of structural inequalities between them. As Wolfgang Streeck has observed, the new integration drive represents an extension of the neo-functionalist 'spill-over' model:

> Monetary union, initially conceived as a technocratic exercise—therefore excluding the fundamental questions of national sovereignty and democracy that political union would entail—is now rapidly transforming the EU into a federal entity, in which the sovereignty and thereby democracy of the nation-states, above all in the Mediterranean, exists only on paper. Integration now 'spills over' from monetary to fiscal policy.[9]

This process has given short shrift to the moral values cherished as its essence by the EU's publicists: post-national civilization, democratic principles, rule of law, 'European spirit'. 'We could teach the neo-cons a thing or two about regime change', boasted one of Merkel's officials, having orchestrated Papandreou's resignation in November 2011 for having the temerity to suggest the Greek people be consulted on the Troika's Memorandum. Sounding like a mafia enforcer, Juncker explained, 'We made Papandreou aware of the fact that his behaviour is disloyal'.[10] The 'non-political' ECB held off on Italian bond-buying to help precipitate Berlusconi's downfall. According to a top Italian official, Merkel and Sarkozy instructed Napolitano on whom to appoint in his stead.[11] 'There is no such thing any more as domestic policy making', Merkel announced.[12] As for the rule of law, the Fiscal Compact itself was declared operative if only twelve out of twenty-seven states ratified it, riding roughshod over

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[9] Wolfgang Streeck, 'Markets and Peoples', NLR 73, Jan–Feb 2012, p. 67.

[10] Mark Leonard, 'The dark flip side of European technocracy', *Reuters* blog, 31 May 2012; *Spiegel* online, 'Merkel and Sarkozy Halt Payments to Athens', 3 November 2011.

[11] 'France Keeps a Watchful Eye on Turmoil in Italy', NYT, 13 November 2011; 'ECB cuts bond buying by half', *Financial Post*, 14 November 2011.

[12] *Irish Times*, 9 November 2012.

the EU's own principles of unanimous ratification. To be 'pro-Europe' is now synonymous with favouring budget deficits below 3 per cent.[13]

Putting paid to any illusions of post-nationalism, the Merkel government has sanctioned the crudest displays of chauvinism towards Greece, emulated by leaders in Finland and Austria. Trumpeted by the Springer press under the headline, 'Sell your islands, you bankrupt Greeks! And sell the Acropolis too!', the CDU's Josef Schlarmann explained: 'Those in insolvency have to sell everything they have to pay their creditors. Greece owns buildings, companies and uninhabited islands, which could all be used for debt redemption.'[14] The ironies of a German giving lessons in debt repayment have not been lost in Greece. Under the Nazi occupation, a hefty monthly payment was extracted from the Greek central bank to cover the Wehrmacht's expenses; in March 1942 an additional forced loan of 476 million Reichsmarks was levied by the Axis powers. Greek partisans put up some of the toughest military resistance to the Nazis in Europe; the damage wreaked by the occupiers' revenge was commensurate. Reprisals were exacted on the civilian population at a rate of fifty Greeks for every German killed. Much of the country's infrastructure was destroyed; forced exports and economic collapse helped bring about one of the worst famines in modern European history.[15] Nazi rule was followed by a three-year British and American counter-insurgency operation to stamp out the Communist-led partisans.

After the War, ex-Nazi German leaders and their American conquerors were quick to salve their consciences by negotiating reparations for material damage with Israel; the Luxembourg Agreement was signed in 1952.

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[13] See, for example, the *Economist*'s editorial on Hollande: 'His fans say he is more moderate and pro-European . . . They point to his commitment to cut France's budget deficit below 3 per cent of GDP in 2013.' 'Powerful as well as dangerous', *Economist*, 23 June 2012.

[14] 'Verkauft doch eure Inseln, ihr Pleite-Griechen . . . und die Akropolis gleich mit!', *Bild*, 3 March 2010. The attitude recalls English MPs' colonial contempt for Irish famine victims—'incapable of the honest exertion, the prudence, and the integrity, which were characteristics of the poor of this country [England]'—and assertion that 'So much was never done for any country, by another, in the history of the world . . . The starvation has arisen from the misconduct of the Irish on the spot'. See George Bernstein, 'Liberals, the Irish Famine and the Role of the State', *Irish Historical Studies*, vol. 29, no. 116, November 1995.

[15] Sven Felix Kellerhoff, 'Schuldet Deutschland den Griechen 70 Milliarden?', *Die Welt*, 17 September 2011; Richard Clogg, 'In Athens', LRB, 5 July 2012.

The following year, the US, Britain and France wrote down the debts of their new Cold War ally and deferred the question of Second World War reparations until the two Germanies were re-unified. Greek claims were excluded from the 1990 '2+4' agreement on reparations signed by the Bonn and Berlin governments with Washington, Moscow, London and Paris. Legally, however, the RM476 million loan should count as credit, rather than war damage, and Greece is entitled to be repaid. Without interest, it would amount to $14 billion in today's money; with interest at 3 per cent over 66 years, over $95 billion. Since German reunification, Athens has made persistent attempts to table the question: the then Foreign Minister, Antonis Samaras, raised it with Hans-Dietrich Genscher in 1991, Andreas Papandreou with Kohl and Hartmann in 1995, Costas Simitis with Schroeder and Fischer in April 2000; in each case they met with peremptory German dismissal.

In May and June this year the political pressure on Greeks to support pro-Memorandum parties in the elections, and threats of what would ensue if they returned a Syriza government, swelled to a campaign of international proportions. The loudspeakers of virtually the entire Western European media blared out the message that if Greeks dared to elect Syriza, they would be made to pay. Syriza, a Bennite grouping which insisted that austerity was not working, was dubbed 'anti-European' and its leader Alexis Tsipras universally described as 'exploiting' Greek anger. The German edition of the *Financial Times* published a page in Greek, headlined 'Resist the Demagogue'—'It is only with parties that accept the conditions of international donors that your country will keep the euro . . . Resist the demagoguery of Alexis Tsipras and Syriza. Do not trust the promises that we can simply terminate the agreement, without consequences.' The London edition opined that the NPD's Samaras—who had made the May 2012 elections a condition of joining Lucas Papademos's government in November 2011—was insufficiently 'pro-European' and might need to be replaced as NPD leader.[16] A newly elected François Hollande made clear on Greek TV what could be expected from Socialist France, 'warning' Greek voters:

> If the impression is given that the Greeks want to get away from the commitments that were made and abandon all prospect of recovery then there will be countries in the euro area who prefer to finish with the presence of Greece in the euro area. It is up to the Greeks . . . their choice is whether

[16] 'Samaras's political judgement in focus', FT, 22 June 2012.

they want to stay in the euro area or not. It requires compliance with budgetary discipline and action for growth.[17]

Fall out

What has been the political outcome of this strategy? In Greece, a 'national government' of the pro-Memorandum parties—NPD, PASOK and DIMAR, a rightist split-off from Syriza—rests on just 29 per cent of the electorate. In order to keep it in power, Hollande and other Euro-group leaders are already stressing the need to soften the MOU deadlines they had insisted Syriza respect. Elsewhere in the Eurozone—Ireland, Portugal, Spain, France—ejection of incumbents has become the order of the day. In some countries the two-party system—or two-and-a-half parties, as in Ireland—is starting to run out of rope: the anti-MOU Sinn Fein is around 18 per cent in the polls; in the Netherlands the Socialist Party, critical of austerity policies, has been running at 20 per cent. Turn-outs in elections across Europe are also falling markedly. The ESM is being ratified without referenda, but a more ambitious Euro-group fiscal body would not be able to escape a popular vote.

At the time of writing, the Troika's super-sovereign status is being bitterly contested by Italy and Spain. Rajoy has hopes of getting a €100bn banking guarantee without strict EFSF conditions; different standards, it seems, apply to Portugal and to Spain, where the imposition of central rule on Autonomous Communities, not least the highly indebted Catalonia, is politically explosive. Monti has called for ECB bond purchases without the indignities of Troika diktat for 'well-behaved' countries like his own. What of France? Under Sarkozy, Paris gave unstinting support to Berlin; 'Nicolas will agree', as Merkel put it.[18] Hollande's Parti Socialiste now commands every level of the French political system: the Presidency, Senate, National Assembly, 21 out of 22 regions and large swathes of local government. During his campaign, Hollande spoke of re-negotiating the Fiscal Compact Treaty; but he made no move to put it to a referendum, contenting himself with getting existing EU funds redubbed as a growth package. It seems unlikely that France will offer a real lead to the Mediterranean bloc against Germany.

[17] 'French president warns Greeks against anti-bailout vote', France24, 14 June 2012.

[18] 'False assumptions underpinned British strategy', FT, 16 December 2011.

Germany's first attempt to impose the Stability and Growth Pact on its fellow nations during the euro's early years famously foundered when it broke the rules itself in 2003. The Länder and city states are already contesting the limits of the Fiscal Compact: North Rhine–Westphalia, Berlin and Hamburg are set to out-borrow its constraints in 2012. With the world economy faltering, German attempts at austerity may backfire. In the 1990s, the imf's high-handed structural adjustment programmes helped to make Latin America the vanguard continent for opposition to neo-liberalism. Syriza, only a fraction behind the npd in the June 2012 election, has dispatched one of its leading economists to Buenos Aires to discuss Argentina's experience of default. Ecuador's successful debt audit—opening the government's books and undertaking a democratic assessment of what was owed and what was 'odious'—offers further lessons. If the oligarchies that have run the eu since Maastricht have never won the active support of their populations for the direction of their rule, up till now they have not met any real political resistance. It remains to be seen whether this drastic new turn of the vice, in crisis conditions, can screw the popular will down again so easily.