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# 21 - 2012

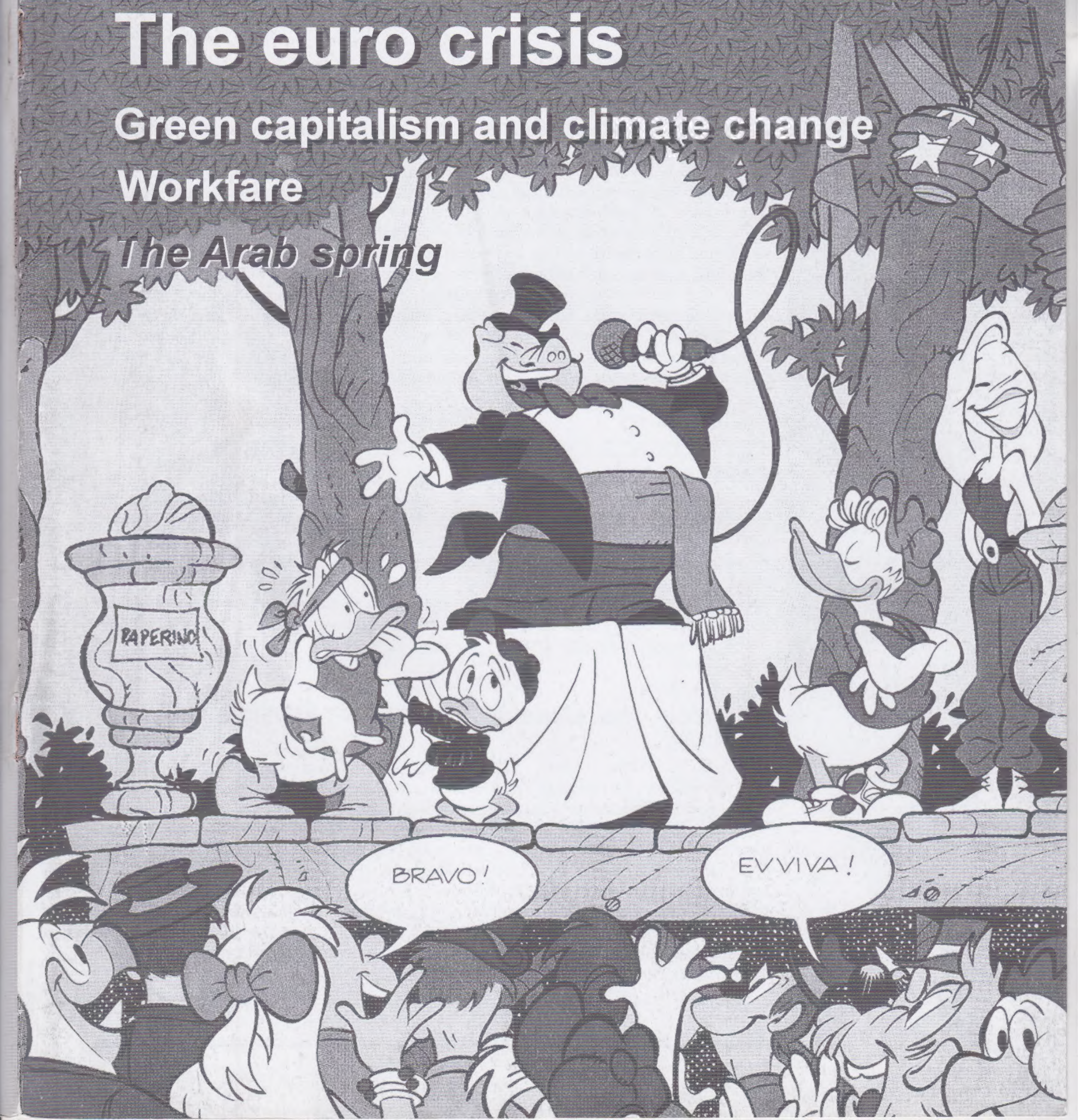
# Aufheben

## The euro crisis

## Green capitalism and climate change

## Workfare

## *The Arab spring*



*Aufheben* **#21 :** 2012

PAGES 1-6

## EDITORIAL: THE 'NEW' WORKFARE SCHEMES IN HISTORICAL AND CLASS CONTEXT

The government's 'new' workfare schemes are one part of a massive programme of welfare reform, backed up by an unprecedented ideological attack on the 'undeserving poor'. The schemes, which have been attacked for their treatment of many of the claimants forced onto them, are the latest in a long line of attempts to ensure the unemployed function properly as a reserve army of labour.

PAGES 7-43

## THE EURO CRISIS: TAKING THE PIGS TO MARKET

For more than two years we have seen the politicians and policy-makers of Europe repeatedly involved in frantic and often fraught negotiations to find an agreement to resolve what has become known as the euro crisis. Certainly the euro crisis has been a 'crisis too good to miss' for the European ruling class. It has provided the opportunity for governments across Europe – not just the eurozone – to push through sharp cuts to public spending and the welfare state and to accelerate privatisation and neo-liberal reforms. In this article we shall give an account of the unfolding of the euro-crisis since the end of 2009. We shall also consider the explanations concerning the causes of the euro-crisis that have been put forward. Although these explanations may all have a certain element of truth, we shall argue that the euro crisis can only be fully understood if it is placed in the wider context of the tectonic shifts being brought about in the global accumulation of capital caused by the rise of China and the newly emerging economies of the global south.

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## THE CLIMATE CRISIS... AND THE NEW GREEN CAPITALISM?

The inability of the world's states to take decisive action on climate change makes a strong case for the incompatibility of capitalism's endless growth with finite ecological limits. However, this identifies the interests of capital per se with fossil fuels, and overlooks the emerging 'green capital' which sees averting dangerous climate change as an opportunity for new avenues of accumulation. While this may be too little to late, the struggles between 'fossil' and 'green' capitalists look likely to increasingly shape both capitalist development and geopolitics over the coming decades.

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## *INTAKES:* THE ARAB SPRING IN THE AUTUMN OF CAPITAL

Our *Intakes* article, from 'Friends of the Classless Society' (Berlin), contextualizes the recent tumultuous events in Egypt, Tunisia and Libya. The basis of the cross class alliances was their shared opposition to the dictators. Now the dictators have been overthrown, the article argues, both market liberals and the statist left are likely to be disappointed by developments. This analysis serves as a welcome antidote to the enthusiastic accounts put forward by both mainstream liberals, who have seen the Arab Spring as a series of democratic bourgeois revolutions that will usher in parliamentary democracy, the rule of law and economic property, and the autonomists and left who see the uprisings in the Arab world as a manifestation of an emerging amorphous global anti-capitalist movement.

# Editorial: The 'new' workfare schemes in historical and class context

The storm of public outrage expressed against workfare schemes in February and March this year was quite unprecedented. People being forced to work for their benefits featured heavily in the news for weeks. This was perhaps surprising. The illegitimacy of attacks on benefits has usually been a marginal issue even in the 'political'/campaigning scenes[1] and the labour movement,[2] let alone the mainstream press.

In the face of this hostile 'public opinion', the government made concessions over sanctions for some of the workfare schemes.[3] Around the same time, a succession of the big companies involved - TK Maxx, Sainsbury's, Waterstones, Shelter, Marie Curie, 99p Stores, Maplin, Oxfam, Mind, BHS, Burger King, HMV, and Boots - publicly announced they were pulling out of some of the schemes.[4] Afraid for their reputations, they didn't want to be seen to be 'exploiting the vulnerable' by using compulsory (or near compulsory) work experience 'placements' that did not lead to jobs or constitute real training. Workfare had become a national scandal. Tesco supermarket was the cause célèbre – though their recanting was only partial since they only pulled out of the high profile Work Experience scheme but not the Work Programme.

For those of us who had for many years been involved in small and at times lonely campaigns around the dole and benefit cuts more generally, there was a mixture of surprised delight tinged with irritation to see this sudden wave of public indignation and its dramatic consequences. On the one hand, given that our involvement in struggles against workfare had in the past been criticised by some for parochialism[5] or for the supposed narrowness of our concerns, there was a sense of vindication. There was also the excitement, of course, of seeing the government defensive and vulnerable, and beating a rapid retreat in the face of the opposition to the schemes. On the other hand, we noted that many of the howls of outrage at the workfare schemes reflected a complete lack of historical perspective. Workfare schemes specifically, and the disgusting treatment of the unemployed more generally, have a very long history of course. Forms of workfare – required work for unemployment benefits – have been used (or attempted) on many previous occasions in the last century, though they have a much longer history of use in the USA than in the UK.[6] In the UK, we can trace early versions and indeed the basis of today's schemes to the Job Seeker's Allowance (JSA), which was introduced in 1996. A pilot workfare scheme, Project Work, was introduced in 29 towns by the Tories in the same year, and continued under New Labour. In one of these towns (Brighton), the scheme was badly holed by what police and Jobcentre managers in Brighton called a 'thuggish' campaign,[7] but it only ended when it was superseded by the more ambitious (and expensive), New Deal in 1998.[8] The current government's Work Programme workfare scheme is based upon, and inherited much from, New

[1] Back in 1998, we complained that some people who, as 'full time activists', were involved in struggles that depended on the dole for their very existence paradoxically did little to resist attacks on the dole. See *Dole autonomy versus the re-imposition of work: Analysis of the current tendency to workfare in the UK.* http://libcom.org/library/dole-autonomy-aufheben

[2] Back in the 1920s and 30s, the National Unemployed Workers' Movement was rejected by the TUC and the Labour Party. See *Dole autonomy,* footnote 6.

[3] For example, they lifted the sanction (loss of benefits) for leaving a workfare placement on the Work Experience scheme. See the *Guardian*, 29th February 2012. http://www.guardian.co.uk/society/2012/feb/29/ministers-drop-sanctions-work-experience

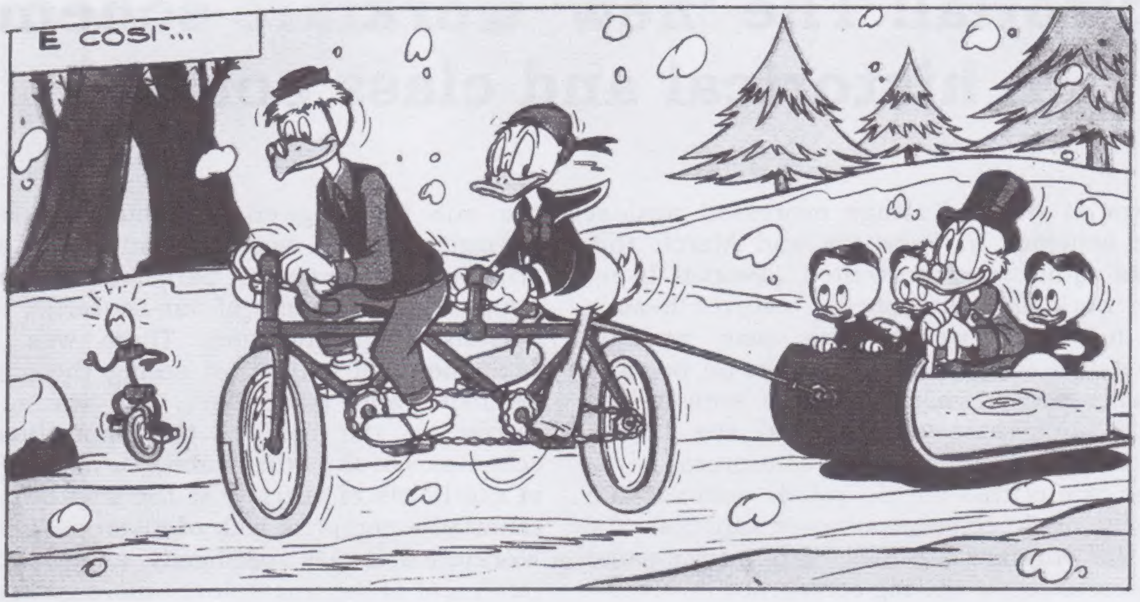
[4] Workfare takes place as part of five schemes: Work Experience, Sector-Based Work Academies, Mandatory Work Activity, the Community Action Programme, and the Work Programme. The best guide to the schemes is *Abolish workfare: The Solidarity Federation's guide to the government's unpaid work schemes.* http://www.solfed.org.uk/sites/default/files/uploads/workfare_pamphlet_v2_0.pdf

[5] The workfare scheme Project Work was piloted in Brighton and became a focus of our struggles and our articles. See *Dole autonomy*.

[6] The workfare programmes in the USA, which have functioned to displace paid employment in parts of the public sector in New York and Wisconsin, have been the model for some of the schemes in the UK. See the *Dole autonomy* appendix, *Workfare: the USA case* (1998). http://libcom.org/library/appendix-workfare-usa-case

[7] In reality a combination of pickets of charity shops and effective alliances with militants among Jobcentre workers.

[8] As we have pointed out previously, while the stated rationale for the New Deal was to help unemployed people into work through enhancing their 'marketability' (with the implication that mass unemployment was due to the poor quality of unemployed individuals), the government's own evidence showed that it was not the New Deal at all but the upturn in the economy in the early 2000s that reduced the unemployment figures. See *Dole autonomy and work re-imposition: An epilogue* (1999). http://libcom.org/library/aufheben/pamphlets-articles/dole-autonomy-and-work-re-im-position-an-epilogue




Labour's Flexible New Deal.[9] Rather than a new development, therefore, the 'new' schemes represent a recurring theme in recent welfare policies.

In the welter of news scandals and indignant commentaries on the injustice of workfare, this utter lack of historical perspective was closely related to an almost total absence of interest in the class context of the recent developments. Before analysing this class context more closely, however, we should recognize that, alongside the continuities with previous schemes for the unemployed, there are indeed some features of the current programmes that distinguish them from past attempts to implement workfare.

There are perhaps two important differences from the schemes of the past in the current crop of workfare schemes. The first difference has to do with the place of workfare providers in the economy. Back in the 1980s and 90s, the companies running the 'back to work' schemes were either small businesses or charity wings of multinationals. For example, the multinational GrandMet (now part of Diageo) set up a company that later became 'Tomorrow's People' as a response to the riots of the 1980s.[10] It was a 'social conscience' decision, based on fears of deteriorating social cohesion, not a business decision to make money. Now, by contrast, firms like A4e and Working Links who are involved with 'getting people back to work', both directly (by providing the experience of work discipline as part of 'mandatory work activity') and indirectly (acting in effect as an employment agency or go-between, through involvement in the Work Programme) treat workfare schemes as part of their core business. Indeed, there has developed a whole sector of the economy that depends entirely on the massive contracts to run these schemes. This in turn is just one example of the huge growth in government outsourcing more generally as a profitable industry in its own right.[11] The other point to make about this, of course, is that the individuals running the companies getting these multi-million pound contracts to deliver services that might in the past have been run from the Jobcentre have in many cases been shown to have extremely close personal links to both the Labour and the Coalition government.[12]

The other difference with the past is the sheer brazenness of the new versions of workfare. As we have stated previously,[13] with Project Work and

[9] The Flexible New Deal was introduced in 2009, 11 years after the original New Deal schemes, and placed more emphasis on coercion rather than training.

[10] A second wave of scandal broke when it was found that workfare workers were involved in some of the stewarding duties during the Golden Jubilee weekend in June. The organization administering the scheme in this case was Tomorrow's People. See 'Unemployed bussed in to steward river pageant', *Guardian*, 4th June 2012. http://www.guardian.co.uk/uk/2012/jun/04/jubilee-pageant-unemployed

[11] There are numerous big businesses involved in the provision of benefits services and other government functions. They include Atos (running the notorious 'work capability' tests and the even more infamous NHS database software, and now involved in the Community Action Programme and Work Programme as well), G4S (prisons, policing, Work Programme), Capita (housing benefit software cock ups), and Maximus (Flexible New Deal, Work Programme).

[12] *Private Eye* has documented many of these links in detail. Just one example: Quiller Consultants, owned by prime minister David Cameron's constituency party chair Lord Chadlington, and run by lobbyist George Bridges, has been hired by A4e who have been given huge sums by Cameron's government. See *Private Eye* #1315 (1st June, 2012) and *passim*.

[13] 'The renewed imposition of work in the era of austerity: Prospects for resistance' in *Aufheben* #19, 2011.

the Flexible New Deal, placements were sought largely in the voluntary sector. In the present case, however, workfare has been extended into many areas that previously would not have been touched for fear of being attacked by the unions for job substitution. Now, however, it is not only high street shops which are involved, where it might be expected that organized opposition from workers would be relatively weak, but also public service organizations including Southern Railway and the health service.[14] Indeed, far from opposing the schemes, in the Post Office, the Communication Workers' Union have actually supported this attack upon the wages and conditions of their own members![15]

Partly, perhaps, it was this sheer brazenness that served to catapult cases of people on the current workfare schemes into the mainstream consciousness. While a number of activist campaign groups had already been busy on the issue for several months, it was the discovery by middle class journalists that workfare was being imposed upon people very like their own graduate children that led to the acres of coverage. The blatant Tesco advertisement for a job at 'JSA plus travel expenses';[16] the exposé of them and other supermarkets for their extensive and cynical use of 'work experience' placements that consisted of little more than shelf stacking and offered no real training element; the legal action taken by a graduate whose career prospects were damaged when she was forced to work for Poundland:[17] all these scandals fuelled the indignation in the liberal press and the associated Twittersphere. Following the initial flurry of media interest, the 'Right to Work' campaign (a hideously-named front organization for the Socialist Workers' Party) cleverly jumped on the fast-moving bandwagon by occupying a Tesco store near the House of Commons in an effective publicity stunt.[18]

The middle class interests of those who led the mass media campaign against (aspects of) the workfare schemes was reflected in the framing of their critique, which was almost entirely one of moral indignation about the treatment of a minority of individuals, and lacked recognition of the wider class context of what was happening.

In this individualistic, moral critique of workfare, the unemployed claimants forced onto the scheme were the unfortunate, vulnerable victims.[19] The villains in this tragedy were easy to identify, for not only were A4e and Working Links trousering huge contract fees from their role as middlemen in the schemes, they were also found to be engaging in various fraudulent practices to top up these profits - for example by claiming fees for placements that they hadn't provided, being paid twice for the same person, getting people to clear their own offices as a 'placement', and so on.[20]

While of course there is a moment of truth in this purely moral critique – forced work-for-dole under the guise of 'training' or 'work experience' being an outrageous attack on, and indignity for, those subjected to it – it is partial and limited. One of the central problems with it is that it concedes far too much to some of the government's own claimed justifications for the scheme and the individualistic ideology of the 'deserving-versus-undeserving poor' that it has promoted in order to gain legitimacy for its wider attacks on benefits. Indeed, it was precisely because some concessions were made in relation to some of the more flagrantly immoral of the practices (lack of real training, some of the sanctions, the lack of jobs at the end) that the fuss died down by April this year, and the schemes have continued with perhaps greater claims for legitimacy.

The 'moral' critique – the emphasis on the unjust treatment simply of unemployed

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http://libcom.org/library/renewed-imposition-work-era-austerity-prospects-resistance

[14] 'Unpaid jobseekers to deliver patient care in three hospitals'. *Guardian*, 21st May 2012 http://www.guardian.co.uk/society/2012/may/21/unpaid-jobseekers-deliver-patient-care

[15] See 'No to workfare at Royal Mail', Boycott Workfare, March 2012. http://www.boycottworkfare.org/?p=855

[16] 'Tesco drops 'jobs for benefits' ad for Suffolk store', BBC. 16th February 2012. http://www.bbc.co.uk/news/uk-england-suffolk-17066420

[17] 'Graduate 'made to stack shelves' seeks Judicial Review', *Public Interest Lawyers*. http://www.publicinterestlawyers.co.uk/news_details.php?id=200

[18] 'Tesco job advert protest closes store in Westminster', BBC News, 18th February 2012. http://www.bbc.co.uk/news/uk-england-london-17084634 The SWP largely dropped the issue of workfare after this stunt, moving on to more promising publicity and recruitment opportunities. The SWP did not seem to mind that 'Right to work' is the name of anti-union legislation in the USA, banning the closed shop. See http://www.right-to-work.org/

[19] The *Daily Mail*, traditionally one of the newspapers most ready to attack 'unemployed scroungers', now condemned this treatment of the 'vulnerable', comparing it with the Nazis! See 'This is not wartime Nazi Germany and Cameron's attacks on the vulnerable and needy must be stopped', *Mail Online*, 20th February 2012. http://www.dailymail.co.uk/debate/article-2102484/This-wartime-Nazi-Germany-Camerons-attacks-vulnerable-needy-stopped.html

[20] 'DWP 'did not do enough to stop fraud among welfare-to-work companies'', *Guardian*, 16th May 2012. http://www.guardian.co.uk/politics/2012/may/16/dwp-fraud-welfare-work-companies While the *Guardian* and BBC coverage brought to public attention some of these corrupt practices, as well as the staggeringly large pay-packet of A4e chief Emma Harrison, it was *Private Eye* which had been pursuing this scandal long before it was fashionable, and continues to provide the dirt on these companies. See for example *Eyes* 1313 p. 10, and 1314 p. 29 and *passim*. The important point here is that that many of the petty frauds taking place in A4e's offices have occurred because they were unable to find enough real placements.

individuals sent on the scheme – fails to challenge the discourse of 'helping the unemployed' that frames the government's workfare programmes. This is precisely because it keeps the focus on the unemployed individual rather than the wider class context of the schemes. For example, the objection made to some of the schemes and employers for not providing genuine training or work experience, with the demand that they do, implies that such training or work experience might be a good thing – as if to give the underpaid individual some training that improves her position in the jobs market a little makes up for the fact that her 'placement' takes the place of what would otherwise be someone's more properly paid job.

Some of the limits of framing the critique of workfare simply in terms of the (good or bad) treatment of (some) unemployed individuals can be illustrated by the experiences we have had picketing high street shops involved in the schemes. At our pickets of Poundland and Holland & Barrett, the managers sought to defend themselves by wheeling out an employee they said had started on the workfare scheme (as unpaid 'work experience') and then got a real job with them at the end. The individuals themselves (both of them) readily corroborated this version of events, adding for good measure that they welcomed the scheme and that their experience demonstrated that individuals who really wanted to work could now do so, thanks to this scheme, meaning that those who did not (who were not there to speak for themselves, of course) were to blame for their plight. Of course, who among the small minority who have gone on to paid jobs after workfare placements would turn round in such a situation and say they had been duped by the Jobcentre, A4e and Poundland et al.? From the individual perspective of these people, the schemes are completely morally justified. So, from a class perspective, the purely moral critique fails; or it ends up giving away the class prejudice underlying some of it ('well, it may be ok for someone like you, but it is not right that my daughter, who has a degree, should have to stack shelves in a supermarket'), something seized on, albeit in a distorted way, by the minister defending the schemes.[21]

If the essence of what's wrong with workfare is not the 'immoral' treatment of unemployed individuals, what is it? The word 'slavery' has been bandied about by many of the critics.[22] Within a capitalism system the functions of workfare schemes may be similar to that of having pockets of slavery; but this slogan lacks precision, for workfare workers are not chattels in the same way as slaves.[23]

What about 'exploitation', another popular characterization of what's wrong with workfare?[24] While it may be true technically that workfare is exploitation (people paid less than the value their labour creates), this works, like 'slavery', more as an emotive slogan than a proper analysis. For, if workfare work is exploitation, does this mean that most other jobs do not constitute exploitation?

In fact, the immoral treatment of most of the unemployed forced onto the workfare placements is a means to an end. The unemployed are being used as an instrument, and it is the ends to which they are being put which is the nub of the issue. The real problem with workfare is the pressure it puts on existing jobs and wages.[25] It creates pressure both directly and indirectly. Directly, the threat that it poses is job substitution; there are a number of reports that paid jobs are being replaced by workfare placements.[26] Indirectly, workfare allows employers to cut back on paid overtime, to resist wage demands, to expect harder work from their existing employees, and so on: why should they make any concessions to you and your workmates if they know they can get someone else to do the same as you for next to nothing? The case against workfare therefore is essentially one of class interests. In any market giving some of a commodity away free will drag down the overall price. So it is with labour-power. Workfare is sometimes considered just a claimants' issue – by both claimants and workers. But the struggle against workfare is not really a 'dole struggle'; workfare is more an attack on existing workers than it is on the unemployed.

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[21] 'Workfare that shames UK plc or a leftwing plot by the job snobs?', *Guardian*, 28th February, 2012. http://www.guardian.co.uk/society/2012/feb/28/workfare-uk-plot-job-snobs

[22] 'Phone-a-slave', *Daily Mash*, 27th February 2012. http://www.thedailymash.co.uk/news/business/jobless-offered-free-glimpse-into-very-slightly-better-future-201202274944

[23] For a more developed rant against the use of the word 'slavery' in anti-workfare campaigns, see 'On slavery', June 2012 at http://aprogramandrifles.tumblr.com/

[24] See for example the posters in this action 'Edinburgh Tescos invaded by anti-workfare protestors', Edinburgh Coalition Against Poverty, March, 2012. http://edinburghagainstpoverty.org.uk/node/70

[25] Of course, the class analysis of the workfare scheme also has a moral dimension; but since *our* moral condemnation is *based upon* that class analysis, rather than an alternative to it, our indignation has broader targets: the 'victims' who we argue have been wronged by the implementation of the workfare schemes, are the wider working class, not just the individuals forced onto the schemes.

[26] 'Unpaid jobseekers to deliver patient care in three hospitals', *Guardian*, 21st May 2012 (op. cit.); 'My job was replaced by a workfare placement', Guardian, 3rd March 2012. http://www.guardian.co.uk/commentisfree/2012/mar/03/20/job-replaced-workfare-placement 'Back to the workhouse', Guardian, 8th June, 2012. http://www.guardian.co.uk/society/2012/jun/08/jubilee-stewards-unpaid-labour-growing

As we noted recently, while the current crop of workfare schemes were proposed and introduced before the crisis,[27] the age of austerity has not seen any slackening in the government's enthusiasm for these schemes – quite the opposite, in fact.[28] Workfare schemes are not about reducing unemployment. They are about making unemployment work for the economy. As we have argued, in the 1990s workfare schemes and other attacks on benefits were introduced in an attempt to make the unemployed function as a proper reserve army of labour, 'skilling' them up with basic labour-market discipline (such as getting haircuts and the ability to get out of bed in the morning), which had fallen away with the long-term unemployment of the 1980s. All the time people on the dole were 'recalcitrant' and 'autonomous', they exerted no pressure on those in work to work harder to keep their jobs.[29] The result was a sellers' market. The purpose of workfare now is to prevent a repeat of the 1980s, when so many people became disconnected from the labour market and the unemployed failed to function as a reserve army of labour. This is clear from the fact that at least some of the schemes are not about real work experience but about learning work discipline.[30]

Workfare is just one part of a massive programme of welfare reform, backed up by an unprecedented ideological attack on the 'undeserving poor'. This attack was launched by the Conservative-LibDem coalition and Blairite allies (such as Frank Field) as soon as they came to office. The ideological attack had two prongs. In the first place, there was the attempt to create division through a campaign around so-called benefit fraud. Second was the propaganda stirred up against those supposedly getting large amounts of benefits compared to the wages of those in work. Instead of this being a narrative about appalling low wages, the government ideologues sought to class 'greedy' claimants alongside the hated greedy rich bankers – both were getting 'something for nothing' – in relation to the 'squeezed middle', who were encouraged to link their predicament to the lifestyle of their neighbours on benefits (many of whom, ministers said, didn't open their curtains till the afternoon).[31]

In this ideological attack, and even in the face of global recession, explanations for unemployment in terms of economic conditions, which were accepted in the 1980s, were displaced by individualistic and hence moralistic explanations. This focus on the unemployed individual – whether as victim, beneficiary or moral reprobate - is part of bourgeois ideology, accepted as common sense, which hides our relation with each other as a class, through the wage relation. Many of the justifications given for workfare are built upon this ideological individualism. Thus, while some of the schemes may serve to move the occasional unemployed individual from the dole into (very often low paid) work, these examples are taken by supporters of the scheme as indicative of the way that the problem of mass unemployment might be addressed, buying into the myth that unemployment is caused by the unemployed, rather than by the current crisis.

In this issue of *Aufheben*, we analyse the nature of the euro crisis and show both how it relates to the financial crisis that began in 2008 and how the European bourgeoisie are now trying to use it to their own advantage. Likewise, in the UK, there is a long-term attempt to restructure the labour market,[32] and the crisis has been used to accelerate this process, reconstructing the relations of work in new, harsher, terms, while maintaining or increasing profits, particularly in the financial sector as well as creating new locations of accumulation for the government's friends running welfare-to-work 'consultancies'.

Together, the propaganda war on benefit claimants and the 'need for cuts' brought on by the crisis, have been used to justify savage attacks on a range of benefits (not just for the unemployed, but also the sick and disabled and even more to the poor in work through attacks on housing benefit and working tax credits). These operate as the stick, while 'help' in the form of the (actually very costly) workfare schemes are a kind

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[27] The Flexible New Deal was planned before the crisis, and mandatory work activity was used for the young unemployed and many others before the recession.

[28] 'The renewed imposition of work in the era of austerity', *Aufheben* #19, 2011, *op. cit.*

[29] 'Unemployed recalcitrance and welfare restructuring in the UK today', *Aufheben*, 2000, in *Stop the clock! Critiques of the new social workhouse.* http://libcom.org/library/aufheben/pamphlets-articles/stop-the-clock-critiques-of-the-new-social-workhouse/unemployed-recalcitrance-and-welfare-re

[30] This is the case with 'Mandatory work activity'.

[31] What is ideological about the idea of the lazy, undeserving poor of course is not only that it creates division but also the work ethic it promotes (i.e., 'work as inherently good'). It is purely in the bosses' interests that everyone seeks work, works hard and values this hard work. What's in *our* interests is workers (unemployed and employed) refusing to work for shit wages and refusing to compete.

[32] Other evidence of this restructuring of the labour market is to be found in the rationalization of prison labour, which is now being brought into the mainstream labour market. See 'Plan for cheap prison work 'may cost thousands of jobs'', *Independent*, 5th June 2012. http://www.independent.co.uk/news/uk/politics/plan-for-cheap-prison-work-may-cost-thousands-of-jobs-7815140.html. A recent commentary can be found here: http://libcom.org/blog/new-social-workhouse-16022012

of carrot that are together reshaping the unemployed into active jobseekers of any job.

In this issue, our article on the possibility of 'green capitalism' raises in passing the prospect of 'green jobs', which may be presented as socially useful and for that reason morally easier to include as part of workfare schemes than shelf-stacking placements for rich multinationals like Tesco.[33] The framework for such a use of workfare already exists in the form of the nascent Community Action Programme, which could be seen as complementing the ongoing attacks on jobs and conditions in the public sector. Indeed, it is precisely where workfare jobs are presented as socially useful that perhaps their biggest threat lies. Working for charities and other third sector organizations involved in such activities as 'caring for the environment' (including street sweeping, parks and gardens) offers the government and the employers not only inculcation into the work discipline necessary for a dynamic labour market, but also the opportunity of saving money by getting rid of whole local government departments.

Two years ago, in our last article on the attack on benefits and the rise of workfare, we discussed some of the problems in organizing against these attacks.[34] We pointed out then that the welfare reforms in general and the workfare schemes in particular were an attack on the working class as a whole, and that therefore the resistance should reflect that fact. Since that time, the struggles against workfare that we have been involved in have become bigger and, in a sense, the targets easier. As participants pointed out at a recent national conference against workfare,[35] while two years ago the target was the offices of A4e and others, now it is high street stores who are vulnerable not only to attacks on their nice image but their profits, through people standing outside encouraging others not to shop there. As we found with Project Work, it doesn't take a very large number of people sometime to have a very damaging effect on these scumbags.

While there are many businesses involved in workfare, there continue to be companies pulling out of, or reluctant to get involved in, the schemes;[36] and, now that the mass media furore has died down, this seems to be down to people approaching them directly.[37] Holland and Barrett has been the focus of a national campaign by the Solidarity Federation.[38] As we go to press, it has just been announced that they are pulling out of the scheme, not because of any shame over their involvement, but because they didn't like so many groups of people standing outside their shops discouraging their customers and ruining their image. This victory is one of the most high profile and is significant in that the company themselves attributed it to the pickets (rather than to other forms of campaigning).[39]

Further, the fact that many of the schemes work on the basis of payment by results, and that the continuing recession means that there will not after all be the jobs to put people into, means that there is another point of vulnerability in the programme, for some of the scheme providers will be forced to pull out, allowing us to concentrate pressure on the remainder.


[33] A greater emphasis on 'socially useful' workfare placements would win over some of the current left-liberal critics like Polly Toynbee, for example, who attacks DWP minister Chris Grayling now but states that she backed Project Work for precisely this reason. http://www.independent.co.uk/opinion/the-tories-were-right-workfare-really-works-1280874.htm

[34] 'The renewed imposition of work in the era of austerity', *Aufheben* #19, 2011, *op. cit.* Problems of organization in resistance to benefits attacks is also discussed in section 2 of 'Theoretical criticism and practical overthrow fifteen years on: A reflection' in *Aufheben* #15, 2007. http://libcom.org/library/theory-practice-recent-struggles-brighton

[35] 'How do we break workfare – National Conference held on May 26', Brighton Benefits Campaign. http://brightonbenefitscampaign.wordpress.com/2012/06/03/how-do-we-break-workfare-national-conference-held-on-may-26/

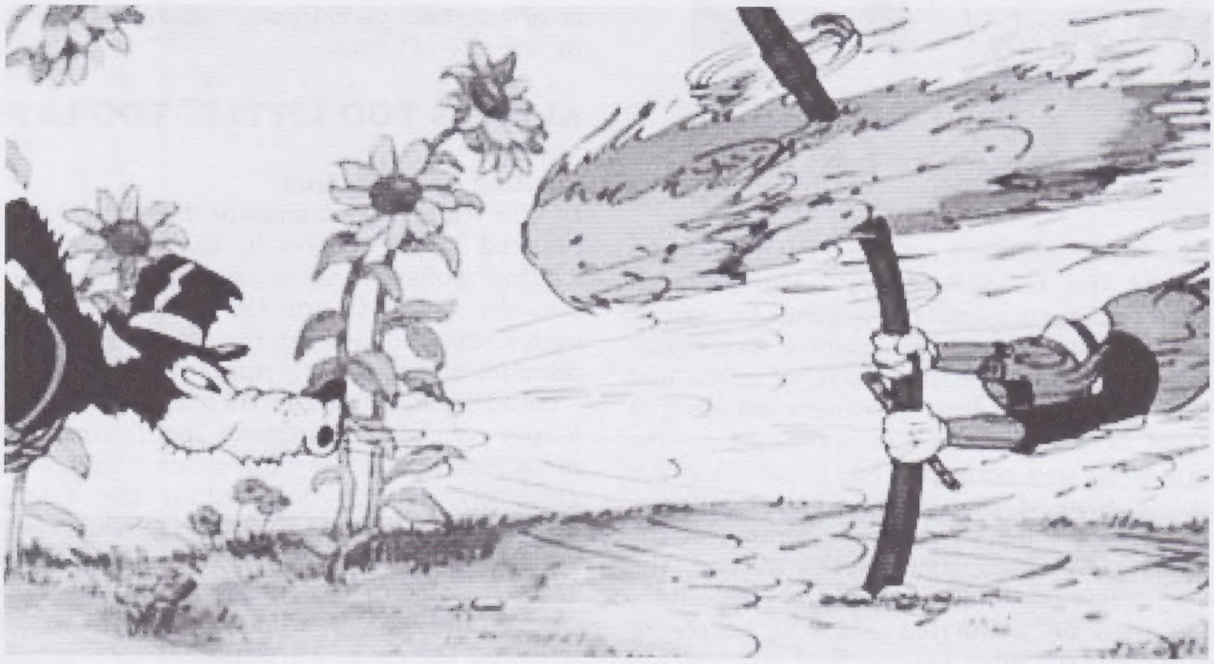
[36] Secretary for Work and Pensions Iain Duncan Smith recently told parliament 'One of the big problems we had was that some people, including the Labour party and those anarchists, have tried to stop those companies from doing that [i.e., providing workfare placements]', June 2012, from Hansard. http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm120625/debtext/120625-0001.htm

[37] We heard recently about a chain of pubs in Hastings that have pulled out after being approached by campaigners; and Boycott Workfare announced in June that the Body Shop have pulled out: http://www.boycottworkfare.org/?p=1025

[38] http://www.solfed.org.uk/?q=taxonomy/term/989

[39] 'Holland & Barrett pulls out of jobseekers' scheme', http://www.guardian.co.uk/uk/2012/jul/06/holland-and-barrett-jobseekers-scheme *Guardian*, 6th July 2012.

# The euro crisis: Taking the PIGS to market



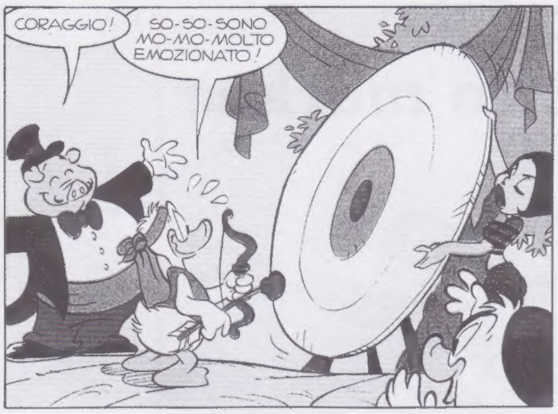
## INTRODUCTION

On the 30th November 2011 Olli Rehn – vice president of the European Commission – declared that there were only 'ten days to save the euro'! This declaration, from such an eminent source, gave a dramatic rhetorical twist to the often fraught and frantic negotiations leading up to the summit of European leaders and financial ministers that had been tasked with finding a solution to the euro crisis. After the repeated failure of Europe's politicians and policy makers to get a grip, it was now official – they were now all drinking in 'the last chance saloon'.

With the world looking on with apprehension, by 11th December the assembled politicians and policy makers had come to a nail biting last minute agreement on how to contain the crisis. Central to this agreement had been the Greek government's humiliating acceptance of a closely monitored draconian austerity package, in return for help from both the IMF and the rest of the eurozone in financing its rapidly growing debts. Yet no sooner than the deal was signed it seemed that the entire agreement might unravel. The Greek prime minister George Papandreou, in one last gesture of defiance, proposed to put the austerity measures to a referendum of the Greek people. Already, earlier in the autumn, Silvio Berlusconi – the rather boorish prime minister of Italy – had been sacrificed to appease the agitated bond markets. It did not take much time for the European ruling class to bundle Papandreou off stage. With scant regard for democratic niceties, in little more than a week Papandreou had been replaced as Greek prime minister by the safe pair of hands of Dr Lucas Papademos, former vice president of the European Central Bank (ECB), at the head of a 'government of national unity' firmly under the direction of Berlin and Brussels.

By the end of 2011 it seemed that the 'euro had at last been saved' – at least for the time being. The gods of the bond markets had been suitably appeased, and the crisis had begun to abate. But six months later, like the sequel to a bad Hollywood horror film, the euro crisis has erupted once more. Once again there are frantic negotiations and summits to 'save the euro', and once again we are having the increasingly clichéd dire warnings of the consequences of not finding such a solution.

So what is the significance of the euro crisis? Is it merely a matter of making a drama out of a crisis? Or is it more than this? Certainly the euro crisis has had a very real impact on the majority of the population of Europe. It has provided the opportunity for the European ruling class to launch a continent-wide class offensive against the entrenched positions of the European working class. Nowhere is this more evident than in Greece. The imposition of draconian austerity




measures has amounted to the effective carpet bombing of the Greek economy. Hundreds of thousands of businesses have gone bankrupt, and public services have been slashed. As a result unemployment has more than doubled in the last two years – with youth unemployment standing at more than 50%. This together with cuts to the minimum wage and pensions, has meant that the standard of living of the average Greek has fallen by more than a third since the beginning of the crisis. As the rich take their money abroad, the numbers below the official poverty line have soared – with an estimated 250,000 people in Athens alone now dependent on food parcels and soup kitchens.

So how are we to understand the euro crisis? Has it been simply due to the profligacy of certain governments such as those of Portugal, Ireland, Greece and Spain – the so-called PIGS – of the southern and western periphery of Europe?[1] Or is it the inevitable result of attempting to impose a single currency on the heterogeneous economies of Europe? Is it the result of European politicians and policy makers being trapped by outdated economic dogma that has forgotten Keynes and the lessons of the 1930s? Or is the euro crisis a symptom of the terminal decline of capitalism in which the bourgeoisie are no longer able to prevent the self-destruction of their own economic system?

As we shall see, all these positions have an element of truth. However, we shall argue that the euro crisis cannot be fully understood unless it is placed in the context of the shifting tectonic plates of global capitalism, that is seeing the emergence of China and the 'global south' and the beginnings of the decline of an American-centred global accumulation of capital.

In the first section we shall give a brief account of the unfolding of the euro crisis since the end of 2009. In the second section we shall consider the competing arguments over the causes of the euro crisis, and in the third section we shall consider how the European ruling class has sought to deal with the crisis. In the final section we shall place the euro crisis in the broader context of the shifting tectonic plates of global capitalism. We shall see how the response of the European ruling class to the euro crisis has been shaped by the prospects opened up for the re-orientation of European capital accumulation by the rise of China.

## ALWAYS TOO LITTLE, TOO LATE?

### Looking on in dismay

By the time the drama of the euro crisis had reached its crescendo in the autumn of 2011, leading policy makers outside Europe – from Timothy Geithner, the US treasury secretary, to even Christine Lagarde, the former French finance minister and the newly appointed head of the IMF - could barely disguise their exasperation at the failure of both European politicians and the institutions of the European Union to act decisively enough to contain the crisis. The financial difficulties of Greece - whose economy amounts to little more than 2% of that of the entire eurozone - had been allowed to spiral out of control, to the point where it was now threatening to engulf the entire eurozone. At each stage in the crisis the European politicians could be accused of being 'behind the curve' - unable to convince the financial markets that they were prepared to take the obvious action on a sufficiently bold scale necessary to contain the crisis. And each failure to act with sufficient boldness had only served to further exacerbate the situation.

After having stared into the abyss only three years before, the ineptitude of the European politicians and institutions in the handling of the euro crisis, it seemed, had brought the world once again close to the brink of another global financial meltdown like that which had threatened to follow the collapse of Lehman Brothers. Only this time the financially weakened governments of the world might not be in a position to avert such a financial meltdown, and thereby save world capitalism from the economic collapse that would inevitably follow, as they had done before. Even if they eventually did 'manage to get their act together' and took the action necessary to contain the crisis, the failure on the part of the European ruling class to at least contain the euro crisis at an earlier stage could already be seen to have contributed to the serious delay in the long hoped for global economic recovery.

So how had the rather marginal financial problems facing Greece been allowed to spiral out of control? What could have been done to contain the crisis? And, if the policy actions necessary to contain the crisis were so evident, why did the European policy makers fail to take such actions?

[1] Some commentators have included Italy amongst the PIGS giving rise to the acronym PIIGS.

To answer such questions we must first look a little closer at how the euro crisis has unfolded.

**In the eye of the storm**

By the end of 2009 it had become clear that the worst of the storm that had followed the collapse of Lehman Brothers a year before had passed. The leaders of the world could now congratulate themselves that their often frantic efforts over the previous months to save the world from both financial and economic collapse had been successful. The banking system had been stabilised and the financial markets that had seized up were now more or less functioning again. At the same time, under the leadership of the US, the loosely co-ordinated adoption of Keynesian reflationary policies by the world's major governments had succeeded in averting a 1930s-scale global economic depression.

What was more, much of the costs of the crisis had been borne by the working class across the world in the form of mass redundancies, short-time working and a sharp decline in living standards. Indeed almost everywhere employers had seized the opportunity presented by the crisis to push through changes to workers' pay and conditions to their advantage. As a result profits were already bouncing back, and business was rapidly returning to normal. Although there had been a few doomsters from both the left and the right who predicted the world economy would either plunge back into recession or else stagnate for years to come, the mainstream view was that, while it may be sluggish at first, particularly in the US and Europe, economic recovery could be expected to take off more or less everywhere by 2011.

However, although world leaders could heave a sigh of relief that the worst was over, it was quite clear that the global economy was still very far from being out of the woods. Firstly, the global financial system was still fragile. No one could be certain what debts banks and other financial institutions held would turn out to be 'toxic'. As such there still remained a very real possibility that a major bank would suddenly be obliged to reveal huge losses and find itself on the verge of bankruptcy, thereby triggering another 'panic' in the financial markets.

Secondly, there was the looming problem of sovereign debt. The global response of governments to the crisis had been to borrow and spend in order to make up for collapsing private sector demand. The impact of the crisis therefore had been to a large extent absorbed by a sharp increase in government debt. Now this may have served to prevent a major global economic depression, but it had also made government finances potentially unstable. How much longer,


it could be asked, would governments be able to finance ever growing levels of debt?

For the time being at least the situation seemed sustainable. Banks in particular were keen to buy up government bonds issued to finance increasing government debt because they needed to hold them as reserve assets, both to meet the more stringent 'capital requirements' being imposed by the monetary authorities in the wake of the banking crisis, and to reassure their business partners that they had sufficient reserves to cover any unexpected losses. More generally, with the flight to safety following the financial panic of1 the previous months, safe and reliable government bonds provided an ideal safe haven for institutional investors to park their funds until the general economic and financial situation became more certain. Most governments could therefore expect to find sufficient buyers for the government bonds that they would have to sell to raise the money needed to cover their deficits. As both the UK and the US had already shown, for those governments that did find it difficult to finance their debts there was always the last resort of 'quantitative easing' in which their central banks created the money to buy up the bonds necessary to finance their debts.

Nevertheless, as the IMF and other august bodies of the international bourgeoisie warned, this situation would not last forever. Once the economic recovery picked up steam it would become increasingly difficult for governments to sell ever greater amounts of debt. Government bonds would have to compete with other forms of investment such as corporate bonds or shares that, while less safe, promised much higher returns, particularly in a booming economy. Governments would therefore either have to offer higher returns on their bonds, forcing up interest rates which may then serve to kill off private investment; or else adopt unorthodox monetary policies such as quantitative easing. But quantitative easing could only work in the current rather exceptional post-crisis circumstances where banks were slashing back on their lending in order to bolster their reserves. In doing so the banks were in effect destroying money in vast amounts that quantitative easing was serving to replace. Once the economy and the banking system returned to normal, the policy of the central bank printing money so as to buy up government bonds would sooner or later inevitably lead to hyper-inflation.

Therefore the IMF had urged governments to draw up medium term 'exit strategies' from the exceptional fiscal and monetary policies they had adopted to absorb the impact of the crisis. First and foremost government deficits would have to be cut back in order to stabilise the burden of sovereign debt - as measured by debt to GDP ratios. Further, it was generally agreed that the bulk of the burden of reducing government deficits should fall on public spending, rather than on tax increases.

Indeed, many amongst the bourgeoisie policy makers saw the prospect of public spending cuts as an excellent opportunity to accelerate neoliberal reforms of the state that in many countries, particularly in Europe, had previously stalled or been reduced to a snail's pace. After all, the crisis had exposed the weakness of the working class across the industrialised world. Having forced through changes in the private sector with remarkably little opposition, it now seemed the time to take on the entrenched public sector unions, cut public sector wages and pensions, and push through programmes for the privatisation and the commercialisation of the provision of state services – all under the guise of the 'necessity' of cutting government deficits.

Yet as the wise heads of the IMF warned, the eagerness on the part of many in the bourgeoisie to strike while the iron was hot had to be tempered by the need to ensure that slashing public spending did not kill off the global economic recovery. Indeed, there were very real fears that if too many governments sought to cut their deficits too fast and too early this could precipitate a 'double dip recession', if not plunge the world economy into an outright depression.[2]

Nevertheless, despite such worries, by the end of 2009 there had emerged a certain cautious optimism amongst most bourgeois policy makers and commentators that was broadly shared by the markets for government bonds. The crisis had resulted in a deterioration in the financial position of nearly all governments. But, with sufficient care, there was no reason why the problem of sovereign debt could not be dealt with over the medium and long term. Indeed, to the extent that the 'need' to cut debt concentrated the minds of politicians to force through neoliberal reforms, the problem of government indebtedness could be seen as an excellent and timely opportunity.

So how was it that the financial problems of the PIGS managed to stir up the bond markets into a speculative 'frenzy'? After all, compared with other financial markets that trade in company shares or foreign exchange – let alone those that deal in the multitude of complex derivatives – the bond market is normally considered as rather placid and boring.

**Greek confessions and the bond markets**

The revelation at the beginning of 2010 that the Greek government, with the connivance of the US investment bank Goldman Sachs, had been hiding some of its debts, and that the Greek finance ministry had been systematically misleading the European statistical authorities regarding the likely size of the government's current budget deficit for 2009, certainly had an impact on the bond markets. It is true that the amount of hidden debt was in fact relatively small compared with the Greek government's total debt, and that most bondholders who had been paying any serious attention to the economic situation in Greece following the crisis would have taken the Greek finance ministry's previous predictions concerning the deficit with a pinch of salt. However, it did raise the issue of whether these revelations were merely the tip of the iceberg, and how much other governments on the periphery of the eurozone were concealing about their financial position. If nothing else the Greeks' confessions served to focus the attention of the bond markets on the financial predicament of the PIGS.

Many banks across Europe had accumulated over the previous decade a substantial amount of the bonds issued by the governments of the PIGS. As far as the European banking regulators were concerned, the government bonds issued by the PIGS were as good as German bonds and as such were counted equally as a form in which banks could hold their legally required reserves. But, because there was always a grain of suspicion that the PIGS were more likely to default than the German government, the PIGS bonds had offered a small but significantly higher rate of return. Particularly in the period in the run up to the credit crunch, when there had been a desperate search for yields, the PIGS bonds had provided a

[2] From 2009 the IMF began publishing *Fiscal Monitor* on a regular basis in which they put forward their advice on dealing with the problems of mounting sovereign debt. The IMF has urged those governments that have found themselves with high deficits and high debt burdens to implement exit strategies sooner rather than later. Indeed, as we shall see the IMF has played its usual role in insisting on stringent austerity measures when it was called to aid the bailout of Greece. Yet the IMF has also been concerned that austerity measures have been implemented too early and gone too far in the less indebted economies of Europe. See in particular IMF, 'Fiscal exit: from strategy to implementation', *Fiscal Monitor,* November 2010 for the IMF's views on striking the balance between reducing government debt at the same time as maintaining the economic recovery.

welcome form for European banks to place their reserves. Following the Greek government's revelations it would have certainly made these banks a little nervous. After all as members of the eurozone the PIGS had neither the option to devalue nor to adopt unorthodox monetary policies, such as 'quantitative easing', to contain a sovereign debt crisis that was open to other countries with control over their own currency.

Nevertheless, even for the worst case of Greece, there were still plausible, if rather optimistic scenarios that could be put forward that could show that in the medium to long term the PIGS could stabilise and eventually reduce


their burden of debt. With the global economic recovery the PIGS could be expected to return to their long term average rate of economic growth. Once their economies were growing it could be expected that their tax revenues would grow. So long as the growth in public spending was kept below the growth in tax revenues the government's budget deficit would fall. Thus, given sufficient time, the PIGS could eliminate their government deficits and thus begin to reduce their debts. However, if the PIGS were to stabilise their financial position in a time scale acceptable to the markets then it would not be sufficient merely to rely on economic growth. The rise in tax revenues due to economic growth would have to be supplemented by rises in tax rates and substantial cuts in public expenditure. However, this would be true, if to a lesser extent, for most European governments, including both Germany and France.

The more cynical amongst the bondholders could doubt whether the PIGS, particularly the Greeks, would have the bottle, not only to force through, but to sustain the levels of austerity that would be necessary to turn around their financial position. Indeed, given their record, it could be suspected that at the first whiff of petrol bombs, the Greek government for one would start to wobble. The more pessimistic amongst bondholders could argue that even if the PIGS did push through and sustain the required degree of austerity, this would only serve to reduce economic growth thus derailing the whole programme of deficit reduction.

There was therefore considerable uncertainty as to whether the PIGS, and particularly Greece, would be able to pay their debts over the medium to long term. However, there was a tacit assumption that if any of PIGS found themselves in serious financial trouble then the other European governments and the ECB would ride to the rescue. However much the rules that governed European monetary union might rule out bailouts, and restricted the actions of the ECB to save member states, a means would eventually be found to go round them - as had happened so often in the past when the rules had become politically inconvenient. After all the project of European monetary union was far too important to be wrecked by the financial problems of a minor and peripheral country like Greece or Portugal that was most likely to find themselves in such a predicament. Thus, despite the Greek revelations and the continuing uncertainty surrounding the financial prospects of the PIGS, the predominant view of the PIGS major bondholders remained as it had been before: to hold firm and wait and see what happened. After all, the situation might look very different in two or three years' time.

Although in terms of its burden of government debt or the size of its budget deficit the Greek financial position was not all that different from the other PIGS, what did become rapidly apparent after the Greek's announcement that it had been cooking the books, was that much of its debt was short term. As a result, the Greek government faced large and increasing tranches of debt falling due over the next few quarters. Although major bondholders may be prepared to hold on to existing bonds or even renew them, it was certainly questionable whether they could be persuaded to take on even more of the Greek government's debt in the current period of uncertainty.

The only way of ensuring that it could raise the money to renew the debt falling due, as well as to finance the still increasing budget deficit, was to sell its bonds at an extra discount so as to provide higher returns for those who purchased them. But this would mean that it would have to issue an even greater quantity of bonds, thereby increasing the amount of its debt. Indeed, Greece could quickly find itself on a slippery slope to bankruptcy. The more it had to discount its bonds, the more it would find itself in debt, and hence the greater would be the fears that it was reaching the point where it would be unable to redeem this debt when it fell due. The more bondholders feared that they might not get their money back, the less willing they would be to lend unless they were offered a higher rate of return - and even then they would only be prepared to buy bonds with ever shorter maturities.

Indeed, it was no doubt the fear that it would not be able to raise enough money to meet the next tranche of debt due to be redeemed in March without offering prohibitively high rates of returns to investors, that had prompted the Greek government to come clean in the hope that the other members of the eurozone would come to their rescue out of a sense of European bourgeois solidarity. Thus the validity of the tacit assumption that the ECB and the governments of the eurozone would organise a rescue in the event of one of the PIGS finding itself in financial trouble was now no longer some remote hypothetical issue. It was an assumption that was facing a real and imminent test.

As fears that perhaps the long held assumption that there might not be a rescue grew, many of the smaller Greek bondholders began to sell off their Greek bonds. As a result the price of existing Greek bonds began to fall. This was further exacerbated by speculators who saw a fall in Greek bonds as something of a one way bet – with the bigger the fall the greater the profits they could make. However, the major European banks that had been accumulating Greek bonds, along with other major financial institutions, who together were the principal bondholders, were to a large extent locked into holding Greek debt. Because they had bought Greek bonds with a view to holding them until they reached maturity, the stock of outstanding Greek bonds that these banks and financial institutions held was relatively large compared to the amount that was traded day to day on the bond markets. As a consequence, any attempt to reduce their exposure to Greek debt by selling off their stock of Greek bonds could have an appreciable impact on the market. Indeed, if they attempted to start dumping their Greek government bonds on the market in its current precarious state they risked precipitating a sudden collapse in the price of these bonds. If they were then slow off the mark in getting rid of the rest of their stock of Greek bonds they may well find themselves holding worthless bits of paper, since a collapse in the price of bonds would make it impossible for the Greek government to raise enough money to redeem their bonds when they fell due by issuing new bonds. The fear of default would then have become a self-fulfilling prophecy.

The major European holders of Greek bonds were therefore easily persuaded by their governments and monetary authorities to hold on to their existing stock of Greek bonds - or even to increase them in order to both meet the increasing funding needs of the PIGS, and to buy up bonds being off loaded by non-European banks, small traders and speculators - particularly if they could be assured that other major bondholders across Europe were being persuaded to do likewise. If all the major European bondholders held firm, then the price of their bonds could be protected from the attacks of the speculators until the authorities could organise a rescue.


**Rescuing the Greeks?**

There were a number of ways a rescue of Greece could have been mounted, but they would have all essentially involved a whip-round amongst the other member states of the eurozone. The governments of the eurozone could be expected to raise money mainly from the global financial markets by issuing and selling their own bonds. The money raised could then be lent to the Greek government in the form of a medium or long term loan. The Greeks would then be able to redeem bonds falling due, finance its current deficit without having to issue more bonds, and perhaps buy up outstanding bonds in order to shore up their price. In return the Greek government would have been obliged to agree to an austerity plan aimed at reducing its deficit so that it could eventually pay the loan back.

Sufficiently well-funded, such a rescue operation could be expected to fulfil three functions, which together, would serve to resolve Greece's sovereign debt crisis. Firstly, it would serve to restructure the Greek government's debt. The predominantly short term debt owed by the Greek government to bondholders would be replaced by a medium to long term debt owed to the governments of the eurozone. The threat of an impending Greek default would thereby be removed. Secondly, the rescue operation could be expected to reduce the burden of Greek debt, thereby making it more likely to be able to repay the loan from eurozone governments. This was most likely to have taken the form of a low rate of interest being charged on the loan, and perhaps the deferral of interest payments until the Greek economy had recovered, or at least was expected to have recovered. Indeed, even if the eurozone governments charged Greece the interest which they would have to pay by the issue of their own bonds then, given the likely size of the loan compared with Greece's GDP, this alone would have gone a long way towards making the Greek government's debts far more manageable. Thirdly, by allowing the Greek government to buy up its old bonds, and redeem its bonds that were falling due, such a rescue operation would allow the major European bondholders to reduce their exposure to Greek debt without precipitating a collapse in the Greek government bond market.

Any form of rescue along such lines would not have involved the ECB in printing money to finance government debt, or any other unorthodox monetary policy that was against either the spirit or the letter of the rules governing its procedures. Any such rescue would mainly involve inter-government operations, which at most would require the ECB to act as an intermediary. However, it has been argued that any such rescue operation would be in breach of the treaties governing the operation of European monetary union. In order to deter 'reckless' governments from running up debts and then expecting other members of the eurozone to come to their rescue, Article 125 of the *Consolidated treaty on the functioning of the European Union*, which provides the legal basis governing European monetary union, explicitly prohibits either the European Union as a whole or individual governments from bailing out a member of the European Union.[3] Yet as has been pointed out in response, this prohibition of a bailout is qualified in the treaty by the provision that in exceptional circumstances, when a member state finds itself in a perilous financial position due to factors beyond its control, the European authorities are permitted to provide financial assistance.[4] From the wording of Article 122 it is clear that such an exemption from the 'no bailout clause' was intended to cover natural disasters such as earthquakes, or other 'acts of god' such as a large scale nuclear accident. But was not the global economic crisis beyond the control of any particular government? Could this not be stretched to cover the case of Greece?

Whatever the legal niceties surrounding the rescue of Greece, it has been argued that prompt action would have been a case of 'a stitch in time saves nine'. The amount the eurozone governments would have had to raise to fund a fully funded bailout of Greece would have been relatively small. Even if they had to borrow enough funds to buy up all of the Greek government's debt, this would have meant each of the governments of the eurozone increasing their own debt to GDP ratio by around 2 or 3 percentage points. With Germany for example already bearing a debt burden of nearly 75% this would have been of little consequence.

Furthermore, it could be argued that if such a fully-fledged rescue had been mounted promptly then merely the announcement that ample funds were available to bailout Greece would have gone a long way towards 'calming' the bond markets by reassuring the major bondholders that none of the PIGS would be allowed to default. Indeed, most of the money pledged by governments may never have been needed.

**Where's the cavalry!?**

But if the Greek government, and indeed the major European Greek bondholders, thought that the rest of the eurozone would soon saddle up and ride to the rescue they were to be disappointed. At first the declarations by Angela Merkel that the 'rules were the rules' and that there could be no Greek bailout - particularly if it cost the German taxpayer money - could be discounted as both political posturing for the benefit of the German electorate, and as an initial bargaining position to ensure that the Greek government took its responsibilities in any bailout seriously. Yet March came and went with Merkel remaining intransigent on the issue of a Greek bailout. The Greek government had been consequently left struggling to raise enough money to redeem those of its bonds that had fallen due, as well as to covering its growing budget deficit. Having to pay through the nose to refinance its debt, and with a receding prospect of a rescue coming any time soon, it was becoming increasingly evident that Greece would not be able

[3] Article 125 section 1 states that: "*The Union shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project.*"

[4] Article 122 section 2 states that: "*Where a Member State is in difficulties or is seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control, the Council, acting by a qualified majority on a proposal from the Commission, may grant, under certain conditions, Community financial assistance to the Member State concerned. The President of the Council shall inform the European Parliament of the decision taken.*"

to refinance the next tranche of bonds that would need to be redeemed in June.

The German government seemed determined to allow Greece to default on its debts. But there were serious problems with simply allowing Greece to default, even if it was merely a marginal member of the eurozone. Firstly, the realisation that it was a very real possibility that Greece would have no option but to default on its debts had raised concerns about the financial position of Ireland, Portugal, Spain and even Italy. If Greece was allowed to go bust, who would be next? Since January the price of the other PIGS bonds had begun to soften, as bondholders began to reduce their exposure to risky government debt and speculators took advantage to make a quick profit by betting on falling bond prices. The PIGS were already beginning to slide down the slippery slope where the fear of default becomes self-fulfilling.

Secondly, as we have seen, banks and other major financial companies had stockpiled the bonds issued by the governments of the PIGS. Although it might be able to absorb the losses resulting from the Greek government reneging on its debt, the European banking system, still fragile after the financial crisis of 2008, could easily collapse as a result of the losses incurred if one or more of the other PIGS followed Greece into default.

Thirdly, as we have mentioned, governments and monetary authorities across Europe had been urging banks and other major bondholders of the PIGS to hold on to their bonds, and stand firm against speculative attacks that sought to drive down bond prices. Could they now simply leave these banks and bondholders in the lurch and still retain their creditability in the future?

French banks were particularly exposed to the risk of default on the part of the PIGS. It was therefore the French government that led the opposition to the German refusal to countenance any form of bailout of Greece within the counsels of Europe. With June fast approaching and under mounting pressure from Sarkozy – the French President – Angela Merkel finally relented. At the beginning of May 2010, after frantic diplomatic activity between Paris and Berlin, it was agreed that there would be an *ad hoc* bailout to prevent the impending Greek default. It was decided that the governments of the European Union, with the exception of Slovakia who initially refused to join in, would put up 80 billion euros into an emergency bailout fund. This fund would then be topped up by a further 30 billion euros provided by the IMF.

In addition, during the discussions leading up to the Greek bailout, the German government had accepted that in the longer term there was a need for a permanent body able to provide financial assistance to governments in the eurozone that found themselves in financial difficulties in the future. It was therefore decided to set up what was to be known as the European Stability Mechanism (ESM) that would in effect be an embryonic European Monetary Fund, which would be funded by all the eurozone governments. By acting in accordance with predetermined guidelines the ESM would be empowered to act swiftly to offer loans - and impose conditions on these loans - without the need for protracted multilateral negotiations between either the 17 eurozone or even all 27 European Union governments.

However, it was accepted that the establishment of the ESM required substantial amendments to the existing treaties governing European monetary union. These amendments would certainly require a lengthy process of ratification by national parliaments and even referendums in some member states. Furthermore, the Germans in particular insisted that the rules governing the ESM would have to be subject to lengthy negotiations to ensure it was only used by governments as a last resort, not merely a means to avoid 'fiscal discipline'. As a consequence of all these considerations it was agreed to aim to set up the ESM sometime in 2013.

But neither the agreement reached for the emergency bailout of Greece, nor the agreement to set up the ESM in three years' time, was sufficient to allay the growing fears of a default by another of the PIGS. After all, it had taken protracted negotiations in the teeth of opposition, not only from Germany but also from several other north and east European members of the European Union, to secure a bailout of Greece. Such a procedure, it was feared, might prove far too slow when the next of the PIGS came under a concerted speculative attack in the bond markets, and this could easily occur before 2013. As a result, after a fraught meeting between Merkel and Sarkozy over the weekend of May 9th-10th 2010 it had been finally agreed to set up a temporary bailout mechanism, which was to be known as the European Financial Stability Facility (EFSF). The EFSF was to be a stop gap measure until the ESM could be brought into operation.

The EFSF was certainly a clever wheeze to get round both article 103's prohibition of bailouts and the restrictions placed on the ECB's ability to purchase government bonds. The EFSF was to be set up as a 'special purpose vehicle' that would be a distinct legal entity, and, as such, would be nominally independent of both the European Union and the member states of the eurozone. The EFSF would be able to borrow money from the financial markets in its own name, and the member states of the eurozone would then collectively and 'irrevocably' guarantee the repayment of these loans up to a total of 440 billion euros. The money borrowed could then be lent to eurozone members in financial distress directly, or else be used to buy up the bonds they issued to raise money on the financial markets. It would therefore not be the European Union, the member states of Eurozone or the ECB bailing out the Greek government, but the EFSF. Much to the satisfaction of Angela Merkel, the no bailout rules, which had been stretched to breaking point with the Greek bailout, could at least be preserved.

The provision of a maximum of 440 billion euros, together with a further 250 billion euros that the IMF agreed to stump up in the event of a bailout of one of the PIGS being necessary, proved to be sufficient for the time being to restore 'the confidence of the markets'. The major holders of PIGS bonds were now reassured that some form of bailout could be promptly put in place if another of the PIGS reached the point that they could not redeem their bonds. With the major PIGS bondholders standing firm there was little hope for speculators to make a killing by a concerted attempt to drive down the price of bonds.

For a few months it appeared that Europe's sovereign debt crisis had been contained. Once the European economic recovery took off in 2011 it could be hoped that the problems of sovereign debt would gradually evaporate as economic growth would allow governments to 'grow out of their debts'.

**Driving the PIGS to the slaughter house?**

Yet the emergency bailout of Greece agreed in May 2010 fell far short of a fully-fledged rescue package that would have put Greece back on a sound financial footing. The 110 billion euros made available was little more than a third of Greece's entire government debt, and came with stringent and rather humiliating conditions. Firstly, the bailout would be provided as a loan with a punitive rate of interest. Secondly, the Greek government had to agree to the immediate implementation of a programme of draconian austerity measures. Thirdly, the loan would be issued in tranches that were only sufficient to allow the Greek government to meet its immediate refinancing needs every quarter. What is more each tranche would only be paid out if the inspectors sent in by the 'troika' of the European Commission, the ECB and the IMF were satisfied that the Greek government was sticking to the agreed austerity programme. It was certainly intended to keep the 'miscreant' Greek government under a tight rein.

Up until their acceptance of the bailout in May 2010, the Greek government had been reluctant to start cutting public spending and increasing taxes at a time when the Greek economy was still barely out of recession for fear that it would kill off the prospect of an economic recovery. Now, in accepting the emergency bailout under the tutelage of the 'troika', there was little option but to embark on such a course of action. Indeed, the austerity programme drove Greece back into recession. But falling economic output meant falling tax revenues, which only served to offset much of the reduction in the deficit that was being achieved through cuts to government spending and rises in tax rates. Thus the draconian austerity programme, combined with the punitive interest rates charged on the bailout loan, not only destroyed any hope of a rapid economic recovery, but in doing so drove Greece further in to debt.

Far from rescuing the Greeks, and resolving the sovereign debt crisis more generally, the emergency bailout had therefore only served to defer what was rapidly becoming an almost inevitable Greek default. For the more cynical of observers, it seemed that the Germans were intent on making an example of Greece by driving it towards economic ruin.

Whether or not intended, the example of Greece served to galvanise the bourgeoisie across Europe to firm up plans for their own exit strategies from the 'exceptional fiscal and monetary policies' they had been obliged to adopt to cope with the impact of the financial crisis of 2008. For politicians the fear of finding themselves in the rather humiliating predicament of their Greek colleagues clearly more than outweighed any apprehension they may have had at the possibility of concerted working class resistance to austerity measures. Indeed, for many amongst the bourgeoisie, who had seen the weak response of their working classes to the repercussions of the financial crisis, the sovereign debt crisis provided an excellent opportunity to press ahead with long 'overdue' neoliberal reforms to the state and the public sector.


**Merkel drives the PIGS into the arms of the market**

This was certainly the case in the UK. The drama of the Greek bailout had coincided with the results of an inconclusive general election. The supposed risk that the markets 'might turn on the UK' and lead to 'credit ratings downgrade' so that Britain might then find itself in the same position as Greece, was used as means to forge a coalition government between the Conservatives and the Liberal Democrats based on the overriding imperative to 'save the nation's economy' by eliminating the government's 'structural budget deficit' in just five years. An imperative that not only has meant an austerity programme on a scale unprecedented in the postwar era, which is to be borne overwhelmingly by the working class, but which has also led to the acceleration of neoliberal reforms. In its first parliamentary session the Conservative-led coalition government has forced through legislation that opens the way for the wholesale privatisation of education and the NHS as the Tories seek to complete Thatcher's unfinished '(counter)-revolution.'[5]

But in the case of the UK the implementation of austerity measures could be phased in over a five year period, allowing time for an economic recovery to become established and thereby mitigate their impact. For the PIGS the possibility of going the way of Greece was far more real and imminent. The 'need' for austerity was therefore deemed far more urgent. Thus the governments of Ireland, Portugal and Spain began to speed up their own severe deficit reduction plans. But, like Greece, by cutting too fast and too early the other PIGS also found themselves on the verge of a downward spiral, in which the more they imposed austerity the more their economies shrunk, and thus the more they had to impose further austerity measures to meet their original deficit reduction targets.

**The resurgence of the sovereign debt crisis**

By the autumn of 2010 it had become evident that the sovereign debt crisis had not simply gone away with the Greek bailout. As the Greek debts continued to increase, despite the implementation of the austerity measures overseen by the 'troika', it became clear that the Greek government would have to sooner or later request additional funds form the EFSF. But perhaps far more troubling for the bond markets was the prospect that Spain might have to follow Ireland in bailing out its crippled banking system. Already Ireland was having to borrow vast amounts of money from the bond markets in order to pay for the bailout and the nationalisation of its leading banks. If Spain, the fourth biggest economy in the eurozone, and

[5] There had been little immediate danger in May 2010 that the bond markets would take fright at the UK government's mounting debt. The average maturity of government debt was more than 14 years, far longer than any other advanced capitalist nation. Even if the government did find it difficult to sell its bonds then the Bank of England was more than willing to act as buyer of last resort. Now of course there was the danger that once the economy began recover the policy of the Bank of England buying up government bonds by merely creating money - i.e. quantitative easing – would lead to a sharp rise in inflation. Fears for the inflationary consequences of quantitative easing might then lead to capital flight from the UK, thereby precipitating a collapse in the exchange rate of the pound. But this was far from being imminent. The immediate problem was deflation not inflation and in the midst of the developing euro crisis the City of London was seen as a safe haven and was attracting financial inflows. What was needed to 'reassure' the financial markets at the time was a clear commitment to some form of medium term debt reduction plan. A seven or even ten year plan that depended far more on economic growth rather than spending cuts and tax rises to reduce the government's burden of debt would have probably been sufficient. The decision to set a target of eliminating the structural budget deficit in five years and to place the burden of doing so on those on lower and middle income was clearly a political decision.

with a government debt larger than all the other three PIGS put together, found itself in a similar situation and had to request a bailout, there might not be much money left in EFSF to meet the request for financial assistance for anyone else.

The government debt of Portugal, Ireland, Spain and Greece already totalled more than 1.3 trillion euros, and was still rising. What the *Economist* in May had described as a 'stonking' bailout fund provided by the EFSF and IMF did not seem so 'stonking' after all.[6] Indeed, with stiff opposition, particularly by Merkel, to any suggestion that the EFSF should be increased, bondholders began to fear that there would not be enough money in the kitty if all the PIGS required a bailout at the same time. Indeed, it now began to seem quite possible that if one of the PIGS went under then this could lead to the others going under as well.

In November Ireland came under speculative attack and was forced to request support from the EFSF to the tune of 85 billion euros. In April 2011 Portugal was obliged to followed suit with a request for 78 billion euros. Only Spain managed to avoid having to tap the bailout funds, but the question was how much longer it could hold out. Then, in May, amidst rising tensions concerning Greece's compliance with the austerity programme, serious concerns began to circulate in the German press, much to the alarm of both the German government and the wider ruling circles of the European Union, that the Greek government was seriously considering the possibility of unilaterally reneging on its debts in order to escape from the dictates of the 'troika'.[7]

Although these rumours were quickly denied they served to concentrate the minds of those within the 'troika'. If Greece was driven into declaring a sudden unilateral default – potentially making all outstanding Greek government bonds worthless – it could cause panic on the financial markets. Holders of bonds of the other PIGS might dump their holdings in the rush for the exit fearing other governments might follow suit. At the same time, fears that European banks might suffer significant losses would put pressure on the European banking system. In order to deter the PIGS from even considering a unilateral default the European authorities had long made it known that any such action would be punished by expulsion from the eurozone. Rumours that the Greek government was reaching breaking point and was now even contemplating calling this bluff only served to raise the stakes. A unilateral default by Greece threatened to set in motion a process that might mean the breakup of the eurozone.

It now became a matter of urgency to arrange a second Greek bailout to steady the uncertainty in the financial markets, and this would mean that Greek government would be obliged to request more money either from the EFSF or the IMF. However, the IMF was not prepared to cough up more funds unless the EFSF provided the bulk of the extra finance. Yet if the EFSF was to provide sufficient funds to finance its share of the new Greek bailout it would have to borrow more money. But, if it was to convince the bond markets of its capacity to shore up the other PIGS if they were to require further financial assistance, then it would have to be agreed to raise the EFSF's borrowing limit. This would mean that the eurozone governments would then have to pledge even more money to guarantee this increase in the EFSF's greater borrowing limits.

But the Germans refused to countenance such an expansion of the EFSF. Instead, Merkel insisted that any shortfall would have to be made up by the banks agreeing to accept a write off of part of the debt. Hence there would have to be a controlled and negotiated default. In return the Greek government would have to accept a further round of austerity measures, a fire sale of its public assets, the proceeds of which would be used to pay off its debts, and far closer supervision from the 'troika' inspectors.

The original bailout of Greece had always been more of a bailout of the banks and the other major Greek bondholders than it had been a bailout of the Greek government. The 110 billion euro bailout fund had certainly been drawn on to help pay the wages of Greek public sector workers and other day to day expenses necessary to keep the Greek government functioning. But the lion's share of the money that was borrowed from this bailout was used to redeem the government bonds that were falling due, thus ensuring the banks and other major bondholders across Europe were able to get their money back. As a result, the exposure to Greek debt on the part of the banks and other financial companies across Europe had been substantially reduced over the course of the previous four quarters. They were therefore in a position where they could far more easily absorb the losses imposed by a substantial write-down of the value of the Greek bonds they still held than they could have done a year earlier.

However, as we have seen the situation regarding the other PIGS had become far more precarious. The danger that other PIGS might be driven into a situation where they might have to negotiate a write down of their debts, or even unilaterally default, was now all the more greater than it had been in the spring of 2010 –

[6] See 'Bailing out the bailout', *Economist,* 9th May 2011 and 'Fixing Europe's single currency', *Economist*, 25th September 2011.

[7] See 'Hardline of IMF forced Germany to guarantee Greek bailout', *Guardian*, 19th May 2011.

particularly as the German government remained steadfastly opposed to any expansion of the EFSF that would be sufficient to convince the markets that this would not be allowed to happen. If one or more of the other PIGS defaulted a large slice of the reserves of banks across Europe, which were held in the form of government bonds issued by the defaulting countries, could be substantially devalued or even rendered worthless. Hence, there now loomed a far greater threat that the sovereign debt crisis might trigger a crisis in the entire European banking system.

Furthermore, a crisis in the European banking system could then rebound back on the sovereign debt crisis. If banks that were too 'large to fail' had to be bailed out, then governments across the eurozone would find themselves having to borrow vast amounts of money. Even governments that had up until now been considered financially sound could then rapidly find themselves in the similar position as the PIGS. The possibility that the sovereign debt crisis could spiral out of control was now all the more greater than it had been a year early.

The worries on the part of the major bondholders over such possibilities were further compounded by the long drawn out negotiations over Greece's second bailout. The general outlines of the bailout had been agreed in June. However, negotiations over the new austerity programme and its implementation dragged on until November, while the negotiations between the Greek government and its main creditors were not fully completed until February 2012. Such uncertainty over whether the Greek bailout would unravel or not only served to hasten the spread of the crisis.

In August, Italy found itself under speculative attack in the bond markets. Italy had from the very beginning of the debt crisis been considered the next in line after Spain. This was largely because it had a very high government debt to GDP ratio. However, unlike the PIGS, the Italian government's budget deficit had been relatively small. With the implementation of the austerity measures that had been motivated by the first Greek bailout, by the summer of 2011 this deficit had been more or less eliminated. Thus it had seemed Italy had been able to distance itself from the fate of the PIGS. But now with Italy - the third largest economy in the eurozone - beginning to slide down the slippery slope of falling bond prices, it was clear that the crisis was beginning to spread well beyond the PIGS.

By the autumn, rising fear that the sovereign debt crisis might trigger a collapse in the European banking system had begun to raise concerns over Belgium, the Netherlands and even France. Even Germany now accepted the need to increase the 'fire power' of the EFSF. All agreed that, if the markets were to be calmed, there was a need for a 'big bazooka' that would convince major bondholders that their bonds were guaranteed against the possibility of default, and make it clear to speculators that if they sought to make a killing by driving down the price of any government's bonds there would be effectively unlimited funds to buy up any bonds they had to sell.

Yet as more eurozone countries found themselves on the 'danger list' the more colossal the 'big bazooka' would have to be, and the fewer the number of financially sound countries there would be to provide it with ammunition. The more delay there was in constructing a 'big bazooka' the worse the situation would become. The eurozone seemed to be rapidly approaching the point of break up.

Yet Merkel still remained reluctant to pledge more money to the EFSF for fear that Germany would also find itself in financial trouble. If Germany had to issue large amounts of bonds to raise the money to meet commitments to bailout the likes of Italy or Spain it could well find that its own bond prices would begin to fall. Germany would then itself be on the slippery slope to bankruptcy.

To go around this problem of Merkel's reluctance to sanction a substantial increase in the money pledged to guarantee the EFSF, attempts were made to solicit more funds from the IMF. But the US and other member states were not prepared to make further contributions to the IMF to allow it to bailout Europe if Germany was not prepared to pledge more money for the EFSF. Attempts to go cap in hand to China were likewise rebuffed.

In the end a further clever wheeze was devised to allow the EFSF to increase the amount it could borrow over and above the amount Merkel was prepared pledge to guarantee its borrowing. Instead of guaranteeing the entire amount that was borrowed through the EFSF, it was proposed that the member states of the eurozone would only guarantee a proportion of the loans that it made to distressed governments. This 'leveraging up' of the funds available to the EFSF would then allow it to borrow several times the amount that the eurozone governments were prepared to pledge.


**The PIGS' lifestyle upsets Merkel**

But although this limited the amount of 'taxpayers' money that might be put at risk, this wheeze meant that the EFSF would have to ensure that it could maintain the confidence of the financial markets that the proportion of the loans it made to financially distressed governments over and above that guaranteed collectively by the eurozone governments, would be repaid in full. Otherwise it would not be able to borrow the additional funds. Thus the very mechanism to shore up confidence in the financial markets was therefore itself to be to made, at least in part, dependent on the confidence of the financial markets.

For the bourgeoisie outside the closed policy making circles of Berlin and Brussels this proposal for a super-charged EFSF was far from convincing. It was yet another policy response that was too little and too late. The painfully slow decision making process of the EU coupled with what could only be described as the perilous obstinacy of Angela Merkel had, it seemed, allowed the crisis to spiral out of control.

The obvious solution for the governments of the eurozone was to make it clear to the financial markets that they were prepared to borrow as much money as was necessary to resolve the sovereign debt crisis. If this led to falling bond prices then the ECB would have to follow the example of other central banks across the world – particularly the US Federal Reserve Board and the Bank of England – and create vast amounts of money *ex nihilo* in order to buy up government bonds. As we shall see in more detail later, this would serve to kill two birds with one stone: it would serve to allow eurozone governments in financial distress to finance their debts, and it would serve to shore up the fragile European banking system.

Much to the exasperation of the world bourgeoisie outside Berlin and Brussels, Merkel - backed by both the Bundesbank and the ECB - resolutely refused to adopt such unorthodox and imprudent monetary policies. They could argue that such policies were merely a quick fix that would only store up problems with inflation later on. What is more, they did nothing to solve the underlying problems of the eurozone that had given rise to the sovereign debt crisis.

So what were these underlying problems?

## WHAT WAS THE UNDERLYING CAUSE OF THE EURO CRISIS?

**Angela Merkel's morality tale – the story of the four little PIGS**

It may well appear at first sight that the dramatic events that have unfolded during the 'euro crisis' have been first and foremost the result of 'fiscal irresponsibility' on the part of the governments on the periphery of Europe. Put simply, the governments of Portugal, Ireland, Greece and Spain, together with Italy, have been guilty of spending far in excess of the revenues they have been willing or able to raise by taxation. As a result they have incurred large budget deficits, which they have had to finance by borrowing from the international money and capital markets. They have thereby been accumulating debts that they can only repay when they fall due by further borrowing - not only to pay back the amount they originally borrowed, but also to pay off the interest due on these debts. They have therefore placed themselves in the purgatory of the imprudent, facing mounting debts and an increasing reluctance on the part of their creditors to lend them any further money for fear that they will be unable to pay it back. In doing so they have not only imperilled themselves but also the euro if not the entire European Union, as well as the prospect of a rapid world economic recovery.

This view that it is the governments of the PIGS that are primarily to blame for the euro crisis – although those financial investors reckless enough to lend to them cannot be allowed to entirely escape responsibility – is one that has been widely propagated by mainstream commentators. It is a view that has also been forcefully propounded by Angela Merkel and the German government in order to justify taking a hard line towards first the PIGS and then Italy in the recurrent negotiations to resolve the crisis over the past two years.

Now of course, the more liberal hearted might well object that the PIGS present financial predicament has not been due so much to their 'fiscal irresponsibility', but is the result of the severe economic recession that followed the near meltdown of the global financial system in 2008. It was the recession that was the primary cause of the sharp and unexpected fall in tax revenues. After all the PIGS had played their part in worldwide efforts, agreed at the G20 meetings following the collapse of Lehman brothers, to prevent a catastrophic collapse in global demand by not slashing government spending in response to the sharp falls in tax revenues that had been caused by the economic downturn. They had merely done their bit by allowing their budget deficits to take the strain in cushioning the impact of the bankers' crisis - without which the world economy would most likely have plunged in to depression on a scale greater than that of the 1930s.

In response to this Merkel would no doubt reply that governments across Europe had all faced sharp falls in their tax revenues as a result of the global economic downturn, but most European governments have not found themselves in the predicament faced by the PIGS. This is because they had made sure that they were in a far stronger financial position before the crisis of 2008. They had been prudent enough to prepare for the unexpected. As such, for Merkel, the crisis only served to expose both the profligate and perfidious nature of the politicians of the southern and western periphery of Europe. Unlike their more virtuous and prudent counterparts elsewhere in Europe, who remained true to their commitments to ensuring the financial stability of the eurozone, the politicians of the PIGS had failed to take the tough decisions when the times were good before the onset of the crisis.

In Germany, all the mainstream parties had both backed and subsequently implemented the so-called Agenda 2010, which was originally set out by Gerhard Schröder in 2003, in the teeth of at times vociferous opposition of the trade unions and other 'entrenched interests'. In accordance with this wide-ranging programme of economic and social reforms substantial cuts were made to welfare programmes and legislation to make German labour markets more 'flexible'. In addition, in 2006 plans were put forward to raise the old age pension age in order to address the looming problem of an aging population and burdens this would place on the public purse. In contrast, it is claimed, despite all their effusive promises and commitments made at innumerable European summits, the politicians of the PIGS took the easy option. They failed to face down the entrenched special interests opposing 'necessary reforms'. They continued to tolerate a large black economy, which meant that not only those who paid good money to tax consultants and lawyers to make themselves 'tax efficient', but any tom, dick or harry amongst the general population could avoid paying tax. They failed to take action to root out corruption in government. And perhaps worst of all, they courted popularity by increasing government spending on welfare and public services. In other words politicians of the PIGS consistently failed to show sufficient backbone in disciplining the working class.

As a result, the PIGS failed to get their house in order when times were good, and were therefore ill prepared when the wolves eventually turned up at the door. With a huff and a puff their defences of sticks and straw soon blew down.

With this morality tale Merkel has been able to claim the moral high ground and rally not only much of the European ruling classes but also much of the German electorate around her position of having 'to be cruel to be kind' to the PIGS in their current plight. If the PIGS are to be bailed out by the 'German taxpayer', she has insisted, then their politicians must be made to face up to the consequence of their previous actions and learn the hard way to mend their feckless ways.

| | 2007 (The eve of banking crisis) | 2008 | 2009 (The eve of sovereign debt crisis) | 2010 |
|---|---|---|---|---|
| Eurozone as a whole: | | | | |
| Government *deficit(-)/surplus* | *-0.7* | *-2.1* | *-6.4* | *-6.2* |
| *(+)* and **debt** both as % GDP | **66.3** | **70.1** | **79.8** | **85.4** |
| Germany | | | | |
| Government *deficit(-)/surplus* | *+0.2* | *-0.1* | *-3.2* | *-4.3* |
| *(+)* and **debt** both as % GDP | **65.2** | **66.7** | **74.4** | **83.2** |
| France | | | | |
| Government *deficit(-)/surplus* | *-2.7* | *-3.3* | *-7.5* | *-7.1* |
| *(+)* and **debt** both as % GDP | **64.2** | **68.2** | **79.0** | **82.3** |
| Italy | | | | |
| Government *deficit(-)/surplus* | *-1.6* | *-2.7* | *-5.4* | *-4.6* |
| *(+)* and **debt** both as % GDP | **103.1** | **105.8** | **115.8** | **118.4** |
| Spain | | | | |
| Government *deficit(-)/surplus* | *1.9* | *-4.5* | *-11.2* | *-9.3* |
| *(+)* and **debt** both as % GDP | **36.2** | **40.1** | **53.8** | **61.0** |
| Portugal | | | | |
| Government *deficit(-)/surplus* | *-3.1* | *-3.6* | *-10.1* | *-9.8* |
| *(+)* and **debt** both as % GDP | **68.3** | **71.6** | **83.0** | **93.3** |
| Greece | | | | |
| Government *deficit(-)/surplus* | *-6.5* | *-9.8* | *-15.8* | *-10.6* |
| (+) and **debt** both as % GDP | **107.4** | **113** | **129.3** | **144.9** |
| Ireland | | | | |
| Government *deficit(-)/surplus* | *+0.1* | *-7.3* | *-14.2* | *-31.3* |
| (+) and **debt** both as % GDP | **24.9** | **44.3** | **65.2** | **94.9** |
| **United Kingdom** | | | | |
| Government *deficit(-)/surplus* | *-2.7* | *-5.0* | *-11.5* | *-10.3* |
| (+) and **debt** both as % GDP | **41.1** | **54.8** | **69.0** | **79.9** |

Table 1 – The financial position of the PIGS compared with the UK and other eurozone member states. Source: Eurostat, 'euroindicators', no.153, October 2011.

Although Merkel's morality tale has proved particularly persuasive, on closer examination it does not quite fit the facts. As has been pointed out by more perceptive observers, with the notable exception of Greece, the financial position of all the European governments beset by sovereign debt crises over the last couple of years, by the most commonly used measures of financial stability, had been comparable with – and in some cases even better – than either of the supposedly more virtuous governments of Germany or France. As can been seen from table 1, in 2007, on the eve of the financial crisis, both Spain and Ireland had significant government budget surpluses. Indeed Ireland had been running budget surpluses for several years. In addition, the burden of sovereign debt of both Spain and Ireland, as measured by the ratio of accumulated government debt to GDP, was not only well below the eurozone average, but also far less than that of both Germany and France. In fact whereas both Germany and France were in breach of the 'European stability and growth pact', which stipulated that eurozone countries should keep government deficits below 3% of their GDP and government accumulated debt below 60% of GDP, both Spain and Ireland were fully compliant. Portugal's deficit was only marginally above the 3% stipulated in the 'European stability and growth pact', and the burden of its government debt was not much more than that of Germany and France. It is true that Italy had an exceptionally high sovereign debt but, with its government budget deficits small, this debt had been more or less stable.

Thus the notion that these governments were somehow spending way above their means would seem to be little more than a fairy story. But if 'fiscal irresponsibility' was not the cause of the euro crisis, what was? And why did it take the immediate form of a 'sovereign debt crisis'?

**Structural trade imbalances and the crisis of the eurozone – the alternative story**

The main alternative explanation to that of Merkel's fairy story, which has been put forward particularly - but by no means exclusively - by more Keynesian inclined commentators, has been that the euro crisis had been caused by the structural trade imbalances that have arisen as a result of European monetary union. As such, the euro crisis is indeed a crisis of the euro.[8]

The starting point of all the various adherents to this alternative explanation is the observation that there are longstanding patterns of uneven economic development amongst the heterogeneous national economies that have come to make up the eurozone. In particular there has been a sharp differentiation between the more economically advanced economies of northern Europe – which has come to constitute the core of the eurozone – such as Germany, France and Netherlands, and the less developed economies of the periphery, that includes all of the PIGS along with Italy.

Although the various proponents of this explanation may differ over the precise cause of this uneven economic development, they all concur that it has resulted in a longstanding divergence in the economic competitiveness between the core and the periphery of Europe. With the exception of those industries such as tourism and certain lines of agriculture where natural factors such as climate and soil give them an absolute competitive advantage over their northern neighbours, the capitalists of the periphery have found themselves at a competitive disadvantage. As a consequence, as their economies grow – and demand for more sophisticated manufactured goods and services increases – the nations on the periphery find that the amount they import from Germany and other northern economies tends to rise faster than the amount they are able to export to them. As a result there arises a tendency towards an imbalance of trade between the core and the periphery – with the core tending towards a trade surplus and the periphery tending towards a corresponding trade deficit. What is more, by the sweeping away of many of the barriers to international trade within Europe that had once served to protect the industries of the periphery, the introduction of the single market has only served to exacerbate this tendency towards trade imbalances between the core and the periphery of Europe.

In the past the governments of the peripheral economies had two options in addressing the problem of trade deficits. The first option was to constrain the demand for imports from the more advanced north by kerbing the growth of their economy through restrictive fiscal and monetary policies. But this option was far from popular since it meant high and rising levels of unemployment and downward pressure on wages and public spending. It also tended to restrict both private and public investment, which in turn only served to reinforce the relative underdevelopment of their economy.

The second, and ultimately the most favoured option, was for the government to devalue its currency. By allowing the rate at which its currency exchanged with the currencies of northern Europe to fall they were able to increase their economy's competeveness. Thus, for example, if the Greeks had devalued their drachma relative to the German deutsche mark then the price of German imports would rise in terms of drachma – this would allow Greek firms competing with German imports to either raise

[8] In the British press Martin Wolf of the *Financial Times* and Larry Elliot of the *Guardian* have been the foremost proponents of the view that the cause of the euro crisis is the underlying trade imbalances between the core and periphery of Europe and have also been highly critical of the austerity policies pursued by Angela Merkel. For a more detailed exposition of this position see Jörg Bibow , 'The euro debt crisis and Germany's euro trilemma', *Working Paper no. 721* of the Levy Economics Institute of Bard College. However, it is a view that is also echoed by many on the British eurosceptic right who can now claim that their persistent opposition to greater European unification has been at last vindicated.

their prices and profit margins, or else use the lower prices to expand their market share. Either way Greek firms would be able to increase their rate of profit. At the same time, the cost of production of Greek exports to Germany would become cheaper in terms of deutsche marks. Again Greek capitalists seeking to export to Germany could raise their prices or else gain greater market share relative to their German competitors via lower prices.

Of course the problem of this simple expedient of devaluation was that it was often short-lived. A fall in the exchange rate would lead to the price of imported commodities rising, thereby ultimately increasing the general level of prices and hence the cost of living. If the working class were able to claw back this rise in prices through increased wages then the competitive advantage gained by the country's capitalists over their northern competitors by means of the devaluation would soon be eroded as their wage costs rose. Indeed, frequent resort to the expedient of devaluation had led to chronic high price inflation - all too evident in the ridiculous accumulation of zeros on many of the banknotes issued in countries on the periphery of Europe – the most notorious of course being Italy.

However, with European monetary union, devaluation was no longer an option. With the introduction of the euro in 1999 the exchange rates in effect became irrevocably fixed. The option to transmute the tendency towards trade imbalances into a tendency for higher levels of inflation was then ruled out. But although joining the eurozone closed the door to devaluation as a means of addressing the structural tendency towards trade deficits, it at the same time opened another door for addressing this problem. Previously the global financiers had been reluctant to lend money to economies on the periphery of Europe precisely because of the propensity of these countries to frequent currency devaluations and high levels of inflation. If they lent money to such countries they could never be certain how much their money would be worth when they were repaid. Now they could lend, and be repaid, in euros: a currency governed by the ECB, which was both modelled on and imbued with the culture of the German Bundesbank that was long known for its resolute commitment to maintaining a solid and stable currency.

As a consequence, the trade deficit could be financed by borrowing on the global money and capital markets. The euros that flowed out to pay for the trade deficit arising from the structural imbalance of trade, could be more or less offset by the inflow of euros in the form of loans from foreign investors. Although the governments of the European periphery often took advantage of the willingness of foreign investors to lend money, it was far more the private sector of these countries that took the new opportunities to borrow from abroad. Indeed what characterises the PIGS in the run up to the financial crisis was the exceptionally high accumulation of foreign private debt.


**From private foreign debt to the sovereign debt crisis**

Now at this point it may be asked how it came about that the accumulation of private debt arising from the PIGS chronic trade deficits happened to manifest itself as a 'sovereign debt crisis'? How did a problem of private debt become transmuted into a problem of public debt? To answer this it is necessary to look at how the financial crisis, which began with the credit crunch in the summer of 2007 and culminated with the near meltdown of the global financial system following the collapse of Lehman Brothers a year later, impacted on the banking systems of the PIGS.

It had been the PIGS banks that had been pivotal in the accumulation of private debt. The PIGS banks had taken advantage of the cheap and plentiful supply of short term loans available on the global money markets to borrow vast amounts of money. This money was then lent out in the form of longer term loans at significantly higher rates of interest to domestic businesses and individual households. By tapping the global money markets in this way the PIGS banks – like banks elsewhere – had been able to extend the amount they lent far beyond the limits warranted by the money deposited with them by their own domestic customers. However, by borrowing short and lending long in this manner, the banks were obliged to repeatedly 'roll over' their short term debt before the longer term debts owed to them fell due. As result they had become increasingly dependent on the continued supply of cheap money on the global money markets.

With the onset of the financial crisis the PIGS banks – just as banks elsewhere in Europe – found it far more difficult to borrow from the global money markets without paying significantly higher interest rates. Their profit margins, which arose from the interest they now had to pay to renew their loans from the global money markets, and what they had charged when lending to their customers, was squeezed or even became a loss. With mounting losses the banks found it difficult to borrow any money at all, and faced the prospect of bankruptcy if they could not meet the demands for repayment as and when their debts fell due. The banks' immediate response to this lack of 'ready cash' was to slash their lending to businesses and individual households. But this retrenchment in advancing loans and credit to the 'real economy' only served to cause a sharp slowdown in economic growth. As a consequence, demand for goods and services fell, companies went bankrupt and unemployment soared. Hence increasing numbers of the banks' customers found themselves having to default on their loans, thereby further intensifying the losses and liquidity crisis of the banking system.

Yet, although the banking systems of countries across both Europe and the world faced similar problems as a result of the financial crisis, it may be argued that the impact on the banking systems of the PIGS had been particularly severe because of their chronic trade deficits. Not only did PIGS banks face the severe shortage of money available to borrow on the global markets, they also faced the continued drain of the money deposited with them as importers withdrew money from their bank accounts to meet the demands for prompt payment from their foreign suppliers. What is more, to the extent that the fall in world trade led to a rapid fall in the PIGS exports, the banks found that the money being deposited with them by exporters from sales abroad was also falling. Thus it may be argued that the trade deficit greatly exacerbated the impact of the financial crisis for the PIGS banks by intensifying the shortage of money available to them.

The particularly severe impact of the financial crisis on the PIGS banking system can be seen to have undermined the financial position of their governments in two distinct ways.

First, facing a more severe liquidity crisis, the PIGS banks were forced to slash lending to their real economies much faster and further than elsewhere in Europe. This meant that the real economies of the PIGS tended to suffer a far sharper and more severe economic recession. As their economies contracted profits and wages fell, and unemployment rose. As a result tax revenues plummeted and the costs of unemployment benefits and other welfare measures rose – leading to a far sharper rise in government budget deficit in the PIGS than in the core European countries.

The impact of the recession following the financial crisis was certainly significantly greater than that of the rest of the eurozone. The sharp rise in government deficits in response to the greater impact of the financial crisis therefore goes a long way towards explaining why the financial position of the PIGS deteriorated so markedly and made them vulnerable to speculative attacks from the bond markets.

Second, and more directly, under the rules of the European System of Central Banks, the national central bank – and ultimately the government – of each country was responsible for regulating and guaranteeing their own banking system. As such, despite the integration of the European banking system, each country was responsible for bailing out any bank that was deemed 'too big to fail'. With their banking system in a more precarious state due to the impact of the financial crisis, the governments of the PIGS were faced with the far more likely prospect of having to borrow money in order to bail out their banks.

This was clearly exemplified in the case of Ireland. The Irish banks had developed a particularly ferocious appetite for borrowing on the global money and capital markets before the onset of the financial crisis - with a large and increasing proportion of this borrowing having been funnelled by the banks into fuelling Ireland's great property boom. As a result the Irish banking system had grown out of all proportion to the size of Ireland's economy. In 1998 banking lending in Ireland had been a modest 60% of GDP. By 2008 this had grown to 200% of GDP, far higher than anywhere else in Europe. Much of this increased lending being funded by banks borrowing on global financial markets rather than from money deposited with the banks by their domestic customers.[9]

With the onset of the financial crisis the property boom collapsed, leaving the Irish banks facing huge losses. Both the Irish government and Ireland's central bank struggled to shore up the banking system by providing loans, and by forestalling a run on the banks by promising that the government would indemnify the bank's depositors against any losses. But this only served to defer the inevitable. In September 2010 the government was finally obliged to mount a comprehensive rescue of the Irish banking system. The Anglo-Irish bank along with a number of smaller banks was bailed out to the

[9] See Morgan Kelly, 'The Irish credit bubble', *UCD Centre for Economic Research Working Paper Series*, University College Dublin.

tune of 45 billion euros, which the government had to borrow. This bailout amounted to more than 30% of Ireland's annual GDP – far greater than the bailout of the UK banks, which cost the British government the 'mere' equivalent of 6% of Britain's annual GDP. As a result, a large slice of the private debt held by the banks was effectively nationalised. As can be seen from table 1, Ireland went from being one of Merkel's pet PIGS before the crisis – having both a budget surplus and one of the eurozone's lowest sovereign debt burdens – to the back of the class – with one of the highest debt to GDP ratios together with a substantial budget deficit.

But, as we have mentioned earlier, it is not merely the fact of governments having to nationalise private debt that has been a problem, but also merely the possibility of having to do so. This clearly has been the case with Spain.

Spain was particularly badly hit by the economic recession that resulted from the financial crisis. From a surplus in 2007 the Spanish government found itself running a budget deficit of more than 11% by 2009. The borrowing required to cover this deficit had caused Spain's public debt to rise, but this was from exceptionally low levels compared with other eurozone economies. As can again be seen from table 1, the government's debt to GDP ratio still remained significantly below the 60% stipulated by the 'European stability and growth pact', and certainly well below that of both Germany and France.

However, like Ireland, Spain had experienced a prolonged property boom before the onset of the crisis. The bursting of the property bubble had left the Spanish banks nursing considerable losses. However, the Spanish property boom had been far less reliant on foreign borrowing than had been the case in Ireland. As a consequence, the banking sector had not grown to such grotesque proportions relative to Spain's much larger GDP. This, together with Spain's more decentralised and regulated banking system, meant that the Spanish government was able to avoid having to bail out the banking system on anything like the scale seen in Ireland – or indeed the UK for that matter – up until the spring of 2012.

Nevertheless, as the financial markets have been well aware, the Spanish banks have been in considerable trouble ever since the collapse of the property bubble in 2008. In order to shore up confidence in the banking system, the Spanish government was obliged to announce in May 2009 that it had plans for a bailout costing up to 99 billion euros (almost 10% of its GDP) if it proved to be necessary. It can be argue that it has been the continued possibility that the Spanish government might have to borrow such large sums to bailout its banks, on top of the amount that it is having to borrow simply to finance its budget deficit, that has spooked the markets and has made Spain one of the PIGS, despite its relatively low level of government debt.

However, chronic trade deficits, and the consequent growth of foreign debt to pay for them, were not a sufficient precondition for a government to find itself as one of the PIGS. After all the UK has run a trade deficit for decades and has accumulated high levels of foreign debt. The UK economy also saw a sharp economic

contraction after the onset of the financial crisis and its banks had to receive a huge bailout from Her Majesty's government. But Britain did not experience a sovereign debt crisis.

What was the reason for this? Firstly, the UK was not part of the eurozone and was therefore able to allow its currency to devalue. Indeed the pound was to fall by 25% against the euro in the immediate aftermath of the financial crisis.

Secondly, the Bank of England has had a far greater freedom of action when compared to both the ECB and to each of the national central banks within the eurozone. The Bank of England, like the Federal Reserve Board in the USA, has been free to adopt unorthodox monetary measures to mitigate the impact of the financial crisis. Most importantly, as we have previously mentioned, the Bank of England has been able to adopt the policy of 'quantitative easing' by means of which it has created vast quantities of money *ex nihilo* in order to buy up government bonds. By buying up government bonds, which the government issues in order to borrow money from the global capital markets, the Bank of England has allowed the British government to finance its rapidly growing debt – without causing a collapse in the price of its bonds and thereby triggering a sovereign debt crisis. At the same time, it has also served to shore up the British banking system, since British banks hold a large part of their reserves in the form of government bonds. A sharp fall in government bond prices, due to an over issue of bonds to finance government debt, would have left the banks dangerously exposed to unexpected losses or cash shortages.

However, under the rules governing the European System of Central Banks, although each national central bank retains responsibility for maintaining the stability of the banking system within their own jurisdictions, most of their powers over the determination of monetary policy have been surrendered to the ECB. The ECB has been highly reluctant to follow the Bank of England and the US Federal Reserve Board in adopting the policy of 'quantitative easing' for fear of generating inflation. Furthermore, in order to avoid accusations that it operates monetary policy in favour of certain countries, its regulations limit its ability to buy government bonds of particular countries, even if such purchases are carried out with money borrowed rather than simply created out of nothing. The European monetary system has therefore not been able to act to anything like the degree of either the Bank of England or the US Federal Reserve Board in addressing the sovereign debt crisis in the PIGS. Indeed, by raising interest rates in April 2011 in order to head off inflationary pressures in Germany, it has exacerbated the problems of the PIGS.

**Sovereign debt crisis as a crisis of the euro**

Thus, in short, it is argued that the accumulation of total debt – particularly debt borrowed from the global financial markets – in the peripheral economies has served to cover up the underlying structural trade imbalance within the eurozone. But with the financial crisis of 2007/8 international financiers became reluctant to continue lending to maintain the growing debts of the peripheral economies necessary to sustain the underlying trade imbalance. The underlying trade imbalances, combined with the architecture of the European System of Central Banks, has resulted in a fundamental fault line in the eurozone, between the core and periphery – that has become manifest in the sovereign debt crisis.

It is perhaps no surprise, therefore, that the sovereign debt crisis has become widely seen as a crisis of the euro and indeed the entire 'European project'. The basic problem of the euro, in this view, is that it is something of a half-way house. Even in moderately sized nation states such as France, Italy or the UK there are distinct regional differences in terms of economic development and prosperity. In the UK, for example the division lies broadly between the prosperous south-east, based largely around the profits reaped from the City of London, and the old industrial areas of the north and west. These differences give rise to money flowing towards the most prosperous areas. For the continental wide eurozone, which encompasses countries with greatly varying histories of economic development, such differences are all the greater.

In a nation state with its own currency these differences in economic development can be mitigated by the state. The provision of uniform welfare policies mean that money is transferred back to the more deprived regions. The state can generate income and employment in less developed regions through the relocation of government offices. The state can also actively counter the tendency for wealth and production to concentrate in the already prosperous regions through investment in infrastructure such as roads and railways that promote new centres of capital accumulation and economic growth. However, a nation state will dispose of 40%-50% of the nation's GDP. It has considerable economic weight. The European Union budget in contrast accounts for little more than 2% of the European Union's GDP. What is more, as it is made up of 27 sovereign nations – all jealous of their own interests – the political agreement necessary to establish even a minimum system of economic transfers is fraught with difficulties. Therefore both the European Union and the eurozone, as presently constituted, are unable to provide the means to carry out the large scale transfers of money and wealth necessary to contain the structural imbalances caused by uneven economic development within the eurozone.

It can therefore be concluded that now the fundamental fault lines within the eurozone have been exposed by the financial crisis, there are two stark options. Either the single currency breaks up or there has to be an acceleration in the process of political, fiscal and monetary union.

**Merkelian response**

The argument that the underlying causes of the euro crisis are *structural,* rather than due to merely the moral failings of southern European politicians, is one that has been taken up forcefully by those exasperated at Merkel's apparently perilous obstinacy in defending the *status quo* concerning the eurozone, and stubbornly insisting that the 'rules are the rules', regardless of the dangers this might involve for the world economy. Yet the more sophisticated supporters of Merkel's political stance may well concur with much of the argument that the underlying cause of the euro crisis was the structural trade imbalances arising from the divergence of relative economic competitiveness between the core and periphery of Europe. They may well also agree that such structural imbalances have been covered up by both large scale public and private borrowing from the global financial markets. But, for them, what is necessary is to sustain the political and economic restructuring of the European periphery, which had always been central to the introduction of the euro.

As we have seen, before European monetary union, governments had been able to address the problem of a lack of economic competitiveness relative to their northern neighbours by the simple expedient of devaluation. This, it could be argued, had allowed them a degree of flexibility that had been necessary during the postwar era to maintain social and political cohesiveness. In the face of a militant and politically organised working class it was often wise to avoid an open confrontation that would occur if economic competitiveness was to be increased through wage cuts and labour market reforms designed to increase labour flexibility. Devaluation could therefore be seen as a means of both defusing and deferring class confrontation.

The shift in class forces in the 1980s opened up the possibilities for the bourgeoisie in the periphery of Europe, like their brethren in the core of Europe, to take a more confrontational stance. However, the long established political and institutional practices made such a shift in stance difficult since any concerted attempt to claw back the gains the working class had made during the postwar era were prone to be undermined by the long established expectation of devaluation as an easy way out. Individual capitalists and politicians had come to anticipate that devaluation and inflation would always come to their rescue. Individual capitalists could always break ranks to come to some compromise with their workers secure in the knowledge that other capitalists would soon break ranks and follow them. Sooner or later, the government, faced with the prospects of widespread bankruptcies and the consequent political instability due to rising unemployment, would be obliged to countenance a substantial devaluation, which would then allow them to raise prices and thereby restore any profits that they may have lost by caving in to their workers' demands in the first place. Likewise, individual politicians could always break ranks in order to win short term popular support by opposing neoliberal reforms to labour legislation and welfare systems 'necessary to improve economic efficiency and competitiveness', sure in the knowledge that there was the easy option of devaluation.

European monetary union was seen by the European bourgeoisie, not least by the bourgeoisie within the peripheral countries themselves, as a means to stiffen resolve in confronting the 'entrenched interests' opposed to the 'necessity' of economic and social restructuring. This was all the more important for peripheral countries that had for too long lagged behind in terms of competitiveness compared with the core European economies. The hard line monetary policies of the ECB, inherited from the Bundesbank, would ensure that the euro would be a 'hard' currency. There would be no option to devalue and inflationary policies would not be tolerated. As such there was no place to hide. Ultimately politicians and capitalists, particularly in the periphery, had to grasp the opportunities opened up by the single market, and the new neoliberal world order more generally, or die.

For such Merkelians, the fact that many within the ruling classes of the periphery, whether politicians or capitalists, took advantage of the cheap loans to indulge in speculative over borrowing, which then allowed them to postpone the necessary social and economic restructuring that would allow them to become 'more like Germany', only serves to demonstrate the need to sustain the rigour of European monetary union, now at this its most testing time. This is the view that not only emanates from Berlin, Brussels or Paris but is broadly shared by the bourgeoisie of the European periphery.

To this extent the issue that separates such supporters of Merkel and many of her critics boils down to bourgeois strategy. Is it better in the current circumstances to use the euro crisis to force through neoliberal reforms and economic restructuring through a full scale confrontation with the working class? Or is this strategy too risky, both in terms of maintaining social cohesion necessary for continued capital accumulation, and in terms of the danger of triggering an economic depression, which could cause untold economic damage, the consequences of which even the bourgeoisie could not be sure to escape?

Of course, calculus of risk and gain depend upon what you stand to gain and what you stand to lose. This as we shall see is important in understanding how the ruling classes within Europe dealt with the euro crisis and why their policies have been criticised by those outside Europe. But before considering this we shall make a brief digression.

**Trade imbalances: the underlying cause or merely a consequence? – the question of investment flows and the structure of capital accumulation**

As we have seen, it can be argued that the underlying cause of the sovereign debt crisis was the structural trade imbalances between the core and the periphery of the eurozone that had been covered up over the last decade by the plentiful supply of loans available on the global money and capital markets. This would certainly seem to explain why it was not profligate government spending that has been the common characteristic of the PIGS in the run up to the crisis but rather the accumulation of foreign debt. However, as we have also seen, this structural trade imbalance is seen in turn as the result of a divergence in the competitiveness between the core and the periphery of the eurozone. But what is it that has caused this divergence in competiveness. Is it, as the Merkelians imply, simply the institutional balance of class forces that mean German workers work longer and harder and are thus more productive?

Merkel herself has made much play of the fact that the German retirement age has been raised to 66, while in Greece the retirement age is a mere 60. This is taken to epitomise the fact that the Germans work longer and harder. But although they are more productive, and hence the German economy is far more competitive, German workers take longer holidays, work less hours a week and have much higher wages and pensions. What is important for competitiveness is the productivity of labour and this is not merely dependent on how hard or how long workers work, but on the means of production they have available to work with. German workers have a far higher productivity of labour because are equipped with state of the art machinery. Indeed however much harder or longer the Greeks work, however much the Greek government reduces the burden of taxes on business by cutting corruption and 'wasteful' public spending, the Greek economy is in no position to compete directly with German industry without large scale investment in productive capital.

In the long term, it is the investment of productive capital that determines the relative competitiveness between economies, and this in turn depends on the overall structure of capital accumulation that divides the world into core and peripheral economies. We shall return to this point in more detail later, but now we shall consider why the European ruling classes have steadfastly opposed what has been seen as the obvious solution to the euro crisis.

## THE SOLUTION TO THE EURO CRISIS... OR THE EURO CRISIS AS THE SOLUTION?

So, as we have seen, for bourgeois policy makers and many commentators outside of the eurozone it has seemed that, what can only be described as the perilous obstinacy of Angela Merkel, coupled with the rather ponderous European decision making process, had, by the autumn of 2011, allowed the euro crisis to spiral out of control. As a result, the entire world economy had once again been put in danger of yet another global financial crisis, and with this the danger of a 1930s-style depression, in little more than three years.


But Angela Merkel's insistence that the cause of the crisis was both the 'fiscal irresponsibility' and duplicity of the governments of the PIGS, and that they had to be made to learn their lesson through a harsh dose of austerity, has been seen as not merely reckless, but counter-productive. As we have pointed out, the draconian conditions imposed on the Greek bailouts have only served to drive Greece further into debt and made default ultimately inevitable. Of course, Merkel may retort that it was necessary to make an example of Greece as a warning to the other PIGS to put their house in order. But, by insisting on making an example of Greece, Merkel has ended up driving not only the rest of the PIGS into cutting 'too far too fast and too early', but also much of the rest of Europe. The resulting wave of austerity measures across Europe is now threatening to kill off the fragile European economic recovery. With 70% of Germany's exports going to the rest of the eurozone, slow economic growth, or even economic contraction, in the rest of Europe can only rebound on Germany's own export-led economic recovery. Indeed, Merkel's misguided policies of stringent austerity could be seen as a case of Germany cutting off its nose to spite its face.

Yet it has been not only the failure of Merkel, and indeed much of the rest of Europe's ruling circles, to act promptly and decisively to contain the euro crisis that has so exasperated the bourgeois policy makers and commentators beyond the eurozone, but also their conservatism that has prevented the radical institutional, economic and political reforms necessary to prevent such a crisis reoccurring in the future. As the euro crisis has made clear, either the eurozone must move towards greater monetary, fiscal and political integration, or the eurozone will break up. Yet despite all her repeated avowals of the German government's commitment to the euro – and the European project more generally – Merkel has seemed reluctant to countenance the radical reforms necessary for further European integration.


**So, what was to be done?**

By the autumn of 2011 there had emerged a broad agreement from mainstream opinion outside Europe's ruling circles as to what should be done to resolve the euro crisis, prevent the breakup of the eurozone and thereby pull the world back from the brink of yet another global financial crisis.

First, and most urgently, the immediate sovereign debt crisis must be contained. The governments and monetary authorities of the eurozone should make it clear that they will take whatever action is necessary to prevent an uncontrolled default of any member state. If necessary this might mean that they would have to bite the bullet and accept full scale 'quantitative easing' in order to finance government debt across the eurozone.

Second, the ESM will have to be put in place without further delay. Governments of the eurozone, particularly Germany, will have to be prepared to provide it with ample funds so that it could prevent a future euro crisis.

Third, there is a need to promote economic growth. The austerity measures imposed on heavily indebted states will have to be eased. At the same time Germany will have to adopt more expansionary fiscal and monetary policies to offset the austerity measures necessary to reduce the deficits in the PIGS, even if this meant the Germans had to tolerate significantly higher rates of inflation and a greater burden of debt.

For the longer term there will have to be progress towards far greater financial, fiscal and political integration.

First, in terms of finance, this will mean co-responsibility for financial regulation. Instead of each national central bank having the primary responsibility of regulating its own banking and financial system and, as a consequence, being responsible for guaranteeing to bailout any bank deemed 'too big to fail', the European System of Central Banks will have to be collectively responsible for banking and financial regulation for the entire eurozone and, as a result, will have to take collective responsibility for any guarantees or bank bailouts. Hence, if a strategically important bank failed, then the costs of its bailout would be shared by all the governments in the eurozone. The banks will therefore be guaranteed by the resources of the entire eurozone rather than that of a single country. Financial co-responsibility will make banking regulation far more effective by making it harder for banks to play one regulator off against another. It will thereby make it possible to reduce the risk of a banking crisis in the first place. Furthermore, even if a banking crisis did arise it would be far less likely to spill over into a sovereign debt crisis as it has done in Ireland and Spain since the burden of government debt required for any bailout would be shared by all eurozone states.

Second, to prevent the build-up of unsustainable levels of government debt there will have to be more strict and enforceable rules over how much national governments can tax and spend. The 'growth and stability pact', which has been repeatedly breached by even Germany and

France, will have to be greatly strengthened. But, as many of the more Keynesian inclined commentators have pointed out, simply bolstering the 'growth and stability pact' to ensure greater fiscal discipline would not be sufficient to heal the fault lines within the eurozone. If the divergence between the economies of the eurozone were to be contained there will have to be mechanisms to allow substantial 'fiscal transfers' between member states: that is the 'taxpayers' of more prosperous economies would have to pay for public investment projects, and perhaps even welfare programmes, in the less prosperous economies.

As a consequence of both financial co-responsibility and greater fiscal integration it will be necessary to have greater political integration in order that decisions over financial and fiscal matters could be made swiftly and with legitimacy. There would therefore have to be a huge stride towards a United States of Europe amongst the states making up the eurozone – even if this meant leaving members of the European Union that are outside the eurozone behind.

However, although such measures might appear obvious from the outside, the politicians and policy makers within the power centres of Europe, led by Angela Merkel, have appeared reluctant to take the prescribed action despite the dire circumstances that were facing them and the world. Indeed, they have remained largely committed to their reckless and counter-productive policies.[10]

Of course, it could be argued that the process of European integration necessary to resolve the problems of the euro in the long term, with all the loss of political sovereignty of national governments this would involve and the economic disparities it would have to overcome, was simply unfeasible. The euro crisis had simply made manifest that the project of European monetary union had been misconceived all along. As such, it would perhaps be better for European leaders to recognise this and allow the breakup of the eurozone.

This has led some of the more cynical commentators, from both the left and the right, to suspect that Germany's true intention is to use the euro crisis as a means to force a breakup of the eurozone – either by Germany breaking away to form a new strong deutsche mark zone in northern and eastern Europe, or else by expelling the PIGS from the euro by forcing them into default. This is certainly a position held by a significant section of the German bourgeoisie, but it has yet to become a mainstream position in Germany and, at least ostensibly, it is not a position that is held by Merkel's government. Indeed, Merkel would seem to share with the European ruling class more generally the long held commitment to European integration of which monetary union is an essential part.

So, it would seem, certainly from the perspective of Washington, New York and the rest of world, that the problem at the centre of the euro crisis is to be found, not with the fiscal irrectitude of the PIGS, but in the pig-headedness of the Germans that have been stubbornly sticking to long discredited economic theories of financial prudence. So what is the response to the charges made against both the Germans and the European ruling circles that their handling of the euro crisis has been both 'reckless' and 'counter-productive'?

**The view from Brussels and Berlin**

Although those within the European ruling circles would certainly not deny the seriousness of the euro crisis, they could certainly claim that fears voiced in the autumn of 2011 that the world was on the brink of another global financial crisis were a little exaggerated. Far from acting too little too late and losing control of the situation, the view from Brussels and Berlin was that they had been acting all along in a calm and calculated manner that has been necessary to keep control of the crisis.

This is certainly the view of the European monetary authorities. The ECB has been at pains to refute the allegations that its stubborn commitment to conventional monetary policies has meant that it has repeatedly acted too little and too late to bring the euro crisis under control.[11] As is pointed out, the ECB was far from being slow in reacting to the financial crisis of 2008. Along with other major central banks, such as the US Federal Reserve Board and the Bank of England, the ECB had acted quickly to cut interest rates to exceptionally low levels and adopted highly unorthodox measures to prevent a meltdown of the European banking system. It had greatly extended its 'lender of last resort' facilities by both enlarging the number of banks and other financial institutions that it was prepared to provide 'overnight' emergency loans, and greatly extended the forms of collateral that these

[10] Although the focus of political debate has been on the sovereign debt crisis and the pressing imperative to cut government deficits, there has been a widespread recognition by economists and other policy advisers in Europe that if the euro is to survive there is a need for further progress towards financial and political union. The issue, as we shall see, is how this should be done. For a discussion of the euro crisis from an influential Brussels think-tank see Jean Pisani-Ferry, 'The euro crisis and the new impossible trinity', *Bruegel Policy Contribution,* Issue 2012/11.

[11] See, for example, 'The ECB's response to the financial crisis', *ECB Monthly Bulletin*, October 2010.

institutions were required to put up to secure these emergency loans. Indeed, it had been prepared to go as far as lending money against 'toxic assets' whose value was far from certain in order to prevent banks going bust due a lack of ready cash. Subsequently, with its exceptional 'short term refinancing operations' (STRO) and 'medium term refinancing operations' (MTRO), the ECB has also provided longer term loans to banks of three months and up to a year respectively.

Although it had been planned to phase them out during 2009, the ECB had sustained these unorthodox measures with the onset of the sovereign debt crisis in order to shore up the European banking system. In addition the ECB can also claim that it was prepared to accept the relaxation of its self-imposed restrictions on buying government bonds in order to play its part in the Greek bailouts of both 2010 and 2011.

Furthermore, in December 2011, in what was tantamount to its own version of 'quantitative easing', the ECB announced it was launching a 'long-term refinancing operation' (LTRO) in which it was prepared to create money to lend to banks for up to three years at below market rates of interest. This money was then used by banks to buy up government bonds. The LTRO, like 'quantitative easing' acted to both bolster the reserves of the European banks but also helped governments, particularly those of the PIGS, to shore up the price of their bonds and thereby help them refinance their debts.

But the LTRO had distinct advantages for the ECB over 'quantitative easing'. Firstly, the ECB did not have to take what could turn out to be the politically sensitive decisions concerning how much it should spend on buying up the bonds of each of the governments within the eurozone. The decision of what bonds to buy would be left to banks. Secondly, and perhaps far more importantly, pumping money into the European banking system via the LTRO served to untangle the European banking system from the sovereign debt crisis and thereby reduced the impact any default by a sovereign state might have on the financial system.

With the rate of interest to be paid on money borrowed from the ECB through the LTRO at 1% while the rate of return offered by the PIGS government bonds was standing at 5% or more, there was certainly the tempting possibility of making a fat profit over the course of three years if banks bought up the sovereign debt of the PIGS, at the same time as making it easier for them to meet their regulatory reserve requirements. However, for most banks such prospects of making a fat profit had to be weighed against the distinct possibility of a default that might render these bonds worthless. However, for banks based in the PIGS this was far less of a concern. After all if their government defaulted they would go belly up anyway. Hence banks in the PIGS were particularly keen to utilise the LTRO to borrow money in order to buy up their own government's bonds. As a result, the LTRO has served to concentrate the bonds of the PIGS governments into the hands of their own banks. Therefore, if one of the PIGS defaults on its debts the resulting losses will be concentrated far more in its own banking system. The risk of a sovereign debt crisis precipitating a crisis of the entire European banking system could be substantially reduced.

However, this was not all. Although it has been unwilling to admit it openly, some German economists have pointed out that the ECB has also facilitated a huge 'back door bailout' of the banking systems of the PIGS on the part of the Bundesbank through the rather arcane TARGET[12] euro payment system.[13] The Target system was set up with the introduction of the euro as a means to carry out payments between banks across the eurozone. As such it was designed to ensure the smooth flow of euros between the different national banking systems. However, it was recognised that the day to day ebbs and flows of euros across borders could cause problems. The banking systems of some member states might find that they had a net inflow of euros, others may find that they had a net outflow. Hence temporary gluts and shortages of euros could arise. This could cause the interest rates at which banks in a particular banking system lend to each other to become highly volatile, which could be highly destabilising.

In order to overcome this provision was made for banks in banking systems that were experiencing a shortage of euros to borrow euros 'overnight' from their own national central bank. This central bank would then borrow euros from the ECB. The ECB would then borrow euros from the central banks that had a surplus of euros. These central banks would then borrow money

[12] TARGET stands for Trans-European Automated Real-time Gross settlement Express Transfer system.

[13] The German economist Hans-Werner Sinn was the first to suggest that the Target payment system was being used as a back door bailout for the banks of the PIGS. See Han-Werner Sinn and Timo Wollmershausser, 'Target loans, current account balances and capital flows: the ECB's rescue facility', CESifo Working Paper No. 3500, June 2011. This was extended and updated in the National Bureau of Economic Research Working Paper No. 17626, November 2011. Also see Hans-Werner Sinn, 'Rescuing Europe', CESifo Forum, Special Issue, August 2010. Although Sinn is an ardent defender of Angela Merkel's policies regarding the euro crisis – arguing against Merkel's critics that Germany, though its back door bailout, has been actively attempting to defuse the crisis – Martin Wolf has also taken up the issue of Target loans. For Wolf Target loans are an indicator of the fundamental problem of trade imbalances arising from the divergence between the core and periphery of Europe.


from their own banks. In this way euros would be transferred from those banking systems temporarily experiencing a surplus to those with a deficit.

This provision of the Target system had only been intended to cover very short term fluctuations in the flows of euro payments across the eurozone. Indeed, up until 2008, over the course of the year the lending and borrowing by the central banks through the Target system had more or less cancelled out. However, with the financial crisis this had changed. As we have seen, the banking systems of the PIGS had faced a severe drain of euros as they found it increasingly difficult to cover the money being sent abroad by their depositors to pay for imports by borrowing from the global financial markets. In response they used the facilities provided by the Target system to borrow from their central banks. But this shortage of euros was not temporary. The PIGS banks have had to repeatedly roll over these Target debts as well as borrowing more to meet the growing shortage of euros. Because Germany was the main banking system with a surplus of euros, the ECB ended up borrowing from the Bundesbank. With no provision in the TARGET system having been made to prevent the accumulation of TARGET debts, the ECB simply chose to turn a blind eye. As a result, by August 2011 the Bundesbank had, in effect, ended up lending more than 390 billion euros to shore up the banking systems of the PIGS. By the spring of 2012, following the crisis in the autumn, this 'back door' loan has soared even higher, reaching a figure of 644 billion euros.[14]

As we have pointed out, the bailout of Greece had been more of a bailout of the banks than it had been a bailout of the Greek government. This, combined with the ECB's adoption of unorthodox monetary policies and the 'secret bailout' of the PIGS banking system by the Bundesbank through the TARGET payment system, has amounted to a substantial and concerted intervention on the part of both the European monetary and political authorities to shore up the European banking system during the unfolding of the euro crisis. In doing they have acted to insulate the European banking and financial system from any fallout from a sovereign debt default.[15]

**Playing with fire or the re-forging a new Europe?**

Yet, although the European political and monetary authorities can claim they have acted boldly and decisively to reduce the risks that a default on sovereign debt might bring down the European banking system, and with it the entire structure of global finance, it is still true that they have held back in their attempts to resolve the sovereign debt crisis by rescuing endangered governments.[16] By doing so the European authorities have allowed the euro crisis to balloon to the point that, by the autumn of 2011, if there

[14] See Han-Werner Sinn and Timo Wollmershausser, 'Target loans', National Bureau of Economic Research Working Paper No. 17626, November 2011, and T. Garton Ash, 'The Greek people now face a stark choice: in or out?', *Guardian*, 17th May 2012.

[15] As we have seen, public debt was only the tip of the iceberg in the euro crisis. It was more a problem of the over-accumulation of private debt that had been channelled through the banks that had placed the PIGS in their predicament. It can therefore be argued that the sovereign debt crisis was not merely the result of the banking and financial crisis of 2008 but a continuation of that crisis. Indeed, by their actions to shore up the European banking system, the European authorities had left the sovereign debt crisis of the PIGS as the main manifestation of the continuation of the banking crisis.

[16] Indeed, their attitude towards saving the banks has been in stark contrast to their attitude to rescuing governments facing serious debt problems. This is perhaps best exemplified by the 1% interest rate banks will have to pay for drawing on the ECB's recent LTRO and the 4% interest rate Greece is obliged to pay for drawing on the EFSF.

had been another default on sovereign debt then all the efforts to buttress the European banking system may well have been to no avail. Merkel, and indeed the policy making circles of both Berlin and Brussels, can be certainly accused of playing with fire.

The response from Brussels and Berlin would no doubt be – if they were prepared to be explicit – that they had played an astute game of brinkmanship. Far from having allowed the sovereign debt crisis to spiral out of control, they have used the crisis as an opportunity to force through what they see as the long overdue economic and political reforms 'necessary' for the future of European capitalism. Indeed, they could argue, it was only by bringing the crisis to the point where it threatened to engulf the entire eurozone, if not the European Union as whole, that it was possible to overcome the inertia and resistance across Europe to the reforms that were necessary if the underlying causes of the sovereign debt crisis were to be addressed.

As such their critics have put things the wrong way round. Rather than first of all resolving the sovereign debt crisis and then putting in place the longer term reforms necessary to address the underlying problems of the eurozone, it has been necessary to maintain the pressure of the euro crisis to ensure these reforms could be put in place.

On the economic level, it can be argued that it was necessary to increase the competitiveness not only of the PIGS but Europe as a whole. By making an example of Greece, and allowing the crisis to escalate to the point where it might engulf Europe as a whole, it has been possible to force through austerity measures across the continent. This has not only provided governments with the opportunity to reduce the burden of public spending to levels closer to that of the USA, it has also opened the way for pushing through neoliberal reforms such as the repeal of 'restrictive employment laws' and the privatisation and commercialisation of the public sector.

On the political level, the euro crisis has served to concentrate the minds of diplomats and politicians towards accepting the steps necessary for greater political unification – with all the loss of national sovereignty that this implies. The introduction of the euro in 1999 together with the ascension to the European Union of much of the former Eastern Bloc countries had marked a rapid acceleration towards European integration. However, the enlargement of the European Union had rendered what had already been a rather cumbersome political decision making process far more unwieldy. Attempts to streamline the decision making process through the introduction of a new constitution of the European Union in 2005 and the subsequent Lisbon Treaty have faced concerted popular opposition, which has resulted in embarrassing referendum defeats in France, Ireland and the Netherlands. As a consequence, much to the consternation of the eurocrats in Brussels, politicians across the European Union have been reluctant to press ahead with the process of political unification. With the euro crisis, the politicians of Europe have had to put such qualms aside. The crisis has forced the issue: either the eurozone, and with it perhaps the European Union itself, would explode, or there had to be further progress towards unification.

Thus, it was only after the governments of the European Union had accepted the need for economic and political reforms that action could be taken to at least contain the sovereign debt crisis. First of all, after the drama of the long drawn out negotiations, Greece was obliged to sign up to the draconian and rather humiliating conditions of its second bailout. Secondly, all the member states of the eurozone had to sign up to a new 'fiscal compact'. Unlike the 'European growth and stability pact', which was merely a commitment on the part of member states to do their best to meet the prescribed fiscal rules, the fiscal compact will not only impose more stringent rules, but will be legally binding. As such the member states will be obliged to surrender a substantial part of their national sovereignty to Brussels, and marks a decisive step towards greater political union.

It was only once these measures had been accepted that Germany accepted that a modestly enhanced ESM should be established a year earlier than previously agreed, and the ECB announced its decision to launch its LTRO scheme in order to calm the sovereign debt crisis and shore up the European banking system.

Now of course it could be argued that the 'fiscal compact' agreed at the height of crisis in the autumn of 2011 might satisfy Angela Merkel's


vision of a European fiscal union that would ensure fiscal rectitude of member states, but it would do little to address the underlying problems of the eurozone. It would do nothing to allow for fiscal transfers between member states that could offset trade imbalances nor would it promote economic convergence by promoting economic development in the peripheral countries. Indeed, the fiscal compact could make things worse. The fiscal compact more or less outlaws discretionary fiscal policy. In the event of another financial crisis the member states of the eurozone would be forbidden by law to absorb the deflationary impact by acting as a spender and borrower of last resort and allowing their debts to increase in order to play their part in preventing a 1930s-scale economic depression. Even if there is no Lehman's-style banking crisis, the fiscal compact effectively locks in austerity, and hence slower economic growth, across Europe for years to come. Furthermore, neither the earlier introduction of the ESM nor the ECB's LTRO have been sufficient to resolve the immediate debt crisis. These agreements may have served to contain the crisis for a while, but, as has been confirmed with the re-emergence of the crisis four months later, they only did so by once again 'kicking the can down the road'.

But from the perspective of Brussels and Berlin this is precisely the point. The agreements last autumn are only one preliminary step. After all, as the history of the European Union has repeatedly shown, it is one thing for European politicians to make grand commitments, it is quite another for them to carry such commitments out. No sooner than the ink has dried on an agreement then all the weaselling and backsliding can be expected to begin. Thus, it can be argued, the pressure must kept up in order that member states of the eurozone honour their commitments, and it is only once the fiscal compact is secure that further steps towards fiscal and monetary union can be made. There can therefore be no attempt to resolve the crisis once and for all until the political and economic restructuring of Europe has been secured.

Sure enough, as expected by both Merkel and her critics, by March there were already growing concerns that the agreement of the previous autumn might begin to unravel.

Firstly, there were the Greek elections. Support for the two main bourgeois parties – PASOK and New Democracy – which had accepted the dictates of the troika, was collapsing. At the same time the 'radical left' Syriza party - which only months before had been on the margins of Greek politics - was being catapulted centre stage, with an unequivocal commitment to call the 'Germans' bluff' and demand that the terms of the Greek bailout should be radically renegotiated.

Secondly, there was the French presidential election. Although he had certain differences with Merkel and the European Commission over the handling of the euro crisis - particularly when it came to the interests of the French banks - Sarkozy had been broadly in favour of taking a 'hard line'. However, with the cold winds of austerity and economic stagnation reaching even the European heartlands, not only was there emerging substantial popular opposition to the Brussels-Berlin consensus, but also rising concerns amongst wider sections of the bourgeoisie across Europe that Merkel was going too far. As French President, François Hollande would be in a strong position to rally broad support across Europe for his demand for the 'fiscal compact' to be substantially renegotiated to allow 'for more growth'.

Thirdly, there were growing concerns over the financial viability of the Spanish banking system. As we have seen, the Spanish government has so far avoided the need for a full scale bailout of its banks. The Spanish banking system had proved to have had sufficient reserves to absorb most of the losses due to the wave of mortgage defaults that had followed the bursting of the great property bubble with the financial crisis of 2008. They had also been in a sufficiently strong financial position to postpone foreclosure on troubled debts by rolling over the loans and mortgages of many individuals and businesses who were at least able to more or less pay the interest on their debts. In doing so the Spanish banks could hope that with the coming of the expected economic recovery, either these individuals and businesses would soon find themselves in a stronger financial position that would allow them to repay their loans and mortgages, together with any missed payments, or else property prices would have risen sufficiently that the sale of repossessed property following any foreclosure would more or less recover any losses due to the default on the foreclosed loans.

But the austerity measures implemented by the Spanish government to appease Merkel and the bond markets had all but killed off hopes of an early economic recovery. Indeed, the Spanish economy was beginning to contract. With growing unemployment and rising numbers of businesses going bankrupt bad debt began to rise again. In April it became clear that Bankia – Spain's fourth largest bank – was in serious trouble and would need to be nationalised and bailed out by the Spanish government. The bond markets now started to become seriously worried about the possibility that the Spanish government would have to join the rest of the PIGS and ask for a bail out. First, if Bankia had to be bailed out it was highly likely that other major Spanish banks would soon follow. Like the Irish government before it, the Spanish government would then have to borrow vast sums of money from the global financial markets – thereby greatly increasing its debt to GDP ratio. Second, with a large part of Spanish government bonds held by Spanish banks as reserve assets, a crisis in the Spanish banking system might force the Spanish banks to sell off their bond holdings to raise cash. This sell off could then lead to a collapse in the price of Spanish government bonds.[17]

By May the euro crisis was once again coming to a head. The Greek parliamentary elections in May ended up in a rather inconclusive result requiring fresh elections in June. Although the pro-austerity establishment parties have been able to form a coalition government - led by the 'centre right' New Democracy party – the Syriza Party has ended up as the main opposition party. The new Greek government will have little option but to take a tougher position in future negotiations with the troika over the terms of its bailout. Also in May, Hollande won the French presidential elections, and his position was then further strengthened by the victory of the Socialist Party in the French parliamentary elections in June. With France demanding a greater emphasis on economic growth it would seem clear that the fiscal compact if not completely renegotiated will have to be significantly modified.

However, perhaps more significant were the developments in Spain. By May Spain was beginning to slide down the slippery slope towards the point where it would have to ask for a bailout if it was not to default on its debts. In June, after now familiar frantic attempts to avoid the inevitable, Spain had to go cap in hand to Brussels and negotiations began on the terms of the Spanish bailout. Yet unlike Greece, Ireland and Portugal that had gone before it, Spain was far too big to fail. If Spain goes down then Europe


will undoubtedly be dragged down with it.This has given the Spanish government a far stronger bargaining position. As a result the initial negotiations over the bailout have been rather favourable to Spain. But this favourable treatment of Spain has prompted the other PIGS to demand, in the name of fairness, that the terms of their own bailout should be eased.

Yet, although it might seem to many that six months after the agreements made in the autumn of 2011 to resolve the euro crisis are already unravelling, for Brussels and Berlin the re-emergence of the euro crisis offers an opportunity to press on with the radical restructuring of the governance of Europe. Indeed, with the re-emergence of the euro crisis in the spring of 2012 the 'method in Merkel's madness ' has become far more apparent.

In March the European Commission let it be known that they had found up to 85 billion euros down the back of the sofa which could be used to finance infrastructure projects across Europe. Although this is not a huge amount – less than 0.5 % of the eurozone's total annual GDP – it was suggested that this money could be further leveraged up by the issue of 'euro-project' bonds. These bonds would be issued by the European Commission, and backed by all the governments in the eurozone. The funds raised by issuing these 'euro-project bonds' would then allow this trans-European investment programme to be carried out on a far greater scale.

It was also hinted that many of the restrictions imposed on European-wide spending – particularly the requirement that member governments had to match any funds provided by the European Commission euro for euro – could be relaxed. This would allow this large scale public investment programme to be directed towards the less developed regions of Europe – including those in the PIGS.

In the face of mounting opposition to imposition of relentless austerity measures, these

[17] As we mentioned earlier, the concentration of PIGS government bonds in the PIGS banks had been significantly increased by the ECB's LTRO over the winter of 2012.


proposals for a large scale public investment programme can be seen to be something of a sweetener that would at least offer some light at the end of the tunnel. If the PIGS knuckled down and implemented the austerity measures necessary for 'fiscal consolidation' then they could hope in two or three years' time to be able to obtain a large slice of this investment programme. Furthermore, for France and other member states worried that the austerity measures were threatening to condemn Europe to a decade or more of stagnation, the European Commission's proposals offered some hope that concerted action would eventually be taken to stimulate the European wide economy.

But perhaps far more significantly in the longer term, the European Commission's proposals mark a decisive shift towards the centralisation of fiscal policy that on closer consideration complements the fiscal compact. While the fiscal compact may serve to restrict the powers of member states of the eurozone to adopt Keynesian-style policies of borrowing to spend in order to regulate capital accumulation, the European Commission's proposals paves the way for such Keynesian style policies to be conducted on a European wide scale. At least in terms of fiscal policy, the national governments of the eurozone will thereby become little more than local authorities while the European Commission will become more like a federal government exercising powers to regulate the economy of Europe as a whole.

Yet the European Commission's response to the re-emergence of the euro crisis has not only been to put forwarded proposals that would make tentative steps towards greater fiscal unification. In response to fears that the Spanish government would have to borrow vast sums to bailout its banks the European Commission proposed that the newly operational ESM could bailout Spain's distressed banks directly. This would mean that Spain would not have to carry the burden of the costs of its bailout on its books. Instead the burden of the bailout would be shared by all the member states of the eurozone. Although this might appear as a clever accounting ruse to keep down Spain's debt to GDP ratio, it would also mark a significant step towards 'financial co-responsibility' in which the monetary authorities of the eurozone would collectively taking over the responsibility of guaranteeing the banking system of the eurozone as a whole. Yet, as Merkel has been keen to point out, if the responsibility of guaranteeing Europe's banking system is to be transferred from national monetary authorities to those of the eurozone as a whole, then regulatory powers will also have to be transferred. There will therefore have to be a move to far greater unification of banking regulation and the ECB will have to be given far greater powers.

Now of course it can be pointed out that Merkel strenuously opposed these proposals of the European Commission when they were originally put forward. However, as has become apparent in the protracted negotiations that have now begun, Merkel's opposition has been one of timing and sequencing than that of principal. Indeed, Merkel and the European Commission can be seen playing something of a double act; the European Commission playing the soft cop, pushing forward the rewards, radical reform and European integration, while Merkel plays the hard cop, insisting on the hard decisions that must be made to ensure such reform and integration works in the long term. As such Merkel's obduracy can be seen as the fulcrum around which the radical restructuring of Europe is being leveraged into being.

Yet while it may be admitted that there is 'method in Merkel's madness' she can still be accused of 'playing with fire'. There is still a very real danger that the euro crisis will run out of control and bring about a serious financial and economic crisis not only in Europe but across the world. Even if the crisis continues to be contained, the imposition of austerity measures across Europe is already holding back the global economic recovery. Of course, if Merkel is accused of 'playing with fire' she can claim that it is only by 'playing with fire' that she can re-forge Europe. But is this 'reforging' of Europe at this time worth the enormous gamble with the global economy? After all, Merkel could have taken what she would see as the easy option by taking the obvious measures advocated by her critics to resolve, or at least contain the crisis.

Merkel's original reaction to the sovereign debt crisis was in keeping with that of a rather cautious conservative politician who was keen to take the opportunity to demonstrate that she was the champion of the German taxpayer. However, as the crisis developed Merkel was quick to see the logic of her position of taking a hard line against the PIGS required either the breakup of the eurozone or its radical reform. Merkel chose the latter.[18] In this she found ready allies in the main European institutions such as the European Commission and the ECB whose interests were naturally for a more unified Europe. Yet in order to sustain this position, despite all the risks, Merkel and her allies in Brussels have had to rally the support of the bourgeoisie not only of Germany but across Europe.

To understand why the European bourgeoisie has supported Merkel's gamble in using the crisis to reforge Europe, we must put the euro crisis in the broader perspective of the 'tectonic' shifts that are occurring in the global accumulation of capital.

## GERMANY AND THE RISE OF CHINA

### Germany and the tale of the two speed recovery

As we have previously mentioned, the economic recovery from the 'great recession' that followed the financial crisis of 2008 has proved to be very slow for most of the old established advanced capitalist economies. In North America, Japan and for much of Europe, economic activity has barely, if at all, recovered to the levels that they had been on the eve of the crisis in 2006. In contrast, the 'newly emerging market economies' of Asia, parts of Africa and South America – and in particular the so-called BRICS (Brazil, Russia, India, China and South Africa) – have bounced back from the recession.[19]

The driving force of this recovery of the 'global south' has been China. In response to the impact of the financial crisis, which saw a sharp slowdown in the growth of demand for its exports from the US and Europe, the Chinese government launched a major investment programme that amounted to nearly 15% of its GDP. This substantial increase in investment increased China's demand for fuel, food and raw materials from abroad. The main beneficiaries of this increased demand from China's surge in investment have been the 'newly emerging economies' of the south.

As a result, while the economies of the old capitalist nations of the global north have more or less stagnated over the past four years, the newly emerging economies of the global south have grown substantially. China's GDP is now nearly 50% larger than it was in 2008, and during this time China has overtaken Japan to become the second biggest economy in the world. The financial crisis, and the consequent 'great recession' in the north, can therefore be seen as marking a significant 'tectonic' shift in the global economy away from the old capitalist heartlands of the 'north' to China and the newly emerging economies of the 'south'.

However, Germany, and its economic hinterland in north and east Europe, has been something of an exception to the tale of a slow and disappointing economic recovery in the old capitalist heartlands. At least since the 1950s, German capital accumulation has been driven by the production and export of high precision engineering manufacturers. This has perhaps been most evidently symbolised by German car makers, such as Mercedes-Benz and BMW. But far more important has been Germany's position as world leader in the production of machinery, machine tools and other technologically advanced means of production.

In the past Germany's export-led growth had been ultimately dependent, either directly or indirectly, on capital accumulation in the USA. Economic growth in the US would lead to increased investment in American manufacturing industry, which would directly increase American industry's demand for the import of German high precision machine tools. But, at the same time, such economic growth in the US would increase the rate of growth, and with it investment, in Europe and the rest of the world. This increased investment would then in turn lead to an

[18] See Quentin Peel, 'A very federal formula', *Financial Times*, 10th February 2012 for an account of Merkel's acceptance of the need for further European integration.

[19] See IMF, *World Economic Outlook*, May 2012.

increased demand for Germany's manufacturing industries.

However, over the last decade there has begun a significant shift in the driving force behind Germany's export-led growth. At first, the rapid rise of China as the world's manufacturing powerhouse had been based on the assembly of parts that had been manufactured elsewhere in Asia. However, since the turn of the millennium Chinese industry has rapidly 'moved up the value chain', with more technologically sophisticated production processes being located in China itself. This has meant that Chinese industry has needed to import more sophisticated means of production, and has found ready and reliable suppliers in Germany.

Thus, although 70% of German exports are still destined for the rest of the eurozone, the fastest growing market for German exports is China. With the surge in productive investment in China and slow economic growth in the US and the rest of the old capitalist heartlands, following the financial crisis, this re-orientation of German capital accumulation towards Chinese markets has been greatly accelerated. For the German bourgeoisie, and indeed for much of European ruling class circles, China is increasingly being seen as the 'future'.[20]

This re-orientation of German capital towards China has an important bearing on the unfolding of the euro crisis. To understand this we must briefly consider the historical relation of Germany to European monetary union since the fall of the Berlin Wall.

**Germany and the euro**

Although the proposal for a single European currency had been mooted as far back as the 1960s, it had been the fall of the Berlin Wall that was to provide the catalyst for its realisation. The fall of the Berlin Wall, and the consequent breakup of the old Eastern Bloc, had opened up the prospect of a new unified Germany capable of exploiting the potential of the skilled and educated populations of both East Germany and eastern Europe. It had been widely feared amongst the nations of western Europe, but particularly by France, that this new unified Germany would no longer be the first amongst equals, as it had been since the second world war, within the Europe Union; and no longer would the European project be driven by a partnership


between Germany and France. Instead a unified Germany would rapidly emerge as the continent's dominant economic and political super-power.
There was therefore a concerted attempt on the part of Germany's west European partners to anchor Germany in to the longstanding commitment to the project of European political and economic unification. Central to this was the introduction of a single European currency. It was after all far better for the rest of Europe to have a single currency over which they could exercise some control rather than having to become part of a *de facto* deutsche mark zone, and consequently having their economic and monetary policies increasingly dictated by the Bundesbank.

However, the fears of the emergence of an über-Germany, if not misplaced, were certainly premature. The problems of absorbing East Germany were to be greatly exacerbated by the decision to greatly overvalue the East German ost mark when the East German currency was replaced by the deutsche mark. This decision was certainly politically astute in the short term in that it made unification popular in East Germany, but it was to have serious long term economic consequences. Under the East German command economy chronic shortages in the availability of consumer goods had meant that many East Germans had accumulated large amounts of ost marks that they had not been able to spend. With unification with West Germany they found they could convert these ost marks into deutsche marks mark for mark, and buy what they wanted from the well-stocked West German shops.[21] The

[20] Having already quadrupled over the past decade, German exports to China are now rising at a rate of over 40% a year. China is rapidly overtaking the US as the main non-European importer of German exports, and by 2020 is expected to account for 15% of all of Germany's exports. See Jeff Black, 'Germany's future rising in east as exports to China eclipse US', *Bloomberg*, 6th April 2011. www.bloomberg.com/news/2011-04-06/germany-s-future-rising-in-east-as-exports-to-china

[21] Each person was allowed to convert up to 4,000 ost marks into deutsche marks at the rate of 1:1. Any amounts above 4,000 were then converted at the rate of 2:1. The ost mark had been an unconvertible currency and therefore there was no market determined exchange rate other than that of the black market on which to base monetary conversion. Before the fall of the Berlin Wall the black market rate had been in the region of 4 ost marks to the deutsche mark. This fell to 20:1 following the fall of the Berlin Wall due the economic dislocation and political uncertainty in East Germany. However, the black market

result was a consumer boom across Germany that threatened to have serious inflationary consequences as German industry could not keep up with the increased demand.

To contain inflation the Bundesbank tightened monetary policy and the German government was forced to cut public spending and raise taxes. This led to a sharp slowdown in economic growth in the former West Germany. At the same time, the over-valuation of the ost mark meant that much of East German industry was rendered hopelessly uncompetitive compared with that of West Germany. As a result swathes of East German industry went bankrupt and unemployment soared. The boom was thereby soon followed by a sharp economic slowdown across Germany.

What is more, the East German unemployed were now entitled to the generous West German welfare benefits. The consequent increase in the welfare bill, together with the costs of restructuring and modernising East Germany, had to be paid for by substantial increases in taxation. With a still strong entrenched German working class, a large part of this increased level of taxation was ultimately borne by the capitalists of West Germany. Lower profits led to a lower rate of investment and hence slower capital accumulation and economic growth. As a result, the cost of absorbing East Germany was to weigh down Germany's economic growth for more than a decade. By the time the euro was introduced in 1999 the German 'economic and social model' had seemed to have long passed its sell by date, and fears of an über-Germany had been more or less forgotten.

But it was not merely the problems of integrating East Germany into a united Germany that prevented the realisation of Germany's rise to the status of Europe's economic super-power, it was also the problem of realising the great potential investment opportunities that had been opened up by the breakup of the Eastern Bloc. On Germany's very door step, eastern Europe offered the prospect of a cheap but skilled and trained workforce, along with a developed economic infrastructure. For the neoliberal ideologues, who came to control economic policy after the fall of the Stalinist regimes, what had been holding the eastern European economies back from exploiting their great potential had simply been excessive state interference. All that was needed to create a prosperous economy was to sweep away all the state regulations at once and allow the 'entrepreneurial spirit of the east European peoples' free rein to develop. Yet the 'short-sharp shock therapy' prescribed by the neoliberal ideologues, and imposed on the populations of eastern Europe, only led to rapid inflation, soaring unemployment and economic devastation through much of the 1990s. The dislocated and devastated economies of the former Eastern Bloc offered few investment opportunities for either western or German capital.

However, by the end of the 1990s the obstacles to integrating the former Eastern Bloc in to a German-centred capital accumulation had begun to turn into an advantage. The surplus population of the former East Germany, together with rising unemployment in the former West Germany due to slow economic growth, had begun to hold back the growth of real wages across the German economy.[22] At the same time, the migration of workers from east to west Germany looking for work had created a pool of mobile and flexible labour that now began to undermine the entrenched position of the German working class. German industry was thereby was able to become more competitive and more profitable.

At the same time, investment opportunities began to open up at last in the some of the east European economies as they recovered from the short-sharp shock policies of the early 1990s. Although such policies had dismally failed to release the 'entrepreneurial spirit of the east European peoples' so as to provide a rapid transition to the economic prosperity enjoyed by the peoples of western Europe, the economic devastation that they had wrought had eventually begun to clear the way for the investment of western capital. Prolonged mass unemployment and falling living standards had served to discipline the east European working class that had previously been accustomed to job security and a significant degree of negative control over the production process.

Western capital, and German capital in particular, could now begin to flow into the former Eastern Bloc in order to take advantage of cheap, and now compliant, labour. This could take the form of simply outsourcing production to newly

rate is perhaps not an accurate guide to what would have been the 'economic' rate of conversion of ost marks into deutsche marks. The Bundesbank had drawn up proposals for German monetary unification that would have eventually seen ost marks converted into deutsche marks at a rate of 2:1 before being over ruled by Chancellor Kohl. Certainly the rate 1:1 substantially over-valued the ost mark. See Jonathan R. Zatlin , 'Rethinking German reunification: German monetary union and European integration', for an account of the politics surrounding the conversion of ost marks into deutsche marks. www.bakerinstitute.org/files/.../BI-pub-ZatlinRethinking%20Reunification-102709.pdf

[22] Although German wages remain amongst the highest in Europe their rate of growth has been amongst the lowest in the eurozone since the introduction of the euro. See Jörg Bibow, 'The euro debt crisis and Germany's euro trilemma', *Working Paper no. 721* of the Levy Economics Institute of Bard College.

emerged east European firms, but mostly it took the form of direct productive investment whereby German and other western capitals relocated the less skilled labour process to the east. By the time the first wave of east European countries had achieved ascension status within the European Union in 2004, the flow of foreign direct investment into the former Eastern Bloc had turned into a flood. However, capital investment was highly uneven, leading to a stark polarisation in capital accumulation in eastern Europe. Those countries that won the competitive battle to attract western investment – such as Poland, Czech Republic, Slovenia and Hungary – saw rapid economic growth; those that did not stagnated and were pushed to the margins of the 'new Europe'.

As we have mentioned, the success of Germany's model of export-led growth had been dependent on rapid capital accumulation in the US. However, the relative decline of US manufacturing industry since the 1970s has meant a far slower growth in the demand for high precision machine tools and other advanced engineering products than that produced by the German 'economic miracle' of the 1950s and 1960s. Since the late 1970s, German industry has also faced growing competition from Japan and South Korea in these lines of production. Thus ever since the end of the 1970s German export-led growth has been restricted by diminishing market share in a slow growing market.

However the integration of eastern Europe by the turn of the millennium had served to lower wages and production costs, making German industry more competitive relative to Japan and South Korea. This allowed German industry to reverse the decline in its share of the world market in precision engineered manufactures. But this increased competitiveness was insufficient to overcome the slow growth of US manufacturing and hence the slow growth of the world market as a whole. So, at first, the shift in capital accumulation eastwards certainly bolstered the profits of German business, but it only did so by 'exporting' jobs and growth to the east. Economic growth in Germany itself remained slow, unemployment remained high, and the ever present threat of the relocation of production to east Europe served to further depress wages.

However, since around the middle of the last decade the remorseless rise of China as the manufacturing powerhouse of the world has begun to change all this. Germany's new found competitiveness has placed it in an excellent position to exploit the rapidly expanding export opportunities opened up by China's rapidly growing manufacturing industries. Indeed, China is expected to overtake the US as Germany's main export market outside Europe as early as 2015. As a result, Germany has seen in recent years an end to its decade long stagnation. Economic growth has accelerated and the rate of unemployment has fallen to levels not seen since before unification.

Although the economy sharply contracted in 2009 it has since resumed its upward trend even as much of the rest of Europe, in the face of austerity measures, struggles to avoid slipping back into recession. Indeed, a limited general economic slowdown across Europe, due to the austerity measures inspired by the euro crisis, may well be welcomed in Berlin in the short term as a way of cooling off a German economy that has been at risk of growing too fast and overheating.

Yet it is not a foregone conclusion that Germany will be able to consolidate its hold over the expanding Chinese market. In the longer term the German export machine must be kept competitive in order to fight off competition from Japan and South Korea. But more importantly it must find room to expand if it is to meet the growing demand from China. Already wages have risen substantially in many of the east European economies, and shortages of engineers and other skilled labour have begun to emerge in Germany itself. In the longer term Germany needs to restructure the rest of Europe – to do this it needs to integrate the rest of Europe into a re-orientated German-centred European capital accumulation.

The euro crisis has offered an excellent opportunity to bring about this restructuring of Europe. Hence, just as the economic devastation following the fall of Berlin Wall had eventually offered the opportunity to re-structure the eastern periphery, then the sovereign debt crisis can be seen to offer a similar opportunity to do the same for the southern and western periphery of Europe.

**From PIGS to frankfurters**

It has long been observed that there is a strong tendency towards the concentration and centralisation of capital. Capital will tend to gravitate towards where capital has already been invested. Thus capital accumulation not only produces growing inequality of wealth between classes it also creates a polarisation of wealth between geographical areas and indeed nations. This has been clearly demonstrated on a world scale.

During much of the twentieth century capital accumulation was concentrated in a few core economies in Europe and North America. The rest of the world, comprising as much as 80% of the world's population was confined to the margins of capital accumulation, and as a consequence remained economically underdeveloped. Surplus value produced in the core was largely reinvested in the core. Productive capital was invested in the world's periphery only in those lines of industry that could not be produced in the core countries, due to natural factors – such as climate, soil or the location of raw materials. As a result, the major capitalist economies that had emerged by the last quarter of the nineteenth century as the core of world capital accumulation were very much the same a hundred years later. The only country of any note to join the club of advanced capitalist nations being Japan. On a smaller scale, a similar polarisation between a core of capital accumulation and a periphery developed within Europe.

However, over the last couple of decades this polarisation of core and periphery has begun to be undermined. Following the crisis of the 1970s and 1980s capital has sought to outflank the entrenched working classes in the core nations by investing in the periphery. As a consequence, capital, in the form of both foreign direct investments by transnational corporations and by financial investments funnelled through the developing global capital and money markets, has flowed into an increasing number of economies of what was once known as the third world. This flow of capital has given rise to the rapid economic development that was first seen in east and south east Asia, and that has then to spread to China, India and parts of South America.

A similar phenomenon has occurred in Europe. As we have already seen, following the break up the Eastern Bloc following the fall of the Berlin Wall, and the consequent traumatic transition from state capitalism in the 1990s, there has been a flood of capital from Germany and the core of Europe into the periphery of eastern European countries, giving rise to the rapid development of 'emergent market economies', such as Poland, Czech Republic, Hungary and Slovenia.[23] But this phenomenon has also occurred, to a varying extent, in the southern and western periphery of Europe – including the PIGS – following the beginning of the process of European monetary unification in the early 1990s. Spain and Ireland, and to a lesser extent Portugal and Greece, have also seen a transformation of their economies over the last decade or so in large part due to foreign investment, which has been greatly facilitated by European monetary union. Indeed the PIGS had been, up until the middle of the last decade, far more economically vibrant and dynamic than Germany since the early 1990s.

Ireland perhaps best exemplifies this rapid economic development driven by foreign investment in the southern and western periphery of Europe. Although more recently investment inflows became increasingly speculative - helping to fuel Ireland's huge property bubble – the Irish economy has been transformed over the past two decades with the aid of foreign inflows of capital. In the early 1990s Ireland still remained a predominately agricultural backwater producing little more than beef, cream and whiskey. However since then foreign investment has fuelled rapid economic development, with Ireland becoming a centre for cutting edge industries based around biotechnology, pharmaceuticals, information and communications technologies. Indeed, before the onset of the crisis Ireland had been dubbed the 'Celtic Tiger' for the resemblance of its rapid economic growth and development to that of the tiger economies of the far east.

However, there has been an important difference between the foreign investment flows that have taken place on the southern and western periphery of Europe compared with those that have taken place in the eastern periphery of Europe. As we have already pointed out, the flow of capital east was largely driven by direct productive investment by transnational corporations based in Germany and other core European nations. In contrast foreign investment in the southern and western periphery has taken the form of financial flows channelled through the European banking system and the global finance markets. This crucial difference has had two important consequences.

Firstly, by being far more dependent on the global financial markets to fund capital accumulation the PIGS of the southern and western periphery were far more vulnerable to the repercussions of the global financial crisis. With

[23] For a detailed case study of German investment into central and eastern Europe see Peter Nunnenkamp, 'The German automobile industry and central Europe's integration into the international division of labour: foreign production, intra-industry trade and labour market repercussions', Kiel Institute for World Economics.

the global financial crisis in 2008 there was a sudden reversal of short term money-capital flows. Instead of money-capital flowing from the core to the periphery it sharply turned to flow from the periphery to the core. As we have previously seen, banks in the PIGS that had financed long term investments by borrowing short term had found themselves with serious financing problems. In contrast by taking the form of direct productive investment, the capital flows into the eastern periphery were far more solid. With investment sunk into plant and machinery and other fixed forms of capital it could not so easily take flight.

Secondly, to the extent that they largely took the form of direct productive investment by German based transnational corporations, capital flows into the eastern periphery were intricately linked to the development of a German-centred capital accumulation. Thus, for example, a decision by a German transnational to invest in setting up factories in Poland to supply parts for its German factories would necessarily be an integral part of its long term investment strategy to optimise the geographical distribution of its production facilities. In contrast, to the extent that this investment largely took the form of banks borrowing from the global financial markets, capital accumulation in the southern and western periphery of Europe had been far less integrated into the German-centred accumulation of capital. In deciding to finance an investment project banks and financiers are not particularly concerned with the concrete nature of the project, or its long term strategic significance, but are concerned with how quick it will bring a return. Thus it will be of little concern to a banker or a financier if their money is used to build a factory in Spain to supply parts to German factories, or to build factories supplying parts to US factories or even to provide mortgages for Spanish home buyers, so long as they can hope to make a quick and handsome return.

The sovereign debt crisis opened up the possibility for the southern and western periphery to be integrated into a renewed German-centred European wide accumulation of capital re-orientated towards the rise of China and the emerging economies of the 'global south'. Just as the eastern periphery of Europe was integrated following the economic devastation caused by the neoliberal 'short sharp shock therapies' administered following the breakup of the Eastern Bloc, so it might be expected that the southern and western periphery will be integrated into the German industrial complex following the economic devastation following the sovereign debt crisis.[24] Already high levels of youth unemployment are leading to engineering graduates and other young skilled workers to start migrating to Germany from Spain and the other PIGS.[25] In the longer term, with swathes of industry destroyed, and prolonged unemployment and falling living standards serving to discipline their working classes, the ground will be cleared for German and other core European based transnational corporations to start investing in the PIGS.[26] As regions and nations of the south and west of Europe compete for the favour of German investment some will win, and will become part of the new Europe, others will lose and be relegated to the margins.

The prospect of such a radical restructure of Europe to take advantage of the rise of China and the 'new realities' of global capitalism, is certainly a tempting one for the German bourgeoisie. But it is also a strategy supported by many within the European bourgeoisie as a whole. After all what is the alternative? The slow decline of Europe? Most of the European bourgeoisie and their governments see carving out a niche within the new German-centred European model as the best bet. Thus the European Commission, the ECB and the other European institutions, whose role is to represent the general interests of European capital, have largely backed Merkel and the German government's approach during the euro crisis.

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[24] In some ways there are important parallels with the tiger economies of south east Asia. Indeed, Ireland's characterisation as a 'Celtic Tiger' before the crisis may have been more apt than is often realised. Foreign investment had flooded into the PIGS, just as it did with the south east Asian tigers in the early 1990s. As in Ireland this investment had originally taken the form of direct foreign investment – mainly by Japanese transnational corporations – that financed rapid real capital accumulation leading to rapid economic growth. Investment then increasingly took the form of borrowing from the global financial markets and became increasingly speculative. Trade deficits grew as imports grew faster than exports, and the tigers economies defended fixed exchange rates with the US dollar, until the east Asian crisis struck in 1998. The crisis caused widespread economic devastation amongst the tigers, but they were subsequently re-integrated into the Chinese-centred Asian accumulation of capital. See 'Welcome to the Chinese century?', *Aufheben* #14 and 'The return of the crisis', *Aufheben* #19.

[25] See 'Germany lures talent from south', *New York Times* supplement, *Observer*, 6th May 2012.

[26] Between 1989 and 1994 it has been estimated that the economy of Czech Republic contracted by 21%, that of Hungary by 18.2%, Poland by 17% Slovak Republic 25%and Slovenia by 16.2, while economic output in Russia slumped by nearly 50%. See Stanley Fischer, Ratna Sahay and Carlos A. Végh, 'Stabilization and growth in transition economies: The early experience', *The Journal of Economic Perspectives,* spring 1996. In comparison the Greek economy has contracted by nearly 20% since 2008 and is currently shrinking at a rate of 7% a year.

Nevertheless it has been a risky strategy. Not only has the hard-line taken during the euro crisis threatened to cause a global financial meltdown – with unknown consequences – but it is a bet based on the continued remorseless rise of both China and the emerging economies of the global south that is by no means a certainty. Even if China and the global south continues to grow there no certainty that German industry will be able to hold on to its market share of these markets - particularly as China 'moves up the value chain' and begins to produce precision engineered manufactures for itself.

## CONCLUSION

The exasperation expressed by the rest of the world's ruling classes, and in particular by the US Obama administration, at the Europeans' handling of the euro crisis has perhaps been imbued with a certain sense of betrayal. At the G20 meetings in the wake of the financial crisis of 2008 the leaders of the world, led by the US, had agreed to put the interests of saving global capitalism before their own special interests. This agreement had not been put in the form of a binding international treaty – which would have of course taken far too long to bring into being - but had taken the form of a common commitment based on a sense of international bourgeois solidarity. However, with the euro crisis the Europeans, led by Angela Merkel, can be seen to have betrayed this solidarity of the world's bourgeoisie, and in doing so they have put the global economy once more at risk, for their own particular interests. Free riding on the reflationary policies of the US and China, the Europeans can be seen to be seeking to steal a march on their competitors by prematurely forcing through deficit reduction policies, in order both to reduce their national debt burdens, and to force the pace of neoliberal reforms to make European industry more competitive.

But for the Europeans the euro crisis has been an opportunity too good to miss. The opportunity presented by the euro crisis is not merely one of making European labour markets more flexible, like that of the USA. It is an opportunity to radically restructure Europe to take advantage of the rise of China and the emerging economies of the global south. It is the prospects offered by the construction of a German-centred European accumulation of capital orientated towards China that explains why the European bourgeoisie has backed Merkel's high risk strategy of dealing with the euro crisis.

Yet all the same this strategy is a gamble with no guarantee of success. The risk of derailing the world economic recovery, or even plunging world capitalism into another global financial crisis, still remains. On the other hand there is always the possibility that the political and economic restructuring of Europe will stall.

Although most of the European bourgeoisie may be in favour of using the crisis to grasp the opportunities opened up by the rise of China there is plenty of room for disagreement of who should bear the brunt of such restructuring. The European negotiations surrounding the on-going euro crisis are set to remain a multi-handed poker game based on bluff and brinkmanship. At present the fear is that Merkel will overplay her hand. Certainly Merkel has invested heavily in her reputation as the Iron Chancellor and it will be politically difficult for her to make concessions when the time is right. On the other hand it has been relatively easy for Merkel and other north European leaders to demand austerity measures of the PIGS while their own economies are booming. But as the world economy stalls, and even Germany and northern Europe begin to relapse into economic stagnation, the consequences of cutting too early and too fast on the economy of Europe as a whole are becoming more apparent. Merkel may soon find herself in a position where she can easily soften her line. But if she bottles it too early then the opportunity for the radical restructuring of Europe may be lost.

In the longer term the euro crisis can be seen to be a part of the long predicted beginnings of the decline of US hegemony. The global economy is now no longer solely dependent on the US as the locomotive of global accumulation and as such there is more room to defy the Americans. But as a consequence we are entering a far more uncertain world.

# The climate crisis ...and the new green capitalism?

## INTRODUCTION

Over the past two decades, climate change has emerged as the most pressing ecological issue of our time. June 2012 saw the 'Rio +20' summit come and go with little concrete outcomes. In December, the COP-18[1] in Qatar will be the 18th consecutive year of high-level talks on a deal to replace the Kyoto Protocol, to date the only international treaty aimed at addressing climate change. Kyoto was woefully inadequate to heading off the developing crisis, but its supporters defended it on the grounds it was a first step forward. Yet amidst divergent national interests, particularly between the oil-powered US and coal-hungry, rapidly industrialising China, India and Brazil, Kyoto is expiring with no replacement on the table. The second step has been a backwards one.

This has led many in the more radical wings of the environmental movement to identify capitalism itself as the problem: a system of endless growth incompatible with ecological limits. There is much to commend this view, yet it overlooks another tendency: the emergence of a nascent 'green capitalism', with multi-million pound markets emerging in emissions trading, renewable energy, and production of 'green' goods (wind turbines, electric cars etc). So while there are strong grounds for anti-capitalist pessimism for the prospects of avoiding severe climate change of 4°C or more by the end of the century, neither should we underestimate the flexibility of the capitalist system to profit from a crisis of its own making.

Before we move on, it is probably worth a brief survey of the science. The basic facts are familiar to any schoolchild: greenhouse gas (GHG) emissions, particularly carbon dioxide ($CO_2$) produced by human activities – particularly deforestation and burning fossil fuels – are increasing atmospheric concentrations of GHGs, leading to the greenhouse effect of rising temperatures, as more solar energy is trapped in the Earth's atmosphere. Despite significant attempts by 'climate sceptics' to muddy the waters, this represents an overwhelming scientific consensus, and furthermore the consensus has been firmed up by each subsequent iteration of the Intergovernmental Panel on Climate Change (IPCC) assessment reports.[2] The fourth of these, published in 2007 estimated global temperatures could rise somewhere between 1.1°C and 6.4°C on pre-industrial levels by the end of the century. The range represents different scenarios ranging from rapid mitigating action (low) to business-as-usual inaction (high).

The fifth IPCC assessment report (AR5), due in 2014, is widely expected to revise this band upwards. Indeed, the latest estimates from the Met Office predict temperature rises in excess of

[1] The 18th Conference of the Parties to the UN Framework Convention on Climate Change, which will be introduced properly below.

[2] Some firms are now even embarrassed to be associated with climate change denial. See Leo Hickman, 'Diageo to end funding of Heartland Institute after climate change outburst': guardian.co.uk/business/2012/may/06/diageo-end-funding-heartland-institute

7°C by 2100 on a business-as-usual scenario (see Figure 3). Anything in excess of 2°C is considered dangerous, due to the potential for positive feedbacks – such as the release of oceanic GHG deposits – to engage and make the temperature rises accelerate irreversibly.[3] Consequently, 2°C is the most talked about target for limiting emissions. However, there is widespread agreement that we are currently on course for warming of 4°C or more. Global warming has numerous environmental and social consequences, including increased extreme weather events (heatwaves, torrential rainfall), droughts, tropical cyclones and extreme high tides. And while sea levels are not going to rise anywhere near as far and as fast in the film *The Day After Tomorrow*, millions of people living in low-lying coastal areas home to numerous cities could be displaced and agriculture could be severely impacted.

## PART I: THE CLIMATE REGIME AND ITS DISCONTENTS

### The international climate regime

The IPCC was founded in 1988 out of two UN bodies, and later given full status by a vote of the UN general assembly. Four years later in 1992, the United Nations Framework Convention on Climate Change (UNFCCC) was signed at the Rio 'Earth Summit'. The UNFCCC treaty set out a non-binding framework for future agreements between states, known as 'protocols'. While environmental movements had emerged in the 1960s, they had typically been quite local in scope, focussing on particular pollutants or facilities (such as DDT or nuclear plants). There would seem to be three factors in the fairly rapid rise of climate change from scientific model to global issue towards the end of the 1980s. The first was simply the timing of the scientific evidence, which only really began to mount in the late 1970s with the availability of satellite data. Closely related to this was the discovery of 'holes' in the Earth's protective ozone layer. This was in a sense a single issue in the vein of existing environmentalism with an immediate, easily conceived problem and a relatively straightforward solution: banning refrigerant CFC gasses which damaged the ozone layer.

The 1987 Montreal Protocol did just that, beginning to phase out ozone-depleting gasses within a relatively short time of the discovery of the problem. This was no doubt accelerated by the relative ease of switching to substitute gasses which saw the world's states overrule some objections by the industry, but it nonetheless contributed to a sense of optimism for global environmental co-operation. Indeed, Kofi Annan has described the Montreal Protocol as "perhaps the single most successful international agreement to date."[4]

The third factor, and perhaps the most decisive, was the particular geopolitical juncture at the end of the cold war. For most of the century, the world had been divided into rival territorial blocs, first the various empires and then the NATO, Warsaw Pact and non-aligned states. By 1992, it was again possible to conceive of a truly world market, and with it, *global* governance. The mounting scientific concern with climate change thus found a receptive audience, and the original Earth Summit must be understood in this context.

From 1995, annual negotiations began under the UNFCCC to agree a protocol to reduce global GHG emissions. The Protocol was adopted in December 1997 in Kyoto, Japan, but did not enter force until February 2005 when the signature of Russia met the threshold requirement. The Kyoto Protocol divided countries into industrialised and non-industrialised/industrialising countries, with the former agreeing to binding GHG emissions reductions averaging 5% against a 1990 baseline for the five-year commitment period 2008-2012. Significantly, the parties without binding commitments have included China and India, home to around a third of the world's population and, through rapid industrialisation, a growing percentage of global emissions. The International Energy Agency predicts global energy demand will increase 50% by 2030, with China and India accounting for nearly half of that increase. This is expected to correlate closely to increased $CO_2$ emissions.[5]

Inertial interests backed by big oil were the first to mobilise in opposition to Kyoto, financing expensive advertising campaigns and forming lobbying front groups to hype up the costs of mitigating climate change and question the science behind it. Figures were produced showing that action to mitigate climate change would cost the US between $800bn and $3.6tn by 2100.[6] It would be another decade before other factions of capital began to mobilise in favour of limiting GHG emissions (we will encounter these in due course). This mobilisation was quite influential: on the eve of the signing of the Kyoto Protocol in 1997, the US senate passed the Byrd-Hagel resolution opposing any treaty which imposed

[3] Worryingly this has already begun to happen, sooner than expected: bbc.co.uk/news/science-environment-18120093

[4] See: theozonehole.com/montreal.htm

[5] Dieter Helm (2008), 'Climate-change policy: why has so little been achieved?', *Oxford Review of Economic Policy*, vol. 24, no. 2, pp. 211-238.

[6] For comparison, the US bank bailouts cost $11.6tn over 19 months, suggesting the banking system is too big to fail but the climate system is not.

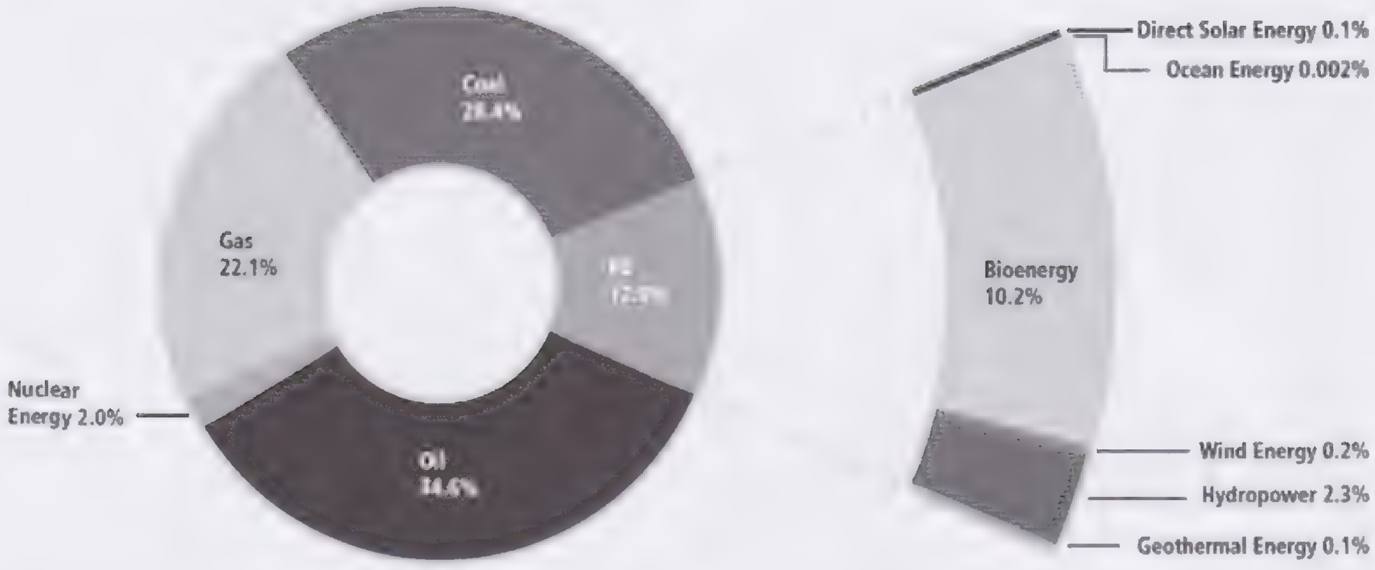


**Figure 1: Current world energy mix (IPCC SRREN Report 2011: srren.ipcc-wg3.de/report)**

obligations on the US not also placed on all other countries or which "would result in serious harm to the economy of the United States".[7]

With the formal withdrawal of the US from Kyoto in 2001, this meant the Protocol no longer included binding emissions caps on the US, and provided no targets for the fast-growing emitters India and China. Indeed, it only became operational in the first place after the EU horse-traded with Russia, including supporting their application for membership of the World Trade Organisation (WTO).[8] Russia's signature introduced a large volume of so-called "hot air" into the system, since Russia had *already* exceeded its Kyoto commitments by virtue of its economic contraction since the collapse of the USSR, and could thus sell its excess quota to other countries without any real net reductions in global GHG emissions.[9] Consequently, even if the Protocol had been fully implemented its targets have been described as "woefully inadequate to address climate change".[10] And of course, the protocol has not been fully implemented, and is now expiring without replacement.[11]

Thus, the subsequent evolution of the climate regime has put a dampener on the idea that the world was now entering a phase of rational global governance, unimpeded by rival national interests. Indeed the reality is the UNFCCC process reflects a careful balancing act; not resolving divergent interests but glossing over them.[12] Behind the hype of the Rio Earth Summit was old-fashioned realpolitik, a pattern which continues into Rio +20. Centrally, states have been unwilling to compromise economic growth for climate change mitigation. And this is not just true for the US. It has been noted that since the UNFCCC process began "the primary goal of China's policy has been to prevent the setting of emission targets from hampering its economic growth and modernisation".[13] Of course, economic growth is non-negotiable for capitalism and the states that operate within it.

**Approaches to the climate crisis**

The problem of climate change has given rise to various responses. The dominant one, enshrined in the Kyoto Protocol, is that of sustainable development: the proposition that capitalist accumulation and climate change mitigation can be reconciled, usually at minimal cost (1% of GDP is a figure oft cited). At the other end of the

[7] United States Senate (1997), 'Text of the Byrd-Hagel resolution': nationalcenter.org/KyotoSenate.html
[8] Helm (2008), p.212.
[9] Achim Brunnengräber (2007), 'The political economy of the Kyoto Protocol', in Leo Pantich and Colin Leys (eds.) *Socialist register 2007: coming to terms with nature*, London: Merlin Press, p.222.
[10] Peter Newell and Mike Paterson (2010), *Climate capitalism: global warming and the transformation of the global economy*, Cambridge: Cambridge University Press, p.147.
[11] The COP-17 in Durban in 2011 agreed to prepare an agreement by 2015, to enter in to force by 2020. As the text and contents have yet to be drafted, let alone agreed, it is unwise to take this kind of diplomatic manoeuvring at face value.
[12] Daniel Bodansky (2001), 'The history of the global climate change regime', in Urs Luterbacher and Detlef Sprinz (eds.) *International relations and global climate change*, London: MIT Press, p.34.
[13] Lichao He (2010), 'China's climate-change policy from Kyoto to Copenhagen: domestic needs and international aspirations', *Asian Perspective*, vol. 34, no. 3, p.9.

spectrum, various strands of ecological Marxism argue that capitalism's inability to respond to impending catastrophic climate change bolsters the case for its revolutionary overthrow as a matter of urgency. A third perspective, which we'll call 'green capitalism',[14] argues that capitalism will need to make major changes in order to deal with climate change, but that it is possible for this to happen. We have used this taxonomy to simplify the presentation of a vast range of perspectives as much as anything else. A comprehensive account would require a much longer article in its own right – what follows should be taken as a point of departure.

**Sustainable development**

Sustainable development has become a mantra so often heard it's hard to discern its meaning. In truth, this explains its political utility: everyone can agree on sustainable development, without ever having to agree what that actually means in practice. Indeed one literature review found that there are several hundred alternative definitions in use.[15] That said, we can certainly identify some recurring themes, including an emphasis on market-based mechanisms, the creation of new property rights and optimism with regard to technological fixes. Consequently, advocates of sustainable development tend to deny there is any contradiction between capital accumulation and ecological sustainability. For instance the UK government's 2006 Stern Report writes that:

> The world does not need to choose between averting climate change and promoting growth and development. Changes in technologies and in the structure of economies have created opportunities to decouple growth from greenhouse gas emissions. Indeed ignoring climate change will eventually damage economic growth.[16]

A central plank of this approach is the creation of new property rights in emissions combined with a market to trade in these rights. The theory is, by creating tradable credits in GHG emissions, and then rationing them, firms have an incentive to reduce their emissions as they can profit from selling their surplus emissions credits. In principle, these credits can also form the basis of derivatives markets. Pre-credit crunch, we found one advocate of emissions trading holding up the bundled fixed income mortgage derivatives market as the exemplary model![17] Post-2007, few are advocating the banking system as a model for the climate.

However, emissions trading schemes are forging ahead. The flagship example is the EU Emissions Trading Scheme (EU ETS), which covers 10,000 installations collectively responsible for 40% of the EU's GHG emissions. The scheme has been controversial, dogged by allegations of over-allocation of credits, price volatility and in 2011 a €30m cyber-theft of emissions credits from several national accounts. Supporters of the scheme have argued that these are mere teething problems, and that better regulation and a greater reliance on auctioning credits rather than simply allocating them will start to result in emissions reductions in later phases of the scheme.

As an alternative or supplement to emissions trading, advocates of sustainable development also often advocate 'carbon taxes', with a similar rationale of attaching financial costs to emissions and thus giving firms an incentive to reduce their carbon footprints. These are even more in their infancy, although at a rough count around 20 countries have some form of carbon tax in place. Finally, there is usually some reliance on technological fixes to keep the costs of 'decoupling' the economy from GHG emissions low.[18] In particular, Carbon Capture and Storage (CCS) technology features heavily. The UK has even built new, heavily emitting coal power plants with empty rooms for CCS technology when it's invented, thus claiming the expansion of coal power as 'green investment'. However, the technology is said to be a decade off deployment, is likely to be highly costly, and there are enduring doubts about how and where to safely store millions of tons of captured GHGs. When noted advocate of sustainable development Jeffrey Sachs admits that "if CCS proves highly costly and unreliable, our options will be much worse"[19], sustainable development begins to look like a

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[14] Although we will drop the scare quotes, we do not use this term uncritically. 'Green capitalism', focussed myopically on climate change, may well be ecologically damaging in numerous other ways whilst still reducing GHG emissions. Similarly, it will likely prove socially regressive in ways we will explore towards the end of this article.

[15] Anil Markyanda and Kirsten Halsnaes (2002), 'Climate change and sustainable development: an overview', in Anil Markyanda and Kirsten Halsnaes (eds.), *Climate change and sustainable development: prospects for developing countries*, London: Earthscan Publications, p.2.

[16] Nicholas Stern (2006), *The economics of climate change: the Stern Review*, Cambridge: Cambridge University Press, p.xvii.

[17] See Richard L Sandor, Eric C Bettelheim and Ian Richard Swingland (2003), 'An overview of a free-market approach to climate change and conservation', in Ian Richard Swingland (ed.), *Capturing carbon and conserving biodiversity: the market approach*, London: Earthscan, p.59.

[18] For a critical guide to climate change technologies see: Corporate Watch (2008) 'Techno-fixes: a critical guide to climate change technologies', Oxford: Corporate Watch Report: corporatewatch.org.uk/?lid=3126

[19] Jeffrey Sachs (2008), *Common wealth: economics for a crowded planet*, London: Penguin Books, p.111.

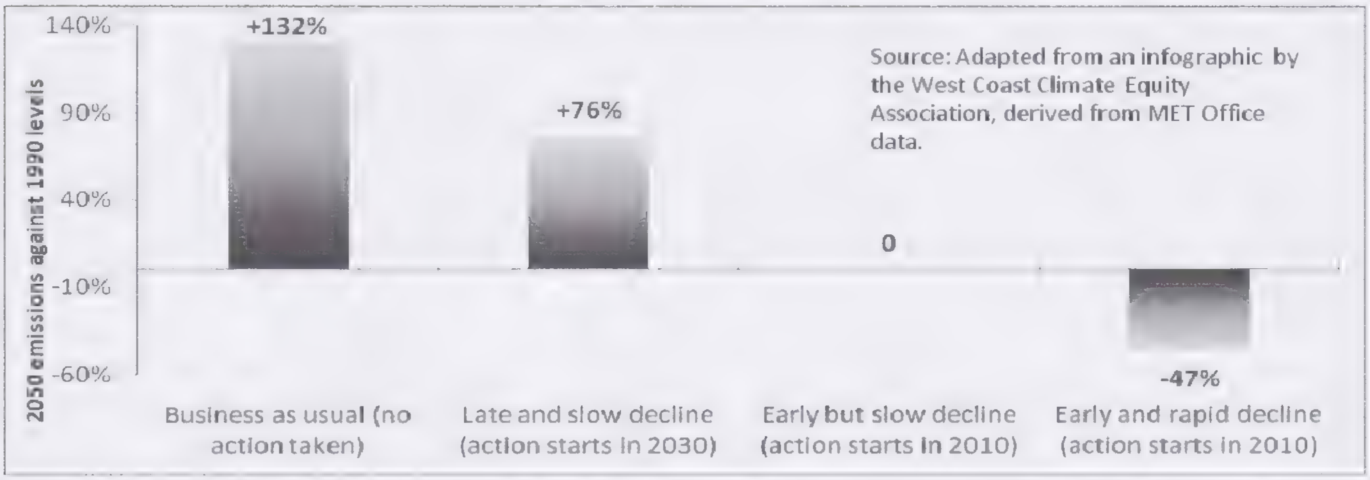


**Figure 2: Projected world greenhouse gas emissions for 2050 under four scenarios against a 1990 baseline.**

mantra without content serving as a fig leaf for a business as usual trajectory.

**Marxist ecology**

Marxist ecology arguably begins with Marx himself, who made detailed notes on how the developing divide between town and country was draining the soil of nutrients, necessitating the import of fertilisers (initially guano, later synthetic organophosphates). These notebooks have been the inspiration for more recent accounts to which we'll turn in a moment. But aside from Marx himself, ecological Marxism has one of its earliest proponents in Amadeo Bordiga, who in the 1960s wrote numerous pieces on the relationship between capitalism and the environment, some of which are only just appearing in English.[20] However, Bordiga's analysis, while an early and important contribution to Marxist ecology, is also rather simplistic, focussing on how capital's relentless drive for profit creates 'natural' disasters and unsustainable urban concentrations. While this analysis is important, a focus on capital's imperative to accumulate at all costs can only take us so far. There are also certainly counter-examples of ecocidal tendencies being curbed by state action, including the aforementioned Montreal Protocol. Bordiga lived before anthropogenic climate change was recognised, and his writings on environmental disasters and the unsustainability of cities have only indirect bearing on it.

In 1972 James O'Connor proposed that the relationship between capitalism and the environment constituted a 'second contradiction', in addition to the first contradiction of traditional Marxism between the forces and relations together. O'Connor argued that the forces and relations combined came into contradiction with the conditions of production – the natural and social environment that made capitalist accumulation possible. For O'Connor, just as the first contradiction gave rise to class conflicts, the second gave rise to a 'rebellion of nature' via the formation of new social movements. This seems like a reasonable account of how struggles against (for example) local industrial pollution relate to capitalism and can contain anti-capitalist potential. In this sense, there's a resonance with Bordiga's stress on capital's pursuit of "filthy lucre" driving it to ecological destruction. O'Connor adds that just like capital's exploitation of labour power forms the basis for the class struggle, so too does capital's destruction of nature give rise to new social movements.

However, when it comes to climate change, this theory tends to break down. Climate change is, by definition, a global issue. The places where its effects are most keenly felt – such as low-lying Pacific islands - are far removed from those places causing the climate change – heavily industrialised regions of the developed and developing world. Accordingly, concerns over climate change have largely not expressed themselves as a social movement – attempts such as climate camp aside – but via geopolitics, with states forming negotiating blocs based on their shared interests (for example the Alliance of Small Island States, AOSIS, the rapidly industrialising states of BASIC[21] and so on). An attempt to directly theorise climate change has come in the form of the theorists of the 'ecological rift',

[20] See Amadeo Bordiga, 'The legend of the Piave': libcom.org/library/legend-piave-bordiga; 'The human species and the Earth's crust': libcom.org/library/human-species-earths-crust-amadeo-bordiga and Antagonism, *Murdering the dead: Amadeo Bordiga on capitalism and other disasters*: libcom.org/library/murdering-dead-amadeo-bordiga-capitalism-other-disasters-antagonism

[21] Brazil, South Africa, India and China. A major bloc that has played a major role in the recent talks, opposing binding limits on emissions which are seen to hamper industrialisation and economic development.

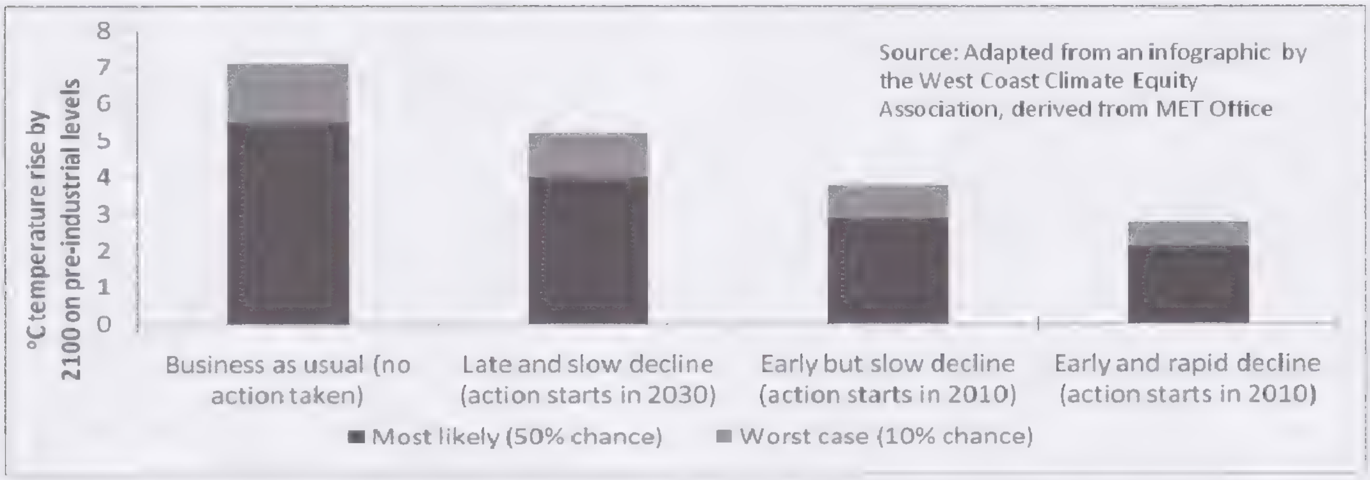


**Figure 3: Global temperature rises by 2100 under the same four scenarios as Figure 2, against pre-industrial levels. +2°C is acknowledged as the level above which climate change becomes 'dangerous' as positive feedback effects may begin to engage.**

particularly John Bellamy Foster. The theory argues that "given the logic of capital and its basic operations, the rift in the carbon cycle and global climate change are intrinsically tied to capitalism."[22] Therefore, there is an "absolute general law of environmental degradation under capitalism."[23] We will consider the merits of this position in part II, but first we will briefly survey the various proponents of a green capitalism.

## Green capitalism

Green capitalism represents a 'reformist' position rather than the revolutionary ecological Marxist one. Whereas Marxists trace the problem to capitalism and call for its revolutionary overthrow, many advocates of green capitalism have specifically put forward pragmatic proposals to save capitalism from itself. For example, Newell and Paterson's book *Climate Capitalism*[24] starts from an explicit diagnosis that capitalism's drive for growth is the problem, but then reasons that since we're stuck with it, they must come up with ways in which capitalism can be transformed to profit from a transition away from fossil fuels. But while politically this position is not a revolutionary one, it necessarily examines closely the possibilities of capitalism transforming itself to address climate change in a way which the Marxist positions, convinced that capitalism and climate change are inseparable, do not. So while we do not share the aim of saving capitalism from itself, we do find it worthy of serious consideration - not least because its starting point is already-existing tendencies and interest bases within capitalism that are pushing in a greener direction. A discussion of the potential for these tendencies to become dominant will form the basis of part II; here we will briefly sketch out some of the common features of green capitalist thinking.

Newell and Paterson's approach is to identify existing interest-bases within capitalism today, and to propose ways in which their interests could become aligned with a decoupling of capital accumulation from fossil fuels. Central to their account is finance capital, identified as both the most powerful section of capital under the neoliberal regime, and also the least bound up with fossil fuels. Here, they prescribe an expansion of emissions trading schemes, including derivative markets, to create the financial (dis)incentives for emissions. Essentially, this would shift the costs onto emissions-intensive manufacturing, agriculture, energy and transport sectors whilst creating vast new markets for financial capital. The problem here is whether this would actually contribute to new accumulation, or simply redistribute surplus value to financial capital from the more emissions-intensive sectors. Alone, we would say the latter, but potentially the shift to renewable energy, retrofitting transport infrastructure, insulating homes etc. which would be required to sustain such a regime may open up new areas for productive investment too.

Struggles are not completely absent from Newell and Paterson's account, only they are seen as giving capitalism the 'push' it needs to enact the reforms to save it from itself. An analogy is drawn with the labour movement: "many union activists in the 1930s wanted to abolish

[22] John Bellamy Foster, Brett Clark and Richard York (2010), *The ecological rift: capitalism's war on the Earth*, New York: Monthly Review Press, p.138.
[23] Foster, Clark and York (2010) p.207-211, emphasis added.
[24] Newell and Paterson (2010).

capitalism, but in practice contributed to a better-regulated and more successful version of it."[25]

Here, it is worth noting the 'green Keynesian' policies of the UK Green party.[26] These have thus far been voices in the wilderness, but the underlying argument is similar: "working towards a stringent target will make the UK well-placed to adapt to the tightening of global emissions limits which are likely to occur over the next few decades."[27] Essentially, the argument is that capitalism will need to shift away from fossil fuels sooner or later; sooner is both better for the environment and puts the national economy at a competitive advantage in developing and deploying the technologies that will become central to future accumulation. In policy terms, this translates into an advocacy of the creation of a million jobs, via a multi-billion pound package of investment in renewables, public transport, insulation, social housing, waste management and retraining.[28]

While it's easy to dismiss this as the promises of a party nowhere near power, who know full well they won't have to make good on them, similar measures have actually already been implemented on the quiet by the Obama government. A $9bn grant programme known as the '1603' supported up to 75,000 jobs over three years, although the programme lapsed in 2011 after failing to clear congress.[29] Thus we cannot dismiss outright the viability of such proposals for a green(er) capitalism, which may represent a latent mode of regulating capitalism whose time has not yet come. We will explore the prospects for this in part II, but we would sympathise with libertarian Marxist critics who argue that the climate crisis is both a threat to capitalism and a potential opportunity to kick-start new areas of accumulation and new forms of regulation.[30]

## PART II: PROSPECTS FOR DECOUPLING

**Barriers and prospects for a green(er) capitalism**

Following on from our discussion in part I above, the first question we need to confront is the possibility of a green capitalism versus the criticisms from ecological Marxism which argue such a capitalism is an *a priori* impossibility. Newell and Paterson pose the problem clearly:

> The origins of climate change are deeply rooted in the development of the global capitalist economy (...) a lack of growth is something that the capitalist system in which we live simply cannot tolerate – it would collapse as a system. So the challenge of climate change means, in effect, abandoning capitalism, or seeking to find a way for it to grow while gradually replacing coal, oil and gas.[31]

They come out in favour of the latter on pragmatic grounds. So what about the claim that this is impossible? In energy terms, Elmar Altvater has argued that capitalism and fossil fuels are so mutually dependent that he speaks of 'fossil capitalism'.[32] For Altvater, the growth rates capitalism has come to expect are simply impossible without the high energy return on energy invested (EROEI) unique to fossil fuels. Whilst certainly fossil fuels have provided cheap energy for capitalism, and remain cheaper than alternatives, we would question this kind of argument on two grounds: historical and theoretical. Historically, capitalism arose in the age of renewable energy. The industrial revolution was initially water-powered, with coal and steam power only becoming dominant later. And capitalist social relations emerged in the countryside, where the dominant forms of energy beyond human labour and animal power were windmills and timber. So historically, capitalist social relations emerged prior to fossil fuels playing a major role. And theoretically, we can certainly conceive of production lines or call centres powered by renewables. They already exist in fact. And again, these are capitalist social relations.

Fossil fuels may well boost growth rates, but that's not the same thing as being indispensible. Rather we would argue capitalism has exploited the abundant cheap energy of fossil fuels just like it exploits everything else when it is profitable to do so, be it natural or social in origin. But that capitalist growth and fossil fuel usage have been *historically* closely linked does not mean this link is a *necessary* one. A related argument is that any decoupling of economic growth from emissions will lead to economic collapse. Andrew McKillop, writing in the apocalyptically-titled 'Final Energy

[25] Newell and Paterson (2010), p.180.

[26] The Green party favour 'contraction and convergence' over 'cap-and-trade' (ETS); but the history of Green parties in power is one of accommodation to the market.

[27] See: policy.greenparty.org.uk/cc

[28] See: greenparty.org.uk/policies.html

[29] See Alex Guillen, 'DOE: Renewable grant program was a big jobs creator', Politico: politico.com/news/stories/0412/74916.html

[30] See Tadzio Mueller and Alexis Passadakis (2011), *Another capitalism is possible? From world economic crisis to green capitalism*, in Kolya Abramsky (ed.), Sparking a worldwide energy revolution: social struggles in the transition to a post-petrol world, Edinburgh: AK Press.

[31] Newell and Paterson (2010), p.9.

[32] Elmar Altvater (2007), 'The social and natural environment of fossil capitalism', in Leo Pantich and Colin Leys (eds.), *Socialist register 2007: coming to terms with nature*, London: Merlin Press.

Crisis' is adamant that: "energy 'decoupling,' for any length of time, is totally impossible without economic slump and mass unemployment."[33] But this seems to assume that renewable energy will not just be more expensive, but so expensive so as to render renewed accumulation impossible. Certainly, a rapid shift from cheaper fossil fuels to more expensive alternatives would constitute a massive economic shock. But the assumptions underlying this claim; the pace of this transition, the relative prices of fossil vs renewable energy, and the inability of capital to impose the costs of this transition onto the proletariat are very much open to question. Indeed the long-run cost of fossil fuels is only going to rise with increasing demand and squeezed supplies, while renewables are becoming more competitive. In fact Scotland already produces 35% of its electricity from renewables, and while venture capitalist Donald Trump has gone on a £1bn capital strike, his objection is principally aesthetic (a planned wind farm is near his luxury golf course development), with dubious arguments about 'economic suicide' being tacked on afterwards.[34]

While high-profile billionaires like Trump grab headlines, a growing number of individual capitalists and major firms have been emerging to push hard for a transition away from fossil fuels – on the grounds that it is the future of capital accumulation. In an open letter to President Obama, the 'We can lead' coalition wrote that:

> Putting a price on carbon will drive investment into cost-saving, energy-saving technologies, and will create the next wave of jobs in the new energy economy. Climate and energy legislation that caps carbon and supports clean energy will keep inventions here, keep innovative companies here, and keep the newly-created jobs in engineering, manufacturing and installation here in the US.[35]

Signatories included eBay, Hewlett Packard, Nike, Symantec, Starbucks and the national grid. While this might be dismissed as greenwash, a mere public relations exercise, there is a logic to the argument. Namely, there is money to be made by legislation targeting GHG emissions. This will force firms to either invest in emissions reduction technology, or make substitutes such as renewables more competitive and thus drive investment in those sectors. And retrofitting the economy for renewables would require huge amounts of production. The signatories, as mainly tech, service or energy infrastructure firms are not heavily invested in fossil fuels in the way other sections of capital are (e.g. big oil), and so they could well be sincere. Similarly, the Corporate Leaders Group on Climate Change[36] has issued communiqués at each of the COP summits in recent years. The 2007 'Bali Communiqué' stated explicitly that "in summary, we believe that tackling climate change is the pro-growth strategy", and subsequent communiqués have garnered over 1,000 signatures from major business figures and corporate CEOs.[37]

We have already encountered the EU Emissions Trading Scheme, which despite its failings is expected to deliver a 21% reduction in emissions from participating facilities on 2005 levels by 2020.[38] There is a developing derivatives market, which while relatively small, will only grow if the scheme becomes established as a permanent feature of European capitalism. The business literature here is mainly concerned with whether ETS derivatives will behave like pure financial products, or whether the closer involvement of the state in setting quotas will change the market dynamics, as well as what mechanism will be used to introduce scarcity into the market. But as these uncertainties recede, investment is likely to increase. After all, capital will flow to where the returns are, and an ever-reducing emissions quota would more or less guarantee inflationary scarcity for investors in ETS derivatives.[39]

There is also the Trans-Mediterranean Renewable Energy Co-operation (TREC), a project which aims to build solar generation facilities in the north African desert and pipe the electricity to Europe using high-voltage DC cables suited to long-distance transmission. The scheme began life as the brainchild of the Club of Rome, but has attracted some serious backers with 12 firms

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33 McKillop, A. (2005) 'The myth of decoupling', in McKillop, A. & Newman, S. (eds), *The final energy crisis*, London: Pluto Press, p.199.

34 For the 35% figure see: scotland.gov.uk/News/Releases/2012/03/geenenergytargets29032012 and for Donald Trump's capital strike see: bbc.co.uk/news/uk-scotland-north-east-orkney-shetland-17706763

35 See 'Open letter to President Obama and Congress': wecanlead.org/ad0623.html

36 A lobby group of business leaders from energy producers, manufacturers, banks, retailers, utilities and others, mainly from the UK, EU. See: cpsl.cam.ac.uk/Leaders-Groups/The-Prince-of-Wales-Corporate-Leaders-Group-on-Climate-Change.aspx

37 See 'Communiqués': cpsl.cam.ac.uk/Leaders-Groups/The-Prince-of-Wales-Corporate-Leaders-Group-on-Climate-Change/Communiques.aspx

38 There are numerous criticisms to be made of emissions trading from both ecological and communist perspectives, but here our focus is on the way in which they have the potential to align capitalist imperatives with decoupling accumulation from emissions.

39 However on the present over supply of emissions permits, see 'EU ETS emissions down in 2011, permit glut grows': reuters.com/article/2012/05/15/eu-carbon-idUSL5E8GF83X20120515

signing a memorandum of understanding in July 2009. Signatories included Munich Re, Siemens, E.ON and Deutsche Bank.[40] China, whose rapid industrialisation is fuelled largely by coal, has also become a world leading manufacturer of wind turbines, solar panels and electric cars, and so has a developing interest in climate change policies which will promote a transition from fossil fuels (outside China at least).[41] In short, *green capitalism already exists as a sector within the wider capitalist economy.* Whether its backers will outmanoeuvre the interests of the fossil capitalists is an open question, but it is important to note the interests of different sections of capital are not identical with regard to fossil fuels, and that there are significant interests lining up behind decoupling accumulation from emissions. Should these forces gain ascendancy, they may well impose the costs of a transition onto 'fossil capital' and/or the proletariat and capture a redistribution and any expanded production of surplus value for themselves.[42]

This leaves the geopolitical problem. While the above analysis shows that decoupling makes possible *absolute* gains in terms of new opportunities for accumulation, geopolitics tends to operate on the basis of *relative* gains. That is to say states may be punished by acting early, e.g. by capital flight or through absorbing the R&D costs which other states then 'free ride' on. This is often conceptualised as a version of the prisoners' dilemma, where the optimum solution is frustrated by the isolated position of the agents, for whom 'cheating' is just too tempting. But this is not entirely accurate. The prisoners' dilemma is highly abstracted and incorporates several assumptions not applicable in the case of climate change. In particular, the world's states are not acting in isolation and being played off against one another, but are in constant communication and have been holding annual negotiations under the UNFCCC process. Rather than the nature of the game, it is the diverging national interests of the players which are most responsible for the UNFCCC deadlock. Simply put, some states face climate change as an immediate threat (AOSIS), while others are heavily invested in fossil fuels to sustain their economies (US) or rapidly industrialise (BASIC), and yet others have already exported many of their dirtiest industries and are pushing hard for emissions trading (EU).

This explanation does not get rid of the relative gains problem, but it does cast it in a new light. The UNFCCC process was premised on a post-national multilateralism which flourished following the end of the cold war. The vision was of rational, technocratic global governance where states set aside mere national interests for the common good in the face of overwhelming scientific evidence. But in practice the UNFCCC process been dominated by competing, divergent national interests which have continually frustrated attempts at a binding global emissions regime. It seems utopian to think such a process could lead to a durable, binding emissions regime any more than the League of Nations could lead to a durable, lasting world peace. However, neither are national interests fixed and without history. They are bound up with capitalist development, and capitalist development is a contradictory and uneven process. We have already encountered significant sectors of capital aligning with an emerging green capitalism, and the same is true at the state level.

Scotland plans to produce 100% of its electricity from renewables by 2020, and then become a net exporter to England. Denmark plans something similar by 2050. The EU has pushed ahead with its ET scheme despite international opposition and significant criticism. At a sub-national level, several major US states have pushed ahead with their own ET schemes despite federal policy, notably California, the eighth largest economy in the world. These states have faced some first-mover penalties – witness Donald Trump's capital strike – but there's no guarantee these will derail a shift to renewables. Essentially, these states are gambling that decoupling is the future, and positioning themselves ahead of the pack. If they turn out to be right, first-mover penalties could turn into first-mover advantages as states compete to deploy new technologies and retrofit their infrastructure. *What is emerging is a struggle for supremacy between the dominant fossil capitalists and the emerging green capitalists.* This struggle is playing out at the domestic level over energy policy (witness the well-funded astroturf opposition to wind farms[43]), and at an international level through the wrangling of the UNFCCC process and the WTO.

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[40] See Munich Re, 'Desert power initiative: an electrifying vision for Europe': munichre.com/en/group/focus/climate_change/desert_power/desert_energy_initiative/default.aspx

[41] See Du Juan, 'Solar Industry 12th Five-Year Plan issued': china.org.cn/business/2012-02/25/content_24728487.htm; John Landers, 'China's road to solar panel manufacturing dominance': energytrend.com/China_Solar_Dominance_20111017 and Will Oremus, 'Solar Disarray': http://slate.me/KhLVZJ

[42] This line of argument could constitute a fallacy of composition, but only if it could be demonstrated why fossil fuels are indispensible to capitalist social relations.

[43] Donald Trump has promised £10m to fund 'grassrooots' anti-wind farm groups. We're not disputing here that there can be negative environmental impacts to wind farms, but simply pointing out that residents and environmentalists concerns are becoming pawns in a larger intra-capitalist political battle.

**Factors in the emergence of green capitalism**

In light of the internecine power struggle between 'fossil' and 'green' capitalists, we can identify five key factors in determining the outcome: (1) rising energy prices; (2) energy security and the geopolitics of the Middle East; (3) possible future international agreements; (4) the durability and rigidity of the neoliberal trade regime, and; (5) the duration and severity of the ongoing economic crisis. In addition there may be additional contingent factors, such as extreme weather events in the oil heartlands of Texas or droughts in China focussing the minds of particular ruling classes.[44] We will take each of these in turn. These factors could interact in numerous ways, and our discussion is necessarily somewhat speculative. However, we hope it gives a sense of certain possibilities which are easy to overlook in the headline appearance of capitalism hurtling headlong into climate chaos.

*Rising energy prices*. The only direction fossil energy prices are going in the medium term is up. Demand is increasing rapidly and supply is finite and will peak soon if it hasn't already. However, this is a double-edged sword from a climate change point of view. On the one hand, rising energy costs make renewable more competitive. As fossil fuels approach and overtake the costs of renewable energy, capital is likely to flow into renewable, further stimulating supply and technological development, further lowering costs. This is even without state intervention, e.g. through emissions trading or carbon taxes, which would further raise the cost of fossil energy relative to renewables. On the other hand, rising costs make previously uneconomic reserves of fossil fuels viable by raising the possible returns relative to costs of extraction. This has the effect of stimulating investment in fossil fuels to expand supply. The most striking example of this is the exploitation of bituminous sands (a.k.a. tar sands), difficult and expensive to extract petroleum deposits which have become commercially viable with rising oil prices.[45]

Other non-conventional fossil fuels include oil shale, which actually has a worse environmental impact than crude oil, and the controversial development of hydraulic fracturing (a.k.a. fracking) to exploit shale gas and coal seam gas deposits. Fracking too is actually worse for emissions than conventional sources, as there is significant leakage of methane, a major greenhouse gas. But rising energy prices are also central to the viability of renewables, and the large scale deployment of wind farms, as well as more ambitious projects like the TREC are unthinkable without them. In the UK, renewables are already effectively subsidised by consumers to the tune of 2p per person per day via the government's Renewables Obligation, which mandates energy firms to source an annually increasing percentage of their output from renewables. Rising fossil energy costs will either reduce the need for the subsidy, or make the same amount of money go further. Thus rising energy costs on their own (i.e. without some kind of carbon pricing) are benefiting both sides of the fossil vs green capital divide.[46]

*Energy security and the geopolitics of the Middle East*. Fossil fuels don't just have an economic and environmental cost, but also a political and military cost. And while statesmen are wont to dismiss environmental concerns as the domain of tree-hugging hippies, energy security concerns register as hard-headed realpolitik. Since 9/11, the US has become increasingly and expensively embroiled in conflicts in Afghanistan and Iraq, with the perennial spectre of war with Iran and the associated disruption to the Strait of Hormuz, a strategic choke point in Middle East oil exports. There are numerous scenarios under which US ruling class sentiments could shift towards cutting loose from the Middle East on the grounds of energy security. Conflict with Iran is one, although this is largely within US planners control – insofar as these things ever are – since Iran is unlikely to deliberately start a shooting war. However, a proxy war may be more likely, for example with Israel striking Iran's nuclear facilities and/or a conflict involving Sunni fundamentalist Saudi Arabia with Shia fundamentalist Iran. Any such proxy war would likely see the US sucked in by default, and any disruption to energy supplies could be a boon to those pushing for more energy self-sufficiency as

[44] Climate and weather are distinct phenomena; however studies have suggested weather events are the single most important factor in sceptics' perceptions of climate change. See Bill Blakemore, 'Climate change 'swing voters' affected by weather, not denialists, says analyst': http://abcn.ws/LjisJa; On the impact of the 'Black Saturday' bush fires in Australia on climate policy see Richard Flanagan, 'Australia's carbon tax is a brave start by a government still gripped by fear', Comment is Free: guardian.co.uk/commentisfree/2011/jul/10/australia-carbon-tax-modest-beginning

[45] On the growth of the shale oil industry see Izabella Kaminska, 'Saudi oil puzzle, continued', *Financial Times* alphaville blog: ftalphaville.ft.com/blog/2012/04/25/973651/saudi-oil-puzzle-continued; On China's possible expansion of shale gas and methane see *China GreenTech Report 2012*: ukmediacentre.pwc.com/Media-Library/China-GreenTech-Report-2012-87d.aspx and for a photo essay on the Alberta tar sands see Robert Johnson, 'Canadian oil sands flyover': businessinsider.com/canadian-oil-sands-flyover-2012-5

[46] There is also a battle to end fossil fuel subsidies in the US, with the End Polluter Welfare Act being introduced into Congress. See Gina-Marie Cheeseman, Bill to end fossil fuel subsidies introduced into Congress: triplepundit.com/2012/05/bill-fossil-fuel-subsidies-introduced-congress

a means to withdraw from global policing operations.

Further scenarios could involve unforeseen energy shocks. A repeat of the OPEC oil embargos of the 1970s may not be on the cards, but other supply disruptions could have an impact on the thinking of state planners. Likewise, the US's global network of military bases must be incredibly expensive to maintain.[47] The US isn't going to step down as an imperial power, but if the green capitalists gain ground domestically the prospect of scaling back the overseas presence and ploughing the cash into renewables instead might gain traction. In itself, this doesn't seem particularly likely, but in conjunction with one or more of the other factors, from regional conflicts and oil shocks to rising energy prices, the energy security argument for weaning off Middle East oil may fall on more favourable ears. Of course, that could just mean an increase in domestic unconventional fossil fuel exploitation, such as the Alaska tar sands. Numerous contingent variables are in play.

*Possible future international agreements.* As we have seen, the UNFCCC process has not resulted in a successor regime to Kyoto, and Kyoto itself failed in its relatively modest aims amidst a divergence of national interests. In theory, the Conference of the Parties (COP) agreed at the COP-17 in Durban in 2011 to a binding emissions regime whose terms would be agreed by 2015 to enter into force in 2020. There are good reasons to be sceptical. Essentially, the parties couldn't agree, so thrashed out a face-saving agreement which essentially amounts to 'we agree to agree on something we've yet to agree on by 2015.' There's no reason to believe the underlying conflicts of interest will have disappeared by 2015 or 2020. Or is there? While the likelihood may be slim, there are some grounds for thinking a binding emissions regime could be agreed. There are numerous factors here, perhaps most importantly the contradictory position of China. China has consistently opposed binding limits on its emissions as it pursues rapid, coal-powered industrialisation. However, it has also become a world-leading manufacturer of wind turbines and electric cars. It is possible, indeed highly likely that China is playing a long game. Dirty industrialisation has been fuelling rapid economic growth and the development of a domestic consumer market. Increasingly, we are told on the pages of the *Economist*, all those consumers are wanting cars, and televisions, and so on (and bear in mind it will be easier to mass market electric cars when the pre-existing oil-based infrastructure is far less developed than the US).

[47] Nobody seems to know how many there are; estimates range from 500 to 1,000+.

If China is indeed trying to emulate the western developmental model condensed into several decades, the next step would be to outsource its manufacturing to its periphery and develop a post-industrial service economy.[48] While from an ecological point of view where emissions take place is irrelevant, from a geopolitical point of view it is crucial: it would align China's interests more with the EU, and outsource emissions to geopolitically weaker states with less muscle in international negotiations. This is by no means certain, but it is one scenario. Similarly in the US, if the green capitalists are ascendant, US climate policy may begin to shift. Remember, there are already regional emissions trading schemes. There would seem to be the potential – but only the potential – of an emerging constellation of interests amongst several of the key players which may give rise to a successor to Kyoto. If that's the case, it would set the rules of the game for everybody and tip the balance in favour of an emerging green capitalism.

*The durability and rigidity of the neoliberal trade regime.* Climate change regulations are likely to come into conflict with free trade rules banning discrimination against imports. The most high-profile case to-date is China's dispute with the EU over the ETS (India, the US and numerous other states have also registered objections). China has banned its airlines from passing on the costs of the ETS onto consumers, which will mean a big dent in the profit margins if not loss-making for Chinese carriers operating routes into EU airspace. There is already been talk of trade wars, but a more likely scenario would be China taking the EU to the WTO claiming discriminatory trade practices. China could argue the scheme discriminates against long-distance operators. The EU could argue the same rules apply to everyone in EU airspace. And the WTO could conceivably rule either way.

The case will prove a big test for the WTO's claims to green credentials, and will be an indicator of whether neoliberalism is likely to adapt to the imperatives of climate change or dig in its heels. There are likely to be other disputes of this kind, as all sorts of climate change policies from carbon taxes to renewables subsidies could be construed as discriminatory trade practices. For example, the US recently introduced 30% tariffs on Chinese solar panel imports, after

[48] This is unlikely to happen in a timescale short enough to impact climate change, but the goal is likely to shape long-term Chinese planning. And there are some signs of this trajectory; Chinese outbound foreign direct investment (FDI) increased *fourteen-fold* between 2003 and 2008, and continued to grow in 2009. Most FDI is concentrated in manufacturing, textiles and machinery sectors. See Lucian Cernat and Kay Parplies, 'Chinese foreign direct investment: What's happening behind the headlines?': voxeu.org/index.php?q=node/5301

China's strategic investment in the sector drove down costs by 75% in just 3 years to 2012.[49] The question is whether the neoliberal regime begins to give way to a more active role for states in climate-related issues, or whether it seeks to ban climate change policies. If it i the latter, and the EU (or whichever state is being sued) refuses to back down, it could lead to a splintering of the WTO regime so painstakingly assembled over the past decades. For that reason, some accommodation to climate change seems the most likely, probably in a compromise allowing the EU to require credits for emissions over its own airspace but not beyond as at present.

*The duration and severity of the ongoing economic crisis.* Finally, the present economic crisis could prove crucial. The longer it rumbles on without a return to economic growth, and the greater the social conflicts austerity provokes, the more chance of hitherto marginalised ideas coming in from the wilderness. The neoliberal policies which have dominated capitalism for the past few decades began life as lonely criticisms of Keynesian orthodoxy in the University of Chicago economics department. One test run in Pinochet's Chile and a crisis of Keynesian accumulation later, and they were catapulted into the ruling ideas and have remained there ever since. The longer the present crisis rumbles on, the more chance the ruling class start to 'think outside the box', and the prospect of stimulating renewed accumulation through investment in renewables or other climate change related sectors could start to appeal. Indeed, even the arch neoliberal, Jeffrey Sachs, argues that "markets alone will not carry us to safety."[50] Some analysts have suggested the China-India energy partnership could prove highly profitable in renewables co-operation.[51]

But while the present crisis may open the door to a more activist state role in the economy, possibly in support of an emerging green capitalism, it should also give us reasons to be cautious. Green capitalism is still capitalism. Capitalism is still a system of class exploitation that will seek to impose its costs of restructuring onto the proletariat. That remains so even if it manages to stop itself destroying the planet. Consequently, while green capitalism may be 'progressive' from an ecological point of view, that doesn't mean it will be good for us in any other way. In fact, it is likely much of the costs of transition will be passed onto us, most likely as consumers through rising costs, and in a context of widespread wage freezes, falling standards of living. Even the creation of 'green jobs' would take place in this context – if the jobs were even paid at all, which is by no means a given with the current expansion of workfare schemes.

## CONCLUSIONS

Green capitalism already exists as a sector within the global capitalist economy. Renewable energy is already big business, and is expanding rapidly. The question is whether this sector will move from the margins to the centre of world accumulation, playing a role in the twenty-first century analogous to that of the motor car in the twentieth, and whether this will happen soon enough to prevent runaway climate change or alongside it. The various Emissions Trading schemes, if they overcome their teething problems could establish themselves as a central mechanism in such a transition. This, certainly, is a theoretical possibility. Whether it is also a practical possibility depends on the outcome of the numerous contingent factors, geopolitical manoeuvrings and internecine struggles amongst capitalists which we have sketched out in this article. These battles seem unlikely to be resolved fast enough to avert serious global warming of 4°C or more (the 'early but slow decline' scenario from Figure 3, somewhat delayed).

Even if capitalism moves towards addressing the climate crisis, from a working class perspective this is a double-edged sword. Indeed, it is likely that any capitalist solution to climate change will displace the ecological crisis into a social one. The costs of reorienting global capital accumulation away from fossil fuels grow by the day. Should capitalism move in this direction, it is inevitable that capital will attempt to impose the costs of this transition onto the proletariat, whether through inadequate adaptation measures leading to population displacements or through 'green austerity'. Indeed, we can imagine an army of unpaid workfare labour installing insulation in every home being a far easier 'sell' than forced labour for Tesco.

Even a crisis as serious as climate change does not produce a unity of interests between capital and proletariat, and the possibility of a green capitalism is not a substitute for class struggle. But neither should we underestimate the flexibility of capital to restructure itself in response to crises and to open up new areas of accumulation. Indeed, given the business as usual path to 6°C or more warming, the social impacts of both significant climate change and a capitalist decoupling from fossil fuels are not mutually exclusive.

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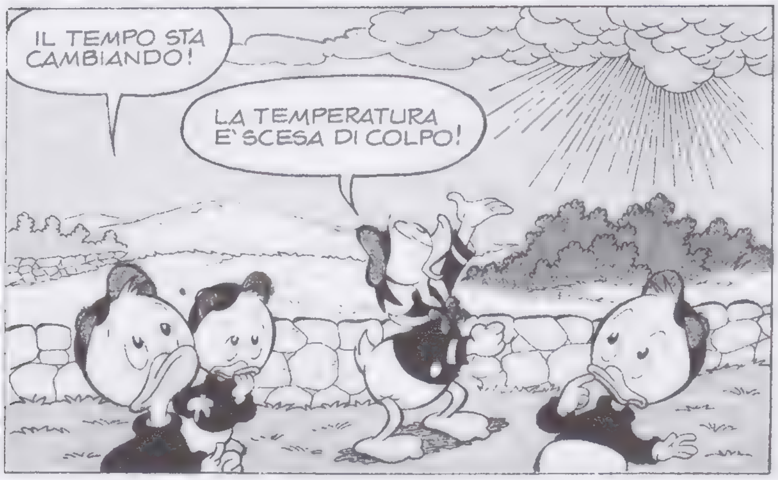
49 See Will Oremus, 'Solar Disarray': http://slate.me/KhLVZJ for the 75% statistic and *US imposes import tariffs on Chinese solar panels*: bbc.co.uk/news/business-18112983

50 Sachs (2008), p.83.

51 See Madhumitha Madhavan, 'Climate change and cooperation in "Chindia"', *International Affairs Review*: iar-gwu.org/node/410

# *Intakes*: The Arab Spring in the Autumn of capital




## *AUFHEBEN'S* INTRODUCTION

'The Arab Spring in the autumn of capital' was written at the end of November 2011 by 'Friends of the Classless Society', based in Berlin. Originally in German and translated into English, the text was then updated at *Aufheben's* request with the addition of a postscript that was written at the end of June 2012.

We have published this text because we think that it provides an insightful and at times incisive analysis of what has become known as the Arab Spring. Certainly its analysis serves to puncture the enthusiastic accounts put forward by both mainstream liberals, who have seen the Arab Spring as a series of democratic bourgeois revolutions that will usher in parliamentary democracy, the rule of law and economic property, and the autonomists and left who see the uprisings in the Arab world as a manifestation of an emerging amorphous global anti-capitalist movement.

However, it perhaps goes without saying of course, that we have some quibbles. We will mention a few examples.

First, at the risk of 'mentioning the war', what is striking to a reader of the text outside Germany is the deference the authors pay to the 'anti-German German left'. This seems to oblige them to take a pro-Israeli stance, presumably for fear of being denounced as being anti-Semitic. Thus, in passing, we are given the picture of a plucky little Israel repeatedly taking on and defeating goliath in the form of the mighty Arab states. Their attempt to distinguish a 'communist critique' of Zionism as simply a national liberation ideology from the 'necessarily anti-Semitic' critique put forward by the left seems to us to be too simple if not a little feeble. Yet the question of Israel and Zionism is rather tangential to the main argument of the text. It certainly does not serve to obscure the important point they make that – to the surprise and consternation of much of the left – the question of Palestine has not been much of an issue raised by the movements of the Arab Spring.

Second, their analysis of the class composition of the Arab world seems to us to gloss over the importance of the petit-bourgeoisie particularly as organised within the bazaar. We would suggest that the Middle Eastern petit-bourgeoisie, and in particular its relation to the proletarianised surplus population, has been vitally important in the history of the Middle East – for example in the triumph of Islamism in the Iranian revolution of 1979 and in the Baathist revolutions in the 1950s. It is also likely to be a major determinant in the development of the Arab Spring.

Third, and perhaps more importantly, is the notion of the decline of capitalism (or the capitalist relation as they would have it) that serves to frame the text. This is most evident in the very title 'The Arab Spring in the autumn of capital' and in the conclusion of the postscript, but it is a notion that is implicit throughout the text. This would seem to be based on the fact of the large scale proletarianisation, and the creation of a surplus-population, in both the Middle East and across the world. For the Friends of the Classless Society this, it would seem, has created the conditions for world communism. This is not the place for an extended argument over this issue - and we must admit that we are not familiar with the theory upon which they base this notion of decline – but we would point out that even if such proletarianisation, and the creation of a surplus-population, is a necessary condition for the end of the 'capital relation' it certainly is not a sufficient one.

Indeed it must be said we are not interested in scholastic 'proofs' concerning the existence of God or the abstract possibility of communism that has come to bedevil what now passes for the ultra-left - particularly at a time when a universal caliphate would seem a far more likely prospect than world communism. Indeed, what attracted us to this text is that despite any theoretical shortcomings it might or might not have, it is a serious attempt to analyse the concrete situation in the Middle East that has given rise to the phenomena of the Arab Spring. It is certainly a good starting point for debate.

*Aufheben*
*Brighton, July 2012*

## 1

The uprisings in the Arab world are directed against dictatorial conditions, against the historical backwardness of those countries' regimes. For a long time, military dictatorships all over the third world gave reason to believe capitalism and worldwide democracy to be incompatible. But now, Arab societies are actually late-comers in a global tendency of democratization which has put an end to both Latin American military dictatorships and state capitalist regimes in the east. This tendency is neither inescapable nor irreversible. But it would appear that precisely as the western left has taken to railing against "eurocentrism", mass movements have emerged in the Arab world, heading for nothing short of parliamentarianism, separation of powers, freedom of press and assembly, human rights, free labour unions, and so forth, all those things that were attained in a long history of bourgeois revolutions and proletarian class struggles in Europe and the United States. In all likelihood, Islam will play a role in the new constitutions being drawn up in Tunisia, Egypt, and Libya and, certainly, there is something to western governments' worries that there could be jihadists among the Libyan rebels these governments helped in their victory over Gaddafi. There is, however, little suggesting that this will, like in 1979 in Iran, lead to a clerical regime of terror. The Muslim Brotherhood in Egypt and the winners of the Tunisian parliamentary elections, the Ennahdha Party, insist that they want to emulate the successful model of the Turkish AKP, westernized capitulants in the eyes of true-blooded fundamentalists, and even the shady Transitional Council in Libya is dutifully reciting sentences about democracy and human rights. The youth, having set the pace for the movements, is less interested in Islamic morals than in freedom and prosperity; they are not drawn to the Afghan mountains but to cities in Europe, where they are neither needed nor wanted.

The current state of the world economy gives one every reason to doubt the story will turn out for the good, especially considering that the regimes in Tunisia and Egypt could not even be saved by the fact that they could point to decent growth rates even during the recent global economic crisis. Rather, the tumbling price of human labour power is what is turning the Arab world into a social crisis zone and what has led to the recent eruptions. Their target, at first, could not be anything but the authoritarian governments that had managed this misery for a long time with sheer repression. As the authoritarian grip weakened, the class character of the uprisings came to light, having been easily overlooked as the autocrats were being toppled.

As the global economic crisis reveals both economic liberals and Keynesians to be at their wits' end, the primary interpretations of the Arab uprisings will probably be shown to be wishful thinking, even if they both grasp parts of the truth: it is fairly indicative that the uprisings are said to be inspired by a yearning for liberalization by some, and rejection of neoliberalism by others, with both sides being equally partially right. For example, the German conservative newspaper *Frankfurter Allgemeine Zeitung* cheered the prospect of a "market economy for Arabia", because "countries like Egypt and Tunisia can only attain prosperity and create jobs for their youth, if the current system of 'crony capitalism' is replaced". Only this can lead to the emergence of a "broad *Mittelstand*",[1] which, so far, could find no space "between the numerous mom and pop stores and the few fat cats at the top" because of the "interlacing of state and economy". The liberal dream of thriving market economies on the southern shore of the Mediterranean finally putting the "youth's talent, their greatest untapped resource" to use is somewhat absurd in times when the countries on its northern shore are on the verge of bankruptcy and have no idea what to do with this allegedly precious resource.

The left's hope that, liberated from the autocrats, the lower classes can now restore the "social justice" lost in decades of neoliberal reform appears to be equally strange. The *New Left Review*'s dreams of a "generous Arab internationalism (...) envisaging (...) the equitable distribution of oil wealth in proportion to population across the Arab world" are a prime

[1] The German term *Mittelstand* is more specific than the English middle class and refers to small and medium sized companies that are often family-owned and are said to be particularly "innovative".

example of this delusion.[2] Seen through the eyes of both market liberals and the statist left, the Arab kleptocracies appear as accidents of history, in one case as self-anointed "fat cats" preventing free competition, in the other as regimes backed by imperialism and preventing mass prosperity, which could otherwise be easily attained. Things look differently if one conceives these regimes as the peculiar form in which capital relations have asserted themselves in this region, not as a historic necessity, but not an accident either and certainly the result of a history of class struggles.

## 2

At first, workers' struggles in the Arab world were all subordinated to the anti-colonial liberation struggle, which was in part directed against the domestic elites backed by the colonial powers. Though few in numbers, workers repeatedly played a significant role in attaining national independence through strikes and protests, be it in Algeria, Egypt or Iraq. With their help, new figures, most of them hailing from the *petit bourgeoisie* and dressed in military uniforms, came into power and, being upstanding patriots, got to work on the modernization of their respective countries. These countries' backwardness had been revealed, much to the embarrassment of every Arab nationalist, when the tiny Jewish state had held its ground militarily against the assault of the Arab states in 1948. The 1952 *coup d'état* of the Egyptian Free Officers around Gamal Abdel Nasser, that of their counterparts of the same name in Iraq in 1958, the Front de la Libération Nationale's (FLN) victory in the Algerian civil war in 1962, and a bewildering series of coups in Syria spawned populist regimes in every populous Arab country; in 1969, the Free Officers around Colonel Gaddafi took power in Libya as latecomers onto the scene.

Though the old large-scale landowners and commercial capitalists were then pushed aside for their lack of productivity and political powerlessness, a bourgeoisie capable of kick-starting industrialization still did not emerge. So, the regimes soon discovered the state as the appropriate lever for national development; in a sense, they became socialists against their own will and thus gravitated towards the Soviet Union. Land reforms differing in their extent were followed by nationalizations not just of foreign but also of domestic companies and by the attempt to develop a national industry through tariff walls and national planning, otherwise known as "import substitution industrialization" in the economists' lingo. All of this was dubbed "Arab socialism" and could very well have been conceived by the theorists of totalitarianism. Nasser's ideology, for example, though he signed a treaty of friendship with the Soviet Union in 1955, "is part of a tradition of a *völkisch* Germanophile Arab nationalism" and is "certainly informed by German National Socialism".[3] It decidedly distanced itself from Marxism by defending the family and Islam, by distinguishing between exploitative and non-exploitative capital, and by advocating class harmony within the people; based on the myth of the Arab nation, its virulent enmity against Israel was a matter of course and served as a kind of social glue.

For workers, Arab socialism had a dual character. Though politically disenfranchised, the workers were recognized as a productive part of the nation: "the workers don't demand; we give" (Nasser). Whenever they violated these rules, they faced ruthless repression. In their first year in power, the Egyptian Free Officers crushed a strike by textile workers and hung two of its leaders; unions were subjected to direct state control in every one of these countries. In addition to their anti-imperialism – Nasser's nationalization of the Suez Canal in 1956 triggered a storm of enthusiasm, with the Arab union federation calling on the oil proletariat to embargo France and Britain – the regimes drew their support from their ability to improve the working class's material conditions, despite all of the repression workers faced. For example, the Egyptian government subsidized food staples and housing, shortened the working day, doubled the minimum wage, guaranteed every college graduate a job and created new jobs in the rapidly expanding public sector; from 1960 to 1964, real wages in Egypt supposedly doubled.

The state socialist option was so enticing for post-colonial regimes that even the pro-western Habib Bourgiba, who had ruled Tunisia in an authoritarian manner from its independence, opted for it. Under the leadership of a high-ranking union official, agricultural cooperatives emerged, companies were nationalized, and a ten-year plan for the economy was drawn up. As far as the details go, there were differences between the regimes – the state socialist Algeria had elements of economic self-management that even fooled the Situationists[4] – but their general features and social results were mostly the same. With its ideology of a "non-capitalist path of development" the Arab left remained captive to this history:

[2] Rainer Hermann, 'Marktwirtschaft für Arabien', *Frankfurter Allgemeine Zeitung*, 21st May 2011; Perry Anderson, 'On the concatenation in the Arab world', *New Left Review* 68 (2011), p. 14.

[3] Bassam Tibi, *Militär und sozialismus in der dritten welt*, Frankfurt am Main 1973, p. 200.

[4] Situationist International, 'Address to the revolutionaries of Algeria and of all countries', http://www.bopsecrets.org/SI/10.address.htm

> Most Arab Marxists embraced a strategy of stages: first the nationalist, anti-imperialist struggle, then the struggle for social progress and socialism. When it turned out that army officers were more effective than workers and peasants in overthrowing British and French imperialism and their local allies and that the Soviet Union accepted the military regimes as allies despite their refusal to adopt 'scientific socialism', the Marxists reluctantly embraced them. The regimes accepted this embrace only if the Marxists abandoned their independent outlook or submerged it far beneath the surface. The strategy of stages provided a rationale for the deferral of class struggle and allowed the Marxists to continue to imagine that they spoke in the name of workers and peasants.[5]

Sometimes the military regimes even went further than the left's state socialists ideas: after the Iraqi Communist Party – the country's most important political force in the 1940s and 1950s – had called for a national-democratic revolution under the auspices of the industrial bourgeoisie, the Baathists summarily eliminated the weak bourgeois class through nationalizations. The Arab left's statist strategy is not the result of their subjective incompetence, but rather expresses the objective limits the labour movement faced at the time: in a sea of peasants, the workers were but a small minority absorbed by the struggle against monarchs, colonial powers, and pre-modern conditions; there was no basis for a socialism amounting to more than state capitalist modernization: it is no coincidence that the communists in the Arab world took the Soviet Union as a role model as it had shown how an agrarian country with a few industrial centres can be beaten into the industrial age with ruthless state power.

As early as the late 1960s the long decline of Arab socialism started. Like in other post-colonial countries, the attempt to jump-start an autonomous national economy from the state command centre reached its limits: the massive migration from the countryside to the cities overtaxed the state's ability to create jobs despite a massive inflation of the public sector; the importation of machinery from developed countries led to a shortage in foreign currency; social spending cut into the budget for governmental investments. And, just as the defeat in the Israeli-Arab war of 1948 had sounded the death knell for the old colonial elites and paved the way for the nationalist officers' coups, it was now the debacle in the 1967 Six Day War against Israel that revealed the resounding weaknesses of Arab socialism. Without weakening the state's grip on society, economic reforms, generally termed neoliberal, were launched, though their starting dates and pace varied from country to country: state enterprises were privatized, land reforms rolled back, thereby further speeding up migration to the cities, social spending and food subsidies cut and the focus was shifted from "import substitution" to export orientation. Workers' struggles, mostly against privatization, as well as food riots by the urban poor against cuts in food subsidies, slowed these developments down and even partially reversed them in some cases, but were unable to stop them in the end.

Meanwhile, the fundamentalist oil sheiks in the Gulf states, who had always felt threatened by Arab socialism, saw their power increase greatly when they were able to deflect a further debacle for the Arab states in the Yom Kippur War of 1973 when their oil embargo on Israel's western allies caused the oil price to soar. The decline of nationalism in a progressive-socialist disguise and the rise of the Gulf states' Wahhabist rulers coincided temporarily with, and caused a profound transformation of, the whole region: the labour migration to the Gulf monarchies on the one hand and the circulation of the oil rent through a network of Islamic banks and investment funds on the other signaled the end of the national development framework. This is the backdrop against which the rise of Islamism took place. Not only did it inherit the role of Arab socialism as the dominant anti-imperialist ideology, but it found its followers in the growing mass of the surplus population and in the "devout bourgeoisie" doing business with the Gulf states or working there occasionally. In the sense that the fundamentalist oil sheiks supported it with all their might by building mosques everywhere and distributing religious literature, one might very well label this "Petro-Islam": "the Wahhabization it implemented had tended to fluctuate with the price of a barrel of oil".[6] Among the unpropertied classes, the slum inhabitants who have no access to regular wage labour are mainly the ones to whom religious promises of salvation and the Islamists' soup kitchens appealed as a result of their miserable material situation. The working class in a narrower sense going face to face with the class enemy on a daily basis, on the other hand, was less susceptible to the class harmony – garnished with a little charity – that the Islamists preached. In this sense, the rise of Islamism

[5] Joel Beinin, *Workers and peasants in the modern Middle East*, Cambridge 2001, p.141.

[6] Gilles Kepel, *Jihad: the trail of political Islam*, London 2002, p.73.

indicates a shift in the composition of the Arab proletariat.

Thus, the promise of material welfare, always coupled with repression, for the majority of the population, a population much more proletarianized than it was in the post-world war two years, has been fading away since the early 1970s. Of state socialism, only the authoritarian state remains and neoliberalism emerged without cultural or political liberties. The result of this history is both a gigantic army of unemployed or underemployed proletarians and a peculiar amalgamation of a clientelist state economy and neoliberalism. Starting with colonialism, the region was integrated into the world system without ever sparking an independent accumulation; the development stopped halfway, as it liquidated the old land gentry and drove the masses into the cities without turning them into productive wage workers. A bourgeois class able to rule did not emerge anywhere and thus power is left to the military or, in the Gulf states, to oil dynasties. Therefore, state and economy have a tendency to melt, political rulers and economic profiteers tend to be identical and have a life independent of society in general.

As far as the last point is concerned, Colonel Gaddafi's Libya is the most extreme example. In a narrower sense of the word, in Libya there is no society separate from the state, in that the economy consists only of the distribution of the oil rent and all relations between individuals are mediated by the ubiquitous state apparatus which also instrumentalizes the old tribal structures. Although the Free Officers under Gaddafi who took power in 1969 tried to develop an independent economy like the other Arab socialist states, the country remains totally dependent on the export of oil and gas despite all changes in course; in the 1970s, the time of total nationalization of the economy and close ties to the Soviet Union, as much as in the 1980s when privatization started and foreign investors were sought and in the post-September 11 era when Gaddafi was intent on losing his image of the *enfant terrible* of international politics and on becoming a reliable partner of the 'free west'. Since the 1969 coup, the population has grown six-fold and mostly lives in the cities and unemployment is at 30%, though this entails far fewer hardships than elsewhere in Africa due to the alimentation with the money gained from the export of fuel. Because of its abundant oil deposits, the country was able to preserve the paternalist-welfare aspects of Arab socialism to a greater degree, despite certain cuts in the last decades. There is no history of class struggle in this country and, because social cohesion is created exclusively by the leader Colonel Gaddafi's unlimited power, merely deposing the hated head of state in order to steal the uprising's thunder was not an option. Though it is true that the uprising was started in an unruly manner by youths who decided to assault barracks in order to arm themselves and were then commanded into military order by a leadership of defectors from Gaddafi's regime, this process cannot be characterized as the recuperation of a social revolt because civil war was inevitable from the very start; also, no discord between the youth and the military leaders has been reported so far. In Egypt, the official end of Arab socialism can be dated precisely to the year 1974, when Nasser's successor, Anwar Sadat, was facing a state budget crisis and announced the *infitah*, economic opening, and developed closer ties to the United States, leading to a peace treaty with Israel in 1977.

The way he went about doing this is reminiscent of the way a demolisher operates: under the IMF's close supervision, the state retreated from its role as a public capitalist and social carer and hawked off public companies to deserving party and military officials. Much like the Aswan dam, built with Soviet help, symbolizes the era of governmental economic construction, Special Economic Zones and office towers built out of steel and glass in the middle of nowhere stand for the neoliberal turn.[7] A new thrust of development, pulling the population with it, did not, however, take place. The population has doubled since 1980 and about half of it lives in the cities. At least half of 15 to 29-year-olds are unemployed. There are about five to six million slum inhabitants in Greater Cairo alone. With its dependence on tourism, revenue from the Suez Canal, money transfers from Egyptian expats, and, last but not least, foreign aid from the United States, Egypt, too, has many characteristics of a rentier economy:

> The rent structure of the Egyptian economy is, in effect, no longer based on the exploitation of a local labour force, which is available in numbers exceeding the needs of tourism, the industry processing local resources (cotton, oil, agro-industry) or imported semi-manufactured goods for the auto or electromechanical industry and those of commercial services. The result is a proliferation of artificial service jobs and a saturation of the administration, along with corruption and disguised panhandling which are ubiquitous and block the economic and social machine,

[7] Cf. Marc Lavergne, 'Egypte, le développement au défi du néo-liberalisme économique' (2010), http://marclavergne.unblog.fr/files/2011/02/egyptedvtdurableetnolibralisme.pdf

but also allow for the survival of millions of 'surplus' mouths.[8]

The great majority of the population is unable to get a job in the public or the industrial sector, but ekes out a living in the economy of squalor, euphemistically termed the "informal sector". Having been a minority in a sea of peasants half a century ago, the working class is now a minority in a sea of the superfluous. The fact that workers' wages can hardly guarantee their survival amid this surplus proletariat is hardly surprising.

Compared with the poorhouse Egypt, the situation in Tunisia appears a little better, but is fundamentally very similar. After the short state socialist interlude in the 1960s, an all-encompassing authoritarian state remained here as well, mercilessly pushing through economic reforms at the expense of the proletarianized in the 1980s; hundreds died in strike waves and riots fighting this trend. Ben Ali's highest priority after his coup was the implementation of measures dictated by the IMF in exchange for relief in the state budget crisis: privatizations as well as cuts in social spending and food subsidies.[9] The historical tendency of the dissolution of the peasantry was even stronger here and the percentage of those working in agriculture fell to 16 per cent, without those released from agriculture ever being able to be absorbed by a dynamic capitalism: the relatively developed cores are marked by service jobs with miserable pay, in tourism but also in call centres outsourced from France; industry is limited to sweatshop suppliers for European companies providing unskilled jobs that pay a fraction of the wages in Europe; the interior is marked by extreme poverty: in the mine region Gafsa, the site of repeated unrest, for example, unemployment is at 40 percent; and particularly in the cities, the population, above all the youth, is shown clearly that its labour power is not needed. In Tunisia, much like in Egypt, the historical backdrop of the struggles in 2011 is marked by the fact that the peasants that dominated the era of anti-colonialism have been replaced by a population that is proletarianized, urbanized and well-educated, but excluded from prosperity and ruled by a state that makes the population feel the decline in value of its labour power through harassment and police violence.

## 3

The revolt in Tunisia was the starting point for all of the revolts that followed it, the single spark that lit a prairie fire. The rebels in the other countries were swept along by the Tunisian uprising that eventually led to Ben Ali's fall. Many, mostly young, people, who had no prospects of a better life despite many of them having a good education, saw their own situations reflected in Mohammed Bouazizi, the Tunisian street vendor who was harassed because he was unable to pay the bribes the police demanded of him. The uprising was inspired by the hope of escaping the confines of coercion, humiliation, and force. It was hardly a coincidence that 25th January, the day the country normally celebrates the Egyptian police, was chosen as the starting day of the protests in Egypt. All of the movements are united in their rebellion against authoritarianism and excessive police violence that anyone can become a victim of. They are supported by a large part of the population, probably even the majority, uniting under the slogan "Away with the Dictator" across class divisions. In that sense, those who see the uprisings as the result of the desire to depose a dictatorship are right rather than the proponents of an over-simplified materialism claiming them to be the direct result of economic misery – the rising price of bread with its dramatic impact on the poorer strata of the proletariat, for example.

The cross-class character of the uprising manifests itself in the ubiquity of national flags. This new patriotism was not at first of a chauvinist character – the national flags of the other countries in revolt were also waved and cheered; it was directed against the domestic ruling caste. Therefore, it appears to be the kind of revolutionary republicanism that would make the hearts of Hannah Arendt's adherents leap. But as such, it expresses the, for the moment necessary, illusion of a community of free and equal citizens without class distinctions that had to be disappointed soon thereafter. Whereas the toppling of the dictatorship united the rebels, leading those in Egypt to even view the military as an ally, soon after the beheading of the king, the contradictory class interests come to the fore.

Even some capitalists who somehow managed to be successful without any close ties to the regime sided with the uprising, because they considered themselves to be at a disadvantage in the nepotistic system, because they do not hold the necessary reins and long for legally binding regulations that everyone has to abide by, thereby guaranteeing fair capitalist competition. For example, an Egyptian textile capitalist expressed his sympathy for a strike in a state-owned textile factory. He certainly did not have the well-being of the workers on his mind, but rather the unfair public sector competition not being required to pay its workers the same minimum wage he himself was required to pay.[10] Bribing government

[8] Ibid.

[9] Cf. Beinin, *Workers and Peasants*, p. 154-156.

[10] Rainer Hermann, 'Ägypten: vorgeschichte und

officials and paying protection money to corrupt police officers is part of everyday life for many businessmen. Also, they fail to see why the government offices making important political and economic decisions are held by the incompetent nephews, cousins, and friends of the governing few, while those who have been educated to do this kind of thing are selling oranges on street markets. Therefore, the regimes had opponents even within the ranks of the propertied class and western liberals' hopes that the market economy would really take off after the end of "crony capitalism" were based in part on them. They were, however, rather irrelevant for the despots' toppling, not least because of their weakness in numbers, and attempts to make cracks between the different ruling factions – those with a more statist orientation and with close ties to the military, and those more oriented towards neoliberalism close to Mubarak's son – responsible for the upheavals in Egypt ignore the fact that their power was drawn from the streets that were not populated by masses of frustrated small businessmen and fat cat capitalists.

The unruly youth was often named as the central, almost the sole, agent in the uprisings; not surprisingly, as the spectacle would rather talk about generational than about class conflicts; two Middle East experts from Germany simply called the unrest in the Arab world a "rebellion of the young *Mittelstand*".[11] The wishful thinking of western liberals only contains a grain of truth to the extent that educated, urban, secular, internet-savvy youths made up a large part of the early protests. They organized these protests themselves without any leaders or political parties; they have had it with Islamist promises of salvation and also care little for anti-imperialist ideologies – anti-Americanism and hatred of Israel did not play a role during the protests and because of this it is hardly surprising that the uprising struck more fear in Hamas honchos than in Israeli school kids. They were, however, soon joined by people from the suburbs who did not have an internet connection and, in many cases, could not even read or write. They, in turn, soon mixed with the rural poor, workers and middle-class people of all ages. In Tunis, youths from the under-developed parts of the country camped in the city and contributed to the regime's fall. In Egypt, the military did not oust Mubarak until workers' strikes flared up and even threatened to bring the Suez Canal to a standstill.

Until the dictators were toppled, workers' struggles and demands for freedom, democracy, and human rights went hand in hand, since the victims of repression were to a great degree workers who went on strike; economic struggle has always had a political dimension in the demand for free trade unions. In both Tunisia and Egypt, workers' struggles preceded the uprisings: in Tunisia, the military had to intervene in the mine region surrounding Gafsa in 2008 in order to stifle unrest going on for months; Egypt saw a strike wave that started in textile factories in Mahalla and soon seized the whole country.[12] This strike was the namesake of the pro-democratic "April 6 Youth Movement", the strongest youth group other than the 450,000-member Facebook group "We are all Khaled Said", whose name refers to a blogger who was beaten to death by the police. Meanwhile, youth activists are now denouncing strikes as merely being particularistic matters. Just like it is generally impossible to tell whether student movements consist of tomorrow's wage slaves who happen to be a little more educated or whether they're the future elite, the rebellious Arab youth, too, is a double-edged sword: on the one hand, it is part of the surplus population and in many cases hit by unemployment at an above-average rate, but on the other, it is certainly more likely to dream of a place in the sun than an illiterate rural worker in the Nile Delta; this ambiguity results in the movement oscillating between its libertarian side – self-organization, confronting state power – and its liberal ambitions. Many of the youths, having just camped on Tahrir Square with lumpenproletarians, factory workers, and falafel vendors, are now vying for political power, as demonstrated by their wheeling and dealing with the ruling military council and the political parties they are founding. The *Economist* reported that "a group called the Coalition of Revolutionary Youth, formed by Tahrir Square demonstrators, has a market-oriented economic policy to which all the main parties—including the youth wing of the Muslim Brotherhood—has [sic!] signed up."[13]

This is exactly what is now on the agenda. While many young protesters are committed to the liberalization of the economy, for workers who had spent their whole lives under the control of the police state and the state-controlled unions, the point of the uprising was to gain the legal freedoms for their economic struggles and to allay their material misery. These tendencies were united in the uprising but now point in opposite directions. Despite the military council's anti-strike decree, post-Mubarak Egypt has been hit

nachwirkungen', *Frankfurter Allgemeine Zeitung*, 20th February 2011.

[11] Frank Nordhausen/Thomas Schimid (ed.), *Die Arabische revolution*, Berlin 2011, p.10.

[12] More on labour struggles in the run up to and during the uprising: Friends of the Classless Society (ed.), 'Revolution in Egypt: interview with an Egyptian anarcho-syndicalist', Berlin 2011.

[13] 'Light, dark and muddle: the shakiness of Egypt's economy could undermine progress towards democracy', *Economist*, 23rd June 2011.

by a wave of strikes and workers' unrest that destabilize the situation and scare off both domestic and foreign investors.[14] These struggles are by no means the result of revolutionary exuberance: they are a struggle for independent unions, minimum wages, and fixed contracts. With their calls for a maximum wage for managers and for governmental investments, these struggles have a genuinely social democratic touch to them, striving for "social justice", and workers often emphasize that they only want to make their contribution in building Egypt. But this is a throwback to an era that ended decades ago in which national development and workers' prosperity went hand in hand.

Now, wages are so pitiful that they are hardly enough to live off of; but every rise in wages could bankrupt the mostly labour-intensive businesses – be they Tunisian suppliers for the European auto industry or Egyptian textile factories. So, the military council had to almost double minimum wages because of the pressure exerted by these struggles, but in reality workers often do not even receive the old minimum wage. And while the Egyptian Minister of Finance openly declared the workers' demands to be "legitimate", because their wages are not enough to live off, but added that higher wages are not affordable, this is only the start for the workers. Tunisia has also been hit by an uncontrolled strike wave, street blockades by the unemployed, and social unrest. The transitional government that came out of the uprising was forced to raise wages and introduce minimal unemployment benefits. Like in Egypt, reining in the unrest after the despot's overthrow will require expanding social spending that weigh on the state's budget and tarnish liberal hopes of a radical free-market new start. Rating agencies have already downgraded the country's ratings and economic experts have scaled back their growth forecasts.[15]

Though the situation is not as critical as in Egypt, future governments in both countries will face the challenge of reining in a huge surplus population and masses of workers whose reason for risking their lives in the uprising was hardly just wanting the chance to take part in real elections. Particularly in Egypt, this instability could even derail the announced transition to democracy. The military council has plotted to instigate riots against the Coptic minority, in order to be able to appear as a guarantor of law and order, well knowing that they are sitting on a social time bomb. The conflict with Israel to which the rebels did not really pay attention to at first could now enter centre stage as a welcome kind of lightning rod to distract from the real issues. In the summer of 2011, Perry Anderson, the grey eminence of the British New Left, contritely remarked that the recent Arab mass movements had "not produced a single anti-American or even anti-Israeli demonstration" - a bitter disappointment for someone who would like to see Nasserism and Baathism revived as the "higher idea of an Arab nation". But now, the tide appears to have turned: when it is not the Muslim Brothers, but the opponents of the Egyptian military council rioting in front of the Israeli embassy and the newly founded independent trade union federation proudly declaring "hostility towards Israel and Zionism, and refusal to deal with any entity or person that normalizes relations with Israel"[16] as one of its central tenets, the step forward the rebels took by not taking their discontent out on the Great or the Little Satan, but rather locating the main enemy at home, appears to be in the process of being reversed.

At the very latest, the moment that the Israeli flag on the embassy was burned to be replaced by the Egyptian flag with the crowd cheering, the movement's patriotism lost its apparent revolutionary-republican innocence and was transformed into sheer chauvinism. The difference between a communist critique of Zionism that takes it as the Jewish national liberation movement on the one hand and plain old anti-Zionism which has always served rulers in the Arab world and had anti-Semitic undertones, could not be made any clearer. And thus the social protests in Israel that took up the impulse of the Arab Spring, though in a completely different social situation and thus with some degree of ideological delusion, were met mostly with indifference or even unabashed rejection.

## 4

In Tunisia, one month after Ben Ali fled, many youths celebrated Valentine's Day in a way that was unusual for them. Where it had only been celebrated privately before, students now decided to mark the day publicly in front of the Municipal Theatre as a "Festival of Love and Revolution". They held hands while chanting "Equality, Equality, Love". On Cairo's Tahrir Square, too, gender segregation was suspended for the moment of the uprising and the harassment of

[14] Cf. 'Restive Egypt workers pose economic, political threats', Reuters, 7th October 2011.

[15] Helmut Dietrich, 'Das doppelte Tunesien' (September 2011), materialien.org. Dietrich's excellent report does, however, ignore the dark side of the class situation: The fact that there were recently confrontations about the allocation of jobs between various "tribes" in the Gafsa mine region that killed eleven people is not mentioned at all. Cf. 'Eleven killed, more than 100 injured in mine town clashes over jobs', AFP, 6th June 2011.

[16] 'The road to trade union independence', Al Ahram Online, 20th September 2011.

women, normally an everyday occurrence, appears to have stopped completely during the occupation. Nevertheless, the Arab Spring has hardly been a revolution of everyday life. This is made clear by the fact that religion's role in society went untouched and the gender question only played and continues to play a minor role in the struggles against dictatorship. The sentence, usually attributed to Fourier, claiming that the state of women in society is an index of general social progress, is particularly true in the countries of north Africa and the Middle East, and the fact that the intermittent suspension of the usual gender roles warranted explicit mentioning indicates where the starting point of such struggles lies.

The most extreme form the suppression of women takes on is female genital mutilation – which about 90% of Egypt's women are a victim of, despite it having been illegal since 2008. The patriarchal gender roles are also revealed in the much higher illiteracy rate among women and in the everyday harassment they face along with legal discrimination – in many countries in the region, sharia is still the primary source of law. Tunisia appears to be the only Arab country where there is legal gender equality. Disadvantages in inheritance and divorce law along with sexualized violence within marriage and without are the biggest problems. Though one often hears that women fight back against harassment more confidently since the revolts, the extent to which this everyday threat is abated in the middle term will be a decisive index for the revolt's success.

In the Arab world, men are generally considered the breadwinners, while women are financial burdens, though religion is not as much the cause of this suppression as it merely serves as a legitimization for it. Women's role is that of a breeding machine, producing boys at best, girls at worst. Because these roles are equally established in all classes, a class struggle-oriented critique of feminism that is, above all, centred on the fact that feminism forges a coalition with the liberal segments of the bourgeoisie and thereby waters down class lines, is too simple, though most female proletarians could obviously care less whether women in the upper strata are able to become judges or even president.

Radical left-wing feminists' critique of the traditional socialist idea that the expansion of women's employment is the path to emancipation and their insistence that "slavery to an assembly line is not a liberation from slavery to a kitchen sink",[17] and that a revolutionary movement must rather abolish both wage and domestic labour simultaneously, is valid to this day, though it is still true that the conditions for women's struggles improve through their socialization at the place of production. Their financial dependence on the man is diminished and cooperation opens new spaces for the development of social power, as we have recently seen in Egypt. Without wanting to replace the myth of the muscular, hammer-wielding worker with the proposition that the new worker subject is female, it is clear that women were often on the frontlines of the strike movement in Egypt's textile factories from 2006 to 2008, thereby unsettling gender relations: their equal participation in struggles sometimes had to be defended against their male colleagues and husbands; the fact that striking workers of both genders sometimes spent the night in occupied factories together was particularly outrageous to adherents of Islamic morals; often, this led to divorces.[18]

Particularly in this respect the Arab world is an anomaly: the employment rate for women is at just over 30 per cent in the Arab countries of north Africa, the lowest rate worldwide.[19] Since the 1960s, urbanization has caused the birth rate to plummet to nearly European levels. According to the World Bank's 2009 figures, an Egyptian woman has an average of 2.8 children, one in Morocco has about 2.3, and in Tunisia and the United Arab Emirates the rate is even at 2.0 and 1.8 respectively. Accordingly, the educational attainment level of women has risen significantly, as they make up two fifths of university students in Egypt and over half in Tunisia. Therefore, it is not surprising that liberal economists often point to the comparatively low employment rate of women as an important index for those countries' lack of competitiveness in the global market: the fact that well-educated female manpower is banished to the household to take care of children or to wash the dishes is an almost unnatural waste of productive resources for them.[20] However, the real background to this situation is the previously mentioned tumbling price of human labour power – the enormous surplus population resulting from capital's inability to absorb the existing labour power. For one thing,

[17] Mariarosa Dalla Costa, 'Women and the subversion of the community' in Mariarosa Dalla Costa, Selma James (ed.), *The power of women and the subversion of the community*, Bristol 1972, pp.21-56.

[18] More on this as well: 'Revolution in Egypt: interview with an Egyptian anarcho-syndicalist'.

[19] The situation does, however, vary greatly from country to country: in Egypt, Tunisia, and Morocco the rate is highest. In the fundamentalist Gulf states there is only one working woman for six to seven male workers. Libya is an exception among the rentier states. Under Gaddafi's rule women's path to the labour market was made easier – protected by a squad of female bodyguards, he attained the reputation of being sympathetic to women that reached far beyond north Africa.

20 'Women and the Arab awakening: now is the time', *Economist*, 15th October 2011.

domestic reproduction labour, almost exclusively done by women, becomes more significant for securing an ever more precarious survival. Secondly, it is highly doubtful that male proletarians will support the level of competition on the labour market being intensified even more through the intake of female workers. The regressive tendencies in gender relations have to be viewed in this context and the hope that the gender question will be automatically solved in the course of capitalist modernization processes has to be given up for good. In the end, it will all depend on whether women (and men who side with them) are able to transform the hopes and expectations that arose in the uprisings into a movement against the existing gender relations. The space for an emancipation within the framework of capitalist modernization appears to be limited – whether women, empowered by the spirit of the revolt, will (have to) give up their desk and classroom for the stove and kitchen will be decided by the shift in power between men and women. The Islamists' electoral victories in Tunisia and discussions of strengthening sharia in Libya show that religion as a stabilizing force could gain momentum in face of the precarious social state of affairs; Islam, even if it is devoid of fundamentalist excesses and tuned to good relations with the west, will stand in the way of the long overdue revolution in gender relations.

## 5

The Arab unrest could almost lead one to an ideology of development, the core of the stage model of national-democratic and proletarian-socialist revolutions at the centre of twentieth century Marxism: struggling for things that the bourgeois state grants its subjects in the developed countries, like the right not to be thrown into a torture chamber for remarks unfavourable to the government or to organize trade unions with one's colleagues, but do not come close to touching upon the existing mode of production. However, first of all, this stage model was nothing short of the Bolshevist alternative to the world revolution from the early twentieth century on;[21] secondly, the national-democratic revolutions already took place decades ago (and were about as democratic as the state capitalist people's democracies in the east, enormous frauds in other words); and, thirdly, even though the Arab world lagged far behind Europe and North America in this respect, the conditions for a global revolution against the capital relation have already been created under the auspices of the regimes that gained power through these revolutions.

Paradoxically, this global non-simultaneity showed itself in the Arab uprisings' resonance in crisis-ridden Europe: in Spain, the demand for "real democracy" was just plain silly and the movement there was only able to move on to the real questions once it had rid itself of its ridiculous cloak of democracy fetishism. Though square occupations modeled on the Egyptian rebellions in Madrid, Athens, and elsewhere have turned out to be a practicable means for a scattered proletariat that is powerless in production, recent class struggles in Europe bear witness not to the Arab struggles' potential for generalization, but to their limitations which are not the result of participants' incompetence but of the conditions they have to deal with. Spilled over in the wake of the European colonial powers, capitalism only asserted itself in the Arab world through the mediation of authoritarian states; to this day, it is marked by kleptocracy and raw police repression. If the Arab unrest was to send these regimes to the dustbin of history, this would undoubtedly be a step forward, but, in light of the current status quo, it would hardly lead to the kind of prosperity that most of the rebels envision. They look towards a Europe whose golden years have passed and which is unmistakably in decline. Considering the fact that there were as many youths in Greece and Spain facing the problem of being condemned to wage labour but not being able to find any as in Tunisia and Egypt, this can hardly be the result of state corruption and ossification, but rather appears to be caused by the historical dynamic of the existing mode of production itself. It appears that the Arab Spring is taking place in the autumn of capital making its outcome all the more unpredictable.

Just as, even in the most profound of crises, individual companies can continue to make large profits, capital's inability to integrate all of humanity into its machinery is not expressed in uniform decline in all parts of the world. Even in the last decades as the existence of an enormous surplus population came to the fore, factories and office towers sprung up out of nothing in a few countries. Because of the rapid advances in transportation and communication technologies, the world market is increasingly becoming a gigantic wheel of fortune: it appears that the

[21] The council communists, in their clear-sighted 1934 text, called Bolshevist internationalism the "peasant internationalism of a bourgeois revolution" ('Theses on Bolshevism', *International Council Correspondence* 3 (1934), pp.1-18.). Insisting on the exclusive revolutionary role of the developed proletariat, as the council communists did, basically amounted to admitting that the prospects of a world revolution, which the council communists envisioned a little differently than we do now, are rather poor, if one considers the relation in numbers worldwide at the time. On the historical transformation of revolution and communism cf. 'Thesen zur Agrarfrage', the two texts on "communization" as well as the essay 'Proletarische bewegung und produktivkraftkritik' in *Kosmoprolet* 3, Berlin 2011.

destination of investments that both state leaders and wage-earners so desire is becoming ever more random. It is not impossible that Tunis or Alexandria will have this doubtful privilege. On the other hand, hoping for a free market take-off that provides the impoverished masses of north Africa with employment is, under the circumstances, almost utopian. Considering this, the unpropertied classes' struggles in the Arab world hardly have any chances of partial lasting victories. If the struggles are to continue, they will exacerbate the global quagmire capital has gotten itself in and thereby contribute to putting the abolition of the status quo on the agenda, but this can only be the joint cause of the proletarianized of all nations.

*Friends of the Classless Society*
*Berlin, November 2011*

## POSTSCRIPT

Whereas for a long time western observers mainly viewed Arabs as savages to be reined in, an incredible euphoria has spread ever since Mubarak was toppled: the young student, fighting for freedom and democracy, replaced the image of the hate-filled Islamist. But just for a while; a justifiable fear of chaos has taken over since. The Islamists' electoral victories in Egypt and Tunisia are the least of the west's worries; it could come to terms with them – after all, they do follow a stringent pro-market course and have promised to maintain law and order with a little welfare and lots of religious this and that. As long as the new rulers do not go too far with their discrimination of women, thereby getting European human rights commissions in a pickle, or choke off tourism with oppressive religious laws such as the prohibition of alcohol, the west is totally fine with democratically elected Islamists. Stability is still the top priority, but it appears unreachable ever since the dictators were toppled: the superfluous are just too numerous, workers' hunger for a better life is just too great. The *Economist*'s concerns about strikes getting out of hand, which it lists as one of the reasons for the economic collapse in Tunisia and Egypt, already contain some nostalgia for the times when these countries were ruled with the iron fist: "workers feel able at last to vent their frustration after years during which they feared repression. Owners report that in many places employees demand more pay and the replacement of managers who have supposed ties to the old regime. 'When a strike takes place they have no united leadership, so you're dealing with 60 people tugging at your jacket asking for this and that. And when you've made concessions and you think you've resolved it, it all begins again after a couple of months,' says one owner."

Tunisia's economy is in decline. Tourism is in shambles, the mining of phosphate for export in the Gafsa region is suffering from endless strikes and unrest, foreign investors are leaving the country. The poor regions in the interior are seeing general strikes, in Tunis there are sit-ins in front of the constitutional assembly. The demand for jobs is always a key issue; the unemployed academic proletariat is organizing around it as the ›Union des diplomés chômeurs‹ (UDC) and picking quarrels with the state at demonstrations; the ›Union Générale Tunisienne du Travail‹ (UGTT), tolerated under the old regime, has renewed itself and is now the Islamist-dominated government's number one enemy, although social struggles generally take place beyond the confines of fixed organizations.

Strikes in the private sector generally face the problem of mass unemployment on the one hand and the threat of offshoring on the other. The case of a German subcontractor in the auto industry summarily closing down a factory in the Spring because wildcat strikes got out of hand is exemplary of this; the workers' ringleader was fired and production continued. The proletarianized have had greater success in putting pressure on the state. The fact that the Tunisian government promised to create 25,000 public sector jobs this year even though it is already headed for a budget crisis as a result of its growing deficit – and even though the public sector is already considered "bloated" - is perceived as an alarm signal.

Against this backdrop conflicts between workers and rulers are escalating. President Morcef Marzouki, who used to be a human rights activist, called the endless strikes "national suicide" accusing workers of "stabbing the country in the back"; an Ennahda lawmaker recently illustrated the class character of Islamism with a call for striking workers to be nailed to the cross. After attacks on union offices in April during a strike by municipal sanitation workers, the UGTT called for the government's removal, as it suspected the governing Islamists of being behind these attacks. Generally, the union has been the most important bastion of secularism as its defenders have been able to do little on a political level.

Nevertheless, the ongoing culture war between Islamists and secularists does not run entirely along class lines. It is stoked mainly by Salafists who, like in Egypt, crept out of their holes in numbers that exceeded expectations once the dictator was overthrown: they have gone on the offensive with militant attempts to enforce the wearing of the niqab and gender segragation at Manouba University, the proclamation of a "Caliphate" in Sedjenane, appearances by Egyptian and Saudi preachers calling for female genital mutilation, and attacks on theatre festivals, art exhibitions, and shops that sell alcohol. Sometimes, the government fights back, using the Islamists' actions as a welcome pretext for general repression (for example, the government banned all demonstrations on Avenue Bourgiba, the symbol of the Tunisian uprising, after Salafist riots, but rebellious youths ignored this ban with aplomb) much like the old regime used to. In June, the most severe confrontations between Salafists and the government since Ben-Ali's fall took place and led to both union offices and police stations being burnt down; further conflict appears inevitable. On the other hand, parts of the state apparatus are also contributing to the Islamization. Two atheist bloggers being sentenced to seven years in prison for publishing images of the prophet is just the most drastic example of this.

We still do not believe that north Africa is heading for conditions like those in Iran and that the Turkish AKP is the more likely role model for the Islamists in power; for example, Ennahda decided not to inscribe sharia as a source of law in the constitution. It has become clear, however, that the Tunisian state Islamists, much like the Egyptian Muslim Brotherhood, are split into a modern, moderate and a rabidly fundamentalist faction and that there could certainly be setbacks, for women's rights for example. This culture war will hardly be decided by the secular middle class; the question will be whether the issues at stake in this war will be raised in class struggles or whether the most desperate parts of the proletariat will play their role in this attempt to hold together a class society in transition to chaos through an authoritarian regime that alleviates unemployment by pushing women out of public life, causes class contradictions to vanish in an imagined community of the faithful and sanctifies the earthly squalor of a proletarian existence with surahs from the Quran.

The situation in Egypt is similar. It does, however, differ in that parts of the old regime, namely the military council, are still in power, sometimes allying with the Muslim Brotherhood, sometimes locking horns with it and suspending democratization at will. The election spectacle has thus become an obvious farce the populace is increasingly disinterested in. The regime cunningly implemented a strategy of tension, hoping that the fear of instability will trump the desire for freedom and for the end of despotic rule. The best example for this is the massacring of the fans of the Cairo football club Al-Ahly in the stadium of Port Said that cost at least 74 people their lives in February and injured thousands more. It stands to reason that the attack was at the very least tolerated by the military in order to be able step in as the party of order and it is highly doubtful that the ordeal was merely the result of an escalation of a conflict between football fans. The massacre took place exactly one year after the horse and camel-mounted attack on the occupied Tahrir Square during which Al-Ahly's ultras – like in many other quarrels with the state – played a significant role; therefore, it may very well have been an act of revenge.

Nevertheless, an end of social conflict is not in sight. In November, a demonstration in Cairo against repression culminated in an uprising against the military council that lasted for several weeks and involved, above all, the urban poor. Every day there are reports of classic strikes, demonstrations, hunger strikes, blockades of ports and highways directed against awful working conditions and social misery. As numerous and diverse the protagonists may be – they range from steel workers, women factory workers in the textile industry, and farm workers to teachers and physicians - the struggles still lack social explosivity. The call by over fifty oppositional groups for a general strike in February went mostly unheard. Except for a few small actions, it only really reached the universities; in workplaces, it was not widely received, perhaps, partly, for fear of it being used by groups calling for the strike that had previously opposed strikes out of “concern for Egypt's well-being”.

The social eruptions coincide with the economic situation becoming increasingly dire with no recovery in sight. Budget funds are running out and the last currency reserves are starting to vanish. The country is still receiving foreign aid and credit for the development of its infrastructure, including new power plants and rail lines. As capital's situation has become even more autumnal, with one national economy after another on the other Mediterranean shore going to pieces, it appears doubtful that these programmes along with land sales to Egyptian expats, which are currently being planned, will stimulate the economy in a sustainable fashion. In all likelihood, only an IMF loan will save Egypt from economic collapse this year, but it will come with the usual medicine that will further destabilize the social situation.

Meanwhile, Libya is succumbing to a chaos of armed rackets, tribal leaders and other separatists. The NATO forces' intervention might have saved the rebels and civilians from massacres by the regime's troops and the civil war might otherwise have cost far more than 30,000 people their lives. It is certain, however, that the transformation of a rebellion into a military conflict has never served social emancipation very well. The uprisings in Tunisia and Egypt were mostly driven by an unruly youth with back up from massive strikes in ports, mines, and factories. The Libyan youth, just barely armed and with unarmored vehicles, showed an incredible willingness to make sacrifices and take risks as well, but, unlike in Egypt and Tunisia, they were led by old men, including tribal lords and clan chiefs opposed to Gaddafi as well as armed Islamist gangs. Although there are reports of activities by Benghazi's youth - for example, in grassroots assemblies, though certainly with limited influence, as well as in the fiercely contested cultural domain – power relations were impacted to a smaller extent than it appears to have been the case in Tunisia and in Egypt.

Western governments' military operations aimed for little more than securing the oil and gas reserves, keeping the shield against the sub-Saharan superfluous masses in place, and maintaining a presence in an unstable region. An open struggle between the various Libyan groups for the distribution of the oil rent has now erupted. For decades, the national government has only been held together by a combination of vicious repression and nepotism; it seems unlikely that the re-balancing of power between the various clans will succeed, particularly since the oil-rich region of Cyrenaica in the eastern part of the country proclaimed itself an autonomous region and the country splitting up is no longer out of the question. Libya's economic future will depend on the new rulers' ability to avert the country's collapse and to invest the oil rent in the development of new economic sectors. The chances of this succeeding look bleak, not just because of the global economic crisis. The new government will find it hard to force the country's working class, which is used to being given handouts with benefits from the oil rent, to take up less attractive jobs without it fighting back; especially as late-comers onto the global market usually have to depend on offering extremely cheap labour power.

In the original text we were unable to make sense of the Syrian civil war: it is dominated by the interests of rivaling regional and world powers to such an extent that analyzing it would not have been possible in that text. Here, we will leave it at a short remark: the recent history of Syria, from the state socialist ambitions of the Baath Party from 1963 on up to the economic reforms of the past decade, has given rise to the same peculiar kind of amalgamation of an authoritarian state and "neoliberalism" that we have come to know from Tunisia and Egypt, and this has led to the oppositional forces being rather incongruous: they unite Islamists and minorities as well as the left, "which is highly critical of the deep inequalities in Syrian society as well as the steps taken by Bashar Al-Assad to gradually open the market", and "secular-capitalists, largely composed of western-educated individuals, who view the socialist elements in Assad's regime as the reasons behind Syria's current societal problems. They strongly believe in increased economic liberalization." (Majid Rafizadeh, 'Assad's future and Syria's opposition groups', *Yale Journal of International Affairs*, March/April 2012, pp.113-114) Syria has been hit by the same social crisis as north Africa. Almost half of the population is under the age of 15; every year, 250,000 to 300,000 people enter the labour market, but the traditionally important public sector has frozen hiring for years.

Even a couple of years ago a German thinktank remarked that "the politically most dangerous" problem in Syria was the "growth of the poverty belts around the major Syrian cities. [...] Syrian families arrive there on a daily basis unable to sustain their livelihood in the countryside." (Germany Trade and Invest) Cuts to state subsidies for food, electricity, and gasoline have done their part to make proletarian life increasingly unbearable. The fact that the uprising was started by teenagers in Daraa, one of the country's poorest regions, is symptomatic. Even bourgeois analyses recognize that "the majority of people protesting in the streets today [...] come from the Syrian working classes and suffer from widespread unemployment, poverty, and corruption". (Rafizadeh, p.113) For now, the almost unfulfillable proletarian demands have been pushed aside by the militarization of the conflict; due to the fragmentation of the class along ethnic and religious lines deepened by the civil war, it may even be too optimistic to expect that they will come back to the fore later.

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## *Aufheben*

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# *Aufheben*

In German, *Aufheben* means both ‘to preserve’ and ‘to abolish’.
Hegel exploited this dual meaning to describe the dialectical process which abolishes the contradictions in a lower form of thought, ‘preserving’ (that is, understanding) their moment of truth.
But for Marx the *Aufhebung* of capitalism and its contradictions is not a question of dialectical ‘understanding’:
it can be only realised through the revolution of present social relations.