2011 witnessed the implementation of some of the most comprehensive undemocratic structural changes in the EU since the Lisbon Treaty. New rules on economic governance have been passed effectively giving the Commission increased powers to meddle in the economic and fiscal affairs of member states. Labor market policies are being altered in favor of more flexibility and lower wages, and austerity measures are being institutionalized through mandatory limits in public spending. Such dramatic changes have been advanced swiftly and quietly, under the pretext of restoring stability in the eurozone.

T N I

As the race to save the euro continues, critical economists have spoken up as to why the policy responses of the European institutions despite being far reaching in terms of the framework of EU decision making are merely cosmetic in terms of solutions to the euro crisis. Alternative proposals for a progressive exit from the euro crisis are laid out here.

Governing the EU:

Critical Perspectives and Alternative Solutions to the Eurozone Crisis

The EU shock doctrine

Introduction to a future of austerity and attacks on social rights

by Kenneth Haar

The EU is preparing for a major role in member states fiscal and economic policies. Talks on changes to the fundamental rules of the Union, the Treaty, began at the EU summits in late October. Changes meant to ensure stronger enforcement of the policies favoured by the Commission, powerful member states, and indeed by big business lobby groups. Austerity and attacks on social rights are to be the order of the day in the EU. The euro crisis has set the European Union on course for a new model of 'economic governance'. A model that puts the EU institutions in a position to check and correct member states fiscal policies and economic policies. Though the summits did produce new ideas, like an economic super Commissioner, a large number of reforms have already been adopted. We will not have to wait long to see what economic governance means in the European Union.

What kind of crisis?

The basic idea is simple. In the view of the EU elite, the present crisis is about public debt and budget deficits, both of which must be brought down swiftly. And it is about wages eroding competitiveness in countries such as Ireland, Greece, Spain, Italy and Portugal and maybe others too. But the causes of the crisis are far broader and deeper than that and the crisis certainly did not start as a result of public debt, but because of private debt. It was housing bubbles and irresponsible lending policies pushed by big banks that brought the economies of many European countries down. Ironically, these very same banks are now being bailed out with one big loan package after another. And the crisis also owes a lot to the euro: countries such as Ireland, Portugal, Greece and Spain were at a disadvantage having the same currency as Germany. Their competitiveness was eroded. That was the basic issue – not wages. In fact, wages more or less remained stagnant in most countries, just as they did in Germany.

So, the new model of economic governance suffers from a basic flaw from the outset. Not that it should be a big surprise. The strongest in business and governments have been advocating this formula for years. They see the crisis as a big opportunity, and some major steps have already been taken to seize that chance. Eight steps to be precise.

The European Semester

The European Semester was the first piece in the puzzle to be adopted and it happened very quickly. The Commission published a proposal in Spring 2010, which was adopted by the Council in September, only a few months later. Under this new procedure, member states have to show their draft national to the Commission and the Council in April. After the Commission has scrutinised the documents, it will draft comments for the Council to consider. In July, the Council will give "policy guidance" to all member states.

The Commission will base its advice on an 'Annual Growth Survey' that is to be released every January. In this year's survey the Commission mainly emphasised the 'need' for pension reforms in member states – and the 'need' for labour market reform. The advice to member states was adopted in the summer, supporting this approach. And it is to continue: the EU summit on the 23rd of October concluded that next year's Semester should be "as ambitious as possible."

The Euro Pact

The most widely known document outlining the new EU economic governance is the Euro Pact, which was adopted at an EU summit on the 24th of March. The wording in the Euro Pact is remarkably clear. The solution to the crisis lies in austerity and low wages. To achieve 'competitiveness' member states

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must reform labour law and keep wages low to ensure 'competitiveness'. And to promote 'sound public finances' member states should first and foremost turn to "sustainability of pensions, health care and social benefits", in other words cuts in social expenditure. Other options, such as increasing budgets by curbing tax evasion, are de facto discouraged. The pact does not include strong enforcement measures, but a host of legislative, binding measures laid down in the recently-adopted package of six legislative proposals on 'economic governance', sometimes referred to as "the six-pack" fulfil this role.

The six-pack on economic governance

The most important elements of the six-pack relate to member states in breach of the Stability Pact's two requirements (to keep deficits below 3 % of GDP and debt below 60 %):

* Member states can only avoid fines or other sanctions if a qualified majority in the Council vote against the sanctions. This amounts to 'semi-automatic' sanctions.
* A new measure has been introduced to ensure that debts are paid off at a certain speed. The standard is to be five per cent of the difference between the debt and the 60 per cent limit - each year. For countries with a high debt, this could have serious consequences for state budgets. Belgium for instance, with a debt of 100 per cent of GDP, will have to pay off approximately two per cent of GDP for many years (first year: 100-60/20). If a member state does not comply with the new rules on the debt criteria, it can be fined.
* Fines are to be up to 0.5 % of GDP - billions of euros.

In recognition that imbalances in the eurozone played a crucial part in the problems that some member states are now facing, the Commission proposed an initiative to counter what they call 'macroeconomic imbalances'. It does not, however, link this to the euro itself, or to the increasingly clear flaws in its design, but only to member states' policies. The proposed remedies to redress these imbalances put the burden on those who have already paid dearly during the crisis. Among the imbalances to be 'corrected' feature wages. When the Commission presented its proposals in September 2010, it made it abundantly clear that attacking wages was on its wish list. If wages – they claimed – were to be reduced in countries lagging behind in competitiveness – this would restore balance.

The perspective

But balance will hardly be the result. Rather the contraction in demand will lead to a downward spiral not unlike the crisis of the thirties. The response to the crisis from the EU institutions to attack social expenditure and to attack wages is nothing short of disastrous. Those who have already paid a high price will continue to pay, and more will join their ranks.

Kenneth Haar is a researcher with Corporate Europe Observatory (CEO), a non-profit research and campaign group working to expose corporate influence in EU policy making.

This article is a brief version of "Austerity forever". See the full version for references and more in depth explanations: http://www.corporateeurope.org/publications/austerity-forever

Founded in 1974, TNI is an international network of activist scholars committed to critical analyses of the global problems of today and tomorrow. It aims to provide intellectual support to grassroots movements concerned to steer the world in a democratic, equitable and environmentally sustainable direction. In the spirit of public scholarship, and aligned to no political party, TNI seeks to create and promote international co-operation in analysing and finding possible solutions to such global problems as militarism and conflict, poverty and marginalisation, social injustice and environmental degradation.

A Coup D'Etat in the European Union?

by Susan George

European Union workers' pretensions to better pay and working conditions, shorter working lives, munificent retirement benefits, long holidays and time off for this and that have got to be brought under control! Enough is enough!

Let us be thankful that the European Commission has the answers. Soon the neoliberal model will become irreversible and all these pretentious upstarts will have to shut up once and for all. High time too. In a brilliant move, the Commission has pushed through a bundle of measures called the "six-pack"—a cheerful name suggesting parties where the beer flows freely. This bundle is rather more austere and will give the Commission hitherto unheard-of leverage in the affairs of its member States.

By a close vote on 28 September 2011, the European Parliament passed the Commission's plan—a far-reaching takeover of individual countries' capacity to set their own budgets and to manage their own sovereign debts. From now on, the Parliament and the Council (with the Commission naturally overseeing the process) will be able to force governments to comply with the Maastricht Treaty recommendations—otherwise known as the "Stability and Growth Pact"--to which member States had recently paid precious little attention. After 2005 this Pact seemed almost a quaint relic. But now, thanks to the six-pack, no deficits greater than 3% and no national debts above 60% of GDP will be countenanced. What these people need is stern discipline, make no mistake.

Starting in 2012, Euro-parliamentarians and the Council will dissect national budgets before national parliaments have any say at all or even a chance to look at them. If countries do not reduce their debts fast enough or refuse the budgetary "suggestions" from Brussels, enforcement measures will kick in. In case of further recalcitrance on the part of member States, punishment can mean either depositing or forfeiting .01, .02 or even .05% of the country's GDP to the EU, depending on how severe the country's non-compliance is judged. In the case of, say, France, with a GDP of about €1.900 billion ($2.600 billion) the Commission could demand a deposit or a fine of some €20 to €40 billion or even €100 billion if the Commission were to escalate the sanctions to .05% of GDP.

True to the Commission's usual quietly efficient methods, these permanent six-pack measures went through the whole approval procedure with barely a ripple, little debate and virtually zero citizen involvement. Most Europeans have not the slightest inkling that any change has taken place, much less a savage attack on their governments' capacity to govern. Thanks to this legislation, we can count on the lasting power of neoliberal doctrine throughout Europe, particularly in the euro zone, as elected officials are dispossessed by appointed, non-accountable ones of their right to draw up their own budgets. They lost the right to a say on monetary policy long ago.

The six-pack, thanks also to the right-wing euro-parliamentary majority is now firmly entrenched and will be difficult if not impossible to reverse. Anywhere else, one might have heard accusations of a mass coup d'état against member State governments and their peoples. But so far, all's quiet on the EU front.

Simultaneously, the Commission is pushing the member States to follow another part of the neoliberal scenario through a variety of other directives ensuring longer work weeks and working lives and the gradual alignment of wages and social benefits according to lowest common denominators. This process may be a bit slower but will also be enhanced by the six-pack.

The European Court of Justice is doing its part on the second objective in particular with at least four separate judgments obliging workers to accept sub-standard wages even when working in countries with strong worker-protection laws like Sweden or Finland.

One has to admire the Commission's capacity for discretion and getting things done without unnecessarily upsetting member States' citizens or their national parliaments. The apparent technical complexity of the measures and the process of putting them in place help to keep things quiet, although these measures are actually quite straightforward (and, one might add, have German fingerprints all over them).

Meanwhile, the largely neoliberal European media see no reason to make an issue of what's happening behind the scenes in Brussels and assist in keeping the lid on protest until too late for citizens to intervene. All this spells greater victories ahead to come for neoliberalism and the failure of European economies. No, sorry, only failure for 90 percent of the people. The rest will be fine. Not to worry. As Martin Wolf recently paraphrased Tacitus in the *Financial Times* to describe the European situation, "They create a desert and call it stability".

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The EU's new economic governance proposals: Rearranging the deckchairs while sinking the ship

by Andy Storey

The EU's new economic governance measures are presented as an attempt to prevent another economic crisis by allowing tighter surveillance by the Commission of member states' budgets and, in particular, by measures to safeguard against the growth of fiscal deficits and public debt.

But public debt had, in most cases, nothing to do with the genesis of the current crisis. What was fuelling, for example, the disastrous Irish property price bubble was a massive rise in *household* debt, which rose from €57 billion in 2003 to €157 billion in 2008 and which now stands at 180% of household disposable income (compared to 40% in 1993). A 2011 audit of the Irish debt[1] estimated a total national debt of €371.1 billion; of this, €279.3 billion (over 75%) is accounted for by the state-covered debts of the Irish banks, and this, as the audit notes, is before taking into account the likelihood that much of the direct government debt of €91.8 billion may itself have arisen from the banking crisis. In other words, the audit proves conclusively that the Irish debt crisis is a crisis of private (*subsequently* socialised) debt, not public debt – the allegedly 'bloated' nature of the Irish public service, or 'generous' welfare entitlements, did not cause this crisis. As the audit puts it, "it is clear that the bulk of Irish government debt has arisen directly from the banking crisis, the decision in September 2008 to rescue all of the Irish banks". The new economic governance measures, had they been in place in 2008 or earlier, would thus have done nothing to avert this crisis.

Moreover, Ireland's reckless debt splurge was facilitated by liberalised lending practices across the EU and by lax cross-border regulation of the financial sector. The low interest rate policy of the European Central Bank (ECB) fanned the flames: the ECB variable rate was cut from 4.25% in August 2001 to 2% in June 2003. Indeed, the very design of Economic and Monetary Union (EMU) helped cause the crisis by establishing exchange rates that left peripheral EU countries uncompetitive relative to Germany and, denied the option of restoring competitiveness through devaluation, encouraged the peripheral countries to rely on the accumulation of debt to 'compensate' for this.[2] In other words, *already existing* harmonisation of economic and social policies helped cause the crisis, so more such harmonisation is unlikely to solve it or any future crisis.

What then does drive the agenda? The answer has been obvious for a long time now. In 2000, the chairman of the European Roundtable of Industrialists proclaimed that a "double revolution" was underway: "On the one hand we are reducing the power of the state and of the public sector in general through privatization and deregulation... On the other we are transferring many of the nation states' powers to a more modern and internationally-minded structure at European level". Over a decade later, in 2011, Commission President Jose Manuel Barroso recommended the new economic governance measures to the European Parliament in the following terms: "we need more than ever the independent authority of the Commission, to propose and assess the actions that the member states should take. Governments, let's be frank, cannot do this by themselves. Nor can this be done by negotiations between governments". Or, to put it slightly differently, democratic debate and decision making is inimical to our economic goals.

What are those goals? The Commission's track record is the best guide to how it will use its powers in the future – against public expenditure (save in corporate interests), social protection and regulation of the market; and in favour of privatization, liberalization and deregulation.[3] The very policies that got us into the current crisis will be institutionalized and intensified.

Insofar as the new measures on economic governance have nothing to contribute in the area of private debt (the source of the current economic catastrophe), they are akin to shifting the deck chairs on the Titanic. Insofar, as they lock in and advance neoliberal economic principles, they are akin to increasing the size of the iceberg towards which the Titanic that is European society is sailing.

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Radical action to resolve the Eurozone crisis

by Costas Lapavitsas

The world is at the cusp of an upheaval that could turn out to be the most gigantic crisis in the history of capitalism. The crisis that began in 2007 could turn out to be far bigger than the Great Depression of the 1930s, because of how it has evolved and because of how it has been handled in the past years.

In Europe, this global crisis is mediated by the European Monetary Union, by the common currency—a poor man´s version of the gold standard. The EMU has created a split between core and periphery, with the periphery losing competitiveness vis a vis the core. This resulted in the accumulation of private and public debt, trapping the periphery, in the usual way of these hard currency systems, to a future of low growth and low intensity social welfare. In contrast, core countries like Germany have emerged as the economic master of the euro area.

The policy responses of the European institutions to the crisis have been to cut public spending and reduce wages. Fiscal irresponsibility, however, had nothing to do with the crisis. The most fiscally responsible countries in Europe for the last ten years have been Spain and Ireland, far more than Germany. Even Greece was not that irresponsible during the last ten years. Greece lost control of its fiscal space after the crisis, not before. Yet the fragmented fiscal space of the Eurozone is persistently being singled out as the cause of the crisis, and attempts are made to correct it through harder rules and the institutionalization of austerity.

The cost of adjustment in the periphery

The adjustment policy imposed on Greece by the so-called troika, the EU, IMF and ECB, has two parts to it. The first is cuts in public expenditure to stabilize the fiscal side, the second is privatization and liberalization to restart the economy and generate growth. The policy was imposed in May 2010, although the Greek government had been taking similar measures before on a smaller scale.

There is no doubt at all that this plan has utterly failed. It was very badly designed, very badly executed and what it has produced has diverged sharply from expectations. GDP was expected to decline by 3.5 % in 2010 and by 1 % in 2011, after which Greece would return to markets. In reality, GDP declined by 4.5 % last year and will probably decline by 6 %, or even more, this year. The decline will continue next year, forecast at 2.5 %, quite possibly more. Summing that up, the total loss of output from 2009 stands in the region of 13 %. If potential output is taken into account, the figure would be about 25 %. These are figures that were last seen in the Great Depression.

The causes of the disaster are clear. Instead of stimulating growth, the programme sharply reduced aggregate demand precisely at the wrong moment. The consequence was that unemployment shot through the roof, currently at more than 17 per cent, with youth unemployment in the range of 40 to 50 per cent. Unemployment is expected to be as high as 1.2 million by next year in a population of 11 million. Cuts in real wages have varied between 15 to 20 per cent, mostly for public employees but also in the private sector. Schools have been in complete disarray, the health service is collapsing, transportation is disorganized, and violence is on the rise across the country. What has ensued has been complete fragmentation in society, the loss of social glue, and a near-Hobbesian state of war of all against all.

On top of this, the state is falling apart. The Greek state has not been much of a paragon of efficiency and effectiveness over the decades, but it was never as bad as it has been portrayed. It is now falling apart in terms of its own functioning, as well as its capacity to intervene in the economy. It is closing down vital elements of intervention that could potentially help restore the economy, such as in agriculture and other productive sectors.

This is being presented as the necessary cost of rebirth of Greece, but there will be no rebirth if this destructive path is followed. What will emerge will be long term decline of the Greek economy and society, a transformation that will install Greece as a stagnant backwater of Europe with a weak state, a weak economy, and incapable of projecting its own national and democratic rights within the Union.

Alternative solutions

The supranational mechanisms of governance created at the level of Europe as a whole have not worked, creating the kind of profound democratic problems that we now face. At the same time there has been a decline of the ideology of Europeanism manifested in the sidelining of the Commission during the last period and loss of legitimacy of the EU amongst the people of Europe. There has been a spontaneous re-strengthening of the national in view of the failure of the supranational, and this could be a way to recapture some democratic content and to begin to put in place measures that are beneficial for working people. The experience with the monetary union demonstrates that national mechanisms are very important to safeguard democratic rights and to defend the interest of working people rather than big banks and capital.

This is clearly illustrated in the case of Greece, which is being increasingly forced into default organized by the creditors. A creditor-led default which would take place within the umbrella of the monetary union would mean that the country would probably lose control over its banks and over its fiscal policy altogether. The alternative is default that would happen on the terms of the debtor and would be sovereign and democratic. Such default would impose coercive terms on the banks and would also open the books of debt to public scrutiny. It would also probably lead to exit from the EMU. Exit could be a decisive way out of the impasse, giving Greece control over monetary policy again and allowing for the recapturing of competitiveness in one sweep, instead of insisting on pushing wages down among other destructive measures implemented in the past two years.

Default and exit would obviously trigger widespread shocks and in and of themselves cannot solve the problem faced by Greece or other peripheral countries. They would also require a broad programme of economic and social restructuring and this is where a return to national mechanisms is necessary if the periphery is to recuperate. Greece would have to nationalize its banks, reimpose capital controls, engage in urgently needed redistribution of income and wealth, recapture its productive capacity, and cleanse the state. In other words, what is needed is a huge programme of transformation which neither the European Union nor the European Monetary Union in their current form would ever deliver.

At the level of Europe as a whole, an important step would be to nationalize the banking system across the board. The current crisis has shown that European banks, if such a term could properly be used given the national character of banks, would have to come under public control. Private banking in the form experienced in the last decades has failed unquestionably and systemically. Public banks are needed to rescue the situation and in order to put the European economy on a different footing. Obviously, there would be massive social and political unrest as this took place, but it might also lead to adoption of different strategies for growth, away from favoring the interest of private capital, from pushing wages down, from insisting on flexibility of labor—all these tired and exhausted ideas of the eighties and nineties that have delivered so little and are completely inadequate in the face of the crisis that this continent faces and which threatens the world economy as a whole.

Can we do it? I hope we can. But if a solution emerged, it would not be because of the efforts of the European Commission. It would be because of forces that would emerge from below, from the spontaneous action of working people and others.

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This article is based from a new report by Research on Money and Finance (RMF) on the eurozone crisis, ´Breaking Up? A Route Out of the Eurozone Crisis´. The full report is available at http://www.researchonmoneyandfinance.org/

Five policy proposals for a progressive exit to the Eurozone crisis

by Dominique Plihon

If we think of alternatives for Europe, it has to be an alternative to capitalism. Clearly, there is a strong need to break up with the dangerous neoliberal policies in the EU that have contributed to the crisis.

Several measures must be implemented.

Restructure the debt

A restructuration of the government debt of most periphery countries must take place. The debt burden of countries like Ireland and Greece has already reached untenable levels, with rounds of severe austerity policies being imposed on their populations to pay back their debts. Yet austerity, through a reduction of expenditures on public investment, social welfare, education will have a very negative effect on the economy. This policy would slow down economic activity, reduce the capacity of these countries to develop in the future, and are counterproductive to growth.

Negotiations must start in the short run to reduce the interest rates and the level of debts of Greece, Ireland, Portugal. There must be a public audit of government debts in all countries to determine the origin of the increase of debt (e.g. bank crisis, tax evasion, tax cuts) with a view to make responsible actors pay (e.g. banks) and to organize a write off of illegitimate debt. We know that the sharp increase in government debt ratios since the beginning of the crisis in 2008 is due to the socialization of losses in the financial system. Financial actors (e.g. banks, investors) are responsible for these losses due to their excessive risk taking. Consequently, financial actors must share the burden of debt and accept the restructuration of debt.

Disarm the financial markets

The crisis is finance-led, first and foremost, hence breaking the domination of finance must be at the heart of any credible alternative. Several years after the crisis hit Europe in 2008, no significant financial reform has been put in place. EU governments are under the pressure of financial markets, and quite clearly, they have lost their capability to reform the financial system. Europe has in fact regressed at regulation when compared to the UK and US, the supposed epicenters of global finance.

Disarming the financial markets entails putting in place strong regulation to rein in the banks and the obscure financial instruments that have eclipsed regulation in the past decades. This means a ban on speculative instruments like credit default swaps (the same speculative instrument that was used against the Greek debt) and highly leveraged institutions like hedge funds, the closing down of offshore centers, and the taxation of financial transactions to combat speculation.

Restoring stability also requires better control of financial innovations. A wave of unprecedented financial innovations like derivatives and the securitization of banking products has weakened the international financial system, and are very central to the crisis. Before and during the financial crisis in 2007-2008, nobody knew who was trading what kind of risky financial products with whom. This lack of transparency was especially the case for OTC derivatives that were traded in private deals ('over the counter') and not on public exchanges. In the end, these instruments gave rise to excessive risk-taking, speculation and opaque transactions. It is important therefore to reduce the size of over-the-counter (OTC) derivative markets which are at the core of the "financial casino" and the banks' exposure in these markets.

Reform the banking system

Some radical changes are needed with respect to banks as these actors play a strategic "public utility" role in our economies. A separation of retail banking from investment banking is required to protect households from the speculative behavior of most banks. The size of banks also needs to be limited so as to reduce the market and political powers of big banks. Large banks create systemic risk as they are "too big to fail". They also create a problem of democracy because they capture the regulators and prevent them from making radical reforms.

Banks will have to come under public control. The crisis has shown that the current business model of most capitalist banks is flawed; when driven by the expectations of high returns, banks do not play their fundamental role in the economy, and take excessive risks. There is a need to break up with shareholder governance and organize an alternative system of banks governed by general interests. Stakeholder governance, as it works in cooperative banks, needs to be developed in all European countries. This means that we should organize the banking sector with a view to reversing the demutualization process which took place during the past two decades. And since the crisis will lead to the nationalization of European banks, this creates a good opportunity to organize a public banking sector at the European scale.

A tax reform

Most government deficits are on the income side. They are caused by the decline in tax revenues stemming from tax competition, tax havens, tax reductions mostly on corporations and high income people. Reform policies should in this regard be designed to make corporations and millionaires pay higher taxes and tax capital income and financial transactions.

Harmonization of taxation systems should be implemented by EU governments, but not through fiscal competition. Ecological and financial taxes could be the first European taxes and these can pave the way to future common fiscal policies. The current rule of unanimity for decisions on fiscal matters in the EU should be changed as it constrains the ability of governments to make decisions on fiscal matters.

An alternative political and economic governance

Finally, governments need to recover their independence from lobbyists and financial markets. Coordination of policies should be based on solidarity and symmetry: the burden of adjustment should be shared by all actors, and by surplus countries as much as deficit countries. Social and ecological goals must become priorities because they are the major challenges for Europe and democracy tomorrow. Struggling for these major goals is a must if we want to rebuild the European Union on alternative principles.

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