ECONOMIC
AND SOCIAL
COUNCIL
OF GREECE

CASAIRE

10TH BIENNIAL ATHENS SEMINAR – 4 NOVEMBER 2011

THE EUROPEAN UNION AND THE EURO : A COMMON CRISIS – WHERE IS THE EXIT?

DEBAT CRISIS, CRISIS OF THE SOCIAL MODEL: WHAT ARE THE ROLE AND THE RESPONSABILITY OF SOCIAL ACTORS ?

SESSION 1 : CRISIS AND FINANCIALIZION: WHAT ARE THE EFFECTIS ON THE SOCIAL DEVELOPMENT MODEL? WHAT ARE THE EFFECTS ON DEMOCRATY?

Presentation of the topic

Joël MAURICE

The world crisis is dragging on and is changing. In its current phases, it is assuming the form of an attack on sovereign debt by the financial markets. This is the case in the United States, whose AAA rating was downgraded by Standard & Poor's on 5 August 2011. It is even more the case in Europe, especially within the euro zone.

The sudden turnaround is staggering. Before the crisis, the "financial markets" had considered the euro as cement in the zone; they had ensured very low interest rates, scarcely different among the Member States. During the crisis, they clamoured for public aid in all the States in order to guarantee the banks, to pursue a Keynesian public deficit policy, so as to avoid depression. Then suddenly, at the time when the economy seemed to be recovering, the financial markets started playing the euro zone countries against each other with unprecedented violence; to finance the public deficit and refinance the instalments of public debt due, they are imposing discriminatory interest rates. These rates are hitting unprecedented heights in some Member States, while dropping in others, so that it can be clearly stated that "one lends only to the rich!"

In the States under attack, the disproportionate increase in interest rates on the public debt has initiated a disastrous vicious circle: to avoid the interest expenses from exploding, it is necessary to reduce the public deficit and even to generate budget surpluses, thus cut public expenditures and increase taxes. However, production contracts as a result, leading to a shrinkage in tax revenues, and the economic and social system plunges in a downward spiral with no end in sight. The internal social situation is seriously affected. The effort required is all the more unsupportable since it seems arbitrary and unfairly distributed. Arbitrary, because why did the financial markets change course so suddenly and so radically, and why are they tightening the noose? Unfairly distributed, because low and medium incomes are forced to contribute proportionally far more than high incomes and the largest fortunes, which were nonetheless the ones that benefited from the previous period of the crisis, as attested by all OECD and ILO studies that decry the aggravation of inequalities.

Nevertheless, the States under attack are not the only ones under threat. When one of them goes into recession, it hampers growth in all the others. Because the EU Member States, and even more so the ones in the euro zone, are interdependent. And such interdependence makes crises

contagious, by creating an austerity multiplier (underscored in France by the French Economic Observatory (known by the French acronym 'OFCE') for instance). The advocates of discipline who want strict, systematically applied rules would do well to integrate such de facto solidarity into their line of thinking.

These attacks by the financial market that hurt the euro zone reveal its institutional weaknesses, the failures of its "governance." The authorities of the euro zone are hesitant, defensive, divided, always a step behind. We have seen as much when the first plan to help Greece was put together, for the establishment for the EFSF, then the MSF, for the second plan for Greece, and regarding the recapitalisation of the banks. These reactions retain an inter-governmental character, leaving the Member States face to face, where the richer impose their conditions on the poorer, while the unanimity rule that gives a paralysing veto power to the more reticent ones.

Now the euro is a common public good, a very strong link created by a very strong political will to ensure the internal stability of the European Union after the fall of the Berlin Wall and the reunification of Germany, and after the collapse of the Soviet Bloc. All the Member States of the euro zone wanted to join and agreed to make major efforts to that end. It is an attainment that is threatened today. It is a link highly federal in nature. But as everyone knows, the euro zone is not homogeneous, it is not an optimal monetary zone in the sense of economic analysis. As a result, it is unstable as such. We cannot stay in the current situation. We must either go back, or go forward. Going back would be a terrible political failure, a regression, a risk of retuning to the confrontations that have tragically marked the history of Europe. We must therefore move forward, establish new institutions that are complementary to the euro. The Stability and Growth Pact revisited or the Euro Plus Pact is not the answer to that need – far from it. An answer of a different nature and of a different dimension is needed.

The question is now being raised in various quarters. Jean-Claude Trichet, for example, is calling for a revision of the Maastricht Treaty. Angela Merkel is about to propose, at the CUD Congress to be held in Leipzig in a few days, the establishment of a "European Confederation" by 2020, and to hold a new Convention to amend the treaties. Other voices being raised in favour of a real European federation include in particular Ursula von der Leyen, a minister in Angela Merkel's government, the European Greens, and the European Socialist Party. A very great deal is at stake. A confederation would entail limited transfers of sovereignty and would retain sizeable weight for the national governments. A federation would entail more extensive transfers of sovereignty and strengthen the ties of solidarity in return. Protection against speculative attacks from the financial markets would assume different forms: A confederation would insist on the discipline of each Member State, which would be placed under enhanced surveillance by the others; a federation would make it possible to issue real eurobonds, which would suppose proprietary tax resources (and not simple guarantees or shares from the Member States), which would in turn suppose real control by the European Parliament. In any event, it would seem desirable to limit the reform to the confines of the euro zone.

The debate has therefore been set in motion. And it is just the beginning. It is important for this debate not to be conducted in haste, but to lead to a real democratic mobilisation – All the more so as it puts at stake the European social model and the type of development that we want.

Because the way in which the crisis in the euro zone is currently being managed is deeply alarming. The financial markets, which before the crisis were exerting pressure on the European social model, and which had been silent for some time during which the resilience of the European welfare model was feted, are going back on the offensive with renewed vigour to call for more and more liberalisation. And their demands are taken up by the public authorities. The European Central Bank itself, to which we should be grateful for its management of the crisis in

2008, and also more recently for the repurchase of Greek, Italian and Spanish public securities on the secondary market, is relaying the most contestable demands of the financial markets, as shown by the letter of Messrs Jean-Claude Trichet and Mario Draghi to Silvio Berlusconi of 29 September 2011, and I quote: "*We see a need for significant measures to enhance potential growth. Key challenges are to increase competition, ….full liberalisation of local public services, large scale privatisations,… reform of collective wage bargaining system allowing firm-level agreements, to tailor working conditions to firms' specific needs… review of the rules regulating the hiring and dismissal of employees…*". The European Central Bank, which is so attached to its independence, here clearly departs from its true role to infringe extensively on the purview of the social dialogue and public policies, thereby constituting a threat to both the European social model and to democracy itself.

I will end by going briefly over an issue which will be broached in greater depth in session 2 of our seminar, i.e.. the primary sharing of wealth between wages and profits.

For public debt polarises attention to excess. The euro zone faces profound macro-economic imbalances that are reflected in the divergence of trade balances (and more widely the current account balance), with some countries accumulating surpluses, while others are running deficits, both of them unsustainable in the long term. This situation originated in large measure in competitive wage disinflation policies pursued in surplus countries, where the share of wages in the added value has declined considerably. Rather than call on countries that are running a trade deficit to imitate this wage compression effort, the stability of the euro zone (which by definition precludes any possibility of competitiveness correction between the Member States through exchange rates) makes it indispensable to coordinate progressive wage developments, by integrating productivity gains to come, but also those which were not integrated in the past. The power of the financial markets will not be reduced by increasing the power of shareholders which is already excessive: on the contrary, there is a need to rebalance powers in favour of wage earners.

I would add that the European Structural Funds must reclaim their true purpose and appropriate amounts to facilitate productive gains in countries hard hit by the crisis (infrastructure and facilities, training, research, etc.).

In conclusion, the euro zone is in turmoil. It cannot get out of it only with blood, sweat and tears. It needs an upward path, through a very substantial step towards solidarity and more democracy. Europe cannot be built against European citizens, but with them.

i