EuroMemo150909

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After the Greek tragedy – what next?

On ECB as blackmailer-of-last resort and on the consequences of German-led destruction of economic solidarity within the European Union

The countries of the European Union are currently plagued by increasing social inequalities, endemic unemployment and deficient investments in infrastructure. Developments post-2008 have exacerbated dilemmas within the EU.

Is there a way out of these dilemmas, a way based on common economic growth? in "The Political Economy of Gunnar Myrdal.Transcending dilemmas post-2008" I argued for a system of Union or Euro bonds as a basis for new, ecologically sustainable development patterns. An argument well in line with suggestions in earlier Memorandum statements.

But this and other proposals have been premised on the assumption that there is a basis for a rational discussion on win-win-proposals between the governments of the Eurogroup countries. The brutal treatment by the "institutions" – viz. Schäuible, Draghi and Juncker – of the conciliatory Greek proposals and the imposition of punitive and economically absurd conditions on the Greek people have shown that this assumption does not hold.
Any discussion on realistic issues from the present crisis must take this dire fact into account: only a fully assumed confrontation with this power centre can pave the way for future cooperative measures.

What the Greek drama in all its tragedy has shown so far is that democratic legitimacy is not a sufficient condition for an assumed confrontation: any bargaing power must be based on the readiness to establish a separate national currency and unilaterally cancelling of its public debt.
Only on the basis of a renewed assertion of national sovereignty and democratic legitimacy that future – truly cooperative – schemes can be developed.

The reactions of the leading representatives of the institutions of the European Union (The Commission, the ECB, the ministers of finance of the eurogroup) and of some governments, especially the German, on the electoral victory of Syriza in Greece and the subsequent five months of "negotiations" have all but shattered the illusion about the development of the European Union as one towards "an ever closer union".
What we are witnessing instead is the establishment of a monetary and political system fuelling nationalist dissensions and exacerbating social inequalities within and between its member states. A system where cynical financial greed in well-to-do national public opinions are pushing weaker states to the brink of fire sales of their public wealth.

Never before has the EMU shown its fundamental flaws to such an extent, as Yanis Varoufakis, the former Greek minister of finance put it : the only monetary system with a central bank without a country and countries without central banks.
It is also the political system that has proven its utter inability to cope with realities: when the chairman of the European Commission claims that ”there can be no democratic decision against the treaties ” he is not only negating the pretention of the ”common European values” as being something including democracy. He is also professing a belief in the inviolability of treaties, of the famous ”acquis communataire” that smacks of a religious fundamentalism that one had hoped should have disappeared with the dogma on the infallibility of the Pope.
In all its tragedy the last five months amount to a watershed in the development of the nature of the European Union that has to be lucidly analysed and taken as a departure for our future Memorandum reports and suggestions.

Our yearly Memorandum reports have been scholarly, well argued attempts at showing ways out of dilemmas, ways to find general win-win solutions despite our frank critique of the narrow minded and theoretically flawed policies pursued in different areas. Our implicit value premise have been that ”another EU is possible”, that the current economic integration within the EU is a process with progressive potential that can be realised if a there is a change in the orientation of its economic policies. On various occasions I have personally argued along these lines.[1]
It seems to me that we can no longer argue in that way without taking fully stock of the past five months of negotiations concerning the what has been called the ”Greek crisis” but is in fact a ”euro crises”, even a crisis for the European Union as such.

The dramatic shift

What has occurred amounts in effect to a dramatic shift that can be illustrated in a few points:

- Representatives of the EU institutions have been priding the system of being rule governed, thus transparent and predictable. Smaller nations have been warned to go astray from economic orthodoxy and an intricate ”European semester” has been put in place so as to curtail the discussions in the national parliaments on their own budgets. But as we have seen its rules on budget deficits can be bent if larger countries are involved (eg. Germany and France).
- The ECB has a statutory duty to protect the stability of the financial system. And it has gone at considerable lengths to do so. To stave off a financial collapse of the Spanish banking system in 2011 – many of the Spanish major banks were – and are - insolvent by standard measures – ECBs Manuel Draghi effectively forestalled a speculative run against these banks by promising to provide them with abundant liquidities, ”whatever it takes”, actually helping them survive despite mountains of bad loans on the housing market. But when the Greek banks were in trouble – because of the devastating effects of the austerity policies imposed by the troika(ECB,EC,IMF), because of the insecurity created by the interminable ”negotiations” of the same institutions – then ECB refused to grant

[1] Appelqvist, Ö., *The Political Economy of Gunnar Myrdal. Transcending dilemmas post-2008* (London, Routledge, 2014).

the Greek banks access to increased liquidities through the ELA system. It even demanded a higher price on the liquidities delivered referring to the risks of a default involved. This action clearly an attempt to influence the upcoming referendum, in clear violation of its statutory obligations.

- Another example of the negligent attitude of the ECB towards its statutory obligations is the way it has accepted Greek bonds as collateral from German and French private banks after 2012– at their full value in spite of the fact that even its internal reports were aware of their character as junk bonds at the time. These operations were anything but proper ”market operations” – they amounted to a rescue operation without conditions: these banks were saved from their incoming losses on speculative lending, once they had reaped profits on speculating against the weakness of the Greek public finance. By 2015 it was ECB, not the ”financial market agents” that was the main creditor of Greek public bonds. And then ECB, trying to cover up the irresponsibility of its earlier rescue of private banks, demanded that Greece should honour these bonds at its face value even if by then the insolvency of Greece was even more evident. A fact universally noted by a plethora of economists. The end effect of this bypassing of normal accounting standards by the representatives of the ECB in their ”negotiations” with the Greek government is to force a fire-sale of Greek public assets without the slightest amelioration of ite economy in sight. As Varoufakis said, the last time it was with tanks, now it’s with banks that the robbery is enacted.
- The attitude of the IMF have proven to be equally politically biased – without any objections from the French or German government. While insisting on full payments from Greece on existing loans and refusing to grant new loans unless a haircut is decided – which the German government adamantly refuses to accept – the IMF have effectively blocked any reasonable easing of the acute liquidity problems Greece is facing. Compare this attitude with its more than generous attitude towards the regime in place in Kiev: in August IMF approved a further 1,7 billion euros to Ukraine of a program amounting to 17,5 billion euros in total in 2015. At the same time the World Bank approved a further 500 million euros of the 2 billion euros promised as part of a ”reform package” to an economy in free fall and engaged in a civil war. Both facts that in themselves would preclude the Ukrainean government from receiving such largesses.

What we are witnessing here is not a ”governance by rules” but a total arbitrariness in the application of rules, an arbitrariness totally guided by political considerations of the most powerful player in the European Union, the German government, especially its Minister of Finance Wolfgang Schäuble. This has not even been a behaviour driven by the ”market economy”, the principles of which neo-liberal politicians are so quick to pledge allegiance to: by their control of central liquidities in the monetary union the leading officials in Frankfurt and Berlin have been able to shape market conditions so as to further the ongoing blackmail against the leftist Greek government.

They have been able to do so because of a further factor dangerously enlarging the division of minds in the European Union: the role of mainstream media. They have willingly propagating the neo-liberal reading of the unfolding crisis with no proper place for an open debate. Even moderate reformers like Stiglits or Krugman have been

marginalized since they do not conform to the accepted script. The role of media have been especially dangerous when referring to national stereotypes as modes of ”explanation”: what haven't we heard of the ”laziness” in the PIIGS- countries, that ”southern periphery” to which the “industrious” and “conscientious” northern Europeans are comparing themselves?
The majority of the German public opinion feels itself to have been overly generous towards the Greek people, in spite of its mores of corruption and tax evasion. The reality is totally the opposite: 90% of the two previous ”aid packages” have never landed on Greek soil, they have served to save German and French banks and to bolster the accounts of the ECB. It is true that German workers have paid a price during the last ten years of austerity – their salaries have stagnated and most of the new entrants on the labour market are on precarious conditions – but it is not Greek or other European workers that have profited frsom thier restraint but the German capital, the owners of German industry. Their restraint have amounted to an internal competitive wage devaluation leading to a plundering of the industrial sectors of other countries in the EU. The mainstream medias misrepresentation of the dynamics goes even further. A recent report shows how much the German economy in effect has profited from the exaggeration of the woes of the ”Greek crisis”: the bigger the crisis in Greece the higher are the interests on Greek, Italian and Spanish bonds. And the lower the interest rates that industries, banks – and households – in the German safe haven have to pay. According to this report it is some 100 billion euros that the German economy have profited on the crisis of the Greek economy.

To sum up: we have witnessed a dramatic shift from rule-governance to ad hoc – governance. But not any ad hoc-governance but one entirely guided by idiosyncrasies of the German government and the leading financial circles in Germany. In particular, the ECB in Frankfurt has shown its total partiality in governing its power over the liquidity in the monetary union. The power it wields in the day-to-day flows of liquidity has been misused in a way amounting to a permanent threat of blackmail directed against the economies of the euro countries. It has displayed an irresponsibility and a misuse of power that is unacceptable.
It is one thing to note that throughout these ”negotiations” the German minister of finance and his eager followers in the eurogroup (Dijselbloom and others) have refused to consider any of the most sensible compromise proposals advanced by the Greek government. But the behaviour of this informal power group amounted to something more than that: far from taking any conciliatory step at all towards the Greek government the third Memorandum of Understanding was framed in a way that was seeking the utmost humiliation o fits Greek counterpart with conditions not remotely connected to the officially ascribed goal of getting Greece of its debt crisis and back to a normal economic growth.
This is not the way a hegemon acts, it is the way of an aggressor.
And as many have pointed out: it is a message directed at any popular progressive opinion in Spain, Italy or France.

The wider picture

The current crisis is not at all about Greece, it is about the basic construction of the euro and the malfunctioning of which has been exacerbated by the global financial crisis of 2008.

It must be recalled what is the origin of the general crisis of public indebtedness: the irresponsibly speculative behaviour of the transnational private banks and their affiliated funds. The financial crash of Lehman Brothers opened a chasm threatening a global liquidity squeeze and a chain reaction into the national economies. The governments in the EU, US, China and elsewhere had to put trillions of euros at the disposal of banks, car industries and to suffer major deficits in public budgets due to the recession that followed. It was not any overspending in the public sector that led to the gasping public deficits that came afterwards buy the irresponsibility and the failures of the private banking system. The recue operations of the government were a show of responsibility, even if they sadly enough were not accompanied with pertinent conditions.

What was a clear demonstration of the fallacies of the neoliberal agenda instead turned out to become a fruitful area of profit for those who hade caused the crisis: the banks, recently saved from the brink of catastrophe, made money on government bonds and on speculating on them. Private capital, pushing privatisations as a way of out public deficits, made money on fire sales of public assets.
It is a feat of neoliberal misrepresentation of economic facts that the European Commission has been able to maintain the Maastricht rule of 70% of GDP as maximum for a tolerable degree of national indebtedness while the private banks, measured in the same way, are happily working with an indebtedness more than 300% of GDP in several countries. (Doing so in the firm belief that the vilified governments will come to their rescue if anything goes wrong.)

We have to take a step back and realize the changes in the post-2008 economic landscape.
-The speculative behaviour of the banks has not beer harnessed at all, it has moved to an intensified level.
- The measures proposed by agents of the neo-liberal establishment are not aimed at logically resolving the debt crises: **for them the crisis IS the solution!** It opens up swathes of the national economies to fire sales and profits.

Revelations of the post-2008 economic landscape: the monstrosity of the monetary union and the foolish rigidity of the Maastricht criteria

From the very beginning the EMU was a flawed experiment in monetary union: assembling countries with vastly disparate conditions without any proper buffer capacities enabling its member countries to adapt to changing conditions. As Yanis Varoufakis noted it was somewhere between a Gold Standard, with its fixed rules, and a fiscal union, with its powers of economic transfers. It was – as he said - a unique experiment with countries without a central bank and a central bank with country. (However, I may note, under the informal control of one country.)
This construction has shown itself to be an economic monster.

But the same verdict also applies to the Maastricht criteria and the subsequent roles of economic governance applying to all the member states of the European Union. Constitutionalizing what should be open choices of economic policies it effectively precludes any rational economic policy oriented towards ecologically and socially sustainable growth. It is not only the idea of having fixed budgetary rules regardless of changing economic conditions – the concept of ”structural deficits” is bogus – that narrows the arena of possible policy options. As I argued at a previous Memorandum conference, the whole accounting system is flawed against a balanced growth and an active role for public sector economy. The fact that public expenditures in education is accounted as a cost in current expenditures and not as an investment in human capital is a telling example. A government that wants to change the basic orientation of economic policies will have to change the accounting system of the public sector economy. Which will, in turn, mean a head-on challenging of existing treaties.

The Greek catastrophe – the crisis of the European Union
The foolhardy intransigence of the ”troika” – these non-elected enforcers of the ECB, the European Commission and the IMF – have brought about a social catastrophe in Greece: In spite of all sacrifices – cuts in social spending, lowered pension, lowered wage levels - that have made Greece lose 26% o fits GDP and leaving the 60% of the Greek youth unemployed the country's public indebtedness have soared. The result of the policies imposed by the troika is a social catastrophe with no end in sight.
But there is worse. The January elections brought political hope to Greece. A government clearly determined to tackle the humanitarian crisis and alleviate the sufferings for the most vulnerable in the society, to enact needed reforms in the fiscal system, fight against the corruption and open ways of sustainable economic and social growth. This orientation gained widespread support in the Greek public opinion, far beyond the electorate of Syriza. The MoU proposed by the ”institutions” in July was rejected even by the conservatives and centrist parties in the Vouli. And when put o a referendum in July a large majority of the Geek people (61,3 %) rejected the MoU despite the blackmail pressures of the ECB and the campaign for submission in the mainstream media.
What we witnessed was a revival of democratic attachment and legitimacy in Greece, those fragile assets upon which societies are built.

The answer of the EU to that whish of change has been calamitous. In the words of Wolfgang Schäuble: ”There can be not democratic decision against the treaties”. This attitude in itself explains why he and ”the institutions” refused to enter into any serious negotiations with their Greek counterparts. What does it mean? Are all treaties violable? (Exept when Germany want to bend its corners?) Regardless of times? Sacred? Of course not – treaties change when they must if the union is to remain. What is in question is their legitimacy. What is the democratic legitimacy of treaties concluded behind the back of the public opinion, in secret? What is the legitimacy of a treaty concluded in open contradiction with popular will as happened with the Lisbon treaty overriding the referendum verdicts in France and Netherlands? None, in my opinion.

The ministers of finance of the eurogroup chose to crush this political attachment of the Greek people.T he political aspect of the tragedy of Greece goes far beyond the social catastrophe – it amounts to a killing of hope. It amounts to a disaster opening the gates for sombre forces and merciless conflicts.

Wither the union?

With the present power configuration it is no doubt possible that the current development will continue towards a German-governed monetary union, with active

support of the well-to layers in the surplus countries and also from mainstream media and rentier layers in deficit countries. It will be a development of a "European periphery" parallel to the entrapment of countries in Latin America and Africa during the 80's, fettered by a "debt crisis" that put them permanently at the mercy of the creditor interests in the "centre".
It is a pattern that will destroy the systems of social welfare also in the "surplus countries" and lead to untenable social conflicts in the "periphery" of the EU. A German dominance of the EU will not be viable, only a harbinger to new social and national conflicts within the union.

Is there a way out?

As mentioned in the introduction I have earlier argued for a long term program of social and material investments for a socially and ecologically sustainable development, financed by a system of Euro or Union bonds, along the lines proposed by Stuart Holland, Guy Verhofstadt and others. Although it is still rational – this is no longer a relevant proposal in view of the extreme misrepresentation of current affairs dominating public opinion, especially in northern countries of the European Union.
Another sensible, reasonable way is the recent UN proposal of a joint restructuring of public debts as a way of loosing the strangulation snare many countries are suffering. It is undoubtedly necessary. But while this is true, such a joint measure seems extremely unlikely in the short term.
When it comes, it will most probably take the form of a unilateral default by a single country.
Because – far beyond technicalities of economic policies - the crisis we have to face is above all political.

The first and most urgent task is to reaffirm the supreme value of democracy, as exercised in the individual member states. There can be no solutions on the multiple crises of the European Union against clear popular wills, as expressed in national elections and referendums.
Democracy must take precedence over treaties.
Given the vast disparities of the political and economic configurations in which the 28 member states find themselves the national arenas must be confirmed as the primary locus of democratic expression.
From this follows a reaffirmation of the inter-national character of the cooperation within the Union, it is necessary to reject any proposal towards a further federalisation of EU. Each step of increased cooperation must be open-ended, of a voluntary character. No further powers can be delegated to the European "Parliament" or any other EU institutions. As a consequence of the aggression perpetrated by the "institutions" – that is the informal nucleus of the eurogroup members – the European Union will have to go through a period of loosening ties and affirmations of national autonomy in order to find new ways of cooperation in complementary ways.

Where does this leave the monetary union and the euro? The misuse by the ECB of its control over current liquidities have made one thing clear: the national governments must find ways of using their own central banks to assure the liquidities of their domestic economy.

Does that mean that a formal breakup of the monetary system is necessary? Others, more familiar with the technicalities of financial flows, may have more to say about that than I.

In actual struggles new solutions may be found.
The idea of an electronically managed parallel currency based of the national social security system, as advanced by the team under the former Greek minister of finance seems much more promising.
The idea of retaining the euro for external exchanges but making room for nationally adjusted exchange rates or an outright return to the SME system of the 1980's are likewise variants open to discussion giving the national governments a degree of autonomy and adjustability.
If only to maintain a sufficient bargaining power against the present power coalition in the EU each national government must however develop a full readiness to establish a separate currency as well as a cancelling of the odious and illegitimate parts of its public debt.

Which ever choice is made it must rest with each people and its national government to decide. In view of mounting national prejudices it will be a challenge for progressives in all member states to defend each nation to make its proper judgments and to show solidarity with each government trying to defend the social welfare of its people.