Wolfgang Streeck: The euro, a political error

By Miri Davidson / 29 July 2015

If we are to get out of the vicious circle of a free-market Europe condemned to austerity, we must start by renouncing the euro as a single currency, with a new European Bretton Woods—or so argues ***Wolfgang Streeck*** *in an interview with Giuliano Battiston for* L'Espresso*, 7 July 2015. Translated from the Italian by David Broder.*

'The euro is not Europe'. Wolfgang Streeck suggests this as a basis for an accurate analysis of the negotiations over the Greek debt. 'The equation between the monetary union and Europe is simply ideology, and serves to conceal prosaic interests', the director of Cologne's Max-Planck Institute for the Study of Societies explains.

The interests of the countries of Northern Europe, against those of the South; of international finance against the peoples of the Mediterranean; of the 'market people' [Marktvolk] against the 'state people' [Staatvolk]; of capitalism against democracy. For the author of *Buying Time: The Delayed Crisis of Democratic Capitalism*, the Greek case in fact merely represents the latest variant of a process dissolving the postwar democratic capitalist system. That is, the system that had fought to hold democracy and capitalism together in a fragile and unstable combination, and which gave rise to a social pact that has now exploded.

Even in Europe. And precisely because of a European Union that has become 'the engine of the liberalisation of European capitalism, a tool of neoliberalism'. And because of a single currency that serves 'the market's interests'. For Wolfgang Streeck, one of today's most influential sociologists, if we are to get out of the vicious circle of a free-market Europe condemned to austerity, we must start by renouncing the euro as a single currency. With a new European Bretton Woods.

In *Buying Time*, published in 2013, you greeted the emergence of a left-wing political force in Greece 'that could have decided unilaterally to cancel its country's sovereign debt'. Two years on, that Left force, Syriza, is in government, but the negotiations over Greece's 'obligations' are still underway. What is your evaluation of the dispute over the Greek debt?

I think that this is a battle between Northern Europe, with Germany in the lead, and the Mediterranean countries. What has been presented to the peoples of Europe as a unification process is, in reality, the process by which Northern Europe and international capitalism is consolidating its hegemony over the Mediterranean countries, such that they will become an integral part of a form of capitalism that implies the predominance of financial systems and the adjustment of state budget policies to suit their demands. All this derives from a mistaken idea: that a common market economy inevitably leads to a convergence in the prosperity of the countries involved. Rather, the opposite is true. Within the European Union, the countries of the North are prospering while the Southern ones are suffering. What results from this is an enormous political pressure from the South in order to obtain some sort of compensation for remaining in the Euro. In the long term such compensation will become unsustainable.

Tsipras insists on democratic rights as against economic impositions, but at the same time he is raising the price of the 'compensation' that the lenders will have to pay to avoid Greece, an indebted country in the South, abandoning the whole thing. Is this the right strategy?

Yes. The Greek government has to try to get the most it possibly can out of the economic and monetary union. After all, it has been the monetary union itself that has imposed five years of austerity on Greece, without the slightest prospect of future recovery. The risk, in the long term, is that within the Eurozone Greece will be left hopeless, notwithstanding whatever concessions it manages to achieve. Even within Syriza there are two factions: the first, represented by [former] Finance Minister Yanis Varoufakis, holds that it is necessary to stay within the Eurozone and get as much help as it can from Europe to modernise the country. The other, as embodied by the Greek economist Costas Lapavitsas – a professor in London – is that which instead suggests leaving the Euro and taking back some form of monetary sovereignty, since in the long term the euro will impose a very rigid discipline and no protection for those who suffer the negative effects of this rapid euro-capitalist 'reform' and modernisation process.

So you would support this second faction: in *Buying Time* you define the introduction of the European currency union as a grave 'political error', symbol of a 'technocratic modernisation process' that disregards the social consequences. Why is that?

The main error lies in imposing a single currency on a heterogeneous and multinational society; imposing a very rigid monetary regime on countries and economic systems that not only don't draw any benefit from it, but suffer from it. The euro prevents the Southern countries from using the tools of monetary policy in order to rebalance their relations with the rest of the world. This is substantially the reintroduction of the Gold Standard, such as it existed before the First World War. With the Gold Standard, a government does not have the tools to prevent the population getting into problems on account of the low level of competitiveness. There are no possible defences: the only way is to push down wages, reduce people's rights, etc. The union's monetary and economic policies reflect the German idea of currency stability. To impose such policies on economic systems as different as those of France and Italy is senseless.

In your book you write that 'the abolition of national currencies and their substitution with a single currency is part of the logic of the free-market turn, which seeks to liberate the economy and the market from political interventions', favouring 'market justice' over 'social justice'. Can you explain?

The euro was 'invented' in the 1990s, when the rich countries of the OSCE (Organisation for Security and Cooperation in Europe) were in agreement on the fact that the appropriation of economic resources by the state – in other words, the democratic process – had gone too far and had to be stopped. How? With budget balancing policies. What followed was a period of fiscal consolidation across Europe, in which both for Brussels and for the International Monetary Fund the common sense was to think that governments had to concentrate on this goal above all else. The trouble is that budget balancing has negative implications, especially if it is introduced when the capacity to tax the rich is in decline: it means less of the state, a 'slimmer' state, and thus the privatisation of public services and social security, in turn meaning that the redistributive effects of state interventions (aiming at greater social justice) disappear in favour of market justice.

You challenge not only the functioning of the Eurozone as it is now, but also the equation – taken for granted in public discourse – between the euro, on the one hand, and Europe and Europeanism on the other. What would be your reply to Angela Merkel, who keeps repeating that 'if the euro fails, then Europe fails'?

The equation of the euro and Europe is merely ideology. It has the function of concealing very prosaic interests. The German case shows this. The exports sector, which drives the German economy, needs an export market that stops the importer countries from devaluing their own currency as a protection mechanism defending themselves from the exporter countries. In Germany the euro is a dogma because it is the heart of its economic and foreign policy. Angela Merkel is a very intelligent woman, but she does not nurture any particular feeling for Europe. Fundamentally she, too, knows that the equation between the euro and Europe is nonsense.

Contrary to those who defend the euro at all costs, independently of the results that it has or has not produced thus far and of those that can be expected for the future, you do not hide your idea of 'renouncing the euro as a single currency', and have proposed a sort of European Bretton Woods. What would that involve?

Today we are faced with two options: either aggravate the error of the euro, or support Europe's return to an ordered system of fixed exchange rates that can be adjusted in a flexible manner, thus recognising and appreciating the differences among Europe's societies. We already have past experience of a combination of two different monetary policies, with a 'central', anchoring reference currency associated with national currencies that are tied to it. This was precisely the essence of Bretton Woods. In the postwar period, up till the 1970s, this system allowed countries like Italy and France to make domestic concessions – above all to the Communist Parties and to the trade unions – in terms of wage concessions and generous social policies, correcting the general economic orientation directed only at greater competitiveness, adjusting inflation or the deficit. This is an example of how we can manage diverse political systems and, at the same time, participate in an international economy. It is no chance thing that a lot of people are now thinking about this possibility. For instance, the Greek economist Costas Lapavitsas, together with the former German Finance Minister Oskar Lafontaine.

In your book you emphasise that this does not mean saying that the euro has to be abolished. In the Greek case, what would that entail?

Greece's participation in the European monetary union does not work. It cannot last. It needs a way out. If Greece wants to recover at least part of its democratic control over its economy and stop being a province of Germany, ultimately it will have to leave the euro. One solution could be to reintroduce its national currency, in parallel to the euro. Let's say the public sector salaries paid by the state and other forms of payment were made 70 percent in euros and 30 percent in the national currency; then the market would have mechanisms for adjusting the two currencies. It would not be a wholly unprecedented move. Perhaps it's the only way to avoid Greece going bankrupt.

Yet in the public debate it seems that there are only two, opposed solutions, either more austerity or default…

It's true. Even on the Greek front they don't talk about it much, because they want to obtain as much as possible from Europe. I agree with this strategy: it was above all Germany and France who wanted Greece to be in the Eurozone, and now they should pick up the bill for that. They knew about Greece's problems – clientelism and corruption – and yet they let it join. Why? Because in the late 1990s, Greece – which did not manage to draw from the private capital market – was dependent on transfers from Brussels by way of the adjustment programme. But that was a period in which the major European countries were consolidating their own budgets, whereas others – for instance the Balkan countries – were demanding fresh financing. In accepting Greece into the Eurozone, France and Germany thought that the Greeks would borrow money rather than take it in the form of subsidies. So the European Commission and certain governments let the finance markets understand that the Greek debt was in a sense a European debt. In 2009, however, because of the general economic situation, the Germans began to say that the Greek debt was only a Greek debt. That was when the true problems began.

So you are saying that the Greek government has every reason to keep up its fight with the Troika?

Here in Germany there is a widespread perception that the Greeks are the 'bad guys' because they demand too much. But on the contrary, they should be asking for more. They have every right to do so. The Schröders, the Montis, the Chiracs – the European leaders of the period in which this particular conception of monetary union and common economic policy was established – could be called before a tribunal: they should answer for having lied to their own 'clients' on the validity and solidity of the credit they were supplying, or which they 'guaranteed'. As for the Greeks, at the moment that they accepted the loans they had reason to believe that they were receiving them in recompense for their readiness to accept an economic Gold Standard, something that was ridiculous right from the start, at least as much as the dollarisation of the Argentinian economy. The Europeans were supplying the Greek government with poison. And the Greek government of the time was so corrupt that it distributed it to its own people.

According to your analysis, the fact that it is right and necessary for the debtor countries to repay their own debts 'is a myth that serves to construct the myth of the morality of the global finance markets'. Does a state exercise its sovereignty also by deciding not to pay its debts?

Historically, there have been many governments that have negotiated an easing or a restructuring of their debt with their creditors, or who have simply refused to pay. This isn't at all a moral question. It depends on the situation. Without counting the fact that if a debtor ends up bankrupt, that is also in part the fault of the creditors, who were not sufficiently prudent. The banks carry out risk control operations: they manage a portfolio of debts distributed such that the minority of insolvent debtors does not prejudice their overall profits. We would expect this form of responsibility from a bank. If a bank decides to buy Greek debt titles, it does so because it thinks that behind the risk there stands a form of political insurance that its credit will be reimbursed in any case. So for this reason we can criticise the creditors just as much as the debtors.

It seems that the European Central Bank is still undecided as to whether it should take on this 'guarantor' role. What is your evaluation of Mario Draghi's conduct?

Draghi has also begun to do what all central banks do: inject liquidity into the system. Some think that's the solution to our problems. But I would maintain that Draghi is desperately trying to prevent the euro system collapsing. Outwardly he shows a reassuring face. But I think he's having sleepless nights.

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