THE EUROZONE'S PHILOSOPHY OF ECONOMIC ADJUSTMENT

Soteris Kattos
(PhD Political Sociology)

The process of economic readjustment in the EU is taking place in a period where the European bloc is undergoing a structural transformation itself. This transformation has been necessitated by the Maastricht criteria. Their main intent was to reestablish a balance of politico-economic power on a global scale within the context of a global austerity regime among the three major capitalist blocs. I.e., among the European Union, North America and Southeast Asia, with Japan and China being the dominant economic powers in the region, without discounting of course, the BRICS as a bloc.

The imperative for European capital to close the gap with these major blocs in terms of its (e.g. European capital) international competitiveness and therefore to secure its accumulation and reproduction intensifies class conflict in Europe. Checks and balances have shifted into a new equilibrium that undeniably favours the forces of capital. An equilibrium that results from the current ideological dominance of the politically unfettered free market system as the fundamental organizing principle of the global economy on the one hand, and the declared adherence of the regional capitalist blocs to the political regulatory framework of the World Trade Organization, on the other. It only takes a quick look on OECD's recent Economic Outlook to see the trends over the respective shares of labour and capital in OECD's member states the last twenty years or so.

The European Union is the region within which shocks and social tensions resulting from the further globalization of the international capitalist economy are being felt the most. The collapse of the Soviet Union in particular and the Eastern bloc in general ,marked the end of the policy of containment as a strategy of global capital which lasted approximately four decades and was intended to impose extensive politico-economic limitations on the Eastern bloc's developmental prospects.

The Cold War prevented the Soviet Union and its Eastern European neighbours from participating on equal footing in the global economy. Its collapse and eventual absence as an external political constraint in the formulation of the domestic policy of the European nation-state, has intensified processes towards the curtailment of the welfare system in Europe. Since then, the extensive social safety net in Europe whose institutionalization was viewed as a safeguard mechanism for the weakening of communist influence and pressures, is constantly under political re-evaluation with the aim of introducing regressive reforms, to "reduce barriers to world trade" and "foster capital investment" (Truman, 1949, par. 48, 51, pp. 2-4) . It is not historical coincidence that immediately after the Soviet collapse on Christmas Day of 1991, the Maastricht Treaty came into effect in 1992.

The social safety net which European labour has been enjoying for the last five decades, no longer operates as a counter-force mechanism to capitalist intentions to redefine relations of hegemony. The current global capitalist context with the emergence of trade blocs, has severely compromised the autonomy of the European nation-state. European capital successfully exerts pressure on it, to line state policies with capital's requirements of harmonization and to enhance economic convergence in the EU accordingly. Organized labour in core European states as a measurable social force has been marginalized and obviously it can barely exert any meaningful pressure on the nation-state to secure its interests. This is exactly what the Maastricht Treaty intended to bring about, first and foremost. Undeniably this pressure has led to a gradual erosion of the European nation-state's relative autonomy with all the negative repercussions on society in general and labour in particular.

With the introduction of Euro on January 4, 1999, it was believed, it would help bring about, among other things, economies of scale and economic efficiency and to confront successfully global competition. This new reality has had dramatic ramifications on the role of governments in the participating nation – states.

Member states have handed over to the European Central Bank (ECB) their national sovereign right to manage monetary policy. That by itself constitutes a huge politico – economic, historical and above all, a democratic setback of the member states. They have transferred their power and control over monetary policy to the ECB, an institution that lacks political and social accountability. This is in stark contrast to the US Federal Reserve, which although it enjoys extensive autonomy on monetary policy, yet it is accountable to Congress.

Participating members in the Euro-zone have seized to have any control on the ECB's monetary policy. Hence political control over monetary policy has been alienated. EMU with its common currency has also removed from participating member states two major instruments that would otherwise enable them to exercise effectively national economic policy. The right of the nation – state to independent monetary policy and its capacity to alter the exchange rate of the national currency, as this might be deemed necessary given prevailing economic conditions, have been lost for good.

Hence, member states in the Euro-zone have been stripped off of any meaningful participation in order to influence overall economic policy. With the removal of national monetary policy and the capacity to decide on the exchange rate of the national currency, what remains at the disposal of the central government in a member state, theoretically is fiscal policy. But even fiscal policy is constrained by the so-called Stability and Growth

Pact. In other words elected, legitimate governments are no longer allowed to use as they see fit national fiscal policy because of the Stability and Growth Pact. This pact imposes on governments the obligation to maintain budget deficits at 3 per cent of GDP or below that limit. The stability and Growth Pact with its anti-inflationary drive "deprives governments … of the ability to use national fiscal policy to counteract recessions which affect one member state more than the others" (The Economist, January 2, 1999, p. 15). But the most severe criticism towards the ECB is its political insulation from any institutional control within the EU. This is sanctioned by the Maastricht Treaty. The irrevocable lock of the exchange rates against the Euro without an escape – clause, and the transfer of monetary policy to the ECB with one overriding objective, to attain price stability through a virtual zero inflation, is tantamount to the surrender of national sovereignty to an unaccountable, secretive and undemocratic institution. Surrendering one's currency automatically means surrendering the right to set independent monetary policy for domestic reasons, such as boosting the economy or improving social conditions. This is exactly what the current German inspired deflationary policy of economic adjustment is all about. Of course, it also raises serious questions as to the intentions of the so – called Stability and Growth Pact. Its political target as far as the new economic policy is concerned in the Euro-zone area is essentially threefold: (a) The deregulation of the labour market; (b) the imposition of an austerity regime on fiscal policy as this is dictated by the Pact, hence applying pressure for the curtailment of the extensive welfare regime in Europe; and (c) what I have discussed above, the exercise of monetary policy will be the privilege of ECB.

Mr Vim Duisenberg, the late Chairman of ECB, was quite explicit as to the role of the bank. As he argued: "It is up to the governments to introduce flexibility into labour markets. The root of the problem lies above all in rigidities produced, mostly by an over-large and inappropriate thicket of rules in labour and goods markets" (The Cyprus Weekly, February 12, 1999, p. 31).

And as Horst Siebert (1938-2009), the president of the Kiel Institute of World Economics at the time, in Kiel, Germany, in an interview in the "Time" magazine in December 1998, has commented "Economic and Monetary Union can be viewed as enforcing institutional reforms and behavioural change, especially in regard to exacting more flexibility from the labour markets in the major continental countries" (The Time magazine, Winter 1998/99, p. 149). EMU which is essentially the outcome of a long political process, has depoliticized the (political) economies of the individual members at the national level. At present, fifteen years later, Capital exacts greater flexibility from labour markets. That is, it has imposed less security for labour, trimmed down wage costs and improved profitability at the expense of employment. In other words, it has commodified European labour. Social convergence is not a criterion for EMU. The way social policy is exercised is viewed as an additional instrument that leads to an improvement of the 'competitiveness' of the national economy. European capital correlates social policy with competitiveness. The limited regulation over the mobility of capital, as well as capital's evaluation of social expenditure as a contributing factor to the increase of production costs, has also been integrated into Eurozone's decision making process, thus posing a formidable political threat to the European welfare regime. That implies the generous social policy in Europe, particularly in the core, is faced with international pressures from competitors ,whose welfare regimes do not match EU standards and they are not equivalent welfare systems compared to the existing ones in the EU.

Given this context, social welfare eventually and inevitably is being measured, by the least common social denominator. ''The EU's current approach is to dilute common standards down to a minimum (Hirst and Thompson, 1996, p.163). Apart from this, the developmental gap between the Core and the South in the EU (let alone the gap between the Core and the East within the EU) widens. Risks run high for Europe to disintegrate into developed and peripheral regions. This seems to be quite tempting to European capital to address issues of competitiveness, given its constant pressure to contain labour's share in the produced wealth in the EU. Hence internal colonialism, that is, the core region within the wider European context advancing at the expense of other relatively poorer areas should not be discounted as a probable outcome in the near future, given Germany's politico-economic hegemony. Hirst and Thompson (1996), prophetically were quite explicit on this. As they pointed out:

> A Europe of "tiers" cannot be either economically integrated or politically united. The difference over substantive policy issues will in that case tear the political union apart…Such economic divergence, if it continues, will threaten to fragment the Union into a united prosperous core and a poor and a marginalized periphery.
> (Hirst and Thompson, 1996, p. 160)

This of course relates to the relations of force at this historical conjuncture in the EU. With EMU in place, the political unaccountability of the European Central Bank to the European public, the curtailment of fiscal policy as a traditional instrument in the exercise of economic and social policy, and the removal of monetary policy from the national level, placed European society under severe political, economic and social setback, notwithstanding widespread pauperization.

Peripheral members evaluate politically EU membership as an enhancement of their national independence. From an economic point of view membership is thought to facilitate their integration into a major capitalist bloc as equal partners. Most probably those who enjoy the benefits of integration are the elites and the forces of capital in these societies. And with all certainty those states will continue to remain as a low-wage "second-tier" region within the wider European context.

In essence the core in the EU with Eastern enlargement improved its cushion from global economic shocks and crises. In addition it hoped to enhance its international competitiveness at the expense of social cohesion and overall social harmonization. Quite instructive to those who view the EU as a panacea to the solution of their problems, is historian Norman Davies's predictive insight, in an interesting article in "Time" magazine (December 1998) where he argued:

> The senior Franco-German troupe is pressing ahead with monetary union – the last stage in the old economic plan. At the same time they still hope to enlarge the Union east and to introduce the major structural reforms required for enlargement. There is no ring master, no efficient executive authority and no real democratic accountability. The most urgent decisions will be left as always to horse trading. If earlier attempts at European unity were wrecked by an excess of political will, present prospects are named by the manifest, lack of political direction.
> (Davies, 1998, p. 32)

Concluding Remarks

The new periodization of capitalism will not leave unaffected the outlook of the modern nation-state. These contradictions are not likely to be resolved in a uniform and synchronized timely fashion globally. The commodification of social living will continue to advance with different speeds in different politico-economic settings. The specific causal texture of the historical conjuncture within which social tensions manifest themselves, will condition the final resolution of these contradictions and the future outlook of the modern capitalist state. Undeniably the reinforcement of the capitalist state at the expense of societal interests, is associated with the current periodization, in which German hegemony is playing a leading role.

References:

Hirst, Paul and Grahame, Thompson 1996 Globalization in Question. The International Economy and the Possibilities of Governance. Cambridge, Polity Press.

Norman Davies, "Time" Magazine (Special Issue), Winter 1998/99, pp.32.

"Duisenberg says ECB very concerned on European Joblessness". Cyprus Weekly, February 12, 1999, p. 31.

"The blueprint for EMU see includes the so-called Stability and Growth Pact which purports to put tight limits on public borrowing" see "The Euro's first test", "The Economist", January 9, 1999, p. 72.

Down and Out in the EU" by Rod Usher, in "Time" magazine (special issue), Winter 1998/99, pp. 83 – 86. As Usher argues in this article "reduction of social exclusion was not one of the criteria the 11 aspirants to Economic and Monetary Union had to meet".