THE NEW ROME: THE EU AND THE PILLAGE OF THE INDEBTED COUNTRIES

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The European Union (EU) is a treaty-based organization that was set up after World War II as a means of putting an end to a favorite practice of the Europeans: sorting out their national differences by engaging in bloody warfare. The European experiment—the formation of a Common Market,¹ which led eventually to economic and monetary union—has been linked with some remarkable outcomes: Europe has experienced its longest period of peace since the end of World War II, and war among European member-states now seems highly unlikely. Naturally, senior EU officials never miss an opportunity to remind the public of this achievement whenever the policies of the “new Rome” are questioned by a European citizenship fed up with authoritarian decision-making processes, bank bailouts masquerading as national bailouts, austerity policies, and the pillaging of the debtor countries by the center.²

The absence of war among European nations in the postwar era and the historic moves toward European integration that led to the formation of the eurozone point, however, in the direction of a correlation rather than a causal relation between these two variables. Unquestionably, the very nature and structure of the world system that emerged in the postwar era—with the United States achieving superpower status, the Soviet threat, the formation of NATO, and the use of nuclear weapons to maintain a balance of power—substantially minimized

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² The Levy Economics Institute is publishing this research with the conviction that it is a constructive and positive contribution to the discussion on relevant policy issues. Neither the Institute's Board of Governors nor its advisers necessarily endorse any proposal made by the author.

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the prospects for renewed warfare among Europe’s traditional foes. Perhaps there is even something to be said here about the deep and profound impact that World War II must have had on the consciences of Europe’s leaders and public alike.

The European experiment in integration—from the European Economic Community (EEC) to today’s EU—has also allegedly made a big positive difference in the economic and social development of European member-states, including those at the periphery. This is a highly debatable claim, if not an outright exaggeration. The free movement of capital, labor, and goods within the EU worked well for a while—for financial capital, on the one hand, and, on the other, for the core countries that had a competitive advantage to begin with. Although great benefits accrued to those who took full advantage (domestic capitalists as well) of the era of financialization, the illusion of convergence and higher standards of living for all has been shattered, with inequality trends growing substantially both within and between member-states.

Lest we forget, Europe’s economic weaknesses were evident in the 1970s and ’80s, in spite of the explosion in intra-EEC agreements during this period. The Single European Act (SEA) of 1986 was a policy reaction on the part of the EEC to the structural crisis then facing the 12 member-states in terms of their becoming “a market without a state.” With most EEC member-states having already abandoned Keynesianism (Jepsen and Pascual 2006, 52), the SEA was a desperate attempt to increase “competitiveness” and boost corporate profits, and it cemented the end of the era of “managed capitalism” in Europe. Instead of social protections and growth through fiscal-oriented policies, it was the market mentality that now ruled the day. Price stability replaced the emphasis on jobs, and “labor market reform” became the new doctrine. The SEA also opened up the path for massive privatization and the liberalization of financial markets. “Free market capitalism” had arrived in Europe.

Free-market capitalism is, of course, one of the great myths of our time (Chang 2008, 2012). Neoliberalism—the political-ideological formulation and economic project for the advancement of “free” markets—is all about a corporate/financial assault on the welfare state and the standard of living of the working classes, low taxation for corporations and the rich, increasing labor exploitation, unrestrained capital mobility, and strategic positioning on the part of capital for new market opportunities via the removal of domestic political and economic barriers. Neoliberalism does not end the state, but rather positions the state to exclusively serve the interests of capital. At the global level, neoliberalism’s aim is to weaken the power of the state in peripheral economies through the assistance and collaboration of the domestic political elite, who, in exchange, gain more direct access to the resources and wealth of the economies in question. Essentially, then, neoliberalism represents an ideological doctrine propagated and imposed by the core countries on the periphery, while the “core” reserves the right to practice protectionist policies back home (and often does so) for the benefit of its own favorite industries and oligopolistic businesses. Thus, the SEA should not be seen as an all-embracing “free market” strategy on the part of the EEC. Its removal of barriers for the expansion of “free trade” was limited to European nations; countries outside of the European market were excluded. Even today, poor nations from Latin America and Africa find it almost impossible to penetrate the European market with their agricultural products.

Furthermore, as with the promotion of any neoliberal project, and in sharp contrast to the official rhetoric, institutions that lack democratic accountability and legitimacy have been assigned paramount importance from the very start of the movement toward an “anti-social Europe” (Parsons 2010). It is thus no accident that the EU has turned out to be one huge, bureaucratic labyrinth, completely removed from public scrutiny and totally unaccountable to its citizens. Its undemocratic (if not antidemocratic) nature is rather striking, and it has been getting worse over time. The European Parliament is a politically impotent institution as all major legislative activities are undertaken by the Council of Ministers—an institution with no democratic legitimacy whatsoever since its members exercise a role inside the EU for which they are not even indirectly elected. The European Commission is yet another nonelected institution that possesses a lot of political power.

The EU is designed in ways that facilitate direct catering to the needs and concerns of powerful interests instead of those of the common citizen. As for the famous “principle of subsidiarity,” introduced as article 3b in the Treaty Establishing the European Community and later incorporated in the Maastricht Treaty (see below) as article 5—and which many continue to treat as evidence of the democratic nature of the decision-making process in the EU—is more an optical illusion than anything else. The “principle of subsidiarity” does not assert, as is often claimed, that decisions will be made at the lowest possible level, but rather that “the Community shall take action, in accordance
with the principle of subsidiarity, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community.”

What has now become abundantly clear is that all major EU decisions are made at the top level by nonelected officials while national citizens are relegated to a status equal to that enjoyed by the subjects of ancient Rome. In the current eurozone debt crisis, even the heads of indebted member-states have very little say in the decision-making process, with the German minister of finance behaving like a Caesar.

The type of Europeanization process that has been unleashed since the signing of the Maastricht Treaty in 1992 is completely alien to the vision of a social and democratic Europe. This development has also had a catastrophic impact on the ability of national governments to address effectively the specific needs of their own economies and societies, as the current global economic crisis so bluntly attests.

The Maastricht Treaty incorporated the key ideas and principles that were included in the SEA and proceeded with the formal institutionalization of a neoliberal framework for the future direction of European economies, including the setting up of a currency union and a European Central Bank (ECB).5 In essence, the treaty formalized the drive toward “anti-social Europe” and outlined in a specific manner the steps to be taken for the adoption of a single currency (the transition to the formation of a European Monetary Union [EMU] was to involve three stages between 1993 and 1999, when the official launching of the eurozone occurred). According to the treaty, which sought to allow only good candidates to join the EMU, any European convergence economy was eligible to adopt the euro, provided:

- its inflation rate was not more than 1.5 percent above the average of the three-lowest inflation rates among EU countries;
- its government debt and deficit were no more than 60 percent and 3 percent of its GDP, respectively;
- it had joined the exchange rate mechanism of the European Monetary System and maintained normal exchange rate fluctuation margins for two years without severe tensions arising; and
- its long-term interest rate was no more than 2.0 percent above that of the three countries with the lowest inflation rates. (See Mulhearn 2005, 59.)

All these figures were arbitrarily derived. Why should the deficits have been 3 percent and the national debt less than 60 percent of GDP? Given the dominant role of the deutsche mark at the time, it is probably a good guess that the figures were an invention of the Bundesbank—as was the design of the ECB, with its glaring omission of a lender-of-last-resort function. In a way, however, these figures were also virtually meaningless as they were systematically violated by states that sought to join the EMU—including, first and foremost, Germany itself. But along the way, when things got rough for the euro, these benchmarks for deficits and debt-to-GDP ratios would prove to be very useful tools in enforcing German economic orthodoxy.

The adoption of a single currency was hailed by the euro’s cheerleaders as the greatest experiment in financial history. It should have been heralded as the wildest experiment in financial history: the eurozone was to involve the inclusion of independent states, with highly diverse economic systems and cultural settings, that were required to give up national currency sovereignty in exchange for a “foreign” currency without the backing of a treasury or a central bank ready to act as lender of last resort in the event of a financial crisis.

Wynne Godley, otherwise an advocate of European political integration, astutely pointed out the deficiencies included in the Maastricht Treaty in a the essay in 1992:

The central idea of the Maastricht Treaty is that the EC countries should move towards an economic and monetary union, with a single currency managed by an independent central bank. But how is the rest of economic policy to be run? As the treaty proposes no new institutions other than a European bank, its sponsors must suppose that nothing more is needed. But this could only be correct if modern economies were self-adjusting systems that didn’t need any management at all.

I am driven to the conclusion that such a view—that economies are self-righting organisms which never under any circumstances need management at all—did indeed determine the way in which the Maastricht Treaty was framed. It is a crude and extreme version of the view which for some time now has constituted Europe’s conventional wisdom (though not that of the US or Japan) that governments are unable, and therefore should not try, to achieve any of the traditional
goals of economic policy, such as growth and full employment. All that can legitimately be done, according to this view, is to control the money supply and balance the budget. It took a group largely composed of bankers (the Delors Committee) to reach the conclusion that an independent central bank was the only supra-national institution necessary to run an integrated, supra-national Europe.

But there is much more to it all. It needs to be emphasised at the start that the establishment of a single currency in the EC would indeed bring to an end the sovereignty of its component nations and their power to take independent action on major issues. As Mr Tim Congdon has argued very cogently, the power to issue its own money, to make drafts on its own central bank, is the main thing which defines national independence. If a country gives up or loses this power, it acquires the status of a local authority or colony. Local authorities and regions obviously cannot devalue. But they also lose the power to finance deficits through money creation while other methods of raising finance are subject to central regulation. Nor can they change interest rates. As local authorities possess none of the instruments of macro-economic policy, their political choice is confined to relatively minor matters of emphasis— a bit more education here, a bit less infrastructure there. I think that when Jacques Delors lays new emphasis on the principle of “subsidiarity,” he is really only telling us we will be allowed to make decisions about a larger number of relatively unimportant matters than we might previously have supposed. Perhaps he will let us have curly cucumbers after all. Big deal! (Godley 1992)

The so-called “flawed” architecture of the EMU was not due to a “technical error.” As already argued, it stemmed from the very premises of the fundamentally neoliberal economic thinking that had begun to take hold of the mindset of European policymakers in the 1980s in their apparent effort to find a way to end “eurosclerosis” (Miller 1997) and boost European corporate profits. The sudden shift from a social market economy, which took root in the 1940s and prevailed till the early 1980s, to a laissez-faire market economy was too blatant to be missed. By the time the Maastricht Treaty was signed, European policymaking circles had become obsessed with the belief that the critical variables for growth, fairness, and convergence were to be found in trade openness and competition (article 102a), deep financial integration, and no restrictions on capital movements (article 73b).

The Maastricht Treaty should be understood as the political expression of a socialized European elite’s bias in favor of the internationalization of capital. Behind all the talk about “free trade” was the unmistakable desire to cater to the needs of European multinationals and oligopolistic industries. The 1980s was a decade of megamergers and acquisitions, and it reflected the growing excitement that a common market produced in the European business world. In the 1990s, there was a new and far more explosive wave of mergers and acquisitions taking place in Europe whose value “was almost as large as that of deals in the United States” (Gaughan 2007, 63). Finally, the deregulation mania that had kicked in led to a huge consolidation process by the banking industry.

It was in the context of these economic developments that the Maastricht Treaty took shape, laying the foundation for the highly problematic structure of the European Union we have today. The move toward the adoption of a single currency is consistent with the view of the creation of a unified European market with a scaled-back state, based on the belief that less state “interference” paves the way to more efficient business operations and lower unit labor costs. It is not a belief that promotes sustainable development or well-functioning and decent societies. With the adoption of a single currency, the space for national economic policymaking was severely constrained and, in the absence of a federal government to attend to issues of full employment and convergence, austerity became, almost by default, an integral component of the new European political economy, providing a perfect match to labor flexibility and other anti-social reform measures— privatization, the commodification of health and education, pension reform—all of which are geared toward the complete marketization of society.

The process of a fully launched European capitalist integration as initiated by the SEA and formalized by the Maastricht Treaty is not a new phenomenon as such. The growth of world economic integration had tremendous momentum from the mid-19th century up to the outbreak of World War I (O’Rourke and Williamson 1999). The processes of European integration are also not qualitatively different from regional integration processes that had taken place in other
parts of the world—although it is true that we do not have proper comparative studies involving the EU and other kinds of regional organizations. But even if seen as a polity rather than a regional or even an international regime, the EU is still not unique, since we already have for comparison purposes the federal or semifederal cases of the United States, Canada, and Switzerland. In fact, if there is anything striking about the foundations of European monetary union it is how unimaginative and purely technocratic they are: they simply rest on the much-admired German model of monetary and financial stability, which is void of any crisis prevention or management mechanisms (Borges 2012; Balcerowicz 2012). Its design has proven to be more than faulty, as the ongoing crisis in the eurozone points clearly to underlying problems of imbalances in the euro area as well as to overall structural weaknesses in the governance model.

Rather than being unique, the EU is actually an oddity—a Frankenstein-like creation. And just like Dr. Frankenstein, Germany refuses to accept responsibility for its creation by preventing the EU from following an appropriate development course conducive to the needs and well-being of the entire body politic, with special emphasis on the weaker parts, treating it instead as a means for satisfying its own economic ambitions and wants. The design of the ECB on the basis of the Bundesbank statutes, for example, reflects not only the German economic mindset but also Germany’s aspirations for economic domination of the eurozone. Indeed, the Bundesbank is not the world’s most conservative monetary authority by accident: it fits with Germany’s economic and corporate interests.

The antigrowth, undemocratic approach that is embedded in the Maastricht Treaty and reinforced by virtually all other treaties since—the Treaties of Amsterdam (1997), Nice (2002), and Lisbon (2007)—ensures uneven development and authoritarian decision making in the functioning of the European integration project. The Lisbon Treaty, in particular, strengthened even further the “democratic deficit” component built into the EU framework (though its supporters argued, perversely, that this was a treaty that actually addressed the problem of “democratic deficit”), with most of the laws now being made in Brussels under the command of an imperial Germany.

Both the conservative and undemocratic nature of the EU and Germany’s imperial role in it have become unfailingly clear since the eruption of the eurozone crisis three years ago, when Greece, with its high fiscal deficit and ballooning public debt, was shut out of the international credit markets and sought refuge under a deal brokered by the EU and the International Monetary Fund (IMF) so as not to default on its debt obligations and cause a contagion effect throughout the euro area. The handling of Greece’s debt problem was not based on any solidarity principle on the part of the EU but was instead measured exclusively on the basis of its impact on Europe’s banks, which were highly exposed to Greek debt. The terms of the bailout sought to ensure that the debt repayments continued by subjecting Greek society to ruthless austerity measures and the most violent fiscal consolidation program forced upon a European economy since World War II. Consistent with the original premises of the Maastricht Treaty and the antigrowth mindset of the European integration project as a whole, Greece was not offered a viable way out of its crisis but was instead turned into a guinea pig for the euro area, with two primary objectives in mind: (1) to intimidate the other southern Mediterranean nations by broadcasting the fate awaiting them if they fail to put their fiscal houses in order, and (2) to turn Greece into a laboratory for a radical neoliberal transformation.

As we have documented elsewhere (Polychroniou 2012a, 2013a), the economic and social catastrophe that has befallen Greece on account of the “rescue” programs of the “twin monsters” of contemporary neoliberalism (i.e., the EU and IMF) is of unprecedented proportions for an economy in peacetime conditions—and is now turning into a humanitarian crisis inside the world’s richest economic region. But this is not the accidental outcome of a flawed policy: it is the result of a conscious EU policy under the command of an imperial Germany for the pillage of the indebted countries of the southern Mediterranean (Greece, Portugal, Spain, Cyprus—and Italy, if they can succeed) and their transformation into colonies of the imperial center. The euro has become an albatross around the neck of the peripheral nations, with Germany dragging them around like slaves on the way to the marketplace.

Germany has adopted toward the indebted eurozone member-states the same policy it carried out with regard to East Germany after unification: the destruction of its industrial base and the conversion of the former communist nation into a satellite of Berlin. The bank rescues masquerade as the rescue of nations, and are followed by the enforcement of unbearable austerity measures to ensure repayment of the “rescue” loans. Then comes the implementation of strategic economic policies aimed at reducing the standard of living for the working population and the shrinking of the welfare state, complete labor
flexibility, and the sale of public assets, including state-controlled energy companies and ports. This constitutes the German strategy for pillaging the debt-laden economies of the Mediterranean region.

In Greece, the strategy for the pillage of the domestic economy has even led to the creation of a special privatization agency (TAIPED) for the management of the sale of public assets. The only thing missing is a sign announcing GREECE: A NATION FOR SALE. The Eurogroup’s decision (made at the insistence of Germany and with the support of the IMF and core eurozone nations) to tap into personal bank accounts as part of a deal to “rescue” Cyprus would destroy a key pillar of the island’s economy and set a precedent for dealing with future banking crises in the eurozone. Germany’s pursuit of financial domination marches on.

As things stand, the “bailouts” represent the best possible solution for Germany and its banks and the treasuries of the core eurozone nations, for various reasons. First, they allow the euro game to continue since so many vested interests are at stake and dissolution of the eurozone might have apocalyptic consequences. Second, the “rescue” loans are quite well secured, thanks to the implementation of extreme fiscal consolidation programs: they are paid back promptly by the indebted countries and with hefty interest. At the same time, the austerity and fiscal-adjustment policies imposed by the international lenders actually increase rather than decrease the debt-to-GDP ratios for the indebted countries as they shrink economic activity and thus reduce state revenues, thereby keeping them in a vicious cycle of dependency. Third, the collapse of the economies of the indebted nations produces a flight of capital that ends up mostly in Germany, which is increasingly seen as the safest place to park euros while the crisis in the eurozone rages on. The loss of funding for banks in Spain, Italy, Greece, Portugal, and Ireland is astonishingly high, amounting to hundreds of billions of euros (which means those countries are net debtors to the ECB), while Deutsche Bank and most other German banks are awash in cash. Fourth, under the bailout schemes, the indebted countries surrender national sovereignty and are forced to sell public assets (mostly to northern invaders) at bargain-basement prices, while the reduction in labor costs because of suppressed wages opens up new opportunities for increased labor exploitation and speeds the process of the countries’ conversion into banana republics.

There can be no mistake about it: the neocolonialist policies pursued by Germany and the EU are converting most of Europe into an economic wasteland (Polychroniou 2012b). Wages, salaries, and pensions are being severely cut; domestic demand has been drastically curtailed; unemployment has reached stratospheric levels (27 percent in Greece, 26 percent in Spain, 17 percent in Portugal); the standard of living has been rolled back to 1960s levels; public services are being turned over to the private sector; and state assets and public enterprises are being sold on the cheap.

In all the indebted countries of the eurozone, educated young people are leaving to seek work in the core countries, thus depriving the peripheral economies of the most important asset they possess—skilled human capital—while further enhancing the economic potential of the core nations. Soon, the southern Mediterranean region will consist of economies where most of the job openings are for waiters and waitresses.

In sum, what is happening in the eurozone periphery since the eruption of the global financial crisis is a process of pillage and complete loss of national sovereignty. Because of the “bailouts,” the indebted nations have been subjected to a contemporary system of neofeudal peonage as part of a German “solution” to an ill-designed European monetary union alongside the pursuit of a eurozone Reich.

What the future holds for the eurozone is, of course, impossible to predict. What is certain, however, is that the time is fast approaching when public opinion in the periphery turns against the euro and the EU. Alternative scenarios for exiting the crisis will most likely gain ground, and it is highly unlikely that they will carry the imprint of the domestic political establishment in the indebted countries. In Greece, Spain, Portugal, and Cyprus the domestic elites and so-called technocrats have thrown in their lot with the austerity measures and have proven themselves to be true servants of the new Rome. Thus, change will only come from the bottom up, and the only question is whether it will be in a progressive or reactionary direction—that is, involving the reestablishment of a “social Europe” or even the dissolution of the eurozone and the return of the democratic nation-state, or a lapse into right-wing extremism and national chauvinism.
Notes

1. The European integration project was conceived as a purely economic experiment, but with hopes and expectations that the “economic spillovers” would eventually lead to political integration as well. This approach is consistent with the neofunctionalist theory of integration, which was originally formulated by the German-American political scientist Ernst Haas (1958).

2. The latest European official to embark on this line of reasoning is Jean-Claude Juncker, prime minister of Luxemburg and, until recently, as head of the Euro Group, Europe’s finance boss. In mid-March, in an interview in the German magazine Der Spiegel (2013), he expressed concern over political developments in Italy and Greece, and raised the specter of another war in Europe.

3. For a discussion of the role of business and business interest groups in the European integration project, see Franko (1989).

4. See, for example, The Economist (2012).

5. Delors, as head of the European Commission, played a key role in these developments, but it was of course the consensus that emerged between French President François Mitterrand, a strong advocate of the European integration project who abandoned European socialism’s historical goals in favor of neoliberalism, and Helmut Kohl, chancellor of a unified Germany, that made the deal possible.

6. The European Round Table of Industrialists, founded in 1983, was instrumental in influencing European leaders to embark on a neoliberal path. See Apeldoorn (2002).

7. The net destruction of wealth in the eurozone is actually an ongoing process due to the distortions of the use of the euro as a single currency in a nonoptimal currency zone: for Germany, the euro is undervalued, which allows it to have a comparative edge in the price of exports; for all of the nations in the periphery, however, the euro is overvalued, which cripples their export industries, making them highly noncompetitive overall.

8. This section of the analysis originally appeared in Polychroniou (2013b).

9. In Greece, thousands of young people have emigrated, mostly to Germany and the other countries of the north. Indicative of the overwhelming emigration trend taking place in Greece, the percentage of young people submitting CVs for employment abroad increased by more than 450 percent between 2009—the year before the crisis began—and 2012. A similar “brain drain” has occurred in Portugal, where more than 100,000 Portuguese, mostly young people, emigrated in 2012, an increase of nearly 60 percent over 2011 (Peláez 2013). In Ireland, in the meantime, emigration has reached levels not seen since the Great Famine of the mid-1800s (Sheehan 2012).

10. In a recent interview in the Greek daily Ethnos, Dimitri B. Papadimitriou (2013) proposed the creation of a parallel currency system as a potentially necessary component of any alternative plan for Greece and Cyprus’s exit from the crisis.

References


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