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EUROZONE CRISIS: BEGGAR THYSELF AND THY NEIGHBOUR

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Executive Summary

Background

The public debt crisis of Greece and other peripheral eurozone countries has the potential to harm the European Monetary Union. But the eurozone project has already inflicted damage onto Greece and other peripheral countries. There are two related reasons for the crisis: first, the skewed nature of monetary union and, second, the economic upheaval of 2007-9.

Monetary union has removed or limited the freedom to set monetary and fiscal policy, thus forcing the pressures of economic adjustment onto the labour market. Guided by EU policy, eurozone countries have entered a 'race to the bottom' encouraging flexibility, wage restraint, and part-time work. Labour has lost out to capital across the eurozone. The race has been won by Germany squeezing its workers hard in the aftermath of reunification. The eurozone has become an area of entrenched current account surpluses for Germany, financed by current account deficits for peripheral countries. Monetary union is a 'beggar-thy-neighbour' policy for Germany, on condition that it beggars its own workers first.

The crisis of 2007-9 compounded the predicament of peripheral countries because of the monetary and financial structures of the eurozone. The crisis resulted in extreme shortage of liquidity for European banks. The ECB intervened, lending freely and making it possible for banks to start dealing with their weak position. But ECB reaction was very different in 2009 when states faced growing borrowing needs due to the crisis. The eurozone left each state to fend for itself in the financial markets. The ECB watched as interest rates rose, financial institutions speculated against state debt, and state bankruptcy raised its head.

Confronted with a public debt crisis, peripheral countries have been forced by the eurozone to impose harsh austerity. Yet, until early 2010, they have received no bridging loans to ease the pressure. This is grossly damaging, and offers no assurances of future growth. In effect, peripheral countries have been forced to accept IMF conditionality, but without an IMF loan.

Better policy alternatives are available, but they involve radical social and economic change. One option would be to reform the eurozone by relaxing fiscal constraints, introducing an enlarged European budget, guaranteeing a minimum wage, and providing unemployment insurance. A more radical alternative would be to exit from the eurozone, nationalising banks and other key areas of the economy as well as introducing industrial policy. Under all circumstances, peripheral countries face hard choices involving social conflict.

The mechanisms of crisis

Gains for German capital, losses for German workers and periphery

- i. Monetary union has imposed fiscal rigidity, removed monetary independence, and forced economic adjustment through the labour market. Workers have lost share of output relative to capital in Germany and peripheral countries.
- ii. The German economy has performed poorly, with low growth, weak productivity gains, and high unemployment. But Germany has been able to keep down inflation as well as the nominal remuneration of labour. Peripheral countries have performed generally better, but labour costs and inflation have risen faster.
- iii. Germany has gained competitiveness within the eurozone for the sole reason that it has been able to squeeze its workers harder. Inevitably it has generated persistent current account surpluses against the periphery. The surpluses were turned into foreign direct investment and bank lending to the eurozone.

Finance creates a crisis and then takes advantage of it

- iv. European banks faced a pressing need for liquidity after 2007. Banks also had to deal with the excesses of the preceding bubble. The ECB provided extraordinary volumes of liquidity, allowing banks to repair balance sheets by reducing lending, but thus intensified the recession. By 2009 bank lending was in retreat in the eurozone, and banks were not acquiring long-term securities.
- v. But during 2007-8 banks of core eurozone countries (Germany, France, Netherlands, Belgium) had continued to lend to peripheral countries (Italy, Spain, Ireland, Greece, Portugal). Gross cross-border claims from core to periphery reached 1.5 trillion euro in 2008, representing almost three times the capital of core banks.
- vi. Peripheral and core states arrived in financial markets in 2009 seeking extra funds of nearly one trillion euro because of the crisis. Public revenue had collapsed as the recession deepened, while public expenditure had risen to rescue finance and perhaps to maintain demand.
- vii. Thus, states appeared in financial markets at the 'worst moment'. With banks reluctant to lend, yields rose for all public debt. Financial capital was able to engage in speculative attacks on public debt of peripheral states, while the ECB watched. In short, European finance was rescued, only to turn and bite its rescuer.

Alternatives

There are three strategic alternatives available to peripheral countries.

1. The first is austerity accompanied with further liberalisation. This is the preferred choice of the eurozone and of the ruling elites across the periphery. It is also the worst option. It will achieve stabilisation through recession, imposing huge costs on working people. It offers little prospect of sustained growth in the future since productivity is expected to rise spontaneously following liberalisation. And it does not address the structural bias at the heart of the eurozone.
2. The second is radical reform of the eurozone. It would involve greater fiscal freedom by member states; a substantially enlarged European budget; fiscal transfers from rich to poor; protection for employment; support for wages; and cross-European investment in sustainable industries. The strict regulations applying to ECB purchases of state debt would also be relaxed. This might be called the 'good euro' option. Political problems aside, this strategy is likely to threaten the international role of the euro by leading to a fall in its value. It could thus threaten monetary union itself.
3. The third is radical exit from the eurozone. There would be devaluation followed by cessation of payments and restructuring of debt. Banks would have to be nationalised and public control extended over utilities, transport, energy and telecommunications. Industrial policy would be introduced, including strategies to improve productivity. Infrastructure and environmentally sensitive investment could support equitable growth. This option requires a decisive shift in the balance of political power in favour of labour. To avoid veering toward national autarky peripheral countries would need to maintain access to international trade, technology and investment.

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1.1. A crisis with deep roots

The sovereign debt crisis that broke out in Greece at the end of 2009 is fundamentally due to the precarious integration of peripheral countries in the eurozone. Its immediate causes, however, lie with the crisis of 2007-9. Speculative mortgage lending by US financial institutions, and trading of resultant derivative securities by international banks created a vast bubble in 2001-7, leading to crisis and recession. State provision of liquidity and capital in 2008-9 rescued the banks, while state expenditure prevented a worsening of the recession. The result in the eurozone was a sovereign debt crisis, exacerbated by the structural weaknesses of monetary union.

The crisis of public debt, thus, represents Stage Two of an upheaval that started in 2007 and can be called a crisis of financialisation.¹ Mature economies have become 'financialised' during the last three decades resulting in growing weight of finance relative to production. Large corporations have come to rely less on banks, while becoming more engaged in financial markets. Households have become heavily involved in the financial system in terms of assets (pension and insurance) and liabilities (mortgage and unsecured debt). Banks have been transformed, seeking profits through fees, commissions and own trading, while rebalancing their activities toward households rather than corporations. Financial profit has emerged as a large part of total profit.²

But financialisation has unfolded in different ways across mature countries, including in the European Union. Germany has avoided the explosion of household debt that recently took place in other mature countries and peripheral eurozone countries. The performance of the German economy has been mediocre for many years, while great pressure has been applied on German workers' pay and conditions. The main source of growth for Germany has been its current account surplus within the eurozone, resulting from pressure on pay and conditions rather than superior productivity growth. This surplus has been recycled through foreign direct investment and German bank lending to peripheral countries and beyond.

¹ Financialisation has been extensively discussed by political economists. A useful, but not complete, survey can be found in van Treeck, T. 2009. The political economy debate on 'financialization' - a macroeconomic perspective, *Review of International Political Economy*, 16: 5, 907-944. The theoretical views underpinning this report can be found in C. Lapavistas, 2009. Financialised Capitalism: Crisis and Financial Expropriation, *Historical Materialism*, 17:2, 114-148 and Dos Santos P. 2009. On the Content of Banking in Contemporary Capitalism, *Historical Materialism*, 17:2, 180-213.

² See, for example: Krippner, G. 2005. The Financialization of the American Economy. *Socio-Economic Review*, 3, 173-208; and Dumenil, G. & Levy, D. 2004. The Real and Financial Components of Profitability. *Review of Radical Political Economics*, 36, 82-110.

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The implications for the eurozone have been severe. Financialisation in the periphery has proceeded within the framework of the monetary union and under the dominant shadow of Germany. Peripheral economies have acquired entrenched current account deficits. Growth has come from expansion of consumption financed by expanding household debt, or from investment bubbles characterised by real estate speculation. There has been a general rise of indebtedness, whether of households or corporations. Meanwhile, pressure has been applied to workers' pay and conditions across the periphery, but not as persistently as in Germany. The integration of peripheral countries in the eurozone has thus been precarious, leaving them vulnerable to the crisis of 2007-9 and eventually leading to the sovereign debt crisis.

1.2 Institutional bias and malfunction in the eurozone

The institutional mechanisms surrounding the euro have been an integral part of the crisis. To be more specific, European monetary union is supported by a host of treaties and multilateral agreements, including the Maastricht Treaty, the Growth and Stability Pact and the Lisbon Strategy. It is also supported by the European Central Bank, in charge of monetary policy across the eurozone. The combination of these institutions has produced a mix of monetary, fiscal, and labour market policies with powerful social implications.

A single monetary policy has been applied across the eurozone. The ECB has targeted inflation and focused exclusively on the domestic value of money. To attain this target the ECB has taken cognisance of conditions primarily in core countries rather than assigning equal weight to all. In practice this has meant low interest rates across the eurozone. Further, the ECB has operated deficiently since it has not been allowed to acquire and manage state debt. And nor has it actively opposed financial speculation against member states. Yet, the ECB has emerged as protector of financial interests and guarantor of financialisation in the eurozone.

Fiscal policy has been placed under the tight constraints of the Stability Pact, though considerable residual sovereignty has remained with member states. Fiscal discipline has been vital to the acceptability of the euro as international reserve, thus allowing the euro to act as world money. Since it lacks a unitary state and polity, the eurozone has not had an integrated tax system or fiscal transfers between areas. In practice, fiscal rules have been applied with some laxity in core countries and elsewhere. Peripheral countries have attempted to disguise budget deficits in a variety of ways. Nonetheless, fiscal stringency has prevailed during this period.

Given these constraints, national competitiveness within the eurozone has depended on the conditions of work and the performance of labour markets, and in this regard EU policy has been unambiguous. The European Employment Strategy has encouraged greater flexibility of employment as well as more part-time and temporary work. There has

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been considerable pressure on pay and conditions, a race to the bottom across the eurozone. The actual application of this policy across the eurozone has varied considerably, depending on welfare systems, trade union organisation, and social and political history.

It is apparent that the institutions of the eurozone are more than plain technical arrangements to support the euro as domestic common currency as well as world money. Rather, they have had profound social and political implications. They have protected the interests of financial capital by lowering inflation, fostering liberalisation, and ensuring rescue operations in times of crisis. They have also worsened the position of labour compared to capital. Not least, they have facilitated the domination of the eurozone by Germany at the expense of peripheral countries.

1.3 Peripheral countries in the shadow of Germany

Peripheral countries joined the euro at generally high rates of exchange presumably to control inflation, thus signing away some of their competitiveness at the outset. Since monetary policy has been set by the ECB and fiscal policy has been constrained by the Stability Pact, peripheral countries were encouraged to improve competitiveness primarily by applying pressure on their workers. But they have faced two major problems in this regard. First, real wages and welfare states are generally worse in the periphery than the core of the eurozone. The scope for gains in competitiveness through pressure on workers is correspondingly less. Second, Germany has been unrelenting in squeezing its own workers throughout this period. During the last two decades, the most powerful economy of the eurozone has produced the lowest increases in nominal labour costs, while its workers have systematically lost share of output. European monetary union has been an ordeal for German workers.

German competitiveness has thus risen further within the eurozone. The result has been a structural current account surplus for Germany, mirrored by current account deficits for peripheral countries. This surplus has been the only source of dynamism for the German economy throughout the 2000s. In terms of output, employment, productivity, investment, consumption, and so on, German performance has been mediocre. Thus, at the core of the eurozone lies an economy that delivers growth through current account surpluses deriving in large part from the arrangements of the euro. German surpluses, meanwhile, have been translated into capital exports - primarily bank lending and foreign direct investment - the main recipient of which has been the eurozone, including the periphery.

This is not to imply that workers in peripheral countries have avoided pressures on pay and conditions. Indeed, the share of labour in output has declined across the periphery. It is true that the remuneration of labour has increased in nominal and real terms in the periphery, but productivity has risen by more - and generally faster than in Germany.

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But conditions within the eurozone have not encouraged rapid and sustained productivity growth in peripheral countries, partly due to middling levels of technology, with the exception of Ireland. Peripheral countries have thus lost competitiveness as the nominal compensation of German workers has remained practically stagnant throughout the period.

Confronted with a sluggish but competitive Germany, peripheral countries have opted for growth strategies that reflected their own history, politics and social structure. Greece and Portugal sustained high levels of consumption, while Ireland and Spain had investment booms that involved real estate speculation. Across the periphery, household debt rose as interest rates fell. The financial system expanded its weight and presence across the economy. But in 2009-10 it became apparent that these strategies were incapable of producing long-term results.

The integration of peripheral countries in the eurozone has been precarious as well as rebounding in favour of Germany. The sovereign debt crisis has its roots in this underlying reality rather than in public profligacy in peripheral countries. When the crisis of 2007-9 hit the eurozone, the structural weaknesses of monetary union emerged violently, taking the form of a public debt crisis for Greece, and potentially for other peripheral countries.

1.4 The impact of the crisis of 2007-9 and the role of finance

The immediate causes of the crisis of 2007-9 lay in the US mortgage bubble which became global due to securitisation of subprime assets. European banks began to face liquidity problems after August 2007, and German banks in particular found that they were heavily exposed to problematic, subprime-related securities. During the first phase of the crisis, core eurozone banks continued to lend heavily to peripheral borrowers in the mistaken belief that they were a safe outlet. Net exposure rose substantially in 2008.

But reality had changed dramatically for banks as liquidity became increasingly scarce in 2008, particularly after the 'rescue' of Bear Stearns in early 2008 and the collapse of Lehman Brothers six months later. To rescue banks, the ECB engaged in extensive liquidity provision, accepting many and debatable types of paper as collateral for secure debt. ECB actions allowed banks to begin to adjust their balance sheet, engaging in deleveraging. By late 2008 banks were already reducing their lending, including to the periphery. Banks also stopped buying long-term securities preferring to hold short-term instruments - backed by the ECB - with a view to improving liquidity. The result was credit shortage and accelerated recession across the eurozone, including the periphery.

These were the conditions under which states – both core and periphery of the eurozone but also the UK and other states – began to seek additional loanable funds in financial markets. A major cause of rising state borrowing was the decline of public revenue as recession

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lowered the tax intake. State expenditure also rose in several countries after 2007 as the rescuing of banks proved expensive, and to a lesser extent as states attempted to support aggregate demand. Accelerated public borrowing in 2009 was induced by the crisis, and hence by the earlier speculations of the financial system. In this respect, the Greek state was typical of several others, including the USA and the UK.

In the conditions of financial markets in 2009, with the banks reluctant to lend, the rising supply of state paper put upward pressure on yields. Thus, speculators found an environment conducive to their activities. In the past, similar pressures in financial markets would have led to speculative attacks on currencies and collapsing exchange rates for the heavy borrowers. But this was obviously impossible within the eurozone, and hence speculative pressures appeared as falling prices of sovereign debt.

Speculators focused on Greek public debt on account of the country's large and entrenched current account deficit as well as because of the small size of the market in Greek public bonds. Credibility was also lost by the Greek government because of systematic fiddling of national statistics to reduce the size of budget deficits. But the broader significance of the Greek crisis was not due to the inherent importance of the country. Rather, Greece represented potentially the start of speculative attacks on other peripherals - and even on countries beyond the eurozone, such as the UK - that faced expanding public debt.

The Greek crisis, therefore, is symptomatic of a wider malaise. It is notable that the institutions of the eurozone, above all the central bank, have performed badly in this context. For the ECB private banks were obviously 'too big to fail' in 2007-9, meriting extraordinary provision of liquidity. But there was no similar sensitivity toward peripheral countries that found themselves in dire straits. It made little difference that the problems of public debt were largely caused by the crisis as well as by the very actions of the ECB in providing banks with liquidity.

To be sure the ECB has been hamstrung by its statutes which prevent it from directly acquiring public debt. But this is yet more evidence of the ill-conceived and biased nature of European monetary union. A well-functioning central bank would not have simply sat and watched while speculators played destabilising games in financial markets. At the very least, it would have deployed some of its ingenuity, as the ECB generously did when private banks needed liquidity in 2007-9. And nor would it have decided what types of paper to accept as collateral on the basis of ratings provided by the discredited private organisations that were instrumental to the bubble of 2001-7.

1.5 Policy options for peripheral countries

The crisis is so severe that there are neither soft options, nor easy compromises for peripheral countries. The choices are stark, similar to

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those of developing countries confronted with repeated crises during the last three decades.

The first alternative is to adopt austerity by cutting wages, reducing public spending and raising taxes, in the hope of reducing public borrowing requirements. Austerity would probably have to be accompanied by bridging loans, or guarantees by core countries to bring down commercial borrowing rates. It is likely that there would also be 'structural reform', including further labour market flexibility, tougher pension conditions, privatisation of remaining public enterprises, privatisation of education, and so on. The aim of such liberalisation would presumably be to raise the productivity of labour, thus improving competitiveness.

This is the preferred alternative of ruling elites across peripheral and core countries, since it shifts the burden of adjustment onto working people. But there are several imponderables. The first is the opposition of workers to austerity, leading to political unrest. Further, the eurozone lacks established mechanisms both to provide bridging loans and to enforce austerity on peripheral members. There is also strong political opposition within core countries to rescuing others within the eurozone. On the other hand, the option of forcing a peripheral country to seek recourse to the IMF would be damaging for the eurozone as a whole.

Yet, despite apparent legal constraints, it is not beyond the EU to find ways of advancing bridging loans, at the same time enforcing austerity through political pressure. The real problem with this option is not the institutional machinery of the eurozone. It is, rather, that the policy is likely to lead to aggravated recession in peripheral countries making it even more difficult to meet public borrowing targets. Poverty, inequality and social division will increase substantially. Even worse, it is unlikely that there will be long-term increases in productivity through a strategy of liberalisation. Productivity increases require investment and new technologies, neither of which will be provided spontaneously by liberalised markets.

Peripheral countries would probably find themselves lodged in an unequal competitive struggle against Germany, whose workers would continue to be severely squeezed. Attempting to remain within the eurozone by adopting austerity and liberalisation would lead to sustained falls in real wages in the vain hope of reversing current account deficits against Germany. The eurozone as a whole, meanwhile, would continue to be faced with a weaker world economy due to the crisis of 2007-9. It is a grim prospect for working people in the periphery, and far from a bed of roses for German workers.

The second alternative is to reform the eurozone. There is almost universal agreement that unitary monetary policy and fragmented fiscal policy have been a dysfunctional mix. There is also widespread criticism of the ECB for the way it has provided abundant liquidity to banks, while keeping aloof of borrowing states, even to the extent of ignoring speculative attacks. A range of reforms that would not challenge the fundamentals of the Maastricht Treaty, the Stability Pact, and the

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Lisbon agenda might well be possible. The aim would be to produce smoother interaction of monetary and fiscal forces, while maintaining the underlying conservatism of the eurozone.

There is very little in such reforms that would be attractive to working people, or that would indeed deal with the structural imbalances within the eurozone. Hence there have been calls for more radical reforms, including abolition of the Stability Pact and altering the statutes of the ECB to allow it regularly to lend to member states. The aim of such reform would be to retain monetary union, while creating a 'good euro' that would be beneficial to working people. The 'good euro' strategy would involve significantly expanding the European budget to deliver fiscal transfers from rich to poor countries. There would be an active European investment strategy to support new areas of economic activity. There would also be a minimum wage policy, reducing differentials in competitiveness, and lowering inequality across the eurozone.

The 'good euro' strategy, appealing as it sounds, would face two major problems. The first is that the eurozone lacks a unitary state, and there is no prospect of acquiring one in the near future, certainly not with the required progressive disposition. The current machinery of the eurozone is entirely unsuited to this task. The strategy would face a continuous conflict between, on the one hand, its ambitious pan-European aims and, on the other, the absence of state mechanisms that could begin to turn these aims into reality.

More complexly, the 'good euro' strategy would clash with the putative role of the euro as world money. If fiscal discipline was relaxed among member states, there would be a risk that the value of the euro would collapse in international markets. Were that to happen, at the very least, the international operations of European banks would become extremely difficult. The international role of the euro, which has been vital to the project from the beginning, would come under heavy pressure. Thus, it is not clear that the 'good euro' strategy is compatible with monetary union. In this light, a 'good euro' might end up as 'no euro'. Those who advocate this strategy ought to be aware of its likely implications, i.e., leading to the end of monetary union. Institutional, political and social demands have to be tailored accordingly.

The third alternative is to exit from the eurozone. Even here, however, there are choices. There is 'conservative exit', which is increasingly discussed in the Anglo-Saxon press, and would aim at devaluation. Some of the pressure of adjustment would be passed onto the international sphere, and exports would revive. But there would also be losses for those servicing debt abroad, including banks. Workers would face wage declines as the price of tradeable goods would rise. Devaluation would probably be accompanied by austerity and liberalisation, compounding the pressure on workers.

Long-term improvements in productivity would, however, occur only if market forces began spontaneously to develop new capacity in the tradeable goods sector. This is extremely difficult for peripheral

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eurozone countries, with middling technology and middling real wages. It is notable that the ruling elites of peripheral countries are aware of these difficulties, as well as of their own lack of capacity to deal with them. They have implicitly admitted that they possess neither the means nor the will to pursue an independent path. Consequently, conservative exit might lead to stagnation with repeated devaluations and decline in incomes.

There is, finally, 'progressive exit' from the eurozone, which would require a shift of economic and social power toward labour in peripheral countries. There would be devaluation accompanied by cessation of payments and restructuring of debt. To prevent collapse of the financial system there would have to be widespread nationalisation of banking, creating a system of public banks. Controls would also have to be imposed on the capital account to prevent outflows of capital. To protect output and employment, finally, it would then be necessary to expand public ownership over key areas of the economy, including public utilities, transport and energy.

On this basis, it would be possible to develop industrial policy that could combine public resources with public credit. There are broad areas of the national economy in peripheral countries that call for public investment, including infrastructure. Opportunities exist to develop new fields of activity in the 'green' economy. Investment growth would provide a basis on which to improve productivity, ever the Achilles heel of peripheral economies. Financialisation could then begin to be reversed by lessening the relative weight of finance.

A radical policy shift of this type would require transforming the state by establishing mechanisms of transparency and accountability. The tax and transfer payments of the state would then take a different shape. The tax base would be broadened by limiting tax evasion by the rich as well as by capital. Public provision for health and education would be gradually improved, as would redistribution policies to alleviate high inequality in peripheral countries.

A policy of progressive exit for peripheral countries would come with evident costs and risks. The broad political alliances necessary to support such a shift do not exist at present. This absence, incidentally, is not necessarily due to lack of popular support for radical change. More important is that no credible political force in Europe has had the boldness to oppose austerity hitherto. Beyond political difficulties, a major problem for progressive exit would be to avoid turning into national autarky. Peripheral countries are often small and need to maintain access to international trade and investment, particularly within Europe. They also need technology transfer.

International alliances and support would be necessary in order to sustain flows of trade, skills and investment. These would be far from easy to secure if the rest of the EU remained under the spell of monetary union. But note that progressive exit by the periphery would also offer fresh prospects to core eurozone countries, particularly to labour which has suffered throughout this period. If the eurozone unravelled generally,

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economic relations between core and periphery could be put on a more cooperative basis.

1.6 The structure of the report

The report focuses on the peripheral countries of the eurozone, above all, Greece, Portugal, Spain and Ireland. When appropriate, Italian data and performance have also been considered, though Italy is by no means a peripheral country to the EU. The core of the eurozone is taken to comprise Germany, France, Belgium and the Netherlands.³ Comparisons are usually made with Germany, the leading country of the core and the EU as a whole. The introduction of the euro in 1999 – and 2001 for Greece – provides a natural point of reference for all comparisons. Each country has its own distinctive institutional, social and historical trajectory, and therefore some pretty brutal generalisations are deployed below. But there are also evident commonalities which derive in large part from worldwide patterns of economic development in recent years, as well as from the nature of the EU and the eurozone.

Thus, section 2 of the report discusses macroeconomic performance of peripheral countries compared to Germany. Section 3 moves to labour markets, the remuneration of labour and the patterns of productivity growth. Section 4 then turns to international transactions particularly within the eurozone. On this basis, section 5 considers the evolution of public finance and the expansion of public indebtedness after 2007. Section 6 places the growth of public debt in the context of the operations and performance of the financial sector following the crisis of 2007-9. Section 7 concludes by considering the alternatives available to peripheral countries.

³ Needless to say the EU also has a Central and Eastern European periphery, including the Czech Republic, Poland, the Baltic countries, Hungary, and so on. This is an important part of the EU economy, particularly as production is increasingly relocated from the core, above all, Germany. But these countries are not members of the eurozone, and hence they have been left out of the analysis. Still, the crisis of 2007-9 hit the central and eastern periphery first, forcing several countries to adopt IMF programmes that enforced severe austerity. The trigger was rising indebtedness associated with free capital flows. In this respect, there are similarities with the public debt crises in the periphery of the eurozone.