THE CAPITALIST OFFENSIVE AND THE LEFT.
CAN EURO-EXIT BE A SOLUTION FOR THE WORKING MAJORITY?

John Milios[i]

1. The Capitalist Strategy: Redistribution of Wealth and Power through Devaluation of Labour-Power's Price

The strategy of the ruling classes in each and every country of the EU (and beyond it), is the devaluation of the price of the labour-power: directly through wage and pension cuts, indirectly through dismantling all forms of public services and welfare mechanisms of the capitalist state, through privatization of public goods and services etc.

It is a class strategy which aims on the one hand at suppressing the historically achieved, in class-struggle, living standards of the European working classes, and on the other at deregulating the labour market, in an effort to deprive the working classes of their historically achieved labour and social rights and collective institutions. We are amidst a reactionary transformation of European societies, starting from those countries which first faced an insolvency crisis which called, according to mainstream neoliberal policies, for a fiscal consolidation (Greece, Ireland, Portugal, Spain etc.).

Austerity leads to recession and this puts pressure to every individual entrepreneur, both capitalists or middle bourgeoisie, to follow the path of "absolute surplus-value", i.e. to try to consolidate her/his profit margins through wage cuts, intensification of the labour process, infringement of labour regulations and workers' rights, massive redundancies, etc. From the perspective of big capitals' interests, recession gives thus birth to a "process of creative destruction": Redistribution of income and power to the benefit of capital, concentration of wealth in fewer hands (as small and medium enterprises, especially in retail trade, are being "cleared up" by big enterprises and shopping malls).

The main objective of the European strategy for dealing with the crisis has been, therefore, the further embedding of the neoliberal agenda. It has always stayed one step back from the "real" needs of the time so as to lead states onto the path of conservative transformation by exposing them to the pressure of markets. This strategy has its own rationality which is not completely obvious at a first glance. It perceives the crisis as an opportunity for a historic shift in the correlations of forces to the benefit of the capitalist power, subjecting European societies to the conditions of the unfettered functioning of financial markets, attempting to place all consequences of the systemic capitalist crisis on the shoulders of the working people.

This is being done in an undemocratic way, by marginalizing the European Parliament and subjecting national ones. The ECB and other institutions are imposing fiscal policies and so-called structural reforms without any kind of legitimate mandate and are accountable to no democratic institution.

2. "Internal" vs. Currency Devaluation

2.1. "Internal" Devaluation and the Myth of "Competitiveness"

Neoliberal elites and mainstream intellectuals describe the harsh austerity policies which redistribute income and power to the benefit of financial elites and big capital as "internal devaluation": They claim that the lowering of the "wage costs" of the

"economy" will increase its "competitiveness"; "competitiveness" is supposed to increase when the unit labour costs (wage cost per unit of output) decrease, a fact which should then end up in decreasing output prices of the domestic economy and thus in increasing exports and decreasing imports.

However, this argument is not convincing. If we assume that tradable goods are close substitutes, prices cannot diverge beyond certain narrow limits. In addition, small economies like those of Greece, Ireland, or Portugal are by definition "price takers".

More important, the unit labour cost, which coincides with the labour share in the net product, does not solely depend on the level of wages but mostly on the *apparent labour productivity*.

- The unit labour cost or the labour share (income share accruing to labour or proportion of net product accounted for by salaries) is L/Y, where L is the total sum of salaries and Y is the economy's net product.
- Apparent labour productivity is Y/N, where N is the total quantity of labour (or alternatively the total number of full time employees).

The labour share L/Y can be written as: $L/Y = (L/N)/(Y/N)$.
The labour share is thus the quotient of the average wage, (L/N), divided by apparent labour productivity (net product per employee), (Y/N). The labour share (or the unit labour cost) can therefore decrease even with increasing average wage, if the rate of increase of labour productivity is higher than the increase in the average wage.

Taking into consideration that a decrease in labour share (if we also include to the labour share the compensation of the self-employed) means an increase in the profit share (which by definition equals to [1-L]/Y), it is clear that mainstream reasoning equates "competitiveness" with increasing profits.[1] Furthermore, it gives emphasis to increases in profits directly accruing from wage cuts, as they will entail a reshuffling in the overall balance of class forces in the society, and not due to the increases in labour productivity (or economy in the use of fixed capital), methods which could mean, though, that the working class is able to preserve its rights and bargaining position.

2.2. Currency Devaluation and the Purchasing Power of the Working Class

---

[1] The rentability of fixed capital, which is an index for the level of the profit rate, is conveyed by the formula:

$R = (Y-L)/K \qquad (1)$

where Y is net product, L total salaries and K capital stock.
Dividing numerator and denominator by Y, ratio (1) becomes:

$R = [1 - (L/Y)][Y/K] \qquad (2).$

The rentability of fixed capital, R, is thus the product of the net product share accruing to capital [1-(L/Y)] and the ratio between product and capital [Y/K] (the so-called "productivity of capital").
The profit share [1 – (L/Y)] increases in proportion to the decrease in the labour share (L/Y). As already discussed, if N is the total number of employees (working hours), then we have:

$L/Y = (L/N)/(Y/N) \qquad (3).$

Similarly, "productivity of capital" is the quotient of labour productivity divided by capital intensity (capital stock per employee), K/N.

$Y/K = (Y/N)/(K/N) \qquad (4).$

Substituting eq. (3) and (4) into eq. (2) we have:

$R = \{1 - [(L/N)/(Y/N)]\}\{(Y/N)/(K/N)\} \quad (5).$

The rate of profit is thus positively influenced by labour productivity and negatively by average wage and capital intensity (related to the ability of capitalists to economize on constant capital). However, the theoretical horizon of mainstream thinking does not go beyond the "wage cost", i.e. the (falling) average wage.

An alternative way to achieve an abrupt devaluation of the labour-power in favour of internationalized big capital could be currency devaluation.

It is true that the bourgeoisie is always ambivalent towards currency devaluation: On the one hand devaluation reduces the value of all capital assets (as well as all households' property) in international currency, and this makes it unwelcome for the bourgeoisie. However, on the other hand, currency devaluation reduces unit labour costs and real effective exchange rate and boosts exports in relation to imports; it is thus, from this perspective, welcome for the bourgeoisie.

In most cases, most fractions of internationalized big capital in every country do not favour currency devaluation, despite the fact that they generally have the capacity to transfer their financial assets to foreign or international currency before the devaluation takes place, and this for two reasons: First, these fractions generally operate with a labour productivity which is definitely above the national (and international) average, which means that they can support their international position without needing to rely on monetary protectionism. Second, and this is especially true for the EU member states, in all likelihood, a devaluation of the national currency by one country would induce the other countries (EU member states) to resort to various forms of protectionism as a defensive response. And from that point onwards, the greater the instability of exchange rates the more powerful would be the pressure for the introduction of protectionist practices, with the result that the goal of international (European) economic unification would remain a perennial delusion.

However, in the case of a collapse of the Eurozone, big capital in nearly every European country would be in a position, all other condition being unaltered, to exploit the situation against the workers' and broader popular interests.

For countries facing high public debt rates and insolvency, a collapse of the Eurozone will mean currency devaluation. Currency devaluation will be converted into devaluation of the labour-power, as the purchasing power of the working class will shrink: Imported goods will be much more expensive in the new domestic currency, whereas the price of domestically produced products will also rise, as these are being produced with the partial use of imported inputs. At the same time, private debt will rise dramatically, as it will continue to be denominated in international currency. This situation will mainly benefit the exporting (big) bourgeoisie who will be able to increase its profits from the international market.

In countries, like Germany, where a relative currency evaluation is likely to take place, things will not be much better for the working class. The bourgeoisie will put forward policies of "internal devaluation" in order to cope with "losses in competitiveness", due to the currency evaluation.

The above analysis shows that the disintegration of the Eurozone per se is not a progressive perspective: On the one hand it favours the devaluation of the labour-power, and on the other pushes towards the "national enclosure" of each and every European working class, i.e. the alliance with "its" national bourgeoisie, in antagonism with other "countries". On the contrary, the European Left raises the issue of class antagonism between the working class and the bourgeoisie, as to "who is going to pay for the economic crisis".

3. It's Class-Politics. Not Inter-State Rivalries or a Currency Question!

There is, however, a viewpoint which considers exit from the Eurozone to be a prerequisite for exit from the crisis and for economic development. This approach is

formulated on the basis a "dependency"-type of argument, according to which the EU has been polarized between a "competitive centre" and a "non-competitive periphery" – the latter being exploited by the "centre".[2]

In general terms, this viewpoint argues that the competitive capitalist countries of the European "centre" – especially Germany – experienced gains in competitiveness by achieving low labour costs, primarily through a squeeze on wages and a slowing down of inflation. In this manner, the same argument continues, they have improved their exports within the Eurozone forcing the less-competitive economies of the "periphery" to "underdevelopment" and causing "destruction" of their "productive base". The persistent current account imbalances are thought to be the immediate results.

For those accepting this line of argumentation, economic and monetary union (EMU) seems to have been converted into an area for exploitation of the *countries* of the "periphery" by the economic "steam-engine" of the "centre".

This "centre-periphery" approach ousts the major element of Marx's problematic, i.e. class-struggle as the motive force of historical evolution, in favour of a bourgeois theoretical scheme, according to which contradictions and exploitation relations among capitalist social formations move history.[3]

The economic development of capitalism or its crisis does not depend on the "desire" or the "strategies" of the powerful states, but on the class struggle as reproduced within the various national state links of the global economic and political order, which through their inter-articulation comprise what may be described as the *global imperialist chain.* This latter notion is a way of conceptualizing the complex economic, political and ideological links that develop between the different social formations which over-determine the class struggle in each country but never acquires priority over it. The manifold character of the unequally developing capitalist social formations involves the prerequisites for its reproduction and class struggle remains always the decisive factor.

The imperialist chain provides, *on the one hand*, the field of constitution of different, often contradictory national strategies, patently unequal in strength. But *at the same time* the unequal links in the imperialist chain have a common strategic interest: *reproduction of the capitalist system of power*. Each state as it forges its own strategy in the international arena, that is to say on a terrain of shifting correlations of power, finally contributes to reproduction of capitalism at the global level.

What is true for the imperialist chain in general, is much more evident for the European Union (EU).

The EU comprises the integration of *capitalistically developed* European countries, i.e. a strategic coalition of their ruling classes, seeking to strengthen their position both against the USA and other developed capitalist formation and, primarily, against their "own" (the European) working classes. The key prerequisite for unimpeded capital accumulation is that there should be favourable conditions for valorization of capital, and capitalist competition is to be included among such conditions. The route of exposure to international competition is the most appropriate strategy for organizing bourgeois power (as a model for continuing reorganization of labour and elimination of non-competitive individual capitals to the benefit of overall

[2] Lapavitsas C., A. Kaltenbrunner, G. Lambrinidis, D. Lindo, J. Meadway, J. Michell, J.P. Painceira, E. Pires, J. Powell, A. Stenfors, N. Teles y L. Vatikiotis (2011) *Breaking Up? A Route Out of the Eurozone Crisis*, Research in Money and Finance, Special Report 3.

[3] For what follows see J. Milios and D. P. Sotiropoulos, *Rethinking Imperialism: A Study of Capitalist Rule* (London and New York: Palgrave Macmillan, 2009).

social capital).

The exposure to international competition that was effected through integration into the single currency imposed significant restructuring to the benefit of capital favouring all Eurozone member states. More significantly, this integration secured simultaneously satisfactory rates of growth and a rise in average productivity for the (less competitive) countries of the "periphery". In general terms these countries have gone a significant way towards closing the gap in per capita GDP that separated them from the more advanced countries of the European "centre", registering higher rates of profit, accompanied by correspondingly higher rates of capital accumulation. This development, in an environment of "free" movement of goods and capital is an index of competitiveness!

In particular, during the period 1995-2008 Greece experienced a *real* increase of the GDP amounting to 61.0%, Spain 56.0% and Ireland 124.1%, quite contrary to what happened to the more developed European economies. The GDP growth over the same time period was 19.5% for Germany, 17.8% for Italy and 30.8% for France.[4] The economies which experienced higher growth rates ended up with noticeable current account deficits. At the same time, they run higher inflation levels, a fact that was associated with similar hikes in export and import prices. Finally, it is worth noting that during the same period (and contrary to what happed in Spain and Italy and in other European economies) the growth of the Greek GDP was heavily based on investment and on a high growth of employment and productivity (rather that to government consumption).

The higher growth rates in the "peripheral" European economies were accompanied by both a fast reduction in cost of domestic borrowing and a significant inflow of foreign investments (of various forms). This caused *lasting surpluses in the financial accounts*. The concomitant deficits in the current accounts mirror exactly this increase of the domestic demand and the inflow of foreign investments. However, the imbalances in the financial accounts within the Eurozone shaped an unstable and vulnerable context of symbiosis which did not delay to come apart after the recent financial meltdown.

So, one of the most noteworthy features of the first decade of the euro is the persistent current account imbalances: certain countries show chronic surpluses while others invariably suffer deficits. *Nevertheless*, the causality between these two "givens" may not be what it is often casually asserted to be in the relevant discussions. The current account deficit, in other words, is *not* simply the immediate result of a corresponding "deficit" in competitiveness. On the contrary, both are the outcome of another deeper cause: Namely of the considerable differences in the levels of capitalist growth and of the specific mode of "symbiosis" within the euro. To obtain a more comprehensive overview of developments one must, in addition to the above comments, factor in two other basic parameters.

On the one hand, the *higher rates of profit* at the "periphery" boosted financial yields as a whole, with the result that international investors became ever keener to finance the high rates of growth at the "periphery", particularly now that they had been granted dispensation from a number of significant risks in the environment of the euro, such as that of exchange rates, for example. The countries of the "periphery" thus recorded strong *surpluses in their financial account balance*. Investments of various kinds in these countries rendered them attractive for capitals from the centre with the result that there developed a channel for transferring to them resources (in the form of private financial investments).

[4] OECD, Economic Outlook, Volume 2009/2, IMF. See Milios - Sotiropoulos 2010: 228.

On the other hand, the member countries of the Eurozone with their different rates of growth and different rates of profit were without exception incorporated into the same monetary policy regime, that is to say the regime of uniform nominal interest rate from the European Central Bank. These interest rates were considerably lower for the countries of the "periphery" than they had been prior to the introduction of the single currency. This fact, in conjunction with the higher rates of inflation prevailing in these countries, translated into even lower real interest rates for the local banking sector. These are the conditions that laid the groundwork for the explosion of (private and public) borrowing.[5]

As was to be expected, the two abovementioned factors strengthened the potential for borrowing and contributed to a further heating up of most "peripheral" economies, orienting production to the needs of a considerable domestic demand. This had the effect of further reinforcing the inflationary tendencies. The real level of interest rates fell even further, in this way providing further financial leverage. At the same time conditions of high internal demand caused increasing demand for imports.

However, capital imports in the Euro-"periphery" to a large extent referred to autonomous capital investment (portfolio investment, mainly). Investment capitals in the more competitive countries of the "centre" sought higher profitability in the financial system of the countries of the "periphery". In this way they reinforced the already significant rates of growth of the GDP in the latter. The flow of capitals to the "periphery" on the one hand offset the cost of participation in the single market while at the same time generating preconditions for a restraint in the improvement of competitiveness (as higher inflation boosted the price of domestically produced commodities). This in general terms was the situation that emerged when under the cover of the same monetary policy (i.e. essentially the same nominal interest rates) social formations coexisted which were on different real growth trajectories.

We see then that the "centre-periphery" reasoning entirely fails to explain the dynamics of the Eurozone and of the countries that co-exists within it. The plan for the single currency very obviously generates strategic "benefits" for the collective capitalists of *all the countries* that participate in it. In other words, the strategy of the exposure of the individual capitals to international competition led (as it was expected) the less-competitive countries of "periphery" to remarkable higher growth and accumulation rates. It is entirely mythical that the EMU is exclusively the servant of the "insatiable" schemes of Germany, with its competitive economy. According to the same myth, the "wasteful" countries of the "periphery" offset the consuming tight-fistedness of the savings-oriented Germans. We should moreover bear in mind that whereas between 1999 and 2007 there was a rapid increase in German exports – in the order of 89% – the contribution to this increase made by the so-called "black sheep" countries of the "periphery" (Greece, Ireland, Portugal, Spain) was only 6.8%.

It is characteristic that in Greece, the growth rates of the GDP ebbed only after the implementation of the Fiscal Adjustment measures contained in the bailout Program, known as the Memorandum of Understanding (MoU), which the Greek Government and the Troika signed in May 2010. Recession was combined with a rapid fall in the labour's share in the Net Product (Unit Labour Costs). See the two following Figures demonstrate.

[5] See D. P. Sotiropoulos, J. Milios, J and S. Lapatsioras, *A Political Economy of Contemporary Capitalism and its Crisis. Demystifying Finance*. (Abington and New York: Routledge 2013).

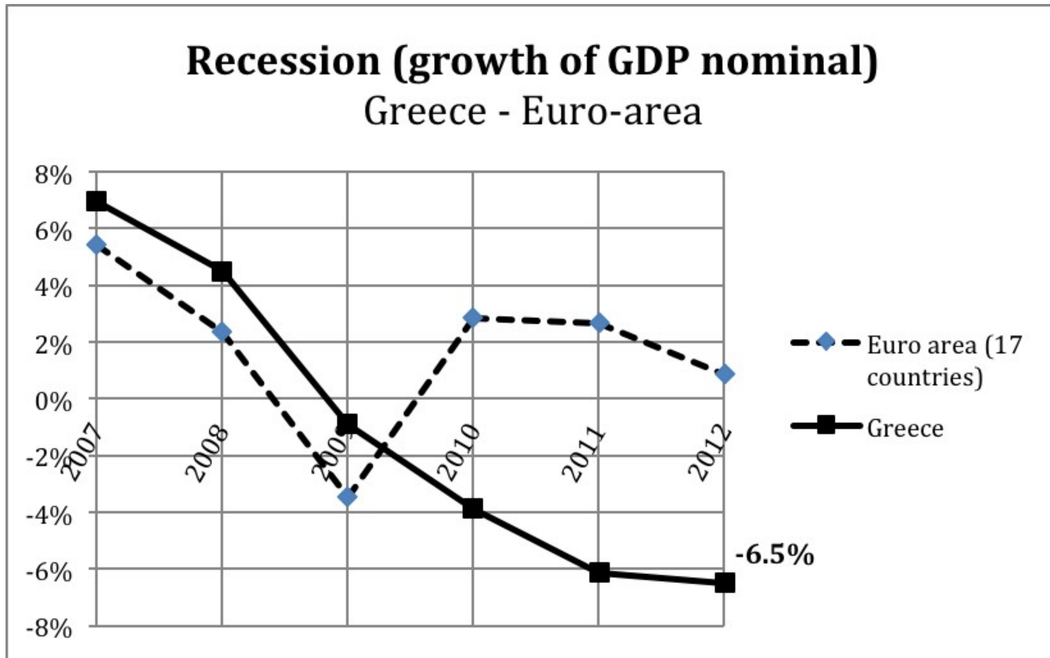

Diagram 1: Growth rates in Greece and the Euro-area
Source: Eurostat, AMECO, November 2012

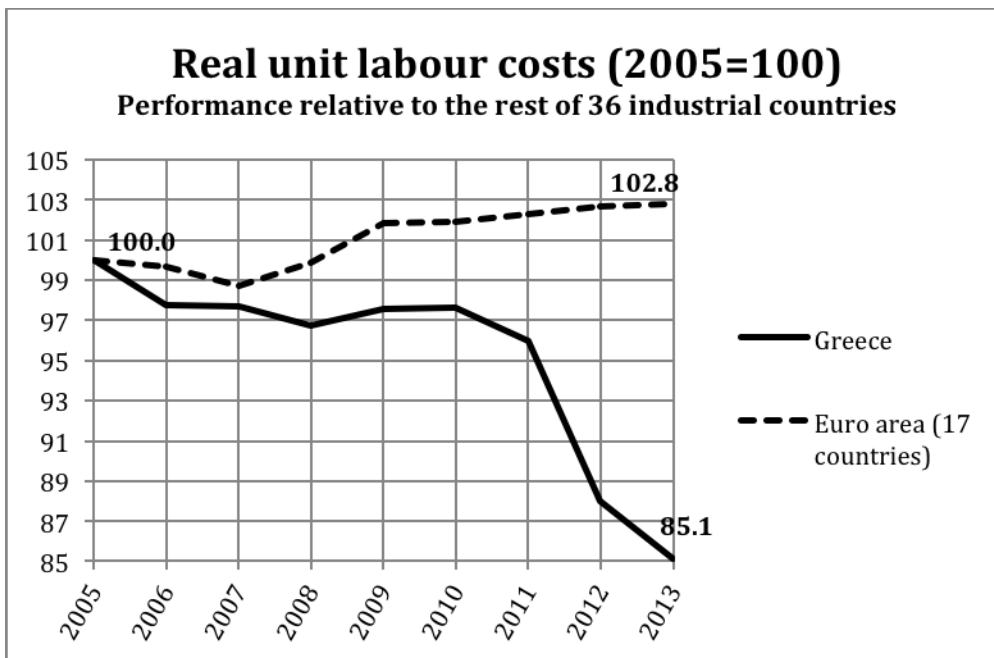

Diagram 3: Real Unit Labor Costs in Greece and the Euro-area (2005-13)
Source: Eurostat, AMECO, November 2012

4. A Concluding Remark Concerning the Left Alternative

The class interests of the European working classes cannot be pushed forward through policies of national isolationism. Europe shall be reformed and "re-invented" on the basis of an anti-neoliberalist and anti-capitalist agenda which brings together the working classes and the movements of all European countries in a united front of social change.

The European Left aims at reversing the policy priorities, i.e. to replace the neoliberal agenda with a program of social and economic reconstruction in all

European countries; to let the financial and economic elites pay for the crisis, in the perspective of a more cohesive and more just society, in which social needs, solidarity and the interests of the working majority will function as a policy prerequisite.

Our Program bases itself on four pillars of immediate measures, which, with the active mobilization of the working classes, could constitute the point of departure for challenging capitalism, for deeper social transformations and change:

1. *Social justice*.
2. *Democracy and reform of the state*.
3. *Social control over the banking and financial sector.*
4. *A European solution of the sovereign debt problem*.

We will be able to implement our Program if we rely on and fight for people's mass movements, together with trade unions' and citizens' initiatives, in order reshuffle the correlation of social and political forces to the benefit of the working majority and the Left.

A government of the Left in any EU country can be the turning point for change in the whole continent.

[i] John Milios is Professor of Political Economy at the National Technical University of Athens and Head of SYRIZA's Economic Policy Department.