

CHAPTER 6

THE *EXIT* CONNECTION: EUROPE'S NEW POLANYIAN MOMENT

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Aye, make yourself a plan
They need you at the top!
Then make yourself a second plan
Then let the whole thing drop.

Bertolt Brecht, “Song of the Insufficiency of
Human Endeavour”, *The Threepenny Opera*

INTRODUCTION: CONVERGENCE AND VARIATIONS

In this chapter, we attempt to draw some lessons from Greece that might be applicable to the Brexit debate and the political economy of the post-Brexit era.¹ The use of the term “exit” to describe a possible walk-out from the Eurozone (or the European Union) was initially coined in the case of Greece. For many years, in the wake of the Greek sovereign debt crisis, Grexit has been usually linked to the (additionally) negative economic and political consequences that an exit from the Eurozone would imply. Some economists, commentators and political analysts saw Grexit as inevitable; a few tried to see the exit as a positive scenario or a radical/simple solution to the Greek predicament. For the majority of the relevant discussions and analyses, the Grexit scenario was mostly seen as the “nuclear option”, to use Krugman’s pessimistic expression (Krugman 2012).

The announcement of a forthcoming UK referendum by David Cameron after the elections in May 2015 automatically boosted a new “exit” term: this time it was Brexit. But in many different respects the UK is not like Greece, so Brexit took different meanings and developed its own political dynamics

1. This chapter was mostly written before the 2016 US Presidential Election. In many respects, the result verifies the main points of our analysis.

as a term in public discussions and debates. The UK is a key G7 economy. It is not part of the Eurozone. It has its own currency and an independent central bank. Its international economic and political role is unquestionably very different from that of Greece. The UK did not suffer a severe sovereign debt crisis; on the contrary, after the 2008 global financial meltdown, government borrowing costs reached historically low levels that, in practical terms, increased the fiscal space of the Treasury.² The UK's EU Membership Referendum took place at a period of relative economic prosperity and, despite the outcome, the future growth prospects in the short to medium term are still marginally positive. The UK, like Greece, has for some time experienced twin deficits; that is, both a current account deficit and a government budget deficit. In the case of Greece most analyses argued that a twin deficit country could not survive within the Eurozone unless structural reforms were immediately imposed (without, of course, explaining that the reasons for the problem related to the architecture of the euro). The arguments from the Greek case cannot easily be used in the case of the UK, and a hypothetical disentanglement from the EU looked much less impractical, at least at first sight. Yet the former UK chancellor of the exchequer, George Osborne, used the experience of the Greek economy to create scare stories in order to justify further austerity in the UK.

From the beginning of the Greek crisis the authors of this chapter have argued against an exit from the Eurozone (Milios & Sotiropoulos 2011; Sotiropoulos *et al.* 2013). This standpoint is by no means a defence of the current form of the common currency or status quo. The line of the argument is that Grexit could not, in any possible way, improve the living conditions of the working class in Greece. In the very short term, given all sorts of transitional impracticalities and hazards, it would definitely provoke a further economic shock. All domestic accounts would have to be transferred into a new national currency, which would have led to a free fall in its value. The new exchange rate would then create a huge balance sheet mismatch and force Greece to default on all of its external public and private debt, causing further recession and leaving the economy temporarily without any meaningful financial intermediation. In the medium term, Grexit would also imply a labour devaluation project. It would constitute a more violent market-based alternative to the existing political agenda of a large real depreciation in the form of continued negative wage growth. In the face of strong inflationary

2. The annual long-term interest rates, which indicate the borrowing costs of the government and the overall country specific risk, fell from 5.1 per cent in 2007 to 1.8 per cent in 2015 (data from Ameco, <https://data.europa.eu/euodp/en/data/dataset/ameco>, accessed 29 December 2016).

pressures, real wages would have to keep up with a falling exchange rate for the current account to readjust. Greece would also need international reserves to service its current account deficit, which would additionally deepen due to the post-Grexit disruption of the capital inflows and currency devaluation. This would imply a new memorandum, probably with the International Monetary Fund, if not the EU; the terms would be devastating and Greece's negotiating position would be very weak (if the Eurozone survived Grexit). Sovereign debt negotiations would bring Greece to the very same negotiating table with existing European creditors without any leverage this time. The new economic shock would boost extreme right-wing ideas and structures of power, so Greek society would probably suffer great losses both in economics and political terms (i.e. workers' benefits, protections and civil rights). All in all, our argument was not pro-euro but an anti-Grexit one.

The UK is very different from Greece and the above argument is not directly applicable here, but there may be some similarities. The Brexit agenda is not going to improve the condition of the working people. It practically implies the attempt to establish a labour devaluation strategy on the basis of right-wing xenophobic conservative social consensus to the benefit of the political and economic elites. This is what Grexit would also imply. The Greek economic elites still see the Eurozone as the strategic place for the Greek economy and this will not easily change. However, things are different for the UK as it has deliberately distanced itself from the core of the euro project. Parts of UK capital might find a "hard" Brexit as unnecessarily risky or ambiguous. No one can be sure, at this point, of the final outcome of the ongoing negotiations. However, the state as the underwriter of capital always expresses and guarantees the political unity of the capitalist class regardless of inter-capital disputes and contradictions (Miliotis & Sotiropoulos 2009). And the current social correlation of power in the UK points towards a risky right-wing leap towards the global market that despite its "adjustment" costs would articulate the new long-term platform for UK capitalism.

ANTI-IMMIGRATION SENTIMENT AS THE DECISIVE FACTOR OF THE REFERENDUM RESULT

Generations of Tory politicians and party members have been politically raised to see Britain's EU membership as a doomed marriage. This expression is actually borrowed from the title of Daniel Hannan's brief pamphlet, which attempted to explain the Brexit case to the public (Hannan 2016). Hannan defended the Brexit agenda against any accusation of nationalism or populism. For him, Brexit is a critical and manageable first step towards

economic prosperity and more democracy by parting with a bureaucratic European Union; the latter is mostly represented as a set of irrational and restrictive regulations undemocratically imposed by Brussels (*ibid.*). In a similar fashion, Nigel Lawson, the former chancellor of the exchequer and another well-known Tory Eurosceptic, argued that Brexit would let the UK become, under a proper Tory leadership, “the most dynamic and freest country in the whole of Europe” (Lawson 2016). As a matter of fact, there has always been strong Euroscepticism within UK economic and political elites. Hannan’s and Lawson’s arguments echo Bernard Connolly’s 1995 book with the telling title *The Rotten Heart of Europe: The Dirty War for Europe’s Money*. This book argued that the European Exchange Rate Mechanism, the predecessor of the Euro, was an indispensable part of a political project to undermine the political and economic sovereignty of European countries (Connolly 1995). This trend has been reinforced by the establishment and rise of the UK Independence Party (UKIP), which has politically outflanked the conventional stance of the Conservative Party.

There is no question that a right-wing shift and return to conservative Thatcherism have been the driving inspiration among Tory Brexiteers and a significant part of their supporters. After all, about 60 per cent of Tory voters defied David Cameron’s leadership and the gloomy post-Brexit economic perspective offered by his economic chancellor, George Osborne (see Lord Ashcroft 2016). For the Brexiteers, Europe is not pro-capital enough and UK political influence is insufficient to put the whole EU on a modern Thatcherite track. However, the decisive factor of the outcome of the referendum was not the pro-capital agenda but the gradually rising anti-immigration and xenophobic sentiment, a card that, admittedly, was played really well by the Brexit camp. Immigration control, as a critical part of the “reclaim” of sovereignty, was one of the key reasons that many traditional Tory and Labour party voters, for whom UKIP has become an attractive alternative, chose to support the Leave campaign (*ibid.*).

In the General Election of 2015, Cameron attacked the Opposition Labour Party by warning that a Labour government would mean a “return to uncontrolled immigration”, which would threaten social cohesion and put pressure on public services and wages. This enabled the pro-austerity and anti-EU immigration discourse to dominate the electoral debates with little rebuttal from other political parties, with the exception of the Scottish Nationalist Party (SNP) in Scotland. Tory political dominance in the UK was based on an ideological narrative that *succeeded in associating xenophobia with the conservative anti-labour agenda*. In this narrative, any anti-austerity political demand was not just ineffective and futile, it was primarily presented as opposing the British national interest.

In the UK, the Remain campaign failed to address a strong and convincing anti-austerity argument. Neither the Remain nor the Leave campaign presented Britain as an essential part of the EU project. People were requested to decide whether EU membership was a good *instrument* for the national interest. Dissatisfaction with the government *within* the dominant political discourse soon boosted the hopes of Brexiteers. The rise of xenophobia was the decisive factor for the Leave vote. Cameron's plan was defeated, but the message the people sent to Westminster was not an anti-austerity one, that still has some popular support among the poorest areas. Anti-immigration rhetoric gave the Tories their chance to attempt a new Thatcherite revolution, and also to reclaim political territory back from UKIP. This explains the exemplary smooth transition to a new Cabinet led by Theresa May. Quite ironically the defeat of Cameron empowered the Tory political strategy to give rise to a new plan. Cameron became the sacrificed *Iphigenia*³ to the benefit of the Thatcherite agenda, a victim of his own ideological victory. This is also in line with the Greek experience in the wake of the sovereign debt crisis: the conservative ideological hegemony of the right generously offered the ground for the rise of fascism and its political formations when things stopped becoming smooth for the political establishment.

IS THE RISE OF FAR-RIGHT AND ANTI-IMMIGRATION SENTIMENT ALL OVER EUROPE A THREAT TO NEOLIBERALISM?

Is the rise of xenophobia a threat to neoliberalism?⁴ Strangely enough, the answer is no. This is one of the big lessons to be drawn from the Greek political and economic crisis. The rise of the neo-Nazi party Golden Dawn has never been an actual threat to the conservative agenda and related neoliberal economic and social reforms. In spite of its superficial anti-establishment rhetoric, Golden Dawn has proved a valuable political ally to austerity policies. Its role has been complementary to post-crisis authoritarian governance, blocking electoral leaks to the left, attacking immigrants and trade unionists, targeting mass social movements, and supporting key pro-capital

3. In ancient Greek this means "born to strength" or "strong-born".

4. Neoliberalism belongs to this category of terms, in which their wide use deprive them of a clear analytical content. For us, neoliberalism is briefly a synonym to globalization as the irreversible new form of capitalism: it involved a fundamental re-contextualization of the relationships between capitalist states, the workings of capital and the exposure to global market driven by the financial flow of capital world-wide. Of course, many implications emerge from this general definition. For more details on our argument, see Sotiropoulos et al. (2013).

law making in the parliament. In other words, Golden Dawn has provided useful support to the political status quo. In fact, this is the strategic role of the contemporary far-right political forces all over the western world. As long as the conservative neoliberal agenda works and produces results, an ideological empowerment of the “nation” against any hypothetical “foreign” threat is a useful political formula to subordinate working class interests to a pro-capital strategy. In other words, the current rise of anti-immigration sentiment neither poses a threat to the free movement of capital nor, in practical terms, could tighter control of immigration flows. To use Marxist terminology, xenophobia sets forth a form of capitalist governance model that subsumes and subordinates a resistant and gradually dissatisfied working people to a conservative pro-capital strategy (Sotiropoulos et al. 2013). How this will pan out in the rest of the EU is an open question but the key point is whether support for atavistic nationalism will actually worsen the conditions for the anti-EU parts of the electorate.

The rise of far-right political forces is a sign of deeper political shifts in contemporary capitalist societies. This rise indicates that extreme right-wing ideas have become more appealing and that the whole political spectrum is moving to the right. Working people do worry about the disintegration of the welfare state, the rise of income and social inequalities, the crisis of the health and pension system, etc., but they gradually redirect blame on “foreigners” and foreign political “centres of power”, looking to the empowerment of domestic power structures as the only possible solution. In this sense, they end up supporting the political agenda that was responsible for the deterioration of their living conditions in the first place. In this vicious circle, Europe and the Western world might look as though it is drifting back to the turbulent 1930s. However, this time things seem a little bit different. Some time ago, Karl Polanyi argued that authoritarian governments in the 1930s were the answer to working class political unrest in a market society that refused to function (Polanyi 1992). Unlike then, globalization today is irreversible. However, the Western world might still be heading towards its new Polanyian moment. Quasi-nationalisms look like an effective way to tame and control working class unrest without the need to abandon the strategic free market ideal.

The above line of reasoning answers to the apparent contradiction with regard to the Brexit referendum: people attempting to send a strong message of disobedience to the Westminster establishment wound up supporting the most conservative UK government after the Thatcherism of the 1980s. This interpretation goes beyond the explanations attempting to understand the voting behaviour in the Brexit case on the basis of purely economic criteria – the winners and losers from globalization. In fact, “for every one person

who voted leave because the global rat race had left them behind, there was more than one person pretty well served by the economy, who voted leave” (Williams 2016). If we look at the figures that plot voting against housing, social and council tenants voted Leave, but so did those who owned their houses outright, the people we might describe as society’s winners. By housing type, the only groups where Remain prevailed were private renters and people with mortgages (*ibid.*).

The above analysis can be easily generalized across Europe. Following the election of Donald Trump as the President of the United States, forthcoming election results (in France, and Germany) might see the rise of right-wing parties adding some more confusion to the already dysfunctional monetary union but they will not pose a real threat to capital and its free movement. Most importantly, it seems that the xenophobic Brexit agenda is gradually haunting all of Europe. All European leaders have warned that the UK will not be allowed to “cherry-pick” the relationship to the Single European Market (SEM). The price to be paid is EU immigration. Suddenly, immigration flows and free labour movement has become the negative cost one needs to pay in order to “enjoy” access to the SEM. The rising anti-immigration sentiment has also added heavily to the stalemate with regard to the Syrian refugee crisis. Europe has gradually become unwilling to develop common responses to big humanitarian challenges of our time, further exposing its fundamental weaknesses.

THE STRATEGIC DILEMMA OF THE LEFT: SOME THOUGHTS FOR THE FUTURE

In the UK referendum the left and the Labour Party, in particular, were caught in a midst of dangerous and unpleasant dilemma. Both the Remain and the Leave campaigns were led by opposing political forces. UKIP and conservative Tories put their stamp on the Leave camp, while other Tories, Liberal Democrats and Labour Party Blairites led the Remain campaign. The ground for the Labour Party led by Jeremy Corbyn was particularly slippery in that debate. The challenge for the left was more strategic: would it be possible to argue for a left-wing exit (the so-called Lexit) when Brexit is ideologically ruled by Thatcher’s admirers or nationalists? Would it be possible to uncritically support the current version of the EU, which is nothing more than a stronghold of neoliberal recession-led reforms? The argument that was finally adopted, “remain to change Europe”, was hardly appealing and convincing. There was no attempt to challenge the xenophobic charge that unless the UK exited the EU, it would become like Greece, as was the case in respect of austerity.

The UK political establishment has so far been an absolute and uncompromising guarantor of a right-wing and pro-market EU. It has also been an impediment to further unification, which could potentially rebalance the current dominance of the conservative political agenda. The UK could change Europe in so far as it changed itself. The “remain and change” line would make sense only to the extent that it set out an alternative agenda for both the UK and the EU politics. This project was never actually undertaken by the left. And there is a good reason for that.

The Labour Party right-wingers have put forward a clear argument about Britain’s EU membership: staying close to Europe would serve the national interest, empowering the role of the UK in the contemporary global landscape. On the other hand, the left-wing perspective about the EU can be summarized by the following statement made by Labour MP Tony Benn during the UK’s 1975 European Communities Membership Referendum:

When I saw how the European Union was developing, it was very obvious what they had in mind was not democratic. In Britain, you vote for a government so the government has to listen to you, and if you don’t like it you can change it. (BBC 2014)

Tony Benn was correct in indicating the democratic deficit in the way the EU has been developed so far. However, a possible answer to this deficit could, in principle, be a demand for more unification: the European parliament to become accountable in its decision-making. Tony Benn was against that prospect because he seemed to believe that it was easier for voters to influence national governments. The current Labour Party leadership sympathizes with this view, and this probably explains its unwillingness to whole-heartedly support the Remain campaign. It is also the same argument that inspired the Lexit idea that a left-wing Brexit was possible. However, this argument is based on two erroneous assumptions with regard to the social nature of the capitalist state. First, the capitalist state and its political institutions are not neutral; the state is a key institution in the organization of capitalist power. Second, capitalist states and societies cannot exist in isolation. Their complex and multi-level and multi-scalar interactions are reflected in domestic power relations and structures. The UK’s “hard” exit from the EU would not solve the abovementioned democratic gap in relation to EU membership to the extent that the UK would enter into other trade agreements winding up with similar “sovereignty compromises” in the global market. Hard Brexit would imply a recalibration of the UK’s position at the international level, consolidating a more conservative political agenda and related conservative forms of governance. It would probably imply more sovereignty concessions

always to the benefit of British political and economic elites. A different set of compromises would originate a new democratic deficit. As was mentioned in the introduction to this chapter, the same argument applies to the case of Greece. The UK's Official Opposition could learn from the case of Greece that in globalized capitalism there is no way to reclaim "full sovereignty" even for countries like the UK. An exit from political unions could easily result in higher "sovereignty losses" always to the strategic benefit of domestic elites: this type of sovereign "concessions" practically indicates the inability of working classes to influence decision making.

The question with regard to the exit from the EU should thus be addressed in relation to an analysis of the contemporary form of capitalism. The exit from the EU could not be a return to the nation-state in general but only a decisive step towards a different interplay of power relations and an alternative interaction with the global market. Should Brexit be a strategic target for the working classes and the left? Could an alternative exposure to the global market exist, to the interest of working people? Some progressive thinkers do embrace this idea, which gains some ground even within Germany, probably the most pro-European society. For instance, acknowledging that the Eurozone has been a political mistake, Wolfgang Streeck suggests unravelling the euro project and returning to an orderly system of flexible exchange rates in Europe (Streeck 2014).⁵ It is clear that in the absence of fiscal federalism within the Eurozone then peripheral economies have borne the brunt of the pursuit of austerity. This is certainly the experience of Greece but the fundamental issue is whether the EU can hold together. Ironically, the Greek model may be one that the UK regrets emulating if the long-term consequences of Brexit are as damaging as many are currently beginning to realize.

Globalization is something much more than a mutual institutional contract between sovereign nation-states that can be unilaterally challenged. Globalization is the *irreversible* new form of capitalism. The reproduction of social power relations is intertwined with the workings and the historical norms of globalization (Sotiropoulos *et al.* 2013). Even if the project of European Monetary Union (EMU) were abandoned, individual European societies would not have the historical option or even the power to place them beyond the reach of globalization. The argument holds for countries like Greece, but also for others like the UK.

No doubt the EMU has been for many countries a useful mechanism to facilitate the adjustment to a new global order by promoting and reinforcing conservative reforms. The case of Greece is probably the most indicative

5. See also the appeal of the Lexit campaign at <http://lexit-network.org/appeal>. Of course, the debate in Germany has many different aspects as well (see Offe 2015; Habermas 2015).

example. However, the exit from the EU could by no means become part of a genuine deglobalizing process. It would probably impose upon societies a more conservative pro-capital agenda, one led by a new exposure to global competition. As a matter of fact, the aggressive and conservative ruling elites of the UK got it right. An exit from the EU implies exposure to a competitive global market, in which what was claimed and promised by Brexiteers as “more flexibility” means, in practical terms, nothing other than a set of the doomed Transatlantic Trade and Investment Partnership (TTIP)-like bilateral type of agreements (exactly like the one recently agreed between Canada and the EU). It might be a risky strategy but, as argued above, it is one that can potentially subordinate social resistance to a new conservative strategy for the UK capitalism. *Mutatis mutandis*, this also holds in the case of Greece.

The Leave or Remain dilemma is a systemic one: it is about which pro-capital strategy British politics will follow from now on. This is a wrong debate for the left. The improvement of the living conditions of the working class could only come from a challenge of domestic power structures and the creation of radical democratic institutions in an anti-capitalist perspective. The Brexit agenda in that sense might take a range of different forms, but is definitely here to stay. It cannot be reversed but it can be defeated.

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