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EUROPEAN SOLIDARITY IS NOT FREE

The European Union is beside itself – not with excitement but with worry, and because of unrest and feelings of helplessness. Many people doubt whether financial and political elites are equipped to deal with the financial and debt crises European countries face, or indeed whether the existing capitalist system can be justifiably used to tackle these crises simply because it was successful on the level of systemic competition.

THE LANGUAGE OF THE MARKET

Politicians feel they are at the mercy of the «language of the market». When the chairman of the Financial Crisis Inquiry Commission (appointed by the US Senate) asked a former banker whether they had sleepless nights knowing what they had done, the former banker replied that whilst he was sorry, he did not see why bankers should be held responsible. Correspondingly, one of his colleagues explained that things got complicated when the music stopped, but as long as it was still playing, one had to get up and dance. Josef Ackerman, chief executive of Deutsche Bank, has interpreted this to mean that everyone is now in some way driven by markets. The former head of the German Federal Bank, Hans Tietmeyer, tried to convey this to a German bishop by equating the rules of the market with natural laws. In the same way that water does not flow up-hill, market competition cannot be offset by parliamentary decisions or by appeals to morality. However, the rules and mechanisms of the market are neither a tsunami nor an earthquake. Economic systems, policies and technologies all stem from decisions that people actively make, even when these decisions then seemingly take on a life of their own or end up contradicting original intentions or points of view. Due to the fact that these systems are the result of human intervention, they can also be redesigned and corrected by human intervention.

The «language of the market» is a populist interpretation of the dogma of economic liberalism and its fixation on the market. This is a dogma that attributes information efficiency to financial markets, convinced that market prices deliver authentic signals about the opportunities and risks of particular assets. Yet, since the breakdown of the Bretton Woods system, it has been repeatedly apparent that financial markets respond to collective euphoria, emotional hyperbole, irrational excessiveness and herd behaviour resulting from rumours or from viral effects. Financial markets have triggered an unprecedented financial crisis that will continue to proliferate for as long as excess liquidities in currency, resource and government bond markets attack the system at its weak points.

Friedrich August von Hayek's reflections are exemplary theoretical justifications for the «language of the market». Hayek argues that modern societies have evolved from a reliance on substantive moral imperatives and religious convictions that guided individual behaviour to formal regulation by the market. He avers that exposure to market competition in the exchange of goods produces an optimal satisfaction of needs and provides a fair balance of interests, but only under conditions of perfect competition, when private property is protected and the freedom of contract guaranteed. For the most part, Hayek omits that competition in and of itself does not guarantee competition, private property has to be ensured through the law and contractual loyalty results from a particular set of morals.

The «language of the market» is a language of asymmetrically distributed power. Financial markets do not only include millions of small shareholders, they also encompass institutional intermediaries, insurance and investment companies, and are determined by large banks. The banking system has unlimited power to create money and value from nothing. Generally speaking, only those who have the necessary purchasing power and robust performance capabilities are able to survive in the market.

THE LANGUAGE OF SOLIDARITY

The language of solidarity is different to the language of the market. In the meaning deployed here, solidarity does not refer to personal virtues of empathy, charity or sympathy, but to social tax reforms that – like love or passion in a partnership, money in an economy, power in politics or truth in science – can align the actions of individuals to those of others. Tax reforms based on solidarity enable a legally binding balance between unequally distributed social risks and interests. Solidarity as tax reform encompasses the following characteristics. Firstly, there needs to be a sense of common-

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ality based on an objective rationale that is freely consented to. The bases for commonality can be class, gender, common origins, history, language, culture, religion or a collectively experienced fate. Secondly, at present, even where a sense of commonality exists within a nation-state, there are still stark inequalities in the distribution of risk; these risks involve poverty in old age, illness, the need for care, and in a transnational context they include socio-economic factors that influence living conditions. Thirdly, the reciprocal rights and duties balancing different interests need to be guaranteed constitutionally or by international agreements that are legally binding. Fourth, commonality in the face of an unequal distribution of risk necessitates an asymmetrical reciprocity: contributions in accordance with ability, claims for assistance in accordance with the acuteness of need.

In contrast to market regulation, solidarity as tax reform has particular advantages. The market reconciles divergent interests in an anonymous and limitless way. It depends upon a strict reciprocity of immediate, or at least foreseeable, quid pro quo. However, solidarity aims at striking a balance between the different interests within a demarcated group. Reciprocal contributions and claims to assistance are based on future expectations and subjective judgements of the effects of particular social risks. The «secret» of solidarity lies in how the less weak vouch for the weaker, the less poor for the poorer and those who are sick less often for those who are sick more often. The market cannot recognise this kind of asymmetrical reciprocity because the market relies on the equivalence between commodities and on the signals of individual output and purchasing power. Like the market, solidarity produces a reciprocal relationship. But unlike the market, this relationship is asymmetrical because the unequal distribution of social risk is countered by the maxim of justice founded on the principle of equality. Following this, all members of a nation-state or of the European Union should have the right to equal treatment and respect.

MONETARY SOLIDARITY

Financial crises are part of capitalism in the same way that water composes the sea. Since the breakdown of the Bretton Woods system there have been at least six or seven financial crises that have been caused by a variety of factors. These include: tax reforms of commodity and asset markets; explosive lending; debt financing and the limited liability of corporations; the power of the banking system to create both money and credit; a micro-level perspective that fixates on credit and institutional risks whilst disregarding systemic risk; and sheer negligence with respect to governmental oversight and control. Financial capital may have contributed to the obvious increase in global wealth, but one cannot ignore its destructive dynamics rooted in the disproportionate influence that creditor and debtor relations have on the real economy.

There is no need for the international community to reinvent a way out of the debt crisis. In 1983, forty developing and newly emerging economies went bankrupt. After the drastic increase in oil prices in 1973 and 1980 following the depreciation of the US Dollar, the then flourishing international financial institutions transformed the excess liquidity originating from oil-exporting countries into low interest loans for developing and newly emerging economies. In 1981, abrupt changes to taxation in US-American monetary policy meant a radical increase in interest rates, making it impossible for indebted countries to repay their loans. In 1983, Brazil declared that it would stop its interest payments. Much later, in 2001, Argentina took the same decision.

The way this crisis was managed on an international level meant that twenty-one developing countries signed debt-restructuring agreements. The International Monetary Fund (IMF) brokered agreements between the indebted countries and the private and public banks. Highly Indebted Poor Countries (HIPC) did not formally declare bankruptcy and short-term credit was made available to tide them over. With the promise of fresh credit, long-term debt was repackaged, loosening repayment obligations and extending repayment dates. The IMF guaranteed the credit rating of developing countries, mobilised private and public credit and imposed contentious structural adjustment policies on indebted countries. These policies were contentious because they followed the monetarist demand-orientated dogma of the so-called «Washington Consensus». They included the stimulation of private investment and export-led growth, the rigorous containment of inflation, as well as drastic cuts to food subsidies, wages and social welfare provisions.

The devastating consequences of these policies for the lower strata of populations in developing countries revealed the shortcomings of such debt restructuring agreements. Indebted countries were unable to export to industrial countries to an extent that would have made it possible for them to repay their debt in foreign currencies. Case by case negotiations between consortia of creditors and the individual indebted countries did not take place on a level playing field, preventing any kind of fair burden-sharing. To date, there is neither an international insolvency law nor an independent body to ensure the fair reconciliation of interests.

Consequently, at the end of the 1980s there were proposals for a more sustainable regulation of the debt crisis with plans to develop an international insolvency law and a public debt agency to buy all of the debt from the private banks at a discounted rate and organise a restructuring of this debt with the indebted countries. The IMF, the World Bank, regional development banks and private banks were supposed to act in concert to make multilateral financial help available and enable growth-promoting investment. In turn, the IMF would offer financial means for creditors to engage in voluntary negotiations with debtor countries over their debt restructuring. Only as a final measure would debt relief be considered.

FEDERAL SOLIDARITY

According to Article 20 par. 1 of the Basic Law for the Federal Republic of Germany, Germany is a democratic and social federal state. The functions of government are divided between the state and the individual Länder, a division of labour that serves to mitigate tensions between regional cultural diversity and overall territorial unity. There is even an «Eternity Clause» that makes it inadmissible to amend the Law in ways that affect the division of the Federation into Länder [Article 79]. According to Article 72 par. 2, the Federation has the right to legislate in specific areas, «if and to the extent that the establishment of equal living conditions throughout the federal territory or the maintenance of legal or economic unity renders federal regulation necessary in the national interest.» The maxim of establishing equal living conditions throughout

the federal territory gives the imperative of the social state a spatial dimension. Access to social services, employment and adequate living standards are supposed to enable everyone across the country to participate in the economy and society. Federal solidarity thus poses a structural counterweight to centralising tendencies and to the hollowing out of peripheral regions.
According to Article 106 par. 3 No. 2 «the financial requirements of the Federation and of the Länder shall be coordinated in such a way as to establish a fair balance, avoid excessive burdens on taxpayers, and ensure uniformity of living standards throughout the federal territory.» Article 107 par. 2 states the law «shall ensure a reasonable equalisation of disparate financial capacities of the Länder.» Moreover, it «specifies the conditions governing the claims of Länder entitled to equalisation payments and the liabilities of Länder required to make them as well as the criteria for determining the amounts of such payments.» Aside from this horizontal financial balancing, the Federation may also provide grants to «financially weak Länder from its own funds to assist them in meeting their general financial needs.» The basic principles of spatial organisation are listed in Article 2 par. 2 of the Federal Regional Planning Act, which refers to the aim of balancing economic, infrastructural, social ecological and cultural relations across the respective areas of the Federation. A transfer union is thus not a point of contention within the German Federation and is guaranteed under Basic Law.
However, Germany's Basic Law has been infected with the market dogma of economic liberalism, which appeals to notions of a self-healing market and trusts in the positive effects the market's regulatory functions will have on all social institutions, on state administrative bodies and on the individual Länder. As a result, the welfare state is mutating into a competition state. Competitive federalism dominates at the expense of cooperative federalism in an erosion of solidarity, most visible in the ways that constitutionally enshrined debt limits are used by financially stronger Länder against financially weaker Länder.
The European Union has no comparable guidelines for adjustments that could establish that same standard of living across all member states. However, in accordance with Article 158 of the EU Maastricht Treaty, the intention to do so does exist: «in order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion.» In particular, the legislation pursues the goal of «reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas.» According to Article 160 of the Treaty, the task of the European Regional Development Fund is to «redress the main regional imbalances in the Community through participation in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions.» At present, a European transfer union merely exists in its infancy and is far from realisation. Nonetheless, it is currently receiving vehement criticism in the media by commentators usually regarded as intelligent, even though there are actually no objections to a transfer union if it does not exacerbate the tensions of the existing north-south divide within the European Union.

EUROPEAN SOLIDARITY IN THE MAKING

Existing attempts at regulating the foreign indebtedness of developing and newly emerging countries might have stalled at present, but generally they are not contested. What lessons can be learnt from these attempts and from attempts to consolidate federal solidarity within a national context?
Firstly, we must return to the vision of one Europe for everyone from the Atlantic to the Volga. Europe is and should be a political project, not just a technical or financial concern reduced to mere payment promises. The Marshall-Plan; the proclamation «Never again war, never again dictatorship!» that emerged in response to the loss of millions of lives during the Second World War and was endorsed across a broad spectrum of actors and political parties; the Treaty of Rome; the peaceful revolution in Eastern Europe in 1989; the single European market; the expansion of the EU towards the south, north and east; the Maastricht Treaty and the Monetary Union – all of these are cornerstones of a European architecture.
Secondly, the mistakes made in the construction of the Monetary Union need revising. The Monetary Union rests on two unstable pillars, namely the price level of goods and public budget adjustments. It may make sense for wealthy and aging societies to further the private accumulation of wealth and combat inflation whilst rigorously restricting public budgets in ways that in no way correspond to any laws of economic prudence. However, this is not so plausible for societies with youthful and growing populations. The European Central Bank's instrument of choice has been a common nominal interest rate applicable across the whole of the EU. In the short-term, this produces uneven interest rates due to disparities in levels of growth, inflation and wages; in the medium-term, it leads to regional imbalances, as well as structural deficits and the production of surplus on a national level.
Thirdly, to date the European Central Bank has paid scant attention to the explosive rise of asset prices, yet it has the capacity to implement a monetary policy that could stabilise the price level of goods. However, this would require a democratically legitimated counter-weight to be both functional and politically justifiable. Yet, this kind of economic governance does not correspond to the present character of the EU because it is not a federal state. Nonetheless, there is a desperate need for the EU to coordinate and oversee policies in the areas of employment, growth, finance, tax, income and welfare in ways that can diffuse regional imbalances. A guiding principle here could be what was known as the «magic polygon» in the 1967 (West) German Law to Promote Economic Stability and Growth. On the level of the Federation and on the level of the Länder, governmental bodies had to take the needs of the whole economy into consideration in the economic and financial measures they endorsed. Within the framework of the market economy, these were supposed to stabilise price levels, increase employment, balance foreign trade and lead to continuous economic growth.
Fourth, the promotion of a relatively autonomous monetary sphere requires a European Stability and Growth Fund (in close collaboration with the European Central Bank) that can issue Eurobonds. This could combat the fears of US (in particular Wall Street) pressure having an overbearing effect on European decision-making, and could also placate the un-

ease with the IMF's involvement in European rescue facilities, in a context where there is wide-spread skepticism of the IMF's conversion to a «Post-Washington Consensus», i.e. to a more gentle formulation of the social elements of structural adjustment policies.
Fifth, the state could be given interest-free credit for the provision of public goods, albeit under strict conditions. It is unacceptable that private banks pursuing returns on their investments additionally burden government budgets and deficits when lending money to the state.
Sixth, a robust stimulation of the real economy in the Eurozone should have a pull-effect on the financial sphere and its stabilisation, not vice versa. The G20 have repeatedly emphasised the equal importance of stabilising financial markets and stimulating the real economy. Yet, industrialised and newly industrialised countries have obviously followed different courses. The German Government has put considerable pressure on the EU to downplay the need to stimulate the real economy. Moreover, the arguments currently being put forward are ones that pre-date the financial crisis, for example the theory of an international division of labour, the logical elegance of which has a negative correlation with its practical relevance in the face of the Heksher-Ohlin model of international trade (i.e. a country will export products that use less costly and more abundant factors of production whilst importing ones that use scarce factors). Stronger countries put weaker countries under massive pressure and current policies lack any language of solidarity, evident in austerity measures that merely redistribute wealth from the bottom to the top and from the public to the private, in the stability pact, debt limits and the Euro Plus Pact.
Seventh, governmental bodies must endorse the language of solidarity to assist democratically legitimated decision-makers in regaining power over financial actors. The consent of the population to a European economic, monetary and social union is currently being undermined by lobbyists from central and private banks, insurance companies, capital investment companies, rating agencies and associations of swaps and derivative traders who obfuscate private interests with the «language of the market» as they both drive and deceive representatives of sovereign states.

RISKS FOR EUROPEAN SOLIDARITY

What pitfalls currently inhibit the regulation of the debt crisis of Europe's peripheral states in ways that are premised upon solidarity?
Firstly, the prevalence of a short-term monetarist perspective. A perspective promoted by financial elites, it focuses debt management exclusively on the logic of creditor/debtor relations, masking both the state of the real economy and the political dimensions of opinion formation and decision-making. Governmental bodies should not be threatened by the criteria of a supposedly information-efficient «language of the market», nor by rating agencies or swaps and derivative traders whose one-dimensional analysis rests on an exclusively binary-coded judgment, «can still pay/can no longer pay».
Secondly, a belief in the immutability of financial hierarchies prevents European solidarity. Absolute interpretive control appears to lie with the private US-American rating agencies, followed by the views publicly expressed by IMF and European Central Bank representatives with a special weighting of German monetary watchdogs. In their shadows we encounter a financial-monetarist complex of international lobbyists, private banks, insurances and investment funds.
Thirdly, governmental decision-makers appear to be overwhelmed by the magnitude of the financial crisis. A politics reliant on the immediate state of play in current debates will succumb to incorrect and populist slander; for example that Greek workers retire too early, have more holidays and shorter working hours than workers in Germany. When politicians return from summits informed and wiser, they become embroiled in contradictions that confuse a population whipped up by the media. Do government administrators and other political representatives lack competence in financial affairs? It is embarrassing to see the exact same civil servants now tasked with sorting out bank bail-outs and the overall debt crisis, who under the Red-Green and Black-Yellow (CDU-FDP) Coalitions were avidly involved with deregulating the German financial system. Politicians can be held to ransom because they occupy the role of the collective hostage. Both the drama of bank bail-outs and the reaction to the debt crisis follow the same pattern: private banks and creditors are spared and the general public is burdened with the consequences of the crisis. In order to consolidate public budgets, low-income groups and the weaker EU member states are disproportionately burdened. We are still waiting for stricter regulations that involve the public oversight and control of all financial companies, financial transactions and financial centres. Political decision-makers are not stepping out of the vicious circle they got themselves into. Previously, public regulators, the European Central Bank, the Federal Financial Supervisory Authority and the Federal Ministry of Finance demanded that investment companies only held the highest ranking bonds in their efforts to protect investors, now they are all intimidated by the rating agencies.
Fourth, rivalries amongst decision-makers hinder European solidarity. National governments, the IMF, the different committees of the European Union and the EU Commission are all in competition with one another. Like self-styled head teachers, financially strong countries discipline financially weak ones. Whilst lobbyists of private banks put the blame on public budgeting and governments, parliaments and courts on a national and European level all trip each other up.
Fifth, there seems to be no way of abating nonsensical theories that have only ever had limited plausibility – even before Lehman Brothers went bankrupt. Greece's potential exit from the Monetary Union is only viewed from an isolated micro-level perspective limited to calculating possible depreciation scenarios or a rapid improvement of global competition. In half-blind accounts, a country like Germany is caricatured as Europe's mule when its export economy and population have benefited massively from the Monetary Union. Nobody dares estimate what the long-term costs of austerity measures, the current feverish round of privatisations within Europe (whilst Germany embarks on a process of «recommunalisation»), wage and welfare cuts or a shrinking Europe will be for the real economy.
Just how beneficial European solidarity would be is visible where mere market regulation fails: where a common bond connects members and member states who put equality before the differences that divide them; where there is an equal distribution of social and national risks that are not attributed

to individuals or individual countries but shouldered by everyone, especially stronger countries; where stronger countries pay according to their ability and where weaker ones are given support in accordance with their needs; where stronger countries are attentive to how they treat weaker countries. European solidarity is not free, but the cracks, divisions and polarisations in Europe that are caused by the market are much more costly. This is because the «language of the market» creates a Europe for the few – the language of solidarity on the other hand creates a Europe for everyone.

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