# Euthanasia for the Rentier

The immediate European economic crisis demonstrates, if there were any lingering doubts, that the architecture of the European Monetary Union is incompatible with countercyclical intervention. It was designed solely to contain inflation at 2%. There is no central fiscal authority and no mandate to either maintain acceptable levels of employment or to sustain working class living standards against the ravages of the business cycle. As it stands, not one proposal emanating from Europe's ruling classes intends to anything beyond saving its banks to forestall further private sector contagion, while asking these banks to accept nothing more than a modest write down of a small portion of their toxic assets. And even this request exempts the European Bank and the IMF. The further provision of underwriting loan guarantees to ailing private lenders to augment the hastily cobbled bailout fund is like recruiting kidney donors in a dialysis ward by offering them free health insurance.

The more ramified component is the imposition of draconian austerity on Europe's southern periphery. It has only two functions with the same purpose: to transfer public wealth from debtor nations to private financial interests abroad, and to contract the internal price structure of these self-same nations in the vain hope that this will lead to an improvement in their balance of trade needed to service foreign debt obligations and recapitalize the banks.

Therefore, even in the highly unlikely event that the balance of trade were to actually improve for the south—and not merely further balloon deficits as burgeoning unemployment imposes additional demands on these states—it would have little stimulative effect on the internal markets of European capitalism's weak links. Funds that would otherwise supplement domestic demand would be drained instead to satisfy external debt obligations. And to the extent that the targeted nations contract, the living standards of German workers and their employers' profits—whose livelihoods are codependent on the availability and expansion of foreign markets—would likewise be imperiled. German balance of trade surpluses have hitherto provided the same internal function as government deficits would have by supplementing aggregate demand as their internal market shrinks. This, of course, makes the condescending lectures from German elites all the more insufferable. The vaunted financial frugality of the Merkel government was only made possible by the wholesale transfer of income from the supposedly profligate south. The bailout package is simply a far more painful route to the same end.

That this could be a cause for fitful celebration on the world's stock markets truly signals that European capitalism has entered a senile Brezhnev-like state of consciousness; a mindset in which passengers rocking to and fro on a nonfunctional railroad satisfies everyone solely by providing the illusion of movement. When that illusion is shattered, say, by noncooperative Greek workers, panic again ensues until the next round of mindless shaking occurs.

Without a meaningful revival in capital accumulation, this entire process simply kicks the can down the road and buys the system some time. And the Weimar-obsessed German and French bankers are proving themselves champion can kickers in every sense. The entire EU still operates as if it were subject to the gold standard and gold supplies expand by about 2% per year, not so coincidentally the target inflation rate of the EMU. But the euro is not a commodity money. It has no intrinsic value, beyond the implicit content it acquires against the circulation of commodities whose net value is itself the product of the collective labor time productively expended by Europe's working classes.

If European economies maintained separate non-commodity monies, foreign currency exchange rates would have the function of reducing units of labor of average skill and intensity in each national market into their foreign equivalents. Were a trade imbalance to persist, assuming exchange rates to be freely floating, this would signal the need for modifications in the pre-existing arrangements; a change in how the average labor hour expended in one economy is equated with the value-creating power of an average hour in another. The eurozone was designed, on the other hand, as if labor power in its various national components were equally productive, that a worker of average Greek education and training would operate with the same level of efficiency in a German factory as the typical German worker. Under such hypothetical circumstances, European specialization would presumably take place on the basis of those spheres in which each nation had a relative advantage due to other circumstances. But there would be no a priori reason for nations to experience persistent trade imbalances.

The working class of the southern periphery of Europe, however, has not experienced the same mix of training, education and industrial discipline as its northern counterparts. A unitary currency therefore puts them at a dual disadvantage. It systematically "overvalues" the output of the periphery relative to the northern core. Therefore, unable to trade without running up huge deficits in their current account balances, the south is also unable to compensate for this disadvantage by allowing their currencies to float downward. They can only, under existing circumstances, rebalance by deflating their entire cost structure—forcing aggregate prices below aggregate values—which would require acceptance of prolonged semi-depression-like conditions. This is generally unacceptable to Greeks, bankers aside, for obvious reasons.

Otherwise, the persistent drain on aggregate demand (domestic spending) caused by the excess of imports over exports must be offset, all other things being equal, by government deficits on a one-to-one basis. These budgetary deficits, like the trade imbalances that invoke them, therefore take on the character of being a structural component of the system's architecture. The relative portion of Greek government outlays composed of debt may undoubtedly be exaggerated by the ingrained habits of elite tax avoidance. But the absolute size of the debt is dictated by the leakages from the domestic economy itself, not by how effective the state is in harvesting its potential tax base.

Were there a politically accountable fiscal authority in the euro zone, the expansion of euros could be aligned solely to democratic—and in this case, also counter cyclical—considerations rather than the material constraints of a marginal mining industry that no longer bears any inherent connection to the issuance of currency. Conceptually there are no a priori limits on the expansion of public demand denominated in a fiat currency, unlike a gold-based currency, beyond the productive capacity of the system to accommodate the additional public demands placed on it. The expansion of euro-induced demand, stated otherwise, is only intrinsically constrained by the limits of inflation. That limit is reached when demand expansion cannot induce any further capacity utilization or increased output. The system can then only respond to such additional demand by enhanced rationing via price increases.

But we have seen across the board that capitalist elites seek to confine the operations of the public sector to that which would remain feasible were it actually subject to the discipline of the gold standard. The euro zone architects accomplished this most directly by their deliberate failure to create a consolidated fiscal authority answerable to a European parliament. In compelling the operations of the various component states to finance their sovereign operations by filling the gap between tax revenues and expenditures with loans from private financiers, the European ruling classes assured themselves truncated democracies ever subjected to the discipline of the bond market.

But the dirty little secret is this. The final destruction of commodity-based monies heralded by the end of the Bretton Woods agreements in 1971 called into existence the very means and practical possibility of removing one significant tentacle of the ruling class's death grip over democracy. Fiat money contains within it the potential for euthanizing the rentier class. It does so by providing alternative path to finance public provisions at the central level, and can be extended much as revenue sharing does in the American context to its component states. No longer does liquidity first have to be pumped out of the private sector for it to then flow back to the market as state-induced demand. Because the state (or in this case, the European Central Bank) is the monopoly issuer of its currency, it (or the European Union) is not revenue-constrained. It does not need to operate by first diverting the stream of financial flows into the state so that the state can then access privately-produced commodities.

This means that entities which are sovereign with respect to the issuance of currency, and whose external debts are payable in that currency, no longer need operate on the same financial basis as the private sector. There are no external limitations on the computer keystrokes (deposits) that sovereign entities can make to the accounts of private producers in payment for state purchases. The state does not need revenue on hand (tax receipts) or access to lines of credit (debt) before it can access goods and services.

Of course, the European Union is no different from the United States, Britain and every other state issuer of currency, all of whose governing classes studiously refuse to exploit the openings this has created for fear of losing effective veto power over the state. This refusal is a soft sell given the abject ignorance on the part of American babbitry in particular, whose politicians cannot and will not fathom how any economic entity can operate on principles other than those that apply to any well-run middle class household in a capitalist economy. If American elites had an ounce of sophistication, the ginned up hysteria of a US facing a credible sovereign debt crisis could be written off as a cynical ploy to cow the electorate. But the sad reality is that this hysteria actually reflects the viral cluelessness of American politicians and business leaders.

The Europeans are more straightforward. There banks have historically been entrusted as the first line of defense against the outsized appetites of democracy and a menacing reminder to wayward rebellious classes that the political structure does, after all, have definite capitalist limits. The European Bank by its charter can only operate by adherence to accepted business practices and it, in concert with other private banks, are obviously not above fomenting sovereign debt crises where there is an urgent need to redistribute income upwards in the face of flagging profits.

But socialists too are missing in action on this front. There are many good egalitarian reasons to tax the rich. And they stand on their own merits. But a countercyclical program requires an increase in net spending, not merely an equal transference of spending power from the rich to government. In the American context, taxes on the massive pool of retained corporate profits (net business savings) matched by any addition to federal outlays would indeed be expansionary. There would be a net increase in total domestic spending. But a program that redistributes the incidence of taxes from the working class to the wealthy, without any net additions to aggregate demand, simply finances existing outlays on a more "equal" basis. (Of course, "equal" in this context is a misnomer insofar as all taxes paid by the rich were first pumped out of the working class by capital through their appropriation of surplus labor time.) So for "taxing the rich" to be an expansionary demand as well as a limited demand for justice, there must be parallel tax relief for the working class that exceeds the additional taxes imposed on the wealthy. A progressive overhaul of tax policy that is also countercyclical must free more spending power from below while maintaining or expanding the existing level of government outlays.

But overhauling tax codes is the most roundabout means to countercyclical ends. The only immediate way to break the grip of Wall Street and the Bourse over the state is to press for a real democratization of fiscal authority. Socialists need to break out of the existing business consensus. The expansion of "entitlements" and mass public works projects are dependent only on the willingness of the state's central bank to create demand ex nihilo, an operation that fiat money arrangements fully support. It is by these means that the system's output can be expanded, permitting the removal of a growing quantity of it from the circuit of capitalist expansion and allowing this quota—now lost to capital formation—to be placed into public service. This too is not without difficulty, but these problems need not be discussed in this context.

Capital is understandably wary of this. And it is not only because of the tight labor markets and enhanced working class power that this would sustain, though this is undoubtedly always a consideration. Business suspects that the expansion of induced profits would fall short of the additional future taxes needed to service and retire the ballooning public debt now summoned into existence to set this process in motion. And if the system was indeed subject to the discipline of the private bond market—as it is under current arrangements—such suspicions would be well grounded. But this again represents an inverted understanding of the mechanics of public debt and taxes under a fiat system of money. If this is a constraint, it is by legal alignment rather than operational necessity. When the state spends, it actually injects an asset (dollars, pounds, or conceivably, euros etc.) into the private sector. It can simultaneously neutralize this additional demand through taxation; or it can issue a bond for the same amount thereby swapping the non-interest-bearing asset (dollars or euros) for an interest bearing asset on a one-to-one basis. But the point is this. Governments spending at the central level, taxing and bond issuance are three separate and distinct operations, none of which is intrinsically tied to any other and all of which have distinct purposes. Government spending per se creates a net addition to private assets. This means that bond issuance involves no actual borrowing from the private sector whatsoever. The sole purpose of bond issuance is to allow government to influence interest rates levels in the private sector. Fiat money eliminates the need for any state reliance on the private banking system; it eliminates any need to face the consequences of "sovereign" debt crises. In the hands of socialists it would mean euthanasia for the rentier class; the complete severance of governmental operations from the private banking system and a huge victory in the war for democracy.

Neither is there any inherent economic reason to retire debt at some specified future date by raising taxes. Taxes shred demand. They do not finance government operations. They are a tool for socialists to redistribute access to consumption goods in favor of the working class, the poor, the disabled and the aged and to do so while siphoning demand from the wealthy before inflationary pressures mount. Whether public debt multiplies permanently is irrelevant to these considerations. Government debt need impose no burdens on tax payers.

There have been many imaginative blueprints by the left for a Greek workers' government, but—whether acknowledged or not— any actions needed to realize these program would certainly result in the expulsion of Greece from the euro zone. It would entail the reintroduction of a national fiat currency, the drachma, and either a debt default or a write down of debt payable in drachmas. Workers in the European core would be squeezed to compensate for the banking losses that capital will insist has been imposed by "irresponsible" Greek workers. Though a Greek workers' government would have all the benefits that fiat money accesses, the retaliatory trade barriers that will likely ensue would nevertheless wall them in. From north to south, all the reactionary nationalist poisons would be unleashed throughout the continent.

Any real program based on working class internationalism should build instead on the democratic openings made possible by the modern financial system. In the US and Britain this struggle first needs to expose the "debt" crisis for the complete farce it is. It is nothing more than capitalism holding democracy in check as the profit system unravels. But for the southern periphery of Europe, whose national constituents cannot issue their own currencies, this ideological struggle also demands a continent wide struggle for an overhauled, consolidated fiscal authority under democratic supervision. If the euro system is to be maintained for the convenience of capital, the periphery will need to run perpetual deficits until the continental level of working class productivity is equalized. And beyond that, the general need for countercyclical spending would mean that the European Central Bank would have to finance the additional deficits in all member states that arise when capital accumulation stagnates. There is absolutely no reason why these deficits, whether structural or conjunctural, need to be underwritten by the private financial sector with all the punitive measures and restrictions this entails both to workers in the periphery and in the core of Europe. Let capital, not the working class, rescue the private banking system.

For now, it is death to the rentier class and not the call for isolated workers' governments that allows a way out for Europe's rank and file.

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