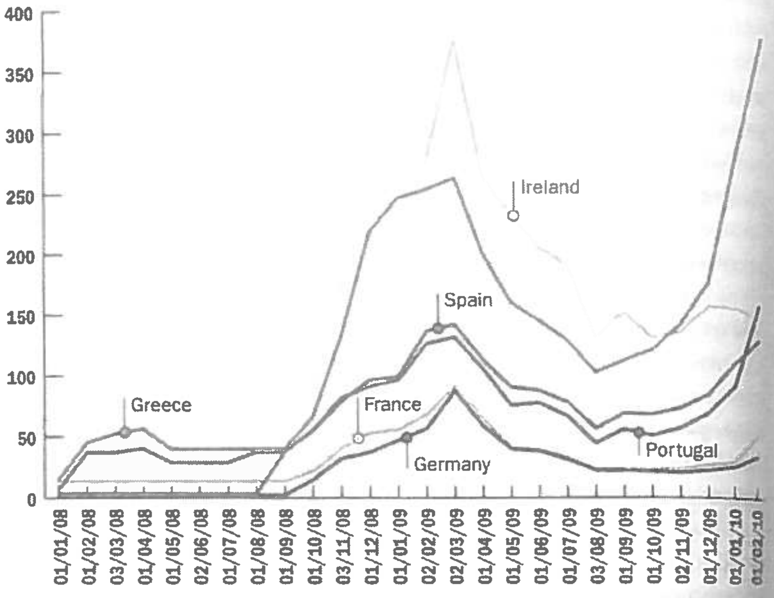
FIG. 32 CDS spreads (basis points), 5 years



Source: *Bloomberg*

costs of peripheral countries. Speculators have acted as the trigger, and were able to profit from the difficulties of others as the ECB watched. The financial system was rescued by state intervention, only to turn and bite its rescuer.

7. POLITICAL ECONOMY OF ALTERNATIVE STRATEGIES TO DEAL WITH THE CRISIS[20]

EMU has been problematic for peripheral countries, above all, Greece, Portugal, Spain, and Ireland. It has been no less problematic for working people in the core countries, above all, in Germany. However, Germany has also benefited at the expense of peripheral countries, mostly through entrenched current account surpluses that have been translated into capital flows to the rest of the eurozone.

The sovereign debt crisis is the outcome of, first, precarious integration of peripheral countries in the eurozone and, second, the crisis of 2007–9. The public sector in peripheral countries has confronted an increased need of borrowing because it has rescued finance while attempting to forestall deep recession. The weaknesses of integration subsequently provided a field for speculative attacks by financial capital. The ECB has had neither the means nor the inclination to confront speculators.

The question now is: what strategies are available for peripheral countries? This is a huge topic that would merit separate study. However, on the basis of the preceding analysis, it is possible to sketch the broad outlines of alternatives. These could be split into three: first, imposing austerity on peripheral countries; second, seeking to alter the institutional structure of the eurozone; and third, exiting from the eurozone.

Austerity, or imposing the costs on workers in peripheral countries

The imposition of austerity has been the prevalent policy in Greece and elsewhere. It is, after all, in line with the standard response to financial crises during the last three decades, typically overseen by the IMF. The normal terms of intervention by the IMF include the advance of a rescue loan to stabilise financial and foreign exchange markets, accompanied by 'conditionality'. The content of conditionality has changed over the years, and there is evidence that the IMF is even beginning to countenance some relaxation of its rules.[21] But

20 This part of the work also reflects the time it was written (March 2010). But the analysis has been proven valid in all essentials and has required negligible editing.
21 Blanchard, O., Della Ariccia, G. and Mauro, P. (2010), 'Rethinking Macroeconomic Policy', *IMF Staff Position Note*, 12 Feb. http://www.imf.org/external/pubs/ft/spn/2010/spn1003.pdf

broadly speaking IMF policy still amounts to austerity coupled with liberalisation of the economy.

The problem with inviting the IMF to deal with Greece – and potentially others – is that the eurozone issues the euro which purports to be an alternative to the dollar as world money. The damage to the standing of the euro as a result of IMF intervention would be palpable. The first option for core countries, therefore, has been to foster austerity on the periphery and to attempt to manage the process of adjustment from within. However, the eurozone has lacked well-established mechanisms through which to replicate the approach of the IMF. Providing rescue loans, for one thing, has been expressly forbidden by the treaties establishing the euro. As a result, the eurozone initially exercised persistent political pressure on peripheral countries to adopt austerity policies, but without advancing the requisite finance. The costs of adjustment have been shifted disproportionately onto peripheral countries, inevitably leading to clashes of national interest.[22]

In this context, the governments of peripheral countries have begun to introduce austerity policies in the hope of bringing down borrowing costs in the open markets. The strategy was first adopted by Ireland, but then also by Portugal and Spain, and with increasing alacrity by Greece in early 2010. In effect, peripheral countries were forced to adopt IMF conditionality, without the IMF loan, with a view to persuading bond markets that public finances could be brought under control through the actions of peripheral governments.

Thus, the government of George Papandreou in Greece, newly elected in October 2009, introduced ever tougher austerity measures, including general reductions in public spending, direct cuts of public sector wages, and worsening of pension rights. The impact of these measures inevitably spread to the private sector as employers took the opportunity to impose worse conditions on labour. The government also imposed higher indirect taxes, while taking steps to reduce tax evasion.

The same approach had already been tried in Ireland in 2009, bringing down borrowing costs to a degree, as is shown by CDS spreads in figure 32. However, it

22 IMF intervention, the advance of rescue loans and the imposition of conditionality occurred, of course, in May 2010 in Greece and eventually applied to Ireland and Portugal. The implications are discussed in detail in Parts 2 and 3.

faced many more tribulations in Greece. The country's borrowing requirements were higher, and there had been a profound loss of credibility for the Greek state in financial markets. Furthermore, speculative fever was far more advanced in early 2010 compared to 2009, making it unlikely that speculators would desist from attacking Greek government bonds for long. With good reason too, since the self-declared aim of the Greek government to reduce its budget deficit by 4 percent in the course of 2010 seemed implausible. Even worse, austerity measures would probably intensify the recession, bringing government revenues under further pressure and making the targets even harder to achieve.

Greece thus found itself in a very difficult position in early 2010: imposing cuts and raising taxes in order to pay high interest rates to buyers of its public debt. The country was able to access markets in January and March 2010, but the rate of interest was high on both occasions, well in excess of 6 percent. This represented a transfer of income on a grand scale from the many to the few. Greece had a substantial volume of debt to refinance in the rest of 2010; if commercial interest rates did not decline, it was apparent that the policy could not last for long, given the huge social costs involved. What the government would cut from its people, it would pass directly to lenders. Under these conditions, external help would be necessary, which could come either from the eurozone, or from the IMF.[23]

The political economy of a eurozone rescue loan, however, would be far from simple. In the first instance, the constitution of the eurozone forbids formal advance of such loans. Yet, the EU has been highly inventive under pressure in the past. It might be possible, for instance, to make bilateral loans to Greece, possibly in the form of guarantees of Greek debt. The real difficulty would not be formal arrangements but political relations within the eurozone. Germany, which would probably bear the main burden, has gone through sustained austerity for almost two decades. It has also expressly and repeatedly opposed the notion of bailing out states within the eurozone. There would be significant political costs for any German government in making money available to other states. Furthermore, lending to Greece might open the gates to other peripheral countries.

23 This event transpired in May 2010. The austerity that followed was incomparably harsher than the measures imposed by the Papandreou government in the preceding period.

On the other hand, there would be significant risks to avoiding a European loan and thus forcing Greece to go directly to the IMF. Technically the country would remain within the monetary union, particularly as there would be no legal mechanisms to force it out. But its membership would in effect become second tier, and the long-term implications for its ability to borrow at standard sovereign rates within the eurozone would be entirely unclear. More significantly, going to the IMF would create a precedent for other peripheral countries, and might invite further speculative attacks. The risks posed for the euro as world money would be multiplied, particularly given the high exposure of core banks to peripheral countries.[24]

The Greek ruling establishment has been fully aware of these complexities. Though its preferred choice has been to tie its mast to a 'European' solution, it has also raised the threat of unilaterally going to the IMF. On the whole, the dominant opinion has been that the country needs to do whatever it takes in order to remain within the monetary union. Nevertheless, austerity imposed from the top runs the risk of generating stiff resistance from trade unions, popular organisations, and political parties. Greece looked ahead at a period of political strife. The government could, however, expect to draw some support from widespread popular fear of national bankruptcy as well as from (misplaced) national pride in remaining a member of the 'rich club' of the euro.

The deeper weakness of the strategy of austerity, however, is neither the imposition of austerity on working people, nor the difficulty of securing rescue loans from the eurozone. It was, rather, that its prospects of dealing with the underlying causes of the crisis were minimal. As was shown above, the underlying structural problem of the eurozone is that German competitiveness has surged ahead during the last decade. Greece and other peripheral countries have not succeeded in raising productivity sufficiently to overcome the pressure that Germany has applied onto its workers.

A policy of austerity would do very little to tackle the underlying problem of competitiveness. It might succeed in lowering nominal and real wages for a period, but it is apparent that this cannot be a long-term competitiveness strategy for countries that already have substantially lower wages than Germany.

24 In the end, of course, there was both a rescue loan from the eurozone and IMF intervention in 2010–11.

Given the flatness of German nominal remuneration, austerity would simply mean falling wages for years ahead. The answer would then have to be policies to raise productivity, and in this regard the ideas that typically accompany IMF-related packages are equally disastrous.

The standard prescription, still touted after years of persistent failure, is liberalisation. In the context of the eurozone, liberalisation would amount to the full unfolding, and even intensification, of the underlying ideas of the European Employment Strategy. Key elements might be: further weakening of labour protection, particularly through reducing trade union power; abolishing collective bargaining on wages; facilitating the entry of women into the labour force, especially in part-time and temporary jobs; removal of barriers into certain closed professions; reducing the tax burden on capital by introducing heavier indirect taxes; introducing privatisation into the education system; and significantly raising the pension age, while facilitating a funded system that promotes the activities of financial institutions.[25]

There is no reason to think that such measures, or similar, would lead to sustained growth of productivity, and thus allow for genuine convergence with the countries of the core. Productivity growth requires investment, new technologies, and opening fresh fields of activity. In the case of Greece it also means moving the country away from a pattern of growth that has rested on consumption with rising household debt. These changes are unlikely to come from liberalising markets, and nor is there any evidence that Greek capitalists have the capacity to perform the required miracle. In the medium term liberalisation measures would probably lead to stagnation, with systematic transfers of income from labour to capital. Meanwhile, Greek society – the second most unequal within the eurozone – would probably become even more polarised and callous toward social deprivation. The policy of remaining within the eurozone at all costs by deploying austerity and liberalisation is likely to have grim results.

Reform of the eurozone: Aiming for a 'good euro'

The second alternative involves making structural changes to the institutional arrangements of the eurozone. A distinction should be drawn here between,

25 Most of these have been indeed adopted by peripheral and other countries in 2010–11.

on the one hand, reforms that would not alter the fundamental character of the eurozone and, on the other, reforms that would go against economic and social relations at the heart of the monetary union.

The former have been extensively discussed in the academic literature as well as in the popular press.[26] There has been, after all, manifest failure of the institutions of the eurozone, extensively discussed in the earlier parts of Part 1. Above all, there has been a disjuncture between unitary monetary policy and fragmented fiscal policy. The rules under which the ECB operates have been unnecessarily restrictive, including exclusive focus on inflation targeting and forbidding the acquisition of public debt. Furthermore, there has been no provision for centralised fiscal transfers that could alleviate some of the tensions created by the single monetary policy. There has also been lack of an established mechanism of fiscal intervention in crises, as became abundantly clear in 2007–9, when each nation state was left to fend for itself and for its domestic economy. The absence of such a mechanism became glaring as Greece neared default in 2010.

There is nothing in principle to stop the gradual introduction of some of these reforms in the future. It is possible, for instance, for the eurozone to develop a properly functioning Public Debt Office that could coordinate the issuing and handling of public debt in cooperation with the ECB. It is also possible for the rules applying to the ECB to be relaxed, for instance, allowing the ECB to acquire state debt directly and thus more closely resemble a normal central bank. Perhaps the ECB might be supplemented by a European Monetary Fund that would lend to eurozone states facing crises on the basis of established proportional rights. It is even conceivable that a centralised system of fiscal transfers might be established within the eurozone.[27]

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26 For a critical perspective, see: Arestis, P. and Sawyer, M. (eds.) (2006), *Alternative Perspectives on Economic Policies in the European Union*, Palgrave/Macmillan. For reform that aims to maintains the eurozone status quo see Gros, D. and Mayer, T. (2010), 'Towards a Euro(pean) Monetary Fund', Centre for European Policy Studies, 8 February, http://www.ceps.eu/book/towards-european-monetary-fund. Gros and Mayer's arguments were run as guest article in *The Economist* of 18 February 2010.

27 The ECB has indeed been allowed to purchase public debt in the secondary markets in 2010. Other reforms with regard to public debt have proven much more difficult for reasons discussed in detail in Part 3.

It is, however, extremely unlikely that fiscal policy would become unified as that would amount to wholesale restructuring of sovereignty across the eurozone. There is a hierarchy of states within the eurozone and close calculation of national interest. Legitimacy for each state derives from its own history, but also from the structures of power and popular assent, including democratic elections. There is no prospect of a single European state, and hence no prospect of unified fiscal policy. The reforms that could take place would occur within an existing hierarchy of power, dominated by the core countries and Germany.

Consequently, such reforms would amount, at most, to palliative adjustments of fiscal policy and improved articulation of fiscal with monetary policy. For the same reason, they are unlikely to challenge directly the principles encapsulated in the Maastricht Treaty, the Stability and Growth Pact and the Lisbon Strategy, that is, fiscal and monetary conservatism that shifts the pressure of competitive adjustment onto workers.

Even so, there is a risk that mild reforms would lead to lower acceptability of the euro internationally, hence a drop in its value relative to the dollar. But if the underlying principles of monetary union were not challenged, a drop in the value of the euro might be acceptable to the core of the eurozone for a period. It is conceivable that a slightly weaker euro backed by reformed, yet still tough, mechanisms of fiscal and monetary control would be attractive to Berlin and others. If such a configuration could be achieved, Germany would still maintain its current account surplus within the eurozone, the external terms of trade would improve, and the role of the euro as world reserve currency might not be compromised.

For peripheral countries and workers across the eurozone, such a prospect would hold little attraction. German workers would continue to be squeezed, and peripheral countries would continue to generate deficits. Germany would not shift from its path of stagnation, while the economies of peripheral countries would remain precariously integrated into the eurozone. The difference would be occasional fiscal hand-outs to relieve tensions, and perhaps improved management of crises.

It is not surprising therefore that there has been a search for more radical reforms, particularly among sections of the European Left in peripheral but also core countries. An important aim has been to push for further fiscal transformation seeking the abolition of the Stability and Growth Pact. What would then follow would not be entirely clear, but the presumption is that there would be greater fiscal independence for each state, including the ability to determine budgets and national debt, but still coordinated by new European institutional arrangements.

Coordination could be reinforced by the European budget, which would be enlarged from its currently tiny size to perhaps 5–6 percent of the GDP of the EU. Coordination could also presumably benefit from sustained intervention by the European Investment Bank. Scope might thus be provided to promote ecologically sound, socially inclusive and redistributive public investment programmes that could counter-balance existing asymmetries in European development.

The European Employment Strategy would also be abandoned in preference to coordinated policies that protected labour conditions and income. A European Minimum Wage Policy (corresponding to at least 60 percent of the median wage of each country) could be instigated. This would be combined with legislation to enforce progressive working time regulation across Europe. There could also be European wage coordination mechanisms that would take into account productivity gains, inflation, and unemployment. Stabilisation of labour shares in output (from the bottom up) might narrow the differentials in competitiveness that underlie the current crisis. Finally, there could be Europe-wide unemployment insurance, perhaps financed by progressive income taxes. These measures would be expected to promote integration of the European economy that would be beneficial to workers.

A notable feature of such proposals is that they do not confront directly the issue of coordinating fragmented fiscal policy with a single monetary policy, and nor do they take into account the implications of this approach to policy for the practices of the ECB. The general presumption is that the monetary union would be preserved, but the statutes of the ECB would be changed, ending its undemocratic political independence, and allowing for easier provision of credit to states and financial systems.

This approach might thus be termed the 'good euro'. Monetary union would be supplemented by institutional reforms that would make the currency operate in favour of working people, particularly in small economies where the scope for an autonomous economic policy might be narrow. This strategy also appears to provide a political platform to unite working people in core and peripheral countries. However, the 'good euro' also faces intrinsic problems in achieving its aims.

Set aside for a moment the political difficulties of coordinating popular pressure across several eurozone countries in order to abolish the Stability and Growth Pact in the face of bitter opposition by the existing order. An underlying economic problem would be that the reforms would abandon fiscal discipline while still attempting to maintain the euro as both domestic and world money. This would be implausible for a currency that attempted to compete with the dollar. The result would probably be a fall in the value of the euro, making it impossible for large eurozone banks to operate internationally. There would also be speculative attacks on the debt of the countries with the largest deficits within the eurozone.

A common currency area, especially one that purported to issue world money, could not tolerate large and variable fiscal deficits among its constituent parts. It is not apparent that the eurozone could continue to issue a form of world money, while allowing for substantial fiscal independence among its member states. An enlarged European budget would be no answer for this problem, much as it might contribute to redistributive policies. The real answer would be to have a European budget run by a unitary or federal state with a sufficiently integrated presence across the eurozone to support a common currency. But for that to happen, the present institutional and political arrangements of the eurozone would have to be overturned.

There is no parallel between the USA and the eurozone in this respect. It is true that the USA has a federal structure that allows individual states to manage their own fiscal affairs with several degrees of freedom. But the US federal state is a federal entity that provides the ultimate guarantee for all public debt. No state could play that role within the eurozone, and there is no prospect of one emerging. Furthermore, the USA is a well-understood exception in international transactions. The dollar is already world money, and can therefore tolerate falls in its value without necessarily losing acceptability – always within limits. The euro is attempting to establish a similar role for itself, and has no comparable track record.

In other words, the strategy of radical reforms aiming at a 'good euro' does not face merely political problems, namely the enormous difficulties of constructing an alliance that could alter the structure of the eurozone. More fundamentally, it faces the problem of compatibility of means with ends. Radical reform in the fiscal sphere would probably lead to failure of the monetary union altogether as the international role of the euro would come under pressure.

Those who call for such reforms should be aware of what they are advocating and tailor their proposals accordingly. The nub of the issue is neither the abolition of the Stability and Growth Pact, nor the introduction of an expanded European Budget with a redistributive mandate. It is, rather, the compatibility of fiscal independence, and possibly rising public debt, with the international role of the euro. It is possible that radical reform would lead to collapse of monetary union. If it is not to result in chaos, therefore, radical reform would require coherent social and economic transformation of national economies, including of the monetary system. To put it differently, a 'good euro' might well lead to 'no euro' thus requiring profound transformation of European economy and society.

Exit from the eurozone: Radical social and economic change

The final alternative of exit from the eurozone is the great unmentionable in peripheral countries, or referred to as the ultimate horror by governments and the press. There is no doubt that it would have severe consequences. But note that influential economists in the Anglo-Saxon world have already raised the issue in the press. Thus, Goodhart has effectively proposed the reintroduction of the drachma for domestic purposes, which would in practice result in devaluation.[28] Feldstein has recommended a short 'holiday' of Greece from the eurozone, returning at a lower exchange rate.[29] The underlying logic of these proposals is clear: the problem originates in loss of competitiveness, which could be partly tackled through devaluation.

The suggestions made by Goodhart and Feldstein could be called 'conservative exit'. In effect, conservative exit would operate as complement to the usual IMF package by also allowing for devaluation, which is impossible within the monetary union. Austerity would still be imposed, but some of the pressure of adjustment would be taken by the fall in the exchange rate. Competitiveness would be partly revived, strengthening export demand. Liberalisation measures would presumably follow in order to improve long-term competitiveness.

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28 Goodhart, C. (2010), 'The Californian Solution for the Club Med', *Financial Times*, 25 Jan.

29 Feldstein, M. (2010), 'Let Greece take a eurozone "holiday"', *Financial Times*, 16 Feb.

Devaluation would have costs for workers since real wages would fall to the degree to which tradables entered the wage basket. But there would also be costs for sections of the capitalist class, particularly those servicing debt abroad, including corporations and banks. Cessation of payments and restructuring of international debt would become necessary. It is no wonder, therefore, that ruling elites in peripheral countries are reluctant to consider this option.

The prospect is particularly forbidding for 'little' Greece and Portugal as their ruling elites are aware of their own impotence to confront the problem in its full complexity. Conservative exit would not by itself deal with the longer-term challenge of raising productivity growth and altering deficient economic structures. It would merely change the terms of trade, encouraging production of tradables and potentially shifting the economy away from non-tradables. It would then be up to domestic capitalists to grasp this opportunity to restructure production, expand investment, and develop new fields of activity. The free market would have to generate a burst of productive dynamism, if the underlying problem is to be resolved.

There is no evidence that private capitalists in peripheral countries would be capable of such performance. The task is particularly complicated because peripheral countries typically have productive structures of intermediate technology, while real wages are above those of competitors in Asia and elsewhere. There is a risk, therefore, that conservative exit coupled with liberalisation would lead to protracted stagnation accompanied by bouts of inflation, successive devaluations, and slow erosion of labour income. Hence the ruling elites in the periphery have generally preferred the option of remaining within the eurozone and shifting the costs onto working people.

This leaves the option of 'progressive exit' from the eurozone, that is, exit conditional on radical restructuring of economy and society. As has already been noted, exit would involve a substantial economic shock. There would be devaluation, which would release some of the pressure of adjustment by improving the balance of trade, but would also make it impossible to service external debt. Cessation of payments and restructuring of debt would be necessary. Access to international capital markets would become extremely difficult. Banks would come under heavy pressure, facing bankruptcy. The point is, however, that these problems do not have to be confronted in the standard conservative way.

Economic survival could be ensured, and a sustainable path of growth could be achieved, provided there was drastic economic and social transformation. For that it would be necessary to mobilise broader social forces capable of taking economic measures that would shift the balance of power in favour of labour. This is not the place to discuss in detail the policy that might bring about such change. But some strategic steps are clear, including the following.

To protect the banking system it would be necessary to engage in nationalisation, creating a system of public banks. Private banking in mature countries has failed systemically in 2007–9. Bank failure has threatened the provision of liquidity across the economy. Furthermore, large private banks – or Large Complex Financial Institutions – have proven 'too big to fail' in the EU and the USA. This has created major problems of moral hazard, effectively subsidising the cost of capital of large banks. Large banks currently offer expensive credit to households, while reducing loans to small and medium enterprises. They also engage in complex and often speculative transactions in open markets, of negligible economic and social value.

Placing large banks under public banks would guarantee deposits. Further, it would advance credit on reasonable terms to small and medium enterprises, thus protecting employment. Public banks would also contribute to attaining sustained growth, as well as beginning to reverse the financialisation of contemporary economies. Co-operative and not-for-profit institutions have been long-standing elements of advanced financial systems. Public ownership and control over large banks is a step that could draw on extensive public knowledge and experience.

Capital controls would also be necessary, in the first instance to prevent the outflow of liquid funds and protect the banking system. More broadly, regulation of external capital flows would be required to marshal national resources. Managing capital flows is also necessary to avoid importing instability from abroad, as even the IMF appears to have recognised of late.[30] The policy of freeing the capital account in recent decades has offered no growth advantages, while regularly generating crises.

30 Ostry, J. et al. (2010), 'Capital Inflows: The Role of Controls', *IMF Staff Position Note*, 19 Feb. http://www.imf.org/external/pubs/ft/spn/2010/spn1004.pdf

The combination of public banking and controls over the capital account would immediately pose the question of public ownership over other areas of the economy. The underlying weaknesses of productivity and competitiveness already threaten the viability of entire areas of economic activity in peripheral countries. Public ownership would be necessary to prevent collapse. The specific sectors taken under public ownership, and even the form of public ownership itself, would depend on the characteristics of each country. But public utilities, transport, energy, and telecommunications would be prime candidates, at the very least in order to support the rest of economic activity.

With significant areas of economic activity under public ownership and control, the rest of the economy could be shifted onto a different growth path. To that purpose it would be necessary to introduce industrial policy. Public institutions and mechanisms of promoting development, which have been steadily abolished in the years since the Maastricht Treaty, would have to be rebuilt on a new basis. In conjunction with a public banking system, they would make it possible to implement a national programme of public and private investment. There is growth potential across peripheral countries for clean energy production, more energy-efficient homes and transport, as well as improved water quality and rubbish disposal. There is also scope for public investment in housing, urban planning, roads, railways, bridges, and airports. There is, finally, scope for the much more difficult task of improving technology as well as research and development.

Progressive exit for peripheral countries would be predicated on genuine structural reform of economy and society. Such change has nothing to do with the tired shibboleths of liberalisation. If productivity is to be set on an upward path, peripheral economies have to be weaned away from consumption, low savings, individual borrowing, low investment, and speculative bubbles. Structural change requires public mechanisms that could mobilise available resources for investment. It also requires transforming education by committing additional resources and expanding its reach to the poorest. Improving education would, in time, produce gains in labour skills, thus also benefiting productivity.

It is apparent that structural change of this order cannot be undertaken using the present inefficient and corrupt mechanisms of state. Broad political and social alliances are necessary to rebuild the structures of state on the basis of grassroots control, transparency and accountability. On these grounds, the tax base would be broadened by taxing income, wealth and capital, while reducing indirect taxes. Steps would be taken to improve social provision of health and to reorganise the system of public pensions. Transfer payments would also be used directly to tackle inequality in peripheral countries, which is already the worst in the eurozone.

The political and social alliances that could deliver such change do not exist in eurozone countries at present, other than in potential form. It would be far from easy to make them real, particularly as shifting the balance of power in favour of labour is predicated upon democratic organisation of economy and society. But there is no reason to believe that, if a credible political force proposed the policy of progressive exit for peripheral countries, it would be impossible to win broad support.

Political difficulties aside, however, the strategy would also have to confront the deeper problem of attaining national development in a globalised economy. Progressive exit cannot be national autarky. It would be necessary for peripheral countries to maintain access to international trade, particularly within the EU. It would also be necessary to seek technology transfer and capital from abroad. There are no guarantees that such flows would be forthcoming, particularly as the established order in Europe would be hostile to radical change. But progressive exit also offers the prospect of different development for workers in the core countries, who have come under heavy pressure during the last two decades. Labour in core countries would be a natural ally of peripheral countries attempting a radical transformation of economy. And if the eurozone came apart in the periphery, it could also unravel at the core, allowing for genuinely cooperative relations among European countries.

To recap, peripheral countries are currently confronted with stark choices because of the crisis of 2007–9 and the structural weaknesses of the eurozone. The current crisis could be resolved in a way that served the interests of the social layers which created the disaster in the first place. This solution would involve austerity in an attempt to remain within the eurozone. It would be inequitable, imposing huge costs on working people, who are not to blame for the upheaval. It would also lead to a hardening of society, while probably failing to deliver growth and higher real incomes in the future.

Alternatively, there could be a solution that changed the current balance of social forces in Europe involving institutional and social transformation.

In this regard there is debate between those who would attempt to change the institutional arrangements of the eurozone, and those who would advocate exit from the eurozone coupled with transformation of economy and society. There would be costs to any form of radical strategy, to be sure, but the costs would be borne equitably. Unlike the option of austerity, furthermore, radical change would have the potential to put the economy on a sustainable path of development that produced benefits for all. The choice belongs to society and, as always, depends on struggle.