Living with the Euro and the Extreme Monetarism of Casino Capitalism

by Theodore Katsanevas

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EIRNS/Christopher Lewis

Prof. Theodore Katsanevas presented a shocking picture of conditions in Greece and other Eurozone nations, and called for an exit from the euro, as the first step toward recovery.

The Abduction of Europa

> *Zeus, the king of the ancient Greek gods enamored of the beautiful Europa and decided to seduce her. He transformed himself into a white bull and mixed in with her father's herds. While Europa and her helpers were gathering flowers, she saw the bull, caressed his flanks, and eventually got onto his back. Zeus took that opportunity and ran to the sea and swam with her on his back, to the island of Crete. He then revealed his true identity, and Europa became the first Queen of Crete. Yet, today Europa lives in grief, in pain, in a state of decadence of her ancient beauty and glory. And this cannot be tolerated.*

The Modern Greek Tragedy

Greece adopted the euro currency in January 2001. This was supposed to protect and develop our economy. Yet, the opposite occurred. For many years before, living with our historical currency, the drachma, we had never experienced a catastrophe like that of today. We may indeed speak of a modern Greek tragedy. It is true that part of the blame is due to the viciousness of our political system. But the same political system, more or less, existed also in the past, during the drachma years.

Greece is now entering its fourth consecutive year of deep recession. Since 2008, the country's GNP has dropped about 28-30%, and this extreme downward trend continues with no light at the end of the tunnel. Hundreds, even thousands of enterprises have closed. The main streets of Athens and other towns look like cemeteries of shops. Official unemployment has risen to 28%, and about 50% for the young. In a country of about 11 million people, every day, more than 1,400 people lose their jobs, and about 3-5 commit suicide.

Poverty is widespread. The suffering is visible everywhere. Many desperate people fly away in search of jobs abroad. There is a massive exodus of Greeks, and at the same time, a massive influx of illegal immigrants, mainly Muslims, that alters the country's labor and ethnic base. Greece, after 3,000 years of existence, may not exist in the next 50 years.

It is ironic that all this should happen in the shadow of the Acropolis, the cornerstone of the greatest ancient civilization. The birthplace of Europe is tortured by the EU, which has moved away from its own ideals of convergence and solidarity among nations. The country that invented democracy, philosophy, mathematics, the arts, the search for knowledge, the spirit, and beauty, pays the price of the most idiotic and irrational economic experiment in modern history, that of the Eurozone, an abnormal common currency, without the existence of any central political and economic umbrella.

Cyprus on Her Knees

Let us take a look at what happened in Cyprus recently. As the latest report of the Schiller Institute ascertains, "The draft legislation at the European Parliament is proof that the Cyprus bank robbery was not a last-minute invention by the German government, but rather a well-planned operation concocted by the EU Commission."

Jacques Cheminade states that "the Eurozone supports the banking oligarchy. The euro was created by monetarist central bankers, the likes of Robert Mundell. It was doomed to fail. Cyprus should leave. It is not going to be a bed of roses, but as Greece knows, to stay inside means to be tortured from outside. As for Europe, it has to be rebuilt as an association of sovereign nations with common development projects, a Europe of the peoples and the fatherlands."

South Cyprus was one of the most affluent European nations before the country entered the Eurozone in January 2008. A few years after, the suffering island is down on its knees. The north of Cyprus is occupied by the Turks, contrary to all United Nations decisions, and was and still is, according to the economic indexes, far poorer than its southern brother. Being out of the Eurozone, now, north Cyprus stands well on its feet. How is it that a poor territorial identity may avoid the depression so easily, but a much more developed country cannot? Cyprus is alleged to be a laundry of black money. This is true to a certain extent, especially before its entrance to the Eurozone. But it stands as joke to direct such allegations to Cyprus only, when about half of the total international economic transactions are directed to offshore and/or tax paradises all over the world.

According to the OECD, among the 45 states that do not follow internationally accepted tax standards are: Ireland, Costa Rica, Liberia, Cyprus, Lichtenstein, Vanuatu, Luxembourg, Uruguay, Panama, Singapore, Finland, Hong Kong, Seychelles, Samos, Belize, Bahamas, Nauru, Gibraltar, Gerstein Island, Bermuda, British Virgin Islands, Mauricio, Cayman Islands, Nevis Island, Niue, etc. The well-informed *Forbes* magazine reports as tax paradises, among others, the U.S. state of Delaware, Luxembourg, Switzerland, the City of London, Ireland, Belgium, Hong Kong, Bermuda, the Cayman Islands, Lichtenstein, Monaco, and Adores, the last three of which are known to have close links to Germany, France, and Spain, respectively.

The bosses of international casino capitalism could extinguish in one night those dirty tax heavens, the land of banking malpractices, the laundromat of dirty money. But they do not want to. Except in cases such as Cyprus, which has been a thorn in their side for various reasons—one of those is supposed to be its alleged connection to Russian black money. It appears that "those who have the power, order the music, and set the rules." In the case of the Eurozone, the power lies with those who possess the key to the money box. They are those who print, manage, and manipulate the euro.

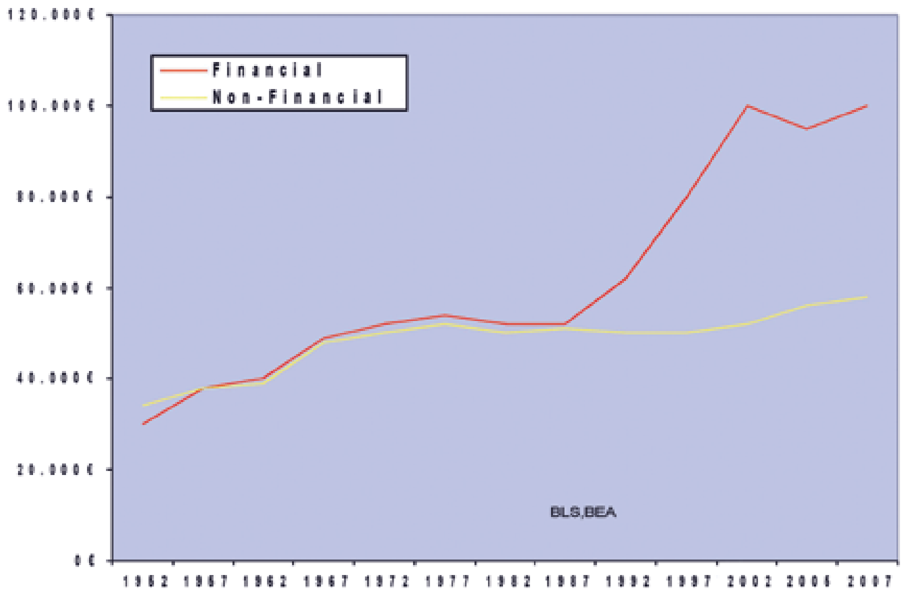
The Eurozone Doesn't Function; Casino Capitalism Is To Blame

In one of our studies at the University of Piraeus, we looked at the main economic indexes—the GNP, the balance of payments, public deficits, inflation, and unemployment—in an attempt to explore the development course of countries within and outside the Eurozone. We found that the economies of the peripheral countries, Greece, Italy, Portugal, Spain, Ireland—the GIPSI—did quite well before joining the euro in 1999-2002, but dropped downwards a little later. The same is more or less true for other Eurozone countries, and especially for Slovenia, Slovakia, Estonia, and Belgium. Only Germany, France, Austria, Finland, and the Netherlands appear to be doing well in general terms.

Countries outside the Eurozone, such as Britain, Denmark, Sweden, Czech Republic, Bulgaria, Hungary, Poland, and Romania maintain a steady upward growth trend, with partial decline with the advent of the crisis of 2009.[1] Countries outside the EU like Norway, Serbia, and Turkey survived the crisis, and are now developing at a normal and/or fast pace. As are Russia, China, India, Brazil, Argentina, even Ethi-

1. The EU countries within the Eurozone are Austria, Belgium, France, Germany, Greece, Estonia, Ireland, Spain, Italy, Cyprus, Luxembourg, Malta, The Netherlands, Portugal, Slovakia, Slovenia, Finland; outside, are Bulgaria, Denmark, Leetonia Lithuania, Great Britain, Hungary, Poland, Rumania, Sweden, and the Czech Republic.

FIGURE 1
Financial Sector vs. Non-Financial Sector Yearly Compensation



Source: Steven Keen/*Debunking Economics*

opia and Ghana, and many others all over the developing world.

So, today, four years later, the majority of the nations of the developed and developing world have gotten back on their feet after the economic crisis of 2008, with major or minor injuries. Only Greece, Italy, Portugal, Spain, Ireland, and Cyprus, the peripheral countries within the Eurozone, resemble boats in turmoil.

A basic question arises: What is the real cause of such a paradox? I will be happy to hear various proposals. But, strong statistical evidence points only to one strong explanation. This is mainly so, according to Prof. Steven Keen,[2] because of "the ill-functioning Eurozone, combined with the malpractices of the extreme monetarist policies of the casino-after-capitalism, the existence of internationally protected tax paradises, uncontrolled capital flows, the unification of trade and investment banks, the underestimation of the real productive economy, and of humanitarian values in favor of the market ideals."

As proven by Keen, by the end of 1980, at an international level, the financial sector surpassed the non-financial sector and after that period it rose at a much faster speed (**Figure 1**). The "bubble economy" overtook the real economy. And this results in the widening of income differences and frightening world economic crises.

As the Schiller Institute states in its introduction to this conference: "If somebody is to blame, these are not the people whose civil and labor rights, hard-won over centuries, are disappearing down the abyss." Yet, "the haves always ask more and more from the have-nots," as Bertholt Brecht said.

The Greek Tragedy Revisited

Paul Krugman, the Nobel Prize economist wrote:

"Fifteen years ago Greece was no paradise, but it wasnt in crisis either. . . . Then Greece joined the euro, and a terrible thing happened: people started believing that it was a safe place to invest. Foreign money poured into Greece, some but not all of it financing government deficits; the economy boomed; inflation rose; and Greece became increasingly uncompetitive. To be sure, the Greeks squandered much if not most of the money that came flooding in, but then so did everyone else who got caught up in the euro bubble. And then the bubble burst, at which point the fundamental flaws in the whole euro system became all too apparent.

"Ask yourself, why does the dollar area—also known as the United States of America—more or less work, without the kind of severe regional crises now afflicting Europe? The answer is that we have a strong central government, and the activities of this government in effect provide automatic bailouts to states that get in trouble. . . .

"The origins of this disaster lie farther north, in Brussels, Frankfurt and Berlin, where officials created a deeply—perhaps fatally—flawed monetary system, then compounded the problems of that system by substituting moralizing for analysis. And the solution to the crisis, if there is one, will have to come from the same places. . . .

"Greece does indeed have a lot of corruption and a lot of tax evasion, and the Greek government has had a

2. Steven Keen (*Debunking Economics*, 2012) is a well-known Australian neo-Keynesian economist.

habit of living beyond its means. Beyond that, Greek labor productivity is low by European standards—about 25 percent below the European Union average. Its worth noting, however, that labor productivity in, say, Mississippi is similarly low by American standards. . . .

"On the other hand, many things you hear about Greece just aren't true. The Greeks aren't lazy—on the contrary, they work longer hours than almost anyone else in Europe, and much longer hours than the Germans in particular. Nor does Greece have a runaway welfare state, as conservatives like to claim; social expenditure as a percentage of GDP, the standard measure of the size of the welfare state, is substantially lower in Greece than in, say, Sweden or Germany, countries that have so far weathered the European crisis pretty well.

"So how did Greece get into so much trouble? Blame the euro."[3]

Kenneth Rogoff, another well-known economist, adds, "The problem in Greece, is not an ordinary recession but a full-blown financial crisis, something which countries usually take a lot longer to recover from. This kind of economic collapse goes much deeper than a normal slowdown. The longer the economy continues to shrink, the more restless the trade unions get, and the more pressure builds up on politicians to put an end to the misery. The country would leave the monetary union and reintroduce the drachma, for example. The drachma would immediately trade at deep discount to the euro, making Greece's export and tourism sectors competitive again."[4]

Hans Werner Sinn, a top German economist, ascertains that "the cheap loans that the euro brought the country artificially raised prices and wages. Europe should provide the money to ease the exit from the currency union. After a short thunderstorm, the Sun will shine again. After the exit, the country would be competitive again. Because Greek products would rapidly become cheaper, demand would be redirected from imports toward domestically produced goods. The rich Greeks who deposited so many billions in Switzerland would see falling property prices and wages, and would have an incentive to start investing in their own country again.

"The chaos can only be avoided if Greece leaves, and the currency depreciates immediately. The plan to radically restructure Greece within the euro is illusory. The Greeks are being held hostage by the banks and financial institutions which want to make sure that money keeps on flowing from government bailout packages—not to Greece, but into their coffers. People keep on saying 'The world will end if you Germans stop paying.' In truth, only the asset portfolios of some investors will suffer."[5]

On top of all these arguments, Helga Zepp-LaRouche stresses, "The imposition of the euro system as the 'price to pay for German unification' was never done with the intention of a creating a prosperous European economy, but rather to have Europe revert back to a feudal state under a supranational dictatorship. The present crisis in the Eurozone is the result of an intended 'regime change,' away from sovereign nation-states, toward feudal dictatorship, in which the EU became the junior partner of an Anglo-American-dominated empire, which is just another way of saying 'globalization.' "[6]

As for the economic policy to implement, Zepp-LaRouche went through the necessity to "implement immediately Glass-Steagall types of complete bank separation, with toxic assets being written off, rather than paid by the taxpayers." That must be followed, she said, with "the creation of a credit system, and the "build up of the real economy through well-defined development program for Southern Europe, the Mediterranean, and Africa elaborated by the Schiller Institute."

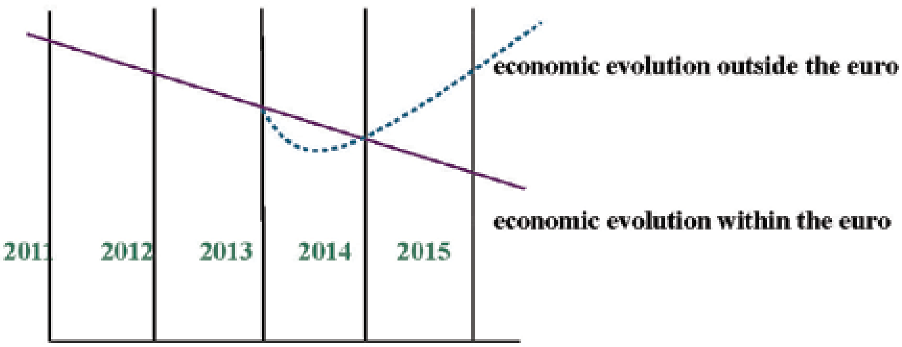
The Euro Suit Does Not Fit the Southern Economies

The suit of the Eurozone, without a central political umbrella, is a costume that does not fit the southern European economies. This is especially so for Greece, whose economy is based on tourism and agriculture, which requires a labor-intensive production process. Labor costs cannot be compressed below a certain level, so that the total production costs will be lower than or equal to those of our competitors. This can be seen empirically—a room in a Greek hotel costs about twice what its counterpart does in Turkey, Egypt, Bulgaria, Romania, Hungary, etc. Furthermore, our oranges, lemons, peaches, cherries, and olives are falling from our trees and are rotting. These products are sub-

3. "Greece as a Victim," *New York Times*, June 17, 2012.
4. *Der Spiegel,* Feb. 20, 2012.
5. In an interview with Stefan Kaizer, March 2012, presented in a free manner here.
6. In an interview in the Greek daily *Ellada avrio*, Feb. 25, 2013.

FIGURE 2

Estimated evolution of the Greek economy within and outside the euro zone



stituted by cheaper imports from faraway Argentina, Morocco, Egypt, etc.

Thus, the Greek economy suffers from non-competitive prices. Add to that, the fact that fertilizers produced by oligopoly companies in northern Europe cost more than double for Greece, with relevant consequences for production costs. Armaments imported from the West, in the last 12 years, cost about EU100 billion, a sum almost equivalent to our original deficit. Turkey, a candidate for entering the EU, has made blatant threats against Greece's and Cyprus's territorial integrity, obliging us to spend on armaments the largest portion of GNP internationally, after the U.S.A. Why does the EU not protect its eastern boarders, leaving Greece alone to struggle in the troublesome waters of the area?

On the other hand, the hard euro well fits the needs of the northern European countries, which produce oligopoly products of capital-intensive and innovative high-end technology. The cost of these products can be compressed significantly, and profit margins are huge. This permits the northern countries to accumulate large foreign-exchange surpluses, and to speculate on the huge spreads among currencies.

As things stand now, the only clear solution is the "Grexit" [Greek-exit], together with similar moves by the other southern countries, with Italy appearing to lead the chorus. The exit from the euro, no doubt, will initially be painful. Yet, now we experience just as painful hours, but without hope for tomorrow (**Figure 2**). The maintenance of an economy in a state of financial paralysis does not allow much room for hope of recovery. The present extreme recession policies, the tragic rise in unemployment, the excessive compression of labor rewards and of pensions are both inhumane, and uneconomic. They lead to a large drop of domestic demand, as well as to wide social uprest, with tragic economic and social consequences.

Depression creates more depression, and lowers the tax base. Poverty creates more poverty, misery, and upheaval. Loans lead to more loans and dependency—a perpetual cycle. For as Menandros said, "Loans make slaves of human beings."[7] The country's lack of competitiveness, its shrinking domestic production and consumption, is leading to a vicious circle of debt defaults and the need for more and more new loans. And over the long term, this is burdensome to all, even our lenders.

These policies are totally wrong. They are not the outcome of logic. And common logic is what we need today. Unless it is true what some people whisper: These policies derive from a dark plan of "Big Brother," for the total subordination of the weaker countries to the bosses of the international casino after capitalism.

What We Must Do

According to our Plan B, which is based upon wide scientific and political research, the exit from the hard euro but not from the EU, should be accompanied by a controlled bankruptcy, cutting about 50-70% of total debt, with a grace period of two years to start repayment of the remaining 30-50%, and by extending the repayment period. The new drachma will be deflated, and may be directed toward levels of a reasonable rate, linked with a basket of currencies which will contain the euro, the dollar, and other soft currencies of our competitive countries.

Another solution could be the creation of a soft link between the national currencies of the southern European countries, after their exit from the Eurozone. All these should be combined with capital controls and commodity flows and the splitting of trade from investment banks, in accordance with Glass-Steagall options.

7. Menandros was an ancient Greek philosopher.

Furthermore, the exit should be accompanied by restricted government spending; modernizing of public administration, social insurance, and health care; combating corruption, impunity, and bureaucracy; and reducing tax evasion, together with a sense of fairness with efficiency, competence, and honesty. Public spending should be initially allocated to productive investments and the protection of the poor and of the social welfare. Low and medium-level wages and salaries should be increased incrementally, at a moderate level, and in accordance with the shift toward internal consumption, so as to avoid the dangers of hyperinflation.

The government must take responsibility for the provision of basic commodities, especially food, medicine, fuel, etc., and control trade malpractices and the black market. Certain commodities, mainly those which are imported, will disappear for a while. (But, we may survive without whisky, caviar, Porsches, cayenne, etc!) We must free ourselves from the pathetic syndrome of the "import country," reactivate our production base, and try to consume no more than we produce. For all these, there is a need to elaborate a development schedule, a new Marshall Plan.

An Epilogue

Last but not least, may I suggest that our conference adopt a resolution to:

"Denounce the ill-functioning of the Eurozone and the malpractices of the extreme monetary policies of the casino-after-capitalism; demolish the protection of the international tax paradises and uncontrolled free capital flows; introduce the Glass-Steagall separation between trade and investment banks; create a new Marshall Plan for countries in need; raise the real productive economy over the markets; promote a new vision of human development; and activate a comprehensive renaissance of Classical culture, based on the beauty and the soul of mankind."

As Friedrich Schiller put it, "Lose not yourself in a far off time, seize the moment that is thine. . . . Dare to err and to dream" for the renaissance of all Europe. And take up the strands of the flourishing phases of previous epochs, such as ancient Greece, but not only. Then, and only then, "will we enter into the land of knowledge through Beauty's dawn gate," and the glorious memories of the Athenian Pericles' Golden Age. And then, the Europa abducted by Zeus, would find her Sun shining, and smile again.