

# NEOLIBERAL CAPITALISM AND ITS CRISES IN EUROPE: TOWARDS A LUXEMBURGIAN INTERPRETATION

---

*Ingo Schmidt*

**Abstract** This article recapitulates Rosa Luxemburg's considerations on the capitalist penetration of non-capitalist economies as a condition for capital accumulation, as well as her arguments about the limits of social reform and the shortcomings of claims for national self-determination. The theoretical tools Luxemburg developed around these issues are then used to analyse the rise, consolidation and crisis of neoliberal capitalism in Europe. This analysis stresses the reintegration of previously communist countries into the capitalist world system and the China boom as drivers of this neoliberal wave of accumulation. It concludes with pointing at the economic limits of this wave and at emerging left and right alternatives to neoliberal capitalism

**Keywords** Capital accumulation, nation-states, sovereignty, democracy, neoliberal capitalism

---

1. For example: Riccardo Bellofiore, ed. *Rosa Luxemburg and the Critique of Political Economy*, Routledge, London, New York 2009. Sobhanlal Datta Gupta, *Rosa Luxemburg*, Seribaan, Bakhrabat 2015. Ingo Schmidt, ed. *Rosa Luxemburg's Akkumulation des Kapitals*, Hamburg, VSA Verlag 2013. Jason Schulman, ed., *Rosa Luxemburg - Her Life and Legacy*, New York, Palgrave Macmillan 2013. See also special issues on Rosa Luxemburg of: *International Critical Thought*, 4:4, 2014, *Critique - Journal of Socialist Theory*, 40:3, 2012; and *Socialist Studies*, 6:2, 2010.

2. Rosa Luxemburg, *The Accumulation of Capital*, Routledge, London, New York [1913] 2003.

## 1. INTRODUCTION

Rosa Luxemburg is a tragic hero. Her socialism wasn't tainted by the ugliness of actually existing communism or social-democratic class collaboration - if only because it never came into existence in the first place. Not surprisingly, then, most leftists see her as a historical figure representing the good socialism that didn't happen. The downfall of communism and the failure of class collaboration to continuously deliver social reforms has triggered some interest in Luxemburg's ideas.<sup>1</sup> Yet this interest is rather partial. Some ponder Luxemburg's role in the Second International and the Spartacist League. They may even try to draw conclusions for socialist strategy today from their historical analysis. Others draw on her economic works to make sense of today's imperialism or the role of household labour for capitalist reproduction.

Luxemburg developed different strands of her thinking in slightly different contexts. Her magnum opus, *The Accumulation of Capital*, represents a general theory of capitalist development within non-capitalist milieus, and the limits of social reform under capitalist rule.<sup>2</sup> Other works, for example on the national question, were written for more specific political purposes, but it can be argued that they contain generalisable ideas about states and democracy. What ties these different strands together is the search for an

uncompromisingly democratic, anti-imperialist and internationalist socialism.

Using the rise and fall of neoliberal capitalism in Europe as an example, this article aims at integrating Luxemburg's ideas about accumulation, states and democracy, and showing that, potentially, a Luxemburgian analysis could provide insights and open political perspectives that other critical analysis do not offer. This approach marks a departure from analyses that, often in equally sophisticated and unconnected ways, focus on specific aspects of Luxemburg's work. The article doesn't claim to offer a complete analysis; it rather presents a rough sketch, an invitation to continue efforts to establish a Luxemburgian framework that could then be used to synthesise insights from more specific analyses to develop a richer understanding of capitalist development and socialist possibilities. To this end, this article begins with a brief discussion of the relations between theory and history before it recapitulates tenets of Luxemburg's economic and political ideas. The main part of the article is then devoted to applying those ideas to the analysis of neoliberal capitalism in Europe.

## 2. THEORY AND HISTORY

Rosa Luxemburg takes you on a twisted journey through time. Reading her works, written around a century ago, with many of these reaching way back into history, takes you to the past. But it gives you the feeling of reading the script of current, and possibly future, dramas of capitalism and its multiple crises. For example, her *Junius Pamphlet*, written in a German jail in 1916, outlines in great detail the developments leading to WWI.<sup>3</sup> Her depiction of great power conflicts over a region stretching from the Balkans to Baghdad shows disturbing parallels to the recent wars against Yugoslavia, Iraq and Syria, as well as to nationalist and sectarian conflicts in those countries but also in parts of the former Soviet Union from the 1990s onwards. In *Accumulation of Capital*, which was published a year before the outbreak of WWI, she explained that capitalism thrives on the expansion into non-capitalist social milieus, and that accumulation, upon reaching the limits of expansion, turns into economic stagnation and intensification of class struggles at home and political conflicts abroad. Reading this analysis today one can't escape the impression that it also applies to the reintegration of the former Soviet Union and China into the capitalist world-system in the 1990s, and the following series of crises from the dot.com crash 2001 and the Great Recession 2008/9.

The wave of protests sweeping parts of the world in the aftermath of the latter crisis, Occupy Wall Street, the Arab Spring and anti-austerity struggles in parts of Europe, is reminiscent of Luxemburg's portrayal of the Russian revolution of 1905 in her *Mass Strike* pamphlet.<sup>4</sup> Both periods saw intermittent protests against political regimes deemed as authoritarian, demands for democratic participation and economic struggles for better pay and working conditions. In early twentieth-century Russia, fragmented mass

3. Rosa Luxemburg, 'The Junius Pamphlet: The Crisis in German Social Democracy', in *Rosa Luxemburg Speaks*, Pathfinder, New York [1916] 1970, pp342-439.

4. Rosa Luxemburg, 'Mass Strike, Party, and Trade Union' [1906], in *Rosa Luxemburg Speaks*, Pathfinder, New York 1970, pp205-290.

struggles, and the experiences of participants in them, led to the formation of a more coherent social force. This force was temporarily dispersed by an outburst of nationalist fervour during the first months of WWI, but was then strengthened by the sufferings during the drawn-out war years. This strength eventually reached a point where it could bring down the Romanov Empire and try to build a socialist economy. Whether the protests following the Great Recession also laid the groundwork for a social force capable of overcoming the increasingly despised model of neoliberal capitalism remains to be seen. But we have also seen that part of the discontent produced by the latter crisis, and further fuelled by the austerity policies that followed it, has been articulated in nationalist and racist terms. It seems that Luxemburg's warning in the *Junius Pamphlet*, that crises can open the way to socialism but also the way to barbarism - notably if the political left fails to consolidate discontent into a progressive bloc - is as relevant today as it was during her own times.

What is irritating, and thus interesting, about the impression that many of Luxemburg's texts could have been written today is that the world is in many ways radically different from the one she had before her eyes when she wrote these texts. The states of the imperialist centre of the world are constantly quarrelling about all kinds of issues, but there is not a single state, or a group of states, challenging US leadership today, unlike the rivalries prior to WWI. If the US is weakened, it is due to imperial overstretch and economic stagnation: it is not because upcoming powers desire to replace the US as leader of the pack. Thus, for example, rather than establishing world dominance, the BRICS states are eager to find their place in the upper quarters of a world capitalism dominated by the US and its allies in Asia and Europe.<sup>5</sup> Rising economic and political tensions in Europe, notably over the Euro- and refugee-crises, may weaken the coherence of the ruling bloc of imperialist countries, but certainly do not indicate a return to the kind of imperialist rivalries that Luxemburg identified as the root cause of WWI.

Equally important, if not more so, as these differences in imperialist policies are the transformations of the capitalist world economy that have occurred from the times of Luxemburg until today. Back in the day, capitalist consortia based in states of the imperialist centre sought overseas access to resources and agricultural products and thereby created investment opportunities for shipping and railway companies. Following the era of imperialist rivalries and world wars, the control of peripheral lands and its uses by the imperialist centres has been increasingly taken over and intensified by multinational corporations. Moreover, multinational capital invested in industrial production is seeking access to cheap manufacturing labour in the periphery and thereby continues the industrialisation of parts of the periphery that was originally initiated by developmentalist regimes during the era of decolonisation. The overarching concern of multinational corporations and financial institutions is the free mobility of capital. Colonial empires demarcated by tariffs and preferential trade agreements are the last thing

5. Patrick Bond, *BRICS - An Anti-Capitalist Critique*, Haymarket, Chicago, 2015; Ingo Schmidt, *Spielarten des Neoliberalismus*, VSA Verlag, Hamburg 2008.

they are interested in. It is hard to imagine a return of the national coalitions between industrialists, bankers and landowners seeking tariff protections and colonial expansion that were the driving force behind the imperialist rivalries culminating in WWI; today's world is dominated by corporations that use strong ties to their home countries as springboards for their transnational operations.

The fact that many of Luxemburg's texts appear so timely despite these and other differences between her times and ours suggests that the theoretical tools she developed against the background of her times can contribute to an understanding of capitalism in our own times. More specifically, Luxemburgian lenses on neoliberal capitalism in Europe and its multiple economic and political crises offer analytical insights and strategic clues that other critical approaches to capitalist development in Europe don't provide. The most common such approach, hammered out by Keynesian pundits over and over again during the Great Recession and the Euro-crisis, laments the bad design of the EU and notably the European Monetary Union (EMU). Their argument is that pressures to enhance international competitiveness and keep inflation and public deficits at a minimum, as codified in the European treaties, have destroyed the stabilising role that capital-labour accords and welfare states played during the high-growth, full-employment era following WWII. They say that Europe's neoliberal design leads to a permanent shortfall of effective demand. A lack of jobs, and the shortfalls in tax revenue that defeat government efforts to balance their books, are the inevitable result. The suggested fix for this problem is, not surprisingly, a return to the Keynesian policies that are seen as the key force that drove the long post-WWII boom. This begs the questions, of course, of why policies turned from Keynes to Hayek at some point between the late 1970s and the 1980s, and how this turn could be reversed. These questions, however, are largely avoided by Keynesian critiques of neoliberal Europe.

A related critique, focusing more on political processes than policy content, sees the increasingly technocratic and authoritarian character of the EU and EMU as a threat to national sovereignty and democratic participation. A democratic remake, these critics maintain, is necessary to avoid an escalating loss of legitimacy and the subsequent rise of nationalist forces that would tear Europe apart and raise the spectre of inter-state conflict. But this, as in the case of the turn from Keynes to Hayek, raises the questions of why EU and EMU architects chose such a design in the first place and why they would give up the powers locked into these designs.

Responses to the Euro-crisis, notably the creation of the Euro-group and the troika (informal groupings, respectively, of finance ministers of the Euro-zone and the European Commission, Central Bank and IMF), along with the Fiscal Compact, indicate a hardening rather than a softening of Europe's neoliberal and undemocratic design. EU-critics inspired by Antonio Gramsci explain the adherence to neoliberalism and technocracy, despite their potentially

6. Stephen Gill, 'A Neo-Gramscian Approach to European Integration', in Alan Cafruny and Magnus Rynér (eds), *A Ruined Fortress? Neoliberal Hegemony and Transformation in Europe*, Rowman and Littlefield, Lanham 2003, pp47-70.

destructive effects, in terms of a transnational neoliberal bloc that developed in response to the economic and political crises of welfare capitalism in the 1970s.<sup>6</sup> According to this line of argument, workers and other social movements squeezed company profits by pushing their demands for wages and social provisions beyond the acceptable limits of the post-WWII class compromise. As a response, capitalists abandoned Keynesian full employment policies to reinstitute the disciplinary power of the industrial reserve army of labour, and built a network of international institutions, the E(M)U among them, to coordinate their neoliberal efforts and bypass national parliaments, where workers still had sizeable representations. This Gramscian critique explains why capitalists and political elites turned from Keynesian welfare states to transnational neoliberalism, and why the Europe that was built along the way became increasingly authoritarian and incapable of correcting its economically and politically destructive tendencies. However, despite speculations about the need for a counter-hegemonic bloc, Gramscian analysis really only goes one way: from Keynes to Hayek. It doesn't account for the reasons and effects of economic crises, though it is quite obvious that a long brewing crisis of legitimacy burst into the open following the Euro-crisis and subsequent austerity packages. Nor does it explain the spectrum of political options, ranging from left to right and including new visions of Europe as much as national exit options, opened by Europe's combined economic and legitimisation crises.

This is where Luxemburg comes in. Her theory of accumulation provides the background story for the making of the neoliberal bloc, which is at the centre of Gramscian analysis. Luxemburg's theory of accumulation allows us to understand that the neoliberal turn was, at one and the same time, a political turn against the welfare state and the escalating expectations amongst the popular classes it had produced and a search for new markets. Increasing difficulties of finding such markets led to tensions in the political structures through which neoliberalism was institutionalised in Europe. This is where Luxemburg's analysis of national sovereignty can help us in thinking about alternatives beyond on the one hand, exit - support for which neglects the need to establish some kind of economic ties even after exiting from the EU - and, on the other, hopes to remodel the EU in a more social fashion - an option that neglects how deeply neoliberalism is enshrined within the institutions of the EU. The following two sections recapitulate Luxemburg's ideas about accumulation and national sovereignty before applying them to an analysis of the origins, expansion and crisis of neoliberal capitalism in Europe.

### 3. LUXEMBURGIAN IDEAS

#### 3.1 *Capital Accumulation*

In *Accumulation*, Luxemburg presents capitalism as a trap. Surrounded by competitors, and being a competitor to others, capitalist firms have to

accumulate just to survive. To do this, individual firms can seek to underbid others by cutting wages. However, when all firms do this it puts a lid on consumer demand coming out of workers' pockets. This tendency towards underconsumption can be temporarily overcome by investment demand, given that adding capacity, aimed at increasing market share, is another method capitalists use to beat their competitors. While the ensuing investment boom lasts, rising demand for labour can actually lead to higher wages and thus suspend underconsumption - up to the point where wages begin cutting into profits. If capitalists respond to such a profit squeeze by slashing investment and jobs, they reactivate capitalism's tendency towards underconsumption. With investment demand dropping and consumer demand restrained, some production capacity is left idle. Capitalism is stuck in stagnation. This is also the case if the capitalist response to a profit squeeze is the introduction of labour-saving technology. This, too, will lower the demand for labour and thus dampen the purchasing power of workers' pay cheques. Moreover, since living labour power is the only source of surplus value, the labour power embodied in raw materials, machines and infrastructure only passes already existing value on to products requiring these non-human means of production. A shift to technologies using relatively more non-human means of production and less living labour also means that less value, and thus profit, per product is produced. In Marxian jargon, a rise in the organic composition of labour leads to a fall in the rate of profit - and thus lowers investment. Again, a lid on consumer demand, combined with a shortfall of investment demand, causes stagnation.

Capitalist penetration of non-capitalist economies, Luxemburg suggests, is the only way to escape this trap. Pushing or luring barter economies into ones using money as a means of exchange, e.g. by imposing money rents on peasants and then offering them credit to buy products from capitalist producers, leads to expanding markets for all capitalists - as long as non-capitalist economies can be found and opened to capitalist trade and investment. Once integrated into the circuits of capitalist accumulation, individuals previously engaged in non-capitalist economic activity face the same constraints - some of them as capitalists but most as workers - as anybody else living under the capitalist regime. When Luxemburg developed her theory of capital accumulation through penetration of non-capitalist economies, she was mainly interested in coming to terms with a new wave of colonial conquest that had come to a close just shortly before she wrote *Accumulation*. Yet, she also makes clear that she understands her theory of accumulation as a general theory, not one that is only applicable to what Hobsbawm described as the *Age of Empire*.<sup>7</sup> And she repeatedly hints at the existence of extensive non-capitalist economies within the borders of the imperialist centres, notably in the activity of farmers and artisans who sell their products, but, as simple commodity producers, are not subjected to the imperatives of capital accumulation.

It is precisely this character as a general theory that allows us to use it

7. Eric Hobsbawm, *The Age of Empire, 1875-1914*, New York, Vintage 1989.

8. Ingo Schmidt, 'Capital Accumulation and Class Struggles from the "Long 19<sup>th</sup> Century" to the Present - A Luxemburgian Interpretation', *International Critical Thought*, 4:4, 2014, pp457-473; Ingo Schmidt, 'Unmaking Neoliberal Europe: Capitalist Crisis and the Search for Alternatives', *Perspectives on Global Development and Technology*, 12: 1-2, 2013, pp41-62.

9. Rosa Luxemburg, *The National Question* [1909], Monthly Review Press, New York 1976.

as an analytical tool to understand other periods of capitalist development, including the emergence, consolidation and crisis of neoliberalism in Europe from the post-WWII-era until today.<sup>8</sup> Today, many of the non-capitalist spheres of the economy that still existed in Luxemburg's times have been integrated into the capitalist mode of production. This is not only true for much of peasant and artisan production, but also for the significant parts of household production and leisure-time activities that have been transformed into spheres of capitalist investment and production. Moreover, public sectors in the West and state economies in the East, types of non-capitalist economies beyond the imagination of Luxemburg or any of her contemporaries, became prime targets of capitalist penetration during the neoliberal era from the 1980s onwards. Of course, the reintegration of Eastern Europe's formerly communist countries into the capitalist world system also had an aspect of geographical expansion reminiscent of the times of Luxemburg.

### 3.2 Nation-states, sovereignty and democracy

A highly contentious issue amongst socialists in Luxemburg's times, particularly in the multi-ethnic Habsburg, Ottoman, and Romanov empires, was the right to self-determination of nations. Against her comrades who defended it, Luxemburg argued, most extensively in *The National Question*, that the constitution of a particular nation as a state tended to go hand in hand with the discrimination against other nations by the newly formed nation-state.<sup>9</sup> She also argued that capitalist development had gone beyond the point where individuals of different social backgrounds should be rallied around the banners of 'the people' or 'the nation' against the aristocracy. Even where, as in Central and Eastern Europe, the aristocracy still had political power, divisions between capitalists and workers had already become so deep that rallying around the national question could only lead workers to defer their own interests to those of emerging national bourgeoisies.

Going further in her critique of the national right to self-determination, she argues that, by the late nineteenth century, capitalist development had reached a point where capitalists based in the industrialised countries had developed their production capacities beyond the purchasing power available in these countries. From being a progressive form of political organisation, one that could advance the development of domestic markets and industrial capacity in tandem, nation states had turned into home bases for imperialist conquest of the unindustrialised world. In the 'Age of Empire', cross-class coalitions built around the idea of a shared nationality were no longer forces of liberation from feudal rule: rather, they were forces to establish capitalist rule around the globe, thereby creating hostility amongst the nation-states of the imperialist centres. Cutting new nation-states out of these centres' territories would disrupt economic ties and lead to a lower scale of production, and an economic downturn, with all its negative effects on levels of employment



and wages, would be imminent. Luxemburg had already developed this economic argument against national self-determination in her PhD thesis on the *Industrial Development of Poland*.<sup>10</sup>

In her contributions to the debate about the mass strike as a strategy to win the franchise, for example in *Theory and Practice*, she also argued that political strategy should be judged in the context of economic developments.<sup>11</sup> More specifically to this debate, she argued that the mobilisation of workers for such demands would only be successful if combined with economic demands for shorter hours and better pay and working conditions. This strategy was inspired by her interpretation of the Russian revolution of 1905, laid out in the *Mass Strike*. In this pamphlet she described a chain of local struggles, some raising political demands, others economic demands. By spreading from one part of the empire to the other and allowing involved workers to gain experience, these struggles, she argued, contributed to the formation of a more unified working class.<sup>12</sup>

Luxemburg's thinking was very much focused on the making of industrial working classes in the industrial centres as agents of socialist revolution. She considered the subordination of workers' struggles to national demands, let alone their integration into imperialist coalitions, as distractions from this overarching goal. Even though she showed passionate concern for the misery that imperialist expansion inflicted on the people of the colonised world, the appearance of a twentieth-century Third World, drawing inspiration from demands that the Third Estate had launched against French aristocracy in the late eighteenth century, was clearly beyond her imagination.<sup>13</sup> Although she threw some scattered remarks about the formation of nation-states in the colonial worlds into her tracts on national self-determination, her arguments about this issue, like those of her opponents in the Second International, were almost completely based on developments in the imperialist centres. They were also geared towards socialist strategy in the centres, not anti-colonial revolutions. Luxemburg's main point in this regard was that industrial capitalism, largely centred in a handful of industrial districts in the Western parts of the Tsarist Empire, including Poland, had created industrial working classes that could spearhead socialist revolution in non-industrialised parts of the Empire. Polish independence, though, would destroy the links between industrialised centres and agrarian hinterlands that had been so crucial for the spreading of economic and political upsurges that, taken together, had made the 1905 revolution. Cutting these links, then, would undermine the basis for socialist revolution and put escalating national conflicts in its place.

It's quite ironic that her view on the national question, shaped by the 'long nineteenth century', seems more timely today than the 1920 Comintern slogan 'workers of all lands and oppressed peoples of the whole world, unite!' - which, unlike Luxemburg's ideas, did anticipate the national revolutions and Third Worldism sweeping large parts of the world later in the 'short twentieth century'.<sup>14</sup> Industrial working classes in the former colonial world

10. Rosa Luxemburg, 'The Industrial Development of Poland' [1898], in *Complete Works*, Vol. I, Verso, London, New York 2013, pp1-78.

11. Rosa Luxemburg, 'Theory and Practice' [1910], in Peter Hudis, Kevin B. Anderson, eds., *The Rosa Luxemburg Reader*, Monthly Review Press, New York 2004, pp208-232.

12. Ingo Schmidt, 'Farewell to Europe's Working Classes: Welcome to the Making of the European Working Class?', in Andreas Bieler et al (eds), *Labour and Transnational Action in Times of Crisis*, London, Rowman & Littlefield 2015, pp29-40.

13. Vijay Prashad, *The Darker Nations - A People's History of the Third World*, New York, The New Press.

14. Eric Hobsbawm, *The Age of Extremes, 1914-1991*, New York, Vintage 1996.



- whose emergence was first promoted by developmentalist regimes, and was then further advanced as these became nodal points of global production networks - are, so far at least, firmly subordinated to alliances of domestic elites and multinational capital.

This raises the question of whether the kind of labour internationalism that Luxemburg suggested to European workers might be more promising for today's left - simply on a larger geographical scale - than efforts to reinvent any of the statist projects, Soviet communism, welfare or developmentalist states, pursued by much of the twentieth-century left. Moreover, the outburst of nationalism in the aftermath of the collapse of Soviet communism buried most efforts to resist the neoliberal rollback of social standards in Eastern Europe. It also fuelled civil wars that opened the door for Western military intervention, notably in former Yugoslavia, that hardened the rule of neoliberal capitalism in the East. Part of this rule, all across Europe, is the emergence of a supranational policy regime safeguarding neoliberal rule in E(M)U member states and the complementary co-optation of the notion of internationalism by the forces of capital. Not surprisingly, opposition to these forces, on the left and on the right, is often couched in terms of the defence or reconstitution of national sovereignty. With Luxemburg's arguments about the economic underpinnings of nation-state development in mind, though, one should ask how much of this sovereignty existed in the past, how it was distributed along the imperialist chain, and how much of it exists today. Eastern European experiences of integration into world markets under the banner of national sovereignty might be a warning sign for efforts to revive left nationalism elsewhere. Of course, Luxemburg's warning that national coalitions in the centres enable imperialist policies abroad without necessarily yielding the share of imperialist rents that workers are expecting from their junior partner role in such coalitions is as true today as it was in her own times.

#### 4. NEOLIBERAL CAPITALISM IN EUROPE

##### 4.1 *Origins*

The period from WWI to WWII - Hobsbawm's 'Age of Catastrophe' - confirmed Luxemburg's worst fears.<sup>15</sup> After WWI, capitalists, unable to open new markets, were stuck in imperialist rivalries and soon began preparing for another war. The Russian revolution, which Luxemburg heartily welcomed but also harshly criticised, remained isolated.<sup>16</sup> With failed revolutions in the West, whose success Lenin and Trotsky had seen as a necessary condition for the survival and progress of their own revolutionary efforts, the Soviet Union degenerated not only into a bureaucratic dictatorship, as Luxemburg had feared it would, but, even worse, into a terrorist regime.

Yet after 1945, the congruence between Luxemburg's theoretical predictions and real-world developments ended. The Soviet Union was still

15. *Age of Extremes*, pp21-224.

16. Rosa Luxemburg, 'The Russian Revolution' [1918], in *Rosa Luxemburg Reader*, pp281-310.

a bureaucratic and terrorist regime, but it was also the power that had made more sacrifices in beating the Nazis than any other member of the Anti-Hitler-Coalition. The revolutionary wave that ended WWI but then receded without socialist breakthroughs outside of Russia resurfaced at the end of WWII;<sup>17</sup> and this was not just in the imperialist centres, as most revolutionary socialists still thought it would be, but in China, from where it spread - as anti-colonial but not necessarily socialist revolution - through the unindustrialised peripheries of the Global South. Meanwhile, the industrialised centres of the North, or maybe better the West, saw a period of exceptionally strong economic growth, and with this came the transformation of European nation states from war machines into welfare states.

These two developments seemed to be at odds with the basic premises of Luxemburg's political economy laid out in *Social Reform or Revolution*.<sup>18</sup> According to the arguments presented in this pamphlet, social reforms are only possible during times of economic growth, but such times don't last. Capitalists, eager to restore their profit rates, would use the swelling ranks of the industrial reserve army of labour in the next crisis as a lever to roll back any gains workers had made during the boom. To these basic premises she later added, in *The Accumulation of Capital* and the *Junius Pamphlet*, the argument that capitalists might also turn to colonial conquest and large-scale arms production, in order to restore growth and promise workers a share in the imperialist spoils as an alternative to socialist organising. In fact, she issued her warnings against illusions about a prosperity-based reformism and against militarism and imperialism during a period of strong growth that lasted from the end of the 1880s to the outbreak of WWI.

Economic growth during the post-WWII era was much stronger than during the boom before WWI, and social reforms also went much further than ever before. Unlike during Luxemburg's days, when the connection between colonial expansion, economic growth and social reform in the centres was quite obvious, the post-WWII-era witnessed the expansion of Soviet and Sino communism, thereby diminishing the world market geographically, as well as anti-colonial revolutions. These new economic and political conditions looked more like the hopes of proto-Keynesians like Hobson come true.<sup>19</sup> Hobson understood colonial expansion and the imperialist rivalries caused by it as being the result of insufficient domestic demand. Higher wages and social reform, then, were a fix not just to ease distributional conflict at home but also to overcome the dangers of imperialist adventures abroad. Yet, while the sort of imperialist rivalries that had led to two world wars was gone, in the post-war period new forms of imperialism emerged, aiming at the consolidation of economic domination of the periphery even after political independence; and the labour-capital accords in the centres wore out, too. Prosperity and social reform from the 1950s to the 1970s went way beyond the imagination of Luxemburg or her radical contemporaries, but they did reach their limits.

Maybe somewhat ironically, the theoretical tools Luxemburg had developed

17. Charles S. Maier, 'The Two Postwar Eras and the Conditions for Stability in Twentieth-Century Western Europe', *American Historical Review*, 86:2, 1981, pp327-352.

18. Rosa Luxemburg, 'Social Reform or Revolution' [1899], in *Rosa Luxemburg Speaks*, pp50-125.

19. John A. Hobson, *Imperialism - A Study* [1902], Cambridge, Cambridge University Press 2011.

against the empirical background of late nineteenth-century imperialism can also be used to analyse capitalist prosperity and its limits, to include the rise of neoliberal capitalism and its respective limits. After the Second World War, the expansion of Soviet communism in Eastern Europe, along with the Chinese revolution, meant that considerable parts of the world had become no-go areas for capitalists. Territorial expansion - which, as Luxemburg but also Lenin had argued in their respective analyses of imperialism, had reached its limits by the turn of the nineteenth century - was thus less of an option for capital to accumulate after WWII. Forced to seek new markets in a diminished space, capitalists eventually found non-capitalist milieus they could penetrate. Producers of investment goods found them in the developmentalist regimes of the postcolonial world. Producers of consumer goods found them in working-class households where domestic labour was increasingly replaced by the use of goods bought from capitalist firms. This commodification - or, using more Luxemburgian terms, colonisation - of household chores became possible because welfare states, often identified with the de-commodification of labour, stabilised working-class incomes and opened access to consumer credit, so that the purchase of durables like washing machines, refrigerators, cars, consumer electronics and even houses became possible for vast layers of Western working classes.<sup>20</sup>

The real-wage increases and changing ways of life based upon them were often credited to the turn away from the class conflict and imperialist rivalries that had caused so much damage in earlier decades, and the embrace of class compromise and international co-operation. Most visible amongst these changes were the expansion of welfare states and the concomitant rise of mass consumer societies. Less visible was the making of a liberal international order whose institutions, including the beginnings of European integration, contributed to the reconstruction of world trade after its 1930s collapse. But the same order also laid the seeds for the turn from international co-operation to the subordination of national economies to the imperatives of international competitiveness.<sup>21</sup> Almost entirely unnoticed, though, was the fact that burgeoning mass consumption went hand in hand with the economic colonisation of private households, in which unpaid work was increasingly substituted or supplemented by wage work. If the late nineteenth century saw a wave of, geographically speaking, external colonisation, the post-WWII-era saw a wave of internal colonisation that diminished the non-capitalist milieus that still existed in the capitalist centres.<sup>22</sup>

While capitalism penetrated private households, the Keynesian remedies that assisted capital accumulation on a more visible institutional level created exactly the kind of problems that Michal Kalecki, a disciple of Luxemburg, had already speculated about during WWII, when contours of post-war welfare states could only be found in social-democratic Sweden and New Deal America.<sup>23</sup> Once workers, whose ranks included rising numbers of female workers, got used to high levels of employment, they had the confidence to

20. Göran Esping-Anderson, *The Three Worlds of Welfare Capitalism*, Princeton University Press, Princeton 1990.

21. Alan Milward, *The European Rescue of the Nation-State*, Routledge, London, New York 1994; Bernard H. Moss (ed), *Monetary Union in Crisis - The European Union as a Neo-Liberal Construction*, New York, Palgrave Macmillan 2005.

22. Ingo Schmidt, 'Capital Accumulation and Class Struggles from the "Long 19<sup>th</sup> Century" to the Present - A Luxemburgian Interpretation', pp464-465.

23. Michal Kalecki, 'Political Aspects of Full Employment', *Political Quarterly*, 14:4, 1943, pp322-331.

supplement their wage demands with demands for control over the labour process and an expansion of the welfare state. Faced with increasingly militant labour and other social movements in the West, but also a radicalisation of some of the developmentalist regimes in the South, capitalists were increasingly concerned about their profits. More and more they thought that continuing the accumulation strategies that had allowed them to escape the danger of a return to a 1930s style depression and the escalating class conflicts after WWII had now reached a point where class struggles of a different kind had begun to threaten their profits and control over workplaces, maybe even capitalist society at large.

The spectre of ungovernability convinced many capitalists that it was time to restore discipline. In the 1970s, the governmental turn against the welfare state was imminent. Neoliberalism delivered the blueprints for politicians willing to execute the roll-back of social reforms in a time of recurrent economic crises. But neoliberalism also delivered the banners under which capitalists and political and academic elites could rally support among the working classes.<sup>24</sup> Left-wing critiques of the administered worlds of welfare capitalism, drawn on by the New Left and new social movements inspired by it to advocate for a society based on self-emancipation and self-management, were successfully translated into calls for markets as spaces where individuals, liberated from red tape and tax burdens, could congregate. It turned out that neoliberal populism resonated much more among the working classes than did the New Left efforts of building workers vanguards.<sup>25</sup> Groups whose incomes didn't keep up with inflation, non-union and unemployed workers, welfare recipients, retirees and students flocked to neoliberal's anti-inflation agenda, even though it really was a cover for the crack-down on unions and the welfare state that later hurt many of the working-class individuals who supported the neoliberal project. Thus, for example, private-sector workers who resented garbage piling up in the streets and school days lost due to strikes in the public sector didn't anticipate that the defeat of public-sector workers would open the doors to permanent service cuts. And meanwhile those same private-sector workers, when they defended their real wages against inflation, were increasingly seen as irresponsibly putting their sectional interests over the need to defend the nation's competitiveness in the face of rising exports from Japan, and from some newly-industrialising countries.

In Europe, Margaret Thatcher led the neoliberal charge. She linked the domestic onslaught on the welfare state to a militant defence of British sovereignty against Brussel's overbearing Eurocrats. Her Union Jack-wrapped neoliberalism was similar to Ronald Reagan's Stars and Stripes-wrapped version of it. Both were inextricably linked to a foreign policy turn from détente to a Second Cold War, a turn supported by most of the continental European governments - but in a dithering rather than an assertive way. Because of the affiliation of British and American neoliberalism with Cold War politics and another round in the arms race, neither particularly popular

24. Ingo Schmidt, 'There Were Alternatives: Lessons from Efforts to Advance Beyond Keynesian and Neoliberal Economic Policies in the 1970s', *WorkingUSA*, 14:4, 2011, pp473-498.

25. Ingo Schmidt, 'Limits to Social Democracy, Populist Moments and Left Alternatives', in Ingo Schmidt (ed), *The Three Worlds of Social Democracy - A Global View*, London, Pluto Press, pp251-274.

on the continent, neoliberals there had to pursue their project much more carefully. If Reagan and Thatcher were neoliberal revolutionaries, Francois Mitterrand and Helmut Kohl were just reformists. Some of the smaller European countries, notably Austria and Scandinavia, even managed to hang on to their respective blends of Keynesian demand management and welfare state policies.

Overshadowed by the Second Cold War, Mikhail Gorbachev's Perestroika and the unexpected implosion of Soviet communism, the slow, uneven but continuous process of neoliberal transformation of Western European welfare states attracted much less attention than one might have expected considering the spectacle around Thatcher's first election victory and Mitterrand's turn from left Keynesianism to neoliberalism.<sup>26</sup> Even less attention was attracted by the European Single Act (ESA), signed by the governments of the then 12 member states of the European Community (EC) in 1986. The single market programme laid out in this act allowed Thatcher to overcome her notorious suspicion of anything coming out of Brussels. For her it was an opportunity to sell her brand of free trade policies to the continent. By contrast, then president of the European Commission Jacques Delors saw it as a renewed effort to tie Germany - which had converted its post-WWII export-boom into Modell Deutschland during the economic turbulences of the 1970s - into extended networks of European federalism. As finance minister under Mitterrand, Delors had seen high Bundesbank rates draining capital out of France and thereby bringing the country close to default. This is why he convinced Mitterrand to abandon left Keynesianism in one country. That's also the reason he sought to establish regulatory capacities that were being undermined on the national level by increasingly mobile capital at the level of the EC and later the EU. To this end, he thought, capital mobility should be further enhanced on the EC-level. Yet, a single market overseen by the Commission would also allow supplementing market integration with social provisions. The idea of a European Social Model gave social democrats whose welfare state project was under siege, in other countries as well as France, a new political orientation. Germany's conservative chancellor Kohl, eager to restore the Franco-German axis after the spat over Bundesbank policies, could agree to the ESA because he understood, like Thatcher, that the social model was a comforting idea for dispirited social democrats but not really a key item on the political agenda at that time.

#### *4.2 Expansion*

With hindsight, it is quite clear that the single market programme marked a turning point in European integration. The customs union agreed upon by the original six member states of the EC in 1958 was very much inspired by French efforts to circumvent a return of great power aspirations in Germany, and by West-German efforts to escape the isolation it found itself in after

26. Fabien Escalona, 'France: Who Wants to Be a Social Democrat?' in *ibid.*, pp29-45.

the defeat of Nazi-Germany. Economically, the customs union supported the recovery of intra-European trade, which, like international trade more widely, had become a victim of the Great Depression in the 1930s. The recovery of trade allowed capitalist firms to realise economies of scale, and thus played its part in fuelling the post-WWII-boom and creating the economic basis for the expansion of welfare states during the boom. The Werner Plan for a common currency, named after the then prime minister of Luxemburg, launched in 1970, drowned in the financial turbulences that were caused by the break-up of the Bretton Woods-system of fixed exchange rates initiated by the US in 1971. The European Monetary System (EMS), enacted in 1979, was an attempt to restore some of the financial stability previously produced by Bretton Woods for the entire capitalist world system on a European level. Its design was more Keynesian than Hayekian.

The ESA, by contrast, took up the free trade logic of the 1958 customs union and extended the principle of the free movement of goods to services, labour and capital. This was a key step towards neoliberal restructuring in Europe. Its opening salvos, a tightening of monetary and fiscal policies that restored long-term unemployment, were followed by a series of cuts in domestic social standards and the relocation of production to jurisdictions where standards were already lower. In many cases, capitalists threatening such relocations were sufficient to wring concessions out of unions. Accumulation strategies aiming at the bypassing of unions and welfare state protections relied, of course, on the very possibility of moving jobs and capital across borders. The ESA greatly enhanced these possibilities. Whereas the customs union was very much embedded in the making of welfare states, the single market was part of their unmaking.

Another part of this unmaking was Germany's unfolding monetary hegemony in Western Europe.<sup>27</sup> It first was noticed when Mitterrand and Delors found no way of sheltering their left Keynesian experiment against Bundesbank monetarism. All through the 1980s, EC member states recurrently had to devalue their currencies against the Deutschmark to avoid escalating deficits in their balance of payments. However, devaluations easily translate into domestic inflation, and they thereby reduce domestic incomes and give owners of money capital an incentive to move their money to a hard currency haven. The only way to stop the ensuing financial bleeding, other than fundamentally challenging the logic of capital, was to adopt the tight policies of the Bundesbank and German's fiscal authorities. European Monetary Union, based on the Maastricht Treaty signed in 1992, institutionalised these restrictive policies but, by definition, plugged the safety valve of devaluations that offered at least short-term relief to countries facing increasing current account deficits and sovereign debt levels. EMU looked like a neoliberal economist's dream come true because it institutionalised central bank independence and the priority of combating inflation over any other policy goals, and imposed tight fiscal guidelines onto member state

27. John Grahl, *After Maastricht - A Guide to European Monetary Union*, London, Lawrence & Wishart 1997.

parliaments who pretty much surrendered their fiscal sovereignty to unelected Eurocrats and in-camera meetings of Euro-zone finance ministers. It owes its very existence to the coming true of an even greater capitalist dream, the faltering of Soviet communism.

Moscow's approval of German unification, a key step towards the complete disintegration of the Soviet empire and eventually the Soviet Union itself, reawakened French fears of an all-powerful Germany. Mitterrand resorted to the same federal fix that led to de Gaulle's support for a customs union in 1958 and to the single market programme in 1986. John Major, Thatcher's successor in Britain, resented the French underwriting of Germany's ordoliberalism, enriched with Chicago monetarism; he saw it as a sidelining of Britain's free trade brand of neoliberalism. Consequently, Britain rejected the plan for a common currency.

EMU codified Germany's monetary hegemony in Europe. But it was the possibilities of capitalist expansion created by the collapse of Soviet communism that reinforced the export-economy underlying this hegemony. The accession of Mediterranean countries in the 1980s allowed the first steps of relocating labour-intensive parts of production to areas where labour was available more cheaply but still accessible in an increasingly unified, thanks to the single market programme, legal framework. The prospect of EU membership for Eastern European countries, opened by the Copenhagen summit of the EU in 1993, triggered the transformation of occasional intra-EU-supply chains into European production networks to which Eastern Europe contributed cheap but, an inheritance from communist days, highly skilled workers.<sup>28</sup> What made Eastern European workers even more attractive to German and other Western employers was the complete discrediting, another communist inheritance, of anything remotely akin to state intervention. Pressure on welfare states in the West increased not only objectively, due to the dramatic increase of new cheaper labour supplies, but also subjectively, because the collapse of Soviet communism could all too easily be presented as proof that statism of any kind must be inferior to free markets.

However, workers in the East soon found out, due to an onslaught on social protections much more radical than anything experienced by workers in the West, that they were on the losing side of markets. On the winning side were coalitions of Western capitalists and the Eastern bureaucrats who had transformed themselves into comprador bourgeoisies. With all forms of socialism discredited, the obvious way to raise the new social question in post-communist Eastern Europe was the alleged superiority of one's own nationality over others.<sup>29</sup> Nationalism gained further attractiveness amongst workers as the EU, banging the drum of market internationalism, was widely seen as imposing new forms of national subordination - with Brussels replacing Moscow - and the permanent downgrading of labour. While ideological warfare in the West heralded the withering away of the state in the global

28. Louise Curran, Soledad Zignago, 'EU Enlargement and the Evolution of European Production Networks', *Research in International Business and Finance*, 26:2, 2012, pp240-257.

29. David Ost, *The Defeat of Solidarity - Anger and Politics in Postcommunist Europe*, Cornell University Press, Ithaca 2005.



market, Eastern Europe was swept by a wave of nationalism, civil war and declarations of national independence, most notably in former Yugoslavia and the non-Russian parts of the Soviet Union. This brew delivered the pretext for Western military intervention in an already crumbling Yugoslavia in 1999. The same year saw the first of three rounds of Eastern European countries joining NATO. Economically, Eastern Europe turned into a periphery of Western capital, allowing German export industries to reinforce their leading roles in global markets for investment goods, automobiles and chemicals.<sup>30</sup> Politically, EU, in some cases even EMU and NATO, membership tied Eastern Europe into the supranational governance structures through which Western ruling classes articulated their dominant position in the world capitalist system.

30. Dorothee Bohle, Béla Greskovits, *Capitalist Diversity on Europe's Periphery*, Cornell University Press, Ithaca 2012.

Yet, while these classes enjoyed unprecedented power over other countries and working classes around the world, they had to struggle with the deflationary bias of neoliberal policies. Downward pressure on wages and welfare spending was good for profit rates, but undermined the stabilising effects that higher wages and welfare spending had had during the post-WWII-boom. Tight money, a hallmark of Bundesbank and later European Central Bank (ECB) policies, kept a lid on investment. To their luck, the collapse of Soviet communism opened spaces that hadn't been accessible for capitalist sales and investments for decades. This shock therapy caused dramatic downturns in already stuttering Eastern European economies, but it did open the door for Western capitalists who could expand their sales in shrinking economies and later invest in the infrastructure of European networks of production and distribution. Moreover, privatisations of public firms and services in the West could be stepped up after the capitalist turn in Eastern Europe. In fact, the privatisation of state firms, on a small scale in Western Europe and a massive scale in Eastern Europe, was the main form of capitalist expansion during the neoliberal era. This is, in Luxemburgian terms, where much of the demand fuelling the neoliberal wave of accumulation came from.<sup>31</sup>

31. Schmidt, 'Capital Accumulation ...', pp467-471.

The big game in this, of course, was China.<sup>32</sup> Following the downfall of their erstwhile rivals in the socialist world system, Chinese communists decided to open their doors to capitalist businesses while trying to politically control this process of capitalist penetration. In some markets, capitalists in Europe faced increasing competition from China. In fact, like corporations based in America and Japan, European capitalists contributed massively to this competition by setting up shop in China. In other markets, notably markets for investment and high-end consumer goods, the China boom opened up unexpected opportunities to sell and invest. From the early 1990s onwards, capital accumulation in China played an ever-larger role in dragging accumulation on a world scale along. The driving force behind this boom is the capitalist penetration of a previously state-owned economy. The privatisation of China's state-economy drove capital accumulation on a global scale with European mercantilism eager to direct as much of the additional

32. Minqi Li, *The Rise of China and the Demise of the Capitalist World Economy*, New York, Monthly Review Press 2008.

demand to its territories as possible.

### 4.3 Crises

Capitalism had just established its global reach when the neoliberal model of accumulation began to stutter. Not in China, the emerging workshop of the world, but in the US. Its leading role in information technology (needed to manage global and regional production networks) and finance (needed to fuel global trade), made it the world's centre of the appropriation of surplus value and its distribution between bankers, landowners and shareholders. The New Economy hype in the 1990s, which was very much centred on the merger of information technology and finance, concealed the fact that the share of global surplus value produced in the US was actually shrinking.<sup>33</sup> It also concealed the role that capitalist entry into the previously communist world played in fostering global accumulation in the 1990s. What the New Economy really did in its early stages was to make available cheap finance for the development and diffusion of technologies and overseas investments. In its later stages, upward spiralling stock and house prices spurred credit-financed consumption. The Federal Reserve's turn from tight to loose money, already starting in the late 1980s, and an increasing supply of Chinese savings, later to be lamented by Fed chair Ben Bernanke as the cause of the Great Recession, contributed to the New Economy mania in the late 1990s. At that point, modest interest rate increases were enough to prick the dot.com-bubble. The ensuing crash sent shockwaves through the world economy.

Under German economic hegemony, Europe had been increasingly turned into a mercantilist machine. To sustain profitable levels of capacity utilisation, it relied on export surpluses. It must be noted, though, that such surpluses don't create additional demand for capitalism as a whole; they merely shift demand from one country to another. The dot.com crash diminished German surpluses and thereby triggered an economic downturn on the other side of the Atlantic. In Germany, the heart of European mercantilism, the downturn was actually deeper than in the US. And it triggered policy responses that unlocked EMU's destructive tendencies.<sup>34</sup> The Great Recession, following another speculation-driven boom in the US, brought those tendencies to the fore, which then led straight into the Euro-crisis.

Two years after the dot.com crash, with the US on the way to recovery, Germany was still stuck in recession. To pave the way for an export-led recovery, which had been the pattern of all post-WWII recoveries in (West-) Germany, the then Social-Democratic government under Gerhard Schröder cut unemployment benefits on a scale that preceding governments, though ideologically more committed to belt-tightening than the Social Democrats, had avoided through the 1980s and 1990s. After the floor had been taken out of wage-bargaining, German real wages fell behind productivity significantly more than anywhere else in Europe.<sup>35</sup> Lower unit labour costs gave German

33. See contributions to special issue 'The New Economy - Myth and Reality', *Monthly Review*, 52:11, 2001.

34. Riccardo Bellofiore et al, 'The Global Crisis and the Crisis of European Neomercantilism', *Socialist Register* 2011, pp120-146.

35. Costas Lapavistas, 'Eurozone Crisis: Beggar Thyself and Thy Neighbour', *Research on Money and Finance*, Occasional Report, London 2010.

exports a boost, but overall growth kept lagging behind average EU levels and the US. German exports were not only fostered by lower unit labour costs, i.e. rising profit margins, but also a credit-financed boom in housing and consumer spending in many of the EU's peripheral countries. Actual or prospective EMU membership cut risk-premiums previously charged by international investors down to almost nothing. Interest rates in the periphery converged towards the low benchmark set by low-growth Germany. Borrowing became much cheaper. Yet monies flowing into the periphery didn't build industrial capacity beyond the already existing nodes of regional production networks. Most of the money fuelled a housing-prices-consumer-credit spiral similar to the dot.com and housing bubbles in the US. Imbalances between the EU's commodity and capital exporting centre and its importing peripheries got even worse because inflation, and nominal wages with it, in the booming periphery began soaring ahead of the near-zero-levels in the growth-constrained centre. From a Luxemburgian perspective these imbalances, along with other forms of increasing competition for world market share, were an indication that capital expansion into non-capitalist milieus, wherever on earth they may be found, was reaching limits.

Things spiralled out of control when the Great Recession, set off by the sub-prime mortgage crisis in the US, hit. The shortfall of tax revenue and increased payments of unemployment benefits sent government deficits skyrocketing. Refinancing of outstanding credits became increasingly difficult. Governments, already cash-strapped by the shortfall of tax revenue and increased payments of unemployment benefits, filled the void, thereby adding another factor pushing governments into the red. The complementary explosion of foreign and government debt convinced the last private investors to pull the plug. The Euro-crisis had arrived. No self-correcting market mechanism pulled peripheral countries back from the brink of bankruptcy. The hour of the troika and the Euro-group had come.

The emergency credits these groups organised to avoid state bankruptcies in Greece, Ireland, Portugal and Spain were tied to spending cuts in those countries. These cuts choked off any potential room for economic recovery, while emergency credits effectively bailed out private creditors at the expense of the working classes in the countries most affected by the Euro-crisis. One of the political outcomes of troika and Euro-group dictates was the election of the left-leaning Syriza government in Greece. Yet, the Euro-group made an example of Syriza's efforts to break out of the credit-for-cuts-straitjacket. After months of wrangling, Syriza capitulated to Euro-group threats of kicking Greece out of EMU if it didn't follow Euro-group orders masterminded by German finance minister Schäuble in Berlin. The Greek example made it abundantly clear that the new age of austerity, announced from outside the Euro-zone by British Chancellor of the Exchequer George Osborne, was also an age of authoritarian rule. The Fiscal Compact, signed by all EU members with the exception of Britain, Croatia and the Czech Republic, complemented

the ad hoc policies of the troika and the Euro-group by reinforcing and tightening the fiscal guidelines of the Maastricht treaty. Under pressure from then German finance minister Peer Steinbrück, these guidelines had been loosened when Germany's budget deficit exceeded the three per cent limit of the treaty in the aftermath of the dot.com-crash - a detail that reminded governments and electorates in the peripheries of the fact that the common rules heralded by EU advocates are just a threadbare cover for an upstairs-downstairs Europe.

Management of the Euro-crisis shifted the burden of adjustment from the EU-centre to its peripheries but, at the same time, avoided a collapse of the Euro that would have triggered an economic downturn across the Euro-zone and possibly beyond. The authoritarian character and the unequal outcomes of this crisis management turned the economic crisis into a crisis of legitimacy, triggering calls to escape EU dictates and restore national sovereignty. Though the EU is a very different beast than the Tsarist Empire, Luxemburg's critique of calls for national self-determination back in her days contain lessons for similar calls today. In both cases, the focus is very much on political independence without much consideration given to existing economic interdependencies and the dangers of transforming social conflicts into national ones.

To be sure, the legitimacy of E(M)U had been challenged before the Euro-crisis. In the late 1990s, alter-globalisation protestors claimed that 'Another Europe is Possible', and, around the same time, voters elected social-democratic governments in hopes for a European Social Model. Dutch and French voters who rejected the rebranding of the EU treaties, technocratic by nature, as constitutions, in respective referenda in 2005, also articulated an immense lack of trust in European integration.

Yet, the economic hardship inflicted on Europe's working classes, along with the authoritarian way this was done, triggered more than another outburst of discontent. It produced a manifest crisis of legitimacy. The vanishing point for much of the alter-globalisation movement, despite an anti-institutional bent expressed in its forms of mobilisation, was a more socially just, democratic and ecologically sustainable EU. Social-democratic blueprints, sometimes translated in campaign slogans, for an European Social Model also captured such sentiments. They were also among the ingredients of the Dutch and French campaigns against the EU constitution. Yet these campaigns also struck a new tone, one that sought to restore national sovereignty against E(M)U. After the Great Recession and the Euro-crisis, social protections, jobs and national sovereignty became the overarching issues fomenting Euro-scepticism. As more and more people sought to reclaim national sovereignty outside the EU, its very existence was challenged. The troika and Euro-group further fuelled these sentiments by warning that non-compliance with the austerity policies they prescribed would lead to a break-up of EMU, maybe even the EU. As these were exactly the institutions and policies causing most

of the Euro-scepticism, increasing numbers of people came to think that such a break up would actually be a good thing.

Discontent, even though it may ultimately have been caused by economic hardships, was increasingly articulated as a national issue. Interestingly enough, the ways in which the question was posed corresponds to the economic imbalances and hierarchies fracturing the European single market and the Euro-zone. In the creditor states of the centre, Germany, Austria, the Benelux countries and Scandinavia, economic hardship and austerity policies caused by the Great Recession and the Euro-crisis were much milder than in the Southern and Eastern peripheries. Fears of being downgraded to the social standards of these peripheries, either by the next economic crisis, or a bailout out of the periphery at the expense of taxpayers in the centre, were running high, and were happily exploited by sprawling right-wing populists. In the Eastern peripheries, where the articulation of discontent in socialist or even just social-democratic terms was still anathema due to the communist past and the quick transformation of former communists into vanguards of Western capitalism, increasingly aggressive nationalisms were spreading. Though Eastern Europe's nationalists direct much ideological fire at the overbearing powers of EU institutions and the Western governments backing them, their real concern is immigration, mostly coming from countries that have been exposed to 'humanitarian intervention' by the US and its European allies since the 1990s. As part of the EU periphery, the best that workers in Eastern Europe can expect is to staff the nodes of regional production networks in their home countries or to migrate into the burgeoning low-wage labour markets in the centres of the EU. Yet immigrants from outside the EU might work for even less and are thus seen as a threat. The EU and the dominant countries within it are often seen as promoters of immigration into the EU. Not surprisingly, then, fear of wage-underbidding immigrants invited by the EU translates into a desire for national protections. Economic conditions in the Southern peripheries are similar to the East, but Euro-scepticism is mostly articulated in left-wing terms. Building on a variety of left traditions, from memories of the struggles against fascist and military dictatorships to the more recent alter-globalisation movement, a mix of mass mobilisations and new left parties, most prominently Syriza and Podemos, have sprung up. While adamantly opposing troika dictates, which didn't stop Syriza from capitulating to them as a governing party, these left movements and organisations add the issues of democratic participation or self-management to the question of national sovereignty.<sup>36</sup>

However, for many on the left exit has become a precondition for overcoming austerity.<sup>37</sup> Flexible or negotiable exchange rates, the argument goes - most succinctly formulated during the standoff between the troika and Syriza - allow the easing of excessive competition built into EMU and create the space for monetary and fiscal policies geared towards domestic policy goals. This argument gained political traction in light of the failure of

36. Catarina Principe, Bhaskar Sunkara (eds), *Europe in Revolt*, Chicago, Haymarket Books 2016.

37. Costas Lapavistas et al, *Crisis in the Euro Zone*, London, Verso, Part 3: Breaking Up? A Radical Route Out of the European Union.

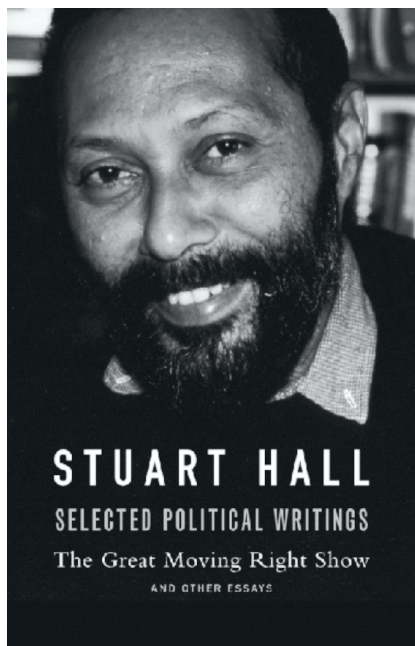
attempts to complement the European single market and monetary union with a social model. But it glosses over the experiences in countries attempting to benefit from flexible exchange rates, most notoriously what happened when Mitterrand's original attempts of pursuing Keynesianism in one country were threatened with a spiral of devaluation, imported inflation, capital flight, further devaluation and on and on and on. On a global scale, there are plenty of examples showing that neither flexible, managed nor fixed exchange-rate regimes open the way to overcome exploitative centre-periphery relations. The economic question the left is facing is at what scale democratic participation can be organised without destroying economic connections over extended territories. While left exit-advocates overstate the argument that cutting political ties allows economic development beyond austerity, right-wing advocates substitute the question of the economic underpinnings of political organisation with aggressive nationalist and xenophobic rhetoric.

If the left fails to present convincing alternatives beyond reinvigorating hopes for a European Social Model or the autonomy of nation-states outside E(M)U, the identity and nationalist politics trumpeted by a new right will gain more and more traction.

## 5. CONCLUSION

Rosa Luxemburg offers theoretical tools to understand how current conditions have come about and how they could possibly be overcome. In very broad strokes, the capitalist penetration of formerly communist countries gave capitalist accumulation a new lease on life. Yet the wave of accumulation was over before hopes for social reform, such as a European Social Model, could materialise. Quite to the contrary, economic stagnation reinforced downward pressures on wages and social protections. Discontent created by these pressures led to a fracturing of the EU and proposals for left and right exits from the Euro-zone or even EU. This might be an option under certain conditions, but alternatives to neoliberal capitalism require much more than political disaffiliation from supranational institutions. Failure on the left to advance economic alternatives beyond the question of E(M)U membership will allow right-wing movements and parties to further thrive on the current wave of discontent.

**Ingo Schmidt** is academic co-ordinator of the Labour Studies Programme at Athabasca University, Canada. His research focuses on international political economy and labour movements



## SELECTED POLITICAL WRITINGS

The Great Moving  
Right Show and  
other essays

A collection of Stuart Hall's most important political essays, edited by Sally Davison, David Featherstone, Michael Rustin and Bill Schwarz

*Stuart Hall was one of the great political intellectuals of our time – learned, perspicacious, provocative and wise. He was also a master essayist. This splendid selection, spanning more than fifty years, is a feast.*

Wendy Brown, University of California, Berkeley

Available now for £14.00 at [www.lwbooks.co.uk](http://www.lwbooks.co.uk)  
(first chapter free as digital download)