

# European Union Financial Crisis: A Marxist Analysis

**Petrus K Farneubun**

Department of International Relations

Cenderawasih University, Jayapura

Email: Farneubun\_petrus@yahoo.com

Submitted: 28 January 2016, Accepted: 27 April 2016

## Abstrak

*Krisis keuangan yang terjadi di Eropa merupakan tantangan serius bagi struktur fundamental, lembaga keuangan politik, dan nilai-nilai yang mengikat Uni Eropa. Berbagai faktor pernah disebut sebagai penyebab krisis, termasuk persoalan kebijakan pemerintah dan ekonomi nasional. Banyak upaya telah diusulkan untuk mempercepat pemulihan, namun krisis masih terus menerjang Eurozone dan membawa konsekuensi serius bagi politik dan ekonomi Uni Eropa. Di satu sisi, krisis menyebabkan kerusakan ekonomi bagi beberapa anggota Uni Eropa, namun di sisi yang lain krisis membawa keuntungan bagi anggota yang lainnya. Kesenjangan ini memperparah krisis yang terjadi. Berdasar dari hal tersebut, artikel ini akan menunjukkan bahwa konseptual marxis tentang model of inequality atau constructed economic imbalance menyediakan penjelasan yang lebih baik tentang penyebab krisis. Dengan menggunakan kerangka teoritis marxis, tulisan ini menunjukkan bahwa pengenalan penggunaan Euro, akumulasi laba dan modal serta sistem keuangan Eropa yang dibangun di atas roh kapitalisme dan neoliberalisme adalah faktor kunci penyebab krisis dan menciptakan ketidaksetaraan.*

*Kata Kunci: Krisis finansial Eropa, Marxisme, Kesenjangan*

## Abstract

European financial crisis poses a serious challenge to the fundamental structure of the European Union, political and financial institutions, as well as the values that bind Europe together. Different factors have been suggested as the causes of the crisis notably the failure of national government and economic policies. Responding to the crisis, numerous attempts have been proposed to accelerate the recovery, but the crisis still hit Eurozone and brought serious consequences politically and economically. In one side, the crisis severely damages some EU member economy but on the other side, the crisis advantages the other members. Such an inequality not only leads to the crisis but also exacerbate the crisis. Having said that, this paper will demonstrate that marxian conceptual model of inequality or constructed economic imbalance provides a better explanation regarding the causes of the crisis. Using marxist theoretical framework, this article will further show that introduction of Euro, the accumulation of profit and capital as well as the current European financial system built upon the spirit of capitalism and neoliberalism as the key factors contributing to the crisis and creating inequality.

Keywords: European financial crisis, Marxist, Inequality

---

## INTRODUCTION

The causal relationship between politics and economics can be satisfactorily understood by looking at a financial crisis. European financial crisis started in Eurozone in 2009 and recurring crisis that hit some EU members notably Greece interestingly show this link. The crisis which was initially predicted to bring the Europe Union (EU) into collapse is primarily caused by economic and political policies of EU which consequently damage some EU members economy more than the others. Sovereign debts, high

unemployment, saving problems demonstrate how serious the crisis is.

Although numerous attempts such as budgetary austerity, pension cut, raising tax and bailouts have been proposed and imposed to certain member countries to accelerate the recovery from the crisis, it is proven insufficient and the sustainability of eurozone remains unclear. The proposals are supposed to be the solution, but it turns out that responses are mixed. Members such as Germany and France fully

support the initiatives, but others including Greece express their anger. That is to say, the measures and economic recovery plans proposed by EU leaders have not convinced member states and their citizens and are considered unpopular.

In recent referendum held in Greece on Sunday July 5, Greek voters overwhelmingly rejected bailouts terms such as austerity measures offered by European Union. Since the crisis, European citizens have raised their doubt about the future of EU unity. Several polls conducted following the crisis showing that majority of European citizens affected most by the crisis no longer believe in the EU as a strategic institution to boost their economy. Some even prefer their countries to stay away from the EU. Survey by Pew Research Center, for example, shows a decline of support for the EU integration among EU member countries (Pew Research Center, 2013). Similar finding also reveals that since the beginning of the euro crisis, trust in the European Union has fallen and created conflict between northern and southern-centre and periphery (Torreblanca and Leonard, 2013). This attitude is radically different from the past's which consistently showed high preferences of joining the EU.

Some scholars specifically address the crisis as a failure of capitalism. They claim that capitalism fails to provide a better economy solution. Rather, capitalism causes destruction of state's economy. Castells et al (2012), for example, perceive this crisis as global capitalism crisis not only an economic crisis but also structural and multidimensional. As liberal prescription on how market should work has proven a failure, there is an increasing demand to look for an alternative system. Some propose Marxian economy based-system arguing that Marx's economic model provides better platform than capitalism's.

In the light of the so called multidimensional crisis, the paper attempts to provide a brief overview of European financial crisis and demonstrates the key failure of neoliberalism and capitalism in which European Union political and economy policy is built upon. Although numerous factors have been claimed as the principal causes of the crisis and no single factor

insufficiently contributes to the crisis, Marxian conceptual model of inequality or constructed economic imbalance provides a better explanation on the causes the crisis. To show the merit of Marxian's analysis, three aspects of the inequality will be discussed. First, the introduction of Euro; second, the accumulation of profit and capital; and third, the current European financial system which is made to provide benefits for major EU countries and private corporations. These three aspects show how some members of EU countries, and private corporations not only play significant role in contributing to the crisis but also gain economic benefit from the crisis. The crisis disadvantages the others, notably southern European countries in which they are hit the most. The paper begins by addressing the background of European financial crisis followed by an analysis of the crises using Marx's theoretical framework.

## **ANALYSIS**

### **EUROPEAN FINANCIAL CRISIS**

Global financial crisis that began in the US in 2007 and reached Europe in 2008 following the collapse of banking system has caused tremendous problems to the world. Even, the US crisis is said to be "the trigger for the sovereign debt crisis in the Eurozone" (Becker, 2012: 11). Started with the mortgage crisis and foreign debt followed by the inability of states to restore the crisis leads to unprecedented impacts.

Founded in 1992 following the introduction of Maastricht treaty, EU has emerged as a strategic organization to promote western values and economy based free markets under the commitment to integrate Europe in one European zone called Eurozone. Believing in the European values and identity and lesson learned from the great wars in the previous decades more specifically first and second World War has led European leaders to form a European union based on the principles of free market, capitalism, human rights fundamental freedoms and democracy. In such a way, European Union leaders believe in Adam Smith's theory that free market and capitalism

will boost state economy which leads to the prosperity of the country. In other words, minimal or even zero state interventions in market economy is the prerequisite for the development of a country's economy.

Although the system has proven effective for decades to stabilize state's economy, it remains vulnerable to crisis. The recurring financial crisis has hit not only Europe but across the globe in the past decades due to the failures of bank and financial institutions during 1980s and 1990s causing bank bankrupt. The crisis was systemic (Kindleberger and Aliber, 2005: 2). Kindleberger and Aliber further note that "These financial crises and bank failures resulted from... the sharp depreciations of national currencies in the foreign exchange market; in some cases the foreign exchange crises triggered bank crises and in others the bank crises led to foreign exchange crises (ibid, p.3).

In the current European financial crisis, some prominent EU countries such as Greece, Ireland, Portugal, Spain and Cyprus are seriously affected by the crisis. Greece even is unable to pay its debts to International Monetary Fund and other European creditors and subsequently request another bailout to save the country from bankruptcy. Greece finally receives another bailout after Greece's lawmakers legally accept European-imposed austerity deal. This will be the third bailout Greece has gained since its debt crisis begun in 2010. Due to the Greece growing debt and failed economy and political reform, the notion of Greek exit popularly known as a 'Grexit' from euro has been proposed as an alternative for Greece.

Certainly the European financial crisis challenges the fundamental structure of the European Union, political and financial institutions, and the values that bind European together. Some scholars argue that the crisis is far more complex than previous crises. As Brok and Langen (2013) have pointed out, "EU is facing a quadruple crisis: the financial and economic crisis; the economic and social crisis, which is leading to unemployment and government spending cuts; the sovereign debt crisis; and a political crisis which reflects weaknesses in the institutional structure of the

EU" (in Vit Novotny 2013, 18). Shambaugh also share the conclusion that Euro area faces three interlocking crisis: banking crisis, sovereign debt, and growth crisis" (Shambaugh, 2012).

As the crisis is becoming serious and can lead to deep and longer recession, European Union member states introduce different measures to save Europe from collapse and subsequently initiate recovery plan. There are two key pillars within the European Economic Recovery Plan; the first pillar is a major injection of purchasing power into the economy to boost demand and stimulate confidence; and the second rests on the need to direct short-term action to reinforce Europe's competitiveness in the long term (in Werthers, 2011: 2). Moreover, EU encourages its members to take austerity policy and offer financial package to stimulate member economy. Also, bank bailout and consumer protections are introduced but the measures turns out to be ineffective. The policies spark anger and cause series of demonstration across EU member countries in recent years. For example, anti-austerity protests had been held across Greece, Spain and Portugal and anti German protest in Cyprus.

Although the consensus view seems to agree that capitalism has succeeded in boosting countries economy through established market mechanism, some scholars have challenged such assertion. Marx and most Marxian scholars claim that capitalism has inherent tendencies towards collapse and prone to crisis because of its unstable nature. David Harvey, for example, argues that the global financial crisis is not evitable and capitalism is amoral and should be overthrown. He believes that capitalism is a crisis prone (Harvey in BBC HardTalk). He further argues, "Financial crises serve to rationalise the irrationalities of capitalism" (Harvey, 2010: 11). The European financial crisis demonstrates that capitalism has failed in regulating the interaction of European member states economic and financial systems.

## MARXIST'S ANALYSIS

Three classical political economic theories-

Mercantalism, Liberalism and Marxism attempt to provide the law of market mechanism. They offer recipe on how international market should be regulated to promote human welfare. These three traditions have different approaches. While Merchantalism believes in the prosperity based on state intervention, Liberalism believes that market knows better than the state. Therefore, states should play minor role in regulating the global economic activities and enforce individual ownerships. Marx takes a radically different approach that neither states nor markets are the important actor in global economy but capitalist or class system. Materials shape the behaviour of people and influence their understanding of the world. Those who have capital regulate the international market which often lead to injustice, inequality and exploitation.

European financial crisis is not an exception to show how financial market is regulated. It appears that, according to some, the crisis is caused by external factors and state's internal failure of governing its own economy. Report by European Commission, for example, reasons that the ultimate causes of the crisis reside in the functioning of financial markets as well as macroeconomic development (European Commission 2009). Meanwhile, other scholars seems to believe that the sovereign debts, budget deficit and failure of economic governance as the causes of the crisis. The available evidence, however, seems to show that the arguments fail to offer explanations on the issue of noticeable imbalance among EU members states as a result of EU policy and the profit-seeking interests. Therefore, it is important to highlight the key causes contributing and exacerbating the crisis.

First, the introduction of Euro as single currency for 11 members in 1999 has been the principle cause of the crisis. Economically, it was expected to challenge even replace the U.S dollar as the dominant international currency, the fact shows U.S dollar still remain unchallenged (Cohen, 2010). Politically, it is the idea of Germany and France to prevent another European war and to create United States of Euro (Friedman 1997) or to create a "sense of belonging to

a European community" (Feldstein, 2012).

Some countries are imposed to implement euro despite the declining competitiveness and lack of structural reforms (Werner, 2012). Zsolt Darvas, for example, argues that the introduction of euro benefits some members such as Germany and causes loss to Greece, Italy, Spain and Portugal as these countries fail to make structural adjustment (Darvas,2012: 4). German's factor has been claimed to have major part of Eurozone crisis including recent Greece's crisis (Joll, 2015; Altman, 2015). Altman even further points out that Germany has moral obligation to take Greece out from the crisis (Altman, 2015).

Furthermore, in addition to privatization as the cause of the crisis (Della Posta,2011: 1), Authers points out that peripheral countries such as Spain and Ireland experience huge deficit as they are not ready to implement euro as compared to other members particularly Germany (Authers 2013:2). It seems obvious that Germany is primarily interested in pushing the euro as the single currency for its economic benefit. Andrew Moravcsik (Moravcsik, 2012:55) nicely concludes:

Germany's main motivation for a single currency, contrary to popular belief, was neither to aid its reunification nor to realize an idealistic federalist scheme for European political union. It was rather to promote its own economic welfare through open markets, a competitive exchange rate, and anti-inflationary monetary policy.

Similarly, Pompeo Della Posta (2011) puts it, "The creation of the euro has also to do with the ambition (particularly characterized by France, but also, to a lesser extent, Germany) to challenge the international role of the dollar (Della Posta and Talani, 2011:75). As these two countries have strong competitiveness value and financial market regulations, their economy grow constantly. Moreover, the problem of adopting single currency has been propheticized to be a disaster by Milton Friedman, Nobel laureate in Economics. In an essay written in 1997, two years before euro was officially introduced in January 1999, Friedman argues that the imposition of Euro will exacerbate political tensions and will be a barrier to political unity (Project Syndicate, 1997). The spirit of European

leaders not only be economic unity but also political unity moving towards what some people call united states of Europe.

Competition is a principal value of capitalism. However, due to the pressure of competition, some countries automatically leave behind. The factors mentioned here clearly demonstrate how neo-liberal and capitalism paradigm are constructed within EU where a unequal distribution of market system and big gap between core countries and peripheral countries among EU members are evident. Countries such as German, France, and UK are much better off than Greece, Portugal, Spain, Ireland and Cyprus during the current crisis.

Second, the failure of the current system provides huge benefits to major EU countries and privates sectors while disadvantaging the others. The increase of profit seeking and accumulation of capital is evident; and this not only contributes to the crisis but also exacerbates the crisis. Due to the profit accumulation, the wealth and income is not distributed equally among the members leading to crisis in some EU member countries not the others. Not only does the certain states benefit economically but also private sectors.

In Marxian language, "capitalists are primarily interested in the mass of profit..." (Harvey, 2010:268). Accordingly, accumulation of capital is the channel towards the profit maximation. According to Marx, accumulation of capital is simply employing surplus-value as capital, reconvertng it into capital. And this process of accumulation of capital occur continuously. The more the capitalist has accumulated, the more is he able to accumulate (Marx, 1999).

It is obvious that during the crisis, not only Germany exclusively benefits greatly, but also some private corporations double their profits and individuals become richer (Henning, 2012). While German enjoys good economy stability and secure its investment both in the EU members countries and abroad (Reisenbichler and Morgan 2013), investors and corporations backed up by lawyers use international investment agreements to scavenge for profits by suing

governments for being unable to pay in full the sovereign bonds of government debt bought cheaper by the investors because of the crisis (Transnational Institute and Corporate Europe Observatory, 2014). Investor like George Soros himself admitted that he gains profit of \$950 million from the fall of the pound and as much again from other currency during the chaos of surrounding the exchange rate mechanism (Authers, 2013).

Third, EU economic and political policy provides greater opportunities for big countries maintain profits. The gap between core countries and peripheral countries, rich and the poor countries widened. Peripheral countries depend on the core countries to get credit and unable to pay the debt and it leads to bank collapse. Dymarski et al (2014, 26) argue that, "Integration into the EU has deepened dependent growth models in the EU peripheries." Four members countries are recorded of not being able to pay their sovereign debts are Greece, Ireland, Italy, Portugal and Spain (Shambaugh, 2012). German, France, and UK get advantages for the EU regulations as their economy policy can easily meet the expectations as the members of EU. In Greece current crisis, Germany and France constitute the two Greece's largest creditors with respectively 57 billion euro and 43 billion euro out of Greece's total debt 320 billion euro (New York Times, 2015). Most of the creditors are private-sector creditors.

Having said that, not only core countries accumulate profits within the european economic and political system, private sectors also share the benefits. Private sectors consistently lend the money such as in the case of Greece's debt but also do lobbies. In fact, the lobbyists play important role in influencing EU policy-making to benefit financial industry and corporations. For example, report compiled by Corporate Europe Observatory (CEO), The Austrian Federal Chamber of Labour and The Austrian Trade Union Federation shows that financial industries spend millions of euro on lobbying campaign to make sure any decision by EU will protect the "interests of banks, investments funds, insurance companies and



others (Corporate Europe, 2014). The report says, “financial industry lobby commands tremendous resources and enjoys privileged access to decision makers...(Ibid). Moreover, as Engelen et al (2012) explain about the origin of crisis as follows:

*The crisis resulted from an accumulation of small, and in themselves harmless, decisions made by individual traders or bankers and banks. It is hard to be so kind about the regulators and the political elite who made and implemented policy in finance... (In Castells, João Caraça, and Cardoso 2012: 2).*

The fact that the lobbyists and the big corporations are able to gain control over the decision making process of EU, any amendments and proposal to regulations are possible ensuring that the regulations will lead to profit maximation.

## CONCLUSION

This paper has clearly shown that that European financial crisis is systemic and multidimensional. Using Marxist analysis, this paper has shown that the causes of the Europe financial crisis does not ultimately rest on the national government policy and the failure of their economic governance and fiscal policy, but it also caused by imbalances and inequality shared among the members of EU members.

Some countries, notably Germany and French have profited from the crisis while the others, notably southern states including Greece, Spain, Portugal and Republic of Ireland hit hard by the crisis. Introduction of euro, accumulation of profit and capital and structural system built risk the economy of the southern states. This shows that market capital system does not always lead to the equal distribution of wealth among member countries, but it is prone to crisis as result of imbalances of economic gains. Therefore, further research should be done to investigate the role of big powers of EU countries and big corporations on the current crisis. Current literatures and studies have not addressed this issue specifically as they are more focused on macro economic levels such as fiscal policies and budget deficits.

## REFERENCES

- Altman, Daniel, *Germany's Moral Obligation to Greece*. Foreign Policy. (Online) (<http://foreignpolicy.com/2015/07/16/germanys-moral-obligation-to-greece-eurozone/>) Accessed on 17 July 2015)
- Authers, John. 2013. *Europe's Financial Crisis: A Short Guide to how the Euro Fell Into Crisis and the Consequences for the world*. New Jersey: Pearson Education
- BBC HardTalk Marxist. Interview with David Harvey. Available at <http://www.youtube.com/watch?v=UkWx1QQ76c> (accessed on 20 May 2014)
- Becker, Werner. 2012. *The Euro-Currency for Europe: Striking a Balance of the Single Currency*. Konrad-Adenauer-Stiftung Castells, Manuel, Caraça, João, Cardoso, Gustavo. 2012. The Cultures of the Economic Crisis: An Introduction. In Castells, Manuel, Caraça, João, Cardoso, Gustavo (eds). *Aftermath: the Cultures of the Economic Crisis*. Oxford: Oxford University Press.
- Cohen, Benjamin J. 2011. *The Future of Global Currency: The Euro Versus The Dollar*. Abingdon, Oxon: Routledge
- Corporate Europe Observatory (CEO), The Austrian Federal Chamber of Labour and The Austrian Trade Union Federation, 2014. *The Fire of Power of the Financial Lobby: A Survey of the Size of the Financial Lobby at the EU Level*, The report can be accessed at [http://corporateeurope.org/sites/default/files/attachments/financial\\_lobby\\_report.pdf](http://corporateeurope.org/sites/default/files/attachments/financial_lobby_report.pdf). (Accessed on 25 November 2014)
- Darvas, Zsolt. *The Euro Crisis: Ten Roots, But Fewer Solutions*. Bruegel Policy Contribution. Issue 2012/17 October 2012.
- Dymarski, Włodzimierz; Frangakis, Marica; and Leaman, Jeremy (eds). 2014. *The Deepening Crisis of the European Union: The Case for Radical Change-Analysis and Proposal from the Euro Memo Group*. Poznan: Poznan University of Economics Press
- Della Posta, Pompeo. 2011. Introduction. In Della Posta, Pompeo and Talani, Leila S (eds). *Europe and the Financial Crisis*. New York: Palgrave Macmillan
- Della Posta, Pompeo. 2011. The Euro in the International Monetary System after the Global Financial and Economic Crisis and after the European Public Debt Crisis. In Della Posta, Pompeo and Talani, Leila S (eds). *Europe and the Financial Crisis*. New York: Palgrave Macmillan
- European Commission, *Economic Crisis in Europe: Causes and Consequences and Responses*. *European Economy* 7/2009. (Online) ([http://ec.europa.eu/economy\\_finance/publications/publication15887\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication15887_en.pdf)) (accessed on 25 October 2014)
- Feldstein, Martin, *The Failure of the Euro: The Little Currency that Couldn't*. Foreign Policy. January 2011/2012 Issue. (Online) (<https://www.foreignaffairs.com/articles/europe/2011-12-13/failure-euro>) (Accessed 14 March 2015)
- Friedman, Milton, *The Euro: Monetary Unity to Political Disunity?* (Online) (<https://www.project-syndicate.org/commentary/the-euro-monetary-unity-to-political-disunity>) (Accessed on 14 July 2015)
- Grauwe, Paul D, *The Financial Crisis and the Future of the Eurozone*. Bruges Economic Policy Briefings 2010. (Online) ([https://www.coleurope.eu/sites/default/files/uploads/page/beep\\_21.pdf](https://www.coleurope.eu/sites/default/files/uploads/page/beep_21.pdf)) accessed on (22 August 2014).

- Harvey, David. 2010. *The Enigma of Capital and the Crises of Capitalism*. Oxford: Oxford University Press
- \_\_\_\_\_. 2010. *A Companion to Marx's Capital*. London: Verso
- Henning, Dietmar, *How Germany's super-rich benefit from the economic crisis*. <http://www.wsws.org/en/articles/2012/10/rich-o16.html>. (accessed on 25 May 2014)
- Kindleberger, Charles P. and Aliber, Robert Z. Manias. 2005. *Panics and Crashes: A History of Financial Crisis (5th)*. New York: Palgrave Macmillan
- Marx, Karl. 1999. *Capital*. Vol. 1: The Process of Production of Capital. Translated by Samuel Moore and Edward Aveling and edited by Fredrick Engels. Moscow: Progress Publishers
- Moravcsik, Andrew. *Europe After the Crisis: How to Sustain a Common Currency*. *Journal of Foreign Affairs*, Vol. 91 No.3 May/June 2012.
- New York Times, *Greece's Debt Crisis Explained*. (Online) ([http://www.nytimes.com/interactive/2015/business/international/greece-debt-crisis-euro.html?\\_r=0](http://www.nytimes.com/interactive/2015/business/international/greece-debt-crisis-euro.html?_r=0)) (Accessed on 14 July 2015)
- Novotny, Vit (ed). 2013. *From Reform to Growth: Managing the Economic Crisis in Europe*. Centre for European Studies. Brussels: Eburon
- Pew Research Center, 2013. Pew Research Global Attitude Project: *Chapter 2. Economic Crisis Now and EU Crisis*. (Online) <http://www.pewglobal.org/2013/05/13/chapter-2-economic-crisis-now-an-eu-crisis/> (accessed on 23 July 2014)
- Reisenbichler, Alexander and Morgan, Kimberly J., 2013. *How German Won the Euro Crisis and why Its Gains Could be Fleeting*. (Online) (<http://www.foreignaffairs.com/articles/139520/alexander-reisenbichler-and-kimberly-j-morgan/how-germany-won-the-euro-crisis>) (Accessed on 20 August 2014)
- Shambaugh, Jay C. 2012. *The Euro's Three Crises*. *Spring Brookings Papers on Economic Activity*. The Brookings Institution
- Soll, Jacob, *Germany's Destructive Anger*. *New York Times* July 15, 2015. [http://www.nytimes.com/2015/07/15/opinion/germanys-destructive-anger.html?\\_r=0](http://www.nytimes.com/2015/07/15/opinion/germanys-destructive-anger.html?_r=0) (accessed on 17 July 2015)
- Torreblanca, Ignacio J and Leonard, Mark, *The Continent Wide Rise of Euroscepticism*. *European Council on Foreign Relations Policy Memo*. (Online) ([http://www.ecfr.eu/page/-/ECFR79\\_EUROSCEPTICISM\\_BRIEF\\_AW.pdf](http://www.ecfr.eu/page/-/ECFR79_EUROSCEPTICISM_BRIEF_AW.pdf)) (Accessed on 18 November 2014)
- Transnational Institute and Corporate Europe Observatory, 2014. *Profiting from Crisis: How Corporations and Lawyers are Scavenging Profits from Europe's crisis countries*. (Online) ([http://corporateeurope.org/sites/default/files/profitting-from-crisis\\_0.pdf](http://corporateeurope.org/sites/default/files/profitting-from-crisis_0.pdf)) (accessed on 30 October 2014)
- Werthers, Patrick B. (ed). 2011. *Europe: Financial Crisis and Security Issues*. New York: