WHEN EUROPE SNEEZES, WILL AFRICA CATCH A COLD?

THE EURO CRISIS, GLOBALISATION AND AFRICA.

Mr Thabo Mbeki.

On December 8 and 9, 2011, the EU Heads of State and Government – the European Council - met in Brussels to consider a radical proposal made by Germany and France, the two largest Eurozone economies.

This proposal sought to address the financial crisis which has gripped the Eurozone for well over a year now, even threatening its collapse.

This crisis has originated from unsustainable national debts accumulated by some of the smaller EU economies, including Ireland, Portugal and Greece, and later Spain and Italy.

In essence the German-France proposal says that the fact of one currency, the Euro, dictates that the proper management of the common currency necessitates a common management of the fiscal policies and practices of the Eurozone countries.

This would ensure that issues such as the budget deficits of the individual Eurozone countries, and therefore their borrowing requirements, would be decided collectively to guarantee that no member of the Eurozone handled its fiscal policies in a manner which would pose a threat both to the Euro and the economy of the Eurozone.

The German-France proposal went further to suggest that the EU Treaty, which is binding on all EU members, including non-Eurozone members, should be amended to incorporate the fiscal integration intended to address the challenges of managing a shared currency.

This meant that even those EU members which are not part of the Eurozone, such as the UK, would also be bound to respect the fiscal integration regime necessitated by the financial crisis affecting the Euro.

British Prime Minister David Cameron balked at this prospect. In conditions of high drama at the meeting of the European Council, relying on established EU procedures, he, alone, vetoed the view of the other 26 members of the EU that the Council should accept the German-France proposal.

This means that all like-minded members of the EU will therefore have to engage in a more elaborate process to negotiate an agreement on the German-France proposal which will fall outside the remit of the EU Treaty and will therefore not be binding on all members of the Union, specifically the non-members of the Eurozone.

Inevitably, and logically, this will result in a more fragmented and weakened EU, with its two parts demarcated by the divide between the Eurozone and the non-Eurozone members.

On the face of it, all the sturm und drang which has attended the Euro crisis is merely a West European commotion which these Europeans should address – and good luck to them!

However, more sober reflection must tell everybody else in the world that a serious economic crisis in the Eurozone, as would be occasioned by the collapse of the Euro, would have an immensely negative impact on the global economy.

This is because of the relationship of the Eurozone economy with the rest of the global economy, and its immense size in this regard.

In truth this means that because of the level of integration of the world economy, described as the process of globalisation, the Euro crisis is in fact a global crisis.

Despite this reality, which suggests the need for united EU action, British Prime Minister Cameron decided to be the contrary voice.

Driven by the imperative to protect the interests of the financial capital domiciled in the historic City of London, a leading world financial centre which is even bigger than New York's Wall Street, David Cameron refused that the City of London should be subjected to regulation by the EU Commission as a European inter-governmental agency.

He was determined to ensure that financial capital, based in his country, but operating throughout Europe and globally, would negotiate its future only with the British Government, rather than a collective of European Governments.

Naturally, financial capital fully supports David Cameron in this regard, understanding that this helps enormously to strengthen its bargaining power.

An article in the December 14, 2011 edition of Bloomberg Businessweek reported:

"The City is relieved" at Cameron's refusal to sign the treaty, according to Steven Bell, chief economist at hedge fund GLC Ltd. in London and a former U.K. Treasury economist."
On 12 December, Tony Burke, one of the leading British trade unionists had written:
"Cameron said (what he did in Brussels)…was about protecting the UK interests. In reality it was about his own narrow party political interests and about protecting the hedge funds, the investment banks and the speculators in casino of the Square Mile (the City of London) at the expense of the 94,500 square miles of the rest of the UK – the real world, of real manufacturing companies, employing real people."
As we would expect, Wall Street, financial capital in the US, takes exactly the same position, preferring that its sole regulatory authority should be the US Government and not any international inter-

governmental agency.

In this regard, relating to the regulatory preferences of financial capital, obviously we exclude such regulation as would emanate from the BIS, the Bank for International Settlements, which is an important part of the global financial architecture.

This is because the BIS, a collective body first of all of the world's Central Banks, is in fact a representative of the global banking and financial community. Financial capital fully accepts that the BIS should act as an arbiter to ensure the smoothest possible functioning of the world financial system, to guarantee the sustained profitability of the system as a whole.

On December 12 David Cameron addressed the British House of Commons to explain his actions at the European Council.

As we would expect - to shouts of the traditional hear! hear! from the benches of his Conservative Party - he explained that he acted as he did at the meeting of the European Council to defend British national interests!

Thus, according to him, he did nothing more than act as a British patriot – hear! hear!

In this regard he said he was determined to protect the thousands of jobs provided by the financial sector based in the UK, and to defend the right of the British people independently to decide their money bills, including, and especially, their national budget!

Understandably, confronted by the Euro crisis, the international media sought comments about the EU squabble and crisis from the celebrated former 1985-1995 President of the European Commission, also credited as the 'founding father of the Euro', Jacques Delors, who is now a formidable 86 years old.

In its December 2, 2011 edition, the British newspaper, The Telegraph, published a report of an interview with Delors, which he had granted to the newspaper's Deputy Political Editor, James Kirkup.

The newspaper reported:
"Mr Delors claims that the current (Euro) crisis stems from "a fault in execution" by the political leaders who oversaw the euro in its early days. Leaders chose to turn a blind eye to the fundamental weaknesses and imbalances of member states' economies, he says.
"The finance ministers did not want to see anything disagreeable which they would be forced to deal with," he says.
"The euro came into existence without strong central powers to stop members running up unsustainable debts, an omission that led to the current crisis. Now that the excessive borrowing of countries such as Greece and Italy has brought the Eurozone to the brink of disaster, Mr Delors insists that all European countries must share the blame for the crisis. "Everyone must examine their consciences," he says."

Thus Jacques Delors agreed with Germany and France that the EU required a common currency, the Euro, and therefore a common fiscal regime, emphasising both the loss of some sovereignty by the countries concerned to a larger inter-governmental collective, and the larger benefits that would accrue to the members of the collective, deriving from this arrangement.

Obviously, the pivotal point of the argument is that the countries concerned would gain more than they would lose.

Just ahead of the 2011 G20 Summit Meeting in France, US President Obama wrote an article for the international press. Inter alia, in this October 28 article, he said:

“The crisis in Europe must be resolved as quickly as possible. This week, our European allies made important progress on a strategy to restore confidence in European financial markets, laying a critical foundation on which to build.

“Given the scope of the challenge and the threat to the global economy, it is important for all of us that this strategy be implemented successfully – including building a credible firewall that prevents the crisis from spreading, strengthening European banks, charting a sustainable path for Greece and tackling the structural issues at the heart of the current crisis.

“The European Union is America’s single largest economic partner and a critical anchor of the global economy. I am confident that Europe has the financial and economic capacity to meet this challenge, and the US will continue to support our European partners as they work to resolve this crisis…

“When we met in London two years ago, we knew that putting the global economy on the path to recovery would be neither easy nor quick. But together, we forged a response that pulled the global economy back from the brink of catastrophe. That’s the leadership we’ve demonstrated before. That’s the leadership we need now – to sustain economic recovery and put people back to work, in our own countries and around the world.”

The statements we have quoted, as made by Jacques Delors and Barack Obama, emphasise two important points.

One of these is that for economic regions such as the Eurozone to succeed, they must aim at effective economic and political integration, understanding that any defined loss of elements of national sovereignty would be compensated by larger foreseeable economic gains.

The other is that such regions should understand that they are part of a global economy. Accordingly they must accept that what they do in terms of addressing their challenges must be consistent with the objectives and interests of the global economy, which would intervene to guarantee the achievement of the goals of the larger, global whole.

In this sense it may seem correct that we should conclude that Jacques Delors and Barack Obama are more attuned to the imperatives of the global economy than David Cameron, because of what the latter said when he spoke at the European Council and the British House of Commons.

However I am certain that instinct should warn us that we should not be too quick to conclude that there are any significant differences between Delors, Obama and Cameron about such a fundamental matter as the global economy.

As part of the speech to the British House of Commons to which we referred earlier, when Cameron proclaimed himself as a proud British nationalist, he said:

“The markets want to be assured that the Eurozone firewall is big enough, that Europe’s banks are being adequately capitalised and that the problems in countries like Greece have been properly dealt with.”

You will have seen how much this echoes exactly what Obama wrote in his article, which we have cited!

Earlier in his speech Cameron said:

“Our membership of the EU is vital to our national interest. We are a trading nation and we need the single (EU) market for trade, investment and jobs. The EU makes Britain a gateway to the largest single market in the world for investors. It secures more than half of our exports and millions of British jobs.”

Thus, despite everything we said earlier, about the British nationalist, it is obvious that Cameron is fully in accord with what Delors and Obama said both about the regional and the global economies.

All that Cameron argued for, as would Obama when confronted by similar circumstances relating to Wall Street, was that because of the privileged position of the City of London as one of the principal global headquarters of financial capital, the British Government must be allowed the unique advantage to commune on its own with the City to determine the parameters of its operation.

The US ruling establishment has demonstrated the vital importance of the achievement of this similar objective by the very firm and hard-headed manner in which it has acted to disperse the all-US “Occupy Wall Street Movement”. In this regard it has, in practice, made the unequivocal statement that there is a limit to the public expression of such ‘democratic’ principles as the rights to freedom of speech and peaceful public gatherings.

It was ironic that on the very same day that Prime Minister Cameron addressed the British House of Commons, the country’s Financial Services Authority (FSA) issued its long awaited Report about the near collapse of Royal Bank of Scotland (RBS), which, like some of its US counterparts, was saved by large injections of public funds.

The RBS collapsed during and as part of the global financial crisis which originated from the United States, which assumed its open and virulent forms from 2008 onwards.

The 452-page FSA Report reiterates exactly the same conclusions which various investigations in the US and elsewhere arrived at when answers were sought about what the banks and the other financial institutions did, which resulted in a catastrophic global financial and economic crisis from which the world has not recovered.

After an admittedly relatively hurried reading of the FSA Report, we have no choice but to draw a variety of important conclusions which do not vary from the previous reports relating to the global financial crisis to which we have referred.

These conclusions reaffirm that:

• an important part of the world economy consists of an interconnected global financial system dominated by a few players which, certainly in their localities, are ‘too big to fail’;

• there is a continuous process of the concentration and centralisation of capital which takes place through mergers and acquisition and other activities resulting in the expansion of market share, and which create financial behemoths which are ‘too big to fail’ even in the global context;

• financial capital plays an increasingly dominant role in the functioning of the economy within individual economies and with regard to the global economy, even as it gets further detached from the real economy;

• immanently the global operations of this financial capital can and will destabilise the real global economy, producing a disequilibrium that would lead to economic instability, recession and possible depression;

• to guard against this, it is important that both individual nations and the international community as a whole, should regulate the operations of financial capital;

• experience has confirmed that extant regulatory regimes, certainly prior to the 2008 crisis, have proved too weak in this regard and therefore need to be strengthened;

• at the same time it is important to take into account that the financial sector will continuously demonstrate greater agility than any regulatory regime and will therefore objectively undermine any regime put in place to regulate it;

• in responding to this challenge, it is important that any regulatory regime should not wok in a manner which kills the ability and the will of the financial sector to provide the finance (credit) which oils the economic wheels; and,

• it is necessary to put in place a global regulatory system, given the reality of the global functioning of financial capital.

Certainly since the 19th century, the export of capital has played the leading role in terms of creating a global economy, a central part of what is now described as globalisation.

As the global economy has developed, accompanied by the effective deregulation of the capital markets, even without the latter-day instrument of international agreements in this regard, financial capital has continuously increased its share as an effective factor in the system of international economic relations.

Accordingly, as financial capital became an ever-more important form of the existence of capital, so would it be a major and principal determinant of what would happen to the global economy.

It was because he understood all this that British Prime Minister Cameron made bold to claim that he was both a British patriot and an internationalist!

With regard to both instances, all he was doing was to confirm his determination to defend the interests of financial capital, and, in his mind, taking into account the small matter of the national (UK) location of the City of London.

Thus did Prime Minister Cameron equate the interests of financial capital with the British national interest!

In this context it is inevitable that, within the context of the EU, David Cameron will differ especially with German Chancellor Angela Merkel, and of course her apparently close French ‘colleague’, Nicolas Sarkozy.

In good measure this will be because German capital remains largely industrial, despite the importance of the German city of Frankfurt as a financial centre and Headquarters of the European Central Bank, the ECB.

Industrial capital has made Germany, like China, a major player in the export of manufactured goods, which defines it as a principal anchor in the global real economy, rather than a leading source of financial capital, unlike the UK.

For various reasons, despite the fact that France is also not an important global source of financial capital, except within the context of the Eurozone, it is also not a major global source of manufactured goods.

In this regard, the September 19, 2011 edition of the Japanese online financial commentary, Tokyo Takes, said:

“The focus is on balance sheet impairment at the major French banks, (with) whom the private sector estimates have aggregate balance sheets that are leveraged some 4X France’s total GDP! Rating Group Sean Egan estimates the French banks to have a total of almost $70 billion in exposure to Greek public and private debt, on which they will have to take at least a 50% haircut, and believes it will ultimately be closer to 90%. That is just Greek debt. Investors fear that French banks are perilously close to being too big for France to save with only modest haircuts on their sovereign debt. If they were forced to take what will soon be mark-to-market numbers, they would apparently be insolvent. French institutions have been heavily criticized by the International Accounting Standards Board (IASB).”

In the November 7, 2011 edition of the financial website, ‘This is Money.co.uk’, Dan Hyde wrote:

'The real testing ground for the euro is going to be France,' says Matthew Lynn, of Money Week. 'France is struggling with the single currency in precisely the same way as Greece – it's the same explosion, just with a much longer fuse.'

The comments Cameron made in the British House of Commons in no way indicated any intention on his part to argue for ‘opting out’ of the system of globalisation, including in its regional expression, such as the EU.

For at least two centuries, the globalisation process has originated from and has been driven by economic rather than political actors.

Throughout this period, the political actors in the various countries of the North, the domestic countries of the economic drivers of the globalisation process, whatever its form, have been content to speak out and act as representatives of this process.

The fact that we are now in the 21st century has not changed this reality.

Ineluctably financial capital will continue to lead the process of globalisation.

It will therefore continuously demand both the deregulation of the financial markets and the establishment of the global political conditions which would guarantee its freedom with regard to its operations, and its possibility to appropriate all its profits especially in US dollars and other readily convertible currency.

In this regard, there is no reason to suppose that the political representatives in the countries of origin of this capital will act in ways different from those in which their predecessors have acted in response to the dictates of the major segments of the international capital of their time.

As Africans we must remain closely interested in the resolution of the Eurozone crisis, in much the same way that Barack Obama said the US was interested in this outcome.

The Eurozone is a vitally important destination for African exports and a source of foreign investment, and generally an important player with regard to the integration of our Continent in the global economy.

Many of our citizens who work in other countries, including the Eurozone, export into our countries significant inflows of foreign exchange in the form of remittances.

The West Europeans, many of whom are our former colonisers, continue to pay especial attention to our Continent, as demonstrated by their recent interventions in Côte d'Ivoire and Libya.

In this context we must assess the impact the Eurozone and European crisis will have on our relations with these countries.

We must follow closely the evolution of the Eurozone crisis, knowing that if it worsens, perhaps leading to the demise of the Euro, this would have an immensely negative impact on the global economy, with a similarly negative impact on our economies, which might very well create great social instability in our countries.

It is obvious that the Eurozone crisis will further deepen the already prevalent view among the Europeans that Africa is peripheral to their global strategic posture, except as a part of the world which they can wilfully dominate as their 'natural' backyard.

This signifies that the European 'establishment' will even be more dismissive of the African voice, which will reinforce its sub-conscious – and perhaps conscious - understanding that its own voice, rather than ours, should be the determining factor with regard to our future.

Accordingly, we must honestly engage one another as Africans about what we should do in this context, together, and in cooperation with the historic friends of Africa in Europe, who have constantly stood with us to help ensure that we achieve our dignity as human beings.

Accordingly we must abandon the misguided notion that the Eurozone and EU crisis has nothing to do with us.

In this context we must understand the nature of the process of globalisation in all its complexity, and fully appreciate the naked fact that it encompasses us as well.

The globalisation process will continue as an objective manifestation of the very existence of capital, and therefore the development of society, which nobody can stop.

Obviously what we must resist is the attendant ideological proposition that human society has no choice but to accept that the nature and content of this globalisation must be informed by the most primitive instincts of capital, which has led to the disastrous co-habitation with the philosophy and practice of neo-liberalism.

To achieve our own renaissance, we must determine our place within this system and therefore what we have to do to claim and hold this space.

It therefore stands to reason that, among other things, we must do our best to understand what happened at the meeting of the European Council of December 8/9, 2011 and the consequences of its conclusions for us, the Africans.

December 2011.