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A crisis of capitalism

The financial problems plaguing Europe and Italy are not home-grown. They are part of a global attack on labour by Riccardo Bellofiore

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Riot police during a clash with anti-austerity protesters in Rome last week. Photograph: Reuters

History repeats itself, Marx wrote, first as tragedy, then as farce. If you wonder how it might repeat itself the third time, look at Italy: a country where the most effective opposition to government are – literally – comedians, and where the prime minister himself is a joke. This has distorted most analysis of the country's economical and political situation, as if Italy's problem is just its PM, distracted by sex and trials.

To understand the true nature of the Italian crisis we need to look at it in a wider European context. The limits of the eurozone are well known: it has a "single currency" that isn't backed by political sovereignty, a central bank that doesn't act as lender of last resort or finance government borrowing, and no significant European public budget. The flaws of the ECB's obsessive anti-inflationary stand, and its propensity to raise the interest rate whatever the cause of price rises, are also plain to see. And Germany's tendency to profit from southern Europe's deficit while simultaneously imposing austerity budgets on those countries pertains more to psychiatry than economics.

That said, the European crisis is not a home-grown one, the sovereign debt crisis is not truly a public debt crisis, and Italy's crisis is not Italian-born. German neo-mercantilism induced stagnation in Europe, which survived thanks to US-driven exports. When "privatised Keynesianism" – mixing institutional funds, capital asset inflation and consumer debt (a model exported from the US and UK to Italy, Spain and Ireland among others) – exploded, European growth imploded.

The sovereign debt crisis is thus the private debt crisis in disguise. Deficits are not of the "good" kind (planned to produce use values, and self-dissolving through qualitative development), but of the "bad" kind (induced by real stagnation or saving finance).

The problem has been the unwillingness to refinance first Greece, then Ireland, then Portugal. Their share in the euro area public debt to GDP ratio is ridiculously low: cancelling the debt would have been less painful.

The crisis came because "markets" and rating agencies saw the stupidity of European leaders, who were ineffective when it came to rescuing indebted countries, and who introduced self-defeating austerity programmes. Fear produced a ballooning of the interest rate spread. The sharp decrease in the already very low Italian GDP growth rate (1.3% in 2010, 0.1% in the first quarter of 2011) and the dramatic rise in interest rates paved the way to Italy's current nightmare.

Italy's economy does have serious failings, but they are structural, long-standing ones. They date from the mid-1960s, and they resulted in the continuous decrease in both labour productivity and the growth rate. Capitalists answered workers' struggles with a kind of investment strike – through the intensification of labour rather than innovation. Industrial sectors disappeared; technology was imported; public enterprises were privatised. Mid-sized Italian companies profited from international exports, but they were dependent on outside-generated growth. Public debt was a means to assist a de-industrialising economy.

The fatal blow came with the policies of flexibility (that is, casualisation) of labour, which led to a collapse of labour productivity. For a while, this led to full under-employment in the centre-north. The crisis is revealing the hidden truth, and the drama of Italian unemployment and further casualisation is only just beginning as the impact of increasing regressive taxes and savage cuts is felt.

Default plus exit from the euro will not help. In 1992, Italy left the European monetary system and witnessed a huge devaluation: the structural problems deepened, and workers' conditions deteriorated. This time, Italy leaving the euro would mean the end of monetary union, and a dramatic broadening of the European and world crisis.

The crisis can be overcome only by dealing at once with the European crisis in order to stop the domino effect. One suggestion has come from Yanis Varoufakis and Stuart Holland: eurobonds not only as financial rescue but also as finance to a wave of investments.

However, this crisis is not just a financial crisis, but a capitalist crisis: it is part of an attack on labour. From this point of view, a New Deal should be part of a wider programme of the European left, who should push for a socialisation of investment, banks as public utilities, the intervention of the state as direct provider of employment, and capital controls. It is not (yet) Marx. It is Hyman P Minsky. Unfortunately what's really missing in Europe is not the money to finance debt; it is internationalism. Only European struggles can resist austerity and deliver decent reform.

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