02.02.2015 Devaluation of the euro and elections in Greece. Towards a new European economic order.

Two simultaneous events, widely anticipated, have made the European news this week. The deeply orthodox European Central Bank decided on a de facto devaluation of the euro, while elsewhere, the highly oppositional leader of Syriza in Greece, Alexis Tsipras, won close to an absolute majority while promising that his country would remain in the euro and would renegotiate its debt. This is a historic turning point for Europe, after six years of an economic crisis seemingly insurmountable using only the methods of financial orthodoxy which have so far been applied.

There actually will be a devaluation of the euro. The ECB decided to repurchase up to 1,140 billion euros of the debt generated by the crisis in various countries in the euro zone, using euros created via its own power to issue money. Currently, the money supply in circulation is around €10,000 billion across the whole European Union, or the equivalent of the annual GDP of the euro zone. In other words, the injection of liquidity which the ECB has just decided on has increased the money supply by 10%, thus reducing the value of the banknotes we hold.

In practice, the ECB has undertaken to repurchase bonds which, through lack of confidence, could not find takers in the market. You will understand that the securities which find refuge with the ECB will not be German bonds, but rather financial instruments which, after various adventures and other “securitisations”, represent the debt of the states or banking systems of Greece, Portugal, Spain, Ireland, Italy, or even France, seeing that the French economy is continuing to generate excessive amounts of debt at the rate of almost 5% of its GDP in 2014 while inflation is below 1%.

By buying up these assets at face value in the full knowledge that they are bogus (of course, since otherwise they would have found a buyer on the open market!), the ECB is injecting new money which will be a considerable relief to the most indebted players in the euro zone, the Greek, Portuguese and Italian governments as well as the Spanish, Cypriot and Irish banking systems, among others.
Politically, this financial mechanism chosen by the ECB is particularly welcome given the news from Greece: the new Greek government wishes to “renegotiate” – which is to say, wipe out – part of the debt inherited from the years of madness which preceded the crisis. This desire, supported very widely by a Greek people pushed close to the edge, is vital to them simply in order to survive economically.

The practicalities of these things need to be considered: Greek employees who earned €1800 a month before the crisis are today paid an average of €900, and while they often escaped taxation before, that sum is now taxed. How could it be imagined that it could continue? Now Greek debt, despite these colossal sacrifices, is not decreasing and is still insurmountable for the country. And Europe needs to say a big thank you to Alexis Tsipras and his friends, because their electoral success has brought the Greek extreme right wing, the openly neo-Nazi movement called the Golden Dawn, down to 6%. What would it have been without the hope that Syriza has succeeded in bringing the Greeks? Now it is up to Europe to meet these expectations.

Greek debt is estimated at €340 billion, of which a fair amount will be wiped out, simply because it is physically impossible for the Greeks to repay it. With its courageous decisions, the ECB has provided the means for negotiation between the European Commission and Alexis Tsipras even before talks start. This is at least reasonably reassuring about the state and competence of European governance.

It remains for the question on everybody’s lips to be answered: who will pay for this European restructuring? The answer is simple: those savers who are not speculators. In effect, the creation of money by the ECB to buy largely bogus securities leads inevitably to a devaluation of the euro. The Swiss anticipated this several days before the official announcement by the ECB, by allowing their currency to rise abruptly against the euro. On D-1, a wealthy family that had a million euros could buy 1.2 million Swiss francs. On D+1, they would have been able to sell those Swiss francs for 1.2 million euro. 200,000 euro up overnight, without even losing sleep – those are the pleasures of the financial speculation that allows the best informed and the wealthiest to make profits without breaking a sweat! Meanwhile the savings accounts held by 350 million Europeans in the euro zone have lost 10% of their value while they were powerless to act! But devaluations were commonplace before the euro even existed. Often they were even more abrupt. And if thanks to this effort of solidarity, Europe escapes its economic crisis, the euro will quickly regain lost ground. To the great joy of European savers ... and, alas, of the speculators!