Fall of the House of Euro – German capitalism and the long search for a ‘spatial fix’

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Abstract
From the standpoint of capitalism in Germany, the European Union and the Eurozone are but the two most recent stations on the long pilgrimage to find a spatial fix, attempts to alleviate the perennial problem of a nationally-based centre of capital accumulation, bursting the bounds of its home market, but without easy access to overseas empire. But these “spatial fixes” – from Bismarckian imperialism on – have occurred undemocratically, have fostered chauvinism and racism, and have remained trapped in the fetishized forms which are the curse of private-property. All of these superstructural impediments have become prisons, holding back social development in Germany and throughout Europe. This paper will develop these themes through a survey of three distinct “moments” in the search for a spatial fix to the contradictions inherent in German and European capitalism.

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Germany today – dynamo or ‘sick person’ of Europe?

The crisis facing the Eurozone dominates the headlines. The prognoses for four of its members – Greece, Italy, Portugal and Spain – have been painted in very bleak terms. “The current policy of lending plus austerity will lead to social unrest ... and one should not forget that of the four countries we are talking about, all have had civil wars, fascist dictatorships and revolutions. That is history” (Thomas Jr. 2011).

There are certainly deep problems in these four southern economies, collectively tagged with the unfortunate nickname of the “PIGS.” Is this, however, a crisis for Europe as a whole, including the considerably stronger northern economies? There is no consensus on this. Belgium had been considered one of those stronger countries. However, in late November 2011, Standard & Poor’s downgraded Belgium’s credit rating one notch to AA, citing “renewed funding and market risk pressure” (Isidore 2011). The Belgian Debt Agency in November had to pay an average 5.659% on 2021-dated bond offerings, up from 4.372% at the previous debt auction, just one month previous (Bartha 2011). Germany is inevitably included as the core economy of the Eurozone. At the end of November 2011, “the German bond issue was a disaster” according to David McAlvany, chief executive officer of McAlvany Financial Group in Durango, Colorado. Fully 35 percent of the bonds offered for auction could find no buyers (Shenk and Zhou 2011). But just four months later, as this was being written, we read that unemployment in Germany had fallen to 7.2%, and that according to one expert, “demand for labour is ‘persistently high’ and ‘the current phase of economic weakness has barely left a trace on the labour market’” (AP 2012).

Uncertainty about how to assess the relative health of the German economy has a considerable pedigree. In the latter half of the first decade of the 21st century, German’s economy was treated somewhat reverentially. December 2010 The New York Times worried about “Germany, Europe’s strongest economy, perhaps having to lead an expensive rescue of Spain, thought to be the next casualty of the euro zone’s debt crisis” (Thomas Jr. 2010). A year earlier, the same paper carried an article documenting how “an urgent call from Hungary for a large bailout ... was bluntly rejected by Europe’s strongest economy, Germany” (Castle and Erlanger 2009). As one commentator put it: “The subtext is that everyone must learn from the German example and put their houses in order. Countries must live ‘within their means’ and focus on sound forms of economic activity. German virtue and probity is contrasted with the irresponsibility and fecklessness of others” (Tilford 2011).
Contrast that with the first half of that decade, where there existed a “still common perception of Germany as the ‘sick man of Europe’” (Deeg 2005, 333). That phrase was the title of a widely cited 2003 policy brief, where the sickness was described in graphic detail. “In the second half of the 1990s, German GDP grew by a paltry 1.6 per cent a year, a full percentage point less than the other EU countries. Since 2000 the German economy has hardly grown at all. Unemployment has risen relentlessly and now stands at 4.4 million. ... Germany is heading for a Japan-style quagmire. Germany is the sick man of Europe” (Barysch 2003). The “sick man” analogy was in fact used repeatedly in 2003. “‘The euro zone is stagnating, and Germany, as the sick man of Europe is falling even further behind,’ said Jorg Kramer, chief economist at Invesco Asset Management in Frankfurt” (Landler 2003b). “With soaring unemployment, swooning consumer confidence and an economy skirting its second recession in two years, Germany seems to be the undisputed holder of the title ‘sick man of Europe’” (Landler 2003a).

Finally, survey the coverage of Germany in the early 1990s and throughout the 1980s. “Germany has Europe’s strongest economy and most powerful currency,” wrote Ferdinand Protzman in *The New York Times* in 1994 (1994). In 1990, just prior to East Germany’s reabsorption into a united Germany, *Time* described Germany as a “powerhouse, the largest economy in the European Community” (1990). In 1989 Leonard Silk described West Germany as “already the strongest economy in Europe” (1989). In 1982 it was “West Germany, one of the foremost economic powerhouses of the postwar era” (Alexander, Ungeheuer, and Courtu 1982). In 1981 the country was described as a “mighty economic juggernaut” (Alexander 1981), the “confident powerhouse of Europe” (Russell, Coutu, and Flamini 1981). In 1980 it was “robust West Germany” the “strongman of European economies” (Time Magazine 1980).

So is Germany the powerhouse of Europe, or its “sick man”? This paper will argue that it is both. It is the dominant economy of the EU and the Eurozone. It is also an economy wracked with contradictions whose roots are now very old. David Harvey (2001) is most closely associated with the notion of capitalism’s constant search for a “spatial fix” to offset the recurring contradictions of economic development. From the standpoint of capitalism in Germany, the European Union and the Eurozone are but the two most recent stations on the long pilgrimage to find a spatial fix, attempts to alleviate the perennial problem of a nationally-based centre of capital accumulation, bursting the bounds of its home market, but without easy access to overseas empire. But these “spatial fixes” – from Bismarckian imperialism on – have occurred undemocratically, have fostered chauvinism and racism, and have remained trapped in the fetishized forms which are the curse of private-property. All of these superstructural impediments have become prisons, holding back social development in Germany and throughout Europe. This paper will develop these themes, through a survey, in reverse chronological order, of three distinct “moments” in the search for a spatial fix to the contradictions inherent in German and European capitalism.

**The contemporary Spatial Fix – A Capitalist United States of Europe**

There are logics, which Harvey calls “spatio-temporal,” which reveal themselves repeatedly in different countries as they experience capitalist development. We will examine the concept of the spatial fix in more detail when we examine the era of Bismarckian Imperialism. For now, it is enough to notice the fact of a consistent push, since the end of World War II, for the creation of “a certain structured coherence of accumulation backed by a regional class alliance of governance” (Harvey 2006, 108). This search for a “spatial fix”, from the standpoint of capitalism in Europe, has revealed itself through the founding and enlargement of both the European Union (EU) and within that, the countries which make up the Eurozone. Since the
end of World War II, there has been a steady push to create a more and more unified regional capitalist economy on the European half of the Eurasian continental land mass.

In 1946, just one year removed from the horrendous destruction of World War II, Winston Churchill outlined for an audience of young people at the University of Zurich, his ideas for the future of Europe. “There is a remedy which … would in a few years make all Europe … free and … happy. It is to re-create the European family, or as much of it as we can, and to provide it with a structure under which it can dwell in peace, in safety and in freedom. We must build a kind of United States of Europe” (Churchill 1946). From someone who had been one of the world’s most prominent British nationalists, this was an extraordinary statement. It is true that as prime minister in June 1940, Churchill had “proposed to the French Prime Minister, M. Paul Reynaud, an indissoluble union between their two countries”. But Avi Shlaim is certainly right to see this as a strategic manoeuvre arising out of the then desperate military situation, and not a fundamental orientation towards European integration (Shlaim 1974, 27–28). Churchill’s conversion to advocating European regional integration, was a reflection of mass revulsion at the slaughter of two world wars. “During World War II, sentiment for a closer political and economic integration of Europe became evident in many of the Resistance groups, particularly among the left-wing ones.” By 1948 there were in Europe “hundreds of organizations, movements and publications actively working for some form of unity” (Haas 1948, 529).

This sentiment must indeed have been considerable, in order to push a British nationalist Tory like Churchill towards supporting European Union. Dial the clock back just a generation, and talk of a United States of Europe would mark a person as being on the left, the far left, resting on an analytic framework quite different from Churchill’s. In 1923, Leon Trotsky, at the time Chairman of the War Council in the government of the Union of Soviet Socialist Republics (Serge and Sedova Trotsky 1975, 131), made the case for advancing the slogan “the United States of Europe”, as part of the programme of the workers’ movement in Europe. The slogan was adopted as the official position of the Executive Committee of the Communist International (Comintern) later that year, and “appeared in Comintern literature as late as 1926” (Trotsky 1972a, 2:372). Trotsky rooted his analysis, not in the requirement to “recreate the European family” as Churchill had argued, but rather in the requirements of economics, arguing that “the capitalist forces of production had outgrown the framework of European national states” (Trotsky 1923). Unless this problem were addressed, there would be incessant conflict within Europe. “At bottom of the war lay the need of the productive forces for a broader arena of development, unhampered by tariff walls”. Trotsky twinned the call for a United States of Europe with one for a “Workers’ and Peasants’ Government” (Trotsky 1923; Trotsky 1972b, 342).

So in the 1920s, it was the far left which was advancing the slogan. World War had the effect of pushing the slogan from the margins to the mainstream. In the immediate post-war period, a plethora of pro-integration organizations put forward a wide spectrum of ambitious visions about a new Europe. Ernst Haas, in an analysis written in 1948 as this process was unfolding, identified four different approaches. Some saw this like Churchill, as an extension of the 19th century “Concert of Europe,” seeing Europe as presenting “a united front toward the rest of the world – particularly toward the Soviet Union”. Another school looked forward to a comprehensive “economic rationalization of the continent”. Social democrats saw economic integration as a lever for “sweeping social and economic reforms”. Finally, there were those who focussed on federalism as a means to unite “Christian” European culture (Haas 1948, 531–532).

But when European integration began, it was on a much more pragmatic basis than any of these. On May 9, 1950, Robert Schuman the foreign minister of France “announced an unprecedented plan to place ‘the whole of Franco-German coal and steel production under a common High Authority, within the framework of an organization open to the participation of
the other countries of Europe” (Dinan 2005, 11). In general terms, this was foreshadowed by Churchill, who saw the key to the creation of a European region as a “partnership between France and Germany”. This general point was also made by Trotsky in 1923. “France cannot stand aloof from Germany, nor can Germany stand aloof from France. Therein lies the crux, and therein lies the solution, of the European problem”. However, Trotsky became much more specific and in fact interestingly prophetic. He argued that in France’s occupation of the Ruhr, ongoing in 1923, “we find a distorted expression of the need for uniting the coal of the Ruhr with the iron of Lorraine”, clearly anticipating the European Coal and Steel Community launched in 1950. From that “mundane” beginning, European integration steadily advanced in the next decades, until today the European Union (EU) exists as a 27-member nation regional bloc, in terms of Gross Domestic Product, virtually the same size as the U.S.-centred bloc organized around the North American Free Trade Agreement (NAFTA). It has been chiefly defined, through most of its existence, by the creation of a unified zone of commerce, free from trade and investment barriers. This, too, was foreshadowed by Trotsky, who wrote in 1923, “Europe cannot develop economically within the state and customs frontiers imposed at Versailles. Europe is compelled either to remove these frontiers, or to face the threat of complete economic decay” (1972b, 342). The EU has taken some additional steps towards creating a regional economy in their portion of the Eurasian continent. Most centrally has been the creation, within the EU, of the Eurozone – a currency union whereby countries as different as Greece and Germany share the same currency, the Euro (Dinan 2005, 498).

Since the outbreak of the sovereign debt crisis, there has been little talk of the successes of the project of European integration, happening under the rubric of the EU and the Eurozone. In fact those successes have been considerable. From one perspective, the modern capitalist economy can be conceived of as a series of regional groupings of large corporations. At the end of World War II, overwhelmingly, those corporations were concentrated in the United States. When the evolution of spatial allocation of these corporations is examined, from the mid-1990s until the present, there are two facts which dominate the picture, neither of which is relevant to our discussion. The first is the long decline of Japan. The second is the dramatic rise of China as a regional home for top 500 corporations. But relevant to our discussion, is the less obvious, but nonetheless quite important relative shift between the United States and Europe. As Figure 1 shows, since 2005, there have actually been more top 500 corporations housed in Europe than in the United States.
In a certain sense, the more interesting picture emerges when European statistics are disaggregated, to highlight the Eurozone countries. While still trailing the U.S., the Eurozone is firmly in second spot behind the U.S. as a regional location for the head offices of top 500 corporations, and has been, for the most part, steadily closing the gap with the U.S.

(Fortune 2011; Fortune 2010; Fortune 2009; Fortune 2008; Fortune 2007; Fortune 2006; Fortune 2005; Fortune 2004; Fortune 2003; Fortune 2002; Fortune 2001; Fortune 2000; Fortune 1999; Fortune 1998; Fortune 1997; Fortune 1996; Fortune 1995)
Another example of the strength of the regional integration project in Europe has been the strength, relative to the U.S. dollar, of the Euro since the beginning of foreign exchange operation in Euros, January 1, 1999 (Dinan 2005, 498). Figure 3 shows how much one Euro would cost in U.S. dollars, from January 1 1999 until April 1, 2012.
In the period covered by Figure 3, while the Euro did slide in value, relative to the U.S. dollar from 1999 until 2002, from that point until 2008, it rose steadily. Since 2008 there has been some fluctuation and some weakening – but certainly no collapse in value relative to the world’s principal currency. This trend has confounded many investors. There was much speculation that the Euro would fall in value as the sovereign debt crisis played itself out over the last three years. This was particularly true throughout 2011. “Troy Rohrbaugh, global head of foreign exchange at JPMorgan, says: ‘During 2011, many clients came to the market expecting to see a continuing decline in the euro, but that’s not how it played out. Some investors spent a lot of money pursuing this view only to be disappointed in the outcome’” (Ross 2012).

These strengths have been understandably obscured as a result of the deep weaknesses which have opened up in Europe as a result of the Great Recession. Most in the news has been the sovereign debt crisis – the build-up of government debt which has been ubiquitous. In the Eurozone as a whole, government debt as a percent of GDP was declining slowly until 2008 (to about 65% of GDP). But with the onset of the Great Recession, that debt has steadily climbed, standing at just above 85% by December 31, 2011 (Figure 4).
Underpinning this, of course, was a steep downturn in the economy. Real GDP growth plunged throughout Europe in 2008 and 2009 (Figure 5). Even the stronger northern countries, such as France and Germany, experienced steep declines. For the weaker southern economies, the situation was far worse. This is most clearly indicated when unemployment is brought into focus (Figure 6). For Europe as a whole, unemployment has edged up from around 7% to around 10%. For the weaker countries, the situation is far worse. Unemployment in Greece is now above 20%, in Portugal touching 15%. Even France, one of the stronger economies, now has an unemployment rate of 10%. Germany, by contrast, has seen its rate decline to around 7%.
Figure 5 – Real GDP growth, selected Eurozone countries, 2002-2011

Figure 6 – Unemployment Rates, selected Eurozone countries, 2008-2011

(YCharts 2012)
An incomplete spatial fix – racism, war and the obstacles to federation

As this paper was being written, a partial stabilization of the Eurozone seemed to be in the works – but at a considerable cost. Workers receiving minimum wage in Greece, were about to receive a 20% pay cut. Pensioners in Greece were about to see their monthly cheques sharply reduced. Public sector workers in Greece were bracing for 15,000 layoffs. These are just some of the consequences of the “bailout” of the Greek economy, organized by the so-called “troika” – the European Commission, the European Central Bank and the International Monetary Fund (Ziotis 2012).

In return for drastic cuts in services and jobs, Greece will receive €130-billion ($175-billion) to prevent a default on looming payments required to service its government debt load of some €368-billion. But this bailout will not end the misery. In fact that sentence is a bit misleading. Financial institutions based in Greece will receive the bailout. For the government purse, the pay packet of employed workers, the pension of the retiree, there will be less money, not more. Until there is a pickup in the Greek economy, the pain will being experienced by ordinary people will intensify. The economy in Greece has contracted every year since 2008. This year the decline was supposed to slow to just three per cent. But a draft of the bailout agreement indicated that the rate of decline this year would be at least four per cent, and possibly higher. One statistic alone tells the extent of the problem – last year, 150,000 jobs were lost in small and medium businesses. This year, the figure is expected to be 240,000 (Reguly 2012).

The truth is, the bailout as designed is an extraordinarily clumsy and very damaging method by which to address the problems of the Greek economy. For a few years, there were some advantages for Greece Eurozone membership. It was, for instance, much cheaper to finance its public sector and corporate debt, with access to interest rates that were much lower than they would have been had the relatively small and weak Greek economy kept its own currency. But having the same currency as Germany also made the less productive Greek economy very vulnerable. It could not do what it did in the past – let its currency (formerly the drachma) devalue relative to Germany’s (formerly the mark), and so keep the prices of its exports competitive. Locked into a currency union, the inevitable has happened – manufactured goods from Germany and the other strong economies in Europe pushing aside manufacturing based in Greece.

For a while, access to credit through membership in the Eurozone offset this problem. But over time, Greece’s public sector debt built up to 160% of GDP, almost twice the rate of the Eurozone as a whole. To buy the bonds that finance that debt, bond markets began demanding higher and higher interest rates, triggering the current turmoil. The bailout will calm this problem for a while – but the structural problems behind the mess, are all intact.

To properly unify Europe, countries would have to share more than just their currency. Real union would involve the sharing of taxes and debt as well. This was the “federalist” solution of both the United States and Canada. In the former, the young post-revolutionary U.S. republic, guided by treasury secretary Alexander Hamilton, did mint its own currency, as the Eurozone has done with the Euro. But it also “assumed the war debts of the ex-colonies” and “issued new national bonds backed by direct taxes.” Interestingly, this summary of early U.S. federalism comes from a recent issue of the influential magazine, The Economist, which poses the question whether Europe might, “in its chronic financial crisis, need such a ‘Hamiltonian moment.’” (The Economist 2012a). This was argued for by Trotsky in 1923.

Long before the imperialist war we recognised that the Balkan states are incapable of existing and of developing except within a federation. ... The European continent in the present state of development of its productive forces is an economic unit – not a shut-in unit, of course, but one possessing profound internal ties – as was proved in the terrible catastrophe of the world war ...
Europe is not a geographical term; Europe is an economic term, something incomparably more concrete especially in the present post-war conditions – than the world market. Just as federation was long ago recognised as essential for the Balkan peninsula, so now the time has arrived for stating definitely and clearly that federation is essential for Balkanised Europe (1972b, 342–343)

But the rich countries of the continent, Germany in particular, want none of this. The stronger economies in Europe are, for the moment, doing quite well in the context of this crisis. In 2011, it is likely that the value of German exports “breached the 1-trillion euro mark for the first time ever.” According to Anton Börner, president of The Federation of German Wholesale, Foreign Trade and Services (BGA), two areas of the world fuelled this growth: other countries in Europe (exports to other EU members represented just under 60 percent of all German exports), and “emerging economies.” In terms of the latter, concern over the weaker European countries has been a downward pull on the value of the Euro. We have seen that it has fallen slightly relative to the U.S. dollar in the context of the sovereign debt crisis. Without the downward pull of the weaker economies in the Euro zone, it would have likely risen relative to the U.S. dollar and other currencies, not stagnated or fallen. This downward pull on the Euro, then, makes German exports cheaper on the world market than they would be were Germany to revert to its own currency (Graupner 2012). What is bad for Greece, in other words, has been for the moment, good for Germany.

Because of the incomplete federation of Europe, the poorer countries such as Greece are suffering immensely. It won’t be enough to muse about federalism in the abstract. Between where Europe is today, and a federalist future, there is the obstacle of centuries of history. Modern Europe was created through 500 years of colonial conquest of much of the rest of the world, and that colonialism generated deep pools of racism and chauvinism. That chauvinism has again and again turned inward: German against French, against Italian, against Greek – the most horrendous example being the orgy of racism and anti-semitism which erupted in the Second World War (Du Bois 1965). The transition of the EU towards a real federation would mean the transference of sovereignty from the nation-states to the EU, and the historically-rooted deep pools of chauvinism and nationalism are a barrier to such a development.

This can be seen in the débacle associated with opposition to Turkish accession to membership in the union. There has never been enthusiasm for reaching out to Turkey. In 2005, fully 52% of people in Europe were opposed to Turkey’s membership. Of the original members of the EU, only 32% were in favour (European Commission 2005). Two things have fuelled this opposition. In the 1990s, the issue was Greek chauvinism. Greece was an established EU member long before Turkey. Turkey is an historic rival of Greece in the eastern Mediterranean. Greece therefore put barrier after barrier in front of Turkey’s membership. “The EU’s policies towards Turkey have become in effect those of Greece,” complained Turkey’s ambassador to London in 1997 (dyer 1997).

In the 21st century, the issue has shifted to anti-Islamic racism. Fully 99.8% of the Turkish population is Islamic, and from 9/11 2001 on, wars in Iraq and Afghanistan have been fuelled by wave after wave of anti-Islamic racism – Islamophobia – sweeping through North America and Europe. Turkish State Minister Mehmet Aydin raised this in 2007, saying that “there are politicians in Europe quoting extremist sources to justify their opposition to Turkey’s EU membership.” Among the politicians he targeted for using Islamophobia as a way of blocking Turkey’s membership, was the then French Interior Minister, Nicolas Sarkozy (Anatolia 2007).

The stagnant EU could certainly use Turkey right now. After China, Turkey is the fastest growing economy in the world, expanding at an average rate of 5.9% since 2002 (Staff 2012). That average would be much greater without the contraction of 4.8 percent during the 2009 recession. But in 2010 Turkey returned to growth, expanding at an 8.9% rate, in 2011 at
a 6.6% rate. Turkey has a $1-trillion dollar economy along with a market of almost 80 million people (CIA 2012). It has a budget deficit that is less than 2% of GDP, and – in contrast to Greek’s figure of 160% – has “a public debt of only 40%” (The Economist 2012b). With these considerable economic strengths, had Turkey been allowed in, the entire EU, including Greece, would be considerably stronger as it dealt with the current crisis.

It is probably too late. In 2004, when Turkey embarked on the accession process for EU membership, two-thirds of the Turkish public supported membership. By 2007, this had fallen by almost half, to just 35% (Boland 2007). Another survey put support for the EU at 73% in 2004, but only 38% in 2010 (Bilefsky 2011). The events of 2011 and 2012 will solidify this trend. The crisis in Europe makes accession to membership in the European Union much less attractive. According to the founder of a conservative business group, “Today, the E.U. has absolutely no influence over Turkey, and most Turks are asking themselves, ‘Why should we be part of such a mess?’” This disillusion with Europe is coinciding with the beginnings of turn towards other states in the region. In 2004, just 12.5% of Turkish trade went to the Middle East. By 2010, the figure had increased to 20% (Bilefsky 2011). The Arab Spring could very well accelerate this shift.

Europe is being held back by its history. Until it comes to terms with that history – and the chauvinism and racism engendered by it – progress towards solving the problems in Greece and the other vulnerable economies, will be slow.

**Lebensraum as an extension of European imperialism**

Part of that history is well known. Europe was the centre, in the 20th century, of two bloody world wars. The second was associated with the rise of the completely racist Nazi regime. Interesting insights can be gained into this era by deploying the notion of the long search, by European capitalism, for a spatial fix. The “classic” spatial fix will be examined in the last section of the paper – the 500 year push for overseas colonies associated with the rise of capitalism in Europe. The colonial era proved impossible for Germany. It could not match the British empire – it did not have the Indian sub-continent, the great source of wealth for the British. It could not even match the empires of the smaller European powers. World War One represents a pivot, a shift from challenging Britain on a world scale, to carving out a solution on the European continent. With the war not even one month old, this was apparent to journalists of the day. Germany’s “ships were at the mercy of the English, the French, even the Portuguese and the Dutch colonial ports. Nowhere about the Seven Seas was Germany in possession of naval or commercial bases such as even the most [in]significant of nations possessed … While the attention of the world is fixed upon the battlefields of Western Europe it is clear German colonial possessions on two continents are becoming the prey of her opponents” (New York Evening Sun 1914). In a brilliant piece of analysis written in the first few months of the war, Trotsky outlined the direction German policy would take.

Now that the development of Germany industry on a national foundation has transformed Germany into the first capitalistic power of the world, she finds herself colliding with the hegemony of England in her further course of development. The complete and unlimited domination of the European continent seems to Germany the indispensable prerequisite of the overthrow of her world enemy. The first thing, therefore, that imperialistic Germany writes in her program is the creation of a Middle European League of Nations. Germany, Austria- Hungary, the Balkan Peninsula and Turkey, Holland, the Scandinavian countries, Switzerland, Italy, and, if possible, enfeebled France and Spain and Portugal, are to make one economic and military whole, a Great Germany under the hegemony of the present German state (Trotsky 1914).
The attempt failed utterly. The Treaty of Versailles both considerably reduced German territory in Europe, but also formally stripped Germany of her overseas colonies, colonies which were then redistributed to the victorious powers.

The Nazi project under Hitler is a direct continuation of this failed attempt at a spatial fix in World War One. There would be no easy return to overseas empire. Instead, the vision of colonial empire was turned “inwards” – a colonial vision for the eastern part of the Eurasian land mass. The German geographer Friedrich Ratzel had early in the 20th century “applied Darwinian theories to the rise and fall of the Volk, and argued that what he called ‘living space [Lebensraum]’ was needed to ensure its continued growth” (Mazower 2008, 20). This idea was, of course, made famous by Hitler, who used it as an organizing principle for his Nazi Party. There is a growing body of thought which links this notion of Lebensraum to the essential dynamics of the Second World War. Hitler had a “long-held dream of permanently extending Germany’s Lebensraum deep into the East” (Mazower 2008, 137). Denied an overseas colonial empire by Britain and the United States, the Nazis turned the colonial project “inward,” and in fact consciously modelled their plans for the East with Britain’s history of colonialism. In the run-up to the invasion of Russia in 1941, Hitler argued that “The Crimea and the southern Ukraine would become ‘an exclusively German colony’ ... the existing inhabitants would be ‘pushed out’. As for the rest of the east, a handful of Englishmen had controlled millions of Indians, he said, and so it would be with the Germans in Russia” (Evans 2008, 171).

This project could not, of course, be undertaken without cultivating an extreme racism. No embellishment is needed on the racism of the Nazis. Their dehumanization of the Jewish population of Europe, the Slavic population, the Roma and many others has been extremely well documented. What is less well known, is how easily this racism dovetailed with the European ideologies which had justified empire. Colonial expansion abroad, had required the dehumanization of the non-European peoples, in a way completely compatible with Nazism. No individual is identified more as an opponent to Hitler, than Winston Churchill, seen as one of the “founding fathers” of the European Union. Churchill saw much of the non-European world as being outside of civilization. In 1937 he said that he did not agree “that the dog in a manger has the final right to the manger even though he may have lain there for a very long time. I do not admit that right. I do not admit for instance, that a great wrong has been done to the Red Indians of America or the black people of Australia. I do not admit that a wrong has been done to these people by the fact that a stronger race, a higher-grade race, a more worldly wise race to put it that way, has come in and taken their place” (Slater 2004). Consistent with this he was “in favour of using poisoned gas against uncivilised tribes” (Spiers 1983).

The racism of the Nazi project was an extreme manifestation of the racism endemic to European society, a “gift” to European consciousness from the centuries-long attempt to colonize the non-capitalist world. Examining that logic pushing towards colonialism will be the last part of the “reverse chronological tour” of the search for a spatial fix which this paper is attempting.

**The original Spatial Fix Moment: Bismarck, Home Market and Imperialism**

The original logic pushing in the direction of a spatial fix, is the logic demanding the creation of a unified nation state, the development of a “home market.” This is the first moment in the search for a “spatial fix” to the issues posed by capitalist development. A return to this original moment, helps to clarify all the issues posed to date. Capitalist economies require states which achieve “a certain structured coherence of accumulation backed by a regional class alliance of governance” (Harvey 2006, 108). The need for such a “structured coherence” was outlined very clearly in Frederick Engels’ description of the problems confronting newly
emergent industrial capitalism in Germany mid-way through the nineteenth century. "The German system of small states with their numerous and varied trade and industrial legislations inevitably soon became an unbearable fetter on vigorously growing industry and the trade associated with it. Every few miles a different law governed bills of exchange, there were different trade conditions; everywhere, literally everywhere, there were different sorts of chicanery, bureaucratic and fiscal traps" (1973, 378–379).

In the Netherlands, Britain and France, the path to national unity, the development of a home market, and industrial capitalist development had been laid by decisive revolutions. The 1848 uprisings which could theoretically have played the same role in what is today Germany, were crushed in blood. Instead, Germany experienced a "revolution from above," personified by Otto von Bismarck. He took the helm of Prussia in 1861, and through a policy of "blood and iron" proceeded to establish a unified German state, in which a "structured coherence of accumulation" could unfold. On the basis of the creation of this unified home market through a Bismarckian revolution from above, from a position far behind industrial capitalism in England, the world’s leading power, Germany quickly emerged in the latter decades of the 19th century, as England’s greatest rival on the European continent – particularly after Germany’s decisive defeat of France in the Franco-German war of 1870 and 1871 (marked by the horrendous suppression of the Paris Commune).

But a structured coherence of accumulation within a home market framework solves one problem – internal barriers to the development of a home market – and simultaneously creates another one: the repeated problem of insufficient demand for the growing products of capitalist industry. Regularly recurring crises of overproduction accompany industrial capitalism from its inception. The young Marx and Engels, in the Communist Manifesto, described "the commercial crises that by their periodical return put the existence of the entire bourgeois society on its trial ... In these crises, there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity – the epidemic of overproduction" (1973, 113–114). Rosa Luxemburg devoted an entire volume to the issue, in the guise of an analysis of the "problem of the reproduction of the entire social capital" which was essentially an extended, and brilliant, analysis of the constantly recurring discrepancy between production and consumption inherent to capitalism (Luxemburg 1951, 31). Harvey makes the point this way, talking about contemporary capitalism. "The contradictions of capital accumulation build into a crisis of overaccumulation of both capital and labor threatening massive devaluations of capital and devastating levels of unemployment" (2006, 108). In a very useful 1970 analysis, Hans-Ulrich Wehler documents how this general process unfolded in Germany. "Intensive industrialization" was accompanied by a "chronic imbalance between production and consumption ... inherent tendencies towards over-investment, over-capacity and over-production." This manifested itself in very rapid growth being punctuated by periodic very sharp crises, among them "the three industrial depressions of 1873-79, 1882-86 and 1890-95" (1970, 132 & 121).

Industrial development requires a home market. But productive industry quickly swamps the consumption powers of that market. So in a capitalist world, the push for a home market is quickly followed by a push for empire. "Capital and perhaps labor surpluses are exported elsewhere ... This requires, of course, that some territory be open for the penetration of capital and labor" (Harvey 2006, 108). This is not a pretty development. "Its predominant methods are colonial policy, an international loan system – a policy of spheres of interest – and war" (Luxemburg 1951, 452). In Germany, we see this general tendency develop very quickly in the last decades of the 19th century. In particular, "the new period of depression beginning in 1882 had a catalytic effect on imperialist policies ... Confronted with the effects that uneven industrial growth was producing in the economic, social and political spheres, the political leaders in Berlin could not stand idly by – extensive expansion overseas was one of the counter-measures which aimed easing this critical situation. Industrial
development which has resulted in over-production drives Germany to seek the acquisition of colonies’ – the opinion of France’s representative in Berlin was shared by numerous other observers” (Wehler 1970, 132).

The issue of increasingly productive industry coming up against the consumption limits of national home markets, leading to crises of overproduction, was by no means unique to Germany. There have been parallel experiences in every emergent national capitalism. This paper is being written from within the Canadian state. H. Clare Pentland has demonstrated that in Canada, a unified home market, centred on Southern Ontario and Quebec, emerged definitively by 1870 (1981, 130–131). Hard on its heels came a push for empire – the absorption of the Prince Rupert’s Lands controlled by the Hudson’s Bay Company, the military defeat of the Métis, and the colonial settlement of the West. Of course it was the European Great Powers, and not a new colonial-settler state such as Canada which were the concern for Germany. Germany’s attempt to export its overproduction through colonialism “was bound up with a bitter economic competition on a world-wide scale between a number of industrial states, each grappling with similar problems of growth” (Wehler 1970, 133). Wehler documents that inside the German elite “there was an unmistakeable fear of being left out in the cold, of arriving too late for the progressive sharing out of the territorial spoils of the non-occidental world.” In particular, this fear was directed at the British empire, “the powerful rival with an almost irretrievable lead in world markets” (1970, 134 & 145).

Hannah Arendt differentiates colonial expansion overseas from the “pan” movements which advocated continental expansion of, classically, the German and Slavic peoples. “The Central and European nations had no colonial possessions and little hope for overseas expansion … Pan-Germans and Pan-Slavs agreed that living in ‘continental states’ and being ‘continental peoples,’ they had to look for colonies on the continent” (1973, 222). We have already asserted the inter-relationship between continental expansion and overseas colonialism in the discussion of Lebensraum and Hitler’s wars of conquest in the 1930s and 1940s. Germany, in the 19th century, combined both approaches. From the establishment of the North German Confederation in 1867, to the formal founding of the German Empire four years later, what has been called here the consolidation of the home market, dovetails nicely with the notion of pan-Germanic continental expansion. But from 1884 until the end of World War One, colonial expansion abroad was a more important thrust of German policy than pan-German expansion on the European sub-continent. Primarily between 1884 and 1890, this empire grew to an area encompassing one million square miles and a local population of some 15 million, primarily centred in Africa. Under Emperor Wilhelm II, Germany added a naval base in Kiao Chow (Jiaozhou) in China in 1898, and three groups of islands in the Pacific (Henderson 1962, 5–9). In 1911, Germany obtained from France a large chunk of Central Africa, which they were to dub the “New Cameroons” – today comprising parts of Chad, the Central African Republic, the Republic of the Congo, and Gabon (Neba 1987, 4–5).

Germany, of course, is identified with the horrors of the Nazi period. When we think of World War II, we think of extreme racism, total war, concentration camps and genocide. But even a brief account of the almost forgotten events in the first of Germany’s overseas colonies, reveals that all of these phenomena appeared first, not in Europe, but in the colonial occupation of Africa. In 1884, Germany established its first overseas colonial “protection” in Lüderitz Bay in what would come to be called “South West Africa” and what is today Namibia. One of the key motivations for colonial settlement was to deal with the “surplus labour” problem in Germany. From this standpoint, it was a complete failure. From the mid 19th century until the early 20th century, Germany did “export” more than five million people overseas. But this emigration went almost entirely to North America (Bade 1980, 348). By contrast, the German settler population in German South West Africa went from 539 in 1891 to just 4,500 in 1904. Tiny or not, this European outpost became a key staging post for 20th century barbarism. It is in German South West Africa that we see in very clear outline the
horrific consequences of colonial expansion as a consequence of attempting to find a spatial fix to problems of national capitalist accumulation.

This little European enclave of farmers and traders, found itself amidst an indigenous population of between 200,000 and 250,000, divided into several different peoples, one of the most important being the Herero in the central part of the territory, whose population in 1904 was probably between 60,000 and 70,000 (Ludtofte 2003, 21–22, 25) The Herero were semi-nomadic people who herded cattle in large numbers. The Germans aimed to displace this traditional economy, with one based on German farm settlements, clustered around trading communities. To accomplish this, they found different mechanisms by which to acquire both cattle and land. Frequently, “Germans began simply to occupy land. The [German] farmers often started as traders and operated an unscrupulous system of credit that gave them a pretext to expropriate land and cattle”. By 1902, the very small number of German settlers were “in possession of almost as many cattle as the Herero”. In 1903, plans were set in motion to build a railway “that would run straight across Herero territory with considerable loss of grazing rights as a result”. To deal with displaced indigenous people, German authorities planned something with which the Canadian reader will be familiar – the establishment of reservations (Ludtofte 2003, 26).

In January of 1904, the increasingly desperate Herero people began an armed rebellion. Cattle and land were not the only issues. “Cruel punishments, rape and murder were ... the main provoking factors” behind the rebellion (Ludtofte 2003, 27). One missionary reported that “the instruments of punishment used included rhinoceros whips, twenty-five strokes from which leave a native bleeding and half dead. A short time before the outbreak, the missionary added, a German soldier crushed in the skull of an innocent native” (The New York Times 1904). The response of the German military was barbaric. At the key battle of Waterberg, 4,000 German troops with 36 artillery batteries and 14 machine guns, surrounded a Herero position which included “thousands of women and children. Because of this the German forces also went into battle against civilians.” The German general Trotha, in a letter written in October 1904, said that “the nation (the Herero) must perish.” That same month, he issued what was called the Schiessbefehl proclamation “which made all Herero in German South West Africa prey to be hunted down.” In the resulting horror, “German warfare did not make any distinction between civilians and warriors.” The Herero were relentlessly pursued into the Omaheke sand plains where thousands died of thirst. It was a war aimed “at wiping out the whole Herero population.” Those who survived were put into camps which were “quite correctly called concentration camps, established apparently with British concentration camps in South Africa as the model. ... In the worst camp on Haifischinsel off the coast of South West Africa 1032 out of 1795 prisoners died within a period of seven months, while 45% of about 15,000 Africans died between 1904 and 1907. Trotha was not treated as a war criminal when the war was over. Instead, he was decorated (Ludtofte 2003, 29–40).

All of World War II is foreshadowed here. It was a “foretaste of the total warfare characteristic of the 20th century.” And “there is a connection between total war and genocide ... bringing in its wake the mobilization of the whole nation, militarization of society, concentration of power and the denial of the common humanity of the ‘enemy’” (Ludtofte 2003, 43). The brutalization of the indigenous population was made possible through an extreme racism with which we would become only too familiar two generations later. The Germans – indeed all the European powers – were informed by the theories of “Social Darwinism” which asserted that “there was a struggle for survival amongst the different human ‘races’, in the course of which those with lesser intelligence of capacity for ‘civilisation’ would eventually disappear, their elimination being evidence of their natural inability to evolve” (Miles and Brown 2003, 43).
It also foreshadows the Nazi holocaust. The German war against the Herero in 1904 has been called “the first genocide of this century (before the mass slaughtering of Armenians, Jews and Cambodians)” (Dederding 1993, 81). This was not a German question, but a European colonial question. There were other peoples nearly wiped out in the pursuit of colonial settlement. The British, for instance, are implicated in the 17th century massacre of the Pequot people in what is today Connecticut, and the 18th century genocide of the indigenous people of Tasmania in what is today Australia. On June 6 1929 in St. John’s Newfoundland, part of what is today Canada, a young indigenous woman named Shanawdithit died of consumption (Upton 1977, 146). She was the last member of the Beothuk nation, the original inhabitants of the island. Their genocide was a crime resulting from the colonial settlement of the island. One witness, a resident of Brown’s Arm, lived to 112, long enough to record her memory of one of the many battles between settlers and the indigenous Beothuk. Her nephew recounts the story this way.

Dey (the English whites waiting in ambush) opened fire, and dey levelled, nothing alive, nothing got ashore, men, women and children, twas barbarous you know. And dey sunk everything right where twas too. Dey cleared away all, dats all was dere see in Charles Brook at dat time ... So dere was no Injuns heared talk of dereafter (Upton 1977, 152).

Just as in these earlier cases “the Herero were the victims of a perpetrator who killed those who blocked his access to wealth” (Chalk and Jonassohn 1990, 231). There are clear parallels with the extreme racism used to justify atrocities in the Second World War.

In the decades since, many controversies have emerged over this colonial period of German history, centred on the issues of economics and ethics. Economically, there is a dispute as to whether this experiment in colonization ever proved itself profitable economically. As this debate has been articulated in the literature, it is not directly relevant to this paper. The issue is not whether the push for colonization was successful as an economic experiment. Wehler’s point on this is probably correct: “in the long run informal economic expansion has proved to be safer and more profitable for Germany too” (1970, 151). The point is, that it was clearly hoped that colonial expansion would work to alleviate the economic problems which Germany and the other European capitalism were facing – would work, as it were, as a “spatial fix”. Whether or not this experiment in a spatial fix succeeded in solving or alleviating these economic problems, the experiment in a colonial spatial fix certainly happened, driven in large measure by the contradictions of capitalist economic development, so clearly outlined by Harvey and Luxemburg.

The ethical issue is directly relevant. There has arisen a dispute as to whether the abuses which did occur in these colonies were exceptionally German. Some minimize the extent of the abuses altogether. As to the first, this paper is written with two assumptions: first, that there were extremely serious human rights abuses by all the colonial powers. Second, that this must be seen as a Great Power, not a German problem. German crimes against humanity were of a piece with the now well-known crimes perpetrated by all the European colonial powers. But given subsequent European history, and the focus of this paper, the German crimes require particular focus.

The era of Bismarckian imperialism, sketchily outlined here, has largely disappeared from memory. The next moment of the German “spatial fix,” surveyed earlier in this paper, spans a period of history which is extremely well-known – the period opened up by World War One, and closed by World War Two. But in truth, the remembered moment of the World Wars cannot be properly understood without the forgotten moment of Bismarckian Imperialism. The great U.S. scholar, W.E.B. Du Bois, developed in detail the connection between European colonialism, of which Bismarckian imperialism was a part, and the horrors of World War Two. “There was no Nazi atrocity – concentration camps, wholesale maiming
and murder, defilement of women or ghastly blasphemy of childhood – which the Christian civilization of Europe had not long been practicing against colored folk in all parts of the world in the name of and for the defense of a Superior Race born to rule the world“ (Du Bois 1965, 23). Du Bois’ point is not just comparative. He asks the analytic question, what could have so disfigured the humanity of the German people, that they could engender the barbarism of Nazism? His answer is very specific – the African slave trade which was the foundation for the European colonial system. “I believe that the trade in human beings between Africa and America, which flourished between the Renaissance and the American Civil War, is the prime and effective cause of the contradictions in European civilization and the illogic in modern thought and the collapse of human culture” (Du Bois 1965, 43). This created the condition for the racist “Othering” of the Nazi holocaust, which was an extension of the colonial “Othering” in moments such as the German slaughter of the Herero.

One final point needs to be made. This analysis is one very much rooted in the writings of Marx and Engels. Useful as their writings are, on some key aspects concerning this history, their analysis has to be drastically revised. In their most well-read work, The Communist Manifesto, their gloss on the work of capitalism when it goes abroad to the Global South – what is being called here “imperialism” – is completely offensive. “The bourgeoisie ... draws all, even the most barbarian, nations into civilisation” (Marx and Engels 1976, 488). This is clearly not the case. The entire history of colonialism is of the bourgeoisie drawing other nations not into civilisation, but into conditions of utter barbarism. To actually return to the track of civilization, the colonies have had to, again and again, repel the capitalist invader and begin the difficult process of finally establishing national sovereignty. The German encounter with the Herero is one moment in that process. From the German encounter on, the people of German South West Africa had to endure decades of barbarism at the hands of the “civilized” Europeans, until finally gaining independence as the country of Namibia in 1989.

**Conclusion – out of the impasse?**

The tour of the pilgrimage is now complete. This paper has made several points. First, and most clearly, the current crisis of the Eurozone would be navigated with much less pain, had there been fewer obstacles in the opening to Turkey in the 1990s. The barrier to that opening was deeply embedded systemic racism, in the form of Islamophobia. Similarly the crisis would be navigated more equitably, and with far less pain for the weaker economies such as Greece and Portugal, had the EU been able to become a full-fledged and not a partial, federation. The barrier to federalism has been deeply embedded nationalism and chauvinism. Both of these ideological barriers – racism and chauvinism – are the legacy in consciousness of the very foundations of the European capitalist project, and project inconceivable without 500 years of predatory colonialism and the racism, chauvinism and wars which inevitably accompanied that project.

What about the future of the central conceptual point of the paper, the idea of the spatial fix? Given the extreme complexity of the situation in Europe, making predictions about the next steps on the spatial fix pilgrimage can only be tentative and cautious. This does not characterize the approach of all commentators. This paper began with some quite extreme and confident predictions. “The current policy of lending plus austerity will lead to social unrest ... and one should not forget that of the four countries we are talking about, all have had civil wars, fascist dictatorships and revolutions. That is history” (Thomas Jr. 2011). There are many capitalist critics of European Union capitalism who would embrace this statement. With the crisis unfolding, in particular in Greece, discontent with the European project and a sense that something extreme is around the corner, have become ubiquitous.
Who is the author of this confident, extreme analysis? His name is Bernard Connolly. He is a former EU economist who “helped design the common currency’s framework.” After being fired from that position for his sceptical views on the Euro, expressed in his book *The Rotten Heart of Europe* (Connolly 1995), he “worked for AIG Financial Products, the banking arm of the insurance company American International Group, until it went into government receivership” (Thomas Jr. 2011). He writes, in other words, from within the framework of the inner workings of the capitalist economy, in the case of AIG part of the financialized capitalist world which helped create the crisis of 2008-2009. He is, in the words of Perry Anderson, a “crypto-Thatcherite” who opposes the Euro because it is, “in his eyes, a dangerous and futile attempt to bridle the operation of financial markets, which can only stifle the economic freedom on which the vitality of a disorderly economic system depends” (2009, 34–35). But as this paper has tried to show, the very operation of the capitalist market generates the overproduction from which emerges the search for a spatial fix, of which the creation of the EU and the Eurozone are just a part. Connolly’s opposition to the Euro, then, does not stem from a deep analysis of the failings of the capitalist market, but from a nostalgia for a mythical past where the unfettered free market could work without contradictions. But at the very least, what this brief tour of the “spatial fix” of the EU and Eurozone and its predecessors, is that the crises of overproduction are endemic to capitalism, particularly when it is “unfettered”. These crises reappear every decade.

However, there has not been the catastrophic collapse long predicted by Connolly and others. We have not yet seen the break-up of the Eurozone. There has not been the descent into war and revolution. As this is being written, there is actually increasing optimism that a partial stabilization is starting to settle over the European half of the Eurasian landmass. Perhaps this invalidates the entire notion of an overproduction logic which leads to the search for a spatial fix? Or perhaps it indicates that there has been a partial evolution away from the spatial fix solution, precisely because such a fix, on its own, will not solve the problems of the capitalist economy? The latter is the hypothesis of my research project. It will be the task of another paper to try to sketch out possible solutions to the problems revealed in the current crisis of the Eurozone, and in the series of previous failed attempts at a spatial fix to the contradictions of European capitalism.

One part of that solution is deeply political. The racism and chauvinism which stands as a barrier to the creation of a more open, inclusive and equitable federation, must be seriously addressed. A very big part of that solution will, of course, be economic. What I would like to suggest, by way of conclusion, is that in fact certain elements of the way out of the impasse are being posed, albeit in a distorted form. The basic premise of all theories of the spatial fix, is the gap between production and consumption, the fact that capital accumulation cannot move foreward until the products of one round of production have been consumed in the market. This is expressed most clearly by Rosa Luxemburg. She argues that “surplus value must be realised, converted into the form of money, so that it can be appropriated for the purposes of expanding reproduction. This second condition thus leads us to the commodity market” (1951, 44–45). Profit might be the goal of production, but it can only be realized through consumption of products in the market.

But a century later, we know that this is not true. Capitalism long ago began developing mechanisms for the acquisition of money by corporations, mechanisms which bypass the consumer market. The massive expansion of the stock market is one aspect of this – the most basic form by which a corporation can quickly acquire money far in excess of what it could acquire through selling its products on the market. This, along with the increasingly important role of Central Banks, and the fact that the money supply is no longer limited to the supply of gold, silver or any other precious metal, has made possible state intervention into the economy of a kind about which thinkers of Luxemburg’s generation could never imagine. In response to the Great Recession, we saw country after country – backed by the
International Financial Institutions such as the International Monetary Fund (IMF) – make available billions, in fact trillions of dollars to the private sector, far in excess of what could ever be realized through the sale of goods and services in the market (Kellogg 2011).

The very fact of a troika-bailout of Greece and the use of central banks to inject trillions into the banking system through quantitative easing, are admissions of the fact that the market is at a limit. But these are attempts to identify and partially solve the problems of the market, not by transcending market mechanisms, but rather temporarily patching them up so that they can recover and resume their work. These alternatives to the spatial fix, in other words, are partial, and remain trapped in the fetishized form of private property.

Perhaps we can think of things in a different way. We measure the current crisis of Greek society, for instance, by the size of its government debt. But the bailout from the troika does not involve giving money to that government. Rather – like the quantitative easing engaged in by the United States, Britain and Japan – it involves bailing out the private sector financial institutions, so implicated in the crisis in the first instance. What if we think of it differently? Do as the troika has done in Europe, or as the U.S. Federal Reserve has done in the U.S. through quantitative easing. Create new money – but recognize that this is money reflects something real, the productivity of labour in society as a whole, and that it is society as a whole which should decide whether it should be: a) given to the financial institutions whose risky decisions laid the foundations for the Great Recession; or b) directed towards socially necessary investment the contours of which we discuss openly and decide democratically. That is, however, for another paper.
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