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Austerity and Growth in Europe: Germany's Impossible Mission

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Summary

This article provides a critique of neo-liberal, supply-side austerity policies as they unfold asymmetrically in the EU/Euro-zone and beyond. The main argument advanced is that, contrary to claims by the European Commission and Germany's elite, growth and austerity are incompatible policy magnitudes. The Euro-zone constitutes the worst form of Gold Standard from which countries cannot escape and advance the imperative of domestic growth as external devaluation and import-substitution are no-options. The article shows neo-liberal austerity is currently being implemented via authoritarian forms of governance from above while cultivating racist and xenophobic movements from below.

Keywords: Austerity, Debt, Growth, Eurozone, Germany

> "We have come to a clear realization that true individual freedom cannot exist without economic security and independence (...). People who are hungry and out of a job are the stuff of which dictatorships are made."
>
> Franklin Delano Roosevelt, 1944

Introduction

Amidst the Greek debt crisis in summer-autumn 2011, German Minister of Finance, Wolfgang Schäuble, had the comfort to sign an article in *Financial Times* in which he attempted to argue that austerity is compatible with growth and sustainable development.[1] "It is an undisputable fact", he wrote, "that excessive state spending has led to unsustainable levels of debt and deficits." "Governments", he continued,

[1] The authors would like to thank Anđela Pepić for her research assistance.

"in and beyond the Euro-zone need not just to commit to fiscal consolidation and improved competitiveness – they need to start delivering now." Schäuble argued that this is the only way to achieve sustainable development and took a clear position against a fiscal union at the European level because, as he wrote, it would make the crisis worse by "removing a key incentive for the weaker members to forge ahead with much-needed reforms". After all, he said, the fiscal union is "against the very nature of European integration" (Schäuble, 2011). In the event, Schäuble said nothing more and nothing less than what the EU Treaties and myriad of mainstream textbooks on European "integration" were saying for decades, namely, that free market can bring about prosperity and growth, creating jobs and equality. But he is a chief policy-maker with no time for textbooks and finesse. He deals with practical problems. The German Finance Minister is short of alternative economic policies: he has no European budget to speak of and, effectively, no European *political* Union to finance the debts of the periphery caused by asymmetrical levels of economic development within the union proper; in addition, he has no instruments to inflate the Euro-area inasmuch as the Treaties of the EU, having set out strict monetarist criteria, prohibit wage inflation and fiscal deficits.

This article demonstrates that neo-liberal austerity and growth are, unlike Schäuble's claim, incompatible policy magnitudes. The monetarist philosophy of the EU Treaties since 1992 walks on the impossible, because it systematically ignores the demand component of social economy preferring instead to gamble in the global financialisation markets. We will be defining austerity in the strict monetarist framework of the EU/Euro-zone and by way of comparing the Euro-project with the Gold Standard. In this context, we will shed light on the role of Germany in Europe's architecture and the way in which it tries to transplant its anti-inflation bias across the continent. Parallels with the inter-war period will be drawn and the uneven implementation of austerity policies in various European states will be highlighted. In this context, we shall become aware of the authoritarian forms of governance embedded in austerity policies, as well as the way in which neo-liberal austerity contributes to generating racist and xenophobic movements from below.

False Starts

A key feature of capitalist modernity is its uneven manifestations across time and geographical space. Capital accumulation processes and business cycles can never embrace equally all regions, states and societies. There are always winners and losers. Some countries and societies are richer than others, enjoying higher levels of economic and technological development. The countries of the core dictate policies for the periphery and the political debates within the periphery countries are essentially defined by the core, the narrative being how the "under-developed" periphery

could "catch up" with the core and "modernise" itself in a similar way. The world has never been, nor will ever become, flat. Despite the fact that Western Europe had since the 1960s been defined as an "optimal currency area" (OCA) by a number of monetarist theoreticians, when matters came to be tested in history with the launch of the Euro in 1999, Europe as an OCA failed precisely because it is not flat (Mundell, 1961). It also failed because both the rationale and the design upon which it was based were erroneous.

Pre-1999 developments in the European area were determined by exchange rate instability and massive currency risks, as testified to by the collapse of the British pound and the Italian lira in 1992. At that time the Maastricht Treaty was setting out its monetarist straightjacket: countries that wished to join the monetary union ("the club of rich countries") in 1999 had to observe a 3% limit to their fiscal deficit and a 60% limit to their public debt (as a percentage to GDP), whereas inflation should be kept under 2%. It was deemed that different nominal and real indices of macro-economic performance could be dealt with by deflationist imposition, anchoring all currencies to the only currency that never came under depreciation pressures, the German D-Mark. Germany took on this role not just because it had the most stable and robust economic and monetary system, but also because it was under pressure by France to assume that role. During the life and times of the EMS (European Monetary System, 1979-1999) that preceded the EMU (European Monetary Union), Germany's monetary and economic domination worried France, who now wanted to engage Germany into a monetary union so that *political* domination by Germany in the European Communities could be avoided. Thus, there was no "German master plan" to dominate the EU as some nationalists are eager to argue (Carter, 2015). What happened was that the normative-functionalist process of European "integration" came to embed Germany's economic model in its structural and institutional operative logic, thus inserting the core principle of deflationary bondage (read: austerity) in the EMU. German dominance in the EU is an unintended consequence of the EMU, a dominance that could have been contained if other key European powers had blocked Germany's neo-mercantilist model (low inflation, low wage, export-led) during the years of the EMS.[2]

[2] In this respect, Francois Mitterrand's famous "U-turn" in the early 1980s remains a key event in the turbulent history of the EMS. Mitterrand, who assumed power in 1981 – the same year as Andreas Papandreou's PASOK in Greece – on the basis of an expansionary Keynesian agenda allied with the French Communist Party, abandoned Keynesian reflation and nationalisations. Unable to defend the Franc within the EMS and in the midst of rising unemployment and debt, Mitterrand gave up on his socialist promise in March 1983 and embraced a moderate neo-liberal platform. As Donald Sassoon noted, "had the French elected a *laissez-faire* neo-liberal government, as the British did in 1979, its manufacturing sector would have collapsed forever, as the British has done" (Sassoon, 1996: 555). However, as Marc Lombard argued, Mitterrand could

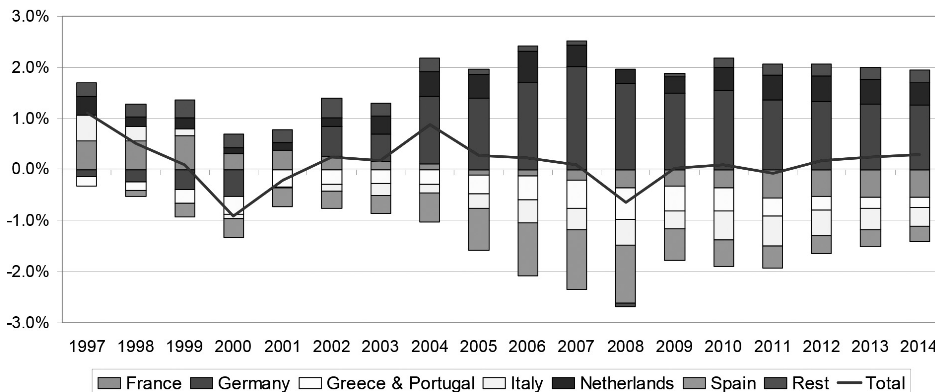
By 1999, the ground was paved for the Euro to work on an institutionalised framework of neo-liberal deflation. It was further bolstered in 1998 by the Stability and Growth Pact. SGP institutionalised further the strict monetarist criteria of the Maastricht Treaty, strengthening the annual monitoring mechanism of all member-states by the European authorities. The so-called “Euro-group”, which played such an important role in negotiating bailout agreements with peripheral states, was founded in 1998. Deflationary bondage across the EU member-states became acute with the onset of the global financial crisis and the Euro-zone crisis, when the “European Semester” programme and the “fiscal compact” were introduced. These schemes imposed even harsher discipline on the member-states of the Euro-zone, and also on countries that had their currencies pegged to the Euro, such as EU countries and some aspiring members of the EU, especially Western Balkan countries except Serbia. A flat neo-liberal monetary policy for all was attempted to be applied from the beginning, and this was a major fallacy of the Euro-zone architecture, because what is good for Germany is not good for all.

From the late 1990s onwards, Germany had pursued a low wage, low inflation, export-led growth. Effectively, this was a neo-mercantilist model satisfying the anti-inflationary ideological bias of the German elites, as even moderate inflation in Germany is (wrongly: see below why) connected with the crisis of the Weimar Republic and the rise of Nazism. This worked well for Germany’s robust export sector at a time when Great Britain had completely de-industrialised, France had made its U-turn because it could not confront the EMS, and Italy was struggling to cope with its high debt levels. Thus, Germany could cannibalise the export market of the Euro-zone and become the surplus country of the core together with Holland, whereas the periphery of Europe became a net debtor. The introduction of the Euro exacerbated the pre-existing gap between core and periphery states in Europe. France’s external debt was also rising (Graph 1).[3] Structurally, the system worked for its anchor, that is, Germany’s social economy and the policy mix that sustained it, that of low wages, low inflation and export-led. These are the principles which

not have made any concessions to neo-liberalism had he not hesitated to operate outside the rigidity of the EMS framework (Lombard, 1995). Greece, under veteran socialist Papandreou in the 1980s, put up a better resistance to the neo-liberal tide, but being a small country with limited capacities, was unable to streamline developments in Europe. Scandinavian countries, too, although they pursued demand-led policies throughout, could not influence development in the European core, already dominated by EMS/Germany’s monetary policy.

[3] Note that current account represents the external creditor/debtor status of the country. It is not a fiscal magnitude. Fiscally, both Ireland and Spain were sound, for example, yet, same as Greece and Portugal, they received bailout funds from the “troika” (the IMF, the EU and the ECB). As we have shown elsewhere, the Euro-zone crisis is primarily a balance of payments crisis, not a fiscal crisis (Fouskas and Dimoulas, 2012; 2013; 2016).

Graph 1. Current Account Imbalances in the Eurozone (as a share of eurozone GDP)



Source: IMF WEO Database October 2011

the European commission and the ECB have been trying to transplant across the Euro-zone/EU and beyond.

This reminds us of the famous Keynesian paradox about savings, what others call "fallacy of composition". Keynesian economics explain this with the savings paradox or the "paradox of thrift": a household may be successful in reducing its debt during a recession, but this cannot be said of the aggregate households, let alone of the government, because if all households cut down on consumption in order to pay debts, the government would have to step in to make up for the fall in demand by increasing expenditure and putting a halt to the recession. Increasing aggregate savings in a recession is very harmful for the economy (Keynes, 1936/1993: 61-65, 74-85, *passim*). Yet, this is precisely what deflationary bondage does.

Austerity in Europe and Beyond

We can now put forth the following propositions:

a) Europe has never been an optimum currency area as developmental cleavages have long pre-existed the introduction of the Euro. The Euro-zone has simply exacerbated them.
b) The monetary union had as its anchor nation-state the state whose political economy and monetary discipline prevailed during the years of the EMS; that state was Germany.
c) Germany, by the structural logic of developments in the EMU system, has been transplanting the organising principles of its economy across the

EU/Euro-zone countries; these principles were neo-mercantilistic, supporting the supply-side of socio-economic relations.

d) The Euro-system institutionalised a monetary structure of asymmetry between core and periphery, creating permanent creditors and permanent debtors; the transfer of funds from the periphery to the core of the EU takes place via the recycling of surpluses of the core and the permanent mechanism of borrowing/consuming for the debtor.

e) Recent discipline and fiscal restrictions to sustain the Euro-system came as a response to the Euro-zone crisis and, as a result, generalised *austerity* has been imposed across the EU/Euro-zone, taking extreme forms especially in the over-indebted periphery.

The Euro-zone crisis has made *austerity* the dominant form of socio-economic policy in the EU. However, it should be stressed that it is not a completely new phenomenon. Its origins can be traced back to the *stagflation* (stagnation accompanied by high inflation) of the 1970s. Business elites, a new liberal political class in the USA and the UK and their intellectuals wrongly attributed the falling rate of profit in the real economic sector to high wages and the profligacy of the state.[4] The collapse of the Bretton Woods system in 1971 and the end of the dollar-gold parity, unleashed money and credit ushering in the era of neo-liberal globalisation/financialisation as a response to *stagflation*: privatisations, welfare state retrenchment, decline of manufacturing and the rising significance of the financial sector, trade in financial commodities, financialisation of non-financial multinational corporations, post-Fordist regimes of accumulation achieved via flexible labour markets and precarious labour, increasing levels of trade and FDI etc. New "historic blocs" began to be formed within the executives of the core in the USA, Europe and beyond. The state began favouring supply-side economics at the expense of Keynesian supportive intervention in the management of the aggregate demand. In other words, austerity has been embedded in the regimes of neo-liberal globalisation advanced by Anglo-American polities in the late 1970s-early 1980s aiming at spreading those regimes all over the globe.[5] However, the European project, which has always been exposed to global competition, could not remain untouched by global trends: to compete on an equal footing with the Anglo-American drive of neo-liberal globalisation, it had to streamline its own political economy on similar

[4] The falling rate of profit in the real economic sector and problems in the US balance of payments structure was the result of a number of concurring factors, such as the global competition between Japan, the USA and West Germany and the Vietnam War. See, among others, Brenner (2006) and Arrighi (2007).

[5] It should be noted, however, that the first testing ground of the neo-liberal doctrine was a Latin American country, Chile, after the fall of Allende (Harvey, 2005).

grounds. As we have seen, at least from 1992 onwards, Europe as a whole takes on a neo-liberal turn.

Having said this, austerity is a dependent variable of supply-side economics. It is a form of deflation in which the economy attempts to adjust through policies and legislation that reduce wages and welfare spending while increasing taxation, the rate of unemployment and precarious employment. The aim is to restore competitiveness and sustainable development via "structural adjustment", reducing a state's deficits and debts by way of privatizations and liberalisation of markets.[6] This is what we call here "mission impossible": austerity *cannot* deliver growth, let alone sustainable development.

Post-stagflation Regimes Fail to Achieve Growth

Post-*stagflation* global austerity regimes in the USA, Great Britain, Western Europe and Japan failed to achieve the levels of growth, investment and rates of profit achieved during the so-called "Golden Age of Capitalism". In terms of real GDP growth, the financialisation of the economy and every-day life was no match to the Fordist accumulation regimes of the real economic sector (manufacturing, agriculture). In addition, financialisation increased global debt levels, unemployment and inequality (Broadberry and O'Rourke, 2010; Piketty, 2014; Roberts, 2016; Fouskas and Gökay, 2012). Even the GDP per capita achieved during the virtuous period of neo-liberal globalisation (1979-2008) and, more specifically, during the Clinton-Blair years, was driven by borrowing and consumption. Effectively, as Robert Brenner argued, it was "debt-driven" growth based on what he called "asset-price Keynesianism" (Brenner, 2006), easy to blow up when the first cracks in the global financialisation chain appeared in 2007-2008 (Fouskas and Gökay, 2012; Fouskas and Dimoulas, 2013).

The Euro-zone was particularly vulnerable to the crisis because European banks were exposed to the global derivatives trading and repo markets, whereas a federal fiscal entity and pro-Keynesian rules at EU level were missing. The EU is not a state with fiscal responsibility and the Treaties prevented bailout of debtor states. When the global financial crisis of 2007-2008 trickled down to the Euro-zone via the banking sector, the first to suffer was the most financialised economy of the Euro-zone, Germany. In fact, the first banks that failed were the German banks, and this is neither very much discussed nor widely known (Lapavitsas et al., 2010; Tabb, 2013). However, the crisis was displaced in the peripheral states of the EU, either via the banking sector (e.g. Ireland) or through the debt (bond) market and their exposure to speculation. Greece, unlike Spain or Ireland, was to suffer most because apart from

[6] For a pristine and comprehensive definition of austerity in a historical perspective, see Blyth (2013).

its problematic current account it had large fiscal deficits (Fouskas and Dimoulas, 2013). In this context, and given the German-driven pan-European monetarist constraints of the Treaties, member-states of the Euro-zone and beyond had but one choice, that of austerity. In peripheral states, such as Greece, Spain and Portugal, receiving bailout funds from creditor states of the core was accompanied by the harshest ever austerity measures. Rather euphemistically, austerity there was called *internal devaluation.* The reason was simple: inasmuch as Euro-zone countries do not effectively have a central bank to regulate the quantity of money thrown into the national economy (fiat money) as well as the interest rate differentials, they are dispossessed of a fundamental Keynesian instrument at the national level, namely that of *external* devaluation in which national central banks devalue the currency in order to improve international competitiveness, boost the performance of domestic enterprises, advance growth and create jobs. It seems that Germany and other surplus countries, such as Holland, are entrapped in a situation created rather unintentionally by the logic of a strong and stable currency – initially the D-Mark, now the Euro – which is now forced to operate in eighteen national political democracies that have different levels of economic development; different social and geo-political challenges; different levels of national debt and unemployment; different fiscal and banking systems; and even different rates of inflation, although this is the least problematic, since pan-European austerity caused pan-European deflation. Essentially, the Euro-zone performs similarly to the bankrupt Gold Standard of the inter-war period, which failed spectacularly not just to deliver jobs and growth and operate in the new era of mass democratic politics, but also paved the way to the Second World War. Authoritarian forms of governance are required to deliver, and this is what is actually happening across Europe and beyond, the most acute forms of authoritarian governance from above being those in the periphery of Europe (Fouskas and Dimoulas, 2013; Flassbeck and Lapavitsas, 2015; Frangakis, 2015).

The Gold Standard and the Euro-zone Compared: Authoritarian Governance from Above, Cultivation of Right-wing Extremism from Below

During the second half of the 19th century a liberal and imperialist international economy emerged under the primacy of European powers, especially that of Britain and France. Britain led the industrial revolution and globalised trade and financial transactions to an unprecedented degree. In this, the creation of a stable international monetary system exchanging goods and services by a recognised form of international money has played a very important role. Powerful imperialist European countries used monetary exchange arrangements in order to transfer value from the peripheries to them. This was not ideal, because exchanging currencies and sorting out balance of payment problems with the various countries of the world created many problems due to the differentiated values of reserve assets of each exporting

and importing state, the control of capital movements and problems arising from the regulation/stability of the exchange rate. British imperialism attempted to solve that problem by introducing the Gold Standard, whose heyday lasted some forty years (1875-1914). The main elements of the system were the following. First, all participant countries had to fix their currencies in relation to gold; second, currencies could change values in relation to each other, but they should remain fixed to gold; third, gold could move relatively freely around the world; fourth, and most importantly, states around the world should be in a position to accept *automatic deflation* in case balance of payments difficulties arose. Clearly, such a system works when the grand majority of the population is shut out of politics. Britain did well as the world's prime imperial power during the period in question because it managed to extract massive rent and profits from its colonies while allowing only a tiny minority of the population to vote. To put it differently, democracy in domestic politics and Gold Standard rule in external trade were incompatible.

Twentieth-century mass politics and the Bolshevik revolution altered the balance of class power. Europe's imperial powers had to make concessions. However, they failed to realise the full impact of such a monumental change on the post-WWI international monetary system. Thus, when they returned to the "stability" of the pre-war Gold Standard system fixing their currencies on the same pre-war parities, the result was disastrous.

Europe and the world were not the same. Mass socialist parties and trade unions dominated politics and civil society and Communist Russia created a tangible political alternative to liberal capitalism. An overvalued sterling anchored to gold since 1925 failed to deliver, damaging the structure of exports for British industrial goods. This cost jobs at home at a time when Germany was not forthcoming with reparation payments as per the Treaty of Versailles. The 1929 crash pushed Britain off gold and to extreme austerity. Yet, despite the austerity, Britain's debt increased: from 170% of GDP in 1930 it went up to 190% of GDP in 1933 (Blyth, 2013). In France, austerity became the norm (France joined the Gold Standard in 1926). The Wall Street crash and the unwillingness of Germany to abide by the Treaty of Versailles brought France to its knees: by 1932, industrial production fell by 13% and the GDP by 7%. Inflating the economy was not possible because of the anti-inflation bias of France's Central Bank. Budgetary problems were dealt with by cutting government spending up to 20% and when industrial production fell further by a quarter, the exchange rate and the money supply collapsed (*ibid.*). The Popular Front government of 1936 under Léon Blum failed because of its inability to impose capital controls, eliminate capital flight and tame the anti-inflationary bias of the central bank. Budget increases were constantly vetoed because of fear of high inflation. The result was, as Mark Blyth put it, that "French defence spending between 1934 and 1938 was one-tenth that of Germany" (*ibid.*: 203). Germany and its orbit in central Europe constitute the most interesting case.

German political elites had deliberately inflated the economy in order to skew reparation payments. The hyperinflation of the early 1920s was a German strategy, not the result of fiscal expansion and high real wages. Hyperinflation, nevertheless, was an objective fact that had to be dealt with and gold convertibility was the only option. Germany returned to gold in 1924, Austria in 1923, Poland in 1924 and Hungary in 1925. This move was accompanied with a high dose of austerity, especially in Germany, the oddity being that austerity policy was led by the German Left, not by the Right. The Nazis criticised budgetary cuts and lack of growth and supported a strong intervention in the management of aggregate demand. Persistent support of supply-side austerity by Germany's SPD boosted the Nazi bid for power, whose economic programme rested on the following triptych:

a) unemployment causes poverty, employment creates prosperity;
b) capital does not create jobs, jobs create capital;
c) unemployment benefits burden the economy, but job creation stimulates the economy.

The Nazi party had appropriated the discourse of the socialist Left and became a mass party. The rise of Fascism in Italy in the early 1920s followed a very similar politico-economic and ideological pattern. The Gold Standard collapsed in the 1930s amidst the failure of the political Left to interpret the significance of mass politics and global policy shifts, as well as the need to move away from austerity programmes that were so unpopular. The extreme political Right of Fascism and Nazism capitalised on the inability of the Left to interpret correctly socio-economic and political developments, appropriating the discourse and the Left's political ideology in earnest.

The Euro-zone today and all countries that have their currencies pegged to the Euro, have their political economies operating under even stricter rules: effectively, the Euro-zone is an inflexible fixed exchange rate regime, much worse than the Bretton Woods system (1944-1971) and the Gold Standard. The comparison with the period of the Gold Standard between the wars is made in order to provide evidence of the links between rigid monetary systems and austerity, on the one hand, and Right-wing extremism, on the other. The Euro-area states cannot devalue because there is no such instrument in the Treaties and because of Germany's deflationary criterion inserted in them. Other structural constraints and rules (in case the national currency is pegged to the Euro) also apply. Devaluation can happen but only *internally*, which means harsh austerity (reduction of prices and incomes of a country relative to other countries in order to change the real exchange rate in terms of commodities). The option of *external* devaluation for a country to improve its balance of payments does not exist. The neo-liberal European Left has effectively accepted all the monetary constraints of the Euro-Treaties and the deflationary discipline of the ECB and the European Commission. Austerity is currently being

implemented across Europe via authoritarian forms of governance, discipline and imposition. In periphery countries some austerity measures are passed by parliamentary decree, and specific departments of periphery states are directly ruled by the so-called "troika" (the EU, the ECB and the IMF). This is neo-colonial authoritarianism from above.[7] What about extremism, racism and nationalism from below and how are they fed by deflation and neo-liberal financialisation/globalisation?

A look at continental Europe's political map today, from France to Hungary and from Greece to Croatia, Serbia and Holland, especially if the victories of Brexit in the UK and Trump in the US are taken into account, would be enough to convince the politically aware that, by and large, the Left's discourse has become completely supply-side and obsolete, whereas the Right's discourse appears more sympathetic to the worker and the poor (Fouskas, 2016a; 2016b). In fact, the extreme Right in Europe and beyond, what *The Economist* calls "the new nationalists", is set to win elections on a pro-poor, pro-working class platform (*The Economist*, November 2016). Exceptions, obviously, exist, but they are either few, such as the new leading group of the Labour Party in the UK under Jeremy Corbyn and John McDonnell, or electorally insignificant, such as Germany's *Die Linke*. Greece's Syriza was also an exception, but it lasted just seven months in government (January-July 2016), after which it capitulated to the deflationary demands of the "troika" asking for another bailout agreement, the country's third. The political vacuum created by the Left's embrace of austerity and supply-side economics comes to be filled by the discourse of new racist and xenophobic movements from below, which link unemployment and migration (Talani and McMahon, 2015). The current refugee crisis and the geopolitical situation in the Greater Middle East coupled with terrorist attacks in Paris, Berlin, Istanbul and elsewhere, have further boosted the extreme Right in absence of welfare policies and employment opportunities. The "state of emergency" declared in France and Turkey, for example, underpins to a large extent the authoritarian regime of austerity and bondage. State authoritarianism cannot address the issue of terrorism; if anything, it acts as a supportive mechanism of austerity, also by way of diverting attention of the public from social issues such as employment, health, education and pensions. The contrast with the "Golden Age of capitalism" in the 1950s and 1960s and the level of democratic quality of this historical period is more than sharp: millions of migrants left Turkey and other Mediterranean countries to work as *gastarbeiter* in Germany, France, Austria, Belgium and elsewhere, yet racism and nationalism were non-existent, precisely because the system was demand-led and pro-growth. Acts of terrorist violence had different sources (the Cold

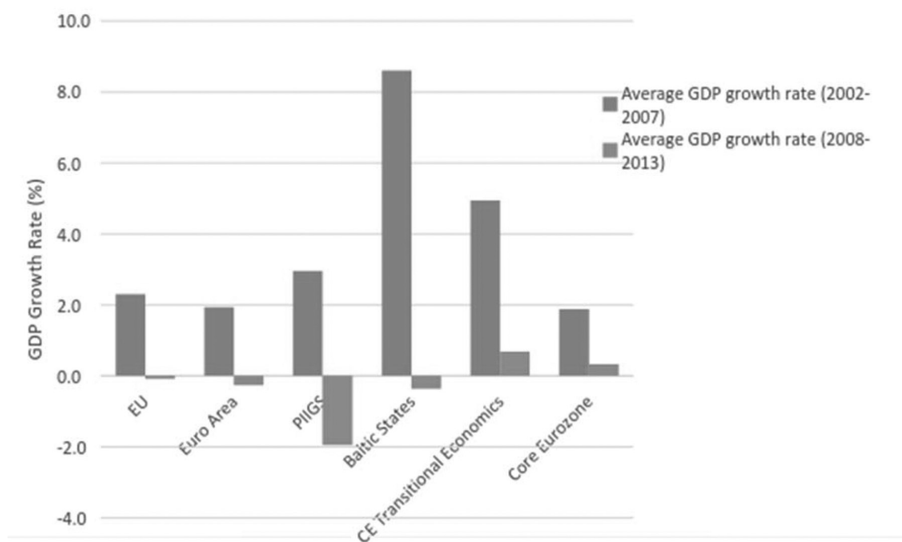
[7] When Yanis Varoufakis, Greece's seven-month Finance Minister (January-July 2015) tried to test his "Plan B", he found out that even the General Secretariat for the Public Revenue based in his Ministry of Finance was controlled by the creditors, who refused to provide him with the tax codes he wanted in case Greece's negotiations with the "troika" failed (Varoufakis, 2015).

War, the Arab-Israeli conflict, the Irish problem, anti-colonial struggle), but they had no connection with xenophobia and racism. Today, fifty years after the *stagflation* of the 1970s, neo-liberal globalisation and post-2008 austerity regimes inhibiting growth, dismantling the welfare state and advancing precarious employment and unemployment are *directly* responsible for the rise of anti-migratory Right and alt-Right in Europe, the USA and beyond.

The Impact of Austerity Policies: No Inflation, No Growth, No Jobs

After the crash of 1929-1933, it took European countries five years to return to pre-crisis levels of growth. We are now well into the eighth year of the recession and all macro-economic evidence we possess indicate that we have still not reached pre-crisis levels, apart from interest rate differentials and inflation. In early 2017, Spain's economy was 5% smaller; Greece's 27.1%; and Portugal's 6.5%. Germany was only 5.5% larger than it was in 2008, whereas France was only 2.6% larger. Overall, average growth in the Euro-zone since 2010 was well below 2%, with some periphery countries experiencing zero and even negative growth rates. Industrial production in the Euro-zone was down more than 10% and gross capital formation remained below 2007 level in 21 out of the 28 EU countries. Unemployment levels increased substantially across the board, especially during the post-2008 austerity years.

Figure 2. Average GDP Growth Rates in Europe and Beyond Before and After the Crisis



Source: Our elaboration of data from Eurostat

Table 1. Inflation Rates in Europe and Beyond

Inflation	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU (28 countries – Average)	2.5	2.1	2.3	2.3	2.3	2.4	3.7	1	2.1	3.1	2.6	1.5
Average inflation (2002-2007 and 2008-2013)						2.32						2.33
Euro-area (18 countries – Average)	2.3	2.1	2.2	2.2	2.2	2.2	3.3	0.3	1.6	2.7	2.5	1.3
Average inflation (2002-2007 and 2008-2013)						2.2						1.95
PIIGS (Average)	3.7	3.32	2.64	2.68	2.96	2.62	3.52	-0.14	1.62	2.78	2.28	0.56
Republic of Ireland	4.7	4	2.3	2.2	2.7	2.9	3.1	-1.7	-1.6	1.2	1.9	0.5
Greece	3.9	3.4	3	3.5	3.3	3	4.2	1.3	4.7	3.1	1	-0.9
Spain	3.6	3.1	3.1	3.4	3.6	2.8	4.1	-0.2	2	3.1	2.4	1.5
Italy	2.6	2.8	2.3	2.2	2.2	2	3.5	0.8	1.6	2.9	3.3	1.3
Portugal	3.7	3.3	2.5	2.1	3	2.4	2.7	-0.9	1.4	3.6	2.8	0.4
Average inflation (2002-2007 and 2008-2013)						2.99						1.77
Baltic States (Average)	1.97	1.07	3.47	4.57	4.93	7.53	12.33	2.57	0.9	4.47	5.37	0.47
Estonia	3.6	1.4	3	4.1	4.4	6.7	10.6	0.2	2.7	5.1	10.6	0.2
Latvia	2	2.9	6.2	6.9	6.6	10.1	15.3	3.3	-1.2	4.2	2.3	0
Lithuania	0.3	-1.1	1.2	2.7	3.8	5.8	11.1	4.2	1.2	4.1	3.2	1.2
Average inflation (2002-2007 and 2008-2013)						3.92						4.35
Central-East European Transitional Economies (Average)	3.9	3.88	4.84	2.52	2.84	3.84	5.18	2.08	2.28	3.22	3.88	1.46
Czech Republic	1.4	-0.1	2.6	1.6	2.1	3	6.3	0.6	1.2	2.1	3.5	1.4
Hungary	5.2	4.7	6.8	3.5	4	7.9	6	4	4.7	3.9	5.7	1.7
Poland	1.9	0.7	3.6	2.2	1.3	2.6	4.2	4	2.7	3.9	3.7	0.8
Slovenia	7.5	5.7	3.7	2.5	2.5	3.8	5.5	0.9	2.1	2.1	2.8	1.9
Slovakia	3.5	8.4	7.5	2.8	4.3	1.9	3.9	0.9	0.7	4.1	3.7	1.5

Average inflation (2002-2007 and 2008-2013)						3.64						3.02
Core Euro Countries (Average)	3.25	1.93	2.9	2.83	3.2	3.28	5.05	0.95	1.7	2.68	2.38	1.4
Belgium	5.8	2.3	6.1	6	7.4	7.6	12	2.5	3	3.4	2.4	0.4
Germany	1.4	1	1.8	1.9	1.8	2.3	2.8	0.2	1.2	2.5	2.1	1.6
France	1.9	2.2	2.3	1.9	1.9	1.6	3.2	0.1	1.7	2.3	2.2	1
Netherlands	3.9	2.2	1.4	1.5	1.7	1.6	2.2	1	0.9	2.5	2.8	2.6
Average inflation (2002-2007 and 2008-2013)						2.9						2.36

Source: Our elaboration of data from Eurostat

Table 2. Inflation in South-East Europe

SE Europe	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Montenegro	17.5	7.8	3.4	3.4	2.1	4.2	9.2	3.4	0.5	3.5	4.1	2.2	-0.7
Former Yugoslav Republic of Macedonia	1.8	1.2	-0.4	0.5	3.2	2.3	8.3	-0.8	1.6	3.9	3.3	2.8	-0.3
Albania	1.7	3.3	2.2	2	2.5	3.1	2.2	3.5	3.6	1.7	2.4	1.9	0.7
Serbia	16.6	9.9	11.4	16.2	11.7	6.5	11.7	8.4	6.5	11	7.8	7.8	2.9
Bosnia and Herzegovina	0.4	0.6	0.4	3.8	6.1	1.5	7.4	-0.4	2.1	3.7	2	-0.2	-0.1
Croatia			2.1	3	3.3	2.7	5.8	2.2	1.1	2.2	3.4	2.3	0.2
Romania			11.9	9.1	6.6	4.9	7.9	5.6	6.1	5.8	3.4	3.2	1.4
Bulgaria			6.1	6	7.4	7.6	12	2.5	3	3.4	2.4	0.4	-1.6
Turkey	47	25.3	10.1	8.1	9.3	8.8	10.4	6.3	8.6	6.5	8.9	7.5	8.9
Cyprus			1.9	2	2.2	2.2	4.4	0.2	2.6	3.5	3.1	0.4	-0.3

Source: Our elaboration of data from Eurostat

As we can see from Figures 2 and 3 and Tables 1, 2, 3 and 4, peripheral European states (PIIGS, East-Central Europe and the Balkans) face the most acute crisis in terms of jobless and nonchalant growth after so many years of harsh austerity. Only Turkey scores better, but this is a country facing extreme geo-political challenges and pressures. At the same time, unemployment in Germany fell from 11.2% in 2005 down to 5% in 2014, proving the validity of Keynes's "fallacy of composition": what

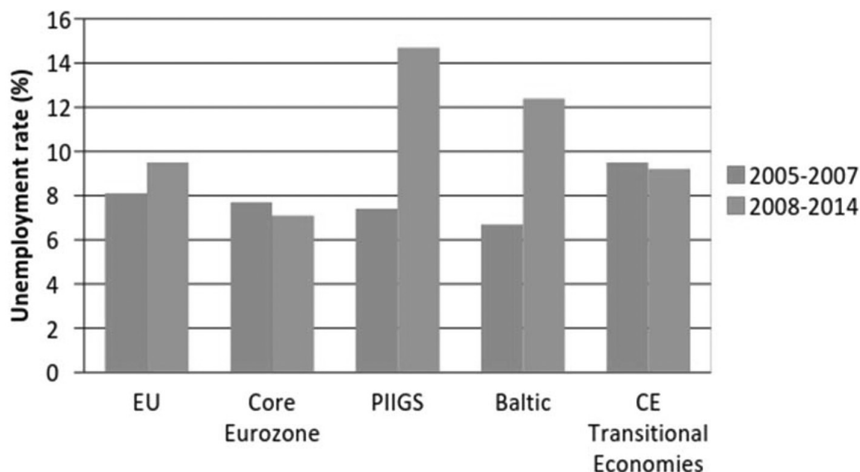
works for the part does not work for the whole. This, for example, was not the case with France, Holland and Belgium. The Balkans has beaten inflation, but their economies rest on strict austerity policies and budgetary discipline supervised directly by the EU and the ECB. Unemployment in the Balkans remains extremely high and this is the raw material upon which local politicians build ethnic nationalist agendas, diverting attention from the real issues. Overall, unemployment in the Euro-18 moved up from 9.1% in 2005 to 11.6% in 2014, whereas in the EU-28 it moved up from 9% to 10.2% respectively. Note that none of the EEC/EC/EU Treaties post-1992 set a minimum unemployment rate as an eligibility criterion for remaining or joining the EU. In fact, they are not concerned at all either with the unemployment rate or other related variables of employment, such as pensions, or part-time work, or precarious work, or most recently, zero-time contracts. In fact, the Treaties and policies of the European Commission encourage flexibility of labour markets and have even institutionalised it under the concept of “flexicurity”. The newest Treaties of “European semester” and “fiscal compact” are even more binding in terms of budgetary discipline, control of governments by the European Commission and commitment to austerity. These direct impositions and controls of sovereign states by the Commission and the ECB give the impression of financial markets ruling over democracies in a straightforward formal-colonial manner. Despite this, and due to *internal devaluation*, austerity bondage improved nothing but the external account and the fiscal performance. Private sector debt and government debt also increased (Figures 4 and 5).

Table 3. GDP Growth in South-East Europe

SE Europe	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Montenegro	1.9	2.5	4.4	4.2	8.6	10.7	6.9	-5.7	2.5	3.2	-2.5	3.3	:
Former Yugoslav Republic of Macedonia	1.5	2.2	4.7	4.7	5.1	6.5	5.5	-0.4	3.4	2.3	-0.5	2.7	3.8
Albania	4.2	5.8	5.7	5.7	5.4	5.9	7.5	3.4	3.7	2.5	1.4	1.1	2.1
Serbia	7.1	4.4	9	5.5	4.9	5.9	5.4	-3.1	0.6	1.4	-1	2.6	-1.8
Bosnia and Herzegovina	5	3.9	6.3	3.9	5.7	6	5.6	-2.7	0.8	1	-1.2	2.5	1.1
Croatia			4.1	4.2	4.8	5.2	2.1	-7.4	-1.7	-0.3	-2.2	-1.1	-0.4
Romania			6.8	4.3	6.8	7.1	6.8	-5.6	-1	1.1	2.4	3	2.9
Bulgaria			6.6	7.2	6.8	7.7	5.6	-4.2	0.1	1.6	0.2	1.3	1.5
Turkey	6.2	5.3	9.4	8.4	6.9	4.7	0.7	-4.8	9.2	8.8	2.1	4.2	2.9
Cyprus			4.6	3.9	4.5	4.9	3.7	-2	1.4	0.4	-2.4	-5.9	-2.5

Source: Our elaboration of data from Eurostat

Figure 3. Rate of Unemployment in Europe and Beyond



Source: Our elaboration of data from Eurostat

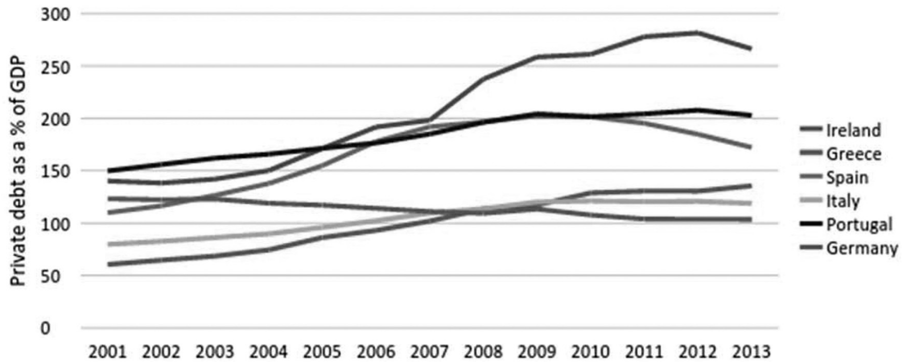
Table 4. Unemployment in South-East Europe

SE Europe	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Montenegro	20.7	22.7	27.7	30.3	29.6	19.3	16.8	19.1	19.7	19.7	19.7	19.5	18.0
Former Yugoslav Republic of Macedonia	31.9	36.7	37.2	37.3	36.1	34.9	33.8	32.2	32.0	31.4	31.0	29.0	28.0
Albania	15.8	15.0	14.4	14.1	13.8	13.5	13.0	13.8	14.0	14.0	13.4	15.9	17.5
Serbia	14.5	16.0	18.5	20.8	20.9	18.1	13.6	16.1	19.2	23.0	23.9	22.1	18.9
Bosnia and Herzegovina	41.1	41.6	41.8	43.9	31.2	29.1	23.5	24.1	27.3	27.6	28.2	27.6	27.6
Croatia	15.1	14.2	13.9	13.0	11.6	9.9	8.6	9.2	11.7	13.7	16.0	17.3	17.3
Romania	8.3	7.7	8.0	7.1	7.2	6.4	5.6	6.5	7.0	7.2	6.8	7.1	6.8
Bulgaria	18.2	13.7	12.1	10.1	9.0	6.9	5.6	6.8	10.3	11.3	12.3	13.0	11.4
Turkey	10.6	9.1	9.5	9.3	8.8	8.9	9.8	12.7	10.8	8.8	8.2	8.8	9.9

Source: Our elaboration of data from Eurostat

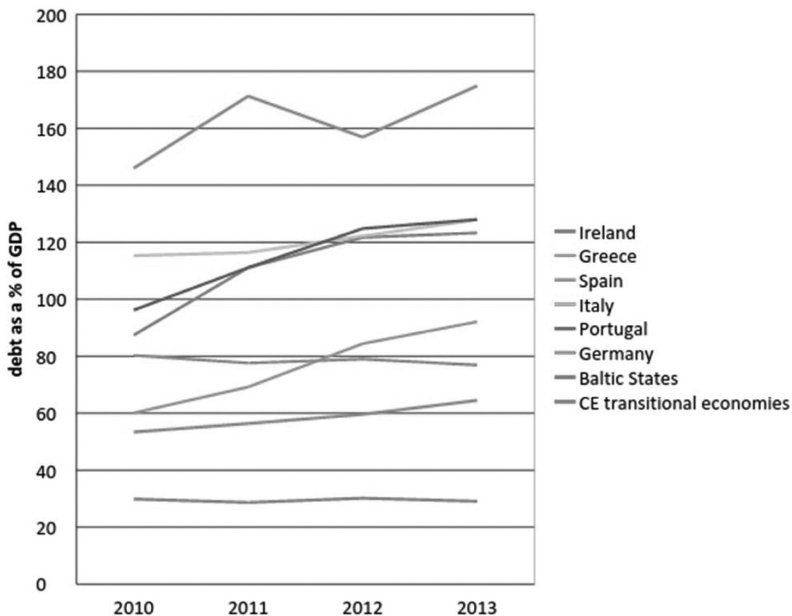
The Euro-zone's debt-to-GDP ratio stood at 93% in 2016, compared with a pre-2008 level of 79.3% and this despite the ECB's asset-buying programme ("quantitative easing"), which equals up to 7% of the Euro-zone's GDP (700 bn Euros in just two years, 2015-2016). The banking crisis is far from resolved: Italian and German banks are under extreme pressure and are in urgent need of funds. Post-2008 fiscal

Figure 4. Private Sector Debt (Households & Non-Financial Corporations)



Source: Our elaboration of data from Eurostat

Figure 5. Government Debt in Europe and Beyond



Source: Our elaboration of data from Eurostat

tightening increased long-term unemployment, a fact which increases the danger of people sliding to poverty and extreme deprivation. In Greece, during the 2011-2013 period, barter became widespread and youth unemployment hit 60%. In 2016,

nearly 1/4 of EU citizens (24.6%) are regarded as "being at risk of poverty or social exclusion" (Fazi, 2016). Oxfam reports reveal that 1% of the population own more than the rest of the world's population combined and 62 people have the same wealth as 3.6 bn poor people. Further, they reveal that the top 1% of the EU-28 population owns 31% of the wealth and the bottom 40% of the population owns just 1% of the wealth (Oxfam, www.oxfam.org.uk). In some peripheral European countries, especially in South-East Europe, the number of economically active population is smaller than the total sum of the unemployed, the pensioner, the part-timer and the long-term unemployed. *Thus, the key cleavage in social economy is not that between labour and capital but between those in the workforce and those outside it.* This is, perhaps, the greatest achievement of neo-liberal economics and austerity: creating non-sustainable societies.

A Final Touch

There is one conundrum to discuss: it has to do with the policy response of the elites to the post-2008 global financial crisis and Euro-zone crisis. The response is different from that following the 1929 crash. Demand-led Keynesian policies were deemed to be the cure to the supply-side crisis of 1929. Keynesian economics reigned after the Second World War and until the *stagflation* of the 1970s, whereas the crisis of neo-liberal globalisation and the Euro-zone after 2008 is being addressed by employing the same monetarist, deflationary means and by deepening and widening austerity. Massive rounds of quantitative easing from both the American Fed and the ECB took place; interest rates are reduced almost to zero; inflation and high wages remain the key enemies of the stability of the system; privatisation processes should continue unabated; cuts in welfare spending should continue. Why such different responses to two crises that were similar in terms of source (both in the financial sector) and magnitude (massive GDP contraction)?

We argue that demand-led economic policy would have failed to win the day back in the early 1930s had the Soviet Union not existed. The USSR and its satellite states represented the extreme form of a politically and well-organised planned economy in which the state embraces all aspects of civil society. When Western policy-makers and liberal intellectuals, such as Keynes, saw the efficacy by which the Communist East managed its economy in the turbulent years of the inter-war period, they were forced to recognise that free market capitalism suffers from a demand problem that had to be addressed in order to save capitalism as a whole. In other words, the USSR and its system of states, including the social struggle and influence of socialism within Western European states after WWII, posed a severe constraint in the exercise of free market capitalism after its collapse in 1929 and the ensuing crisis, forcing some serious concessions on the part of private capital. Today, no such constraints exist: labour-power has been decimated in the 1980s and

1990s by a combination of de-industrialisation and Thatcherite policing of the trade unions; and Communism ceased to exist as a state-form. Herein lies, in our view, the deepening and widening of free market reforms *after* the global financial crisis and the Euro-zone crisis. Apart from some reports from the IMF and the OECD pointing to a new, structural "de-globalisation trend", the dominant Euro-Atlantic business and political elites did not make, as yet, any serious attempt at abandoning neo-liberal globalisation and post-2008 austerity. The dominant belief remains that pre-2008 neo-liberal reforms were not deep enough in terms of de-regulation, surveillance and punishment, hence the crisis.

The natural tendency of capital is to create constantly constraint-free market conditions so as to raise the rate of exploitation, hence the rate of profit. If possible, capital wants to have zero production, distribution and circulation costs and zero risks. As Marx put it: "[This] zero cost for labour is therefore a limit in a mathematical sense, always beyond reach, although we can always approximate more and more nearly to it. The constant tendency of capital is to force the cost of labour back towards this absolute zero" (Marx, 1867/1976: 748). Undoubtedly, this approach creates an under-consumption problem in social economy that Keynes tried to solve, yet in their drive to maximise the rate of profit supply-side policy-makers pursue a self-defeating strategy insisting on making austerity and growth compatible. This is impossible.

Concluding Remarks and Prospects for the Future

In a perceptive "Long Read" feature article in *Financial Times*, celebrated financial journalist, Martin Wolf, argued that US power has retreated both geo-politically and economically and that we are currently living, "once again, in an era of strident nationalism and xenophobia" (Wolf, 2017). The euphoria of globalisation, he says, is over and today it is the West, not Russia and China, that faces economic and geopolitical disappointment. "We are", Wolf argues, "at the end of both an economic period – that of Western-led globalisation – and a geo-political one – the post-Cold War 'unipolar moment' of a US-led global order." Unfortunately, Germany, who leads the process of European "integration", seems unable to see the tide coming. American and British elites are far more aware of this tide. Germany and the European Commission still pursue policies that try to reconcile austerity and growth. This is an impossible and self-defeating mission. Thus, Germany is in danger of leading the process of European disintegration.

The main argument advanced here is that the thesis put forth by the EU Treaties, neo-functionalist pro-Europeanists and Wolfgang Schäuble himself that growth and austerity are compatible magnitudes is but a deeply flawed thesis. We have shown that such a thesis suffers from:

a) unsound theoretical foundations;
b) a very uncomforting historical past if compared to the Gold Standard of the inter-war period;
c) failure to stand up to the empirical assessment of key macro-economic data over, roughly, eight years of harsh austerity period across the EU/Euro-zone and beyond; and
d) deep lack of democracy and pan-European solidarity, since the burden of the crisis is unfairly carried by the peripheral states of the EU/Euro-zone and beyond.

More disturbingly, and given the geo-political crisis in the Greater Middle East and Eastern Europe, as well as the issues of refugees and migration, persistent austerity endangers the very liberal foundations of democracy in Europe: by dismantling the welfare state and cutting public spending and investment, the alt-Right xenophobic Right registers massive gains at the expense of a Left whose programmatic discourse and practical policy falls completely within the realm of neo-liberal capitalism. Germany, by historical accident rather than design, leads a neo-colonial European project that has no chance of survival if it fails to change course. What course do we propose?

It is clear, in our view, that the following policy mix is available.

The first policy component of the mix concerns the EU as a whole. The EU should reform itself taking concrete steps to revise the Treaties towards a post-Keynesian, socialist direction inviting new states to join only if they "succeed in establishing an aggregate volume of output corresponding to full employment as nearly as is practicable" (Keynes, 1936/1993: 378).

The second policy component of the mix concerns the EU states. Non-punitive conditions should be created and debt relief to periphery states, such as Greece, should be offered so that recovery outside the Euro-zone becomes feasible. This should come as an agreed political programme between the self-reforming EU and the member-states that need immediate disengagement from the bondage condition of austerity. It should not be the result of a confrontation. In this context, the EU should:

a) augment substantially its budget (currently just 1% of the wealth generated by EU economies every year);
b) go ahead with the banking union;
c) centralise the banking system while re-directing investment of the entire financial architecture of the continent from the speculative arbitration of financialisation to the real economic sector (green growth, agriculture, re-generation of manufacturing and innovation);

d) create a *fiscal* and *democratic political* union revisiting its geo-political alliance with the USA in Eurasia in the context of the economic rise of China and the security posture of Russia in Eurasia, in terms of energy security and social security issues in the Greater Middle East;

e) facilitate and encourage public investment, taxing retained profits, thus diminishing the rate of savings and controlling financialisation; and (last but not least)

f) put forth an Economic Bill of Rights aiming at each citizen to have a job, same as everyone has a vote.

The alternative is, as this article has made crystal clear, outright disintegration of the Euro-zone and the EU and domination of the continent by new divisions, authoritarianisms and wars.

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