“To Euro or not to Euro?”
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Europa : the mythological origins of *Europe* - A story of seduction, violence and trauma

Open letter from European economists to the heads of government of the 15 member states of the European Union 12 June 1997

- We call on you to reconsider this EMU project.
- Not that we ask you to put an end to European co-operation; on the contrary. A common currency and monetary policy could offer considerable advantages.
- *But this EMU is governed by timeless criteria and dogmas.*
- Wise economic policy must not be replaced by rigid rules, but must be determined essentially by circumstances.
- This is also a question of democracy: the framework of the EMU is wrongly discharging you and your colleagues from your precious democratic duty to take responsibility for your political choices.
- *Under the current conditions, this EMU offers no perspective whatsoever of an adequate response to environmental problems, of improvement in the lot of Europe's 20 million unemployed and 50 million poor or for the defense and extension of the welfare state.*

Declaration of European Economists : "Full Employment, Social Cohesion and Equity - For an Alternative Economic Policy in Europe" - May 1997

- *The Maastricht Agenda: a threat to welfare, justice and European unity*
- This strategy, now imposed on all countries wishing to join the Monetary Union in 1999, is creating the *most important deflationary risks since World War II*
- Further, the design of a two-speed Europe in which the main policy emphasis lies on disinflation does not promote the unification of Europe; apart from exacerbating social inequalities and imbalances within member countries, it will create new divisions and polarisations among member countries - and it will establish new barriers between EU members and third countries

15 years later … European integration at its most critical point

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Growing disparities in the EU (Real GDP per capita 2008-12; cumulated growth rates)

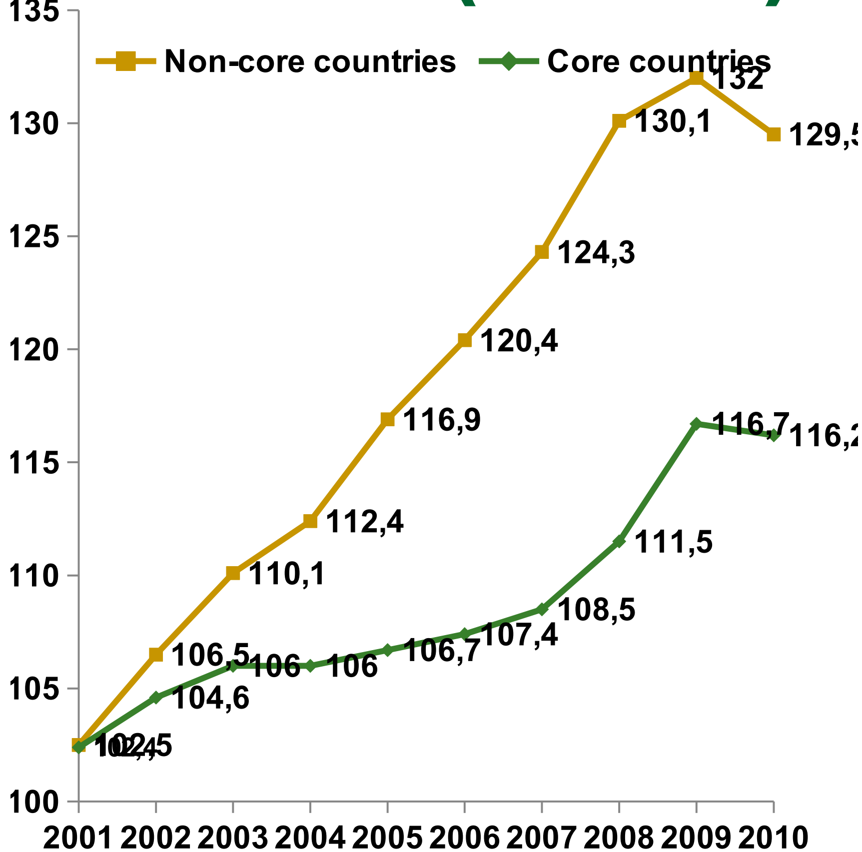
Where did it all go wrong?

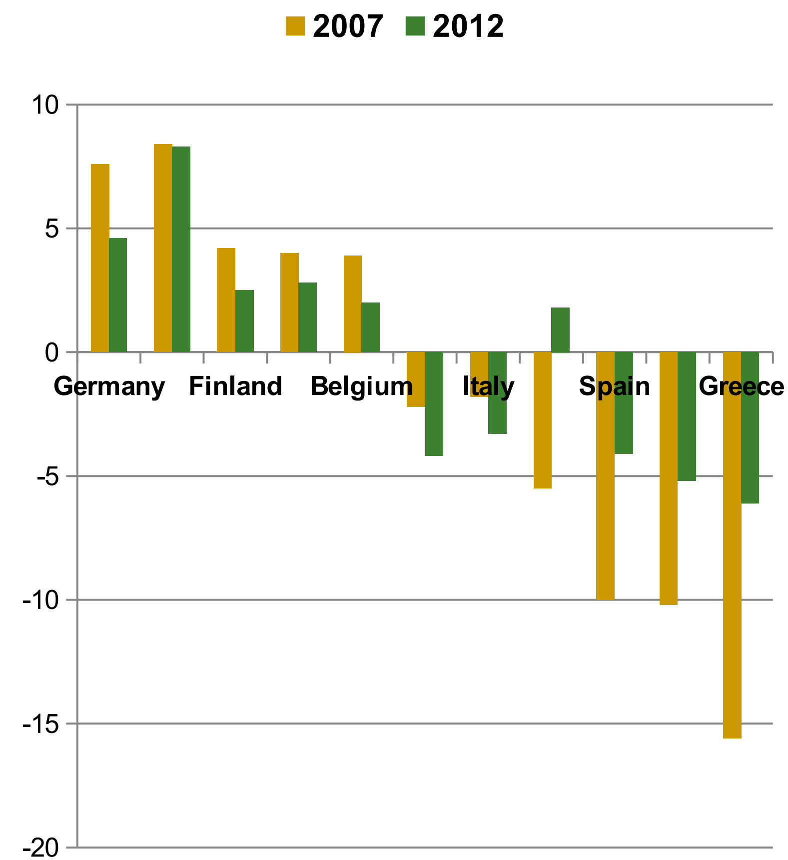
- EU m-st are NOT a homogeneous whole; membership has not brought their productive structures any closer together
- The single currency has exacerbated such divergences
- The dominant role of finance constitutes a significant element in understanding what has happened
- The EU response to the financial crisis favoured the banks: state aid reached 33% of EU GDP 2007-2010
- The financial crisis was followed by an economic crisis: contraction in output and employment; worsening of public finances;   EU response to economic crisis was much more limited (approx. 1.5% of GDP 2009-2010), followed by fiscal tightening as of 2009
- Austerity/‘structural reforms’: the ‘new’ dogma of EU policy

Public debt crisis: challenging the narrative

- The narrative of ‘living beyond your means’ deflects pressures for the regulation of finance
- Not all indebted countries had public finances problems prior to the crisis
- On the contrary, they all had current account deficits reflecting the export-led growth strategy of the core countries based on wage restraint, while non-core countries depended on domestic demand for their growth
- Financial deregulation allowed the accumulation of imbalances between core and non-core countries: core country banks freely lent to the non-core private & public sectors

The accumulation of imbalances in the eurozone – ULC & Current Account (% GDP)





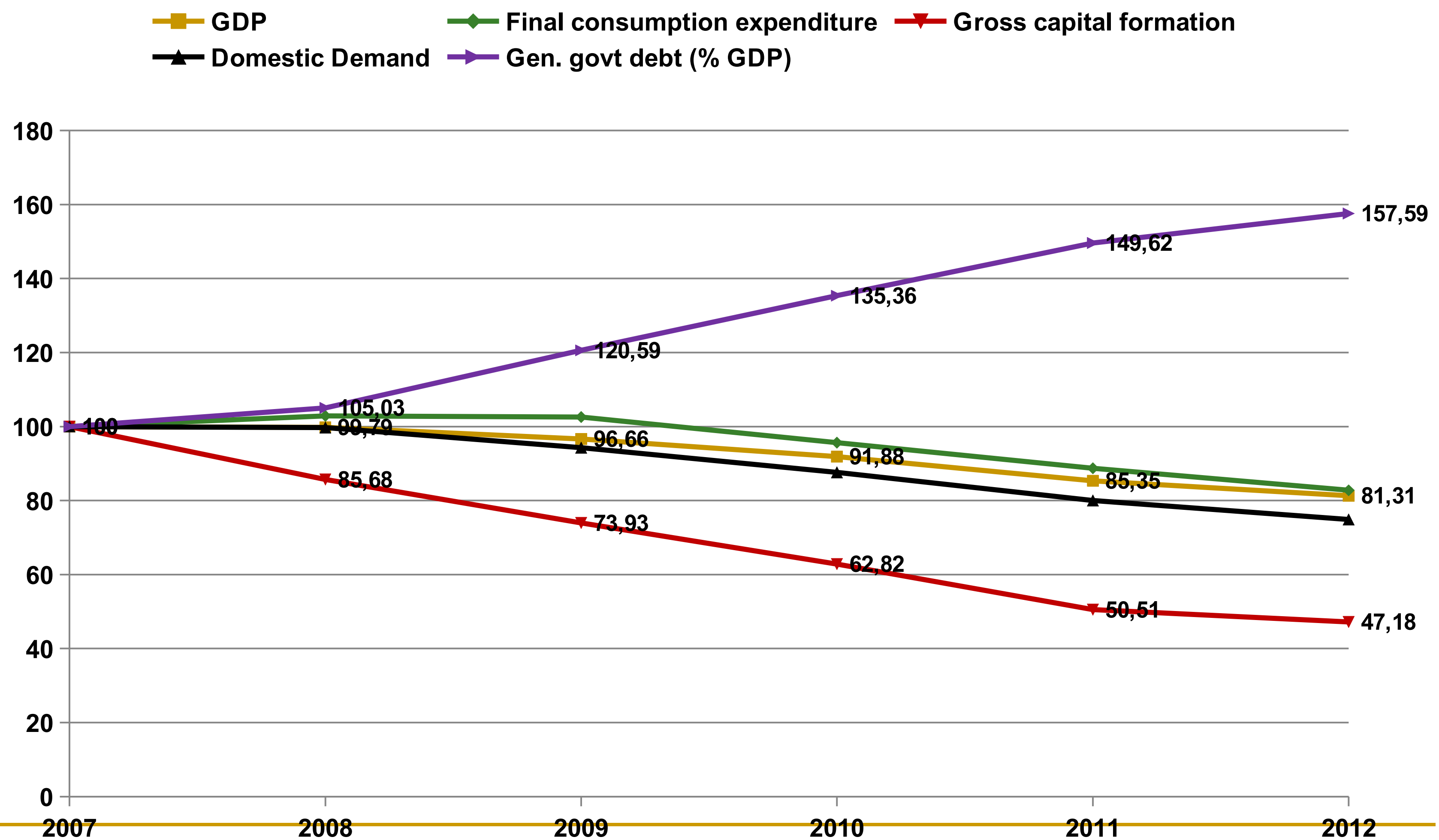
The public debt crisis in Greece

- Specific historical and institutional factors place Greece in the EU periphery
- Membership of the EU since 1980 and of the EZ since 2002 did not help overcome them
- Twin deficits – public and current account – exposed it to financial speculation. The yield on 10-year Greek gov. bonds rose from 5.43% in Jan. 2009 to 12% in May 2010, 25% in Oct. 2011 and 84.7% in Nov. 2011
- Bail-outs I & II: €237.4 bn, from EU (€197.5 bn) and IMF (€39.93 bn). Of this amount, more than two-thirds concern the repayment of Greece's creditors, ie, the European and Greek banks in possession of Greek government bonds, who take priority over all other state obligations; PSI did not materially alter the situation (new borrowing required)
- Fiscal targets unreachable; interest payments by Greece are the *highest* in the world (7.4% of GDP 2012)

The Greek experience of austerity

- <u>Fiscal consolidation</u> – Over the period 2010-2014, fiscal austerity measures are expected to amount to over 30% of GDP, 54% of which is going to come from expenditure cuts and 46% from increases in revenue.
- <u>Labour market reforms</u> – Employment protection and worker rights under attack (min. wage, collective agreements, etc.)
- <u>Structural changes</u> – Privatization programme, expected to raise €35 billion by end-2014 and €50 billion by end-2017; market deregulation (energy, road transport, regulated professions); reform of pension system

Austerity is causing long-term damage to the economy …



… and extensive social hardship

- Unemployment up from 8.3% of the labour force in 2007 to 17.7% in 2011 and 24.4% by June 2012.
- Certain groups hit hardest - In June 2012, the unemployment rate for *women* was equal to 28.1% and to 55.4% for the *under 25s,* from 16.3% and 22.9% in 2007. Long-term unemployment (over one year) climbed to 8.8% of the labour force in 2011 from 4.1% in 2007.
- The increased flexibility of the labour market has resulted in a steep increase in individual and firm-level work contracts and in a decline in private sector wages by more than 30%.
- Pensions have been reduced by more than 30%
- Cuts in public health and education expenditure
- Poverty up from 20% of the population to 28% (2010)

… with strong political repercussions: electoral results in 2009 & 2012 (% share of votes)

	2009	6 May 2012	17 June 2012
New Democracy	33.48	18.85	29.66
SYRIZA (Radical Left Alliance)	4.60	16.78	26.89
PASOK (Panhellenic socialist movement)	43.92	13.18	12.28
Independent Greeks (split from ND)	--	10.6	7.51
Golden Dawn (fascists)	--	6.97	6.92
Democratic Left (split from SYRIZA)	--	6.11	6.26
KKE (Communist Party)	7.54	8.54	4.50
LAOS (extreme right wing)	5.63	--	--

17-6-2012 elections: Seats/party (left to right) Communist Party (12); Radical Left Coalition (71); Democratic Left (17); PASOK (33); New Democracy (79+50 ‘bonus’); Independent Greeks (20); Golden Dawn (18)

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Austerity and ‘structural reforms’ – the new EU dogma

- The IMF/EU programmes of Greece, Ireland and Portugal: precursors of things to come more generally
- The “six-pack” of new legislation tightens the constraints of the Stability Pact - The “two-pack” requires EZ governments to submit draft budgets to the Commission prior to their presentation to national parliaments
- In the “Fiscal Compact” (main part of the Treaty on Stability, Coordination and Governance) an additional norm for public sector borrowing is introduced – the “structural” deficit (that is, corrected for the effect of cyclical fluctuations) is not to exceed 0.5% of GDP
- Generally, increased powers for the Commission, with behind it the power of dominant states in the Council: legitimacy!

Bleak outlook for the Euro

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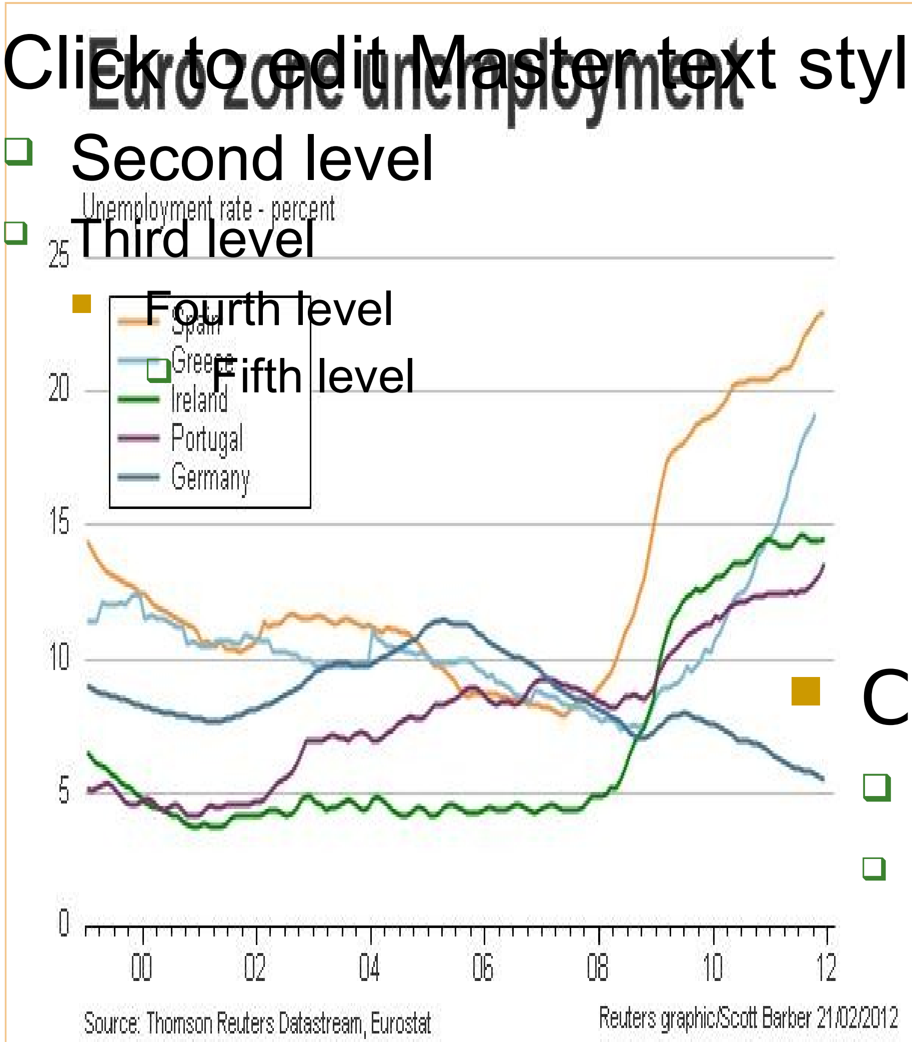

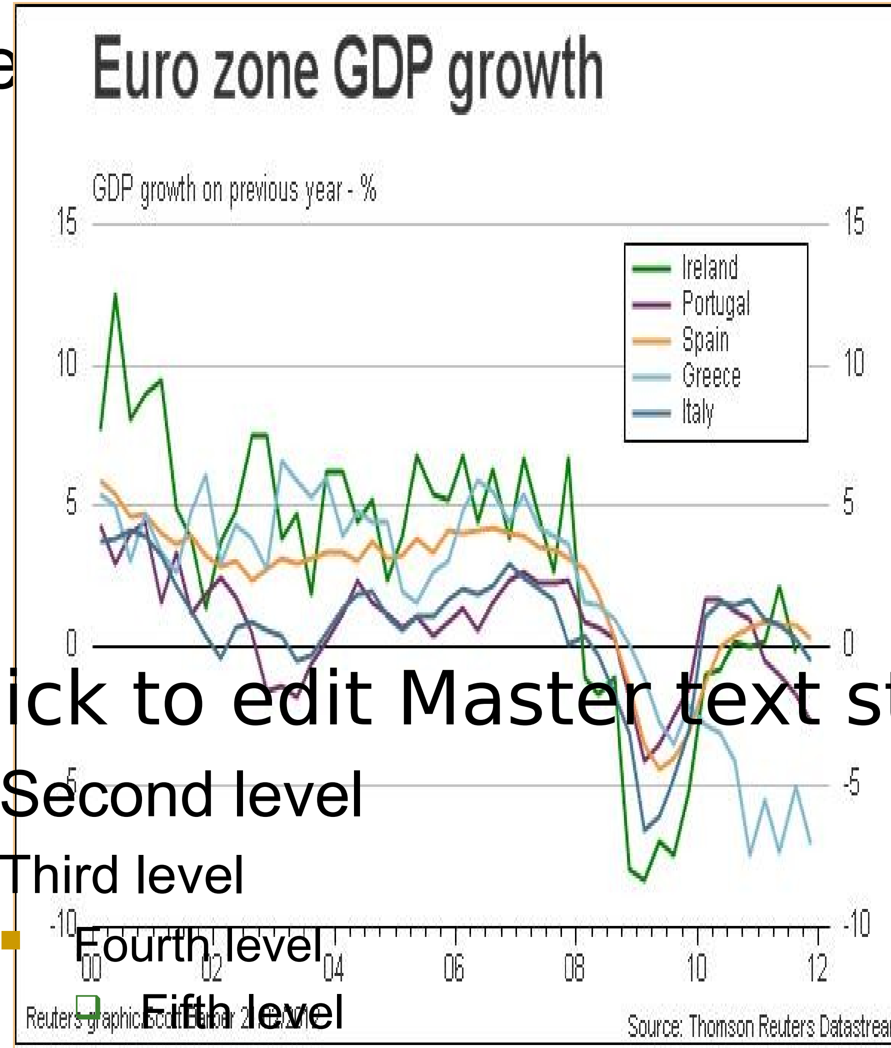

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Some thoughts on alternatives

- The narrative needs to be altered
- A more just distribution of income and wealth necessary
- The ECB must become a lender of last resort for governments and not just for private banks..
- Austerity needs to be replaced by a programme of economic restructuring over a long time period
- Public investment, that is ecologically and socially sustainable, needed to kick-start the economy
- The role of public services needs to be reinstated.
- Financial policy reform should be given new impetus
- The deterioration of worker rights and of the conditions of the labour market must be halted and reversed

What about Greece?

- Firstly, a change in narrative - The debt audit campaign, a good starting point.
- Secondly, some breathing space - The Greek economy needs to start growing again.
- Thirdly, the domestic problems can only be dealt with by the Greek social and political forces themselves
- Fourthly, the Greek austerity experience already feeding into the European collective mind
- If what is happening at the moment goes on for much longer, life may become so unbearable for the Greeks, that, albeit a traditionally pro-European people, they may opt for default and most probably exit from the euro. Greece may be the first piece of the puzzle to go.