The Double Standard in Europe's Austerity Discourse

July 25, 2013

The International Monetary Fund acknowledged making an egregious error in its evaluation of the Greek bailout it helped create after its ambitious push for harsh austerity last month. Their failed analysis highlights the dangers of austerity measures imposed on Greek citizens. According to the IMF report:

> "Market confidence was not restored, the banking system lost 30 percent of its deposits, and the economy encountered a much deeper-than-expected recession with exceptionally high unemployment. Public debt remained too high and eventually had to be restructured, with collateral damage for bank balance sheets that were also weakened by the recession. Competitiveness improved somewhat on the back of falling wages, but structural reforms stalled and productivity gains proved elusive."

The evaluation additionally predicted that unemployment would reach 15 percent when it actually climbed to 25 percent. IMF analysts claimed that they simply underestimated the consequences that unemployment would play on Greece's recovery.

This isn't the first time that the IMF has conceded the dangers of austerity. In 2012, the fund's research acknowledged that austerity packages applied throughout Europe were counterproductive and suggested "that fiscal cutbacks had larger-than-expected negative short-term multiplier effects on output." They expected only a loss of growth worth 50 cents for every Euro cut, but the lost growth exceeded three times that value.

In a more recent report, Director of the International Monetary Fund Christine Lagarde advocated more growth-based policies.

> "Over the past year, substantial actions at both the national and euro-wide levels have been taken to combat the crisis. But despite this progress, the economic recovery remains elusive, unemployment is rising, and uncertainty is high. While substantial collective action has been taken to tackle the crisis in the euro area, further policy steps are needed to support growth and increase employment."

Though the IMF recognizes the devastating consequences that austerity poses to suffering countries, spending cuts and debt-reduction will likely remain a pillar of Europe's finance orthodoxy as public officials continue to advance the "fiscal responsibility" discourse. In an attempt to attract international investors, Greek Prime Minister Antonis Samaras recently promoted his country as a "success story," downplaying Greece's record unemployment. He assured lenders that the $325 billion in bailout packages that imposed harsh austerity measures on Greek citizens restored the country's "credibility in Europe." He further promised higher rewards for future investments by endorsing Greece as a profitable vacation spot.

On another front, Angela Merkel's likely reelection to a third term as German Chancellor will bring a renewed mandate to push for austerity in Europe's GIPSI states – Greece, Italy, Portugal, Spain, and Ireland. Her popular support is rooted in an electorate that is tired of German taxes financing bail-outs for EU members largely painted as profligate and reckless. Merkel's prospective victory will frustrate Lagarde's recent push for growth-based policies as the IMF cannot act unilaterally and requires German involvement. Lagarde had primarily focused her attention on raising funds for European bailouts, but she has recently emphasized growth.

When asked about whether Greece will be writing down more debt in the future, she spoke highly of Samaras saying, "I don't see it, thanks to the very reform-oriented Samaras government." Last year, almost a third of Greece's overall debt was forgiven in a write-down of over a hundred billion euros held by private investors. She ended with an assurance that "debt-sustainability will continue to be ensured."

The triumph of Europe's austerity discourse advances the narrative that profligate government spending caused the crisis. German Foreign Minister Guido Westerwelle recently stated, "We are convinced that if we give up on budget consolidation in Europe and *return to the old approach of more and more debt*, then we would cement mass-unemployment over a period of many years" (italics added). Even Merkel recently implied that suffering states spent beyond their means when she snidely commented, "*I call it balancing the budget. Everyone else is using this term austerity. That makes it sound like something truly evil.*"

This kind of language reveals how the current narrative paints deficit spending as the cause of the financial crisis. In reality, the sovereign debt crisis is a product of the banking crisis, and debts ballooned only after states had spent a large percentage of their GDPs rescuing the financial sector. Up to that point, the public expenditures of those suffering the most were well within in the average of the Eurozone. To confirm this, I collected data from the European Commission's Eurostat and averaged the total general government expenditures as a percent of GDP from Eurozone members in 2008. Spending of the GIPSIs averaged 45.75, which is well within the Eurozone's overall average of 45.05, demonstrating that countries suffering the most did not spend beyond their means.

In fact, the GIPSI debt burden followed a downward trend throughout the decade leading up to the collapse. Using IMF data, I averaged GIPSI debt relative to GDP from 1997 to 2010. The average of the GIPSI states' debt relative to GDP was 77 percent in 1997, which slowly slid down to 63.5 percent in 2007. Austerity actually magnifies the debt burden as spending cuts slow growth while doing nothing to alleviate the debt. Debt became a problem only after the establishment of the austerity orthodoxy, as debt to GDP ratios shot up to 91.4 percent in 2010.

The apocryphal narrative of profligate state spending distracts us from the class politics inherent in Europe's austerity project. The promise to return Europe to "stability" and "fiscal responsibility" as well as transform it into a "credible investment" masks how spending cuts target those who rely most on social programs. The ambitious push to shrink government services shows Europe's double standard in its austerity project after states dissipated large amounts of their GDPs rescuing the financial sector. In this regard, austerity serves as a form of redistribution, transferring money and privilege from the bottom to the top.

Simultaneously, unemployment continues to plague the GIPSI economies. Using data from the World Bank, I looked at the unemployment rate of the GIPSI states over time. The average unemployment rate for the GIPSIs was 7 percent in 2008 but it jumped to 19 percent at the beginning of 2013. Meanwhile, the Tax Justice Network reveals that the wealthiest investors in the world continue to make more money while hoarding up to $30 trillion in secret tax havens abroad.

There is nothing "stable" or "responsible" about that.

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