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Austerity: futile and dangerous
The experience of Greece

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Outline

- ‘Austerity’ as (i) a tool of economic policy; (ii) a means of hegemony in the Gramscian sense
- Public debt ‘fetischism’ - theoretical fallacies, wrong empirical assumptions and public debt thresholds
- EU austerity policy after 2008
- Greece: ‘The canary in the mine’
- The Greek Depression exceeds the Great Depression: economic, social and political implications
- Austerity in Greece has not delivered
- Futility and dangerousness of austerity: for whom?
- What is to be done? Some thoughts...

‘Austerity’ as a tool of policy

- ‘Austerity’ - rather than ‘fiscal contraction’ or ‘consolidation’ - prevailing in economic jargon during current crisis (most looked up-word in 2010)
- ‘Austerity’ denotes a broad set of policies going beyond fiscal contraction, deemed necessary for its implementation: viz. privatisation, labour market reform, market deregulation.
- Austerity at a time of crisis deprives the state of its counter-cyclical role while it undermines its welfare provider and development/innovation booster role in the long-run.

‘Austerity’ as a means of hegemony

- ‘Hegemony’: central concept associated with *Gramsci*’s work: “Ideological and cultural domination of one class by another, achieved through ‘engineering consensus’ through controlling the content of cultural forms and major institutions” (*Urry & Urry, 1995:279*)
- A. Merkel: “Schwäbische Hausfrau” (Swabian housewife)
- If it is prudent for individuals to avoid getting into debt, would it not be wise for governments to do the same? If a government does become indebted, would it not be best for it to suppress expenditure &/or increase public receipts, so as to reduce, if not extinguish, the public debt?
- Theoretical fallacies and ideological undertones

Public debt 'fetischism' - Theoretical fallacies

- ***1.*** Governments have "monetary sovereignty'; ***2***. Reducing the public deficit shrinks the economy; ***3.*** Public debt = transfer of wealth from taxpayers to bond holders, not a net burden; ***4.*** No connection between size of public debt and price government must pay to finance it; ***5***. Low borrowing costs for governments do not necessarily reduce the cost of capital for private sector.
- As **Keynes** argued long ago, running a government deficit is a necessity, especially if it is held domestically, since it provides the private sector with new funds for saving and a means to save (interest-bearing government bonds), thereby increasing private sector wealth and reducing the need to save from current income, i.e. leading to increased demand and consumption. More so at a time of crisis and recession

Public debt ‘fetischism’ – Wrong empirical assumptions and thresholds

- **IMF**: “… the multipliers used in generating growth forecasts have been systematically too low since the start of the Great Recession, by 0.4 to 1.2 … the multipliers implicitly used to generate these forecasts are about 0.5. So actual multipliers may be higher in the range of 0.9 to 1.7 *(WEO Oct 2012: 41-43).*
- ‘90 per cent rule’: Olli Rehn *(E.C.June 2011):* “**C.Reinhart & K. Rogoff** have coined the ‘90 per cent rule’. That is, countries with public debt exceeding 90 per cent of annual economic output grow more slowly… This conclusion is particularly relevant at a time when debt levels in Europe are approaching the 90 per cent threshold”.
- **Ideological undertones** - Attempt by financial industry to shift public discourse from the need for radical changes in the financial sector to the ‘living-beyond-one’s means’ accusation in order to secure more bail-outs for the banks and deflect pressures for financial policy reform

EU austerity policy after 2008

- Fiscal and monetary restrictive policies inherent in Euro construction (SGP; ECB)
- *Fiscal compact*: (i) *debt brake'*– max. allowed structural (cyclically adjusted) budget deficit 0.5% GDP; (ii) *debt reduction roadmap* - each year government debt to be reduced by 1/20th of difference between actual level and 60% GDP benchmark; (iii) *sanctions* on non-complying countries to be imposed by European Court of Justice: interest-bearing deposits/fines *(Treaty on Stability, Coordination and Governance)*
- *Austerity & Conditionality -* EU/IMF Programmes for Greece, Ireland, Portugal, Hungary, Latvia and Romania; monetary support by ECB (Outright Monetary Transactions); fiscal aid by EFSF & ESM
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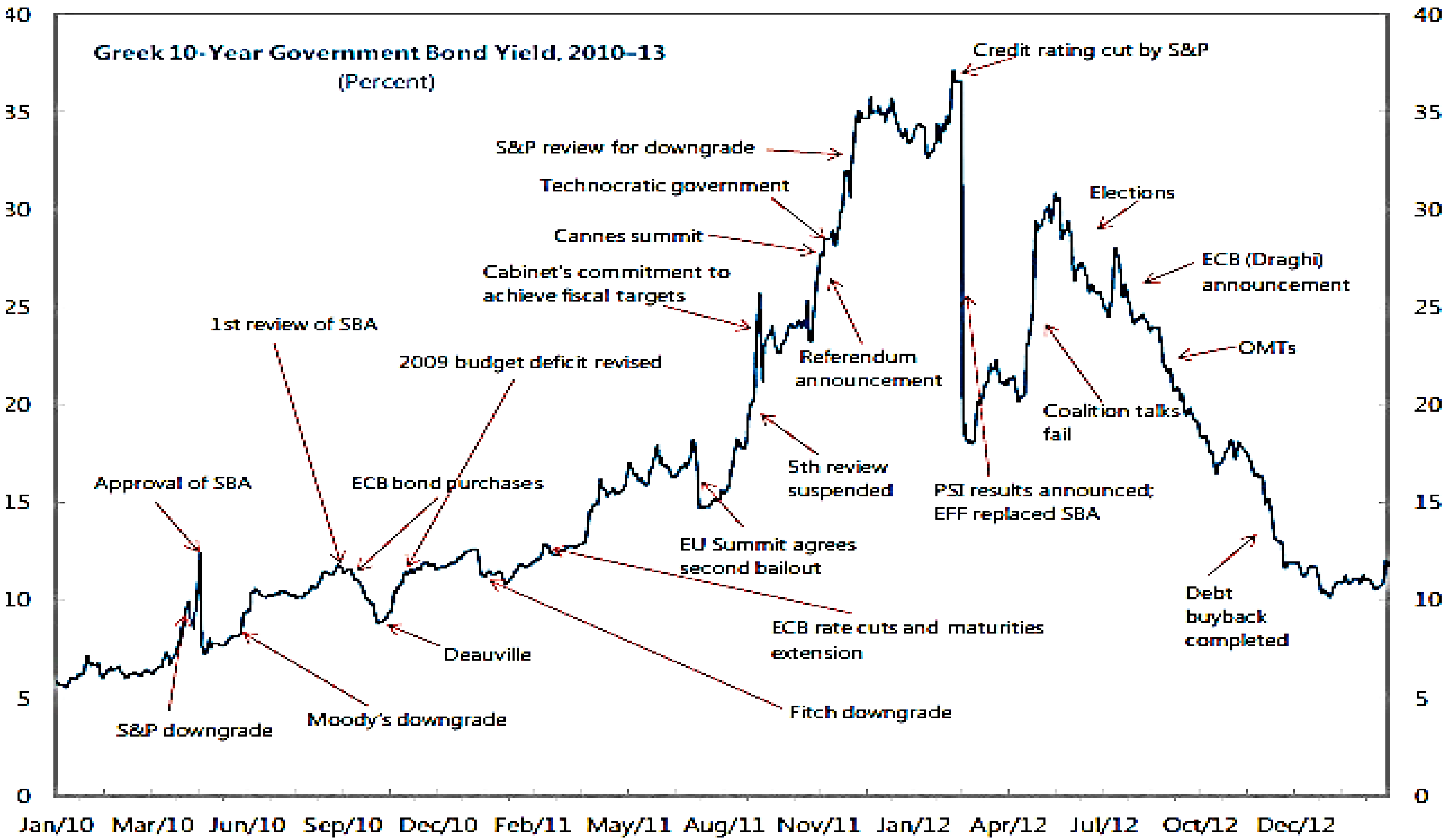
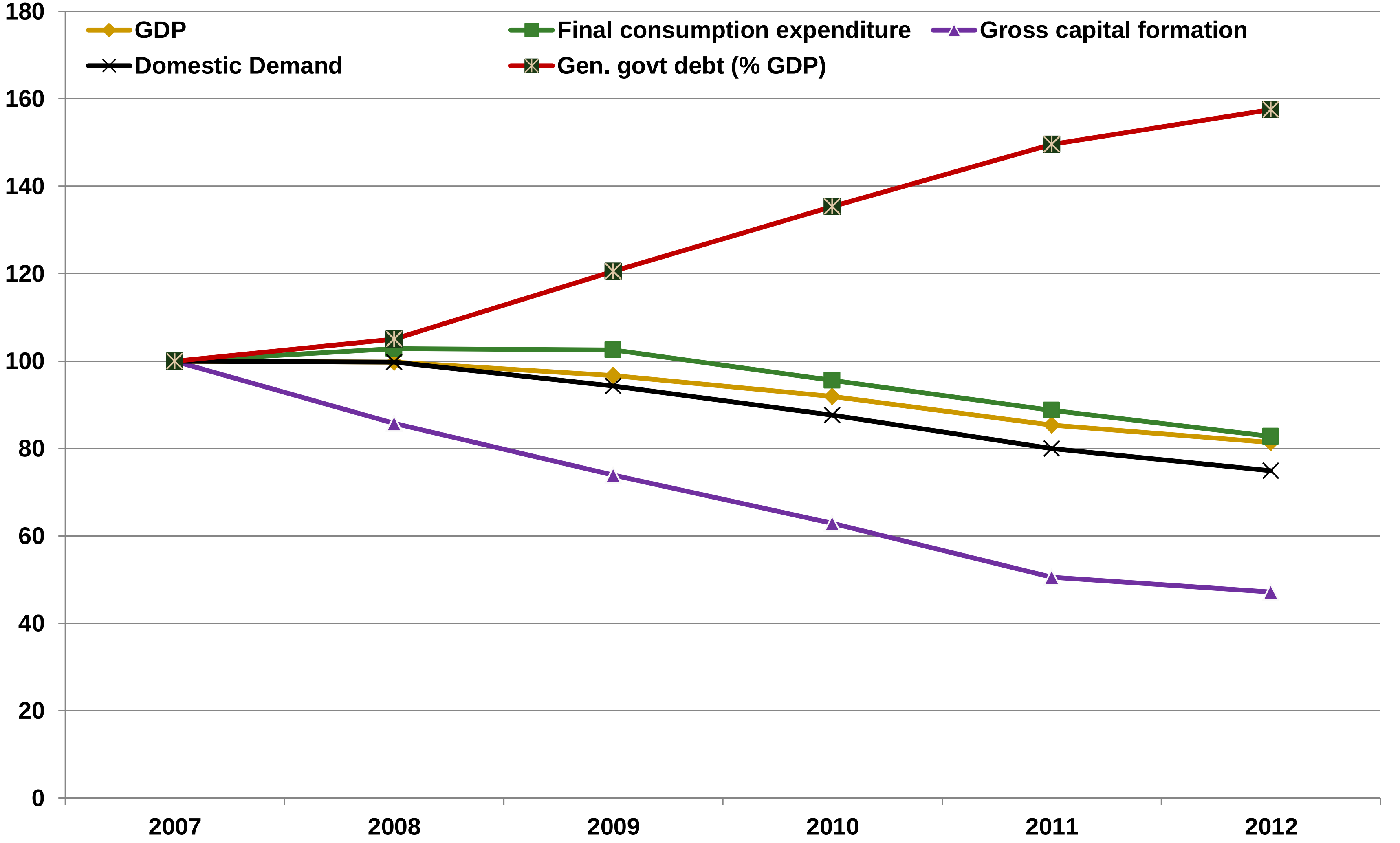
Greece: The canary in the mine



Sources: Bloomberg; and IMF staff calculations.

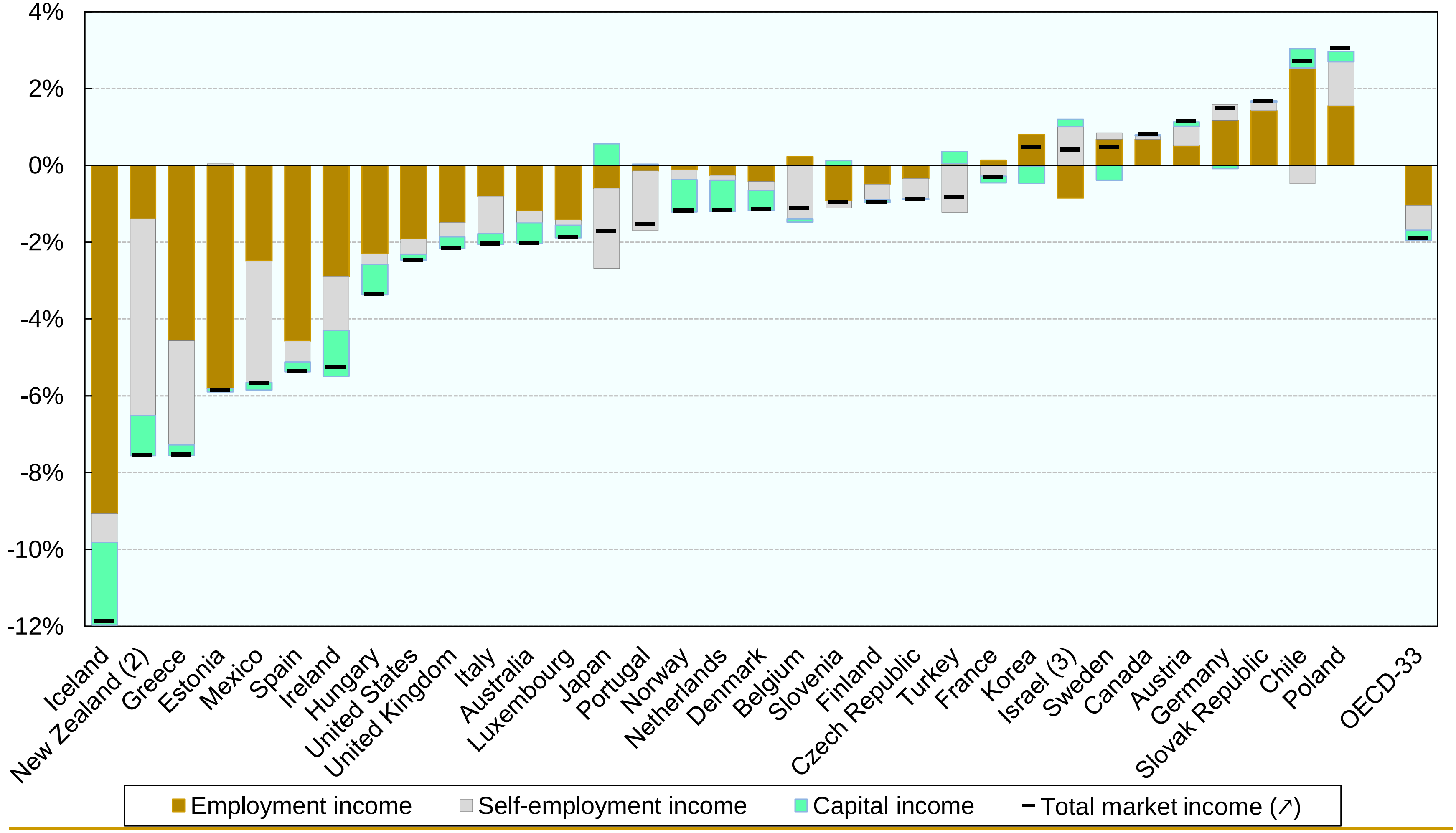
An economy in fast-forward collapse …



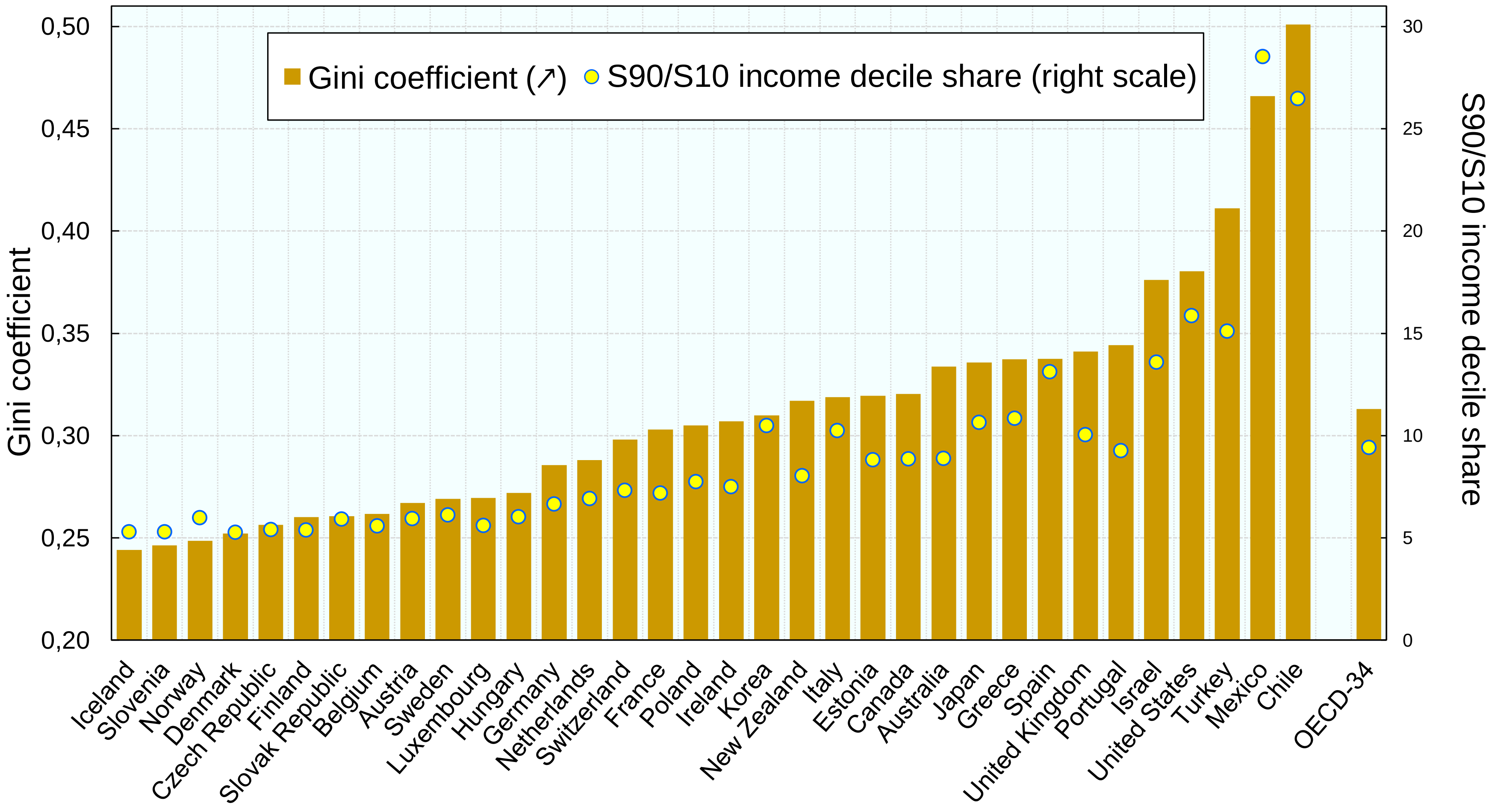
… unprecedented social hardship

- Unemployment up from 8.3% of the labour force in 2007 to 17.7% in 2011 and 27.6% by May 2013; more than one-third of the unemployed have been without a job for over one year.
- Certain groups hit hardest - In May 2013, the unemployment rate for *women* was equal to 31.6% and to 64.9% for the *under 25s,* from 16.3% and 22.9% respectively 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 reduced by more than 30%; Cuts in public health and education expenditure; Poverty up from 20% of the population to 28% (2010)

Decline in market income 2007-2010 (annual percentage changes)

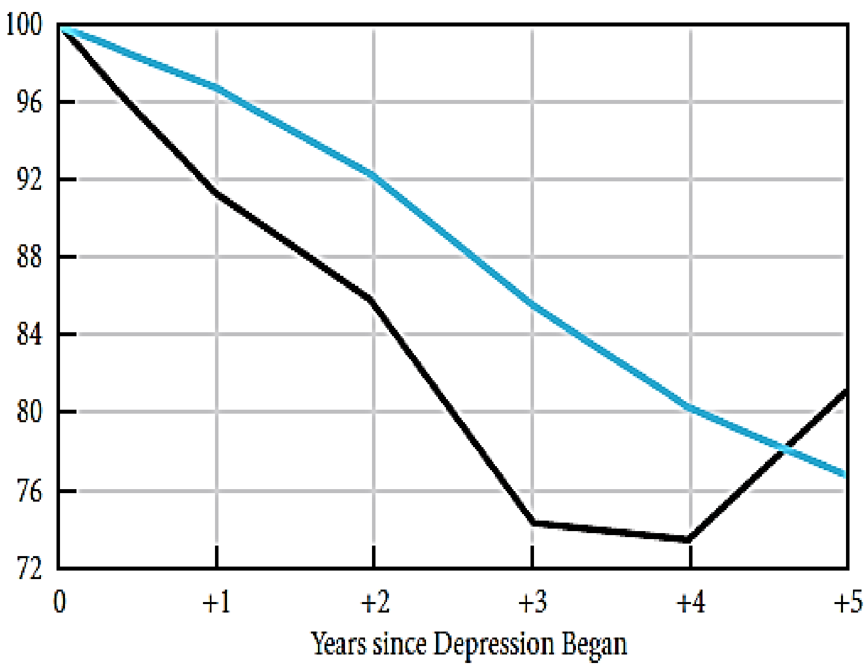


Increase in income inequality, 2010



The Greek Depression exceeds the Great Depression

Figure 1 Greece and the United States: Two Great Depressions—Real GDP Indices

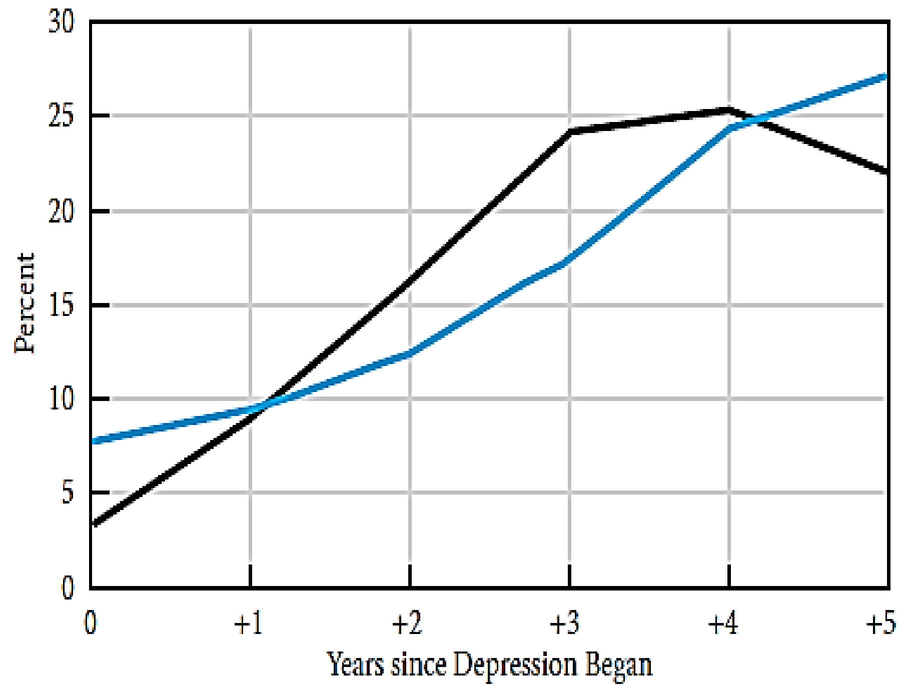


Greece (2008=100)

United States (1929=100)

Sources: BEA; ElStat

Figure 2 Greece and the United States: Two Great Depressions—Unemployment Rates



Greece (base year = 2008)

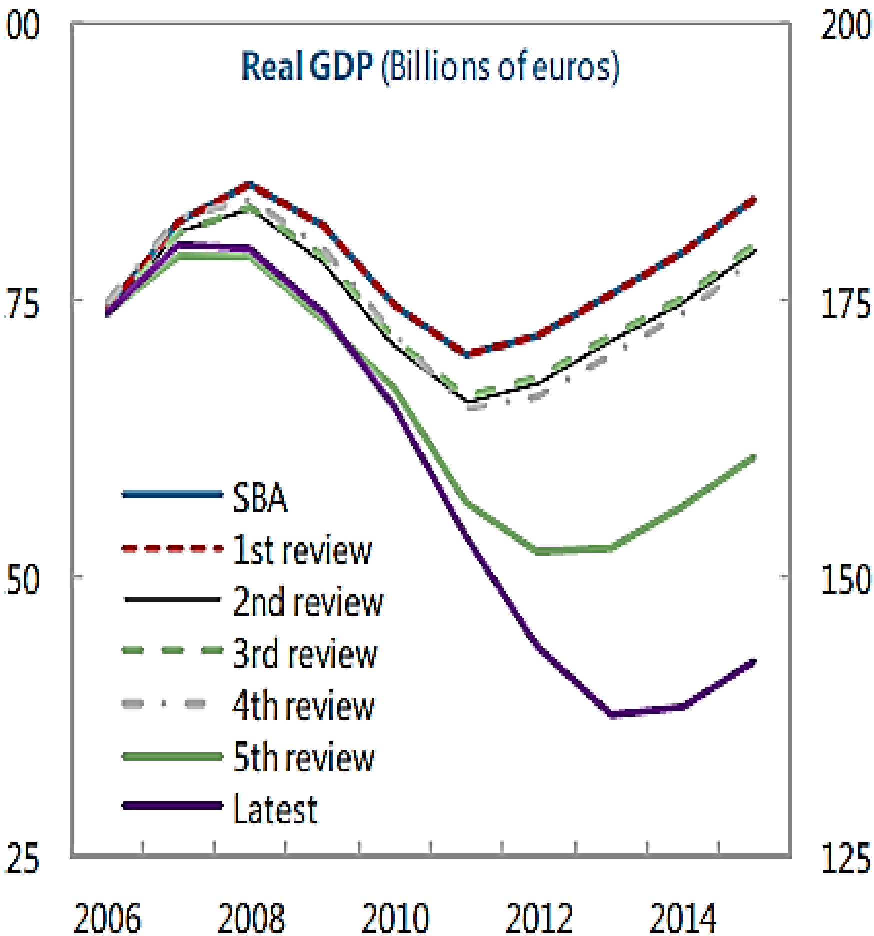
United States (base year = 1929)

Sources: BEA; ElStat

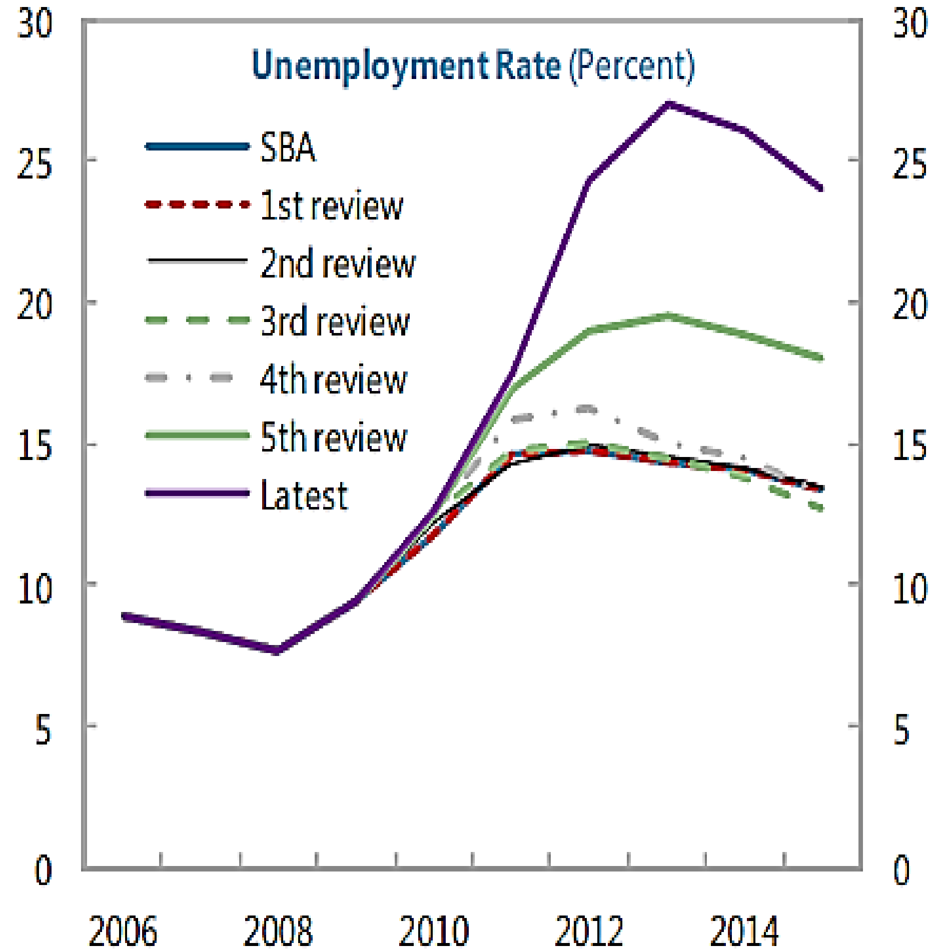
The political system in a state of flux - Electoral results 2009 & 2012 (% share of votes)

	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	--	--

Austerity in Greece has not delivered (I)

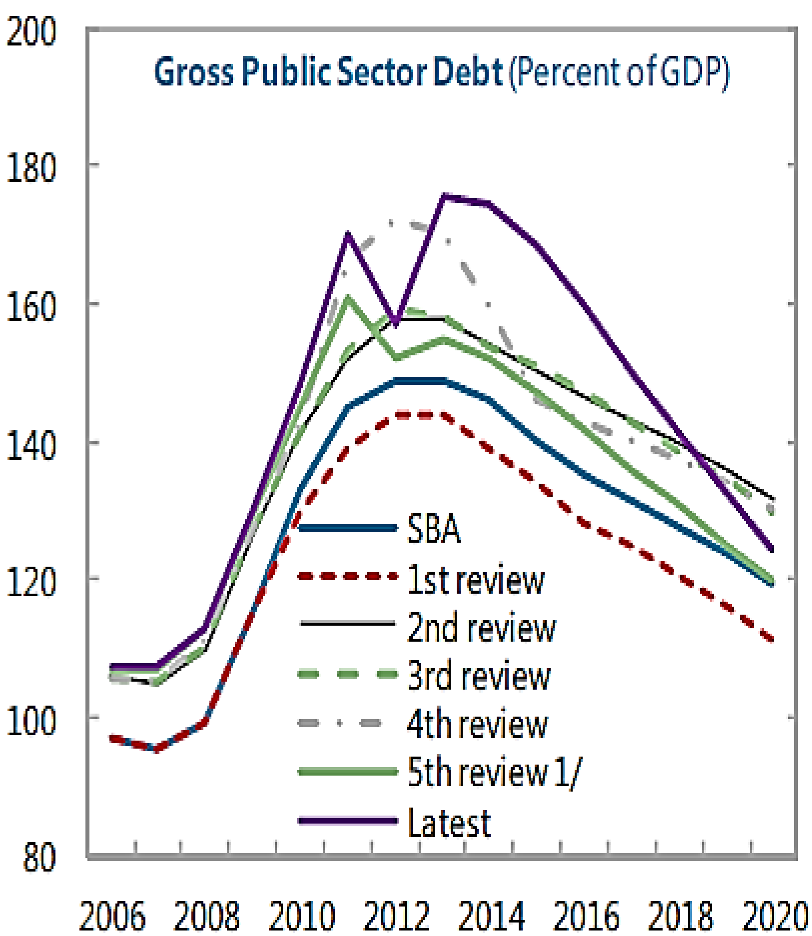


Sources: IMF country reports; and IMF staff calculations.

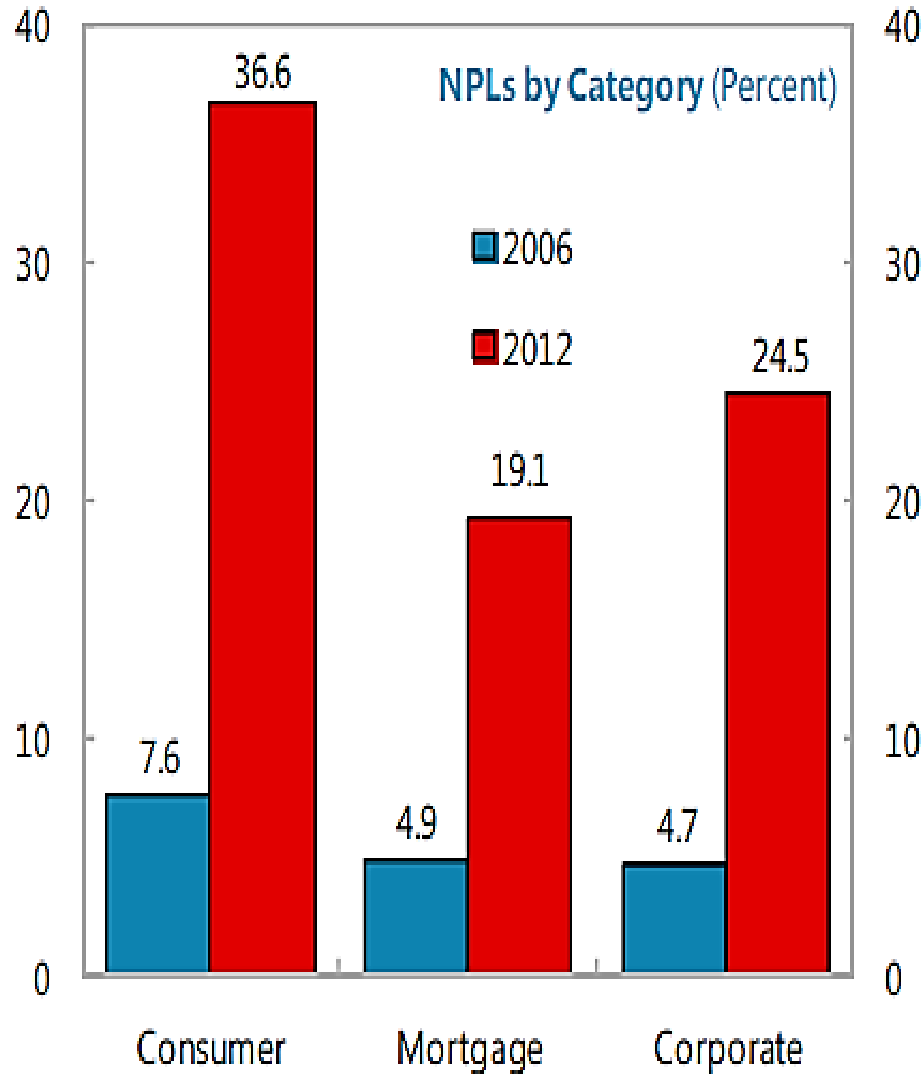


Sources: IMF country reports; IMF *World Economic Outlook*; ar

Austerity in Greece has not delivered (II)



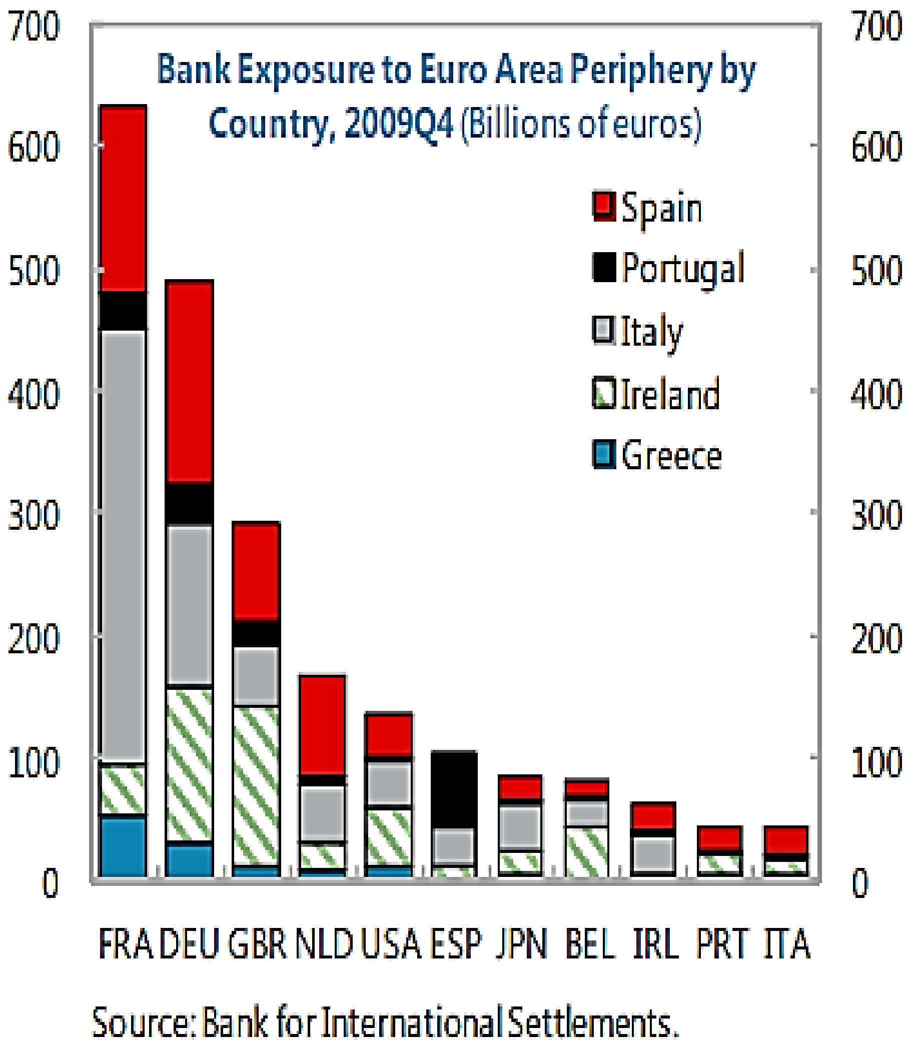
Sources: IMF country reports.
1/ Already incorporated effects of debt restructuring.



IMF ex-post evaluation – “notable failures”; ex ante debt restructuring not attempted

- “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”.(IMF, 2013:1)
- “Ex ante debt restructuring was not attempted … PSI was not part of the original program. … on the eve of the program, the authorities dismissed debt restructuring as a “red herring” that was off the table for the Greek government and had not been proposed by the Fund (Papaconstantinou, 2010). In fact, debt restructuring had been considered by the parties to the negotiations but had been ruled out by the euro area” (IMF, 2013:27).

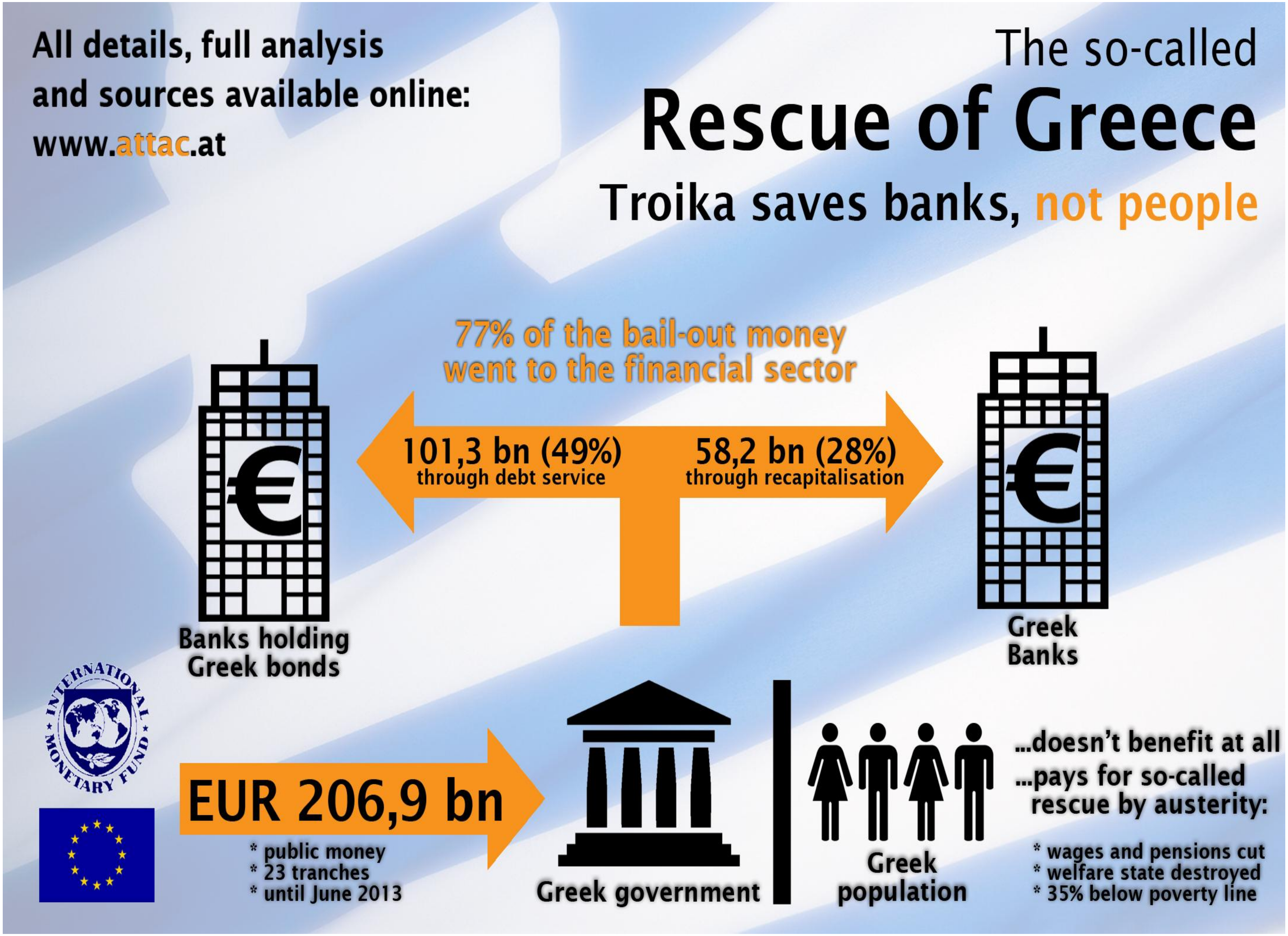
Austerity is futile and dangerous – for whom?



IMF: 'Contagion from Greece was a major concern for euro area members given the considerable exposure of their banks to the sovereign debt of the euro area periphery' (IMF,2013:8)

Varoufakis: "None of the bailouts had the purpose of solving Greece's problems. The original bailout was a cynical ploy for transferring losses from the books of the German and French banks onto the shoulders of the Greek, German and French taxpayers. The second bailout was merely an acknowledgment that the first bailout had imposed upon Greece conditions that it could never meet."

(http://yanisvaroufakis.eu/2013/09/02/was-chancellor-merkel-about-greece/#more-4174


All details, full analysis
and sources available online:
www.attac.at
The so-called
Rescue of Greece
Troika saves banks, not people
77% of the bail-out money
went to the financial sector
101,3 bn (49%)
through debt service
58,2 bn (28%)
through recapitalisation
Banks holding
Greek bonds
Greek
Banks
INTERNATIONAL MONETARY FUND
EUR 206,9 bn
* public money
* 23 tranches
* until June 2013
Greek government
Greek
population
...doesn't benefit at all
...pays for so-called
rescue by austerity:
* wages and pensions cut
* welfare state destroyed
* 35% below poverty line

The handling of the crisis by the Greek & European elites

- *Greek elites* - Lack of a strategic vision + shifting both the blame for and the cost of dealing with the crisis to Greek society at large and esp. to its salaried and waged sections + unique opportunity to introduce reforms that had long been resisted. *In this sense, the neoliberal agenda of the Greek elites coincided with that of the European ones.*
- *European elites* - adopted creditors' point of view + wider neoliberal agenda; 'fiscal profligacy',legitimizing narrative
- *Greek case - Unique opportunity for the establishment of this narrative through concerted efforts by populist media, mainstream economics profession and politicians*

What is to be done? Some thoughts …

- (i) Change in narrative – regaining hegemony; (ii) abandonment of austerity policy and restoration of decent living standards; (iii) reinstatement of public services and incorporation of social welfare objectives in economic policy; (iv) reversal of the deterioration in worker rights and employment protection regime; (v) kick-starting the economy especially in the vegetating economies of the periphery
- Levy Institute's 'modest fiscal boost': 30 billion euros (2 bn/quarter beg. In 3rd quarter 2013) directed at public consumption and investment
- *Greece cannot/should not go it alone* – Long-run changes require overhaul of institutional arrangements and policies at EU and at Eurozone level