“The euro crisis is over” declared George Soros in a speech in Germany in October 2013. But is it? As Soros himself emphasized, the profound damage to European livelihoods and the ongoing tragedy facing millions of unemployed workers—especially among the young—give little cause for celebration. According to the International Labour Office (ILO), the overall unemployment rate in the Eurozone was more than 10 percent in 2013. For the hardest-hit countries, the unemployment numbers are truly alarming: in Greece, it is 22 percent; Spain, 22.7 percent; Portugal, 14 percent. For youth, the unemployment rates are catastrophic: in the Eurozone area overall, it is 22 percent; for Portugal, 33 percent; Spain, 52 percent; and Greece, 54 percent.

The Eurozone Crisis: Shredding the Post-war Bargain

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with the political establishment and with the very idea of Europe itself.

Is there a progressive alternative that can end the crisis for the mass of Europeans while saving the continent from dangerous right-wing political destabilization?

The Euro and the Euro Crisis

In some ways, the creation of the euro in 1999 was a noble experiment: the initial architects hoped that European monetary integration would solidify cooperation among the European nations that had been at war off-and-on for decades. The irony, now oft-noted, is that the tensions and resentments created by the euro crisis and German-led austerity have fanned the flames of old national resentments and hatreds.

Economists have placed much of the blame for the euro crisis on a series of “flaws” in the design of the Eurozone. While a number of these have certainly contributed to the disaster, there are two fundamental factors that have not been sufficiently emphasized. First was the profound commitment on the part of the Eurozone architects to protecting the interests of creditors as against debtors. Second, and equally fatal, was an assumption that the underlying capitalist system was inherently stable and could be guided almost exclusively by free markets and

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corporations. This commitment and misguided analysis led to an underlying structure of the Euro System poised for disaster.

Designers of the system protected the unconstrained prerogatives of financiers and other wealth holders to move capital into and out of any country and undertake almost any activity (i.e., financial de-regulation) without constraint or limit. This ultimately led to speculative investments, real estate bubbles, and the financial crisis that precipitated the crisis.

The designers placed the European Central Bank (ECB) at the pinnacle of macroeconomic policymaking and gave it a single mandate: keep inflation low. This structure and mandate assumed that the financially de-regulated capitalist economy would be inherently stable and efficient and that the only conceivable problem was inflation (itself primarily a problem for banks, financiers, and other wealth holders). This single-minded focus on inflation made it very difficult for the ECB to prevent the speculative bubble that led to the crisis, or to respond promptly with sufficient force when the bubble burst in 2008.

They assumed that the key constraint facing European economic growth, competitiveness, and wealth accumulation was the power of labor unions, which partly derived from employment protections, pensions, and laws protecting the rights of unions. These architects believed that income distribution had shifted too much in favor of labor and against capital. Only by altering this distributional equation could European capitalists compete in the global economy and accumulate the wealth they needed and deserved. This led to a policy of “austerity” and attacks on labor as the long-run response to the crisis, with devastating consequences.

The well-known design flaws emphasized by most economists were derived from these key assumptions, goals, and structures. These include the following:

1. The absence of a Eurozone treasury that can issue common bonds, whose value is not subject to the vagaries of particular zone countries. This would have eliminated the risk of default and could have facilitated expansionary, counter-cyclical fiscal policy financed by European-wide borrowing in the face of the crisis. Instead, austerity became the go-to policy.

2. Financial liberalization allowed governments and private firms to borrow excessive amounts of euros from banks at low interest rates; but the borrowing governments did not have the ability to print the currency (i.e., euros) to pay back these loans when the crisis hit. This disparity led to bankruptcy fears and capital flight from Greece, Spain, Portugal, and Italy. The U.S. government, by contrast, cannot go bankrupt (apart from shooting itself in the foot with “debt ceilings”) because it can print dollars, the same currency it borrows: the Federal Reserve, the U.S. central bank, can always print more dollars to service and repay the loans if necessary. Before joining the Eurozone, the European countries were in roughly the same boat: the Italian central bank could print lira, the Spanish bank could print pesetas, and Greece could print drachmas to service debts. Now, they have given away that privilege.

3. Allowing Germany to exploit the structure of the Eurozone to run a massive export surplus vis-à-vis the peripheral countries of Europe. By restraining local wages and pushing productivity increases, Germany pushed massive amounts of exports to higher-priced European countries. This “mercantilist” policy helped German manufacturers but forced the peripheral countries to borrow money to pay for these exports while undermining peripheral countries’ manufacturing bases and jobs. This trade deficit borrowing ultimately bit back in the form of the European debt crisis.

4. The inability of the peripheral countries, having adopted the euro, to devalue their currencies to regain competitiveness. Instead, they were left only with “internal devaluation”—that is, the cutting of labor costs primarily through cutting wages and prices, which is much more difficult.
Using the Crisis to Attack Labor

The Eurozone crisis has now devolved into a fight between the creditor banks and countries in the core countries and their representatives in the “Troika” (the ECB, the European Union, and the International Monetary Fund [IMF]), on the one hand, and the debtors (most of the citizens of the Eurozone and especially the peripheral countries) on the other. The creditors are using their power to get repaid and to force restructuring on the debtor countries.

These forced changes have included the reduction or elimination of social and labor protections that provide security and enhance the bargaining power for workers; the elimination of regulations or other restrictions facing corporations vis-à-vis workers, or communities, including environmental regulations and restrictions; and in some cases, privatization initiatives that had been long-stalled or had little likelihood of implementation. For example, the ILO’s *World of Work Report 2012* reports that most of the hardest-hit “debtor” euro countries weakened labor protections and worsened the social safety net as part of their austerity packages. Estonia, Greece, Italy, Portugal, and Spain, among other euro countries, made it easier for companies to fire workers, modify centrally negotiated collective bargaining agreements, and reduce unemployment and pension payments. In many cases, changing these laws had been long-term goals of employers and employer associations, but it took the crisis and Troika-imposed austerity to push these changes through the political system.

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Is There a Way Out?

Countries that are subject to the worst of the austerity crisis—such as Greece, Spain, and Portugal—might find that the only solution is to exit the Eurozone, as difficult and costly as that might be in the short run. For the zone as a whole, the only viable solution is to reverse the destructive course of austerity and regressive social reconstruction and pursue similar policies to those promoted by Keynes and others in the aftermath of the Great Depression and the Second World War: an economic expansion by the surplus country, Germany, and a large investment program from European institutions such as the European Investment Bank and the ECB into the hardest-hit countries will allow
them to make the investments they need to reconstruct and expand their economies.

How politically feasible are these solutions? As long as the elites think they can get away with their destructive path, they will continue it. Only the present danger of losing control will lead them to shift paths in a more humane and economically viable direction. Short of a shift to this internal “Marshall Plan” for Europe, workers and citizens (especially young workers) will continue to find themselves increasingly insecure with possible social and political results that are frightening to contemplate.

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