It's Time To Stand Up To Troika Austerity

Thomas Fazi, *Social Europe Journal*

Part I 16/06/2014

In my book, *The Battle for Europe: How an Elite Hijacked a Continent – and How We Can Take It Back*, published some months ago by Pluto Press, I argued that the austerity policies imposed on European member states (especially those of the periphery) by the Berlin-Brussels-Frankfurt 'axis of rigour' and by the troika were not only proving to be a colossal failure even by mainstream economic standards, but would also lead to – and in some cases were *already* leading to – nothing less than a social and humanitarian catastrophe, and to the potential destruction of the 'European social model' as we know it.

Of course, I wasn't alone in making such a claim – I was part of a growing chorus of concerned (if not outright indignant) citizens, activists, heterodox economists, trade unions and social movements which had been cautioning for years against the potentially disastrous effects of these policies, and there was already a wealth of data corroborating such a conclusion. But I was nonetheless faced with the daunting task of attempting to paint a coherent picture of the situation and build a convincing argument based on a myriad of (often preliminary) pieces of information from a myriad of (often conflicting) sources, since no extensive, cross-country study into the effects of the austerity policies had yet been released (with the possible exception of *The Body Economic* by David Stuckler and Sanjay Basu).

That is not the case anymore. Various studies looking precisely at that have recently seen the light of day – and the picture they paint surpasses even the most pessimistic forecasts. In March, the Catholic charity organisation Caritas Europa – hardly a hotbed of left-wing radicalism – released a report titled 'The European Crisis and its Human Cost', which looks at the impact of austerity programmes in Greece, Ireland, Italy, Portugal, Spain, Cyprus and Romania (and builds upon the organisation's first crisis monitoring report, released in 2013). Its conclusion are unequivocal: the budget cuts and tax hikes implemented in these countries over the 2010-2013 period have 'disproportionately' hit the poor and are directly responsible for a dramatic rise in inequality and unemployment levels (especially among the youth), suicide, poverty (including child poverty) and at-risk-of-poverty rates, severe material deprivation, homelessness, social exclusion and distress. As the study reads:

The findings of the report demonstrate beyond any doubt that austerity measures are impacting very negatively on the lives of people in poverty, and driving many more into poverty for the first time […]. The people paying the highest price currently are those who had no part in the decisions that led to the crisis, and the countries worst affected are amongst those with the biggest gaps in their social protection systems so their welfare systems are least able to protect their vulnerable populations. This process is economically unsound as well as being unfair and unjust.

In many countries, austerity measures are leading to a contraction or lowering of quality in public services that are particularly important for people at risk of poverty or social exclusion. Especially worrying, according to Caritas, is the deterioration of national healthcare systems, which have come under pressure to cut costs in all 'crisis countries' – a measure which 'disproportionately affect[s] poorer people who are not in a position to compensate for them', with an increasing number of people in various countries reporting difficulties in accessing healthcare.

This means that austerity is not just destroying the hopes and expectations of millions of people around the continent. Increasingly, lives are being lost. Public health experts David Stuckler and Sanjay Basu explain in the aforementioned *The Body Economic: Why Austerity Kills* how by resorting to budget-crushing austerity measures many countries have turned their recessions into all-out epidemics. The authors estimate that more than 10,000 additional suicides and up to a million extra cases of depression have been recorded in Europe and the United States since governments started to introduce austerity programmes.

'Had austerity been run like a drug trial, it would have been discontinued, given evidence of its deadly side-effects,' says Stuckler. A recent article in the prestigious medical journal *The Lancet* also places the blame for the post-crisis deterioration of health levels across Europe on the austerity measures demanded by the troika, concluding that 'although recessions pose risks to health, the interaction of fiscal austerity with economic shocks and weak social protection is what ultimately seems to escalate health and social crises in Europe'. The same conclusion can be found in a *British Medical Journal* editorial. In all periphery countries, Caritas has seen a rise in demand from nationals for its charity services, which previously were mostly reserved for migrants and refugees. Moreover, the study also notes that austerity is failing miserably even in economic terms. The report's conclusion leaves little room for doubt: 'The policy of prioritising austerity is not working and an alternative is required'.

A recent 357-page report by the International Labour Organisation (ILO), the Geneva-based UN agency, makes an equally scathing assessment of the effects of austerity in Europe. According to the ILO, fiscal consolidation has given rise to persistent unemployment, lower wages and higher taxes. All three have boosted poverty and social exclusion rates, which now affect some 123 million people or 24 per cent of the EU's population. Before the start of the crisis in 2008, the figure was 116 million. Today, around 800,000 more children live in poverty compared to five years ago. 'The achievements of the European social model, which dramatically reduced poverty and promoted prosperity in the period following the Second World War, have been eroded by short-term adjustment reforms', the report notes, warning that an additional 15-25 million people face the prospect of living in poverty by 2025 if fiscal consolidation continues.

Even the European Parliament's employment committee recently adopted a report accusing the troika as well as the eurozone's finance ministers of creating a 'social tsunami'.

[Several studies] show, without the shadow of a doubt, that the austerity policies and the structural reforms imposed in the troika countries have led to a real social tsunami of massive unemployment (it has tripled in some countries) especially among young people, the closure of hundreds of thousands of companies, mainly SMEs; and a sharp rise in poverty and social exclusion

said the Spanish centre-left MEP Alejandro Cercas, who authored the report. Interestingly, it's the same conclusion reached by none other than the EU's social affairs commissioner, László Andor, who recently took issue with his own institution's policies by stating in no uncertain terms that austerity has wrecked Europe's social welfare model and 'in many cases actually aggravated the economic crisis'. He described the eurozone as flawed from the start, forcing troubled member states to make deep cuts in the private and public sectors via internal devaluation. 'Internal devaluation has resulted in high unemployment, falling household incomes and rising poverty – literally misery for tens of millions of people', he said.

It gets worse, though. There is mounting evidence for the fact that the troika's policies may be more than simply immoral – and may actually be straight-out *illegal*. This is the conclusion reached by Andreas Fischer-Lescano, a Professor of European law and politics at the University of Bremen who was tasked by the European Trade Union Confederation (ETUC) to look at the legality of the so-called memorandums of understanding (MoU) signed between bailed-out countries and their lenders. In his lengthy report, titled 'Human Rights in Times of Austerity Policy', Fischer-Lescano found many of the troika's demands to countries receiving financial assistance – which included cuts in social security schemes, education and healthcare, minimum wage reductions, encroachments on pension systems, deregulation of labour markets, decentralisation of collective bargaining, privatisation of state assets, and so on – to 'have had a far-reaching impact on human rights in the crisis countries' and to be in breach of a number of human and fundamental rights as laid out in the EU's Charter of Fundamental Rights and in a series of European and international charters, such as the ECHR, the UN Social Covenant, the RESC and the ESC.

The results are very clear. The socially unjust and economic unreasonably austerity of the EU must come to an immediate termination. It is bad for the people, bad for Europe and it is also unlawful said Bernhard Achitz, general secretary of the Austrian Trade Union Federation. A similar verdict was recently reached by the Council of Europe, the EU's human rights watchdog, which in its latest annual report identified some 180 violations of European Social Charter provisions on access to health and social protection across 38 European countries, largely as a result of fiscal consolidation (the ESC is a Council of Europe treaty adopted in 1961 guaranteeing social and economic human rights). In the bailed-out countries, the committee found several breaches – particularly in terms of wages and social benefits. The High Commissioner for Human Rights of the Council of Europe also identified Cyprus, Greece, Italy and Portugal as among the European countries where, as a result of austerity measures, there is a risk of a rise in children engaged in child labour.

Moreover, to add insult to injury, austerity is proving to be a failure even by mainstream economic standards, with a number of member states still mired in stagnation (or outright recession) – and moving swiftly towards deflation – as well as burdened by ballooning public debt levels, largely as a result of the recessionary effects of austerity. The situation is such that the IMF has recently deemed it necessary, once again (see, for example, the Fund's controversial study into the fiscal multiplier), to school its European policy partners, the

Commission and the ECB, on some basic economic laws, such as the fact that austerity helps to temporarily bring deficits down but leads to an increase in long-term debt levels (given the weak nominal GDP effect) because it discourages investment and 'implies procyclicality'.

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In the first part of this article I looked at the mounting evidence against austerity by organisations as varied as Caritas, the ILO, the Council of Europe and the IMF. So why is the European establishment pushing for more of the same?

Social and economic misery and despair, growing inequality, dwindling public services, loss of hope and ballooning debts: this is austerity's scorched-earth legacy. And yet, in a telling demonstration of the extent of their dangerous ideological fanaticism, Europe's austerity zealots insist that Europe needs 'more austerity'.

Take Olli Rehn, the infamous Commissioner for Economic and Monetary Affairs, who recently stated that rigour and austerity are working and must not be abandoned, and on the contrary should become part of the agenda of all the governments of the EU and eurozone. Unsurprisingly, a similar degree of 'crisis denialism' informs most of the Commission's documents, such as the latest round of 'country-specific recommendations' (part of the EC's Macroeconomic Imbalance Procedure). In it, the Commission paints a fairytale-like picture of Europe which bears little or no resemblance to the bleak reality hitherto described: one in which 'financial stability is returning' and 'the rise in public debt is being controlled'; in which 'the EU is moving [...] towards a more sustainable growth path that will generate jobs and improve standards of living'; in which even Greece has 'stabilised' its situation and is on the way to recovery; and in which 'all economies are expected to be growing again' by 2015 (on the Commission's tendency to *always* over-estimate potential growth variables see here).

All of which, of course, demonstrates that fiscal consolidation 'has been instrumental in improving the conditions for more balanced growth', and that member states must stick to the path of austerity and structural reforms. Special recommendations were spelled out for those countries judged to be cutting too slowly or lagging behind with reforms: Italy, France, Ireland, Spain and others. This is a kind of 'last warning', with non-compliance resulting in the interested countries being placed in a dreaded 'excessive deficit procedure', in which case an even stricter system of monitoring and surveillance kicks in.

It's the same mixture of denial, over-optimism (refuted even by the Social Affairs Commissioner himself, as we have seen) and pro-austerity zeal which can be found in the ECB's official statements. As the central bank's latest 'projections for the euro area' report reads, the various austerity measures already approved by national parliaments (or likely to be so) for the 2014-16 period 'fall short of the fiscal consolidation requirements under the corrective and preventive arms of the Stability and Growth Pact', and it will thus be necessary for governments to adopt additional fiscal consolidation measures by 2016. The ECB concedes that 'fiscal consolidation measures often have negative short-term effects on real GDP growth', but these – it says, despite overwhelming evidence of the contrary – are offset by 'positive longer-term effects on activity', as preached by that blatantly disproven economic myth that goes by the oxymoronic name of 'expansionary austerity'.

Is Ideology Driving Austerity?

How should we explain such apparent reality- and reason-defying stubbornness of behalf of the European establishment? Most critics point to ideology – more precisely, neoliberal ideology. In my book I argue that ideology isn't sufficient to explain the current onslaught, and that we have to face the fact that there might be a more sinister logic at play. As even the aforementioned Caritas report notes, there is good reason to believe that 'the major programmes embarked on to reduce public expenditure and introduce structural reforms, ostensibly justified by the crisis, were in fact aimed at reconfiguring whole areas of the European social model', in a process that 'arguably represents the largest transfer of wealth from citizens to private creditors in Europe's history'. That said, it is undeniable that ideology plays a crucial role. Given the models on which the Commission bases its policy recommendations, the unfolding social and human tragedy was not only predictable – it was inevitable.

The problem is that the EC judges member states according to a set of parameters – government deficit, public debt, current account balance, labour market 'flexibility', competitiveness, investment, etc. – that, while important, leave human beings – and a whole set of other factors that weigh heavily on the quality of life, such as the quality of the environment, the availability of decent jobs, poverty and inequality rates, community, and so on – entirely out of the picture. To paraphrase Bobby Kennedy's famous definition of GDP, we could say that the EC's tools 'measure everything except that which is worthwhile'. To the extent that a factor like unemployment is taken into consideration, the shockingly high rates of unemployment that we see today in many European countries are in most cases considered 'natural' by the Commission (more on the EC's 'natural rate of unemployment' model here).

A recent report written by Alessio Terzi and Guntram B. Wolff for the European Parliament makes this painfully clear. The authors looked at the frequency with which certain keywords appear in the memorandum documents prepared by the Commission for Greece, Portugal, Ireland and Cyprus. Predictably, words like 'fiscal', 'consolidation', 'reforms' and 'business' figure heavily throughout the programme documents; words like 'poverty', 'inequality' and 'fairness', on the other hand, are almost entirely absent. Clearly the EC considers these to be variables of negligible importance.

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This highlights the crux of the problem: that some of the EU's key institutions – chiefly, the Commission (and in particular its stick-wielding arm, DG ECFIN) and the ECB – are in the grip of an extreme neoliberal ideology; and, more importantly, that even if we accept that these policies are simply the product of a misplaced but well-meaning neoliberal faith in the virtues of fiscal rigour and the free market (which is arguable), we would do well to come to terms with the fact that these institutions are never going to bring about a change of policy of their own accord, regardless of the piles of 'evidence' that we bring to their doorsteps. They have to be stopped.

The next European Parliament should make this one of its key priorities, beginning with the dissolution of the troika. A positive first step in this direction came in March, in the form of a non-binding EP report which argued that the troika was an 'ad-hoc' set-up with no clear legal basis and with no democratic scrutiny from the European Parliament, whose measures 'have led in the short term to a rise in income distribution inequality' and poverty. The report is especially critical of the huge power accrued by the ECB in the wake of the crisis, recalling that 'the ECB's mandate is circumscribed by the TFEU to the areas of monetary policy and financial stability and that involvement of the ECB in the decision-making process related to budgetary, fiscal and structural policies is not foreseen by the Treaties'. The report concludes by calling for a 'phasing-out' of the troika and the creation of a European Monetary Fund 'subjected to the highest democratic standards of accountability and legitimacy'.

Of course 'disarming' the troika and bringing economic policy under some degree of democratic control, at the EP level, won't in itself put an end to austerity. As is well known, since 2010 the European Commission and the Council have adopted, behind closed doors and beyond public scrutiny, a complex system of new laws, rules, agreements and even a treaty – the Fiscal Compact – aimed at permanently institutionalising austerity on a European scale. As Caritas writes, 'Europe is now committed to a policy which involves cutting spending even in a depressed economy… This could be a recipe not just for one lost generation in Europe, but for several lost generations'.

Importantly, this new system of economic governance rests on a series of 'automatic correction mechanisms' and quasi-automatic sanctions in the event of non-compliance with the rules, which effectively accomplish a lifelong neoliberal dream: the complete separation between the democratic process and economic policies. As Hugo Radice, life fellow at the University of Leeds, writes: 'These proposals, when fully implemented, will not only enforce a permanent regime of fiscal austerity, but also further remove macroeconomic policy from democratic control… In essence, it is the politics of depoliticisation'. This means that any change of policy and re-democratisation of economic policy in Europe necessarily hinges on abandoning the Fiscal Compact, and the absurd sets of regulations on which it is based: chiefly, the 'six-pack' and the 'two-pack'. The European Parliament approved these, and it can overturn them.

As I pointed out in this article, the broad progressive anti-austerity camp – if we include the more left-leaning wings of the ALDE and Greens/EFA groups – will be the third force in the next Parliament. It is now up to the European progressive movement – at all levels: in the European Parliament, within single member states and, of course, on the streets – to seize this historic opportunity, and use all the instruments at its disposal – from civil disobedience to legal action – to get our democratically elected leaders to do what is necessary to save Europe from its self-inflicted misery. As Yanis Varoufakis aptly puts it, what is needed is 'nothing short of a democratic backlash against Europe's establishment'.