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Austerity Measures in Greece and the Eurozone. Repealing "Flawed Economic Policies"

Greece, the Troika and the New York Times

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Protesters march during a 24-hour general strike against austerity measures in Greece on November 28, 2014. (Photo: Louisa Gouliamaki/AFP/Getty Images)

As I have explained in prior articles, there is an excellent chance that the Troika's infliction of austerity on the eurozone's periphery could, as with the austerity inflicted under the Washington Consensus continue to produce such long-term rolling recessions that it creates a political dynamic that discredits such economic malpractice and brings to power leaders elected on the promise that they will adopt economically literate policies. The first case of this in the eurozone could be Greece. (Hollande won office on a platform of opposing inflicting austerity on France, but purged his government of those that most strongly opposed austerity and implemented policies that moved increasingly toward austerity. The French economy stagnated and Hollande's approval ratings are dismal.)

Greece's coalition government led by Prime Minister Antonis Samaras failed, in multiple tries, to garner enough support to continue to rule. The result will be national elections on January 25, 2015. The results of the election are uncertain, but the leader in the polls is the Syriza party led by Alexis Tsipras, which is running on an anti-austerity platform.

The *New York Times'* web version has four recent articles on Greece dated December 27-29, 2014. I'll begin with the only one that is not a complete embarrassment, Suzanne Daley's December 29 article titled "Greek Patience with Austerity Nears Its Limit." While the journalist often does not select the article title, as I will show Daley either chose or inspired the title. Her title signals the central problem with the article. "Patience" has nothing to do with the issue and is most assuredly not a virtue in this context. The title suggests that if the Greeks were simply more German, more patient, all would be well. The reality is that the Greek people, as with their counterparts in much of the eurozone, have been far too patient with the economic equivalent of bleeding the patient (austerity). All other factors held constant, the longer austerity continues the slower the recovery and the greater the misery.

As Bill Mitchell always emphasizes, governments choose the level of unemployment – and the *Troika* and the Greek leaders who succumbed to its extortion have chosen to create catastrophic rates of unemployment in Greece that continue a full six years after the peak of the crisis. Greece is suffering from Great Depression levels of unemployment and lost GDP. Indeed, Greece suffered relatively less from the Great Depression, which reduced per capita GDP (peak-to-trough by approximately 6%). In the case of the Great Depression, Greece was able to return to pre-Depression GDP levels within four years. The *troika*, and the Greek leaders who gave to the *troika's* threats condemned Greece to a crisis that is far more severe and far longer than was the Great Depression. No people worthy of being a Nation would be "patient" with seeing such horrors gratuitously inflicted on their fellow countrymen. They would rise up and put a stop to such depraved policies.

Greece has neither a sovereign currency nor any true sovereignty. The *troika*, at the insistence of the Germans, successfully extorted the Greek elites into cancelling the referendum on austerity and forced a *de facto* coup. Germany is the EU's hyper-power. It dominates the EU's political and economic policies and institutions. Syriza calls for the restoration of Greek sovereignty and ending the economic malpractice known as austerity. If it succeeds in the election, and if it holds true to its campaign promises, Syriza poses a grave threat to German rule. Germany openly opposes Syriza coming to power through democratic elections and any resumption of Greek sovereignty.

Germany's hypocritical demand is that Greece must honor agreements that the *troika* extorted. Germany, after World War I, threw off reparation agreements extorted through foreign diktats that were economically self-destructive to Germany and Europe. Unfortunately, Germany delayed too long in repudiating those agreements, which helped spark the Great Depression. Germany launched World War I and much of the war was fought on French and Belgian soil. The moral case for reparations was substantial. Greece certainly had many flawed economic policies but the moral case for Germany inflicting a Greater-than-Great Depression on Greece was nonexistent.

Daley's article demonstrates these points extensively in these passages.

> "Nowhere have austerity policies been more aggressively tried — and generally failed to live up to results promised by advocates — than in Greece. After more than four years of belt tightening, patience is wearing thin, and tentative signs of improvement have not yet trickled down into the lives of average Greeks.
>
> Last year, the national unemployment rate reached 27 percent, and the vast majority of out-of-work Greeks have not had a paycheck in more than two years.
>
> In 2010, with Greece crippled by debt and threatening the survival of the euro, the European Union, the International Monetary Fund and the European Central Bank [the troika] began imposing German-inspired austerity on the country. The aim was to slash the budget deficit and address fundamental problems like corruption and a failure to collect taxes. Such policies, they promised, would get Greece back on its feet, able to borrow again on financial markets.
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> Greeks grudgingly went along, assured that painful reform would return the country to growth by 2012. Instead, Greece lost 400,000 jobs that year and continued on a decline that would see a drop in the gross domestic product since 2008 not much different from the one experienced during the first five years of the United States' Great Depression.
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> Greece's unemployment rate was supposed to top out at 15 percent in 2012, according to International Monetary Fund calculations. But it roared to 25 percent that year, reached 27 percent in 2013 and has ticked downward only slightly since.
>
> But at the street level in Greece, there is little debate anymore, if there ever was. The images of suffering here have not been that different from the grainy

black and white photos of the United States in the 1930s. Suicides have shot up. Cars sit abandoned in the streets. People sift garbage looking for food.

About 900,000 of the more than 1.3 million who are out of work have not had a paycheck in more than two years, experts say.

Even if more recent optimistic projections are to be believed, and a steady rate of growth can be expected, it would take Greece perhaps 15 years to regain the jobs it has lost, said Panagiotis Liargovas, the director of the Greek Parliamentary Budget Office.

'The mix was not right,' Mr. Liargovas said of the austerity measures. 'It was a cure that has almost killed the patient.'

[Austerity's] failures have been striking, leaving millions of Greeks baffled and angry as their lives disintegrated while the elite often escaped, untaxed and unbothered, experts say.

In a wide-ranging review of the Greece program last year, the I.M.F. found that many of its predictions had failed. There was a sharp fall in imports, but little gain in exports. Public debt overshot original predictions. Predicted revenues from selling public assets were way off. The banking system, perceived as relatively sound at the beginning of the bailout, began having problems as the economy soured.

Over the last four years, the three lenders have demanded more than 800 actions a year, Greek officials say, requiring hundreds of new laws, sometimes changed and readopted within weeks or days.

The one bright spot in the economy has been tourism. But even on Greece's most famous islands, such as Corfu, there is little sense of relief. Many tourists come on cut-rate or all-inclusive packages. The wages of hotel workers have been cut severely, and many are not paid for months, if at all, according to union officials and Corfu's mayor, Kostas Nikolouzos.

Mr. Nikolouzos said he was worried that drastic budget cuts could affect the islands' ability to attract tourists. The municipality once had a budget of 13 million euros a year for capital repairs. This year, it will be one million euros, though roads are buckling and some villagers can no longer drink their tap water.

Eleni Alexaki, 56, has worked as a hotel maid for more than 20 years. She was cleaning 20 rooms a day at the beginning of the crisis and now cleans 35, while her pay has gone from 1,600 euros a month to 985. She receives no holiday pay and fewer days off.

'And they terrorize us," she said. "They say, 'There, the door is there.''

Pericles Mastoras, 59, a cook in a different hotel, needs an M.R.I. for a kidney problem, but he has not been paid since October. As he sat in his union office recently, his cellphone rang, but the conversation with his boss was brief.

'He said, 'Call back tomorrow,'' Mr. Mastoras said. 'That means I won't get the money for months.'"

This is one of the rare *NYT* articles about the eurozone that gives serious detail about the catastrophic costs and failures of austerity. But the perceptive reader will already note the key analytical flaws underlying the article – the same flaws that pervade the *NYT's* eurozone coverage. There is no recognition that economists have known for over 75 years that following pro-cyclical policies, i.e., policies that make the business cycle more severe is insane in response to a Great Recession, is economically illiterate and self-destructive. When demand is severely deficient (i.e., in a Great Recession) one does not further reduce demand by cutting net government outlays. None of the four *NYT* articles on Greece and its economic crisis even note the concept of economic "demand" or the fact that economists have known for a very long time that slashing demand when it is already inadequate is harmful. The discussion of IMF errors ignores the fact that IMF studies found that fiscal stimulus was even more effective than economists had thought – but the IMF continues to do Germany's bidding and demand that the EU not engage in fiscal stimulus. **Indeed, the article does not explain why Greece suffers from a Great Depression that exceeds in severity and length the original Great Depression or why Greece has long-term, massive unemployment.** The article offers no explanation of why austerity could cause unemployment and a recession and no explanation of why and how counter-cyclical fiscal policies could have prevented these disasters.

Second, even if one is determined to bleed the economy via austerity as a quack "cure" for a Great Recession, why would one cause mass unemployment? Why not pay people to work on productive tasks? What is the point of sparking suicide, marriage discord (unemployed males do less homework, not more, as they become more depressed), and mass emigration of college graduates? What is the point of wasting the talent of people who are willing and able to work? It takes truly depraved decision-makers to choose mass unemployment as a policy that under the *troika's* most optimistic assumptions require 21 years (the six years since 2008 plus "15 years") just to "regain the jobs it has lost" (which is far from full recovery)? Not only has the *troika's* Greek austerity assumptions consistently proved grossly over optimistic, but the idea that Greece should assume that there will be no future recessions for 15 years is fanciful. The *troika's optimistic* scenario for Greece is that it will take Greece over five times longer to simply get back the jobs it lost (a very low bar for a "recovery") in this crisis than it took Greece to achieve a far fuller recovery from the Great Depression.

Why would anyone in a nation with heavy tourist trade choose to ruin the infrastructure so that tourists will go elsewhere? Are they trying to prove the validity of Marx's description of the role of the reserve army of the unemployed and how it gives the business owners the leverage to commit vicious abuses of workers? This is madness of such proportions that the only question is why it took the Greek people so long to rise up and say "we will no longer give in to your demands that we commit these acts of savagery against each other."

The *NYT* is so hopeless in discussing the *troika's* infliction of austerity that even in an article that shows that the policy is vicious and self-destructive the paper cannot really bring itself to quote economic experts explaining why austerity is the toxin rather than the "cure." Instead, Daley claims that austerity succeeded at least partially even in Greece.

> "[T]he austerity program has had some notable successes. When Greece was forced to ask for help, its deficit was more than four times the 3 percent of gross domestic product allowed under European Union rules. The financial markets had lost confidence in the country. Greece desperately needed money to pay its bills, but the cost of borrowing on the financial markets had become prohibitive.
>
> Now, Greece is no longer spending far more than it receives, when debt payments are excluded, its officials say. It has remained in the European Union, and can again borrow in the bond markets, though at interest rates that

> have been creeping up again, indicating investors' concern about the nation's path."

These two paragraphs reveal the depth of the *NYT's* infatuation with austerity and economic illiteracy. No, these are budgetary failures not "successes" and the borrowing cost "successes" were not produced by "austerity." The EU "rules" on deficits forbid any substantial use of countercyclical fiscal policies. The *troika's* insistence on reducing Greece's deficit rapidly represented a self-destructive fiscal policy that was a major contributor to the gratuitous infliction of misery that the *NYT* article describes. But the*NYT's* reporters covering the EU economic crisis believe deep in their marrow that even sovereign nations with sovereign currencies that run budget deficits are "bad" while nations that run budget surpluses are "good." They actually think that a sovereign nation with a sovereign currency is just like a household.

The small print on calculating Greece's deficit shows the disingenuous nature of the *NYT*article. Yes, if you exclude debt repayments the budget deficit looks smaller, but that's an accounting game. Greece's deficit is still meaningfully above 3 percent because Greece's economy is so weak due to austerity that its tax estimates are overestimates and its budget expenditures are underestimates.

Greece can borrow more cheaply today because the ECB provided an implicit guarantee of eurozone sovereign debt, not because of Greece's budget. The ECB could have prevented the entire bond "crisis" in the eurozone by providing that guarantee years earlier. The*troika*, however, found the bond vigilante's attacks useful to extort nations like Greece to give in to the *troika's* demands, so the ECB delayed providing that guarantee. The *troika's*best weapon against Greece recovering its independence and sovereignty remains the threat to withdraw the ECB guarantee. Look for a series of threats in the run-up to the Greek election next month.

That is, by far, the best of the recent *NYT* articles about Greece. The next least bad articlebegins with this utterly dishonest attempt to portray austerity as a partial success in Greece.

> "Governments and investors across Europe braced for renewed economic upheaval on Monday after the Parliament in Greece failed to avert an early general election, reviving the toxic debate over austerity as the way to cure the Continent's economic woes.
>
> Senior European Union officials immediately urged Greek voters — now headed to the polls on Jan. 25 — to focus on continuing the policies that have enabled the country to ride out its previous monetary crisis and remain part of the eurozone, and that have begun to restore the country's battered reputation for fiscal management."

To the *NYT* it isn't austerity that is "toxic," it's "debat[ing]" austerity that's toxic. If opponents of austerity – about seven-eighths of economists – would just stop criticizing austerity all would be well. Austerity is not a "cure" for inadequate demand; austerity is what is "toxic" as a response to a severe recession because it further reduces already inadequate demand for goods and services.

In the next sentence the *NYT* treats as undisputed fact the *troika's* myth that Greece should “focus on continuing the policies that have enabled the country to ride out its previous monetary crisis and remain part of the eurozone, and that have begun to restore the country’s battered reputation for fiscal management.” As reality and the facts in the Daley article should have made clear to even the least competent journalist, the “Senior European Union officials” were (a) lying and (b) ignoring the catastrophic damage that austerity has done to the people of Greece.

But there is a fundamental question related to the sentence I’ve been discussing. Why are “Senior European Union officials” telling the Greek people how they should vote in an election? Here are the specifics.

> “European leaders immediately began to warn of the possible consequences of a shift in Greek policies. The European Union’s economic commissioner, Pierre Moscovici, warned that a ‘strong commitment to Europe and broad support among the Greek voters and political leaders for the necessary growth-friendly reform process will be essential for Greece to thrive again within the euro area.’
>
> And a top German official warned that continued European aid would be conditional on Greece’s continuing to make major cuts in public services and other changes to control spending.
>
> ‘We will continue to help Greece to help itself on its path of reforms,’ Wolfgang Schäuble, the German finance minister, said in a statement. But he added, ‘If Greece embarks on a different path, it could be difficult.’”

The word “Orwellian” was designed to describe Moscovici. I’ve explained what austerity did to the Greek people, but Moscovici has the nerve to call it “growth friendly.” Schäuble began the threats against the Greeks actually electing the leaders they supported.

The worst article is dedicated to explaining why the Germans don’t care if the ECB lets the bond vigilantes attack Greece. “Why Greece’s New Crisis Isn’t Spreading to the Rest of Europe.” The author reveals his politics early.

> “Polls point to victory by a more extreme party, the left-wing Syriza, which is skeptical of the European Union.”

The party dedicated to ending the economic malpractice of austerity that has devastated the Greek people is the “extreme” party while the Greek parties who capitulated to the German threats and austerity demands and gratuitously forced Greece into a worse-than-the-Great Depression are what? How did understanding basic macroeconomic principles, taught to me 45 years ago as well settled fact, and supported by the next 45 years of experience become “extreme?”

The author then makes his own Orewellian statement, the unintentionally hilarious metaphor that the *troika* might force a Greece that regained its sovereignty to operate “outside the umbrella of the single European currency.” An “umbrella” protects one from the rain and extreme sun. Adopting the euro was a major factor in bringing the deluge to Greece.

Here’s the author’s bottom line.

> "In other words, financial markets view Greece's problems — and Greece's future — as important for Greece alone. Since 2012, the European Central Bank has pledged to do 'whatever it takes' to prevent a crisis of confidence in European bonds (read: buy them as the lender of last resort if private markets dry up), and European governments have moved toward jointly guaranteeing the Continent's banks."

We can divine from this paragraph that the author agrees that the reason the bond vigilantes were defeated was not austerity, but the ECB's implicit sovereign debt guarantee. Greek bonds will be fine as long as that guarantee is in place – which is why Germany is implicitly threatening to yank that guarantee if the Greeks vote for Syriza. Germany wants to be able to threaten to unleash the bond vigilantes to in order to intimidate the Greeks from voting to restore democratic rule.

There's a more fundamental point though – it isn't simply the "financial markets" that "view Greece's problems – and Greece's future – as important for Greece alone." It's the*troika* that has decided that forcing the Greek people into a gratuitous second, more severe Great Depression is "important for Greece alone." German odes to European solidarity have been exposed as pious platitudes. Germany didn't act to bailout Greece, it acted to force the Greeks to aid in bailing out German banks.

The *NYT* columnist, however, ignores the worse-than-Great Depression that the *troika*pointlessly inflicted on Greece. To the columnist, "the great risk" is that Germany's infliction of economic malpractice will be blocked by the election of Greeks dedicated to ending Germany's latest assault on the Greek people.

> "The great risk, of course, is that markets are wrong. The same political forces that appear poised to bring an extreme leftist party to power in Greece are bubbling in other parts of Europe."

Yes, we can't have democracy and competent economic policies spread to other parts of Europe – that is truly the "great risk" that the Germans and their journalistic apologists fear. The columnist comes back to that nightmare at the end of his piece.

> "The risk is no longer that Greece's problems will infect the rest of Europe. It is that the same dynamics of political economy causing unrest in Greece will soon enough arise in its bigger neighbors."

Yes, just as the Washington Consensus' austerity led to the election of leaders in many Latin American nations opposed to austerity, a similar dynamic could arise in Europe. Greece's greatest tradition is bringing democracy to the world, so Greece is the ideal nation to lead Europe to the restoration of real democracy.

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