

## Debt, Austerity, Devastation: it's Europe's Turn

By [Susan George](#)

Global Research, September 02, 2013

[The New Internationalist](#)

*As the creditors get fatter, the innocent are punished. Susan George laments a leadership subservient to big business.*

Like plague in the 14th century, the scourge of debt has gradually migrated from South to North. Our 21st-century *Yersinia pestis* isn't spread by flea-infested rats but by deadly, ideology-infested neoliberal fundamentalists. Once they had names like Thatcher or Reagan; now they sound more like Merkel or Barroso; but the message, the mentality and the medicine are basically the same. The devastation caused by the two plagues is also similar – no doubt fewer debt-related deaths in Europe today than in Africa three decades ago, but probably more permanent harm done to once-thriving European economies.

Faithful – and older – New Internationalist readers will recall the dread phrase 'structural adjustment'. 'Adjustment' was the innocent-sounding term for the package of economic nostrums imposed by wealthy Northern creditor countries on the less-developed ones in what we then called the 'Third World'. A great many of these countries had borrowed too much for too many unproductive purposes. Sometimes the leadership simply placed the loans in their private accounts (think Mobutu or Marcos) and put their countries in hock. Paying back in pesos, reals, cedis or other funny money was unacceptable: the creditors wanted dollars, pounds, deutschmarks...



Furthermore, the Southerners had contracted their loans at variable interest rates, initially low but astronomical from 1981 when the Federal Reserve declared an end to the era of cheap money. When countries such as Mexico threatened default, panicked creditor-country treasury ministers, top bankers and international bureaucrats spent some sleepless weekends eating take-out and cobbling together emergency plans.

Plus ça change, plus c'est la même chose.\* Decades later, serial crisis meetings still take place, this time in Brussels and, with minor variations, the response is identical: you only get a bailout in exchange for committing to a set of stringent requirements. These once echoed the neoliberal 'Washington Consensus'; now they are more truthfully labelled 'austerity packages' but demand the same measures. Sign here, please, in blood.

For the South, the contracts said: 'Cut back food production and grow cash-earning crops. Privatize your State enterprises and open up profit-making activities to foreign transnational corporations, especially in raw materials and extractive industries, forestry and fisheries. Drastically limit credit, cancel subsidies and social benefits. Make health and education paying propositions. Economize and earn hard currency through trade. Your prime responsibility is to your creditors, not your people.'

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Now it's Europe's turn. The countries of southern Europe, plus Ireland, are relentlessly told: 'You have been living beyond your means. Now pay.' Governments meekly accept orders and their people often assume that their debt must be paid instantly because the debt of a sovereign State is just like the debt of a family. It's not – a government accumulates debt by issuing bonds on financial markets. These bonds are bought mostly by institutional investors such as banks which receive an annual interest payment, low when the risk of default is low, higher when it isn't. It's absolutely normal, desirable and even necessary for a country to have a debt which will pose zero problems and generate many benefits if the money is prudently invested for the longer term in productive activities such as education, health, social benefits, solid infrastructure and the like.

Indeed, the higher the proportion of public spending in a government budget, the higher the standard of living and the more jobs are created – including private-sector jobs. This rule has been verified time and again since the correlation between public investment and national well-being was first noted in the late 19th century.

Obviously, borrowed money can also be wasted and spent stupidly and benefits can be distributed unfairly. The big family-State budget difference is that States don't disappear like bankrupt companies. Productive, well-managed investment financed by government borrowing should be seen on the whole as A Good Thing.

## The magic numbers

In 1992, European countries narrowly voted Yes to the Maastricht Treaty, which at the insistence of Germany contained two magic numbers, 3 and 60. Never allow a budget deficit greater than three per cent; never contract public debt greater than 60 per cent of your Gross Domestic Product (GDP).\*\* Why not two or four per cent, 55 or 65 per cent? Nobody knows, except perhaps some ancient bureaucrats who were there, but these numbers have become the Law and the Prophets.

In 2010, two famous economists announced that beyond 90 per cent of GDP, debt would plunge a country into trouble and its GDP would contract. That sounds logical because interest payments would take a bigger chunk out of the budget. But in April 2013, a North American PhD candidate tried to replicate their results and found he couldn't. Using their figures, he got a positive result for GDP which would still rise by more than two per cent per annum. The famous, if red-faced, twosome had to admit they were Excel victims and had misplaced a comma.



Merkel the puppeteer: a mural in Lisbon, Portugal, depicts the Portuguese Prime Minister and Foreign Minister as the German Chancellor's playthings. Rafael Marchante/Reuters

Even the International Monetary Fund has confessed to similar mistakes, this time on the austerity cuts issue. We now know, because the Fund was honest enough to tell us, that cuts would hurt the GDP by two to three times more than it initially foresaw. Europe should go easy, says the IMF, and not 'drive the economy with the brakes on'. The magic 60 per

cent of GDP debt limit is no more sacred than the three per cent deficit limit; yet policies remain the same, because the neoliberal hawks seize upon every scrap of dubious evidence that seems to promote their cause.

We are faced with two basic questions. The first is why did the debts of European countries rise so steeply after the crisis struck in 2007? In just four years, between 2006 and 2010, debts escalated by more than 75 per cent in Britain and Greece, by 59 per cent in Spain and by fully 276 per cent in all-time champion Ireland, where the government simply announced it would assume responsibility for all the debts of all the private Irish banks. The Irish people would henceforward be held responsible for the irresponsibility of Irish bankers. Britain did the same, though in lesser measure. Just as profits are privatized, losses are socialized.

So citizens pay through austerity, whereas bankers and other investors who bought the country's bonds or toxic financial products contribute nothing. After the 2007 crisis, the GDP of European countries dropped by an average five per cent and governments had to compensate. Escalating business failures and mass unemployment also meant more expenditures for governments just when they were taking in less income from taxes.

## The New Morality

Economic stagnation is expensive – higher expenditure and lower revenue add up to a single answer: borrow more. Saving the banks and taking the consequences of the crisis they created are the fundamental reason for the debt crisis – and consequently for harsh austerity today. People were not 'living beyond their means' but the New Morality is clearly 'Punish the Innocent, Reward the Guilty'.

This is no defence of stupid or corrupt policies such as allowing the Spanish housing bubble to inflate or Greek politicians to hire masses of new civil servants after each election. The Greeks have a bloated military budget and inexcusably refuse to tax the great shipping magnates and the Church – the biggest property owner in the country. But if your bathtub leaks and the dining room paint is peeling, do you burn down your house? Or do you fix the plumbing and repaint?

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The human consequences of austerity are inescapable and well known: pensioners search through rubbish bins at mid-month hoping to find a meal; talented, well-educated Italians, Portuguese and Spaniards flee their countries as unemployment for their age group approaches 50 per cent; unbearable stress is laid on families; violence against women increases as poverty and distress rise; hospitals lack essential medicines and personnel, schools decline, public services deteriorate or disappear. Nature takes the brunt as well: nothing is invested in reversing the climate crisis or halting environmental destruction – it's too expensive. Like everything else, we can't do it now.

We know these outcomes, the results of what Angela Merkel calls 'expansionary austerity' policies. This neoliberal theory claims that markets will be 'reassured' by tough policies and reinvest in the newly disciplined countries concerned. This hasn't happened. Pictures of Merkel adorned with swastikas are appearing throughout southern Europe.



'Hands up! It's a robbery,' chant students and teachers at the police during a march in Malaga against the Spanish government's educational spending cuts. Reuters/Jon Nazca

Many Germans think they are helping Greece - and they don't want to anymore. In fact, virtually all the bailout money has taken a circuitous route: EU government contributions made through the European Stability Mechanism have been channelled via the Greek Central Banks and private banks right back to British, German and French banks that had bought up Greek Eurobonds to get a higher yield. It would be simpler to give European taxpayers' money directly to the banks, except that said taxpayers might notice. Why make an ongoing psycho-drama over two per cent (Greece) or 0.4 per cent (Cyprus) of the European economy? A cynic might say: 'Easy. To ensure Ms Merkel's re-election in September.'

The second basic question is: why do we continue to apply policies that are harmful and don't work? One can look at this self-created disaster in two ways. Eminent prize-winning economists like Paul Krugman or Joseph Stiglitz believe that the European leadership is brain-dead, ignorant of economics and needlessly committing economic suicide. Others note that the cuts conform exactly to the desires of such entities as the European Roundtable of Industrialists or BusinessEurope: cut wages and benefits, weaken unions, privatize everything in sight and so on. As inequalities have soared, those at the top have done nicely. There are now more 'High Net Worth Individuals' with a much greater collective fortune than in 2008 at the height of the crisis. Five years ago there were 8.6 million HNWI's worldwide with a pile of liquid assets of \$39 trillion. Today, they are 11 million strong with assets of \$42 trillion. Small businesses are failing in droves, but the largest companies are sitting on huge piles of cash and taking full advantage of tax havens. They see no reason to stop there.

This is not a crisis for everyone and the European leadership is no more stupid than its counterparts elsewhere. It is, however, entirely subservient to the desires of finance and the largest corporations. Certainly, neoliberal ideology plays a key role in its programme but serves especially to emit thick smokescreens and pseudo-explanations and justifications so that people will believe There Is No Alternative. Wrong: the banks could have been socialized and turned into public utilities, like other utilities that run on public money; tax havens closed down, taxes levied on financial transactions and many other remedies applied. But such thoughts are heretical to neoliberalism (although 11 Eurozone countries will start taxing financial transactions in 2014).

I am a fervent European and want Europe to thrive, but not this Europe. Against our will we have been plunged into class warfare. The only answer for citizens is knowledge and unity. What the one per cent has imposed, the 99 per cent can reverse. But we'd better be quick about it: time is running out.

*Susan George is Board President of the Transnational Institute and author of 16 books, most recently *Whose Crisis, Whose Future?* and *How to Win the Class War*, on her website in June for electronic download and print on demand along with six 'Susan George Classics'.*

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