An Unnecessary Crisis and Completely Avoidable in Europe

In conclusion, the days of the Euro are today threatened, not through the fault of abysmal deficits of certain European states, but simply because of the European policy skids leading to a cacophony of unacceptable dithering. European leaders do not always consider that it is the dissolution of the Union – in any case as is already known for more than a decade – which is on the menu if they finally decide to address seriously the issue of fiscal union! A European Treasury should thus be created, a logical conclusion to fiscal harmonization for all members of the EU, which will act as a shock absorber necessarily produced by nations with often divergent business cycles and essential diagnoses. To even raise funds through the issuance of bonds, this European Ministry of Finance will, at the same time, function as an agency for transfer payments from the wealthiest nations to the least wealthy. For, without a good and solid fiscal union, the European massive and endemic imbalances will eventually be due to the Euro zone. Either by the gradual and inevitable exit of its weakest members, or by the comprehensive and sudden implosion of its entire structure! It would be much more advantageous for all EU member states to pass through the necessary “fiscal union” case/box than to have to endure the throes of a broken currency which would accompany bank failures, default payments of sovereign debt, even the reestablishment of exchange control and freezing bond markets… Political decision – in the noble sense of the term – through excellence, this fiscal union seems, however, impossible to realize in the current prevalent political landscape in the various EU countries. Indeed, it is not only Germany which will veto, it is not exclusively the voter and the taxpayer of this country who will refuse to participate financially in saving the European project… As a “fiscal union” is necessarily accompanied by extra sacrifices, the weaker countries themselves will also use their veto because their citizens have become completely disenchanted – even disgusted – with what was once for them the European “dream”.

The failure of the European Concept – according to which a country in difficulty can appeal to the monetary policy or benefit from budget transfers to settle its domestic problems – is therefore likely to lead to a
major, economic and, indeed, financial, but also political crisis, since these nations realize that they receive no support in exchange for giving up their sovereignty. It goes without saying though that only mechanisms of cash transfers toward these fragile nations are likely to overcome their loss of solvency, while reversing the unemployment and income curves which change unfavorably and indeed inversely. Even worse since the attempts by these weakened countries to reboot their domestic consumption were sharply swept a backhander by “exemplary” countries. These righteous nations systematically imposed stringency everywhere causing these affected economies to dry up. An elementary reminder of fundamental differences between sovereign countries and nations which, abdicating all control over their currency policy, would have otherwise avoided the European implosion. The insolvency of peripheral European countries would never have actually been challenged if they had been clearly supported by an ECB which has the privilege of printing money at will that it is able to inject into its needy members. A group of countries benefiting from this option to create a currency, covering such a geographic zone and reflecting such clout can never go bankrupt, except of its own doing as the recent U.S. episode demonstrates where Congress balked at raising the debt ceiling. In reality, there is no European debt crisis. There is, however, a Euro crisis. The debt is simply a symptom of the single currency crisis and a defective central bank which, furthermore, takes pleasure in navigating in troubled waters. A more important start-up in the world history of investment funds of up to $1 trillion, does not LTCM count among its prestigious staff two future Nobel Economics Prize winners? It is therefore the Euro in its present form which creates the conditions for the crisis lined with bad choices. Austerity being one of these bad choices. Since economic recovery is well worth, after all, the temporary worsening of deficits… Indeed, given that EU members cannot print their tickets, as the refusal by the ECB and European institutions to flood them with cash, transforms each European nation… into a bank! Spain, Italy or Greece have therefore become banks and are subject – exactly how a bank would be subject to it – to flights of capital and massive cash withdrawals, until the final collapse.

The big – even single – European problem and the huge chip in its armor is the dichotomy between congenital monetary power and budgetary authority of the respective members. Each of these countries abdicated its monetary sovereignty (in favor of the ECB) while it could retain the power to levy taxes… without being in a position to stimulate its economy in the traditional way, like the U.S. did. This very restrictive mobility of EU members in rebooting their economic activity and encouraging their growth comes from two flaws. First, the inability to print their own currency and therefore to inject liquidities into their
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economy. Second, the Maastricht criteria strictly governing public deficits considerably restrain states in their maneuvers to consent to an attractive tax system, as well as to public spending (to hire bureaucrats or to initiate substantial public works projects. It should be noted that the European structure did not give priority to jobs which were sacrificed on the altar of economic orthodoxy and stringency. For the fathers of Maastricht, it was, in fact, better to restrain spending public spending and focus only on growth to reduce unemployment... that is if the employment was part of their concerns. It is this congenital defect that is responsible for triggering the crisis suffered by the Union for three years. And it is this European superstructure, tax and fiscally decentralized, which is the source of its amplification. As the peripheral European nations are deprived of the monopoly of issuing currency with which they go into debt, lenders consider when they borrow in a foreign currency. In addition, this lack of fiscal and budgetary integration of members of the Union exacerbates financial strains since setbacks from national banks permanently contaminate their trusteeship country. Indeed, the financial system and states interact very differently depending on whether monetary union is centralized or based on some sort of federal system. Indeed, the financial system and states interact very differently depending on whether monetary union is centralized or based on some sort of federal system. The solvency of a member state of the United States of America is never called into question by the failure of a bank incorporated and domiciled in the State in question. However, for those who argue (correctly), the United States was not made in a day. And others, such as Germany and the Nordic ants, try to bring to the Southern cicadas the culture of rigor and discipline, essential prerequisites for the European fiscal and budgetary integration. It is necessary to oppose even the chronology of the formation of the European Union. The sequence requiring balanced budgets and debt limit and deficit was in fact the starting point from which all should flow. This is the form that was privileged at the expense of substance and contempt of solidarity. In doing so, this decentralized structure grossly underestimated the vulnerability of countries with a natural inclination to deficits, or simply faced with specific difficulties. Countries particularly dependent on the influx of private capital, in a context where they had no latitude to beat their currencies. In other words, the original sin was to establish the Euro before the federal union and in the absence of duly formed organically integrated institutions. How did the founders of the single currency hope to hold a fragile building together whose foundation consisted of economically, politically and institutionally nations so divergent for which there existed no mechanism for compensation and support? Solely by virtue of a balanced budget? Indeed, by giving up this precious flexibility granted by a sovereign currency (and therefore free to
print), by abdicating their currency policy (i.e., the definition of their interest rates), by forcing the convergence of economies into notoriously dissimilar competitiveness. The Euro weakened core European countries. And it brought about the inevitability of speculative bubbles in the peripheral countries, that could only now count on these bubbles to maintain and sustain their economic activity. In reality, the financial turmoil of the EU is only the deep symptom of endemic evil of European integration overshadowing growth and employment.

However, growth is not challenged by social assistance programs. Indeed, nowhere was it proven that there was the direct and systematic correlation between public spending in favor of its citizens and a regression/decrease in growth. In other words, let us not sacrifice wellbeing, safety and harmonious expansion of the population on the pretext that economic growth would win here since this is not true. Indeed, only poorly targeted social programs affect growth, insofar as monetary policy or inappropriate taxes. For it is not European nations which spend more on their citizens which today find themselves on the brink, as, on the contrary, public spending on social programs by the peripheral European countries did not weaken them. For it is not European nations which spend more on their citizens which today find themselves on the brink, as, on the contrary, public spending on social programs by the peripheral European countries did not weaken them. In reality, the spending by the PIIGS on social programs are less than that by the so-called “Northern” European countries such as Germany, Austria, the Netherlands, Belgium or Finland, which can be more generous thanks to their ability to borrow from the markets at negligible costs. The same can be said for non EU European countries (such as Switzerland and the Scandinavian countries) which – benefiting from the huge asset of very low cost financing, even negative – which also spend a lot more on social programs than European countries such as Italy or Spain. In what kind of world would we like to live? In a world where certain countries may provide largesse to their population because they benefit from zero percent interest rates on loans from the financial markets? While others, who carry large deficit accounts, are victims of punitive means from “investors” who, suddenly, exert unacceptable and outrageous blackmail on vulnerable people. In so doing, Europe is floundering in an authentic “liquidity trap” described by Keynes, although of a new and modern kind. These negative rates paid by certain privileged nations on their bond debt are in fact a veritable liquidity trap, in the sense where they are captured by the wealthy countries and thus subtracted from the affected countries that yet need them greatly. A fractured line therefore divides Europe, a sort of financial iron curtain which operates a methodical triage between the club of countries with negative rates and others. Obviously no one has an interest in maintaining or fueling this polariza-
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tion, but are the rich countries in surplus even aware of this? Will the European Union – this piece of work by Monnet, Schuman and Adenauer –, this economic and financial powerhouse with the world’s highest GDP, passively adapt to seeing certain of its members finance freely their standard of living while others must borrow at 5 or 7%, when it is not even more…? Is it not amazing, for example, to hear the Portuguese Prime Minister urge (in August 2012) the youth of his country to leave to seek work elsewhere? It is actually our youth who are the first to pay the price for this crisis. More than half of those under 25 years old are unemployed in Greece and Spain, knowing that youth unemployment is also higher than 50% in certain regions of Southern Italy! Indeed, under the pretext of conforming to orthodoxy, how can we tolerate sacrificing our youth at the altar of liberalism? How do we remain unmoved in the face of intergenerational conflict which is occurring inside our Union, where those in charge seem obsessed by stock market fluctuations and by the verdict of rating agencies? How do we tolerate hundreds of millions of European citizens – today, in the second decade of the 2000s – still being kept hostage to financial markets which freely possess the powerful tool to reward or otherwise sack? Does the European civilization not deserve better than to be summed up in terms such as “returns” or “state bonds”? It is imperative to redirect radically Europe’s construction, when Milton Friedman asserted that it would not last more than fifteen years!

Dogmas – like prejudices – wreak havoc on society and, one might add, on economies. Are not austerity and fiscal orthodoxy considered like truths unveiled by the same ones who depart from the – untouchable – principle according to which recessions and high unemployment are the price to be paid for achieving the sacrosanct balanced public accounts? Comforted by the great majority of economists and the small academic world, almost all our political and economic leaders only have eyes for this neo-liberal doctrine. And have nothing but contempt for the neo-Keynesians and other progressives who clearly distinguish between the budget of a sovereign state… and the purse strings of a household. Applied stupidly and to the letter, dogmas are often cruel and destructive. That does not matter: our politicians, like our intellectual elites, impose rigor with the same lightness that apothecaries of yore practiced bloodletting. O tempora, O mores: our new charlatans continue to prescribe today more austerity for citizens already stifled by the recession! It is all the more remarkable that these fanatics have consolidated more their grip on our system, whereas it is their neo-liberal belief that precipitated our economies into the abyss. While devoting corruption and unbridled capitalism to the rank of deities. Is not it sad that even those who supported, yesterday, growth and employment are driven today as ardent defenders of “blood and tears”? From the creed of the
golden rule, tirelessly and religiously recited by the current “socialist” executive. To the dramatic consequences of the reductions in budget expenditures on the French economy inevitably doomed to contract. Through the act of contrition, pathetic servility, agreed to the government (“It is our duty to reverse the trend”, according to Pierre Moscovici, French Minister of Economy and Finance, referring to, on December 27, 2012 in the German Handelsblatt, the French commitment to reduce the deficit to 3% in 2013). The brainwashing done by the neo-liberal cult has proven successful – globally – as even the French left followed suit. Since even the most powerful man on the planet – the U.S. president – caves in to its demands: he gradually ceded nearly all of his positions to the Republicans in the resolution of the fiscal cliff. Haven’t President Obama and his administration now been reduced to finding insane tricks to fund social programs? Thus the U.S. Treasury has discussed putting nearly $1,000 billion in platinum coins into circulation, which would allow to legally circumvent the U.S. debt ceiling! As such, today, everything has been accomplished. Indeed, like religious fanatics, neo-liberals refuse categorically to submit to the evidence that a sovereign nation, which issues a sovereign currency (i.e., freely exchangeable in markets), is in no way subject to creditors that would up the ante on its financing costs. A sovereign nation and so-called leaders can – and must – spend more than their income allow for, if their objective is to stamp out the recession. The battered citizen only knows that a central bank could simply press a button to credit accounts, create money, and this, with the dual aim of reviving the economy and protecting its people from the throes of financial markets. Who took the trouble to explain to the unemployed at the end of the day that a country which has a sovereign currency can maintain budget deficits over extremely long periods of time without the negative impact on economic growth? The employee struggling daily to provide for his family would be outraged to learn that austerity (he is the first to suffer) only exacerbated the economic downturn. A nation and a household must apply diametrically opposed strategies when their incomes collapse: while the decrease in spending of the individual has a negligible effect on the economy of the country, reducing the lifestyle of the public sector has a disastrous impact on both the private sector and consumption. Any other strategy is doomed to failure, despite the imprinted statements of pity from the neo-liberal theorists who argue that the economy of the European Union worsens for not having opted for more rigor and for not having prescribed it early enough! So two worldviews clash: bleed a more or less moribund patient even more or send the neo-liberals away who show an almost morbid obstinacy to want to balance the budget of a country. No: the U.S., Great Britain and Japan – which have a currency that they can print when and how they feel like it – did not suffer from escalating cost
of financing public debt. No: the unemployment level in the U.S., which implemented several stimulus packages, did not quite reach the average catastrophic levels of the EU. Yes: the U.S. economic recovery and unemployment reduction would have been more dramatic if these stimuli had been more generous, as advocated by the neo-Keynesians. And finally yes: in spite of these cash injections and despite the massive amounts of money that were printed (with the QE1, QE2 and QE3 programs combined with operation “Twist”), the U.S. fiscal deficit was reduced over these past three years at an unprecedented rate since the end of the Second World War! The budgetary savings signed by President Obama will drastically reduce the U.S. federal debt which is expected to fall to 83% of GDP by 2022! After swelling multiple speculative bubbles since the mid-1980s, the neo-liberal ideology so ravaged Europe today, imposing across the continent the fire of austerity and destructive madness of balanced budgets. We must reject all these senseless net savings programs, as it is imperative to oppose any cuts in social spending, the effectiveness of which is systematically denied by reality. Because the state should instead be generous and invest in the economy – ie increase its deficits! – so long as this recessionary environment persists. In fact, behind this technical debate, hides a much more significant battle: a real societal choice. The economy must become a social system serving the citizen. And money a simple tool made available to the system, must be measured out for collective prosperity, that being its only concern. That is why, today, neo-liberalism is nothing more than a “barbaric relic”!