The Meaning of "Austerity Measures" in the Eurozone

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The eurozone is slipping into a recession that could have been avoided. Had policymakers provided fiscal support for stricken countries in the South and guarantees on their government bonds, (as the USG does for US Treasuries) then their economies could have continued to grow while the necessary reforms were put in place. But the Troika (The IMF, the ECB, and the European Commission) decided to make the bailouts conditional on member states' acceptance of harsh austerity measures which forced leaders to slash government payrolls, services and programs. The result was entirely predictable; economic activity began to sputter as one country after another succumbed to a vicious slump.

So the downturn was a basically matter of choice, a self-inflicted wound brought on by poor decision-making in Brussels and Frankfurt. Anyone could see what the result was going to be because contractionary policy leads to economic contraction. Implement policies that are designed to shrink the economy, then the economy will shrink.

For the last month or so, the focus has mainly been on Spain, and for good reason. Spain's banking system is crumbling beneath the weight of tens of billions in non performing loans generated by the gigantic housing bubble which is still deflating. Unemployment in Spain is the highest in Europe at 24 percent. (Youth unemployment is over 50 percent) Even so, Spain's right wing PM Mariano Rajoy is attempting to reach the deficit targets demanded by the troika which will push unemployment higher while further deepening the depression. According to Der Speigel:

"The prime minister recently announced that he wants to reduce expenditures in the country's education and health system by €10 billion. .... To meet the demands of the central government, the regions would have to slash 80,000 out of 500,000 teaching positions."

As you can see, austerity measures and debt consolidation are only adding to Spain's woes. Eventually, after much unnecessary misery, Spain will require a bailout, although ECB president Mario Draghi insists that this is not so.

But Europe's problems are not limited to Spain or countries on the periphery. France's output has slipped for a second month in a row and the pace of the decline is accelerating. The service sector is also showing signs of distress as belt tightening measures take hold and gradually reduce aggregate demand. Unemployment is edging higher as the slump deepens. According to data from Eurostat the seasonally adjusted jobless rate in France reached 10 percent in April, a 12 year high. Ballooning unemployment has led to an uptick in poverty which now affects 13.5 percent of the population. Austerity measures have led to a decline in personal consumption, an erosion of confidence, and a more generalised slowdown across all sectors. Still, intractable bankers and bureaucrats in Brussels and Frankfurt have not veered one bit from the original policy. They remain steadfast in their commitment to austerity.

Here's Draghi defending austerity in an interview with the Wall Street Journal:

"There was no alternative to fiscal consolidation, and we should not deny that this is contractionary in the short term. In the future there will be the so-called confidence channel, which will reactivate growth; but it's not something that happens immediately, and that's why structural reforms are so important, because the short-term contraction will be succeeded by long-term sustainable growth only if these reforms are in place." ("Q&A: ECB President Mario Draghi", Wall Street Journal)

Notice how Draghi does not defend austerity on the basis of any identifiable economic theory, nor does he cite any examples of austerity's successes. (Are there any?) Nor does he name any prominent economists who support the theory. It's all just "Trust us, we're the experts"…. "contractionary expansion will work because we say so" even though the economy is sinking, unemployment and extreme poverty are at record highs, and the Eurozone is embroiled in the worst slump in the last 80 years. "Trust us. We know what we're doing".

And here's a sample of Draghi's views on taxation from the same interview:

"A 'good' consolidation is one where taxes are lower and the lower government expenditure is on infrastructures and other investments."…"A 'bad' consolidation is actually the easier one to get… by raising taxes and cutting capital expenditure."

Let's summarize: Cutting public spending and austerity, "Good". Raising taxes, "Bad". Isn't this the same right wing blather we've heard for years?

"Austerity" amounts to an attack on Europe's social model and aims to roll back the progressive advances of the last century. There's nearly-universal agreement that belt tightening doesn't lead to recovery, but just make matters worse. Trimming deficits in the throes of a recession is a surefire way to choke off economic activity and foment social unrest. And so it has. Aside from turning many of the EU's biggest cities into free-fire zones, austerity is reshaping the political landscape and fueling radical elements on the right and left who are calling for an end to the 17-member union and a return to national sovereignty. (Hooray)

Still, policymakers seem oblivious to the political firestorm they've touched off. They remain focused laserlike on their primary objective, which is to make sure that a bigger share of the national wealth moves up the income chain. The way they do this is by demagoging the fake "debt crisis" while their political lackeys and "technicians" slash pensions, health care and subsidies to protected industries; hack away at state budgets, reduce their federal workforce, crush organized labor, remove tariffs and taxes on capital, and privatize more public assets and services. Smaller government means less activity, fewer jobs, weaker demand, and greater hardship for working people. In other words, austerity achieves exactly what it was meant to achieve; bigger profits for the 1% and zilch for everyone else. Here's a clip from an article in Reuters:

"The euro zone's business slump deepened at a far faster pace than expected in April, suggesting the economy will stay in recession at least until the second half of the year….

"Today's dismal PMI figures clearly indicate that the euro zone economy remains in dire straits"….European factories had their worst month since June 2009. Companies said their order books were shrinking and they were cutting jobs in reaction to falling demand….

"There are no real drivers of growth here, which suggests that although the overall rate of decline is modest at the moment, we could see it continue to worsen in coming months," said Chris Williamson, chief economist of PMI compiler Markit." ("Euro zone slump deepens unexpectedly in April", Reuters)

Draghi's "debt consolidation" and "structural reforms" have increased deflationary pressures and deepened the slump. They've been a total flop as anyone with half-a-brain could have predicted.

So, are we supposed to believe that the ECB president didn't know what the effect of his policies would be, that he didn't know that contractionary policies would result in economic contraction?

Of course, he knew. Draghi's not an idiot; he's a very competent economist. This just shows that he had an ulterior motive, that the policy was crafted to serve the interests of his banking buddies and not those of the 99%. After all, the real purpose of austerity is not to cut deficits or spur growth, but to stuff government into a fiscal starightjacket so that private industry and big finance get a bigger slice of the pie. Isn't that what this is really all about?

Sure, it is. Austerity is just the euro-version of "starve the beast".

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