Fiscal Austerity Versus European Society

WASHINGTON, DC – Over the last five years, the eurozone has, without explicit popular consent, maintained a strict policy focus on fiscal austerity and structural reforms – despite serious social repercussions, not only in the Mediterranean periphery and Ireland, but even in a “core” European Union country like France. Unless eurozone leaders rethink their approach, the radical Syriza party’s success in Greece’s recent general election could turn out to be just one more step toward a future of social fragmentation and political instability in Europe. Or it could mark the beginning of a realistic and beneficial re-orientation of Europe’s economic strategy.

Of course, fiscal sustainability is vital to prevent a disruptive debt refinancing and inspire confidence among investors and consumers. But there is no denying that it is much easier to support fiscal austerity when one is wealthy enough not to rely on public services or be at serious risk of becoming mired in long-term unemployment. (The
wealthy also remain largely in control of the media, the public discourse, and cross-border capital flows.)

For the millions of workers – and especially young people – with no job prospects, fiscal sustainability simply cannot be the only priority. When unemployment benefits are slashed, they are the ones who suffer. And when budget cuts extend to education, it is their children who are unable to gain the skills they need to reach their future potential.

Austerity-induced suffering is particularly extreme in Greece. Severe pension cuts are preventing the elderly from living out their lives with dignity. A large burden has been placed on those who actually pay their taxes, while many – often the wealthiest, who long ago stashed their money abroad – continue to evade their obligations. Health care has lapsed, with many cancer patients losing access to life-saving treatment. Suicides are on the rise.

Yet Greece’s creditors have continued to ignore these developments. This is clearly not sustainable – a point that former Director of the International Monetary Fund’s Europe Department Reza Moghadam recognized when he recently called for writing off half of Greece’s debt, provided an agreement can be reached on credible growth-enhancing structural reforms.

Social sustainability is essential for long-term economic success. A country cannot prosper if its educational system lacks the resources and capacity to prepare its children to thrive in the digital economy. Likewise, a reform program cannot be implemented if inequality, poverty, and social frustration strengthen extremist political parties, such as Greece’s overtly fascist Golden Dawn party or France’s far-right, anti-Europe National Front, which now boasts 25% electoral support.

When times are tough, immigrants and minorities become easy targets. As Joseph Stiglitz recently pointed out, it is unlikely that Hitler would have come to power in Germany if the unemployment rate was not 30% at the time. It does not help when some of those trapped in the poor ghettos surrounding major cities – however small a minority – become tempted by violence and fall prey to terrorist recruiters.

Regardless of what today’s corporate profit reports and stock indices may show, a country cannot achieve inclusive, sustainable success – in economic or human terms – if these fundamental social issues are not adequately addressed. Of course, fiscal caution
cannot be abandoned; after all, if governments or the private sector were to spend 
borrowed or newly minted money freely, the result would simply be more crises, which 
would hurt the poor most. But social sustainability must be an integral part of a 
country’s economic program, not an afterthought.

The persistent tendency to pay lip service to social sustainability, while implementing 
economic programs focused on unrelenting austerity, is a leading cause of political 
instability in Europe. Though reform programs aimed at building viable 
macroeconomic frameworks remain essential, they must include strong provisions for 
countercyclical policies to offset the “paradox of thrift” (the tendency to save more 
during a recession, undermining economic growth). When aggregate demand falls short 
of aggregate supply, governments must increase public spending.

Moreover, governments that are now focused narrowly on microeconomic issues need to 
devote the same level of attention and commitment to designing and implementing 
social policies that focus explicitly on ensuring the livelihoods, health, education, and 
housing of the most vulnerable segments of the population. And, using new technology 
to analyze large amounts of data, they should boost the efficiency of social programs, 
while encouraging the active participation of concerned citizens.

The European Commission and the IMF have admitted their errors – not only the 
inaccurate macroeconomic forecasts on which the Greek program was based, but also 
the decision not to account for social sustainability – and have acknowledged that the 
program has not produced the expected results. Yet, for some reason, Greece’s creditors 
refuse to negotiate with the new government (which enjoys strong domestic support) to 
develop a new program that incorporates debt relief, a lower fiscal surplus, and 
structural reforms that support growth and promote social cohesion. This must not 
continue.

The last five years have underscored the challenge of achieving financial stability. But 
political and social stability have proved to be even more elusive. Policymakers must 
direct just as much effort and resources toward realizing social sustainability as they do 
toward getting the Basel III financial reforms right. Europe’s future prosperity – and its 
global role – depends on it.
Read more from *Greek Bailout, Again?*

Greece's current bailout deal expires at the end of the month, but its leaders' insistence on ending austerity has caused European finance ministers to dig in their heels. Can an agreement be reached to stave off default, or is the eurozone about to lose its first member?

**PS Polls**

**Will Russia hold up their end of the new Minsk ceasefire agreement?**

- Yes, Russia is sincere this time
- Maybe, but only to buy time
- No, Russia will re-engage Ukraine
- I'm not sure

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