One-dimensional austerity programs to deal with "guilty" countries are endangering the Euro and the European Union.

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The austerity programs that are nowadvocated all over Europe threaten the continent's social cohesion, and the EU is degenerating into a Union that primarily fights inflation argues Dimitris Daskalopoulos *ahead of an LSE debate tonight on the Greek crisis. Countries such as Greece must implement structural reforms, but in order to preserve the Eurozone, countries that are less affected by the crisis, such as Germany, must also take a fair share of the burden.*

A strict austerity program has been imposed on Greece in an effort to deal with the crisis. Its effects are harsh. From 2009 to 2011, the country's GDP dropped by a cumulative 13%, public expenditures dropped by 5,3% and public sector employment decreased by 10%. Unemployment now is at 20%. In addition, all taxes and tax rates have gone up, special levies have been imposed, pensions, salaries and social security benefits have been slashed, the retirement age has gone up and the minimum wage rate has decreased.

Greece, however, has been remiss in meeting all of its commitments towards its partners and creditors. Because of its client politics, the Greek political system has found it difficult to implement structural reforms that tackle the power and benefits of special interest groups, e.g. by cutting their subsidies. Instead, Greece opted for horizontal measures that hit all and all alike. The lack of structural reform, however, derailed all hopes for growth. It weakened efforts to control public expenditure and thus it undermined the effectiveness of fiscal consolidation; and it created havoc with the lives of those at the lower end of the economic scale. According to recent estimates more than 10% of the Greek population is below the European Union (EU) definition of poverty.

The political and economic situation started to change in November last year – when a new prime minister took over and the two major parties agreed to support all measures necessary in order to sign the 2nd Memorandum of Understanding with its creditors on structural reforms. Since then Greece has proceeded with speed, determination and consistency to meet its obligations. It has even accepted a degree of external control that is not usually associated with modern European countries.

These developments are but a reflection of the determination of the majority of the population to do what is necessary in order to stay in the Euro zone. The response of the two major parties to form an alliance is a rare occurrence in Greek politics and it may well signal the beginning of deep and important changes in the political system. The mere formation of at least four break-away parties seems to support this contention.

In effect, there are two main directions that Greek citizens can vote for in the upcoming elections. On the one side there are those who support the new social and political consensus of reform which can act as the spearhead for the upending of anachronistic attitudes, institutions. It is only then that wealth, jobs and growth will be produced. On the other side there are all parties to the left of the political centre as well as those at the extreme right –and that together act as the guardians of the status quo.

A European problem

Greece's case is not a crisis in isolation. Rather, it is symbolic for the problems inherent in the creation of the Euro. To a large extent the Greek crisis is a reflection of the world financial markets' belief that the Eurozone is unable to meet asymmetrical threats because it lacks a lender of last resort as well as the ability to set the standards for risk at a pan-European level. It is no wonder the Euro is no longer regarded as a truly sovereign currency. Instead, markets in tandem with the new perceptions for risk established after the beginning of the world financial crisis are treating the Euro in reference to the country of issue and not to the Eurozone as a single economic entity. The Euro has effectively broken up into its initial components – as demonstrated by the variety of national spreads.

One-dimensional austerity programs to deal with "guilty" (deficit) countries create havoc in societies and endanger the European Union's social cohesion. The EU was built on the promise to its people that it would protect social security systems and that it would promote prosperity. Instead, the EU is slowly degenerating into a Union that primarily fights inflation. Within this framework, the critical – and decades-long– issue is whether the burden of adjustment should be shared by surplus countries as well. This additional challenge cannot remain without a European response for much longer.

Sharing of the burden of adjustment across Europe

The EU has progressed significantly in recent years. However, it remains a weak economic entity and an even weaker political entity. In many instances the practices of Member States have contributed to this direction; fiscal laxity, disregard of rules, delays in the implementation of EU directives, provision of inaccurate data, predominance of economic and political nationalism are only a few examples of such "negative" practices. This, though, does not take away from the fact that, at present in the EU, progress towards a broad and stable European power is slow and patchy at best; and that the "old order" is trying to re-invent itself at its own pace and time, while the world is changing at a rapid pace and in a radical way.

The leaders of the EU need at least to address in a coherent and non-ideological way the two challenges of European Central Bank's role as lender of last resort and of the sharing of the burden of adjustment. And they need to start formulating growth enhancing measures of a pan-European nature – even if this kind of Marshall Plans will meet the strenuous opposition of the strict monetarists. The future of the Euro– if not of the EU itself– depends first of all on the answers that EU leadership decide to give to the structural questions that concern the Eurozone and sovereign debt, as well as on their ability to re-launch real growth.

Beyond that though, the Union must speak not only to the markets but to its people as well. Otherwise, the road ahead will become very bumpy for social cohesion and European solidarity. If Europe is to surmount its existential crisis, it needs to express a new bold vision for its future and re-engage its citizens in it.

Dimitris Daskalopoulos will be speaking at the LSE Hellenic Observatory & Hellenic Bankers Association-UK panel debate Can Greece get out of the crisis? on 28 March. More details.

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Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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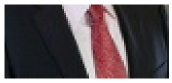
Dimitris Daskalopoulos is the chairman of the Federation of Hellenic Enterprises (SEV) and a business entrepreneur. He is today the Chairman of DAMMA Holdings SA, a financial services and investment company. His full CV is here.



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