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STUDY

Is the Euro Failing?

Structural Problems and Policy Failures Bringing Europe to the Brink

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- The shortcomings of the Maastricht Treaty and the effects of the global economic crisis on public debt must be considered the decisive causes of the euro-crisis.

- The crisis has been exacerbated by multiple policy failures. This is based on the primacy afforded to the philosophy of economic austerity, which is responsible for the adjustment programmes in Greece and Portugal, but also for the toughening up of the Stability and Growth Pact and the »fiscal union« agreed in December 2011. Misguided »shock therapy« has imposed a recession on Europe at the beginning of 2012, which will only deepen the debt crisis.

- Another cardinal policy error was the debt haircut for Greece agreed in July 2011. Since then the financial markets have run wild. The ensuing summits, due to the ECB's reluctance to intervene massively (the »bazooka«) and the bungling of the EFSF and the ESM, contributed nothing to solving the crisis, whether short- or medium-term.

- Analysis shows that only measures that go beyond Maastricht – such as a new growth strategy, eurobonds, abolishing the market states approach, reforming the financial markets and supranational European economic government – can provide a lasting solution to the crisis.

Content

»Europe's policymakers have to understand that the solutions adopted so far are wrong, that they don't work … A serious commitment to economic growth in the Eurozone is still lacking. Instead, the crisis states are being punished with harsh austerity measures.«
(US economist James Galbraith in an interview with Handelsblatt, 3 December 2011)

Introduction

The Euro-crisis has got worse and worse since it began in early 2010. First, Greece was hit in May 2010, and then in the autumn Ireland and in spring 2011 Portugal had to seek shelter under the so-called bailout »umbrella«. It soon turned out that financial support for these countries would be tied to a particular form of economic policy therapy – tough austerity programmes – whose deflationary effects do not solve these countries' problems but only exacerbate them. In Greece in particular the continual piling on of austerity measures has only served to deepen the economic and social crisis, in the teeth of what had been expected from the official austerity measures. A good year after Greece had been allocated a 110 billion euro loan the first debt haircut was agreed at the July summit in 2011, a measure that the European Commission, the European Central Bank (ECB) and many expert observers had persistently warned against because of the strong risk of contagion (Busch/Hirschel 2011b; Horn/Lindner/Niechoj 2011). The fears attached to the haircut were borne out. Since July 2011 the political crisis has got out of hand and one crisis meeting follows another without the much heralded liberation being achieved. Now on the agenda are capital injections for the banking sector, which is currently haemorrhaging capital as government bonds decline in value; increasing the European Financial Stability Facility (EFSF) and leveraging its funds to make it possible to erect a firewall in the event of the contamination of Italy and Spain; and the question of whether the ECB, if it proves impossible to leverage the EFSF, should take on the role of last defensive bulwark in the form of unlimited buying of government bonds (the »bazooka«). Solutions to these problems are particularly urgent because the deterioration of the economic and political situation in Greece, Italy and Spain, accompanied by government crises and the formation of new governments, means that policy intervention at European level is more necessary than ever.

In the present study we analyse the causes and course of the euro-crisis and various proposed solutions up to the December 2011 summit of EU heads of state and government. Our thesis is that the crisis originated in the shortcomings of the Maastricht Treaty in combination with the effects of the global economic crisis on public debt. We also show, based on a close examination of the course of the crisis and the adjustment programmes in Greece, Ireland and Portugal, that the problems have been exacerbated by the prescribed policy and economic therapies. This »policy failure« is predominantly to be traced back to official policy's capture by the thought patterns of the Maastricht Treaty. This applies in particular to the economic philosophy that gives precedence to austerity, which characterises the adjustment programmes, reform of the Stability Pact and even the »fiscal union« agreed in December. The continuing dominance of the nation-state level and the consequent refusal to take further steps towards supranational integration as regards the chosen solutions also remain within the Maastricht logic. This is discernible in the failure of a common economic policy approach to overcoming the crisis – for example, in the form of a »Marshall plan« – in the rejection of eurobonds and, finally, in the rejection of a solidaristic debt guarantee for all EU states.

Section 1 presents the four fundamental shortcomings of the Maastricht Treaty: the asymmetry in economic policy, the lack of a European federal state, the primacy of austerity policy and the system of market states. Section 2 describes the effects of the global economic crisis on the debts of EU states and the various political and economic structures within European states which explain their differences with regard to debt development.

Section 3 deals with the course of the crisis from early 2010 to the October 2011 summit, presenting the development of the European Financial Stabilisation Mechanism (EFSM) and the European Stability Mechanism (ESM). A manifold policy failure is evident during this brief time-period which exacerbated the crisis: the rejection of a debt guarantee for Greece; the deflationary adjustment programme that multiplied Greek problems; the debt haircut for Greece, which must be regarded as the cardinal policy error of the past two years; the inadequate leveraging of the EFSF; and the rejection of eurobonds and massive intervention on the part of the ECB.

Section 4 analyses the attempts to solve the crisis that are still entangled within the Maastricht logic. Considerable space is given to examining the adjustment programmes and the economic and social crises in Greece, Ireland and Portugal. Reform of the Stability Pact, the plan for preventing excessive imbalances, the proposal of intergovernmental European economic government and the Euro-Plus Pact are evaluated critically. The section's main message is that the crisis cannot be overcome within the framework of the Maastricht Treaty.

In Section 5 we look at the different starting points for possible solutions beyond the Maastricht logic (see Hacker 2011): a »Marshall plan for Europe«; eurobonds; regulation of wage, social and tax policy; necessary reform of the financial markets; and the supranationalisation of economic policy. Up to now there has been no chance that any of these alternative policy approaches to tackling the crisis will be implemented.

Section 6 analyses the outcomes of the December 2011 summit. This summit did not solve the crisis and, moreover, the move to amend the Treaty – »fiscal union« – is completely in line with the Maastricht Treaty's austerity doctrine and the tightening up of the Stability Pact (Münchau 2011). Even if, after these resolutions have been implemented, the ECB is prepared to stabilise the Eurozone by means of massive interventions, although collapse can be averted we will nevertheless be back to square one. The core task of agreeing on solutions to the crisis still lies ahead.

By way of conclusion we broach the question of whether the euro project is still worth defending. We argue that this issue no longer has an unambiguous answer for the Southern EU states. In the interest of maintaining the pan-European integration process, however, we call for the seemingly Sisyphean task to be continued, in the spirit of Section 5's »more Europe but different« (Schwall-Düren 2011).

1. The Maastricht Treaty and Its Shortcomings

The EU finds itself in its biggest integration crisis since the commencement of European unification.

It is still far from clear whether the Eurozone will survive this crisis. For months, signs of a dramatic intensification of the euro-crisis have accumulated. There is open discussion of the breakdown of the Eurozone and the business sector and governments are preparing themselves for the worst case scenario.

In an attempt to understand what measures are now needed to overcome the integration crisis we must first look at the history of the euro and the Maastricht Treaty. Here lie the historical roots of current problems and this is where we have to start in order to stabilise Europe in terms of a new perspective.

The Maastricht Treaty, that came into force in 1993, contains four major structural shortcomings, four fundamental defects that have governed the single currency from the outset (see Busch 1994) and from which a direct line can be drawn to the current Eurozone crisis.

The first defect is the asymmetric construction of the economic and monetary union. Although the EU treaties, with the introduction of the common currency, provide for a Europeanisation of monetary policy, fiscal policy largely remained in the hands of the member states and was subjected only to certain European coordination rules.

Furthermore, this asymmetrically constructed economic and monetary union is not embedded in a European federal state – a political union – and this is the second defect of the Maastricht Treaty. This meant that there would be no financial equalisation mechanisms to overcome economic imbalances in the EU. The euro was not anchored in a genuine community based on political solidarity.

The third defect of the Maastricht Treaty is that member states' fiscal policies are fixated on applying austerity measures to pay down public debt, neglecting the option of budget consolidation via growth. Austerity has the upper hand over growth policy.

The Treaty's fourth defect is the establishment of the system of market states. Although the Single Market and the common currency are European competences, wage, social and tax policy remain in the member states' hands. This system has set the member states' wage, social and tax standards in structural competition, casting them into a race to the bottom.

1.1 The Asymmetric Construction of Economic and Monetary Union (EMU) (First Defect)

The Maastricht Treaty provides for a common monetary policy, implemented by the ECB, but not for a common economic and fiscal policy conducted by a European economic government. To be sure, the member states' economic and fiscal policies are supposed to be coordinated, but there has been no transfer of economic and fiscal policy competences to the European level. This shortcoming impairs the EU's steering capabilities in economic crises, but also in the event of unbalanced cyclical development on the part of the member states. In the 2008/2009 global economic crisis the EU's hands were tied. The member states intervened to combat the crisis to varying degrees, but the EU was limited to a coordinating role. Fiscal policy was thus not efficient. Furthermore, economic policy's stabilising function was impaired by the fact that European monetary policy and national fiscal policies cannot be flexibly harmonised by a European economic government in accordance with national economic situations. In the event of differing cyclical developments in EU states this entails a loss of economic policy control.

The proposals to establish a European economic government discussed at the summit meetings of EU heads of state and government in July, October and December 2011 constitute an attempt to overcome this shortcoming. It must be said, however, that these plans in essence remain stuck in the logic of the Maastricht Treaty because of the intergovernmental structure envisaged for European economic government.

1.2 No Political Union (Second Defect)

The euro is not embedded in a political union and thus not in a genuine community based on solidarity. The Maastricht Treaty thus lacks an equalisation mechanism to cope with more sizeable economic imbalances. A currency union without a financial equalisation system, as every federal state knows, is an extremely fragile thing. In the event of major imbalances the adjustment burden, in the absence of labour mobility, falls exclusively on national wage costs. This adjustment mechanism is overloaded and in the case of the Eurozone has long since failed to function (see below).

Another notable expression of the nation-state bias in the construction of the euro is the so-called no bailout clause, which forbids the Community from providing member states with solidaristic support in the event of more substantial debt problems. Given the disastrous consequences for the stability of the Eurozone as a whole if individual states became insolvent this clause has in the meantime been undermined by the establishment of the EFSF (ESM), as well as by ECB interventions in the bond market. The support loans for Greece, Ireland and Portugal are the first step towards rectifying this defect of the Maastricht Treaty. The decisive step in overcoming this shortcoming – the introduction of eurobonds and a common debt guarantee – remains taboo, however.

1.3 Austerity before Growth (Third Defect)

Although the Maastricht Treaty contains no provisions on common economic policy in the form of a European economic government nevertheless its section on preventing excessive debts and the 3 and 60 per cent criteria as benchmarks has fixated member states' economic policies one-sidedly on the debt problem. Up to the global financial and economic crisis of 2008/2009 these provisions did not appear to be a major problem. Many countries – such as Ireland, Spain, the United Kingdom, Sweden, Denmark and Finland – were even able to cut their debt significantly in the years before the crisis, with strong economic growth and high tax revenues. As a result of the crisis, as well as the need to support the economy and, at the same time, to avoid bank failures, in many countries public debt virtually exploded. Prominent examples include Ireland and Spain, which were hit particularly hard by the bursting of the real estate bubble and/or the financial market bubble. In Greece, this was compounded by the complicity of the political class in the corruption of the tax revenue system: even before the crisis, Greek indebtedness was already nearly 100 per cent of GDP. In the crisis, however, reinforced substantially by the harsh austerity measures, it has grown to nearly 200 per cent. Even so, EU public debt problems would have been tractable if the primacy bestowed on austerity by the Maastricht Treaty had not led to a reversal of cause and effect as regards the debt crisis. Still under the spell of neoliberalism the public was persuaded that it was not that the economic crisis had generated the debt explosion, but the other way around. Without state intervention to rescue the economy and the financial sector, however, today we would find ourselves in even deeper trouble. Nevertheless, the debts which were an inevitable result of political intervention are demonised. The debtors are to blame and their debts have to be reduced – come what may. In the euro-crisis this thinking has led to the imposition of strict conditions concerning debt reduction on the support loans for Greece, Ireland and Portugal. VAT increases, public sector redundancies, cuts in wages and social benefits and increases in pensionable age are among the instruments of this policy. The victims of the crisis now also have to bear the main burden of coping with public debt. This policy has met with broad approval even among Social Democrats in Europe. But this is not the way to solve the problems. On the contrary: economic growth has been choked off in these countries by their short-term and short-sighted consolidation policies and the debt ratios continue to climb.

But it is not just in the three abovementioned states that this policy approach is being pursued: all countries whose debt burden is considered to be too high are being forced by the financial markets, the European Commission and the Council to make further cuts. Examples include Spain, Italy and, more recently, France. No wonder Europe finds itself mired in recession at the end of 2011/beginning of 2012, with negative growth in Greece, Portugal, Spain and Italy, as well as stagnation in France, the inevitable result of this misguided economic policy. Even growth-engine Germany is now beginning to stutter.

The epitome of this neoliberal view is the introduction of a debt brake, a German model that France and Germany prescribed at the December 2011 summit of the EU27 (minus 1).

1.4 The Market States System (Fourth Defect)

The Maastricht Treaty ushered in a system of so-called »market states«. We have a common currency and a single market at the European level, but wages, social expenditure and taxation are still determined nationally. In such a system wages, social spending and taxes are dragged downwards in order to boost national competitiveness since the common currency means that devaluation is no longer an option. For 15 to 20 years now we have therefore witnessed a race to the bottom as regards taxation, with corporate taxes constantly falling in Europe. Similarly, the welfare state has come under increasing pressure. We have also seen that, with very few exceptions, trade unions in Europe are no longer able to bring about rises in real wages in step with productivity rises. Everywhere there has been dramatic redistribution from the bottom to the top in favour of capital owners. In Germany in particular all this has run wild. Even in the strong upswing after the crisis the trend remained unbroken. As a result, Germany has run large current account surpluses, especially in trade with its EU partner countries. In this way, it imports jobs and exports unemployment. In response to former French finance minister Lagarde's criticisms of Germany's way of pursuing its own advantage Mrs Merkel replied that trade balances can also be evidence of strong economic performance (»*Leistungsbilanzen seien auch Leistungszeugnisse*«) and the rest of Europe would do well to emulate Germany. The logic of the market states system is also the logic of the Euro-Plus pact. The other euro and EU states are supposed to follow the German approach of relative wage reductions, as well as German social and pensions policy. One consequence of this is that European wage, social and tax standards have taken a battering. Another is a collapse in aggregate demand with a deflationary trend. It is simply a fallacy that all European countries can run current account surpluses since one country's surplus is another country's deficit: 70 per cent of EU states' trade is with one another and thus gains and losses cancel each other out in a zero-sum game.

The policy failure in the euro-crisis to be demonstrated in the rest of this study can in large part be traced back to politicians' continued entanglement in the premises of the Maastricht Treaty. If these four defects of the European integration process are not overcome soon European unification will founder. Maastricht Europe is a self-destructive Europe.

2. Debt Evolution in the Countries of the Eurozone – External and Internal Factors

For a long time the defects of the Maastricht Treaty were not directly visible, but beneath the surface their effects were virulent. But only with the advent of the global economic crisis and the euro-crisis did the significance of defective construction come to the fore. In order to understand the course of the debt crisis after the outbreak of the global economic crisis and to better comprehend the differences in terms of debt evolution between the euro countries we need to look at the latter's internal economic structures before the crisis struck. These differences, too, were virulent beneath the surface in the run-up to the crisis and their full importance became clear only when it finally hit.

It is interesting to note from the development of public debt ratios up to 2007 (see Table 1) that Ireland and Spain, which became problem states in the crisis, were running below-average debt ratios beforehand. High growth rates enabled both countries to pay down a significant part of their debt. Germany, in contrast, which registered comparatively good figures after the outbreak of the crisis, was not an outstanding performer before the crisis, marred by poor growth rates up to 2007. France performed similarly. Portugal, like Germany and France, registered average figures, although extremely poor growth data had a deleterious effect. Italy's debt level remained above-average, changing little before 2007. Greece, in contrast to Ireland and Spain, was unable to convert its pre-crisis high growth rates into falling debt ratios. On the contrary, due to its spectacularly inept tax administration, which caused it to haemorrhage revenues, Greece's debt values were already rising before the crisis.

After the outbreak of the crisis debt development took the following course (see Table 1, based on the European Commission's 2011 autumn forecast). Ireland's debt ratio quintupled between 2007 and 2012. Spain's debt ratio doubled, against a Eurozone average increase of around one-third. In two countries that before the crisis were star performers with regard to debt reduction, internal factors provided the background to this dramatic deterioration. Spain and, to a far greater extent, Ireland (see the country report on Ireland) fell victim to real estate hype in the 2000s, before the crisis. In Ireland, investment in residential construction was double that in the EU15, at 14 per cent of GDP, 5 percentage points higher than in Spain. The crisis burst this real estate bubble, bringing in particular the banking sector to the brink of insolvency in both countries. This is also evident from the fact that in both countries the change in the composition of the government debt ratio between 2007 and 2012 derives primarily from the change in the »primary budget« and less from the snowball effect (difference between growth rate and interest rate) (see Table 2, based on the Commission's spring 2011 forecast).[1]

The debt ratio is rising above-average also in Portugal, by around 44 percentage points. Most dramatic, however, is the rise in Greece, at 92 percentage points. In these two states the ratio is not being driven upwards by a need to rescue the banks as a consequence of a burst real estate bubble, but primarily economic collapse due to the global economic crisis, exacerbated by the Troika's adjustment programme, especially in Greece. The changes in the debt ratio between 2007 and 2012 are predominantly the result, in contrast to in Spain and Ireland, of the snowball effect (see Table 2). The weaker a country's economic growth and the higher its interest rates the stronger the negative influence on the development of the debt ratio. If this is already above 100 per cent the snowball effect is magnified. The example of Greece most clearly shows the disastrous effect of economic collapse as a result of a harsh austerity policy. Already in its spring forecast the European Commission assumed that Greece's debt ratio would rise by 36 points between 2009 and 2012 because of the austerity measures of 2010–2012. In the autumn forecast the Commission was forced to correct this value to 70 percentage points, in other words, almost double what had been expected in the spring (see Table 1). In spring the assumption still was that the collapse of Greek GDP would be around 3.5 per cent. Estimates now stand at around 6 per cent, however.

Based on an above-average debt stock Italy has registered a below-average increase, which is primarily cyclical. From 2007 to 2012 Italy has improved its primary budget surplus, although this cannot compensate for the negative influence of the snowball effect. Italy's main problem is its structural growth weaknesses, exacerbated by the global economic crisis.

France's debt ratio has changed in the crisis to the same extent as the Eurozone ratio, rising by around one-third. Germany's rate, in contrast, has risen below-average. Before 2007 France registered better growth rates than Germany, but in the wake of the crisis this has been reversed. After a dramatic slump in 2009 the German economy enjoyed an above-average recovery in 2010 and 2011.

1. The Change in the debt ratio is determined by three variables: A) the primary budget deficit in relation to GDP, B) the difference between the growth rate of real GDP and the average real interest rate, multiplied by the debt ratio of the previous period (this term is called the »snowball« effect, measuring the combined effect of economic growth and interest expenditure on the debt ratio), C) stock-flow adjustments in relation to GDP (see Directorate-General for Economic and Financial Affairs of the European Commission, 2011, p. 44 and p.100).

Table 1: Debt ratio development from 2004 to 2012 in the euro-states and in the EU

								Autumn 2011 forecast			Spring 2011 forecast	
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2011**	**2012**
Austria	64.7	64.2	62.3	60.2	63.8	69.5	71.8	72.2	73.3	73.7	73.8	75.4
Belgium	94	92	88	84.1	89.3	95.9	96.2	97.2	99.2	100.3	97	97.5
Cyprus	70.9	69.4	64.7	58.8	48.9	58.5	61.5	64.9	68.4	70.9	62.3	64.3
Estonia	5	4.6	4.4	3.7	4.5	7.2	6.7	5.8	6	6.1	6.1	6.9
Finland	44.4	41.7	39.6	35.2	33.9	43.3	48.3	49.1	51.8	53.5	50.6	52.2
France	65	66.7	64	64.2	68.2	79	82.3	85.4	89.2	91.7	84.7	86.8
Germany	66.2	68.5	67.9	65.2	66.7	74.4	83.2	81.7	81.2	79.9	82.4	81.1
Greece	99.8	101.2	107.3	107.4	113	129.3	144.9	162.8	198.3	198.5	157.7	166.1
Ireland	29.4	27.2	24.7	24.9	44.3	65.2	94.9	108.1	117.5	121.1	112	117.9
Italy	103.4	105.4	106.1	103.1	105.8	115.5	118.4	120.5	120.5	118.7	120.3	119.8
Luxemburg	6.3	6.1	6.7	6.7	13.7	14.8	19.1	19.5	20.2	20.3	17.2	19
Malta	71.7	69.7	64.1	62.1	62.2	67.8	69	69.6	70.8	71.5	68	67.9
Netherlands	52.4	51.8	47.4	45.3	58.5	60.8	62.9	64.2	64.9	66	63.9	64
Portugal	57.6	62.8	63.9	68.3	71.6	83	93.3	101.6	111	112.1	101.7	107.4
Slovakia	41.5	34.2	30.5	29.6	27.8	35.5	41	44.5	47.5	51.1	44.8	46.8
Slovenia	27.3	26.7	26.4	23.1	21.9	35.3	38.8	45.5	50.1	54.6	42.8	46
Spain	46.2	43	39.5	36.2	40.1	53.8	61	69.6	73.8	78	68.1	71
Eurozone	69.6	70.2	68.5	66.3	70.1	79.8	85.6	88	90.4	90.9	87.7	88.5
Bulgaria	37	27.5	21.6	17.2	13.7	14.6	16.3	17.5	18.3	18.5	18	18.6
Czech Republic	28.9	28.4	28.3	27.9	28.7	34.4	37.6	39.9	41.9	44	41.3	42.9
Denmark	45.1	37.8	32.1	27.5	34.5	41.8	43.7	44.1	44.6	44.8	45.3	47.1
Hungary	59.1	61.7	65.9	67	72.9	79.7	81.3	75.9	76.5	76.7	75.2	72.7
Latvia	15	12.5	10.7	9	19.8	36.7	44.7	44.8	45.1	47.1	48.2	49.4
Lithuania	19.3	18.3	17.9	16.8	15.5	29.4	38	37.7	38.5	39.4	40.7	43.6
Poland	45.7	47.1	47.7	45	47.1	50.9	54.9	56.7	57.1	57.5	55.4	55.1
Romania	18.7	15.8	12.4	12.8	13.4	23.6	31	34	35.8	35.9	33.7	34.8
Sweden	50.3	50.4	45	40.2	38.8	42.7	39.7	36.3	34.6	32.4	36.5	33.4
United Kingdom	40.9	42.5	43.4	44.4	54.8	69.6	79.9	84	88.8	85.9	84.2	87.9
EU	62.3	62.8	61.5	59.0	62.5	74.7	80.3	82.5	84.9	84.9	82.3	83.3

Source: Directorate-General for Economic and Financial Affairs of the European Commission (2011a), p. 225.

Table 2: Changes in debt ratios from 2007 to 2012 and its composition in the euro-states and in the EU

	Debt ratios						Changes in debt ratio	Changes in debt ratio 2007–2012 due to:		
	2007	2008	2009	2010	2011	2012	2007–12	Change in the primary budgetary balance	Difference between growth and interest rates	Stock-flow adjustment
Austria	60.7	63.8	69.6	72.3	73.8	75.4	14.7	2.9	5.5	6.3
Belgium	84.2	89.6	96.2	96.8	97	97.5	13.3	1.5	5	6.8
Cyprus	58.3	48.3	58	60.8	62.3	64.3	6	8	1.5	–3.5
Estonia	3.7	4.6	7.2	6.6	6.1	6.9	3.2	6.3	0.7	–3.8
Finland	35.2	34.1	43.8	48.4	50.6	52.2	17	–3.7	0.4	20.3
France	63.9	67.7	78.3	81.7	84.7	86.8	22.9	15.6	5.3	2
Germany	64.9	66.3	73.5	83.2	82.4	81.1	16.1	–3.1	4.8	14.4
Greece	105.4	110.7	127.1	142.8	157.7	166.1	60.7	24.7	31.3	4.7
Ireland	25	44.4	65.6	96.2	112	117.9	92.9	58.3	20.1	14.5
Italy	103.6	106.3	116.1	119	120.3	119.8	16.2	–4.4	17.3	3.2
Luxemburg	6.7	13.6	14.6	18.4	17.2	19	12.4	–0.3	–1.2	13.9
Malta	62	61.5	67.6	68	68	67.9	5.9	2.4	1.1	2.4
Netherlands	45.3	58.2	60.8	62.7	63.9	64	18.7	5.6	4.6	8.4
Portugal	68.3	71.6	83	93	101.7	107.4	39.1	15.3	18	5.9
Slovakia	29.6	27.8	35.4	41	44.8	46.8	17.2	20.4	0.2	–3.3
Slovenia	23.1	21.9	35.2	38	42.8	46	22.9	16.5	3.8	2.7
Spain	36.1	39.8	53.3	60.1	68.1	71	34.9	26.2	6.9	1.7
Eurozone	66.3	70	79.4	85.5	87.9	88.7	22.3	7.4	7.9	7
Bulgaria	17.2	13.7	14.6	16.2	18	18.6	1.4	6.6	–0.5	–4.7
Czech Republic	29	30	35.3	38.5	41.3	42.9	14	14.3	3.6	–4
Denmark	27.5	34.5	41.8	43.6	45.3	47.1	19.6	0.6	4.7	14.2
Hungary	66.1	72.3	78.4	80.2	75.2	72.7	6.6	–6.3	7.9	5.1
Latvia	9	19.7	36.7	44.7	48.2	49.4	40.4	22.4	7.5	10.5
Lithuania	16.9	15.6	29.5	38.2	40.7	43.6	26.6	22.5	2.4	1.8
Poland	45	47.1	50.9	55	55.4	55.1	10.1	15.3	–2.7	–2.4
Romania	12.6	13.4	23.6	30.8	33.7	34.8	22.2	21.6	0.5	0.2
Sweden	40.2	38.8	42.8	39.8	36.5	33.4	–6.9	–9.2	–0.7	3
United Kingdom	44.5	54.4	69.6	80	84.2	87.9	43.5	28.7	5.4	9.5
EU-27	59	62.3	74.4	80.2	82.3	83.3	24.3	10.1	8.6	5.6

Source: Directorate-General for Economic and Financial Affairs of the European Commission (2011). p. 26.

The use of working time accounts and short-time working meant that during the crisis employment was not reduced in Germany as much as in other countries and it has also benefited as the global economy picked up, especially from the boom in the emerging countries. Germany has underpinned its good position on world markets and in Europe by above-average reductions in wage costs (see Tables 4 and 5). Nowhere else in Europe have real wages developed as poorly as in Germany. This specific development path has yielded comparatively better debt figures and has enabled the German government to attain a hegemonic position in the euro-crisis.

To sum up, the influence of the global economic crisis on the development of debt ratios is thus clearly evident in the Eurozone. National peculiarities modify the extent of the influence on public debt ratios, however. The example of Greece also shows the negative effect an excessively harsh austerity policy can have on debt development.

3. Course of the Crisis from the Beginning of 2010 to the October Summit 2011

After the general election in Greece in autumn 2009 it became clear that the outgoing Greek government had deceived the European authorities concerning the real development of the country's debts. It was one and a half years – from the end of 2008 to spring 2010 – before the final figure for the 2009 deficit became known. During this period the deficit was gradually corrected from an initial 2 per cent to 15 per cent in the end.

Since early 2010, international investors, given this uncertainty about how high Greece's debts are, have been demanding higher and higher interest rates to buy Greek government bonds.

Due to policy failure at the European level, which initially refused to help Greece and has not intervened decisively enough – for example, by guaranteeing the debts of all EU countries – the crisis got progressively worse until in May 2010 Greece obtained bilateral financial support from the IMF and the Eurogroup member states in the amount of 110 billion euros (see the Greece country analysis). These loans are conditional on Greece committing itself to budget austerity and structural reforms within the framework of an adjustment programme agreed with the Troika. The severity of this austerity programme, which between 2009 and 2011 amounts to a reduction of the Greek structural budget deficit of 7 per cent of GDP – in Spain it is 4 per cent, in Portugal 3 per cent and in Ireland and the Eurozone as a whole a good 1 per cent (see Table 6) – brought Greece in 2010, but especially in 2011 to such a dramatic economic collapse and increase in the debt ratio that in summer 2011 the chorus of political and economic voices calling for a debt haircut became louder and louder. The austerity programme and the debt haircut can be described as the most disastrous policy failure in the course of the euro-crisis because they led directly to the turmoil in the second half of 2011 and have fuelled the debate on the breakdown of the Eurozone.

3.1 The Crisis Deepens: May 2010 to July 2011

Against the background of the Greek crisis in May 2010 the EU states adopted the EFSF and the EFSM, stabilisation mechanisms that are embedded in a superordinate stabilisation mechanism agreed with the IMF, which can make available loans in the amount of 750 billion euros (see box: »EFSF«). The EFSF and the EFSM are provisional arrangements that are to be superseded in mid-2013 by the European Stability Mechanism (ESM). In July 2011 the EU states agreed a treaty on the ESM which has to be ratified by the end of 2012. It contains an extension of the treaty in Art. 136 TFEU designed to ensure that the no-bailout clause of Art. 125 TFEU is not violated by the establishment of the ESM (see box »ESM«). Liberal economists have criticised these stabilisation mechanisms as the slippery slope towards a European transfer union that would weaken market mechanisms (see, for example, Grossmann 2011 and Fahrholz 2011).

In autumn 2010, Ireland became the second EU state to ask for financial support from the EFSF, the EFSM and the IMF. After the bursting of the biggest real estate bubble in Europe the Irish banks faced insolvency. The Irish government rescued them by establishing a »bad bank« (NAMA) and by means of various public capital injections that drove up the 2010 budget deficit to 32 per cent of GDP. In this situation bond interest rates for Ireland climbed to prohibitive levels and an application for international emergency loans was unavoidable. The abovementioned international institutions, as well as the

United Kingdom, Denmark and Sweden, bilaterally, have granted Ireland loans in the amount of 67.5 billion euros. Ireland itself is contributing the sum of 17.5 billion euros to the 85 billion euro adjustment programme (see the country analysis on Ireland).

In April 2011, Portugal was the third EU state to receive loans from the IMF, the EFSF and the EFSM in the amount of 78 billion euros. Portugal was already suffering from a loss of competitiveness and persistently weak growth before the global economic crisis. As a result of the latter, unemployment, the budget deficit and the debt ratio rose sharply. Bond interest rates have reached double-digits. Portugal's beleaguered banking sector is losing access to the international money and capital markets and the government has asked for help from international lenders (see Portugal country analysis).

In the course of early summer 2011 it became increasingly clear that the path being pursued for supporting highly indebted states – with the exception of Ireland – has been unsuccessful. The harsh austerity programmes are stifling economic growth especially in Greece, but also in Portugal. All estimates in the adjustment reports on these countries constantly have to be corrected downwards. The assumption made by the Troika in spring 2011 that Greece would be able to return to the capital markets as early as 2013 had to be discarded shortly afterwards. In late summer 2011 its return was finally corrected to 2021: in other words, within six months it was put off a further eight years.

In this situation, the markets fear that other euro-states will be infected, especially Spain and Italy. In order to stabilise bonds in these countries the ECB is buying armfuls of Spanish and Italian government debt. The Zapatero government imposes one austerity programme after another, but in that way is throttling growth all the more, while unemployment has risen above 20 per cent and youth unemployment to almost 50 per cent.

In Greece, Spain and Portugal more and more people are taking violently against the austerity policy and the rising unemployment, falling wages, VAT hikes, pension and other social spending cuts that go with it.

Alternative ways of stabilising the problem countries, such as abandoning the overly harsh austerity policy, a Marshall plan for the South and the introduction of eurobonds to alleviate countries' interest burden have been discussed, but find no support in the political and economic mainstream that remains entangled in the Maastricht logic.

As the situation in Greece continued to deteriorate – in the teeth of the official philosophy – in summer 2011, the European Council took a number of far-reaching decisions in July that ultimately escalated the crisis. They decided, in response to the demands of a massed chorus of politicians and economists on both the right and the left, to implement precisely what should have been avoided at all costs, a debt haircut for Greek bonds. (On the controversy concerning a debt haircut see Smeets 2010, Hishow 2011; Horn/Lindner/Niechoj 2011, Busch/Hirschel 2011b.)

This measure, which was supposed to encompass 21 per cent of private bond volume and was presented as a voluntary bond swap, was part of an additional financing volume of around 110 billion euros, that was supposed to cover Greece's borrowing needs up to the end of 2014. It also included funds to stabilise Greek banks, made necessary by the haircut. At the same time, the term of the public loans to Greece was extended from 15 to 30 years and their interest rate reduced to 3.5 per cent (these new conditions were also simultaneously granted to Ireland and Portugal). Finally, but much too late, the European institutions were supposed to work out a comprehensive growth programme for Greece, for which purpose structural fund resources and EIB loans would be available.

In order to cope with the risks of contagion of the Greek haircut the July summit also resolved to extend the competences of the EFSF and the ESM. These were now to be able to grant precautionary loans to countries at risk, to make funds available to governments to support their banks and insurance companies and to intervene in the secondary market to stabilise government bonds.

EFSF

As the Greek crisis worsened, at the 9–10 May summit the EU states decided, on France's initiative, to establish a temporary stabilisation mechanism able to grant financial aid to countries in need. The European Financial Stabilisation Facility (EFSF) is based on Art. 122 TFEU. It is a special purpose vehicle in the form of a company registered in Luxembourg, backed by guarantee commitments from the euro area member states, each of which have a representative on the board of directors. Klaus Regling was appointed CEO.

The EFSF can issue loans to crisis-hit states. To this end it can place bonds on the capital market, guaranteed by the member states. It can make funds available with a total value of 440 billion euros. In January 2011 the EFSF placed its first bond with an issue volume of 5 billion euros at an interest rate of 2.89 per cent.

In the event a crisis state is unable to repay its loans the EFSF member states are liable in the amount of their capital share of the ECB. Germany's liability is thus 28 per cent. In order to be able to pay the lowest possible interest rates on its borrowings, based on an AAA rating, the EFSF has to collateralise them more than 100 per cent with the member states. This is because in order to achieve the loan sum of 440 billion euros the March 2011 EU summit decided to increase the EFSF to a sum of 700 billion euros. Ratification of this increase was delayed by various obstacles in different euro area member states up until October 2011.

The EFSF is embedded in a superordinate stabilisation mechanism which is supposed to be in force by mid-2013. Besides the EFSF's 440 billion euros this includes a further 60 billion euros from the EU budget, the European Financial Stabilisation Mechanism (EFSM). Also belonging to the superordinate stabilisation mechanism is 250 billion euros which the IMF can make available as standby credit. In accordance with its IMF capital share Germany is liable for these funds to the extent of 5.98 per cent.

The EFSF grants loans to crisis states at much lower rates than would be available on the international capital market. On the other hand, states taking up the loans have to reach agreement on an adjustment programme with the EU and the IMF. This will include – besides a tough budget consolidation plan – an obligation to institute numerous economic reforms designed to promote the sustainability of growth and competitiveness (see country analyses of Greece, Ireland and Portugal).

ESM

From 2013 the EFSF is to be replaced by a permanent stability mechanism, the European Stability Mechanism. In order to avoid legal conflict between the ESM and the no-bailout clause of Art. 125 TFEU the latter is to be safeguarded by a Treaty amendment to Art. 136. This will authorise the Eurogroup states to establish an ESM in order to be able to safeguard the stability of the Eurozone as a whole, should the need arise.

In contrast to the special purpose vehicle EFSF the ESM has been designed along the lines of a fund. The member states have endowed the fund with an initial capital stock of 80 billion euros. It will be led by a Board of Governors, each one appointed by one of the member states. It will also have a board of directors with a representative from each member state to conduct everyday operations. The Board of Governors will decide on loans to countries in need on a unanimity basis. As in the case of the IMF, interest rates on these loans are 1 point and after three years 2 points on top of the ESM's refinancing costs.

As a guaranteed amount for loans the member states are supposed to set aside 620 billion euros. The IMF will make available a further 250 billion euros to supplement the ESM's resources.

In contrast to the EFSF the ESM is to be able to buy member state government bonds on the primary market. In this way it will be possible to support government bonds that are experiencing difficulties on the international capital market or at least threaten to do so.

Another important innovation is the inclusion of Collective Action Clauses (CAC) in the government bonds of all EU states from 2013. On this basis, if the public debt of individual states becomes unsustainable restructuring can be undertaken at the expense of private investors (orderly restructuring), based on debt sustainability analyses by the IMF and the European Commission. Due to the bad experiences to which the Greek debt haircut gave rise – contagion of other states – the EU's December summit decided to modify this clause (see Section 6).

3.2 The Euro-crisis Escalates after the July Agreements 2011

The decision to implement a debt haircut for Greece substantially exacerbated the euro-crisis. Since then events, debates and proposals for solving the crisis have come thick and fast:

- The summit had barely ended when the ECB had to expand its government bond purchasing programme. It intervened in particular to stabilise Italian and Spanish bonds. Figure 1 shows the rise in interest rates on the government bonds of selected euro-states after the July resolutions, the calming effect of the ECB intervention and then the renewed rise after the failed attempt at stabilisation at the EU's October summit (see below). Only Ireland could escape this negative trend (see Ireland country analysis).

- The failure to resolve the euro-crisis and the downturn of the global economy led to a slump in equity prices throughout the world. Financial stocks were particularly affected.

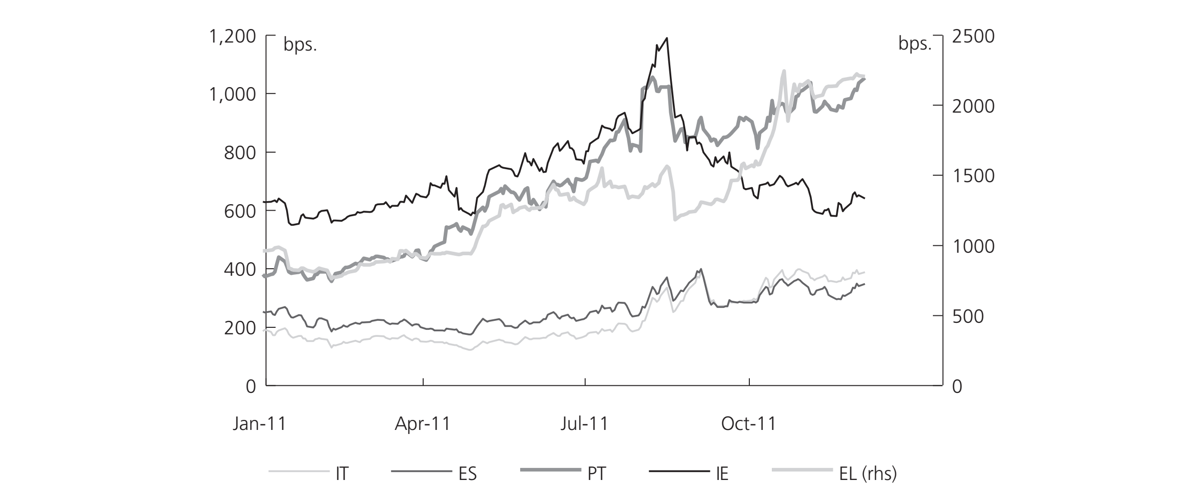
- An intensive debate commenced on the need to recapitalise European banks, focusing on a volume of 110 billion euros.

- The process of ratifying the increase in EFSF funds (see box) had not yet ended when a discussion began on leveraging EFSF resources. In order to be able to cope with a crisis in Spain and Italy the EFSF needs more than a trillion euros. Particularly controversial was the question of whether the ECB should be included in a leveraging plan (banking licence for the ESM) and also whether it should significantly extend its government bond purchasing programme (»bazooka«).

- The Italian government was urged repeatedly to work out a plan for stabilising the Italian economy and public finances.

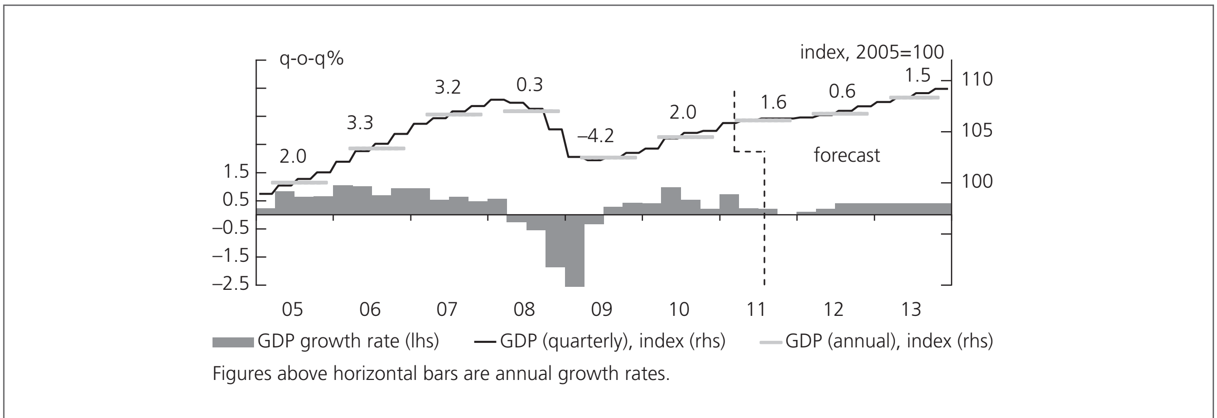
- It is becoming increasingly clear that as the global economy weakens, but above all because of the harsh austerity policies of a number of EU states, Europe is sliding into recession. The European Commission's autumn 2011 forecast predicted a decline in the EU growth rate to 1.6 per cent and for 2012 a rate of only 0.6 per cent is expected. In the last quarter of 2011 and in the first quarter of 2012 the European economy is expected to undergo a recession (see Figure 2). Thus a vicious circle is initiated: austerity policies lead to recession, which in turn increases budget deficits and hinders further debt reduction. However, if additional austerity measures are agreed – as in France, Italy, Spain, Portugal, Greece and the United Kingdom – they will further weaken economic recovery. In this context, the rating agencies are inclined to downgrade the countries concerned, which will in turn drive up bond interest rates.

Figure 1: Interest rates on government bonds, selected euro-states



Source: Directorate General for Economic and Financial Affairs of the European Commission 2011a: 12.

Figure 2: Development of real GDP in the EU, 2005–2013



Source: Directorate General for Economic and Financial Affairs of the European Commission 2011a: 12.

3.3 Desperate Rescue Attempts at the EU's October Summit 2011

Against the background of increasing turmoil the EU heads of state and government, at their mid-October 2011 summit, attempted to finally severe the Gordian knot and come up with a sustainable plan to overcome the crisis.

The October package largely consists of three components:

- Based on a two-pillar approach EFSF funds are to be leveraged above 1 trillion euros. Within the framework of the first pillar the bonds of problem countries are to be insured up to 20 per cent (partial coverage solution). In the event of losses the EFSF will compensate 20 per cent of the value of the bonds. This means that the fund's resources could be leveraged by a factor of five. In a second pillar a special purpose vehicle (SPV) is to be established to buy the bonds of euro-countries on initial issue or on the market. International investors, especially among the emerging countries, such as China, India and Brazil, are to be encouraged to invest in this company. They would be able to choose between two risk classes with different yields. Leveraging is thus a result of boosting the limited EFSF funds with much more copious funds from other investors (Belke 2011).

- The European banks are supposed to increase their core capital ratio to 9 per cent by mid-2012 to enable them to digest the ongoing losses from their investments in European government bonds. The idea is that the banks try to achieve this increase via the market. Should that not prove possible, government capital injections are permitted. Problem states can apply for EFSF funds for this purpose. The European banks' capital needs for this operation are estimated at around 110 billion euros.

- The debt haircut for Greece is to be increased from 21 per cent to 50 per cent. The conclusions of a recent Troika report turned out to be so catastrophic, in contrast to the optimistic reports up to May 2011, that this further step appeared unavoidable (see Table 1 which documents the rupture between estimates of the development of Greece's debt ratio between the 2011 spring and autumn forecasts). The Troika now assumes that Greece will be in a position to return to the international capital markets only in 2021. At the same time, in tandem with a new austerity programme, Greece has been promised another 100 billion euros to meet its capital needs up to 2014.

The immediate reactions to this summit already showed that the hoped-for breakthrough was once again not achieved.

Concerning the leveraging of the EFSF it is strongly doubted that the partial cover solution for international investors will provide sufficient incentive to invest in the bonds of European problem states. The 20 per cent protection appears too low in light of the increased risk. The EU's attempt to get the emerging economies to get involved in the European stabilisation mechanism also appears to be a flop. Brazil and India have made no promises and the statements made by Russia and China are rather vague.

A problem concerning the recapitalisation of the banks is that capital needs in France and, especially, in Italy are very high in comparison to those in Germany. Italy's need has been estimated at around 16 billion euros and harbours the risk that Italian bankers, during a period in which, in any case, the economy remains stagnant, could react by curtailing lending. There is thus an emphatic risk of a credit crunch.

Finally, in the political realm, the Greek prime minister's announcement shortly after the summit that he wanted to put the new austerity programme before the Greek people in a referendum was regarded as absolutely disastrous. The dominant view was that a referendum would be defeated and Greece would face insolvency. Germany and France, the European Commission and the IMF announced that all further loan payments would cease until the austerity programme was adopted. In these circumstances, the banks refused to hold talks with the Greek government on the concrete implementation of the 50 per cent haircut. Under such pressure, compounded by demands for Greece's exit from the Eurozone, Papandreou recanted. At the same time, the Papandreou government resigned and the formation of a provisional government was announced tasked only with implementing Greece's summit promises – in other words, the new austerity programme – and preparing for a new election in February 2012. In the meantime, a new government has been installed under Prime Minister Papademos. Since both major parties have now declared in writing that they support the austerity commitments of October 2011 the sixth tranche of the 110 billion programme can be paid and the details of the next loan programme at this point amounting to 130 billion euros can be negotiated, which is finally to be adopted at the beginning of 2012.

As if there were not problems enough, the economic and political situation in Italy started to deteriorate. In the face of rising interest rates on Italian government securities and worsening forecasts of Italy's economic growth, which had not been very favourable in the first place, the fragile balance of Italy's public finances came under pressure. To date, the effect of the negative difference between growth rates and interest rates on the Italian debt ratio had been compensated by a modest surplus in the primary budget. Italy's debt ratio was thus fairly stable in the recent past (see Tables 1 and 2). However, the dramatic increase in interest rates to over 7 per cent for 10-year bonds has destroyed this balance and now threatens to usher in a sharp increase in the public debt ratio.

Besides the deterioration of the euro-crisis as a result of the Greek debt haircut and the difficult economic situation in Italy, the latter's unstable political situation was also responsible for the interest rate rise. Public and political support for the Berlusconi government had been declining. Since the European partners had also increased the pressure on him to step aside Berlusconi's ability to buy loyalty with money and political sinecures had diminished significantly. After a few more political about-turns Berlusconi finally stepped down and a new cabinet of technocrats was formed under Mario Monti, supported by the leading political parties.

Although the Monti government announced that it would implement the austerity measures agreed under Berlusconi and support for the new government in Europe is strong, so far the financial markets have not been placated. On the contrary, bond interest rates for Italy have risen further. The same pattern can be observed in Spain: despite the formation of a conservative government under Mariano Rajoy and the announcement of further draconian austerity measures there, too, interest rates on government bonds rose to economically unmanageable levels.

4. Approaches to Tackling the Crisis in accordance with the Maastricht Treaty Logic

In this section we discuss the solutions proposed based on the philosophy underlying the Maastricht Treaty: the austerity policies in Greece, Ireland and Portugal; the tightening of the Stability and Growth Pact; the procedures for preventing macroeconomic imbalances; the intergovernmental plan for a European economic government; and the Euro-Plus Pact. We argue that the crisis cannot be overcome by means of these approaches which, if anything, will only exacerbate it.

4.1 Implementing the Austerity Doctrine – Adjustment Programmes in Greece, Ireland and Portugal

4.1.1 Greece

Like Ireland and Spain, before the 2008/2009 crisis Greece enjoyed – above-average in the EU context – an economic boom. Average GDP rose by 4 per cent a year from 1997 to 2007, much higher than the EU27 average of 2.5 per cent. Key drivers of this development included gross investment and public spending. Private consumption, however, experienced slightly below-average growth and net exports were sharply negative. The unemployment rate fell from 11 per cent at the end of the 1990s to 8 per cent in 2007 (European Commission 2010: 3ff).

The problem areas in this development were primarily the persistently high public deficits and the progressive deterioration of Greece's international competitiveness.

Public spending reached around 45 per cent of GDP between the late 1990s and 2007, while revenues managed only around 40 per cent. Public deficits during this period were generally 5–6 per cent of GDP, as a result of which the gap trended wider. The government debt ratio increased from around 95 per cent in 2000 to around 107 per cent in 2007 (European Commission 2010: 3ff; see also Table 1).

Primary budget balances were increasingly negative during this period and their influence on the government debt ratio could no longer be compensated by the positive difference between growth rates and interest rates (European Commission 2010: 4). In contrast to Ireland and Spain, Greece was unable at this time to use its high economic growth to pay down public debt. The two leading parties, Nea-Dimokratia and the Socialists, basically plundered the state and increasingly set up their supporters within the state apparatus. As a result, consumptive government spending increased at an above-average rate. At the same time, successive governments did nothing like enough to tackle tax evasion and thus state revenues remained chronically weak.

Besides the domestic debt, external debt also increased dramatically before the crisis. Greece's current account deficit in relation to GDP ran at double-digit levels throughout the 2000s (see Table 3). External debt doubled from 45 per cent of GDP in 2000 to 95 per cent in 2007 (European Commission 2010: 6). These high current account deficits, on the one hand, can be traced back to higher than EU average economic growth, which led to higher import growth, and on the other hand, to the further deterioration of Greece's price competitiveness. In the 1990s, real unit labour costs fell in the EU and the euro-states, and so also in Greece, because real wage growth was weaker than that of labour productivity (see Table 4). While in the EU/euro-states – especially in Germany and the Netherlands – this redistribution in favour of capital grew stronger in the 2000s, right up to the crisis, real unit labour costs in Greece fell only minimally. This development was positive from a distribution policy standpoint, but given the contrary development of the rest of the Eurozone it adversely affected Greece's price competitiveness.

Although Greece did not experience a real estate bubble and its financial sector was not particularly exposed with regard to toxic assets the global economic crisis in 2008/2009 laid bare the weaknesses of the Greek economy. In 2009, the budget deficit reached 15.4 per cent and the debt ratio 129 per cent of GDP (see Tables 1 and 6). The catastrophic effect of these figures on the financial markets was due not so much to their absolute level, as to the political handling of their publication. It took from the end of 2008 until April 2010 before the public was informed of the true extent of the country's debt (European Commission 2010: 6). In its 2009 budget, the neoconservative government had declared a deficit of 2 per cent. Even in April 2009 the European Commission had received a figure of 3.7 per cent from the Greek conservative government. Only the change of government that ushered in the Socialists brought the true figure to light in October 2009 when the European authorities were informed that it was 12.7 per cent. In April 2010, a final figure of 15.4 per cent was published. This deliberate confusion indicated that Greece had already joined the Eurozone on the basis of fraudulent data. Needless to say, this new evidence of deception on the part of government officials was disastrous for the country's reputation on the financial markets.

Although in mid-January 2010 the new government announced that it would reduce the deficit by 4 points to 8.7 per cent that year by means of a revised stability programme and that it wished to meet the 3 per cent target as early as 2012, trust in Greek government bonds fell further. In early February 2010, the spread for Greek bonds in relation to German bonds was 3.47 per cent and 2.7 per cent, respectively, for two-year and ten-year bonds (European Commission 2010, box 3: 8ff). Hectic crisis management now got under way in the EU, in the course of which Germany and the European Commission in particular called on the Greek government to implement severe austerity measures. The Greek government complied, announcing more and more austerity measures at increasingly short intervals. In the second half of March, the Eurogroup and the EU heads of state and government hastened to declare their confidence in the Greek measures and their full support of this policy. But it was all for nothing: at the beginning of April the spreads reached 6.52 per cent for 2-year bonds and 4.3 per cent for 10-year Greek bonds. In mid-April, the European Commission, the ECB and the IMF announced that they were willing to offer Greece financial support and on 23 April the Greek government made an official application to the Eurogroup and the IMF. At the end of April, Greek bonds were showing spreads of 15.52 per cent and 7.55 per cent.

On 2 May, the Greece reached agreement with the Troika on a credit volume of 110 billion euros, with the Eurogroup member states being responsible bilaterally for 80 billion euros and the IMF for 30 billion.

Hand in hand with this agreement on financial support an economic adjustment programme for Greece was negotiated for the period 2010 to 2014 (European Commission 2010: 10ff). The programme's main aims were:

- fiscal stabilisation by means of revenue improvements, but especially spending cuts;

- maintaining the stability of the banking sector which was in dire need of refinancing as a result of the loss of confidence in Greek government bonds; the establishment of a financial stability fund was considered, aimed at improving the banking system's capital base in order to enhance its creditworthiness on international markets;

- improving Greece's growth potential and competitiveness; this was to be achieved primarily by means of structural reforms in the public sector, the labour market and product markets.

Besides these consolidation measures, reform of financial administration and a war on tax corruption were envisaged.

The overarching aim of the adjustment programme was to restore Greece's creditworthiness for international private investors. The idea is that Greece regains access to the international financial markets after 2014 in order to be able to finance its deficits and pay down its debts to its EU partners and the IMF.

From a macroeconomic standpoint, it was expected that Greece would register negative growth rates in 2010 and 2011 of 4 per cent and 2.6 per cent, respectively, but in the following years would achieve positive growth

Table 3: Current account balances as a percentage of GDP

	Five-year average							Autumn 2011 forecast			Spring 2011 forecast	
	1992–96	1997–01	2002–06	2007	2008	2009	2010	2011	2012	2013	2011	2012
Austria	:	–6.3	–5	–6.3	–5.1	–7.3	–4	–3.1	–2.9	–2.6	–4.7	–4.5
Belgium	4.3	4.5	4.5	3.9	1.1	0.7	3.2	2.4	2.1	2.4	2	2
Cyprus	:	–6.5	–7.5	–5.6	–6.3	–3.6	–3.6	–0.7	–1.2	–1.9	–2.8	–2.6
Estonia	:	–7.4	–11.8	–15.7	–9.1	4.6	3.8	3.1	1.5	0.7	1.8	0.1
Finland	–5.5	–8.8	–8.9	–10.2	–12.6	–10.8	–9.7	–7.6	–5	–3.8	–7.5	–5.2
France	0.7	2.2	0	–1.4	–1.9	–2.1	–2.2	–3.2	–3.3	–3	–3.9	–4.2
Germany	–1	–0.9	4	7.5	6.2	5.8	5.8	5.1	4.4	4.2	4.7	4.6
Greece	–0.5	–6.7	–11.9	–16.9	–17.9	–14.3	–12.3	–9.9	–7.9	–6.9	–8.3	–6.1
Ireland	2.6	1	–1.3	–5.5	–5.6	–2.9	0.5	0.7	1.5	1.8	1.2	1.8
Italy	1	1.2	–0.8	–1.3	–2.9	–2	–3.5	–3.6	–3	–2.3	–3.5	–3.3
Luxemburg	:	–1.3	– 5	–11.7	–11.9	–10.6	–9	–7.3	–6.7	–6.1	–8.1	–7.2
Malta	2.5	–1.7	–1.3	–4.5	–7	–1.3	–0.8	0.1	0.3	0.5	–1.4	–1.9
Netherlands	12.8	10	10.5	10.1	5.3	7	8.1	5.3	3.4	2.9	7.8	7.6
Portugal	4.6	4.8	7.5	8.4	4.7	2.9	5.1	5.5	7	6.9	7.7	8.3
Slovakia	0.1	6.4	5.6	4.2	3.2	2.7	2.8	–0.1	0	0.1	2.5	2.5
Slovenia	–2.5	–1.4	2.4	4	4.9	3	3.2	2.7	2.8	2.9	2.6	2.8
Spanien	–1.4	–2.4	–6	–10	–9.6	–5.1	–4.5	–3.4	–3	–3	–4.1	–4.1
Eurozone	0.3	0.4	0.6	0.4	–0.7	–0.1	0.1	–0.1	0	0.2	–0.2	–0.1
Eurozone, adjusted	:	:	:	:	–1.5	–0.3	–0.4	–0.6	–0.5	–0.3	0.1	0.2
Bulgaria	–4.3	–2.3	–8.7	–25.2	–23.2	–9	–1	1.6	1.4	0.9	–2	–2.6
Czech Republic	–1.9	–3.6	–3.8	–5.1	–2.9	–3.4	–4.4	–3.6	–3.2	–3.5	–2.5	–1.9
Denmark	1.8	1.2	3.3	1.4	2.7	3.6	5.2	6.3	5.8	5.4	5.2	5.1
Hungary	:	–6.3	–8.1	–7.4	–6.9	–0.2	1	1.7	3.2	3.8	1.6	1.9
Latvia	6	–7.3	–12.6	–22.4	–13.1	8.6	3	–0.4	–1.1	–2	–0.3	–1.6
Lithuania	:	–8.6	–7.3	–15	–13	2.8	1.1	–1.7	–1.9	–2.3	0.2	–0.6
Poland	0.3	–4.8	–3.4	–6.2	–6.6	–3.9	–4.6	–5	–4.3	–4.8	–4.1	–4.1
Romania	:	–5.4	–6.3	–13.6	–11.4	–4.2	–4.2	–4.1	–5	–5.3	–4.4	–4.8
Sweden	1.2	4.7	6.7	8.6	8.8	6.8	6.3	6.4	6.3	6.4	6.2	5.9
United Kingdom	–1.4	–1.5	–2.3	–2.6	–1.8	–1.4	–2.5	–2.5	–0.9	–0.2	–1.2	–0.1
EU-27	–0.2	0	0.1	–0.4	–1	–0.3	–0.2	–0.3	0	0.2	–0.2	0
EU-27, adjusted				–1	–2	–0.8	–0.8	–0.8	–0.4	–0.2	–0.6	–0.3
USA	–2.6	–2.1	–4.7	–5	–4.8	–3.3	–3.3	–3.3	–3.1	–3.5	–4	–4
Japan	2.4	2.5	3.5	4.8	3.2	2.8	3.5	2.9	2.9	2.8	1.4	1.1

Source: Directorate-General for Economic and Financial Affairs of the European Commission (2011a), p. 229.

Table 4: Development of real unit labour costs in the euro-states and in the EU

	Five-year average							Autumn 2011 forecast			Spring 2011 forecast	
	1992–96	**1997–01**	**2002–06**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2011**	**2012**
Austria	1.2	–0.1	–0.4	–2.6	0.2	2.5	–3.6	–1.5	–0.7	–1	–1.3	0
Belgium	–0.2	0.1	–0.9	–0.2	2.3	2.6	–1.8	–0.3	0.3	–0.8	–0.4	0
Cyprus	:	–0.3	–0.7	–1	0.9	8.8	–1.8	–2.3	0.5	–0.8	–0.6	–0.8
Estonia	:	–2	–0.1	5	8.3	2.4	–6.6	–1.9	–0.6	–0.7	1.4	–0.9
Finland	0.6	0	–0.4	–2	1.9	2.7	–2.3	–0.5	–1.7	–1.6	–0.6	–0.3
France	–0.5	–0.2	–0.1	–0.9	0.6	2.7	–0.1	0.1	0.4	–0.6	–0.7	–0.8
Germany	–0.3	–0.2	–1.3	–2.3	1.5	4.2	–1.7	1.1	0.7	–0.2	0	–0.1
Greece	–0.8	–0.5	–0.1	0	2.2	4.3	–3.3	–4.2	–3	–1.8	–0.4	–1.3
Ireland	–1.7	–2.7	0.2	2.9	10.1	1.7	–4.6	–2.1	–1.9	–2	–3.1	–1.8
Italy	–1.6	–1.2	0.4	–0.8	2.1	2	–0.7	0.1	–0.7	–0.9	–0.7	–0.5
Luxemburg	:	–1.1	0.4	–3.1	–2.9	4.4	–0.3	–1.8	–0.9	–1.8	–0.6	–0.4
Malta	:	–1	–0.7	–1.5	2	5.6	1.4	0.7	–0.1	–0.1	–1.8	–0.4
Netherlands	0.1	0.7	–2.5	–2	1.7	8.4	–3	1.7	3.5	0.6	–2.5	0.3
Portugal	–0.4	–0.4	–0.6	–0.1	0.8	5.6	–2.1	–0.9	–0.3	–0.6	–0.4	–0.6
Slovakia	–2.8	–1.3	0.3	–2.4	3.7	5.8	–1.9	–1.2	–0.7	–0.5	–2.4	–1
Slovenia	–0.3	–0.6	–1	–1.3	1.8	3.8	–2	–0.9	–0.9	–1.2	–0.8	–0.3
Spanien	–0.6	–0.7	–1.1	0.9	2.5	1.3	–3	–2.3	–1	–1.2	–1.5	–0.5
Eurozone	–0.7	–0.6	–0.7	–1	1.7	3.2	–1.5	–0.2	0	–0.7	–0.6	–0.4
Bulgaria	:	1.2	–2.2	0.1	3.7	8.1	–2.1	–2.4	1.5	1.7	1.5	1.5
Czech Republic	:	0.2	0.8	–0.7	1.5	0.5	1	0.4	–0.3	–0.6	0.3	–0.7
Denmark	–0.8	0.3	–0.2	2.4	2.8	4.3	–4.4	–1	–0.6	–1.3	–1.6	–0.7
Hungary	:	–0.7	–0.3	0.8	–0.9	–0.6	–6.1	0.4	–0.2	–1	–2.2	–0.2
Latvia	:	–2.6	1.1	5.8	6.9	–6.7	–8.2	–1.8	–0.6	–1.1	–2.4	–2.3
Lithuania	:	–0.6	1.4	–1.9	0.6	2.4	–9.1	–3.3	–1.3	–0.3	–2.7	1
Poland	:	–0.4	–3.8	–1.3	4.3	–1.4	0.8	–0.9	0.4	2.1	–0.3	0.3
Romania	–2.5	4.6	–6	1.5	6.6	–6	–2.7	–1.8	1.2	0.7	–3.5	–1.2
Sweden	–0.6	0.6	–1.4	1.4	–0.1	2.8	–2.9	–0.3	0.5	–0.3	–0.3	0.8
United Kingdom	–1.7	0.9	–0.4	–0.2	0.5	4	–1.1	–0.7	–0.6	–0.2	–0.5	0.3
EU–27	:	–0.4	–1	–0.8	1.4	2.9	–1.6	–0.3	–0.1	–0.5	–0.6	–0.3
USA	–0.6	0.5	–0.8	0	0.7	–0.6	–2.1	–0.3	–0.4	0.4	–0.7	–1.3
Japan	0.1	–0.3	–1.4	–2.5	1.9	2.2	–1.1	1.7	–0.8	0.2	2.3	–0.6

Source: Directorate-General for Economic and Financial Affairs of the European Commission (2011a), p. 219.

Table 5: Development of nominal unit labour costs in the euro-states and in the EU

	Five-year average							Autumn 2011 forecast			Spring 2011 forecast	
	1992–96	1997–01	2002–06	2007	2008	2009	2010	2011	2012	2013	2011	2012
Austria	4.2	2.3	2.2	0.4	2.7	5.2	–0.8	0.9	1.8	1.7	1.3	2.3
Belgium	2	1.5	1.2	2.1	4.5	3.9	0	2	2.4	1.4	1.5	2
Cyprus	:	6.2	3.4	0.1	3.8	7.5	–1.3	0.8	1.7	1.2	0.9	1.6
Estonia	:	4.2	4.9	17.2	14.1	1.4	–5.6	1.7	2.3	1.9	3.8	1.3
Finland	6.5	3.6	2.5	1.2	3.5	3.3	–1.2	0.9	–0.6	–0.2	0.5	0.9
France	1	0.9	1.9	1.6	3.2	3.2	0.7	1.3	1.9	1.1	1.1	1.1
Greece	10.6	3.7	3	3.6	7.1	7.2	–1.6	–2.9	–2.8	–1.5	–0.1	–0.9
Germany	2.6	0.1	–0.4	–0.8	2.3	5.5	–1.1	1.8	2.1	1.3	1	1.4
Ireland	0.6	3.1	3.6	4.3	7.5	–2.4	–6.9	–3.1	–1.2	–0.8	–2.5	–0.9
Italy	2.6	1.2	2.8	1.5	4.7	4.1	–0.3	1.5	1.2	1	0.9	1.3
Luxemburg	:	1.9	3.6	1.1	1.6	4.5	1.4	1.3	1.7	0.4	2.5	1.7
Malta	:	6.1	3.3	2.6	6.2	8.7	0.3	0.7	1	1.5	–0.8	1.4
Netherlands	3.8	1.7	1.6	1.6	6.2	8.6	1.7	3.9	5.3	3.3	0.7	3
Portugal	1.5	2.7	1.6	1.7	3	5.2	–0.8	0.4	1.7	0.8	1.4	1.6
Slovakia	–1.2	1	0.8	0.5	6	7.6	–1.5	1.2	2.1	1.7	0.1	1.5
Slovenia	2	0.1	0.5	0.7	3.6	4.9	–0.3	1.2	1.2	0.7	1	1.4
Spanien	4.1	2.3	3	4.2	4.9	1.4	–2.6	–0.8	0.1	0.1	–0.4	0.6
Eurozone	2.5	1.1	1.5	1.4	3.7	4.1	–0.8	1	1.4	0.9	0.8	1.2
Bulgaria	:	74.5	2.8	9.3	12.5	12.7	0.8	3.3	4.9	4.9	4.6	4
Czech Republic	:	5.4	2.4	2.6	3.4	2.4	–0.7	1.2	1.5	0.5	0.5	1.2
Denmark	0.6	2.3	2.1	4.8	6.8	4.7	–1.1	0.2	1.1	0.6	0.1	1.3
Hungary	:	11.7	4.7	6.3	4.3	2.9	–3.2	2.7	3.9	2.4	0.3	2.3
Latvia	:	1.6	8.2	27.7	20.7	–7.9	–10.2	2.1	1.1	0.5	–0.3	–0.8
Lithuania	:	2.1	4.4	6.6	10.4	–1.4	–7.3	0.5	1.7	2.6	0.5	3.9
Poland	:	7.9	–1.7	2.6	7.5	2.2	2.2	2.4	2.4	4.1	2.9	3.6
Romania	109.4	66.8	9.8	15.2	22.9	–2	1.7	3.1	4.9	5.6	0.8	2.9
Sweden	1.6	2	–0.1	4.2	3.1	4.6	–1.7	1.1	1.5	1	0.6	1.8
United Kingdom	1.1	2.6	2.2	2.1	3.6	5.7	1.7	2.2	2.5	2	1.5	2.4
EU–27	:	2.1	1.6	1.9	4.1	4.2	–0.4	1.3	1.7	1.2	0.9	1.5
USA	1.5	2.3	1.8	2.9	2.9	0.5	–0.9	1.8	1.4	1.8	0.6	0.1
Japan	0.3	–1.1	–2.6	–3.2	0.9	1.8	–3.2	1.3	–0.5	0.2	0.3	–0.4

Source: Directorate-General for Economic and Financial Affairs of the European Commission (2011a), p. 219.

again. Unemployment would fall again from 2013, after peaking at 15.3 per cent in 2012 (European Commission 2010: 12ff).

Greece's budget deficit, after peaking at 15.4 per cent in 2009, would fall to 8 per cent already in 2010 and thereafter improve continuously, enabling it to meet the Maastricht targets again as early as 2014. The public debt ratio would rise to 150 per cent by 2014 and then gradually fall.

By improving its price competitiveness Greece's current account deficit would fall from –13.4 per cent in 2009 to –4.3 per cent in 2014.

The 2010 budget consolidation programme was a tough austerity package involving severe cuts in wages and social spending, as well as VAT and other consumption tax increases in many areas. Overall, the general budget deficit would fall by 11 per cent in five years, the primary deficit by 14.7 per cent. In 2010 alone deficit reductions of 5.6 and 6.2 percentage points, respectively, were planned. The programme was therefore heavily frontloaded. For public sector employees Christmas, Easter and holiday bonuses were replaced by the payment of a uniform fixed sum. Wages fell by 14.5 per cent in 2010 in comparison to 2009. Pensions were also cut. Pensions above 1,400 euros a month were cut by an average of 8 per cent from 2010.

Structural reform was envisaged to reduce the long-term burden of the pension system on the state budget, along the lines of pension reforms in other EU countries. Pensionable age is to be raised to 65, the pension formula is to become contribution-based and incentives to take early retirement are to be reduced substantially.

Other structural reforms in the 2010 programme focused on the state apparatus, the labour market and product markets. In the state apparatus, besides financial administration reform, inefficient structures and corruption were to be eliminated. As regards the labour market, the idea was to adjust the universal applicability of wage agreements and minimum wages. Concerning product markets, better implementation of European directives in the services, energy and transport sectors was envisaged, as well as the removal of the high professional entry barriers among lawyers, pharmacists, architects and engineers, as well as other groups.

To stabilise the Greek banking sector, which had to deal with account outflows and capital losses as a consequence of the public debt crisis, the adjustment programme provided for a series of support measures from summer 2010. Bank bonds were to be guaranteed by the state; a financial stability fund, financed from the international loan programme, was to supply the banks with fresh capital; and a state-guaranteed Bank of Greece emergency programme was to provide the sector with additional liquidity. The ECB's decision of May 2010 to accept Greek government bonds or bonds guaranteed by the Greek government, regardless of their rating, in open market transactions, with Greek banks as security, also had a directly stabilising effect.

The 110 billion euro support programme has been paid in a series of tranches since May 2010. To date, five of the in total 13 tranches have been disbursed (European Commission 2011: 6). The sixth, whose payment was slated for September 2011, was delayed after Greece's socioeconomic crisis got worse. In the end, it was paid out in December 2011. Each new tranche is preceded by a Troika mission to Greece which drafts a report on any progress made in implementing the adjustment programme. Within this framework the European Commission publishes progress reports. The most recent – the fourth – appeared in spring 2011 and thus reflects the state of implementation one year after the programme got off the ground (European Commission 2011).

With regard to macroeconomic adjustment the report states that the scale of the recession is greater than had been assumed in summer 2010. Instead of 4 per cent, GDP had fallen by 4.5 per cent in 2010 and a fall of 3.75 per cent was to be expected for 2011 in contrast to the original assumption of 2.6 per cent (European Commission 2011: 9ff). Accordingly, the 2010 budget deficit, at 10.5 per cent, had turned out to be 2.5 per cent higher than planned. Austerity efforts had to be stepped up if the government was still to have any hope of meeting its 7.6 per cent target in 2011. The Commission did register progress as regards reducing wage costs and bringing down inflation. Greece's price competitiveness had improved, exports had increased at double-digit rates and the current account deficit had fallen.

Greece's austerity efforts, according to the Commission, are considerable, despite the setbacks. Public sector wage costs had been reduced by means of wage cuts, prolongation of working time from 37.5 to 40 hours a week and staff cuts, supposed to reach 20 per cent by 2015. Further cuts had been achieved in social security benefits, especially by means of staff cuts in health care and cuts in the pharmaceutical budget, as well as further cuts in pensions, such as a freeze of the basic pension, cuts in invalidity pensions and higher contributions.

Key to further reducing public debt is the acceleration of the government's privatisation programme. In particular from the sale of stakes in state transport, energy and financial companies, as well as publicly owned land, the budget is expected to receive around 50 billion euros by 2015, beginning with 5 billion euros in 2011 (European Commission 2011: 30ff).

Progress had also been made in reform of the state administration, although tax evasion was still not under control.

With regard to labour market reforms the report registers further steps in the direction of employment contract flexibilisation. More individual wage agreements had been reached in place of collective ones, bring down wage costs. It is also now possible to take on staff at rates below the minimum wage for limited periods. Action was still needed on allowing works councils in small enterprises to negotiate terms falling short of collective agreements, however.

The situation of the Greek banking system deteriorated further between May 2010 and June 2011 (European Commission 2011: 14 ff). Because of the crisis in the real economy lending had declined further and the proportion of bad loans had increased. Even more significant, however, was the fact that the further devaluation of Greek government bonds had led the rating agencies to downgrade the Greek banks themselves, thereby de facto depriving them of access to the international money and capital markets. The stabilisation measures taken within the framework of the May 2010 adjustment programme (see above) thus remained in force in June 2011. All in all, this description of the situation makes it abundantly clear that the Greek banks would not be able to cope with any deterioration of the Greek sovereign debt crisis, for example, in the form of a bigger haircut.

The course of events in Greece shows how policy failures on top of the Maastricht ideology have reinforced the crisis, resulting in political and economic disaster in summer/autumn 2011.

Decisive action by the EU states at the beginning of the crisis – early 2010 – could have extinguished the fire before it got out of hand. They had only to declare that Greece's debts, which comprise only a fraction of total EU debt, were the debts of the EU as a whole and would be guaranteed by the member states. After that, the nightmare of a Greek debt crisis would have promptly vanished from the international financial markets' agenda. Instead, the EU states, in the spirit of Maastricht and headed by the German government, declared that Greece was responsible for its own problems and should pull itself out of the swamp by its own bootstraps in the form of drastic austerity measures. Only when the continual deterioration of the Greek bond crisis in the form of dramatic interest rate rises showed that this policy approach was not only inadequate but was exacerbating the problems were the EU states ready to provide support, especially because they feared the contagion of other highly indebted states. Finally, in May 2011 the 110 billion euro loan package was put together in the hope of resolving the crisis. The adjustment programme was based on the assumption that Greece would be able to return to the financial markets in 2014 on its own two feet. This expectation was repeated in the fourth progress report in spring 2011. In fact, this adjustment programme, whose tough austerity measures were entirely in line with the Maastricht doctrine, merely ushered in the second act of the Greek drama. Greece began to implement an extensive consolidation programme which in 2010 alone amounted to 5 per cent of GDP and was slated to account for another 3 percentage points in 2011. Domestic demand was so weakened by drastic wage and social benefit cuts, tax rises and redundancies that, on top of the 4.5 per cent economic downturn in 2010, an even bigger fall of around 6 per cent must be anticipated in 2011. This deterioration of the crisis stands in stark contrast to the fall of only 2.6 per cent expected for 2011 in May 2010 and also diverges markedly from the 3.75 per cent expected at late as spring 2011. It is self-evident that under these economic conditions the budget and debt crisis cannot be overcome, but will only get worse. Blinkered by their neoliberal economic philosophy the architects of the adjustment programme failed to foresee these dramatic developments. Indeed, their kneejerk reaction to every deterioration in the budget situation has been to demand that Greece implement even

Table 6: Budget balances in the EU as a percentage of GDP

	Current budget balance					Structural budget balance					Structural primary budget balance				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Austria	–0.9	–4.1	–4.6	–3.7	–3.3	–2.2	–2.9	–4	–3.2	–2.9	0.4	–0.1	–1.3	–0.4	0
Belgium	–1.3	–5.9	–4.1	–3.7	–4.2	–1.9	–3.6	–2.9	–2.8	–3.7	1.9	0	0.5	0.6	–0.3
Cyprus	0.9	–6	–5.3	–5.1	–4.9	–0.1	–5.8	–5.1	–4.6	–4.8	2.7	–3.3	–2.9	–2.1	–2.4
Estonia	–2.8	–1.7	0.1	–0.6	–2.4	–4	–0.2	–0.4	–0.9	–1.1	–3.8	0.1	–0.3	–0.7	–0.8
Finland	4.2	–2.6	–2.5	–1	–0.7	2.5	0.7	0.3	0.8	0.7	3.9	1.9	1.4	2	2.1
France	–3.3	–7.5	–7	–5.8	–5.3	–3.5	–5.6	–4.9	–3.9	–3.7	–0.7	–3.2	–2.5	–1.3	–0.8
Germany	0.1	–3	–3.3	–2	–1.2	–0.2	–0.8	–1.9	–1.4	–0.8	2.5	1.8	0.5	0.9	1.6
Greece	–9.8	–15.4	–10.5	–9.5	–9.3	–9.5	–14	–8.6	–7.4	–7.9	–4.6	–8.9	–3	–0.7	–0.4
Ireland	–7.3	–14.3	–32.4	–10.5	–8.8	–7.4	–10	–10.5	–9.5	–8.5	–6	–7.9	–7.2	–5.7	–3.9
Italy	–2.7	–5.4	–4.6	–4	–3.2	–3.4	–3.9	–3.1	–2.7	–2.3	1.8	0.8	1.4	2.1	2.8
Luxembourg	3	–0.9	–1.7	–1	–1.1	2.3	1.5	0.1	0.3	–0.4	2.6	1.9	0.5	0.8	0.1
Malta	–4.5	–3.7	–3.6	–3	–3	–5.6	–3.4	–4.3	–3.1	–3.1	–2.4	–0.2	–1.3	0	0
Netherlands	0.6	–5.5	–5.4	–3.7	–2.3	–0.5	–3.6	–3.7	–2.5	–1.3	1.7	–1.4	–1.7	–0.4	0.9
Portugal	–3.5	–10.1	–9.1	–5.9	–4.5	–3.5	–8.8	–9.2	–5.4	–3.1	–0.5	–5.9	–6.1	–1.2	1.7
Slovakia	–2.1	–8	–7.9	–5.1	–4.6	–4.2	–7.5	–7.3	–4.8	–4.8	–3	–6.1	–5.9	–3.3	–3.1
Slovenia	–1.8	–6	–5.6	–5.8	–5	–4.6	–3.5	–3	–2.9	–3.3	–3.5	–2.2	–1.4	–1.1	–1.3
Spain	–4.2	–11.1	–9.2	–6.3	–5.3	–3.8	–8.6	–7	–4.3	–3.9	–2.2	–6.8	–5.1	–2.1	–1.4
Eurozone	–2	–6.3	–6	–4.3	–3.5	–2.5	–4.3	–4	–3	–2.6	0.6	–1.4	–1.2	0	0.6
Bulgaria	1.7	–4.7	–3.2	–2.7	–1.6	–0.2	–3.4	–1.3	–1.2	–0.6	0.6	–2.6	–0.7	–0.3	0.3
Czech Republic	–2.7	–5.9	–4.7	–4.4	–4.1	–4.5	–5.5	–4.1	–3.5	–3.6	–3.4	–4.1	–2.7	–1.8	–1.8
Denmark	3.2	–2.7	–2.7	–4.1	–3.2	3	0.9	0.2	–2.2	–1.8	4.4	2.7	2	–0.3	0.2
Hungary	–3.7	–4.5	–4.2	1.6	–3.3	–4.1	–2	–3.1	–5.2	–4	0	2.7	1	–1.4	–0.3
Latvia	–4.2	–9.7	–7.7	–4.5	–3.8	–6.3	–6.1	–3.7	–4	–4.5	–5.7	–4.6	–2.1	–2.1	–2.5
Lithuania	–3.3	–9.5	–7.1	–5.5	–4.8	–5.4	–7.5	–5.7	–5.3	–5.4	–4.7	–6.3	–3.9	–3.3	–3.4
Poland	–3.7	–7.3	–7.9	–5.8	–3.6	–4.6	–7.4	–7.4	–5.3	–3.1	–2.4	–4.7	–4.7	–2.6	–0.3
Romania	–5.7	–8.5	–6.4	–4.7	–3.6	–8.2	–8.8	–5.5	–3.3	–2.8	–7.5	–7.2	–3.9	–1.5	–1
Sweden	2.2	–0.7	0	0.9	2	1.4	2.6	1.4	1.3	2.1	3	3.6	2.1	2	2.9
United Kingdom	–5	–11.4	–10.4	–8.6	–7	–4.8	–8.9	–8.2	–6.5	–5.3	–2.5	–6.9	–5.2	–3.5	–1.9
EU-27	–2.4	–6.8	–6.4	–4.7	–3.8	–2.8	–4.7	–4.4	–3.4	–2.8	0	–2.1	–1.8	–0.6	0.2

Source: Directorate-General for Economic and Financial Affairs of the European Commission 2011; 24.

harsher austerity measures, merely intensifying what they were already doing. This second act closed in July 2011 with the realisation that Greece needed another 110 billion or so euros and that now even a haircut of around 21 per cent of the outstanding bond volume could no longer be avoided. This was yet another twist in the tale. The fourth progress report, that had just been published, had strongly rejected a Greek haircut because of the major risk of contagion (European Commission 2011: box 1, 7ff). The decisions of July 2011 ushered in the third act of the tragedy. This act, indeed, has still not come to an end and because of its increasing intensity we cannot yet know what fate is in store for Greece and the Eurozone. It is a clear concern, however, that the decision in favour of a Greek haircut made the task of stabilisation much more complex and in quantitative terms will require an ever increasing commitment (see Sections 3 and 6).

The tragedy of this yet to be concluded third act is that even if all these stabilisation tasks were to succeed the real problem would by no means be solved, no matter how many billions are spent. The key task is to return overindebted states to a growth path that would enable them to pay down their debts, service their bonds and finally to pay them off. Not only has no progress been made towards such a growth concept, but growth has been stifled by the chosen austerity approach. Just how disastrous EU policy has been for Greece is highlighted by the fact that as a result of the economic and financial crisis the country's debt ratio rose by 22 percentage points between 2007 and 2009, but because of the adjustment programme between 2010 and the end of 2012 it has leapt another 70 percentage points. In other words, Greece's debt ratio has almost doubled since the onset of the crisis. These figures represent a dreadful indictment of the EU. Even worse, evidently nothing has been learned from these calamitous experiences.

4.1.2 Ireland

Over the past 25 years Ireland has undergone breathtaking economic development. On accession to the EU in 1973 Ireland was still one of the poorest countries but by 2006, with 113 per cent of the average per capita income of the EU15 it had become the second richest member state in the Community (European Commission 2011a: 6). After an unemployment rate of 15 per cent in the 1980s, in 2006 Ireland achieved almost full employment with a rate of 4.5 per cent. Boosted by multinational investments Ireland developed into a strongly export-oriented economy. Real wage growth rates well below productivity growth, among the lowest social spending in the EU15 in comparison to economic development and corporate tax rates at the lower end of the EU15 scale, in the 1980s and 1990s international capital enjoyed unusually high rates of return. Ireland posted high export and current account surpluses in these decades.

In the 2000s, the Irish development model changed. On the basis of full employment real wages rose faster than productivity so that nominal and real unit labour costs grew strongly compared to the EU15 average (see Tables 4 and 5). At the same time, the Irish government began to close the wide welfare gap that separated Ireland from the rest of the EU by sharply increasing spending on social security. In 2005, Ireland ran its first import surplus since the 1970s, due to the alteration in competitiveness. It also registered a current account deficit.

More important for the Irish crisis, however, was the development of an enormous real estate and credit bubble which built up after the turn of the millennium. While in 2002 Irish private sector borrowing in relation to per capita income was in line with the European average, in 2009 it was well above-average (European Commission 2011a: 7ff). Housebuilding rose by two and a half times between 2000 and 2006. The GDP share of housing investment in 2006, at 14 per cent, was more than double the EU15 average and even 5 percentage points above Spain, which was also experiencing a real estate boom. Irish banks' loan/deposit ratio rose from 150 per cent in 2003 to 200 per cent in 2007, the EU value remaining constant at 120 per cent over the same period (European Commission 2011a: 10). The Irish banking system made up its funding shortfalls by borrowing on the international capital markets.

In 2007, the Irish real estate bubble burst. From the end of 2006 to the end of 2010 house prices collapsed by 38 per cent (European Commission 2011a: 10). Ireland's crisis was exacerbated by the effects of the international economic and financial crisis which hit the export-oriented Irish economy hard. Between 2008 and 2010 real GDP fell cumulatively by 11 per cent and the unemployment rate reached 13.5 per cent in 2010, a rise of 8.5 percentage points on 2007. Prices and wages fell as a result of this profound crisis. Weekly wages in the private sector fell by around 2 per cent in both 2009 and 2010, while in the public sector they fell by 7 per cent and 6.2 per cent, respectively. The Irish banking system teetered on the brink of insolvency as a consequence of the crisis, in particular the collapse of the real estate market. While the proportion of emergency loans was around 4 or 5 per cent in Portugal and Greece in the first half of 2010, in Ireland the figure reached 20 per cent (European Commission 2011a: 10ff). The Irish banking system was rescued by a series of policy interventions (European Commission 2011a: 12ff):

- In September 2008 the Irish government undertook a two-year total guarantee for all the banks' obligations. This guarantee was later prolonged to the end of 2011.

- In order to make good the banks' losses and to improve the banking system's equity base, by January 2011 five banks had received government capital injections of around 46.3 billion euros, amounting to 29 per cent of GDP. These government capital provisions were either in cash or in the form of purchases of preference shares or promissory notes. The banks concerned were the Anglo Irish Bank, which was nationalised in early 2009 and with 29.3 billion euros devoured the lion's share of the government capital injection, Allied Irish Banks, the Bank of Ireland, the Irish Nationwide Building Society and the EBS Building Society.

- In December 2009 the Irish government founded the National Asset Management Agency (NAMA), a bad bank designed to relieve the abovementioned five Irish banks of toxic assets to the value of 82 billion euros. For this purpose NAMA and the banks in question have set up a special purpose vehicle. This buys toxic assets from the banks at a discount of between 40 and 65 per cent and refinances by issuing state-guaranteed senior debt securities. These borrowings are then proportionately passed on to the participating banks against the sale of the toxic assets. Based on the government guarantee, the banks can present these borrowings to the ECB as security for obtaining liquidity. By January 2011 the banks had sold the bad bank 71 billion euros' worth of assets, having to accept an average discount of 58 per cent.

As a result of the crisis and the measures to stabilise the banking sector the state budget came apart at the seams. As late as 2007 the budget was balanced and the government debt ratio was only 25 per cent (see Table 1). Ireland's high growth rates and healthy flow of tax revenues enabled it to increasingly reduce its debt ratio. In the first half of the 1990s the debt ratio was 81 per cent. Because of the crisis-induced collapse and government intervention to stabilise the financial sector the budget deficit rose to 14 per cent in 2009 and to 32 per cent in 2010 (see Table 6). In 2010, 20 per cent of GDP was allotted to capital injections for the banking sector alone, although this was a one-off. In 2010, the debt ratio reached 95 per cent, almost a fourfold increase on 2007. The structure of Ireland's tax revenues had a particularly negative effect on the budget during this period. The Irish government tried to make up for numerous income tax cuts by means of various direct and indirect taxes on the real estate sector. The share of real estate-related tax revenues in total tax revenues rose from 8.4 per cent in 2002 to 18 per cent in 2006. As a consequence of the collapse of the real estate market these revenues shrank disproportionately, their share falling to 2.6 per cent by 2010.

Against the background of a budget deficit of 32 per cent of GDP in autumn 2010 the financial markets had doubts about the Irish state's solvency. The spread between 10-year German and Irish bonds tripled in comparison to the summer, to over 6 percentage points. Ireland finally applied for financial support from the IMF and the EU. At the end of November, an adjustment programme was negotiated with the Troika (IMF, ECB and European Commission) for the period 2011–2013. This programme will be financed in the amount of 85 billion euros, 17.5 billion euros of which would be from Irish sources (European Commission 2011a). One-third of the remainder will come from the IMF (22.5 billion) and two-thirds from the European partners: 22.5 billion and 17.7 billion from the EFSM and the EFSF, respectively, as well as bilateral funds from the United Kingdom, Denmark and Sweden (a total of 4.8 billion euros).

Based on this programme a slow economic recovery is expected from 2011, with growth rates of 0.9 per cent in 2011 and 1.9 per cent in 2012. This recovery will primarily be export-driven, with growth contributions from net exports of 3.7 per cent in 2011 and 2.5 per cent in 2012. Due to the high unemployment, real estate owners paying off their debts and efforts to reduce the budget deficit, domestic demand will remain negative for these two years (European Commission 2011a: 20).

The adjustment programme has three components: a strategy to stabilise the banking sector, a consolidation strategy for public finances and a reform package to stimulate growth (European Commission 2011a: 19ff).

Financial resources in the amount of 35 billion euros are foreseen for stabilising the banking sector. These funds, which will be available in cash, are to be used to increase the banks' core capital ratio from its current 8 per cent to 10.5 per cent. At the same time, the banking system is to be overhauled and reduced in size: non-viable banks are to be wound up. To assess what further losses can be expected and the recapitalisation needs of individual institutions the Irish central bank will conduct so-called Prudential Capital Assessment Reviews (PCAR). In order to restore the banks' loan/deposit ratios to normal levels by international standards the Irish central bank will also produce so-called Prudential Liquidity Assessment Reviews (PLAR). Here, too, there is to be a steady process of deleveraging. To date, Anglo-Irish and the Irish Nationwide Building Society have proven to be non-viable.

Consolidation of the state budget will involve resources in the amount of 15 billion euros from 2011 to 2014, 6 billion in 2011 alone, amounting to 3.5 per cent of GDP (European Commission 2011a: 26ff). The budget deficit is slated to fall to 10.6 per cent in 2011 and to 8.6 per cent 2012, before reaching 2.9 per cent in 2015. The assumption is that the debt ratio will peak in 2013, at 120 per cent, and then fall slowly, standing at 115 per cent in 2015.

Consolidation in the amount of 6 billion euros in 2011 will basically consist of increased revenues of 1.4 billion euros, mainly from social contribution increases and a widening of the basis of assessment of income tax, spending cuts in public investment of 1.9 billion euros, as well as cuts in the workforce and social budgets, totalling 2.1 billion euros. This will involve cuts in pensions, income support and public sector wages.

With regard to structural reform, the labour market is first in line (European Commission 2011a: 34ff). Since the unemployment rate has tripled in comparison to its precrisis level, with heavy job losses in construction and the financial sector in particular, wage adjustments will be required to strike a new labour market balance. Statutory minimum wages must be cut and sectoral wage agreements revised.

The Commission report on the development of Ireland's economy and the adjustment programme, based on the Troika visit of July 2011, acknowledges that the country is progressing well (European Commission 2011c). Although economic growth will be lower than the expected 0.9 per cent in 2011, at 0.6 per cent, the budget targets in the adjustment programme would be attained. The deleveraging of the banking sector is coming along well. The planned structural reforms are in hand. Pension reform means that from 2014 the pensionable age will be 66, rising to 68 by 2028 (European Commission 2011c: 14). Reforms planned for public sector pensions for autumn 2011 will significantly reduce pension expenditure. In 2009 and 2010, public sector wages will be cut by 14 per cent overall. In the case of new hirings there will be wage reductions of at least 10 per cent and public sector wages and salaries have been frozen until 2014 (European Commission 2011c: 20). Since 2009, hourly wages have fallen by 2 per cent. Although the new government cancelled the planned cuts in the minimum wage, by way of compensation it reduced employers' social security contributions. In addition, further cuts were made in the health care sector. There is nothing to prevent payment of the third tranche of the support loan, in the amount of 5.5 billion euros. Ireland is expected to be able to return to the capital markets in the second half of 2013.

Notwithstanding these positive official estimates, the adjustment plan suffers from a number of economic and social weaknesses that should not be overlooked. The aim of the adjustment programme is to restore the Irish economy to the successful path of predominantly export-oriented growth of the 1980s and 1990s. This will not be easy, for two reasons. First, the Irish economy is extremely dependent on the growth of the world economy, resulting in sharp fluctuations during periods of marked instability in the world economy and world financial markets. For example, the moderate recovery that the programme foresees for 2011 and 2012, based on high net exports, is again vulnerable to the current downturn in the world economy and the recession in Europe. Second, in the 1980s and 1990s Ireland's export-oriented model relied on below-average wage growth, in comparative terms, an underdeveloped welfare state and very low corporate taxes. Even after the phase of rising social spending in 2007 the level of Ireland's welfare state was still significantly below the EU15 mean (Busch 2011). Despite the pressure being put on Ireland by a number of EU states, especially France, within the framework of the support programme, hitherto the Irish government has refused to revise its policy of below-average corporate tax rates. Given the level of development already achieved, however, it would make more sense to give up the strategy of wage, social and tax dumping and switching to an emphasis on the high tech sector and, to that end, significantly raising expenditure on research and education.

The adjustment programme is also defective with regard to the social balance. Although the banks, as a consequence of their irresponsible lending in the 2000s, have had to put up with heavy discounts in the transfer of their toxic assets to the bad bank (NAMA), they are nevertheless being recapitalised with public funds. The costs of the adjustment process and the rehabilitation of public finances, arising as a result of the bursting of the real estate and credit bubble, have been borne by large parts of the Irish population in the form of unemployment, wage reductions and social security cuts. The higher income and wealth owning strata have not taken on their fair share of these rehabilitation costs.

4.1.3 Portugal

Portugal was already beset by a number of structural economic problems before the global economic crisis. Between 2001 and 2008 GDP grew by an average of only 1 per cent per annum, the second worst figure in the EU27 (European Commission 2011d: 5ff). A lack of competitiveness in technology-intensive sectors and growing competition with the countries of Central and Eastern Europe and the emerging economies have resulted in high current account deficits since the mid-1990s, despite average (comparatively) unit labour cost development (see Tables4 and 5). As early as 2000, the deficit was 10 per cent of GDP and remained at this high level until the 2008/2009 crisis (see Table 3). In the decade before the crisis the state budget ran deficits of between 3 and 6 per cent of GDP and public debt rose continuously from 50 per cent in 2000 to 71 per cent in 2008 (see Tables 1 and 6).

Although Portugal did not suffer from an overheating real estate market and its financial sector did not invest in toxic assets the country was hit hard by the global economic crisis. Economic growth collapsed, the unemployment rate rose, the budget deficit shot up from 3.5 per cent in 2008 to 10.1 per cent in 2009 and the debt ratio reached 83 per cent in 2009, after 71 per cent in 2008 (see Tables 1 and 6). The situation was no better in 2010: growth remained weak, unemployment rose to 11 per cent, various budget indicators – current deficit, structural deficit, primary deficit – deteriorated further and the debt ratio increased once again by 10 percentage points within a year to 93 per cent. When the situation worsened in the midst of the euro-crisis the rating agencies repeatedly downgraded Portugal's creditworthiness, bond interest rates rose dramatically (two-year bonds stood at more than 10 per cent in spring 2011) and the banking sector was increasingly cut off from international markets. In response Portugal applied to the EU and the IMF for financial support in April 2011.

The »Troika« comprising the European Commission, the ECB and the IMF negotiated an economic adjustment programme with Portugal aimed at restoring sustainable growth and fiscal stability. The programme covers the period 2011–2014 and is backed by a credit volume of 78 billion euros, provided one-third each by the EFSM, the EFSF and the IMF (European Commission 2011d: 14f).

The adjustment programme is focused on three packages of measures (European Commission 2011d: 16ff). With a mixture of revenue increases and spending cuts the first package is directed towards reducing the debt ratio from 2013. A second package is intended to strengthen liquidity and banking sector solvency and to improve the regulatory framework for the financial sector. Numerous reforms in various economic and policy areas comprise the third package, which is supposed to overcome external and internal imbalances and improve the Portuguese economy's growth potential.

The fiscal consolidation measures from 2011 to 2013 amount to a cumulative 10.6 per cent of GDP, with a full half of consolidation (5.7 per cent of GDP) taking place in 2011. The debt ratio will, it is assumed, rise from 101.7 per cent in 2011 to 108.6 per cent in 2013 and then slowly fall again. As a result of the austerity measures it is assumed that GDP will fall by a cumulative 4 percentage points in 2011 and 2012 (European Commission 2011d: 18).

As regards revenue, the consolidation measures include, in particular, increases in consumption taxes and VAT, higher real estate taxes, a widening of the basis of assessment for income tax and the reduction of various tax concessions. On the spending side, the following measures are planned: workforce reduction in the public sector, wage cuts in the public sector, lower transfer payments to public companies, cuts in welfare benefits (suspension of pension adjustment rules, freezing of pensions, expansion of means-testing for income support, reduction of unemployment benefit and tighter control on spending in the health care sector). The fiscal measures are complemented by cost reduction programmes in state-owned companies, a reduction in the extensive use of public–private partnerships (PPP), which put a heavy burden on the budget, and stepped up privatisation of a number of public companies in the transport, energy, telecommunications and insurance sectors.

In order to boost the Portuguese economy's growth potential the adjustment programme is relying on a number of economic and policy reforms (European Commission 2011d: 23ff). These range from judicial reform, reform of competition law and enhancing competition in various key sectors (energy, transport and telecommunications) to labour market reforms. In particular, the duration and level of unemployment benefit are to be reduced significantly and protection for permanent employees loosened. In order to make it easier to fire people and to boost labour mobility severance payment arrangements are to be reformed and the conditions for fixed-term workers adjusted.

Based on a Troika mission in August 2011, the European Commission published its first report on the implementation of the adjustment programme in September 2011 (European Commission 2011e). The report confirms the macroeconomic forecasts of the May 2011 programme, to the entirety of which the new conservative coalition government under Pedro Passos Coelho – which came to power in June – committed the country. The government reacted immediately to unexpectedly lower revenues in the amount of 1.1 per cent of GDP with countermeasures, including a temporary income tax increase and VAT hikes for gas and electricity (European Commission 2011e: 16f). The reforms announced in May (see above) were taken in hand, including the announced labour market reforms, which were to come into force in September.

Nothing stood in the way of payment of the second tranche in the amount of 11.5 billion euros in September 2011.

Overall, the adjustment programme clearly bears a neoliberal stamp. As regards consolidation it relies mainly on tax rises for the broad mass of the population, spending cuts with regard to employees, wages and social benefits, and privatisation of public property. In order to improve Portugal's growth prospects its contains especially supply-side measures, such as labour market reforms to bring down wage costs and boost competition. In any case, it is disproportionately onerous – to the extent of more than 10 per cent of GDP – for social groups that bear no responsibility for the crisis in world financial markets and the world economy. In contrast, the higher income and wealth-owning strata are largely unscathed. As a result of this approach the country's political system has been to some extent delegitimised and large parts of the population have turned away from the European Union.

The programme is also questionable on economic grounds because it leads to substantially lower growth. Table 6 shows that Portugal reduced its structural budget deficit from 2010 to 2011 by 4.5 percentage points, while Ireland managed consolidation of only 1 percentage point during the same period. Portugal thus in the first year cut back almost as radically as Greece, whose consolidation volume in the first year (2009 to 2010) stood at 5.5 points of GDP. The lower growth caused by this programme will be much higher than assumed in spring. The global economy is on the brink of a new recession, also due to the euro-crisis and neoliberal austerity policies in the crisis countries. Growth expectations for the EU states have already been substantially scaled down. Instead of the 1.8 per cent fall in 2012 GDP assumed in the spring – an estimate confirmed in the first report on the adjustment programme in September – the current autumn forecast of October 2011 anticipates a 3 per cent reduction (Directorate-General for Economic and Financial Affairs of the European Commission 2011a: 206).

The adjustment programme's economic credentials are also severely called into question because it does too little to address the key weakness of the Portuguese economy, its lack of international competitiveness. Portugal suffers primarily from too low a technology content in its products and services, leaving it wide open to competition from low-wage countries. Spending on research and development and on education and training must therefore be stepped up. Only in that way can Portugal's productivity be increased significantly, the technology content of tradable goods enhanced and the economy's growth potential improved. The adjustment programme has nothing to say about this key issue: the large sums required to boost the country's R&D and educational capacities simply cannot be squared with a short-sighted budget consolidation policy.

4.2 Reform of the Stability and Growth Pact

In the course of the 2008/2009 global financial and economic crisis Europe experienced a spike in budget deficits and government debt ratios. Figure 3 shows a very close connection between the output gap and public debt. In the precrisis period a positive output gap led to a fall in both the budget deficit and the debt ratio. During the period of the negative output gap deficits and total gross debt rose sharply again. Governments had to implement spending programmes and reduce taxes to stabilise the economy, and in many instances they were forced to implement rescue packages to stave off bank insolvencies. In the EU and the Eurozone debt ratios rose by around 20 percentage points from 2007 to 2010: specifically, from 59.0 per cent to 80.2 per cent in the EU and from 66.3 per cent to 85.5 per cent in the Eurozone (see Table 1).

Although the crisis thus clearly bears the responsibility for the dramatic rise in public debt, from 2010 neoliberal economists were increasingly able in the wake of the euro-crisis to plant in the public consciousness the notion that the crisis was not responsible for the rising debt, but the other way around. They managed to portray the rising debt, which was unavoidable in order to stabilise the economy and rescue insolvent banks, as a devil that had to be exorcised.

In the EU this debate led rapidly to demands for a tightening of the Stability and Growth Pact (see Hacker/van Treeck 2010; Heise 2011), introduced in the late 1990s to enable implementation of the Maastricht Treaty's provisions on avoiding excessive debt. The Pact subsequently proved to be ineffective. Between 2003 and 2005 it was annulled by Germany and France by means of majority decisions in the Council for the purpose of maintaining greater flexibility in national financial policy.

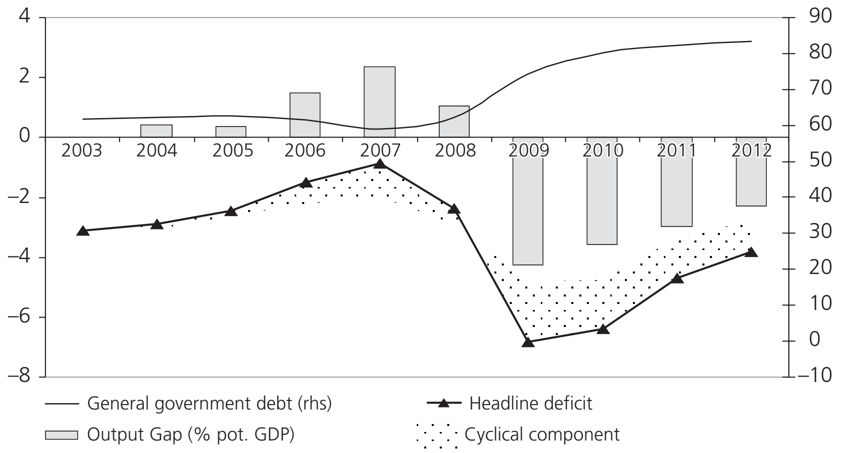
In the course of the euro-crisis the political and economic mainstream was able to link the debate on the role of debts in the crisis with the debate on the laxness of the Stability and Growth Pact and to demand that it be tightened up considerably (Directorate-General for Economic and Financial Affairs of the European Commission 2011: 63ff). In three of the regulations contained in the so-called »Sixpack« – which comprises five regulations and one directive – adopted by the EU institutions in late summer 2011 both the so-called preventive arm and the so-called corrective arm of the Stability and Growth Pact were toughened up considerably (see Regulation (EU) No. 1173/2011, Regulation (EU) No. 1175/2011 and Council Regulation (EU) 1177/2011). Hitherto, the Stability and Growth Pact had consisted of a preventive arm without a sanctions procedure and a corrective arm that concentrated on maintaining the 3 per cent criterion and did not apply its sanction options.

Within the framework of the preventive arm, all states had to agree medium-term objectives with the Commission and the Council from which followed, based on the criterion of the structural budget deficit, by what measures and by when they envisaged achieving a sustainable fiscal position. In the stability and convergence programmes each year the states specified their fiscal policy with reference to the medium-term objectives. Although the Council could issue recommendations and warnings in this process, it had no legal means of asserting its position in relation to the member states.

Reform of the preventive arm, which was recently agreed, envisages that states will have to submit targets not only for their structural budget deficits but also for the growth of their public spending (see Council Regulation (EU) No 1177/2011). For states that have not yet achieved fiscal stability, public spending growth rates must remain below those of potential output. Furthermore, for the first time the Council can impose sanctions within the framework of the preventive arm. If a state violates the agreed targets for structural budget deficits and public spending growth in its fiscal policy the Council, at the recommendation of the Commission, can demand payment of an interest-bearing deposit in the amount of 0.2 per cent of its GDP.

The reform has supplemented the corrective arm of the Stability and Growth Pact, operationalising a procedure for meeting the 60 per cent debt ratio criterion, along-

Figure 3: Economic cycle and public debt in the EU



Source: Directorate-General for Economic and Financial Affairs of the European Commission (2011: 31)

side the Treaty's 3 per cent criterion. Previously, an excessive debt procedure was provided for in the Treaty, despite the emphasis on both the budget criterion *and* the debt ratio criterion, only with regard to the 3 per cent target. In future, failure to meet the 60 per cent target can also trigger an excessive debt procedure. An excessive debt procedure can be instigated if the difference between the debt ratio and the reference value of 60 per cent over the past three years has not been reduced by one-twentieth each year, taking a number of other factors into account. If a country thus has a ratio of 120 per cent, it has to be reduced by 3 percentage points a year.

At the same time, the sanction procedure which forms part of the excessive debt procedure has been toughened up (Regulation (EU) No. 1173/2011). As soon as 20 days after a resolution affirming the existence of an excessive deficit the Commission must recommend to the Council that it demand a non-interest-bearing deposit in the amount of 0.2 per cent of GDP from the state concerned. If this state has already made an interest-bearing deposit within the framework of the preventive arm, it will be converted into a non-interest-bearing one. If the state in question fails to take effective corrective measures in the course of the EDP, the Commission must recommend to the Council, again 20 days after the resolution affirming that the corrective measures are inadequate, that the non-interest-bearing deposit be converted into a fine (of the same amount).

The so-called »reverse majority rule« applies to all three sanction procedures in the preventive and the corrective arm. Hitherto, the Commission has had to obtain a qualified majority for its proposal in the Council in order to implement a sanction under the Stability and Growth Pact. Now a state seeking to avoid sanctions will have to get a qualified majority behind it in order to have the sanction recommendation rejected in the Council. If it cannot manage this within 10 days of the Commission's sanction recommendation the sanction shall be deemed to be agreed. The Council can, with a qualified majority, amend the Commission's recommendation in all three cases, in other words, to demand more or less than 0.2 per cent of GDP. Only the Eurozone member states take part in these votes in the Council, disregarding the vote of the state concerned.

The following regulation shall remain in place: if a state persistently refuses to comply with the Council's recommendations the Council can impose a fine in accordance with Article 126, para 11 TFEU, comprising a fixed component (0.2 per cent of GDP) and a variable component. The total fine may not exceed 0.5 per cent of GDP, however.

The funds deriving from fines and deposit interest will flow into the EFSF and its legal successors.

This toughening up of the Stability and Growth Pact represents an extension of the logic of the Maastricht Treaty and thus is highly problematic, from a number of standpoints.

First, like the old version, the extended Stability and Growth Pact provides no rational justification for the 3 per cent and 60 debt criteria. Even the benchmark for violation of these criteria – for example, the application of a one-twentieth rule in assessing violation of the 60 per cent criterion – is arbitrary. The same goes for the other quantitative rules in the new Pact.

Second, the new Stability and Growth Pact, far more than its predecessor, is a bureaucratic Moloch. The states have to agree targets with the Commission and receive recommendations and warnings. If they fail to meet them, they face a sequence of sanctions, from the non-interest-bearing deposit to a fine. The fine itself is subject to a two-stage sanction procedure. It remains to be seen how these new rules will be implemented, but it cannot be ruled out that many states will routinely find themselves involved in a procedure imposed by the Council under the preventive or the corrective arm.

A third point of criticism is the Stability and Growth Pact's asymmetry. Highly indebted countries will be under constant supervision, while countries running high budget surpluses are not subject to any restrictions. This is no way to bring into being a coordinated and flexible fiscal policy in the EU.

The worst aspect of the new Stability and Growth Pact, fourthly, is the consolidation of the Maastricht Treaty's obsession with austerity measures. It seems that the EU states remain unable to learn anything from the ways in which a tough consolidation policy exacerbates economic crises. The analysis of both the adjustment programmes in Greece and Portugal and the economic situation inside the Eurozone as a result of the austerity measures being implemented in Greece, Portugal, Spain, Italy and France clearly document the recessionary effects of this economic policy. Although there is no lack of macroeconomists who have criticised these deflationary policies and forecast that the debt problems will not be overcome in this way, but only exacerbated, the conservative-liberal camp which at present determines EU policy not only clings on to this economic philosophy and its disastrous policy ideas, but only entangles itself further.

4.3 Procedure for Avoiding and Correcting Excessive Imbalances

Within the framework of the Sixpack two Regulations were adopted related to avoiding and correcting excessive imbalances within the EU. »Excessive« imbalances in this context are those that adversely affect the economy of a member state, the Economic and Monetary Union or the EU (Regulation (EU) No. 1174/2011 and Regulation (EU) No. 1176/2011). A so-called »scoreboard« has been developed as an instrument for establishing and assessing such imbalances, comprising a number of economic indicators. Article 4 of the relevant Regulation says the following about the scoreboard: »(3) The scoreboard shall, inter alia, encompass indicators which are useful in the early identification of:

(a) internal imbalances, including those that can arise from public and private indebtedness; financial and asset market developments, including housing; the evolution of private sector credit flows; and the evolution of unemployment;

(b) external imbalances, including those that can arise from the evolution of current account and net investment positions of Member States; real effective exchange rates; export market shares; changes in price and cost developments; and non-price competitiveness, taking into account the different components of productivity.

(4) In undertaking its economic reading of the scoreboard in the alert mechanism, the Commission shall pay close attention to developments in the real economy, including economic growth, employment and unemployment performance, nominal and real convergence inside and outside the euro area, productivity developments and its relevant drivers such as research and development and foreign and domestic investment, as well as sectoral developments including energy, which affect GDP and current account performance« (Regulation (EU) No. 1176/2011: 28f).

Threshold values have been developed for the indicators as reference values that will serve as alert values, both upper and lower alert thresholds. The scoreboard's values will be updated at least once a year.

The Commission will publish a report once a year, based on the scoreboard, presenting the evolution of macroeconomic imbalances and indicating instances in which individual member states have exceeded the threshold values. This report forms the basis of an alert mechanism. The Council shall discuss this report within the framework of its multilateral economic supervision of the EU and carry out an overall evaluation for that purpose.

If the Commission decides that individual states are running excessive macroeconomic imbalances it can recommend that the Council instigate a procedure calling on the state in question to implement corrective measures and present a corrective action plan within a given timeframe. This corrective action plan will be evaluated by the Commission and the Council, appropriate corrective measures will be adopted, timeframes laid down and a monitoring plan agreed.

If, after the deadline expires, the Council concludes that the corrective measures have not been taken at the Commission's recommendation it can formally declare »non-compliance« and call on the country once again to implement the corrective measures. This Commission recommendation shall be considered accepted if within 10 days the Council fails to agree to reject it by qualified majority. The state in question can call for a vote in the Council.

Sanctions can also be imposed under the procedure for correcting excessive macroeconomic imbalances (Regulation (EU) No. 1174/2011), as follows.

If, under the same procedure, a member state submits two successive inadequate corrective action plans the Council can, at the Commission's recommendation, impose an annual fine in the amount of 0.1 per cent of the previous year's GDP.

If a member state fails to implement a corrective action plan on which agreement has been reached the Council, at the Commission's recommendation, can impose an interest-bearing deposit in the amount of 0.1 per cent of GDP. If under the same procedure a corrective action plan is again not undertaken this deposit can be converted into an annual fine.

In all three cases the decision procedure is the same as in the above-described »non-compliance« procedure.

In the legislative procedure on these Regulations the German government long held out against the inclusion of countries with current account surpluses in the procedure on excessive macroeconomic imbalances. Ultimately, however, it gave in to pressure from the European Parliament. In Article 3, para 2, clause 4 of the Regulation, however, it says concerning the alert mechanism: »The assessment of Member States showing large current-account deficits may differ from that of Member States that accumulate large current-account surpluses.« (Regulation (EU) No. 1176/2011: 28). Furthermore, German Finance Minister Wolfgang Schäuble declared early on that the European Commission had assured Germany that it wanted to avoid sanctions in its case. Although the legislative text gives no grounds for such an interpretation, since the Council can act only at the Commission's recommendation, the latter could give Germany special treatment. Another indication of the asymmetrical treatment of surplus and deficit countries is provided by the Commission's projected threshold values for current account imbalances. In the case of deficits, 4 per cent of GDP is considered excessive, while in the case of surpluses the value is 6 per cent.

The procedure against excessive imbalances can be criticised in the same way as the new Stability and Growth Pact.

First, here too the threshold values for the scoreboard indicators are not based on scientific criteria but determined arbitrarily (as in the case of the abovementioned values for current account imbalances).

Second, the numerous alert thresholds and possible sanction procedures, again, threaten to create a bureaucratic monster in whose clutches many EU states are likely to find themselves on a routine basis.

Third, as in the Stability and Growth Pact this procedure is asymmetrical. In both the Pact and here the deficit countries are more in focus than the surplus countries: the procedure against excessive imbalances thus puts more pressure on countries with current account deficits and comparatively higher wage settlements or higher social security system growth rates than on countries with the opposite characteristics.

Fourth, it would make much more sense with regard to decisive variables that influence international competitiveness to reach agreement on European coordination rules that render the market states system null and void.

This applies in the case of wage policy, the development of social systems and tax policy. Under such an alternative approach – explained in more detail in Section 5.3 – all states decide on coordination rules, symmetrically. Thus, individual states – which, for example, impose real wage cuts on their dependent employees or cuts in social benefits – cannot pressurise all the other states to follow their example, if the Commission declares that their policy is a benchmark.

Like the new Stability and Growth Pact, the procedure for avoiding excessive imbalances represents a consolidation of the Maastricht Treaty logic, in this instance reinforcing the market states system.

4.4 The Intergovernmental Variant of European Economic Government

The idea of establishing a European economic government alongside the ECB was originally conceived by France, decades ago. In essence, it involves fiscal government at the European level alongside monetary government to deal with the stabilisation tasks of EU economic policy, using monetary and fiscal policy means. This version of this idea included in the Werner Plan to establish an economic and monetary union in the 1970s was almost perfect. A supranational economic government with strong powers of intervention was part of this plan, alongside a European Central Bank.

France also called for the establishment of a European economic government during the negotiations on the Maastricht Treaty, but at that time was opposed by Germany.

After a twenty-year hiatus, calls for a European economic government returned to the agenda in the context of the euro-crisis. Many observers of the crisis now take the view that the defects of the Maastricht Treaty must be made good and, among other things, a European economic government should be introduced. However, ideas on what a European economic government should be like vary considerably. The left seeks a democratic supranational European economic government (Collignon 2010; Busch 2010), while the European Council and many member states favour an intergovernmental form of European economic government. The latter would basically consist of three components:

- a toughened-up Stability and Growth Pact along the lines of Section 4.2;

- a procedure for avoiding excessive macroeconomic imbalances along the lines of Section 4.3; and

- an extension of the agenda of the European Council, which would meet several times a year in rotation to discuss issues of coordinating national economic policies at the European level.

This approach, which is only a pale shadow of the original French idea, is highly unsatisfactory. It calls for bureaucratic automatisms that are directed asymmetrically towards deficit countries and is based on austerity and a commitment to social security cuts (see criticisms in Sections 4.2 and 4.3). Furthermore, this form of European economic government is in no position to effectively combat crises similar in size to the 2008/2009 financial and economic crisis. Nor is it suited to implementing a flexible policy mix of fiscal and monetary policy, in cooperation with the ECB, given divergent economic development in the EU.

A final cause for complaint is that this form of European economic government would be completely out of the control of national parliaments and the European Parliament. Calling this »European economic government« is a blatant misnomer.

4.5 The Euro-Plus Pact

In March 2011, based on a German-French initiative, 23 EU states – not including the United Kingdom, Sweden, Hungary and the Czech Republic – agreed the Euro-Plus Pact. The Pact is a voluntary agreement between the states to improve economic policy coordination in the EU and to promote economic convergence in Europe. In particular, the states want to promote competitiveness and employment in this intergovernmental agreement, as well as to reinforce financial stability and sustainability of public finances (Barroso 2011). The Pact is similarly constructed to the Open Method of Coordination: key objectives are agreed at European level and indicators chosen for measuring goal implementation. The participating states are supposed to formulate national reform programmes on this basis by spring 2012, indicating concrete steps towards achieving the agreed objectives. The

Commission will evaluate these programmes and the European Council will adopt corresponding conclusions in June 2012.

To date, the Euro-Plus Pact contains the following four key objectives:

1. improving existing economic policy governance;

2. promoting competitiveness and convergence;

3. agreeing annual national reform obligations;

4. maintaining a commitment to completing the single market.

The economic policy objective is based on the existing instruments and procedures: the Europe 2020 Strategy, the »European Semester«, the integrated guidelines for growth and jobs and the Stability and Growth Pact.

The German government had already presented an action plan for the Euro-Plus Pact in April 2011. Under the rubric of the abovementioned four key objectives it contains a ragbag of 22 planned measures, containing such diverse items as the Initiative for Excellence for higher education, expansion of the broadband infrastructure, the Federal Voluntary Service (BFD) and improving investor protection in the capital markets, to mention only some of the more or less important projects (BMWI 2011: 11ff). Reading this list of measures one cannot avoid the impression that the German government takes the view that the Euro-Plus Pact is not really directed towards Germany as competitive and high-performing hegemonic power, but rather to uncompetitive and overindebted EU states, in particular in the European South. The latter are to orient themselves towards Germany as the country exemplifying »best practice«.

As in the case of the Stability and Growth Pact, which focuses asymmetrically on the deficit countries (see Section 4.2) and the procedure for avoiding and correcting excessive macroeconomic imbalances (see Section 4.3) the Euro-Plus Pact is also subject to the danger that sacrifices will be demanded one-sidedly from the less competitive states, while the concessions required of the surplus countries will be fewer (see Heise 2011). Debates hitherto on the allegedly excessive unit labour costs in the Southern states, as well as their allegedly inadequate pension reforms (not all of them have raised the retirement age to 67) point in this direction. Analysis of the adjustment programmes in Greece, Ireland and Portugal also shows that the European Commission is using conditional loan allocation to put pressure on public and private sector wages and salaries in accordance with neoliberal ideas and to force through harsh reforms in social security systems.

However, it is important not to put too high a value on the Euro-Plus Pact. Ultimately, it is only a voluntary agreement between the participating states. Much more important in the implementation of neoliberal policies are the hard instruments, such as the planned introduction of debt brakes in national constitutions – »fiscal union« – the adjustment programmes in Greece, Ireland and Portugal, the additional austerity programmes in endangered countries such as Spain and Italy, the sanctions laid down in the Stability and Growth Pact and the new procedure against excessive macroeconomic imbalances, also underpinned by sanctions. These instruments are what is really being used to assert neoliberal ideas. The Euro-Plus Pact supports and complements this policy and, as a sort of ostinato, reminds us of the leitmotiv of this political approach – but no more than that.

4.6 Provisional Summary

Section 4 has shown that the crisis will remain impervious to these instruments, which reflect the logic of the Maastricht Treaty. Analysis of developments in Greece, Ireland and Portugal shows that economic development since 2010 correlates directly with the severity of the austerity programmes. The most dramatic economic collapse has occurred in Greece, followed closely by Portugal, while Ireland's low consolidation costs and favourable global economic environment mean that it is already experiencing a moderate, albeit unstable recovery. In Greece, the adjustment programme is so severe that the increase in the public debt ratio from 2010 to 2012 is much higher than in the global economic crisis from 2007 to 2009. The victims of this development are primarily dependent employees who, apart from anything else, were not responsible for the crisis. They have had to shoulder the heaviest burden, including redundancies, wage cuts and cuts in social benefits, both during the global economic crisis and under the adjustment programme (see Heise/Lierse 2011).

Evidence of the failure of the Maastricht logic – which has only been consolidated by the reform of the Stability and Growth Pact – goes beyond the effects of the austerity policies, which have merely exacerbated the crisis. The Maastricht system of so-called »market states« has also aggravated the macroeconomic imbalances in the Eurozone. The EU is trying to address this development not by coordinating wage, social and tax policies – which would annual the market state system – but through the procedure for correcting excessive imbalances, combined with the Euro-Plus Pact. The asymmetrical logic of these instruments serves only to ratchet up competition, however, in effect, declaring worst practice – slashing unit labour costs and social benefits – to be best practice. The outcome of procedure and Pact is thus to reinforce wage and social dumping.

Besides its direct effects, all this only further undermines the legitimacy of the European Union.

5. Possible Solutions beyond the Maastricht Paradigm

The defects of the Maastricht Treaty are responsible for the deterioration of the economic and social crisis in the Eurozone. Official policy's stubborn persistence with the logic of the Treaty has also caused the numerous policy failures which not only have prevented any solution of the euro-crisis to date, but have aggravated it. It is therefore high time to break away from the destructive logic of the Maastricht Treaty and open up new prospects for Europe by means of Europe-wide coordination of wage, social and tax policies, re-regulation of the financial markets and a supranational European economic government.

In this section we present the outlines of such an alternative programme (on this see also Dauderstädt 2010 and 2011; Hacker 2011; Kellermann/Eck/Petzold 2009), whose implementation would stabilise the Eurozone and the EU, economically, socially and politically.

5.1 A Marshall Plan for Europe

Our analysis of the adjustment programmes imposed on Greece, Ireland and Portugal has shown that severe austerity policies have destroyed their growth prospects. This applies in particular to Greece and Portugal: indeed, Greece has already been driven to the brink of insolvency.

But the spectre of stagnation released by austerity policies also looms over other countries. Spain, Italy, France and the United Kingdom are already seeing zero growth as a result of their austerity policies and the global economic downturn in 2012. Even for Germany, which registered high growth rates in 2010 and 2011, growth of less than 1 per cent has been forecast for 2012 because of the worldwide slump and austerity policies in the EU. Unemployment rates averaging over 10 per cent loom, and in Spain and Greece even 20 per cent, while youth unemployment has been forecast at between 40 and 50 per cent in the latter two countries.

In this situation a radical economic paradigm change seems in order. To bring about such a paradigm change Europe must recognise that the best strategy for reducing the debt mountains is not austerity, but growth (see also the calls for radical action by economists Alesina, Aghion and Voth in Financial Times Deutschland, 3 November 2011). A three-pronged approach is required. First, at the European level a supranational infrastructure programme should be launched; second, the member states with current account surpluses – especially Germany – should stimulate domestic demand; and third, the member states particularly weighed down by debt should relax their austerity policies over a longer time horizon and set about promoting investment.

To implement the paradigm change the EU could adopt a pan-European infrastructure programme, expanding transport networks, telecommunications networks and alternative energy projects. Specifically with regard to promoting alternative energy sources (wind and sun) large-scale projects could be implemented in Northern and Southern Europe and supranational and cross-regional transmission lines can be built for transporting electricity, which would require a major investment.

States with current account surpluses which also have below-average budget deficits and debt ratios – above all, Germany – should stimulate domestic demand by means of an expansive wage policy and public investment programmes in schools and higher education, as well as health care and nursing care. In this way, Germany could contribute both to staving off recession in Europe and to reducing current account deficits in the

Southern European countries. Such an economic stimulus programme would also be in keeping with the commitments made by the German government at the last G20 summit meetings.

In states with above-average debts the short-sighted consolidation programmes should be terminated and debt reduction pursued within the framework of a medium- and long-term growth strategy. The objection that countries such as Greece have nothing to offer economically is not supported by the facts. In the decade before the crisis Greek GDP grew an average 4 per cent a year. There is expandable growth potential in pharmaceuticals, information technology, shipping, transport, tourism, alternative energies and agriculture. Greece has over 20 billion euros at its disposal from the EU structural funds – regional, social and cohesion funds – from 2007 to 2013, 15 billion euros of which has not yet been taken up because its austerity policies prevented the country from coming up with its 50 per cent of the funding. These funds could be used to expand the road network, seaports and airports and thus contribute indirectly to promoting tourism. Heavier investment in research and development is also needed to boost international competitiveness, a strategy which Portugal in particular should afford the highest priority, given the conspicuously low technology level of its exports.

5.2 Eurobonds

At the end of 2010, in the course of the euro-crisis, the proposal was brought into the policy debate – in particular by Jean-Claude Juncker and Giulio Tremonti – of introducing eurobonds within the framework of Eurozone reform and setting up a European debt agency for this purpose.

Eurobonds are government bonds issued jointly by European states or the euro-states, shared out between the states, which assume joint and several responsibility for repayment and interest. The aim of the proposal is in this way to reduce the financial burden weighing down highly indebted states.

The joint issuing of eurobonds would improve the creditworthiness of the heavily indebted states and thus bring about a significant interest rate reduction. Conversely, the states with lower debts would become liable for the debts of crisis countries and accept higher interest rates for financing their own debts. This would annul the EU Treaty's no bailout clause and a major step would be taken towards Community solidarity and political union. This would also contribute significantly to overcoming the defects of the Maastricht Treaty (see Section 1).

A range of options are available for implementing eurobonds. One popular proposal is to introduce eurobonds for each state only up to the Maastricht debt rate target of 60 per cent of GDP, but on top of that to enable states to issue bonds – in other words, above this level to continue to issue national bonds with national liability. Jacques Delpla and Jakob von Weizsäcker have developed a plan for such division, calling the joint bonds *blue bonds* and the national bonds *red bonds* (Delpla/Weizsäcker 2011). According to them, the benefits of their proposal are as follows:

- a market would emerge for blue bonds comparable in size to the market for US treasuries and thus giving rise to interest rate advantages (»exorbitant privilege«);

- given the high liquidity and high quality of blue bonds interest charges would fall considerably and not fear comparison even with German interest rates;

- states would have the incentive to reduce the level of red bonds, in particular if the ECB did not accept them as security within the framework of the provision of liquidity to the banking sector;

- the no bailout clause, which would remain in place for the red bonds, would acquire more credible foundations.

In the controversial academic debate on eurobonds opponents emphasise that such an approach would weaken highly indebted countries' incentive to tighten up their budget policies, while states with lower debts would be punished by the interest rate rise. Advocates counter by pointing to the higher quality of eurobonds arising from the fact that it would no longer be individual states but the EU or the Eurozone – jointly and severally – that assume liability. They also consider that a divided bond market would give a strong incentive to meet the 60 per cent target of the European Treaty and thus to reduce indebtedness in comparison to the status quo. Accordingly, the rise in interest rates for currently sounder member states would be limited. This has been estimated at 0.8

per cent in comparison to German bonds by the German Finance Ministry.

At government level, the eurobond concept has been rejected by Germany, the Netherlands and Austria, and a toned-down version also by France. These countries profess to discern the risk of moral hazard in eurobonds because the Communitisation of debts would offer over-indebted states an incentive to persist in their unsound policies. Luxembourg and Italy, however, support the idea of eurobonds. The proposal has also found widespread support in the major political groupings in the European Parliament. The European Commission, in particular Economic and Monetary Affairs Commissioner Olli Rehn backs the idea and has even presented his own proposal. It is frequently pointed out that the costs of Eurozone collapse would be much higher, especially for the sounder economies, than the interest rate rises they would have to incur if eurobonds were introduced. The Commission's Green Paper, which President Barroso presented to the public in November 2011, contains three variants of eurobonds, which the Commission terms *stability bonds*: classic eurobonds with joint and several liability for all euro-states; eurobonds up to a certain debt limit, comparable to the blue-red variant already mentioned; and finally eurobonds with proportionate individual liability for the member states (European Commission 2011f).

Eurobonds could be an important step in the direction of a European solidarity community, in particular if it was to be linked to a plan for a European economic government. This linkage is fundamental: the introduction of eurobonds simply must be combined with the requirement that national fiscal policies can be shaped by means of a European economic government. The highly indebted states that would benefit from eurobonds would also have to accept, as a quid pro quo, that budgetary competence be transferred to the European level. Supranationalisation of debt policy and fiscal policy are mandatory if the weaknesses of the Maastricht Treaty are to be overcome (see Section 5.5).

5.3 European Coordination Rules on Wage, Social and Tax Policy

As we described in the analysis of the Maastricht Treaty a system of so-called »market states« was introduced along with the common currency. This is a strong motor for realising neoliberal goals: the state – in particular the welfare state – can be dismantled, wage and social security costs and corporate taxes fall and market forces are given more and more room to manoeuvre by means of deregulation and privatisation.

The system of market states is also a problem if the competitive positions of the participating states drift far apart due to unequal development of the relevant parameters. We have already established that this is largely how things stand in the Eurozone, based on data on wage development and the evolution of current account balances (see Tables 3 to 5; see also Flassbeck/Spiecker 2010).

With the procedure for preventing excessive imbalances, agreed within the framework of the *Sixpack*, the EU now wants to attempt to reduce the widening gaps between states within the Union, but naturally without restricting the system of market states and the process of reducing wage, social security and tax costs. This is to be achieved more effectively by preventing states' wage and social policy from deviating too far from the logic of neoliberalism (see Section 4.3).

If the negative income, social and tax policy consequences of this system are to be prevented coordination rules for these policy areas must be developed at European level. In what follows, coordination ideas are presented for wage, social and tax policy that would annul the system of market states.

Looking at wage policy, since the Doorn Declaration of 1998 and the adoption of the coordination directives, the first of which was developed by the European Metalworkers Federation (EMF), the European trade unions have endeavoured to curtail wage dumping. This coordination rule calls on member federations to use »inflation rate plus productivity increase« as a rule of thumb for their national wage policy. Applying this directive would, at national level, keep income distribution and at European level competitiveness conditions constant. Gradually, all important European trade union branch federations and eventually also the ETUC have taken up the EMF coordination approach by means of guiding resolutions (Schulten 2004 and Sterkel/Schulten/Wiedemuth 2004). However, the data on the development of unit labour costs in the EU/Eurozone indicate that the trade unions alone do not have the power to implement such a coordination approach (see Tables 4 and 5).

Since the European trade unions are unable to solve the problem by means of unilateral action a tripartite coordination process could be established at the European level. Based on the EU inflation rate and national productivity data the European Commission, Business Europe/CEEP and the European Trade Union Confederation could formulate national recommendations for wage growth rates. These would serve as benchmarks for national negotiation rounds. How the European recommendations have been implemented nationally, what distortions remain and how imbalances between the EU states have evolved could be analysed in annual reports. The implementation of such a system would end the redistribution of income in favour of capital that has been going on for two decades now and is observable in the vast majority of EU states. At the same time, there would be no more distortions in price competitiveness between EU states as a result of differing wage policies.

The European employers should realise that although there might be microeconomic benefits from the system of market states, it causes great macroeconomic and social policy damage within Europe and destabilises the Eurozone. A common currency area in which welfare effects are very unevenly distributed between the nations will not survive over the long term.

Furthermore, all 27 member states should introduce a minimum wage defined at European level, amounting to 60 per cent of the average wage in the relevant EU country. As a first step a 50 per cent minimum wage could be agreed. A coordination plan must also be agreed for welfare state policies in the EU.

The system of market states can also generate dumping strategies here. At present, this process is being stoked up by the dismantling of welfare states in the wake of states' debt reduction policies, as the country analyses of Greece, Ireland and Portugal have shown vividly. In order to stabilise welfare states and prevent social dumping a European social stability pact should be agreed, instead, in which a state's national welfare level – per capita spending on social protection – should be coupled with its level of economic development (per capita income). Richer states could spend more on social protection in both absolute and relative terms than poorer states. In such a system, there would be no social dumping between states and weaker states would not be overburdened. At the same time, economic catch-up on the part of low-income states could bring welfare state levels closer together without any need for transfers. This approach is described in detail in the study *The Corridor Model Relaunched* and its possible implementation problems discussed (Busch 2011).

Urgent action is also required to clamp down on escalating tax dumping in the EU (see Rixen/Uhl 2011). Besides introducing a common tax base, agreement must be reached on minimum rates for corporate taxes. Germany reduced its corporate taxes so much under the Kohl government and in particular under the Schröder government that the effective tax burden for companies now stands in the bottom third in the EU. This tax dumping policy in the EU, practiced especially by Ireland, the Netherlands, Slovakia and Estonia, generates competitive distortions between national locations, as well as to enormous state revenue losses. In the short term, therefore, minimum tax rates and over the longer term common corporate tax rates should be applied in the EU (on the controversial assessment of tax competition in the EU see Begg 2011; Boss 2011; and Dullien 2011).

5.4 Regulation of the Financial Markets

It emerged clearly in Section 2 that the debt crisis in the Eurozone is largely the product of the world economic crisis of 2008/2009. Since this in turn arose from the deficient regulation of world financial markets new rules for the financial markets must be devised and implemented to try to ensure that such crises do not happen again. In the United States, the EU and at the G20 level reforms have been discussed in different areas of the financial markets since 2008, some of which have been implemented. This general structural revision of the markets has not yet been concluded, however, and the necessary reforms have to some extent been watered down by the financial lobby (see Dullien 2010; Dullien/Herr 2010; Johnson 2011; Schick 2010).

Root and branch reform should comprise the following elements:

- Financial institutions should be reduced in size so that no enterprise can any longer be characterised as »too big to fail«. At its most recent summit in October 2011 the G20 designated 29 financial institutions as »systemically relevant«. Accordingly, should they fail, world financial markets could experience even greater turbulence. It is not enough to develop strategies for dealing with the problems in which these institutions could become entangled. More important is to deconcentrate the sector by divesting it of its systemically relevant financial houses.

- The banks should be divided up into commercial banks and investment banks. The mission of the commercial banks would be primarily to provide loans to consumers and investors in the real economy. The investment houses could be active on the money, capital and foreign exchange markets with precisely defined products, on regulated platforms and under strict control of the supervisory authorities.

- The externalisation of banking transactions in special purpose vehicles or hedge funds should be prohibited.

- A financial »MOT« should be used to draw up a precise list of transactions in which investment houses can be active (positive list).

- Only those enterprises should be involved in buying and selling derivatives whose business activities in the real economy make investment in derivatives necessary. Investors that have no real business links to the foreign exchange market or the commodities markets should be prohibited from trading in them. Traders should have to obtain a licence from the exchanges and trading platforms which lays down this requirement.

- Trade in derivatives should be transparent. Over-the-counter (OTC) trading should be prohibited. The exchanges and trading platforms must be subjected to precise rules and supervision by the authorities.

- The banks' equity base should be reinforced. Proposals are presented – some have already been adopted – for this purpose in Basel III and within the framework of the recapitalisation of European banks and should be swiftly implemented. Means should also be made available for the banks with regard to their loan/deposit ratios. With these two instruments the banks' risks could be limited and monitored.

- Furthermore, the introduction of a financial transaction tax is on the agenda for the purpose of limiting short-term speculation and market volatility.

- Tax havens should be shut down worldwide. States that continue to provide this facility should be ostracised and sanctioned. Taxes should be levied and paid where value creation occurs.

- Rating agencies should be subject to state control and nationalised. Their evaluation methods should be made transparent and they should be made liable for blatantly false evaluations.

5.5 A Democratic Supranational Economic Government for the Eurozone

A New Deal for growth policy in Europe, implementation of Community debt management in the form of eurobonds, control over welfare state and tax policies coordinated at European level and supervision of new rules for the financial markets: these would all be tasks for a democratically elected supranational economic government in the Eurozone.

In contrast to the European Council's conception of a European economic government (see Section 4.4), which is based on intergovernmental cooperation between the member states, such an alternative programme would be based on a democratically elected supranational government. This calls for further democratisation of the European Union or the Eurozone. The votes of citizens of the member states should have equal weight in the elections to the European Parliament. The current privileging of less populous states should be limited to the second chamber, the current Council of the European Union, in accordance with a genuinely federal constitution. In the European Parliament, by contrast, the democratic principle should be fully realised. This Parliament should elect a government that would replace the current Commission.

Since the European Union for the time being does not have a democratically elected government a transitional solution is needed. Within the framework of the given institutional structures the following provisional organisation suggests itself with regard to European economic government: the European Commission would work out economic policy guidelines, including the establishment of benchmark figures for the member states' central budgets. These guidelines would have to be accepted by the Council of the European Union in the form of the Economic and Financial Affairs Council (Ecofin) by a double majority and approved by the European Parliament by an absolute majority (»ordinary legislative procedure«) (see Busch 2010; Collignon 2010).

It is a matter of urgency that this economic government also has the competence to determine the direction of member states' budgetary policies: only in that way could a consistent European fiscal policy be applied that would take care of the macroeconomic stability of the Union/ Eurozone, in cooperation with the ECB. This is also the only way of establishing responsibility for the Communitisation of debt policy in the form of eurobonds.

The conception of a European economic government framed by the European Council resolutions of December 2011 is limited to the anchoring of debt brakes in national constitutions, automatic sanction procedures in the case of excessive budget deficits and rotating debates on coordination of national economic policies at economic government summits. The alternative proposed here, by contrast, contains a – also during the transitional period – democratically controlled economic government which, besides exercising competence over stabilising the European economy, would be responsible for implementing the abovementioned strategy for qualitative growth and common debt management (eurobonds) in the EU/ Eurozone.

6. The December Summit of the European Council – A New Treaty for the Eurozone

On 8–9 December 2011 the EU heads of state and government came together to negotiate fundamental measures to deal with the euro-crisis. During the run up to the meeting Germany and France had presented their plan to incorporate a new fiscal rule in the European Treaty, which provides for both a binding debt brake for all member states and automatic sanctions in the case of Stability Pact violations. It rapidly became evident in the course of negotiations that the United Kingdom would support such a plan only if it retained far-reaching opt-out rights with regard to financial and labour market regulation. Since the other EU states were unwilling to grant the United Kingdom these derogations the German-French proposal of a Treaty amendment were off the table. The Eurozone member states then agreed on »Plan B« which envisages the realisation of the abovementioned elements of a »fiscal union« in a separate treaty between the euro-states, coming into force in March 2012 at the latest. Non-euro-states are invited to join this treaty. It may be that 26 of the 27 member states will sign the treaty, which technically would be part of the treaty on the European Stability Mechanism.

The main points of the statement by the heads of state and government of the euro-states on the new fiscal agreement (European Council 2011) are as follows:

- General government budgets shall be balanced or in surplus; this principle shall be deemed respected if, as a rule, the annual structural deficit does not exceed 0.5 per cent of nominal GDP.

- This debt brake is to be introduced in member states‹ national legal systems at constitutional or equivalent level and contain an automatic correction mechanism that shall be triggered in the event of deviation. The European Court of Justice will have jurisdiction to verify the transposition of this rule at national level.

- Member states in Excessive Deficit Procedures (see Section 4.2) shall submit to the Commission and the Council for endorsement an »economic partnership programme« detailing the necessary structural reforms to ensure an effectively durable correction of excessive deficits. The programme, and the annual budgetary plans consistent with it, will be monitored by the Commission and the Council.

- The rules governing the Excessive Deficit Procedure (Article 126 of the TFEU) are to be reinforced for Eurozone member states, although this was already the aim of the Sixpack which came into force only in November. As soon as a member state is recognised to be in breach of the 3 per cent ceiling by the Commission, a sanction procedure will be instituted automatically unless a qualified majority of euro area member states is opposed to it. In contrast to the tightening up of the Stability Pact (see Section 4.2) contained in the Regulations of the Sixpack, which has already been adopted, the automatic sanctions will kick in directly after the Commission has established that a deficit is excessive. In the Sixpack Regulations determination of an excessive deficit (EDP) had to be confirmed by Council Resolution before the tightened up procedure could be applied.

▪ The new rules proposed by the Commission on 23 November 2011 on the monitoring of draft budgetary plans in particular of member states in an Excessive Deficit Procedure or experiencing serious financial difficulties are to be swiftly examined and adopted by the Council and the European Commission. If the Commission identifies serious non-compliance with the Stability and Growth Pact, it is to request a revised draft budgetary plan.

▪ In order to improve coordination of national economic policies at the European level the heads of state and government will hold regular summits, at least twice a year.

As regards stabilisation instruments the euro-states' summit decided:

▪ The European Financial Stability Facility (EFSF) leveraging will be rapidly deployed based on the two options agreed by the Eurogroup.

▪ The ESM is to enter into force in July 2012, one year earlier than planned.

▪ However, the EFSF is to remain active until mid-2013 so that the two mechanisms will run in parallel for a year.

▪ The volume of the EFSF and the ESM will total 500 billion euros: the adequacy of this sum will be re-examined in March 2012.

▪ It is to be considered within 10 days whether the IMF is to be provided with additional resources of up to 200 billion euros, in the form of bilateral loans, to ensure that it has adequate financial resources to deal with future emergencies.

The following amendments have been made to the ESM treaty:

▪ Concerning the participation of creditors, the Eurogroup will adhere to IMF principles and practices. It is clearly affirmed that the decisions taken on 21 July and 26/27 October concerning a Greek debt haircut are »unique and exceptional«.

▪ In case of an emergency requiring rapid action the mutual agreement rule in the case of ESM resolutions will be replaced by a qualified majority of 85 per cent. The Commission and the ECB shall determine whether such an emergency exists. The 85-per cent rule enables large states, such as Germany, France and Italy, to retain a veto.

When evaluating the summit outcomes the following considerations are important:

▪ Measures that would have facilitated the short-term stabilisation of Eurozone states' bond markets, such as the granting of a banking licence to the ESM or the request made to the ECB to massively expand its bond purchasing programme, were omitted. This is all the more risky because any plans to introduce eurobonds in the Eurozone were rejected. The Merkel government is primarily responsible for all this, which firmly rejected even the passage on the banking licence for the ESM, which had been included in the draft decision. In acting in this way Chancellor Merkel was heeding the view, which is widespread in Germany, that monetary financing of public debt – banking licence, bond purchasing by the ECB – ultimately leads to inflation. This constitutes an extremely narrow understanding of the inflationary risks. A large number of international economists – De Grauwe, Galbraith, Krugman, Shiller, Stiglitz – have emphasised that currently the dangers are deflationary, not inflationary. In such a situation increasing the central bank money supply does not affect demand or generate inflationary pressure. Certainly, the ECB, like the US Federal Reserve and the Bank of England, which have been buying bonds on a much larger scale than the ECB, must take care that it again restricts the money supply when the situation in the real economy is reversed. Besides interest rates and open market operations central banks have sufficient options at their disposal to rapidly implement the requisite corrections (see Dullien/Jöbges 2011).

▪ Before the summit it was supposed that a kind of tacit agreement had been reached between ECB president Draghi and the Eurogroup, according to which the ECB would be ready with the »bazooka« when the Eurogroup reached agreement on fiscal union. Draghi emphasised once again, on the occasion of the interest rate decision of 7 December 2011, that there would be no major extension of the bond purchasing programme. After the summit he praised the Eurogroup's fiscal resolutions. One might speculate that in case of an acute threat to a larger member state – Italy or Spain – the ECB will move to prevent a collapse of the euro.

▪ Besides the risk arising from failure to agree on a short-term instrument for easing tensions in the Eurozone another risk is entailed by the fact that the Eurozone at present lacks sufficient resources to help out large member states with loans or to buy bonds through the EFSF. The available EFSF funds of 250 billion euros can at most, as far as we know, be leveraged up to 750 billion euros. Since ESM funds will not be available before July 2012 in the best case only another 200 billion euros of IMF funds could be deployed – if the euro-states should decide to grant the IMF the abovementioned loans. A volume of around 1 trillion euros would not suffice to effect stabilisation in the case of an acute crisis in Italy or Spain.

▪ The resolutions on »fiscal union« (debt brake) are in line with the austerity focus of the Maastricht Treaty and the notion that high public debt in numerous euro-states is primarily responsible for the euro-crisis. Our analyses in this text, by contrast, especially those in Section 2 on debt and in the subsections on Greece and Portugal, show that the 2008/2009 growth crisis caused the sharp increase in public debt and the harsh austerity programmes in Greece and Portugal, but also in many other euro-states – Spain, Italy, France – are serving only to stoke up the crisis. They have significantly exacerbated the growth crisis in Greece and Portugal and are driving Europe into recession. This economic framework will bring about a further increase in public debt. Without a growth strategy the euro-crisis will not be vanquished.

▪ Concerning the much trumpeted toughening up of the Stability Pact, with its »automatic« consequences in case of violation, we can say the following. On the one hand, in communications with the public concerning the reinforcement of the Stability Pact there was no mention of the fact that it had been tightened up in many respects only a few weeks beforehand (as explained in detail in Section 4.2). The summit resolution was rather sold to the media as the remedying of a long-standing defect. On the other hand, the sanctions procedure after the December resolutions is still not fully automatic, as hardliners have rather smugly noted (*Handelsblatt online*, 9 December 2011): even in the case of a reverse qualified majority a sanctions procedure can be halted with a majority decision. In fact, if a group of large states that is violating the Stability and Growth Pact wishes to prevent sanctions it can do so with the procedure of reverse qualified majority. There is still room, therefore, for a further »Merkozy« performance to toughen up the Stability and Growth Pact at a future summit.

▪ The retraction of creditor automatic participation in the rescheduling of the euro-states' government bonds and the quasi-apology for the Greek debt haircut represent an admission on the part of the heads of state and government that the July resolutions – as we have shown – led to a dramatic escalation of the euro-crisis. The intriguing alliance of liberal economic policymakers (who are calling for the application of market mechanisms also to creditors, who ultimately should have to take on the risk involved in purchasing government bonds) and leftwing economic policymakers, who want the banks, insurers and speculators to pay up for the consequences of their actions, caused a worsening of the crisis after the July summit. Once again, the media chorus that supported the July resolutions because it was allegedly obvious that only a debt haircut could help now, a few weeks later is now saying the opposite, claiming that Greece's debt rescheduling is a mistake and has caused the situation to deteriorate.

Outlook

EU citizens were told that the euro would lead to higher incomes, higher employment and more social security. A deaf ear was turned to the criticisms that the EU is not yet ready for a common currency since it is not embedded in a European federal state, there is no European economic government, wage flexibility cannot substitute for the exchange rate mechanism and the system of market states will lead to wage, social and tax dumping (see Busch 1994). According to the euro-optimists, all these shortcomings would gradually be rectified by means of spillover processes.

Now we know better. Germany has experienced moderate economic growth since the launch of the euro, while real wages, counter to what had been promised, have not risen but declined. Although some states, such as Ireland, Spain and Greece, registered high growth rates up to the crisis, after 2008 a severe process of falling incomes, rising (especially youth) unemployment and welfare state cutbacks set in, affecting Greece and Spain in particular. Portugal and Italy, because of their unfavourable international competitiveness, have emerged from a period of stagnation and are now suffering from the imposition of harsh austerity measures.

It is now being argued that the euro is not the cause of these developments, but sovereign debt. Although it is true that the euro is not responsible for the global economic and financial crises it has been overlooked that the austerity policy pursued since the crisis is following to the letter the logic of the Maastricht Treaty and the primacy it gives to austerity. To that extent the deflationary policy currently being applied, which is exacerbating the crisis, is also a consequence of the euro project. Furthermore, it is only the policy mistakes of the euro governments – sticking to the no bailout clause (no debt guarantee, no eurobonds), the Greek debt haircut in July 2011, the utterly inadequate leveraging of the EFSF at the October 2011 summit and the ECB's refusal to intervene massively – that have repeatedly caused bond interest rates to rise sharply and have driven the states involved, in line with the dominant discourse, to successive austerity measures.

Furthermore, since the launch of the euro the pressure to be competitive has increased, leading to redistribution in favour of capital, cuts in corporate tax rates and the undermining of social security. Based on the uneven development of these processes major foreign trade imbalances have built up in the Eurozone. There can be no doubt that economic development in Europe would be more balanced if Germany had to revalue and countries such as Portugal, Italy and Greece could devalue.

We can conclude from this analysis that the premature adoption of a common currency was a fundamental error which continues to inflict severe economic, but also social and political damage on the integration process (cf. Feldstein 2011). The EU's legitimation crisis and the growing influence of national populist currents in Europe can also be traced back to these negative experiences.

However – and this is another bitter truth – now that the common currency has been introduced, abandoning the project and restoring national currencies could be done only at high economic and political cost. The consequences would be sharp revaluations in the surplus countries, leading to an adjustment crisis, characterised by falling growth and employment, and massive devaluations in the heavily indebted countries, whose foreign debts would explode, threatening state insolvencies. These states would be able to borrow on the international financial markets only at unsustainable interest rates. They would face a period of high unemployment and the impoverishment of broad segments of the population.

It could be argued that for Greece, Portugal and Spain the choice between the euro and reintroducing the drachma, the escudo or the peso is like choosing between Scylla and Charybdis; however, contemplation of the further economic and political consequences of a breakdown of the Eurozone encourages a more sophisticated evaluation. Abandoning the Eurozone would trigger such a negative dynamic in Europe that even a reversion of the Single Market project would not be out of the question – indeed, even the integration process as a whole might be called into question. Such a development cannot be in the interest even of those states that have been hit hard both economically and socially as a result of the ruling economic ideology.

We thus remain captive to an ill-conceived integration measure and can only hope that, in the wake of the negative economic and social consequences of austerity policy, it will gradually dawn on Europe that alternatives are not only imaginable, but feasible. Overcoming the euro-crisis calls for »more Europe«, but along the lines we have described, ranging from a Marshall Plan for Europe to a democratic economic government in the Eurozone.

Afterword to the English Translation

Klaus Busch

Since December 2011, when this paper was written, the following major developments have occurred (time of writing: April 2012):

- The ECB, under new president Draghi, has indirectly complied with calls to deploy the »bazooka« in order to quieten the markets for the time being. It has flooded the money markets by allowing the banks to borrow around 1 trillion euros at an interest rate of only 1 per cent for three years against deposited securities. By means of such gentle persuasion the ECB has invited banks from the heavily indebted countries to use these funds also to buy their countries' government bonds. This has evidently occurred because the interest rates for such bonds have fallen considerably over the past two months, thus calming Eurozone bond markets, at least in the short term. For the banks this operation represents extremely profitable business. The dark side is that flooding the markets with central bank money can lead to troublesome price bubbles on asset markets. This development may already be observed on stock markets.

- The debate on boosting ESM funds has not been concluded. It is generally recognised that the volume of 500 billion euros will not be enough if countries such as Spain and Italy have to be rescued in a crisis. It has been proposed in various quarters to solve the problem by pooling ESM funds and the remaining EFSF funds. This would make available a volume of around 750 billion euros. Germany's resistance to this course seems to have crumbled under strong international pressure. Whether this sum is enough to cope with a more substantial crisis, however, remains to be seen.

- Greece's debt haircut has largely been completed. Private investors' forgoing more than half of their claims has reduced Greece's debts by around 107 billion euros. However, since Greece has been granted another loan of 130 billion euros in order to implement this deal and to cover its budget gaps up to 2014 the country's debt ratio has changed little. Around 48 billion euros have been allotted simply to cover the write-offs of Greek banks and another 35 billion euros to EFSF guarantees for ECB liquidity assistance for Greece in order to offset the »selective default«. Adding-in Greece's budget financing needs means that the debt haircut is already used up. How the country's debt ratio – currently around 160 per cent – will develop depends above all on its rate of growth, interest rates and the balance of the primary budget. Since the senseless austerity programme will continue in 2012 Greece will experience a GDP fall for the fifth year in a row. Against this background the calculations of the Troika, which go up to 2020, cannot be relied upon. They envisage a debt ratio spread of between 116 per cent and 145 per cent. The paper refers to the Troika's numerous incorrect forecasts, especially with regard to Greece. Also incalculable are internal political developments in Greece. Since parties that reject the austerity programme are expected to do very well in the parliamentary elections at the end of April/beginning of May scenarios are imaginable in which Greece breaks with Troika policies.

- With regard to the further course of the crisis it is also extremely worrying that the recession expectations formulated in the text have not only been borne out, but surpassed. While as late as autumn 2011 the European Commission still assumed an EU growth rate of 0.6 per cent for the current year, in February this figure was reduced to zero. For the Eurozone, plus 0.5 per cent had still been expected in November, but the current expectation is a contraction of 0.3 per cent. The disastrous austerity policy which is ubiquitous in the EU is taking its toll. The unemployment rate in the EU is at the record high of 10 per cent, while in Spain and Greece youth unemployment is now over 50 per cent. Because of its economic slump in 2011 Spain failed to meet its deficit targets and also had to correct its targets for 2012 because the recession is more serious than expected. Although the government of Portugal vehemently disputes it we can assume that the country will be granted a second EFSF loan in response to another economic downturn in 2012.

In order to overcome the economic crisis and prevent another eruption of the euro-crisis it would be extremely important against this background, assuming Hollande is elected France's new president, that he make good on his promises to renegotiate the fiscal pact and implement a growth initiative for Europe. Furthermore, it is incumbent on the opposition parties in Germany also to make their assent to the fiscal pact in the Bundestag dependent on implementation of a growth pact in Europe.

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