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Hans-Matthöfer-Preis für Wirtschaftspublizistik

Award Ceremony for Prof Mark Blyth

Austerity – The History of a Dangerous Idea

Berlin, 23 February 2015

FRIEDRICH EBERT STIFTUNG

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Preface

Kurt Beck
Former Minister-President of the federal state of Rhineland-Palatinate,
Chairman of the Friedrich-Ebert-Stiftung

Economic theory and policy has, for quite some time, been dominated by the so-called economic mainstream, above all by the neoclassic school of thought. Other schools of economic thought and policy recommendations built on these, in contrast, have not received much attention, especially in Germany. However, since the outbreak of the global financial and economic crisis of 2007/2008 it has become obvious that the common theoretical economic models and many economic recipes built on them have reached their limits. The leading economists neither foresaw the financial and economic crisis coming, nor have their policy recommendations concerning a rapid and sustained end to the crisis, especially in Europe, proven to be successful. In connection with the many problems and challenges of our times – such as financial market stability, mass unemployment, rising income and wealth inequality, globalisation or climate change – the so-called economic mainstream, in the eyes of many observers, is not offering adequate answers and solutions.

Therefore, the Hans-und-Traute-Matthöfer-Stiftung within the Friedrich-Ebert-Stiftung has decided to support the economic policy debate, which especially in Germany is increasingly one-sided within research contexts, politics and the media, by awarding the Hans-Matthöfer-Preis für Wirtschaftspublizistik "Wirtschaft. Weiter.Denken.", with the aim to foster more plurality within economic publishing. Only through a greater

Kurt Beck, Chairman of the Friedrich-Ebert-Stiftung variety of theories, pluralism of methods and interdisciplinarity can an academic competition for the best and right economic ideas, models and policy recommendations be guaranteed. Thus, the Hans-Matthöfer-Preis für Wirtschaftspublizistik honours economists and sociologists who think beyond the economic standard theory or the macroeconomic mainstream and seek new answers to the great economic and socio-political challenges of our times.

Alongside promoting historic and contemporary research, the Hans-und-Traute-Matthöfer-Stiftung within the Friedrich-Ebert Stiftung focuses on the publication of books and texts on the fundamental problems for business and social politics, economic and social sciences, technological development and its impact on humanising the working world, and on society as a whole. Hence, the Hans-Matthöfer-Preis für Wirtschaftspublizistik "Wirtschaft.Weiter.Denken." with its 10,000-euro prize was brought to life in accordance with objectives of the foundation, which was founded by Hans Matthöfer (1925–2009) – a popular SPD politician and trade unionist, who served as minister in several federal governments between 1974 and 1982 – and his wife, Traute. I am very pleased that we can award this prize thanks to the financial commitment of the Hans-und-Traute-Matthöfer-Stiftung in this, as well as in the coming years.

For the nomination procedure in autumn last year, over 70 recommendations were sent to us – from books to blog posts, commentaries and newspaper articles, as well as articles in professional journals and online media. For this active participation, I would like to thank you in the name of the Hans-und-Traute-Matthöfer-Stiftung and the Friedrich-Ebert-Stiftung as well. The many great submissions and so much positive feedback over the last weeks show that we are on the right path with this award.

Of the proposals received, five authors made it onto the shortlist. These were:

– Thomas Piketty with his book "Das Kapital im 21. Jahrhundert", published by the C.H. Beck Publishers, Munich 2014;
– Ulrike Herrmann with her article "Linker als die Linken", published in the newspaper TAZ on 2.9.2014;
– Wolfgang Münchau with his column "Die Eurokrise ist zur chronischen Krankheit geworden", published by Spiegel Online on 18.8.2014;
– Marcel Fratzscher with his book "Die Deutschland-Illusion – Warum wir unsere Wirtschaft überschätzen und Europa brauchen", published by Carl Hanser Publishers, Munich 2014; and last but not least
– Mark Blyth with his book "Wie Europa sich kaputtspart – Die gescheiterte Idee der Austeritätspolitik", published by J.H.W. Dietz Publishers, Bonn 2014.

The members of the independent jury,

– Prof Dr Peter Bofinger of the University of Würzburg and Member of Germany's Council of Economic Experts for Overall Economic Development,
– Thomas Fricke, former Chief Economist of the Financial Times Germany, now Chief Economist of the Internet portal "NeueWirtschaftsWunder" and Chief Economist of the European Climate Foundation, as well as
– Dr Brigitte Preissl, Editor-in-Chief for the professional journals "Wirtschaftsdienst" and "Intereconomics"

determined the winner from the five finalists in an intensive evaluation round. Here, I would also like to thank them for their commitment and involvement.

Reaching a decision was not easy for the jury. In the end, however, one thing was clear: The Hans-Matthöfer-Preis für Wirtschaftspublizistik "Wirtschaft. Weiter.Denken." 2014 goes to the Scottish professor for international political economy at Brown University in the US, Mark Blyth, for his book: "Wie Europa sich kaputtspart – Die gescheiterte Idee der Austeritätspolitik", which was published in German by J.H.W. Dietz Publishers of Bonn in autumn of 2014.

I think that the jury has made a very good choice indeed. Professor Blyth's book is extremely up-todate by focusing on the problem of austerity politics especially in the light of of the ongoing Greek debt crisis as well as the eurozone's further economic and social development. The book brings important impetus to overcome the crisis in the eurozone, which has lasted for five years and the solution to which obviously requires other economic and social measures – in particular, more investment instead of more austerity.

I hope you gain-valuable insights from the speeches held at the award ceremony by Martin Schulz, President of the European Parliament, Prof Dr Peter Bofinger, Member of Germany's Council of Economic Experts for Overall Economic Development, and Prof Dr Mark Blyth, the prize winner, on 23 February 2015 at the Friedrich-Ebert-Stiftung in Berlin.

Award Speech

Martin Schulz
President of the European Parliament

Dear Professor Blyth,
Dear Kurt Beck,
Dear Professor Bofinger,
Dear Professor Panchami, ladies and gentlemen,

First, I would like to congratulate Professor Blyth. You have indeed earned the Hans Matthöfer Prize for your intelligent and trenchant analysis. Your book is a greatly welcomed contribution to the ongoing debate about the correct economic policies in Europe.

Professor Blyth shows – and for this I am very thankful – that high sovereign debt was not responsible for the economic turbulence of recent years; rather, it was the floundering banks being too big to fail and effectively forcing the states to stabilize them. Blyth speaks of a "veiled banking crisis". From our point of view, the Banking Union, that we have been intensively working on in the European Parliament, was not the sole response to this problem but one amongst many. Ailing banks should no longer be able to do what they

Martin Schulz, President of the European Parliament did in the financial crisis. They should never again be able to drag other financial institutions into the abyss, cause countries to suffer economic difficulties or hold taxpayers liable. The divergence of liability and risk was one of the most dramatic developments in recent years. Speculators reaped billions in profits and paid little or no taxes, but taxpayers had to answer for the losses. And that is why the Banking Union is a truly historic project; its significance can only be compared to the achievement of the EU's internal market.

But what must we do so that Europe can finally regain its strength?

In recent years, the belief that has determined European economic policy is that one must only cut government spending, thereby debt would decrease and growth and investors would come back automatically. Thus, in the eurozone, something like a major economic experiment was carried out. Unfortunately, it had to be paid for with the livelihood opportunities of so many people.

Despite drastic reductions in the structural deficit and cutbacks in spending, the national debt has risen nonetheless. In Greece, the debt is currently at 180 per cent of economic output – in 2010, it was still at 150 per cent. Portugal today: 130 per cent – 2010: 95 per cent. And Spain, which had a state budget surplus in 2008 – and was better off than Germany at the time – has a debt ratio of 100 per cent today. Why? Because Spain had to stabilize its savings banks.

But it is even worse that today, the crisis countries are stuck in a vicious circle. Private spending is down due to the financial crisis, therefore consumption is on the decline. Companies are producing and investing less because of poor future prospects. Levels of unemployment are on the rise. Government spending is increasing through social expenditures that have become necessary just at the moment that budgetary revenue is lower because of reduced tax revenues. This already pushes debt reduction out of reach. Debts are growing even further.

To put it simply: the debts are growing. The economy is shrinking.

If private consumption, corporate investment and public spending all drop at the same time, then you have something like the "Perfect Storm" – a recipe for a recession.

The European Parliament has warned for years, and across factional lines by the way, that there is too much emphasis on structural reforms and fiscal consolidation for the programme countries and too little is being done for jobs and growth. For instance, reforms in industry and administration have long been neglected, social indicators largely disregarded. The interaction between fiscal consolidation and a more restrictive wage policy allows public and private demand to continue to shrink. With fatal consequences. Especially for people – normal families, workers and employees, low-level staff and also small businesses and mid-sized companies.

Unemployment has exploded. Youth unemployment is dramatically high right now. And that, ladies and gentlemen, is one of our biggest, if not the very biggest challenge that we must confront. More than five million young people cannot find jobs. They are paying with their life opportunities for a crisis that they did not cause. We are running at risk that our children grow up as a lost generation.

And poverty is rising – 120 million are at risk of poverty in Europe. Healthcare is deteriorating. Pensions are dwindling.

Let's not fool ourselves: the wealthy do not need a strong state. The wealthy can pay for education, healthcare and security. It is the average citizens who need a strong state that protects them from crises in life.

If the state fails in view of this social colapse, if the people must continue to foot the bill for the financial crisis, then we really should not wonder when these people have less and less faith in the capacity and willingness of democratic institutions to act.

Ladies and gentlemen,

to say one thing quite clearly: I am in favour of sustainable public finances. But sustainable public finances are not ends in themselves, they are a matter of generational fairness. We cannot leave our children a mountain of debt. Experience tells us that an overly high debt ratio entails negative consequences. Because refinancing debt hampers growth, above all the investment activities of the state, and strains the economy. But I doubt that saving alone is the right way to reduce public debt.

Without economic growth, it is almost impossible for a state to reduce its debt. The reverse argument holds that only economic growth can create new jobs and increase demand. This leads to state revenues increasing again and debt reduction becomes possible.

The dramatic days of the euro crisis are, thank God – or thank Mario Draghi, now behind us.

But for there to be solid economic growth in Europe again, we need another economic policy. In his now famous speech in Jackson Hole, Mario Draghi also warned that monetary policy alone does not lead to the desired result, if it is not accompanied by the right fiscal policy. He calls for ". . . ensur(ing) . . . a large public investment programme".

Why do we need such an investment programme? The economist Wolfgang Münchau has answered that. He diagnosed the eurozone with an "aggregate demand problem" and concludes: "The most powerful weapon to solve a problem of demand is a demand impetus that is organised by the state."

Our answer to that is the investment plan that the president of the EU Commission, Mr Juncker, presented in the European Parliament on November 26th of last year. The investment plan proves our determination to bring Europe out of the crisis and is a strong signal that we want to take a new path for Europe to growth and job creation. For the investment plan to work as a stimulus injection, it must be accompanied by reforms at the national level as well.

The investment plan is also important, because the current level of investment remains worryingly low, even here in the Federal Republic of Germany. Europe lags behind the United States and China. Today they are outpacing us in investment and tomorrow they will surpass us in competition. That's the outlook.

If we want Europe to be a world leader in the future as well, we need to lay the groundwork for it today with the right investments. With investments in schools and universities. Because our children being qualified is one of the decisive factors in the intercontinental competition that we face. With investments in solar and wind power to satisfy the energy requirements of our homes and businesses; in fuel-saving cars and affordable solar cells, robot technology and fibre optics, developed and manufactured in Europe, as well as in our infrastructure, power grids and broadband systems, rails and roads linking us more closely to one another. There are plenty of areas that can be invested in and where jobs can be created.

And if you allow me to add something at this juncture: especially in the field of energy efficiency and renewable energy, a new market is opening up not only in Germany but in Europe as a whole. Through investments in wind and solar energy in Greece and the establishment of the necessary transport networks, Greece could become one of the largest future suppliers of renewable energy in Europe.

What we Europeans must finally stop is the eternal disparaging of our own economic potential. What investor goes into a region that constantly disparages itself, as we Europeans do? By disparaging ourselves we will not overcome this crisis.

Investing means building bridges towards a successful future. Investing does not automatically mean accumulating debt, however. Investing means first of all: to use the money one has to the greatest potential future benefits.

There would be plenty of money if we could disconnect ourselves from our one-sided fixation on the expenditure side and worry more about improving the state's revenue side. Some call for raising taxes to do so. But I say we should actually collect all of the taxes that are due first.

Due to tax fraud, tax evasion and tax avoidance, European governments lose revenue of 1000 billion euros every year! 1 trillion euros – what one could do with that money! If all the taxes were collected, public debt in Europe could be settled within a decade.

When the largest and most successful businesses do not pay taxes that is not only poison to tax compliance amongst citizens, it's a scandal. How does one explain to parents who scrimp and save to support their children that they should pay their taxes honestly while international corporations pay less than one per cent in taxes? It is inexplicable.

And if some countries practise corporate tax dumping, that is poison for solidarity in Europe.

Therefore, yes, there is some progress, such as the Savings Directive. But that is all moving too slowly. The European Parliament has tabled a number of sound proposals to effectively combat tax fraud, tax evasion and tax avoidance. Only, I must tell you, the heads of state in the European Union could implement this more quickly in the European Council. I wonder how it is possible that we mobilise hundreds of billions overnight to bail out banks, but we take years to adopt the financial transaction tax in Europe. We need to win the fight against tax fraud and tax evasion. This is a fundamental question of fairness in our society, which is not only central to the necessary debate, but is key to our model of democracy's ability to survive.

Ladies and gentlemen,

in closing, I would like to touch upon a point that is dear to my heart. I have experienced how the centrifugal forces of the crisis in Europe have driven us apart in recent years – instead of it binding us closer together. Everyone sees themselves as victims. National egos have grown. And mistrust of one's neighbours too.

It has crept in a self-righteous tone where economic issues are moralised: debt seen above all as guilt, inefficiency and laziness are thoughtlessly brought up, others lectured above all else.

We are paying a high political price for it. But also a high economic price. Because this national perspective obscures the view that Europe is not just a zero-sum game, where one must lose so the other can win.

Europe is a positive-sum game in which we either all lose or all win. And this is true for no other country more than it is for Germany. When Germany is doing well economically, it is important for stability in Europe. But the reverse is also true: If an economic upturn in Europe doesn't work, then Germany suffers in the long run.

Therefore, debates which come down to finding a scapegoat, defending national endowments and diminishing our responsibility for Europe just hurt us in the end. Instead, we should work together to ensure that we are able to revive the economy in Europe. The investment pact can contribute to this.

We have many opportunities in Europe. We also have to take these opportunities.

Ladies and gentlemen,

if Europe is on the path of saving itself to ruin, according to this event's provocative motto, a phrase that has perhaps been thrown out there, it will have serious consequences for Europe. Because it means that our European societal model is thus facing long-lasting harm. A societal model whose foundation is to take the dignity of every person as the measure for societal and political action. If Prof Blyth's wake-up call leads us back to the focal point of our actions, not capital interests but rather the dignity of people, then we are on the right path.

Thank you for your attention.

Laudation

Peter Bofinger
Professor for Economics at the University of Würzburg and
Member of the German Council of Economic Experts

I'm very glad to have been granted the honour of praising Mark Blyth's book here today. At first glance, the jury's task surely appeared to be quite difficult. The crises of recent years have led to a number of outstanding books on the economy. The most prominent is without a doubt "Capital in the 21st Century" by Thomas Piketty.

But at second glance, choosing Mark Blyth was indeed quite clear. The theme he chose, austerity, is of fundamental importance for the future of the European Monetary Union and thus for all of Europe. His comprehensive theoretical considerations and keen empirical analyses demonstrate the serious errors that have been committed in the economic policy of the past years in the name of austerity. It becomes clear which deep ideological roots feed the austerity dogma that is so dominant today. The book is extremely well written and very interesting to read because of its refreshing clarity. The book has the courage, as Mark Blyth himself says, to call the nonsense by its name.

Mark Blyth's book should be obligatory reading for European policymakers and, of course, especially members of the German Government – because the call to austerity is still high on the economic agenda of the Eurozone. And, it is still high on the list of erroneous articles of faith adhered to in Berlin that fiscal austerity measures should somehow make sense and bring us closer to our goals no matter what the economic situation really is – saying "when in doubt, saving more is better than saving less." True to the blunt proclamation: more is better.

Peter Bofinger, jury member

Greece's current situation offers us a very concrete example for talking about the relevance of austerity. The country has clearly fallen victim to an overdose of austerity. Right from the beginning, the troika completely underestimated the negative effects their therapy would have on growth. And the IMF in the meantime has quite openly admitted it. But that didn't stop the troika from putting together yet another completely unrealistic programme for Greece in June of 2014. The programme called for the country to target further savings over the next years, ramping up their cuts from the primary balance of 1.5 per cent in 2014 to 3 per cent this year and 4.5 per cent next year. Can anyone seriously believe that such a policy could lead to a rise in real growth rates from 0.6 per cent in 2014 to 3.7 per cent in 2016, as presented by the troika in their programme? There is no question that the new Greek government's approach was misguided, but there is also no question that a fundamental readjustment to the troika's programme is unavoidable.

Austerity, however, is not only central in the case of Greece. It still has a great impact on the whole monetary union's larger growth strategy. But is it really reasonable for all these countries to commit to structural reforms aimed mainly at wage reduction at the same time? And can the Eurozone really recover if the national fiscal policies all aim first and foremost to save further and balance their budgets? Is austerity then the right strategy to minimise unemployment, which is still alarmingly high throughout the Eurozone? And all of that in a reasonable amount of time?

For these fundamental questions, we can look to Mark Blyth for important insights. He makes his point thusly:

"In sum, austerity is a dangerous idea for three reasons: it doesn't work in practice; it relies on the poor paying for the mistakes of the rich; and it rests upon the absence of a rather large fallacy of composition..."

Let me go through the details a little more closely.

Every therapy first requires an appropriate diagnosis. While here in Berlin, especially, the discussion continues to revolve around the sovereign debt crisis, Mark Blyth convincingly shows that the euro crisis in its essence is not a crisis of the state but a crisis of the market. The majority of the problems result from unbridled private borrowing and grossly inadequate credit checks performed by the banking system. Of course, the state also misbehaved. But it must be clearly stated: Greece is the exception, not the rule here.

The crisis only became a problem for national states because they saw themselves compelled to vouch for

From left to right: Jury members Brigitte Preissl and Peter Bofinger, Kurt Beck, Chairman of the Friedrich-Ebert-Stiftung, and Mark Blyth, 2014 award winner the mistakes of the financial markets and to come up with huge loans and guarantees to stabilise the banks.

Hence, the large government deficits and rising debt from 2008 to 2010 did not cause the problem; rather, it was a necessary response and a therapy for the misconduct of market participants.

Attempting to cling to the goal of a balanced budget in such a situation can only end in a disaster. That is what Mark Blyth invokes with the fallacy of composition, aka part-to-whole thinking: we cannot each find our way to growth when all of us save at the same time. The most telling example for this is the policy of Reich Chancellor Heinrich Brüning from 1930 to 1932. He put into action – with consent of the Social Democrats by the way – a rigorous austerity policy. And indeed he succeeded in keeping the deficit at zero, but the economic and political damage sown-by this policy was immense.

In autumn of 2008, the international community did react with the right therapy, at first. Mark Blyth points out that all the actors were Keynesians for twelve months. And thus the world economic slump was overcome surprisingly quickly.

But then the hour of austerity struck. Not in the United States or Japan, where deficits continued to grow, but then all the more in Europe. The philosophy of "growth-friendly consolidation" was propagated by German politicians above all, but also by the ECB. As Mark Blyth works out impressively, the whole programme has the goal of nothing more and nothing less than squeezing the welfare state.

Of course, for this therapy of "smaller government" one needs to have a diagnosis of state failure, thus it is called a crisis of sovereign debt. If one were to see this crisis for what it is however – a market crisis – any such therapy prescribes simply that the poor pay for the misconduct of the rich. The perversion of this line of thought becomes very clear when we see those from the "growth-friendly consolidation" camp touting the disciplinary effects of the market. In this case, however, market discipline boils down to saving the market from its own massive mistakes by swelling state deficits and then placing the market above the rescuing governments as their judge and jury.

What twisted logic leads one to such confused thinking? For such incredible dominance of market ideology to reign at a time right after the markets have so utterly failed can only be the result of a deep ideological foundation.

Mark Blyth takes the reader through the various theo-

From left to right: Jury members Peter Bofinger and Brigitte Preissl, Mark Blyth, 2014 award winner, Kurt Beck, Chairman of the Friedrich-Ebert-Stiftung, and Andrä Gärber, Director of the Division of Economic and Social Policy of the Friedrich-Ebert-Stiftung retical and ideological wellsprings of austerity policy. It lies in the liberalism of John Locke and David Hume, who tried to protect the individual from the unpredictable governments of the 17th and 18th centuries and thus were appropriately critical of the state. As Hume succinctly put it:

"It would scarcely be more imprudent to give a prodigal son a credit in every banker's shop in London, than to empower a statesman to draw bills, in this manner, upon posterity." (on government debt)

Adam Smith also views national debt quite sceptically. For him it corrupts those who save, puts merchants on the wrong path and ruins common prosperity on the whole (Blyth p. 157). Smith also brings an idea into play for the first time that has considerable weight in today's discussion of national debt: it is regarded as simply immoral.

In his search for clues, Mark Blyth then leads the reader to the so-called Austrian school of economics, to the well-known economists Ludwig van Mises and Joseph Schumpeter. The major characteristic of their thinking is an unlimited trust in the market. This thinking goes so far as to perceive crises as inevitable. Schumpeter speaks of the "process of creative destruction". For him, government intervention in the form of national debt would be downright counterproductive. The belief that crises are inevitable has played a central role in the political discourse surrounding the euro crises, at least in Germany.

That this austerity ideology could come to such dominance specifically in Germany is something Mark Blyth traces back to the nation's economy being anchored in the categories of public policy put forth by Walter Eucken. These do not view the state negatively per se, but that its function should be limited to defining the rules of the game and to monitoring. Actively intervening in the market's game, whether with a minimum wage, promoting renewable energy or with debt-financed investment, is viewed exceedingly critically in this tradition of thought. For more on that, just read the annual report of Germany's Council of Economic Experts.

One of the big surprises in the book is the strong influence that Italian economists have had on austerity in Europe. Economists like Alberto Alesina and Roberto Perotti have made a substantial contribution with their empirical studies that austerity became fashionable in Europe earlier this decade.

The appeal of their analysis is easy to understand. Do they claim that austerity could be tied to negative effects on growth and employment as to be expected? No, they claim the opposite, that it fosters business dynamics. No wonder then that these theories were so eagerly adopted by European economic policymakers. That's why Wolfgang Schäuble touted an "expansive fiscal consolidation" in a Financial Times piece. And Jean Claude Trichet noted in 2010:

"It is an error to think that fiscal austerity is a threat to growth and job creation. At present, a major problem is the lack of confidence on the part of households, firms, savers and investors who feel that fiscal policies are not sound and sustainable."

But as Mark Blyth shows, the analyses of Alesina and his cohorts are highly questionable. Their exemplary cases of Denmark and Ireland are hardly persuasive, but that does not stop policymakers from clinging to the therapy prescribed by the Bocconi Boys:

"Three ingredients seem to be important for a successful sustainable expansionary budgetary consolidation. They are to combine cuts in transfers, welfare programmes and government spending on wages with wage moderation and a devaluation immediately before the fiscal tightening." Raising taxes in a recession would only make things worse.

The wondrous mechanism by which the economic laws of gravity are overcome are purportedly the expectations of private persons. Thus, the spending cuts become a continuous increase in their disposable income, which supposedly motivates them to spend more in the present.

Mark Blyth shows however that Alesina and co.'s findings have been disproved in several studies, particularly in ones carried out by the staff of the IMF.

The greatest empirical counter evidence for "expansive consolidation" is Greece. There, spending on transfers and civil servants has been more deeply cut than in any other country to date. Instead of positive expectancy effects, however, the country has been driven into deep despair.

Just the opposite happened in Spain, which is widely celebrated as an example of successful reform. The Spaniards kept domestic spending more or less constant and thus have a much greater deficit than Greece.

The crisis in Greece shows what happens in the wake of totally excessive austerity. The economic and political damage is immense.

We can only hope that reading Mark Blyth's fascinating book will alert as many people as possible to the dangers of following austerity policies based wholly on ideology. Every student of economics should read it before he or she is let loose on entire economies.

Acceptance Speech

Mark Blyth
Eastman Professor of Political Economy, Watson Institute for International Studies, Brown University in Providence, Rhode Island, USA

It is both an honor and an irony to stand here today and receive the Hans-Matthöfer-Preis für Wirtschaftspublizistik 2014.

The honor is to be recognized at all, given the competition. To name but a few of my fellow contenders, Thomas Piketty may be my favorite economist and Wolfgang Munchau may be my favorite journalist, so to be recognized amongst them is an honor.

But it is also somewhat ironic to be so recognized in the one country that seems, at least at the elite level, utterly impervious to the message of the book that you are recognizing this evening.

Austerity as economic policy simply doesn't work. In the cases where it looked like it worked, something else was really doing the work, usually the devaluation of a sovereign currency at the same time as the expansion of a much larger trading partner gave exports a short term boost. Budgets were cut as exports expanded, but it wasn't the cuts that mattered, it was the expansion.

But I have stood here before and spoken about Austerity, so let's take the few minutes we have here today to look forward rather than backwards.

All eyes are on Greece and the possibility of default or 'Grexit.' Indeed it's an impossible position for all sides. The Greeks cannot pay back what they owe given that the policies enacted to help them grow have resulted in the collapse of nearly a third of their economy. The young and the talented have left, leaving pensioners and the public sector behind.

But to recognize that fact and accommodate opens up issues in debtor countries such as Ireland and Portugal and Spain that creditor countries such as Germany do not want to deal with. So how do we move forward, and what is the role of a social democratic party in shaping this path?

Mark Blyth, 2014 award winner

Two issues stand out for me:

The first is what I refer to in Austerity as 'the false promise of structural reform.'

There can be no doubt that the debtor countries of Europe need major reforms in taxation systems, labor markets, business regulation, and a host of other areas. But…

a) When we say 'structural reform' we really have no idea what those words mean, and we just fall back on them as a back-handed acknowledgment that austerity has failed…or...

b) We misunderstand what we did, and thereby miss that it is impossible for anyone else to do do what we did.

Let me explain…

'Structural reform' used to be called 'structural adjustment.' And European lefties, like us, used to condemn it as absurd, ridiculous, neo-liberalism gone mad… and yet we seem quite happy to unleash these policies, despite the damage that they have done in the developing world, upon our European partners.

When you ask for content, it seems to be a checklist of lower taxes, deregulate everything is in sight, privatize anything not nailed down, and hope for the best.

But is this not disturbingly American if not Thatcherite? Indeed, isn't this everything that the SPD is supposed to be against, and much of which the German public would never put up with?

European reforms take the more subtle cover of simply asking everyone to become 'more competitive' – and who could be against that?

Until one remembers that being competitive against each other's main trading partners in the same currency union generates a 'moving average' problem of continental proportions.

It is statistically absurd to all become "more" competitive. It's like everyone trying to be "above average." It sounds like a good idea until think about the height of your children. But by definition, someone has to be the short one.

But something has to be done, and we are often told that Germany was the 'sick man' of Europe, she took the 'bitter medicine' of the Hartz reforms and became more competitive. Because of this when the crisis hit Germany survived and came back stronger. The conclusion – the rest of Europe needs to embrace 'structural reform' – quickly follows.

This is a popular story, but it's quite wrong, and its application to other countries rests upon a rather obvious misreading of recent German history.

Christian Dustmann of the LSE and his colleagues have examined this question in depth and concluded that what really made the German economy more competitive were three interrelated phenomena that happened a decade before Hartz.*

First, Reunification. Having ten million extra workers suddenly enter the labor market puts massive downward pressure on wages that begins to show up around 1994.

Second, moving parts suppliers for the German Auto complex out to the former eastern bloc countries makes the inputs for exports even more competitive. This starts around the same time.

Third, German unions, at the same time, realize that globalization starts east of the Elbe and simply stop asking for wage increases.

The combined result is a squeeze on wages that lasts for nearly 20 years that is masked by the transfers of the welfare system. This is where competitiveness comes from.

What Hartz does, a decade later, is to remove young single people from the welfare rolls and places them in mini jobs. The result of this is an expansion of the sheltered service sector, and of chronic low pay, that has to be addressed by the introduction of a minimum wage.

Indeed, almost all the jobs created by Hartz are low productivity, sheltered sector jobs. The export sector, the 'competitive part' of the economy, depends upon demand generated elsewhere in the world, and it continues to shed, not add jobs, as capital substitutes for labor in high skilled production.

If Dustmann et al are correct, and I think that they are, then the ability to transfer these lessons to other countries is zero.

No one else has an East Germany waiting around the corner to push down labor costs, and even if everyone did, all that would do is reduce consumption in the aggregate, thereby impoverishing everyone.

* Dustmann, Christian; Fitzenberger, Bernd; Schönberg, Uta; Spitz-Oener, Alexandra 2014: From Sick Man of Europe to Economic Superstar: Germany's Resurgent Economy, in: Journal of Economic Literature, 28 (1), S. 167-188.

The take home lesson is perhaps then that Germany is only Germany because everyone else is "not Germany." To try and make everyone a bit more like Germany can only mean the expansion of a poorly-paid service sector and the introduction of a minimum wage to compensate.

I do not think that's what structural reform advocates recommend, but it's where we may end up.

My second point returns us to the notion that we have grown quite comfortable talking about 'creditor nations' and 'debtor nations,' rather than 'European nations,' as if being a debtor or a creditor is a national characteristic.

Indeed, one of the most poisonous aspects of Austerity is the discourse it produces that reduces complex formations of class and institutions to essentials of race and identity.

But look beyond this, and there is a bigger issue for left parties to deal with, one that they unfortunately helped to create.

Back in the 1970s, a period that now seems quite benign, corporate profits were very low, labor's share of income was very high, and inflation was rising. We were told that this was unsustainable and new institutions were constructed to make sure that this particular mix of outcomes would never happen again.

In this regard we were singularly successful. Today, corporate profits have never been higher, labor's share of national income has almost never been lower, and inflation has given way to deflation. So are we happier for this change?

What we have done over the past 30 years is to build a creditor's paradise of positive real interest rates, low inflation, open markets, beaten down unions, and a retreating state – all policed by unelected economic officials in central banks that have only one target - to keep such a creditor's paradise going.

In such a world, why would you ever get a pay rise? Indeed, is it any wonder that inequality is everywhere an issue?

In Europe this plays out at the national level, and at the international level of creditor countries (good) and debtor countries (bad), where the rights of the creditors must be protected and the mantra that 'you must pay your debts' must be respected.

Yet even in terms of simple welfare economics, this is nonsense. If the cost of squeezing the debtor is to keep them in debt servitude, or if the losses to the creditors are less than the costs of servicing the debt in perpetuity, then default is efficient, if not moral.

Today it is a profound irony that European social democrats worry deeply, as they should, about the investor protection clauses embedded in the proposed Transatlantic Investment Treaty with the US, and yet they demand enforcement of exactly the same creditor protections on their fellow Europeans without pausing for breath.

Something has gone badly wrong when social democracy thinks this is OK. It is not. Because it begs the fundamental question, "what are you for - if you are for this?"

The German Social Democrats, the heirs of Rosa Luxemburg, today stand as the joint enforcers of a creditor's paradise. Is that who you really want to be?

Modern European history has turned many times on the choices of the SPD. This is one of those moments.

Its great that my book has helped remind you of this. But the point is to recover your voice, not just your historical memory. Your vote share isn't going down because you are not shadowing the CDU enough. Its going down because if all you do is that, why should anyone vote for you at all?

I hope that reading my book reminds the SPD of one thing; that the reason they exist is to do more than simply to enforce a creditor's paradise in Europe. I thank you for this award, and I hope that this book encourages us all to think again about the economy we want to build for ourselves, our children, and our fellow Europeans.

Award Ceremony Programme – 23 February 2015

Presentation of the Hans-Matthöfer-Preis für Wirtschaftspublizistik "Wirtschaft.Weiter.Denken." 2014 to Prof Mark Blyth, Friedrich-Ebert-Stiftung, Berlin

Austerity – The History of a Dangerous Idea

18:30	Musical Prelude clair-obscur Saxophone Quartet
18:35	Welcome Address **Kurt Beck**, former Minister-President, Chairman of the Friedrich-Ebert-Stiftung
18:40	Award Speech **Martin Schulz**, President of the European Parliament
18:55	Laudation **Prof Dr Peter Bofinger**, University of Würzburg, Member of the German Council of Economic Experts, Juror of the Hans-Matthöfer-Preis für Wirtschaftspublizistik "Wirtschaft.Weiter.Denken"
	Presentation of the Hans-Matthöfer-Preis für Wirtschaftspublizistik "Wirtschaft.Weiter.Denken." 2014 to Prof Mark Blyth
19:15	Speech of the 2014 award winner **Prof Mark Blyth**, Eastman Professor of Political Economy, Watson Institute for International Studies, Brown University in Providence, Rhode Island, USA
19:25	Musical Postlude clair-obscur Saxophone Quartet
19:30	Closing

Musical Interludes clair-obscur Saxophone Quartet –
Jan Schulte-Bunert, Maike Krullmann, Christoph Enzel, Kathi Wagner