

Eurozone crisis is self-inflicted

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The populations now suffering under EU-imposed austerity must have a real and credible threat of leaving the euro.

The [current turmoil in financial markets around the world](#) is another illustration of the damage that can be done by a bloated and politically powerful financial sector, combined with finance ministers and central bankers who identify with this sector and have their own rightwing policy agenda.

Welcome to Europe, which has become the epicentre of the new global "[financial crisis](#)".

On Tuesday, the focus of Europe's troubles [shifted somewhat from Greece to Spain](#).

At first glance it's not obvious that there should be a crisis in Europe at all. Even if Greece were to default on its debt – and this would most likely be a rescheduling or a restructuring rather than a large-scale cancellation of the bulk of Greece's debt – this would involve a relatively small amount of money compared to the resources that the EU has available to bail out any affected banks. And Spain's debt is much smaller, relative to its economy, than that of Greece: it's about 60% of GDP, well below the EU average of 80%.

But "the markets" have decided that Spain is next in line for attack, and so the price of credit default swaps – a type of insurance – on their debt shot up today. If this sentiment grows, Spain's interest rates will continue to rise, and then their debt burden really could become unsustainable.

To make it worse, "the markets" can't seem to decide what they want from these governments in order to love them again. Two weeks ago the [euro](#) was plummeting because the financial markets wanted more blood: they wanted Greece, Spain, Portugal, and the other currently victimised countries of Europe (Italy and Ireland) to commit to more spending cuts and tax increases. Then they got what they wanted, and within a day or two, the euro started crashing again because "the markets" discovered that these pro-cyclical policies would actually make things worse in the countries that adopted them, and reduce growth in the whole eurozone.

Unfortunately the European authorities – especially the European Central Bank – are even worse than the markets. They are less ambivalent and more committed to punishing the weaker economies by having them cut spending even if it causes or deepens recession and mass unemployment (over 20% in Spain).

It will be recalled that the turmoil in financial markets took a big turn for the worse on 6 May when the European Central Bank announced that it was not going to engage in "quantitative easing" – creating money – in order to help ease the crisis. They reversed their decision, but only partially. And the agreement reached for the so-called "trillion dollar bailout" requires that any country borrowing the funds must agree to more austerity. This means that if a country like Spain does run into trouble due to increased borrowing costs, tapping the "bailout" funds will force them to accelerate a downward economic spiral. And where is the inflation that the ECB is worried about? The eurozone is projected by the IMF to have 1% inflation for this year and 1.5% next year.

Imagine how much worse the [United States](#) economy would be today if, instead of responding to our recession with fiscal stimulus, near-zero interest rates and a doubling of the Fed's balance sheet, we had opted for budget cuts and tax increases. That is what the European authorities are advocating for the weaker eurozone economies.

The [Greek population](#) refuses to accept these conditions, and understandably so. The upper classes in Greece don't pay their taxes, and now the majority are being forced to pay the price for their cheating – a price greatly magnified by the irrational, pro-cyclical nature of the adjustment. Unrest is growing in Spain as well, with the largest unions [talking about a general strike](#). There is a class dimension to all of this, with the EU authorities and the bankers united in wanting to balance the books on the backs of the workers – and adopt "labour market reforms" that will weaken labour and redistribute income upward for generations to come. The EU authorities and financiers believe that [real wages must fall quite sharply](#) in these countries in order to make them internationally competitive – but the protesters are responding with a fiscal version of "No justice, no peace".

They might add: "No justice, no euro." From the beginning there have been serious economic questions about the viability and the desirability of the common currency – most importantly whether such a currency union was feasible among countries with greatly different productivity levels, no common fiscal policy, and a Central Bank committed only to maintaining very low inflation (without regard to employment). The populations now suffering under EU-imposed austerity must have a real and credible threat to get out – or they will end up with [indefinite sacrifice](#) for the reward of lower living standards.

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