THE LEGACY OF AUSTERITY: THE EUROZONE CRISIS AND THE REVIVAL OF THE WASHINGTON CONSENSUS

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Since the 1990s, scholars have debated the efficacy of the policies set out in the Washington Consensus; however, their views contrast greatly. According to the interpretation given by Stiglitz (2002), such policies consist of three pillars: fiscal austerity, privatization, and liberalization.[2] *With the current European crisis, the term was again thrust upon the stage, but now with a new name highlighting the nationality of its key endorser: The Berlin-Frankfurt Consensus. Nowadays, many of the policies the Consensus encapsulates - especially fiscal austerity – top the agendas of most European institutions. Nevertheless, can we actually talk of a European revival of the Washington Consensus? If this be the case, do European citizens need to worry about the future of the European Union (EU)? This essay is an attempt to answer these questions. The essay develops in three parts. The first part introduces the Washington Consensus policies of the 1980s-1990s and considers the current meaning of the Consensus, including proof of the overlaps between the original policies and the policies of today's European Consensus. The second part explains the details of the Stability and Growth Pact, which is the main evidence of the revival of the Washington Consensus in Europe. The third part deals with the political debate about fiscal austerity in Europe, and it attempts to explain why Europeans should be concerned about such policies, and the consequent future of the European Union.*

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2 Joseph Stiglitz, Globalization and its Discontents (New York: W.W. Norton & Company, 2002).

It is now widely accepted that the policies of the original Washington Consensus, more often than not, failed to achieve the expected objectives. Many commentators assert that the Washington Consensus is dead. This includes former president of the World Bank, James Wolfensohn, former British Premier Gordon Brown, and former IMF chief, Dominique Strauss-Kahn.[3] With Europe's current crisis, the term has again came to vanguard, but with a new name: The Berlin-Frankfurt Consensus.

In the last few years, in fact, the media has widely reported disputes regarding austerity reform in Europe. One of the most striking stories is related to the Netherlands. On April 21, 2012, the Dutch far-right politician, Geert Wilders, walked away from a budget cut meeting. He explained that such a cut was not in the interest of the Netherlands. This led to the collapse of the Dutch government, which then resigned.[4] Unwillingness to meet the deficit and debt limits imposed by the Stability and Growth Pact (SGP), were the reasons behind the collapse of the Dutch government. European countries are resisting fiscal constraints (i.e. austerity) because it appears that the new Berlin-Frankfurt Consensus is built on the same foundations as the well-known Washington Consensus, and, like its predecessor, is deepening the current crisis. Yet, can we actually talk of a European revival of the Washington Consensus? If this be the case, do European citizens need to worry about the future of the European Union (EU)? This essay is an attempt to answer these real concerns.

The essay develops in three parts. The first part introduces the Washington Consensus policies of the 1980s-1990s, while considering the consensus' current meaning, and giving proof of the link between its policies and those of the current European Consensus. The second part gives details of the SGP, which is the main expression of the policies of the Washington Consensus in Europe. The third part deals with the political debate over the feasibility of fiscal austerity in Europe. It attempts to explain why Europeans

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3 See James D. Wolfensohn, "Opening Remarks at the Shanghai Conference on Scaling Up Poverty Reduction" (speech, Shanghai, May 26, 2004), World Bank. Jonathan Weisman and Alistair Macdonald, "Obama, Brown Strike Similar Notes on Economy," *The Wall Street Journal*, April 3, 2009, http://online.wsj.com/articles/SB123871661163384723, (accessed August 21, 2014). Dominique Strauss-Kahn, "Economic Policy Challenges in the Post-Crisis Period" (speech, Cambridge, UK, April 10, 2010), http://www.imf.org/external/np/speeches/2010/041010.htm (accessed August 29, 2014).

4 Matt Steinglass, "Dutch government falls after budget talks," *Financial Times*, April 22, 2012, http://www.ft.com/intl/cms/s/0/889f4108-8c2e-11e1-9a1c-00144feab49a.html#axzz3E25P7Dt0 (accessed February 28, 2014).

do need to worry about such a policy, and investigates consequences for the EU's future.

From the Washington Consensus to the Berlin-Frankfurt Consensus

The Washington Consensus has been known as a set of development policies enshrined by the International Monetary Fund (IMF), the World Bank, and the US Government. The term was coined by John Williamson in 1989 during a conference on Latin America.[5] The Consensus policies mandated minimal state intervention and supported private sector development. Central banks were to discipline the state, promoting austerity in order to establish a balanced budget.[6] The central banks in this sense would be independent from any other body, and this is how the European Central Bank (ECB) appears today. Therefore, growth would rise via the private sector as tough fiscal discipline would have prevented governments from deciding freely regarding fiscal expansion.

In Latin American countries the consensus proved widely ineffective: limited growth, high unemployment, and rampant scandals peppered the private sector.[7] This eventually led to the consensus' rejection. In 2005, the World Bank published a book in which orthodox economists analyzed at which point the Washington Consensus shifted from its original 1989 meaning. In the foreword, the former World Bank vice-president for Africa, Gobind Nankani, said "the central message of the volume is that there is no unique universal set of rules…we need to get away from formulae and the search for elusive "best practices," and rely on deeper economic analysis to identify the binding constraints on growth. The choice of specific policy and institutional reforms should flow from these growth diagnostics."[8] The book emphasizes the need for humility, policy diversity, and experimentation, while recognizing that the principles of macroeconomic stability, domestic liber-

5 John Williamson, "What Washington Means by Policy Reform," in *Latin American Adjustment: How Much Has Happened?*, ed. John Williamson (Washington, DC: Institute for International Economics, 1990), 7-20.

6 John Williamson, "The strange history of the Washington consensus," *Journal of Post Keynesian Economics* 27, no. 2 (2004): 195-206.

7 Mark Weisbrot, "Left Hook," *Foreign Affairs*, July/August 2006, http://www.foreignaffairs.com/articles/61742/mark-weisbrot/left-hook (accessed August 24, 2014). Milford Bateman et al., "A post-Washington consensus approach to local economic development in Latin America? An example from Medellin, Colombia," *Overseas Development Institute*, April 2011, http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7054.pdf (accessed August 24, 2014).

8 World Bank, *Economic Growth in the 1990s: Learning from a Decade of Reform* (Washington, D.C.: World Bank, 2005), xiii.

alization, and openness have been wrongly interpreted narrowly to mean fiscal discipline, minimal inflation, tariff restriction, maximum privatization, and maximization of the liberalization of finances. The general question has been if more of the suggested changes had occurred in any one country, would the final outcome have been better? Notwithstanding this assertion is the belief that the principles can actually be implemented in different ways. For example, macroeconomic stability does not always involve fiscal discipline which very often leads to reduced long-run growth and consequent decreased tax revenue. This can also generate a higher fiscal deficit in depressed countries.[9] The publication admitted the failure of a one size fits all approach, and was the first step towards a new consensus which takes into consideration cross-country differences.

Nevertheless, in the 1980s and 1990s, European integration already acclimatized the EU nations to the dismantlement of the state's presence in the country's economic affairs. The three pillars of the Washington Consensus, and above all the idea of minimal state intervention, were all considered as "must-dos" in order to establish a supranational framework in the EU to limit the role of the nation-states. The main objective was to spur integration. Therefore, European policy makers in the 1990s embraced the orthodox pillars of the Washington Consensus, confident that they would have enhanced the integration process. Hence, policy makers inserted them into several European Treaties. Starting with the 1993 Maastricht Treaty (Euro Convergence Criteria), and the 1999 Amsterdam Treaty, with their well-known SGP, both drastically limited the fiscal expansion of European states. From this moment, the Washington Consensus entered the life of Europeans, albeit assuming a new "name," the "Berlin-Frankfurt Consensus."

The European Consensus is, in fact, a shared consensus: with both Berlin and Frankfurt at the center. The Frankfurt-based ECB is not just demanding austerity, but also structural reforms across all deficit peripheries. By the same token, the Berlin Consensus is dictating rules and conditions to the deficit countries, actions which clearly illustrate that Europe has failed to learn anything from the mistakes of the Washington Consensus. The European integration project is currently at a standstill as a consequence of the financial crisis spreading throughout Europe, the lack of a federal government to face fiscal problems, and the limits on fiscal expansion of member states.

9 Ibid., 11-12.

Until recently, Germany, France, and the Netherlands have led the European Consensus, but it has also shown its weaknesses with the last presidential election in France and the fall of the Dutch government. In particular, the outcome of the 2012 French presidential elections revealed the willingness of the people to abandon the consensus and its prescriptions of fiscal austerity.[10] The electorate decided in favor of the socialist François Hollande because he promoted a plan of growth rather than austerity. However, France and the Netherlands are not new resistors to the European Consensus. In 2005, they both rejected the European Constitutional Treaty. Today, they provide a reason of alarm for Germany's austerity plan. *The Economist* says both are "kicking against austerity."[11] Moreover, France and the Netherlands have also seen a rise in political support for the far right and left, demonstrating an increasing part of the electorate rejects the old projects of Europe. Until recently, the triad Merkel-Sarkozy-Rutte - hence Germany-France-Netherlands - were the rigorous European leaders who imposed austerity. However, Rutte resigned in 2012 because of an impasse on the talk for austerity, although he was later re-elected. Nowadays, for Merkel, it is a different story. Her austerity plan is not fully backed by Hollande or Matteo Renzi, the Italian Prime Minister.

EU Fiscal Policy: Stability and Growth Path

The SGP is a supranational tool for governing and preserving fiscal discipline in the EU. Its main aim is to control the national deficits and debts within the Economic and Monetary Union (EMU) and to continue enforcing fiscal discipline upon the new euro countries who have already met the euro convergence criteria set out in the Maastricht Treaty. The pact prescribes a member state to submit an annual stability or convergence program. States need to show how they will achieve a balance or a surplus in the medium-term and their policy related to this plan. The pact applies to all member states, but in the case of those belonging to the euro-area, there is also the possibility of sanctions through the excessive deficit procedure.[12] This procedure is

10 Noam Karkin, "Analysis: Greek, French voters reject German-led austerity," *Reuters*, May 6, 2012, http://www.reuters.com/article/2012/05/06/us-europe-elections-idUSBRE8450CY20120506 (accessed August 24, 2014).

11 "Kicking against austerity: France and the Netherlands once again resist the European consensus," *The Economist*, April 28, 2012, http://www.economist.com/node/21553464 (accessed July 14, 2014).

12 The Stability and Growth Pact (SGP) is delineated in: Resolution of the European Council C236/01 on the Stability and Growth Pact, June 17, 1997; Council Regulation (EC) 1466/97 on the strength-

at the core of the pact, and it carries out sanctions upon those states who break the three percent limit on the planned or actual government deficit to GDP ratio and the limit of 60 percent on the government debt to GDP ratio.[13] This visibly limits fiscal expansion at the national level.

Controls on national deficits, mainly within the Eurozone, are at the heart of the German Chancellor's thoughts as it was for former French President Sarkozy and the ECB. This is because the Delors Report in 1989 established the need for "binding rules governing the size and the financing of national budget deficit," for the reason that "uncoordinated and divergent national budgetary policies would undermine monetary stability and generate imbalances in the real and financial sectors of the Community."[14]

The evil spirit of the deficit has always been related to the need for borrowing- excessive borrowing- and the SGP was supposed to control and limit this tendency. This is because borrowing by one member of the Eurozone would lead to additional costs for the other member states. Mainly, any euro country in deficit would seek to borrow money from the capital markets increasing internal demand for euro and therefore raising its interest rates. Nevertheless, excessive borrowing may lead to increased inflation. This in turn would induce the ECB to adopt disinflationary policies in order to tighten borrowing and spending throughout the Eurozone. Additionally, a higher interest rate would also oblige other euro countries not currently in deficit to borrow with less convenient conditions.[15]

Fitoussi (2004) gives some counter-arguments to this. He said that inflationary pressure in the borrowing country will be counter-balanced by reduced competitiveness. And, if the fiscal expansion occurred due to a slump in production, then it would have contributed to boost demand and consequently- income and imports. In those two cases, the borrowing country would import more and reduce the deficit of the other euro-countries while

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ening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, July 7, 1997; Council Regulation (EC) 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, July 7, 1997.

13 Consolidated Version of the Treaty on the Functioning of the European Union art. [126], 2008 O.J. C 115/47, at [99].

14 Jacques Delors, *Report on Economic and Monetary Union in the European Community* (Committee for the Study of Economic and Monetary Union: April 17, 1989), http://aei.pitt.edu/1007/1/monetary_delors.pdf, (accessed September 12, 2014).

15 Willem H. Buiter, "The 'Sense and Nonsense of Maastricht' Revisited: What Have We Learnt About Stabilization In EMU?," *CEPR Discussion Papers* 5405 (2005), http://ideas.repec.org/p/cpr/ceprdp/5405.html, (accessed May 9, 2014).

counterbalancing the additional costs they supported as a consequence of other member's excessive borrowing.[16]

Another supportive argument for the SGP is related to credibility. A country running an excessive deficit may eventually become insolvent. Insolvency would force the ECB to bail out the country. This would undermine the ECB's credibility to fight inflation. On the other hand, the ECB has already been involved in numerous bailouts with Greece, Portugal, Ireland, Latvia, Hungary, Romania, etc. Moreover, at the time the SGP was established, member states were required to save during growth periods and to use those surpluses in slump periods. This picture, however, needs time to come to fruition. Yet European countries were forced into fiscal austerity without consideration to their individual "business cycle phase."[17] The consequence for the Eurozone is clear: depressed growth and pro-cyclical fiscal policy are increasing unemployment and putting in danger the future of the EU.[18]

Given monetary policy has been granted to the ECB, fiscal policy was the only kind of policy left in the hands of the Eurozone national governments. Therefore, without the SGP, a national government could have implemented their own fiscal policy which best fit their personal situation; such as raising taxes in a period of fast growth to reduce demand, or reducing taxes by invigorating the private sector during periods of depression. Alternatively, public expenditure could have been increased or decreased, in order to enhance the economy or to reduce economic activity. However, in both cases, reducing taxes and/or increasing public expenditure may lead to excessive borrowing, which, as above mentioned, inflicts severe costs upon other member states. Nevertheless, European policy makers did not take into account the full story of the Delors Report and the need for coordination of national budgetary policies in order to create the basis of a wider Community fiscal policy. Only such coordination would have led the Community, according to Delors, to establish a fiscal/monetary policy appropriate for the preservation of internal balance.[19] As per Delors, economic policy coordination should have aimed at promoting growth, employment and external balance; in a Community where prices need to be stable. However, such coordination re-

16 Jean-Paul Fitoussi and Francesco Saraceno, "The Brussels-Frankfurt-Washington Consensus Old and New Tradeoffs in Economics," *Observatoire Français des Conjonctures Économiques, Working Papers*, (2004), http://www.ceistorvergata.it/conferenze&convegni/mondragone/XVI_papers/paper-fitoussi%20saraceno.pdf , (accessed August 28, 2014).

17 Ibid., 22.

18 Ibid., 22.

19 Delors, *Report on Economic*, 20.

quired the setting of a budgetary policy within the Union where such a policy contemplated the need to fix an upper limit on budget deficits of individual member countries. Delors did not neglect the importance of fiscal discipline, but he pointed out the need for coordination between economic policies to ultimately produce growth.[20]

The SGP in itself was not a sign of madness of European policy makers. At that time, it was relevant to the foundational basis necessary for the birth of the euro. The EU lacked, and lacks also today, a federal government and a president. Therefore an agenda creating the foundation of the financial discipline was needed in order to secure the establishment of the currency union. It was widely accepted that an integrated economy would have spurred political integration. This, however, did not really pan-out as anticipated. The higher probability is that the pact needs to be restructured to create the right coordination between members as mentioned by Delors in 1989. It is also true that the SGP's credibility has been undermined by the case brought before the European Court of Justice by the Commission, against the Council. The latter, in fact, adopted a flexible measure against France and Germany, who have already broken the 3 percent deficit limit since the early 2000s.[21]

The Austerity Trap: the Economic Suicide of Europe

Cutting on public expenditure, without a real plan for growth, can be understood as European economic suicide. It is a mistake which European leaders are currently undertaking, but no one, including Angela Merkel, is ready to admit. The widespread belief that austerity is the solution to Europe's debt crisis has been inculcated in the mind of the German electorate.[22] European leaders maintain commitment to the economic principles of the Washington Consensus policies, which according to Paul Krugman on his blog on *The New York Times*, is actually what is responsible for the current crisis.[23] But why do our leaders believe austerity is the solution to the crisis? Krugman explains that while cutting public expenditure worsens

20 Ibid., 24.

21 See Case C-27/04 Commission v Council (Stability and Growth Pact) [2004] ECR I-6649. Cit. in Damian Chalmers et al., *European Union Law* (New York: Cambridge University Press, 2011), 401.

22 "Europe's Failed Course," *The New York Times*, February 17, 2012, http://www.nytimes.com/2012/02/18/opinion/europes-failed-course-on-the-economy.html?_r=0, (accessed August 18, 2014).

23 Paul Krugman, "Pain Without Gain," *The New York Times*, February 19, 2012, http://www.nytimes.com/2012/02/20/opinion/krugman-pain-without-gain.html, (accessed September 12, 2014).

the unemployment rate, many believe such negative effects will be counterbalanced by the rising of confidence in the Eurozone; meaning consumer and business spending should increase. Those countries who avoided fiscal discipline would have seen capital flight and high interest rates. However, economic history proves a different outcome: failed confidence and a plummeting private sector. The result is an increase in unemployment and the shrinking of the GDP.[24]

Therefore, as highlighted by Dominique Strauss-Kahn in September 2009 during a conference at the Bundesbank, austerity can be a very harmful policy.[25] His words sound unfathomable to believers of fiscal austerity and the Washington Consensus policies: "Unwinding the stimulus too soon runs a real risk of derailing the recovery, with potentially significant implications for growth and unemployment."[26] He stated recovery cannot be taken for granted, merely through glimpses of stabilization by some countries.

Of the same opinion is Gordon Brown. In 2012, *The Washington Post* published his attacks on the austerity policies of Europe. He states that European leaders are sticking "to policies that the whole world can see have already failed."[27] Continuing-on, he argues that European leaders are miscalculating the Greek crisis, oddly believing "that if austerity is failing, it is because there is not enough of it."[28] Unfortunately, according to Brown, the future for Europe is not florid: a permanent and irrevocable loss of prosperity is what awaits European citizens.[29] Loss of prosperity is already affecting the living standards of people. In other words, paraphrasing Amartya Sen, loss of prosperity is affecting the capabilities of Europeans to live a life they have reason to desire and value.[30] Europe is facing massive challenges to its living standards, and austerity is leading to social exclusion and high unemployment, which are both deprivations of capabilities.

Nevertheless, the dispute over the role of austerity is also strongly hitting the United Kingdom's economy and its Chancellor of the Exchequer, George

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24 Ibid.
25 "IMF chief Dominique Strauss-Kahn says stopping stimulus too soon could hurt recovery," *The Telegraph*, September 4, 2009, http://www.telegraph.co.uk/finance/g20-summit/6138738/IMF-chief-Dominique-Strauss-Kahn-says-stopping-stimulus-too-soon-could-hurt-recovery.html, (accessed August 19, 2014).
26 Ibid.
27 Gordon Brown, "Latest Greek bailout reveals Europe's shortsightedness," *The Washington Post*, February 21, 2012, http://www.washingtonpost.com/opinions/europes-role-in-the-world-reshaped-by-economic-crises/2012/02/21/gIQAoNUiRR_story.html, (accessed August 30, 2014).
28 Ibid.
29 Ibid.
30 Amartya Sen, *Development as freedom* (Oxford: Oxford University Press, 1999).

Osborne, who believes that deficit reduction - through austerity - is a growth policy that later will be proved correct through its outcomes.[31] But austerity, as economic historian Robert Skidelsky asserts, is for the boom years and not for the slump. More austerity, at this moment, will lead to higher unemployment.[32]

During an interview with *Le Monde*, Jacques Delors, former president of the European Commission (1985 – 1994), was asked "What do you think about the remedies imposed to Greece?" He replied with this statement, "We are assisting [in Europe] to the revival of the Washington Consensus and the IMF policies: Teaching at the countries in crisis how to die cured" (Apprendre aux pays en difficulté à mourir guéri).[33] In other words, those countries who follow the principles of the consensus will attempt to reduce their deficit through an austerity plan; however, this eventually leads GDP loss, as in the case of Greece. By heavily cutting public expenditure, and with limited incentives for the private sector, Greece has lost a relevant percentage of its GDP making it increasingly difficult for the country to repay its debt and further reduce its deficit. Austerity, in terms of the policies aligned with the Washington Consensus is actually seen as outdated and dangerous but only on one side of the Atlantic. Strikingly meanwhile, in Europe, it is considered the only avenue capable of curing the current crisis.

A very clear example of a country which is dying "cured," is Portugal. While Greece is struggling to meet European imposed austerity, Portugal is the "good guy," as the Portuguese accepted austerity (more peacefully than the Greeks) in the hope of a new awakening of the economy. Former Portuguese Finance Minister, Vitor Gaspar, applied everything required by the Berlin-Frankfurt Consensus, in order to receive assistance. He managed to decrease government's budget deficit by cutting expenditure and salaries, pension rollbacks and increasing taxes.[34] But those cuts, scholars agree,[35]

31 Larry Elliott, "George Osborne's deficit reduction plan: a blunt axe, blindly wielded," *The Guardian*, September 23, 2012, http://www.theguardian.com/business/2012/sep/23/osborne-deficit-plan-rethink, (accessed August 24, 2014).

32 Robert Skidelsky, "George Osborne is wrong. Austerity is for the boom years, not the slump," *The Guardian*, March 23, 2012, http://www.theguardian.com/commentisfree/2012/mar/23/deficit-reduction-george-osborne-budget, (accessed August 30, 2014).

33 "M. Delors Dénonce le "coup de poker" de Sarkozy et Merket," *Le Monde*, October 19, 2011, http://www.lemonde.fr/economie/article/2011/10/19/jacques-delors-denonce-le-coup-de-poker-de-sarkozy-et-merkel_1589753_3234.html, (accessed August 30, 2014).

34 Thomas Jr. Landon, "Portugal's Debt Efforts May Be Warning for Greece," *The New York Times*, February 14, 2012, http://www.nytimes.com/2012/02/15/business/global/portugals-debt-efforts-may-be-a-warning-for-greece.html?pagewanted=all, (accessed August 27, 2014).

35 Brian Blackstone et al., "Europe's Growth Woes Worsen," *The Wall Street Journal*, February 15,

contributed to the contraction of the economy. As a result, it was expected that Portugal would have seen a rise in the ratio of its debt to GDP from 107 percent to 118 percent in 2013.[36] In practice, the debt to GDP ratio rose to 124 percent in 2013 and 129 percent in 2014.[37] The Portuguese economy is shrinking, and with no growth, it will be hard for the country to repay its debt.

On the other hand, the bad guy is Greece, in the sense that the country is not able to cope with the bailout requirements imposed by the EU financial institutions and the IMF. This is undermining the integrity and cohesion of Europe, and the future of the euro, to the point where the German Minister of Finance, Wolfgang Schäuble, suggested Greece exit the Eurozone. He claims the only way Greece can stay in the Eurozone is if it follows the path agreed.[38] But what is this path about? The path expects Greece to respect the deficit criteria of the SGP and thus keep the deficit below 3 percent of GDP.

Nevertheless, the Troika of lenders (IMF, ECB and the European Commission) went even further in making Greece worse off. They demanded cuts in wages and health, as well as firing workers. Greece, then, in order to get the necessary bailout, tried to comply with the policies; but consequently brought about the unemployment of hundreds of thousands of people, and the closure of thousands of businesses.[39]

Any government promoting wage cuts would face public discontent, above all because those cuts most adversely affect the working class, while leaving the upper class mostly untouched. Hollande had held this in mind very clearly when during his campaign he claimed that once president he would raise taxes on the rich: "75 percent for those earning more than one million euro a year,"[40] he said. More strikingly, he pronounced, "Austerity

2012, http://online.wsj.com/articles/SB10001424052970204883304577222603697078904, (accessed August 25, 2014).

36 Thomas Jr. Landon, "Portugal's Debt Efforts".

37 "Portugal Government Debt to GDP", *Trading Economics*, http://www.tradingeconomics.com/portugal/government-debt-to-gdp, (accessed August 27, 2014).

38 Matthew Dalton and Laurence Norman, "Euro Zone Considers Delay of the Next Greek Payment," *The Wall Street Journal*, May 9, 2012, http://online.wsj.com/article/SB10001424052702304070304577393993915783720.html?mod=WSJEurope_hpp_LEFTTopStories, (accessed August 27, 2014).

39 Andy Dabilis, "New Troika Demands: Firings, Pay Cuts, Slashed Health and Defence Spending," *Greek Reporter*, January 26, 2012. Rachel Donadio, "Greek Premier Faces Impasse Over Demand to Cut Private Wages," *The New York Times*, February 3, 2012.

40 Steven Erlanger, "Hollande Ousts Sarkozy in French Presidential Election," *The New York Times*, May 6, 2012, http://www.nytimes.com/2012/05/07/world/europe/hollande-and-sarkozy-in-crucial-runoff-in-france.html?pagewanted=all (accessed August 29, 2014).

need not be Europe's fate."[41] Austerity versus Growth- this is the dilemma Europe is facing today. French voters have already confronted it during the last presidential elections,[42] and evidently, they rejected the Sarkozy-austerity plan.

Unfortunately, the Berlin belief that austerity is the only way to emerge from a crisis, is heading them towards a worse situation. Reducing public spending is at the top of the agenda of those who promote austerity, but as we have seen in the case of Portugal and Greece, reducing public spending poses also a huge risk, because the economy shrinks, and in turn the GDP, prompting further recession. In the 1980s in Latin America, the IMF's persistent austerity command was an obstacle to growth, but which was wrongly believed to be the requisite for those countries to pay down debt. Portugal and Ireland, which managed to drastically cut their public expenditure, are still deeply in trouble, and may also be insolvent.

Austerity, in the form of saving, should be promoted at the time of economic boom. Nevertheless, during a period of slump it is a pro-cyclical policy that can hurt further a country's economy. Austerity reduces prosperity, increases unemployment, creates new poor, and as a consequence eventually leads to an increase in public deficits- as more people demand unemployment benefits. Unemployment, in fact, not only makes people poor, it also reduces the revenues of the state, by reducing the number of tax payers. Austerity for Europeans appears in the form of public expenditure cuts and/or increase in taxes. However, if people pay more taxes, they will basically buy less, and demand for goods will decrease from both the public and the private sectors. Austerity, therefore, will eventually cause an increase to the overall deficit and to the debt to GDP ratio of depressed countries - making the situation unsustainable - and maybe leading to the long-run collapse of the EU.

Conclusion

The Washington Consensus' policies have clearly been rejected by many on the other side of the Atlantic yet are still the policies preserved in several European treaties. European policy makers have viewed the pillars of the Washington Consensus as the feasible avenue to limit the sovereignty of Eu-

41 Ibid.

42 Tom Burgis, "Voters face choice between austerity and growth," *The Financial Times*, April 22, 2012, http://www.ft.com/intl/cms/s/0/2c072728-8c72-11e1-9758-00144feab49a.html (accessed September 2, 2014).

ropean nation-states. They enshrined the dictum of the Washington Consensus within the treaties of Maastricht and Amsterdam, and they implemented the SGP to control the deficit and the debt of the European countries. The aim was to limit the potential fiscal expansion and the excessive borrowing of the member states. Such a pact was updated in 2005 and in 2011, where it became even more restricted, tightening the fiscal rules. Austerity became, since the appearance of the financial crisis, the only rule necessary for countries to follow in order to be bailed out and ironically, an end in itself, rather than a means to growth.

The debt crisis has been worsened by insufficient and failed coordination in fiscal policies; the same coordination mentioned by Delors in his report in 1989. This failure led the Eurozone to instability, and the current situation is far from being resolved. Instability, lack of growth and unemployment are already undermining the future of the EU. This situation is bringing down any hope of further integration in Europe, paving the possibility of a breakup of the Union. For the first time in the history of the European integration, politicians have started to seriously consider the possibility of a country being removed, either voluntarily or through expulsion, from the Eurozone. This is the very real situation for Greece.

German politicians said that the euro is an irreversible process, but at this stage and with this current situation, the only cure coming from the European Consensus is more austerity. Nevertheless, it has been widely proven since 2007 that austerity has only brought further recession to many of the peripheral countries. What would be a possible solution to rise out of this impasse? Krugman[43] states two solutions: exit from the euro or looking for an alternative course. Exit from the euro means restoration of the national currencies and therefore the reluctant acceptance of the Economic and Monetary Union's (EMU) failure. This solution seems unconceivable to many, yet to Europeans already suffering first-hand the dire effects of austerity- it seems unconceivable to further tighten fiscal policies in countries already severely depressed. Additionally, as unconceivable as admitting a currency failure might be, it has been done before through the exit from the gold standard in the 1930s. Saving the euro, on the other hand, would require an alternative course of action. Krugman suggests expansion of monetary policy by the ECB, accepting higher inflation, and expansionary fiscal

43 Paul Krugman, "Europe's Economic Suicide," *The New York Times*, April 15, 2012, http://www.nytimes.com/2012/04/16/opinion/krugman-europes-economic-suicide.html, (accessed September 3, 2014).

policy in the form of budgets in Germany in order to compensate austerity in Spain and the peripheral European countries. Perhaps this will give hope to a long run recovery. Hope, after all, is the word all Europeans are longing to hear, particularly in place of “austerity” and “unemployment.” **Y**