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European crisis

Even the IMF agrees… IMF declarations that do not please European leaders

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In October 2012, the IMF provided a key explanation of why the crisis was getting worse in Europe. Its Research Department wrote that every euro cut from public spending would result in a .90 to 1.70 euro decrease in Gross Domestic Product (GDP). Wolfgang Münchau, who is editorialist at the Financial Times, concludes that in this time of crisis a 3% fiscal adjustment (that is a 3% decrease in public spending) would produce a 4.5% decrease in GDP. Therefore, the current policies being pursued by European governments have been leading to a drop in economic activity making it impossible to decrease the amount of public debt. As Wolfgang Münchau writes, the IMF's motivation must not be misjudged: "The IMF does not say that austerity is too hard, too unfair, causes too much pain in the short term or hits the poor more than the rich. It says simply that austerity may not achieve its goal of reducing debt within a reasonable amount of time"

Meanwhile, if IMF Managing Director Christine Lagarde hinted that the beginning of some austerity measures should be spread over a longer period of time, and that it might be possible to increase some public spending in order to stimulate the economy, this is because she is under pressure from IMF members from emerging countries (especially the Brics, led by China and Brazil), which are fearful of the boomerang effect of the drop in European imports, and criticise the importance of the IMF's financial engagement in Europe. The IMF's Managing Director expressed this point of view in Tokyo, at the annual assembly of the IMF and World Bank in October 2012. The IMF document and Christine Lagarde's recommendations made European leaders react with discontent. For example, in Tokyo, Wolfgang Schaüble, the Finance Minister of Merkel's government, publicly criticised Christine Lagarde for her untimely remarks. [2]

Wolfgang Münchau considers that the reservations expressed by the IMF on the depth of the austerity measures will in no way modify the attitude of European leaders who are sticking to a hard line position: "European policy makers are paranoid about their credibility, and I expect them to hold on to austerity until the bitter end, when the policy implodes" [3]

The tension between the IMF and the European Commission was expressed publicly again on 14 November 2012. Christine Lagarde contradicted the optimism expressed by Jean-Claude Junker (Luxembourg), who is President of the Eurogroup, concerning the outlooks for Greece. The IMF seems to want to put pressure on the Commission in order to increase its influence on the direction that should be taken in Europe. Emerging countries and the United States have been taking action within the IMF to influence the solutions adopted concerning the European crisis, especially since they are being asked to make a financial contribution.

The IMF looks back on the historical failures of brutal austerity policies

Much has been written about another IMF study, a chapter in its World Economic Outlook report, which was published just before its annual assembly in October 2012. In this chapter, the IMF studies 26 public debt crisis episodes since 1875, in which public debt was greater than 100% of GDP. It analyses the policies that were applied to resolve these crises. One of the episodes analysed was that of the United Kingdom after the First World War. British public debt stood at 140% of GDP. The British government applied a radical policy of fiscal austerity combined with a stringent monetary policy. By making large cuts to expenditures, the government achieved a primary fiscal surplus of nearly 7% of GDP (before the payment of interest) throughout the 1920s, in order to reduce British debt by strictly paying it back. However, public debt did not decrease: in 1930, it was 170% of GDP, and three years later in 1933, it was more than 190% of GDP.

Martin Wolf, the chief economics commentator at the Financial Times, states that the real objective of the British government policy "was to break organised labour. These policies resulted in the general strike of 1926. They spread a bitterness that lasted decades after the second world war." [4] This is exactly what is being done in Europe today. [5] Wolf suggests that European policymakers and the Spanish government of Mariano Rajoy want to push down wages drastically by using unemployment as a weapon. He states that: "Meanwhile, Spain's real GDP is shrinking. Efforts to tighten fiscal policy are sure to reduce it further." He continues his analysis by stating that the Italian government has been inspired by the same policy. He concludes with a statement that may seem unusual coming from a star journalist at one of the principal financial dailies on the planet: "But fiscal austerity and efforts to lower wages in countries suffering from monetary strangulation could break societies, governments and even states." In fact, as Martin Wolf has been insisting for months, it is because of austerity measures that countries are heading straight for disaster. As proof of his analysis, he points to the overwhelming electoral defeat of Mario Monti in March 2013 in Italy.

As Wolfgang Münchau writes, European policymakers are going to continue pursuing and aggravating these policies.

Why are European policymakers pushing for such harsh austerity policies?

It would be a mistake to believe that European policymakers have become blind. Their motivation is neither to return to economic growth, nor to balance the asymmetric relationships within the eurozone and the EU, so as to create a more coherent whole in which prosperity would reign. Corporate leaders, who shape government action, would like to push forward their great offensive against the hard-won social rights obtained in Europe after the Second World War. From this point of view, the policies pursued recently have been very successful. With the austerity policies that have increased unemployment, workers find themselves in an increasingly precarious position, their capacity to resist and fight has been radically decreased, wages and the various social benefits have been reduced while the tremendous disparities between workers within the EU have been maintained so as to increase the competition between them. One of the objectives pursued by European policymakers is to improve the capacity of European companies to increase their market share throughout the world. To accomplish this goal, the "cost of labour must be radically cut", as they would say. That would imply inflicting a major defeat on European workers. Other objectives are also being pursued: pushing even further the offensive against public services, avoiding as much as possible a new crash in the banking sector, further strengthening the executive powers (the European Commission and national governments) over the legislative powers, imposing tighter constraints through treaties that set in stone policies that favour the Capitalist agenda…

The political and electoral price to pay may be high, but generally speaking the major political families that dominate European politics have made the bet that even if they lose in the current elections, they will win in the next ones and return to power. In any case, moving over to the opposition does not mean losing a whole set of privileges already acquired in the central State government apparatus, and European institutions, not to mention the local powers they may have (in big cities, regional governments, and so on).

What is complicating the European policymakers' project is the Obama administration's decision to pursue radical austerity policies in the footsteps of the Bush administration. In particular, fiscal cuts in public and social spending are going to be even deeper in the United States. These reductions will not help European companies win market share there. Only Japan seems to be willing to adopt what is only a half-hearted stimulus policy, but this must still be confirmed.

Conclusion: In light of the objectives described above, there is a total convergence between the IMF and European policymakers. Furthermore, since December 2012, when the Obama administration announced that it intended to tighten austerity measures in the United States, we have no longer heard any critical declarations by Christine Lagarde or other leaders aimed at the IMF concerning the policies pursued in Europe.

We must not misjudge the deeper meaning of the IMF's declarations: if it has taken a bit of distance with respect to European policymakers, it is not to convince them to abandon the structural adjustment policies that are favourable to privatisations and a more intense offensive against the social rights won after the Second World War. It would like to have more influence on the decisions made, and impose its own. We shall see in the upcoming months whether or not it continues asserting that it would be a good idea to slow down the rhythm at which European policymakers want to balance their budgets. While the research produced by some IMF departments contains arguments that contradict dominant policies more or less clearly, the IMF's actions throughout the world have not changed an iota. These are the actions against which we must combat with all our force.

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[1] Wolfgang Münchau, "Heed the siren voices to end fixation with austerity", Financial Times, 15 October 2012.

[2] Financial Times, "German minister rebukes IMF head. Schaüble criticises Lagarde call to ease up on austerity", 12 October 2012.

[3] Wolfgang Münchau, "Heed the siren voices to end fixation with austerity", Financial Times, 15 October 2012.

[4] Martin Wolf, "Lessons from history on public debt", Financial Times, 09.10.2012

[5] See Eric Toussaint, "The greatest offensive against European social rights since the Second World War", Part 3 in the series Banks versus the People: the underside of a rigged game! Banks versus the People: The Underside of a Rigged Game!

