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The Bitter Pill: Austerity, Debt, and the Attack on Europe's Welfare States

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There is a general belief among may European policymakers that the current debt problem in some Eurozone countries is caused by the unsustainable levels of governmental spending required to maintain overly generous welfare state programs, a bloated public sector, overly generous pension levels, state subsidies, and low user fees for services. Their proposed solution lies in implementing stringent austerity measures designed to discipline debt-ridden governments by cutting public budgets, reducing the number of public sector workers, curbing social benefits, and sharply narrowing the scope of the welfare state. Based on a belief in 'expansionary austerity,' this approach repudiates a key Keynesian principle for dealing with a recession—namely, the use of government spending to pursue full employment. This paper will examine the austerity measures forced upon several heavily indebted European nations by the 'Troika'—the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF). Also examined will be the introduction of components of the IMF and World Bank's Structural Adjustment Programs (SAP) into the Eurozone context, and the resulting social and political instability.

Key words: *austerity, European Commission, European Central Bank, International Monetary Fund, World Bank, Structural Adjustment Programs, welfare state, Keynes*

A tense consensus existed in Western nations around the view that Keynesian economics (and the modern welfare state it spawned) has provided the social and political stability necessary for economic growth. Even in the U.S., where Keynesianism is relentlessly attacked by conservative economists, policymakers and think tanks, the critique fell by the wayside as the Congress turned to Keynesian demand-side measures to shore up an economy crippled by the global financial crisis (GFC) (Blinder & Zandi, 2010).

Desperate times required measures which would have been unthinkable only five years earlier. The 2009 Keynesian-inspired and stimulus-based $840 billion American Recovery and Reinvestment Act (ARRA) created jobs, provided economic relief for those hard-hit by the recession, funded infrastructure (e.g., education, health, energy) growth and maintenance, expanded unemployment benefits, and used federal tax incentives to stimulate consumption. Unlike the Europeans, U.S. conservatives stopped short of demanding the large-scale layoff of public sector workers, and Congress avoided devastating cuts in welfare programs.

This approach stood in sharp contrast to the European choice of austerity over stimulus. Ironically, the European bankers and policymakers—not the Americans—led the charge to reduce the size and scope of the public sector, dismantle key welfare functions, and diminish the public's expectations around state provision of services. Although U.S. conservatives loaded the anti-Keynesian ammunition, European policymakers fired the gun.

Expansionary Austerity

Harvard professors Alberto Alesina and Silvia Ardagna maintain that since 1980 large and decisive spending cuts have been followed by economic growth (Coy, 2010). Specifically, they argue that "spending cuts adopted to reduce deficits have been associated with economic expansions rather than recessions" (cited in Berman, 2011, p. 12). They note that austerity measures stimulate growth by placating bond markets (lowering interest rates and encouraging investment), and by reassuring citizens that harsher fiscal adjustments will not be needed later, thereby stimulating consumer spending. Austerians like Alesina and Ardagna argue that spending cuts are a better way to shrink deficits (and stimulate growth) than tax increases (Coy, 2010). Alesina and Ardagna's (2009) theories were debunked by *The Economist*, the IMF and the Center for Budget and Policy Priorities, who found that austerity measures resulted in increased growth in only nine of the 107 cases cited (Avent, 2010; Berman, 2011). An IMF report further debunked Alesina and Ardagna's theories by finding that when measured correctly, austerity was contractionary rather than expansionary (Guajardo, Leigh, & Pescatori, 2011).

In their 2010 influential paper, 'Growth in a Time of Debt,' Harvard economists Carmen Reinhart and Kenneth Rogoff maintained that government stimulus programs only exacerbate debt problems and should be quickly replaced by austerity measures (2011). The crux of their argument was that when a nation's debt reaches 90 percent of its GDP, it leads to unmanageable interest costs and becomes a drag on an economy. When Thomas Herndon, a graduate student at the University of Massachusetts, found errors in Reinhart and Rogoff's Excel spreadsheet data, the authors maintained that despite the error, high debt levels lead to slow economic growth. Economist Miles Kimball crunched Reinhart and Rogoff's data and found no evidence for their conclusions. Economist Arindrajit Dube found evidence that Reinhart and Rogoff had reversed the relationship—slow growth causes higher debt, not the other way around (Gongloff, 2013).

Austerian-based academic papers were greeted uncritically because they provided the ammunition conservative policymakers needed—namely, cutting spending and welfare state functions in a depressed economy will spur on economic growth. This orientation disintegrated under serious academic scrutiny and the real-world experiences of countries that adopted austerity measures. Ari Berman (2011) attributes the austerian influence to an influential and aggressive 'austerity class'—a center-right coalition of politicians, policy analysts and technocrats—who have appointed themselves the 'impartial' custodians of economic policy. Their goal is to protect the investments of banks over the well-being of citizens, and their claims are legitimized by think tanks who warn that high debt will lead to a national bankruptcy.

The Attack on the European Welfare States

The Eurozone debt crisis led economically strong nations, like Germany, to implement fiscal oversight and control of their less well-off southern European neighbors. This oversight pressured smaller and weaker economies into implementing tough austerity measures and some of the deepest public sector cuts in a generation. The oversight also highlighted the hypocrisy of the stronger economies. For instance, when the euro was introduced in the 1990s, Germany insisted on a guarantee that Eurozone countries would adopt sound fiscal principles, including restricting their total borrowing to less than 3 percent of GDP with debts of less than 60 percent. The second criteria was dropped, since Germany's debt to GDP ratio was above 60 percent (Knight, 2011).

There is little doubt that many European nations are in the midst of a debt crisis and a recession. Some are even in a depression (Krugman, 2013). Despite this, the Eurozone is debating whether a recession or governmental debt is the biggest problem. The moribund economies of Greece, Ireland, Italy, Spain, Portugal and others have resulted in diminished market confidence, as evidenced by the high (and often unsustainable) interest rates they are forced to offer on their bonds (BBC News, 2011a). The hope of stronger EU nations is that economically fragile economies will step back from the abyss without defaulting on their debt. To accomplish this goal, the 27 EU member states set a target to cut deficits to no more than 3 percent of GDP by 2014-2015 (BBC News, 2011a). Meeting that goal would require Eurozone nations to enact strident austerity measures.

Cyprus

Cyprus was an example for other indebted nations who might not take austerity seriously enough. The EU and IMF loan bailout deal for Cyprus included deep spending cuts, overhauling outdated state companies, and the effective confiscation of billions of euros deposited in Cypriot banks. In exchange for a $13.2 billion emergency aid package, Cyprus was forced to agree to EU demands that it basically confiscate up to 60 percent of a depositor's holdings above $132,460 held in two of the country's largest banks (Bank of Cyprus and Laiki Bank). In turn, Laiki Bank was dissolved and merged into the Bank of Cyprus (which also absorbed Laiki's crippling billion dollar debt). The 2013 austerity measures resulted in a 16.3 percent unemployment rate (more than 30 percent for those under 25). The bailout package essentially converted a banking crisis into a recession, as the IMF predicted a 9 percent drop in Cyprus's 2013 GDP (some economic modelling suggests 24 percent) (Higgins, 2013).

Greece

Greece typifies the economic basket case of some southern European nations. Despite huge bailouts from the EU and the IMF, some economists fear that it will be impossible to cut Greece's 2013 $410 billion debt (160 percent of GDP) without defaulting. Moreover, despite severe austerity measures (or perhaps because of them), Greece's debt grew by 24 percent between 2012 and 2013. This was the largest rise in the EU, which saw the debt of 24 out of 27 member states increased over the 12-month period (Ekathimerini.com, 2013). Since 2010, Greece has been frozen out of the international financial markets because of its debt and weak economy, and has been kept afloat and inside the Eurozone solely through a $318.2 billion EU and IMF bailout (Papachristou & Maltezou, 2013).

Despite Greece's weak economy, the EU and IMF pressured it into adopting severe austerity measures as a precondition for a bailout (BBC News, 2011a). The first round of austerity measures led to a wave of protests (some violent) and crippling strikes. In an attempt to cut $65 billion by 2015, unpopular austerity measures included a new property tax, the suspension of 30,000 civil servants on partial pay, deep cuts in public employment, and the sale of state assets. Another $41 billion in budget savings was expected to be realized through personal and business tax increases and spending cuts. Some of the new taxes affected people earning as little as $12,000 a year.

Opponents claimed that the harsh conditions set out by lenders condemned Greece to years of painful spending cuts and job losses, a prophecy borne out by the 2013 high 27.6 percent unemployment rate (60 percent for those 25 and under) (BBC News, 2011a; Higgins, 2013; Reuters, 2013a; Segall, 2011). To add salt to the wound, the promised Eurozone aid to Greece of $315 billion was parceled out in tranches to make sure the country adhered to the conditions laid out by the Troika (Kitsantonis, 2013).

Greece's austerity-driven contraction wreaked havoc on the overall economy. The IMF—which helped coerce Greece into austerity—grossly underestimated the pain. In its 2013 report, the IMF acknowledged that Greece's economic contraction between 2009 and 2012 was around 17 percent, instead of its forecast of 5.5 percent.

Greece adopted yet another round of austerity measures in 2013 which called for thousands of civil service workers to face layoffs and wage cuts. The plan specifically called for putting 25,000 civil servants (e.g., teachers, municipal police officers, school janitors and others) into a "mobility plan" that docked their wages ahead of involuntary transfers or outright dismissals. These austerity measures were intended to satisfy EU finance ministers and pave the way for the release of $9 billion in rescue loans. The response was predictable—thousands of Greeks demonstrated against the plan (Kitsantonis, 2013).

Italy

Italy had a public debt of more than $2.6 trillion and a debt-to-GDP ratio of 130 percent in 2013. This was coupled with a decline of 1.5 percent in the GDP, further pushing Italy into a recession that began in 2011 (Totaro, 2013).

Before leaving office, the former Berlusconi government adopted an austerity package worth about $91 billion that included raising healthcare fees, cuts to regional subsidies, cuts in family tax benefits, and cuts in the pensions of high earners. A second round of austerity measures worth $40 billion was developed by former Prime Minister Mario Monti in 2011. Monti's measures included: raising sales taxes; increasing the wealth tax on property and assets, including second homes, yachts, private jets and luxury cars; and curbing tax evasion (equal to about 17 percent of Italy's GDP). (Tax evasion is also a big problem in Greece.) These measures also called for public sector salary cuts and limiting new hires (i.e., only one employee replaces every five that leave). The 2011 reforms raised the pension age to 62 for women (rising to 66 in 2018) and 66 for men. Pension payments lost their value when they were de-linked from inflation for all but the lowest payments (BBC News, 2011a; BBC News, 2011b). Lastly, the VAT was increased to 23 percent. There are two major components to addressing debt: cutting spending and raising taxes. When broken down, roughly $17 billion of the $40 billion in cuts fell on pensions and local authorities, while $23 billion was recouped through tax increases (Nardelli, 2011).

One of the areas hit hardest by austerity measures is health care. Italians saw out-of-pocket healthcare costs grow by 160 percent from 2005 to 2011, with further increases of copayments expected in the foreseeable future. The increased copay may help explain a 9 percent reduction in pharmaceutical expenditures in 2012 (Benassi, 2013).

While Monti's austerity policies helped bring the budget deficit closer to EU guidelines, it also led to a recession that pushed the jobless rate to 12.5 percent (youth unemployment hit 38 percent), a 20-year high (Totaro, 2013). In 2013, disgruntled Italian voters overwhelmingly rejected the austerity measures of the Monti government and the EU. Monti's electoral slate received only 10 percent of the vote; roughly 55 percent of the electorate voted for political parties that rejected the EU reforms (Schwarz, 2013).

Portugal

Portugal is one of the more economically problematic Eurozone nations. Its 2013 debt was $271 billion, or 124 percent of its GDP, a number which is expected to rise (Bugge, 2011; countryeconomy.com, 2013). As a result, Portugal had to pay about 5.4 percent interest rate on its bonds in late 2013, one of the highest rates in Europe. Portugal became the third Eurozone country to receive an EU and IMF bailout of $103 billion in 2011 (Barley, 2011).

In exchange for the bailout, Portugal adopted severe austerity measures that included: increasing the work week of public employees to 42 hours (one of the longest in the EU) without extra pay; sharp cuts in public sector wages, including a 5 percent cut for top public sector wage earners; the suspension of holiday and year-end bonuses for civil servants and pensioners; tax hikes for high earners; a VAT rise; and cuts in health, welfare and education spending. Portugal also slashed its military budget (BBC News, 2011a; PressTV, 2011a). Taken together, these austerity measures helped drive Portugal deeper into a recession, as its economy contracted by 2.3 percent in 2013 (a third consecutive year of recession). Unemployment hit a record high of 18 percent (Thompson, 2013; PressTV, 2011b). Public reaction to the austerity measures, combined with the moribund economy, and the high unemployment rate, forced a governmental crisis and the resignation of the finance minister in 2013 (Hesse & Zuber, 2013).

Spain

Spain is an important Eurozone nation. Its economy is five times larger than Greece's and accounts for 12 percent of the Eurozone's combined GDP. Spain's population is roughly twice the size of bailed-out Portugal, Ireland and Greece combined. Hence, Spain's economic success or failure will have a major impact on the future of the Eurozone (Tremlett, 2012).

Similar to other Eurozone nations, Spain's GDP contracted by 1.5 percent in 2013. Its budget deficit was 6.5 percent of GDP compared to EU's target of 3 percent (CNBC, 2013). Unlike other troubled Eurozone nations, its 2013 public debt ratio to GDP was 85 percent, lower than the UK and France, and close to Germany's 82 percent. At the same time, Spain's 2013 unemployment rate was 23.6 percent with an under-25 rate of 55 percent (*The Guardian*, 2013).

Policymakers have generally relied on the high spending levels of southern European countries to explain the crisis. For example, Greece did not tax (or adequately enforce existing taxation) sufficiently. It overspent and then it lied about its debt level. Portugal overspent and borrowed too much. Italy was wracked by a series of corrupt and fiscally incompetent governments (Knight, 2011). Spain exploded the myth that the Eurozone's debt problems resulted from too much borrowing and profligate public spending. Unlike its Southern European neighbors, Spain had a balanced budget until the GFC in 2008. As its economy grew, its public debt to GDP ratio continued to fall (until 2007) unlike other Eurozone countries, including Germany. In large measure, Spain was a victim of the GFC and the collapse of the housing market which was driving its economic growth (Knight, 2011).

Spain adopted austerity measures similar to other financially strapped Eurozone nations, including large spending cuts, a freeze on public sector salaries and hiring, a 5 percent cut in government worker pay, an increase in the retirement age to 67, a 28 percent increase in the tobacco tax, and higher taxes for the rich. In 2012 the conservative government of Mariano Rajoy acceded to the pressure by Berlin and Brussels and introduced another round of austerity measures that raised taxes, and cut spending on healthcare, education, and social services. Similar to Greece, Spain has experienced widespread anti-austerity protests with makeshift tent cities organized by young people fearing a grim future of unemployment (BBC News, 2011a; Independent, 2011).

Iceland

Iceland had a different response to the GFC than many other indebted European nations. Before the GFC, Iceland was one of the richest nations in the world. Credit was abundant as Icelanders borrowed to buy consumer goods, summer houses and expensive vacations. Despite the warning signs, the government and Central Bank failed to regulate the financial elite that were driving the nation into near bankruptcy.

In 2008, former Prime Minister Geir Haarde announced that Icelandic banks were insolvent and the country was in crisis. By then, Iceland's debts were $110 billion, or ten times the government's budget. Panic broke out as shops sold out and people stockpiled food. It was the start of a cycle that saw individuals and companies going bust. Haarde was forced to resign only days after his address (Kvam, 2011b).

In response to the crisis, the government nationalized the three largest Icelandic banks that had engaged in irresponsible financial speculation. Creditors were forced to absorb most bank-related losses. The government also imposed capital controls to protect the country's currency and tightened financial regulation (Sherter, 2011). In 2008 Iceland received a $4.6 billion loan by the IMF (Kvam, 2011a).

Iceland protected welfare benefits before it began cutting budgets. Government officials used the Keynesian principle that the best way out of a recession is by boosting (not cutting) government spending and putting money in the pockets of people most likely to spend it (Sherter, 2011). To stimulate demand, the government increased the state minimum pension by 20 percent in 2009 and taxes were reduced for the lowest pensioners. This strategy also included levying higher taxes on the rich while protecting the economic interests of the poor.

The Icelandic government implemented a debt relief program for businesses and households based on the belief that no one should have debt exceeding 110 percent of the value of their property (Kvam, 2011a). With the cooperation of banks and pension funds, the government helped highly indebted individuals and businesses reduce their debts. This helped many individuals and businesses (who had sustainable loans before 2008) avoid the financial deterioration that occurred in some Eurozone countries. The debt relief program also allowed businesses to freeze their debts and continue operating, although they could not incur further debts that might be needed for investment, growth and job creation.

Under pressure from the IMF to seek a balanced budget, a "stability pact" was reached in 2009 between government, trade unions and employer organizations that included sharp public sector spending cuts and tax hikes. Despite the stabilizing economic reforms, the Social Democrats lost popular support by a series of policy mistakes, tax hikes, a leniency toward foreign creditors, soaring prices, capital controls that limited investments, and the government's inability to deal with soaring household debt. In 2013 Icelandic, voters dumped the Social Democrats and returned a center-right government that promised protection of social security, and better welfare and job creation. This landslide election victory was also seen as a rejection of IMF-enforced austerity, the bailout terms and EU membership (Reuters, 2013b)

Austerity and the Repudiation of Keynesian Economics

In 2013, President Obama urged Greece to balance austerity with growth as it seeks to recover from the financial crisis: "We know from history that those countries that are growing, those countries where employment is high and people are increasing their productivity … have an easier time reducing their debt burden than those countries where people are feeling hopeless" (Lederman & Olster, 2013). A similar plea was made by former U.S. Treasury Secretary Timothy Geithner in 2011, who urged European governments to not withdraw stimulus spending that supports growth. The Europeans took a hard line in their response: "We don't see any room for manoeuver in the euro area which could allow us to launch new fiscal stimulus packages" (cited in Neuger & Christie, 2011).

Europe's austerity measures are bound together by a rejection of the basic Keynesian principles that have guided economic policy since the end of World War II. Whereas Keynesian economics requires governments to spend more in recessionary times, the Troika is forcing weaker Eurozone countries to make deep cuts in public expenditures. As noted earlier, these austerity measures are rooted in the belief that the cause of Europe's financial crisis lay in decades of reckless over-spending and over-borrowing to pay for overly generous welfare programs, pension systems and bloated public sectors. Rhetoric aside, before the GFC, Spain and Ireland ran budget surpluses and had low debt levels. While Spain's debt was 31 percent of its GDP, Ireland's was only 12 percent. Both were below Germany's debt level. Instead of profligate spending, these economies fell victim to a banking crisis and credit boom driven by cheap interest rates and irresponsible lending practices, which morphed into financial panic and a severe recession. The cause was not overspending per se, but credit and asset bubbles that proliferated in the wake of weak fiscal regulation in the U.S. and Europe (Schwenninger, 2011).

Nobel laureate Paul Krugman (2012) points out that economic experts have been consistently wrong about the short-run effects of budget deficits. For one, Eurozone deficits have not sent interest rates or inflation soaring. The Eurozone inflation rate fell to a meager 1.2 percent in mid-2013 and the central bank's benchmark interest rate was less than 1 percent (Stoukas, 2013). While Krugman (2012) acknowledges the importance of debt, he believes that public spending to lower unemployment is more important.

The harsh austerity measures imposed on vulnerable Eurozone countries illustrate how disconnected economic technocrats and policymakers are from the suffering of ordinary Europeans. Apart from marked differences in the severity of austerity measures—anywhere from light to devastating cuts—there are also striking similarities. Across the board, one hard-hit group are public sector workers, who in some cases, are being used as scapegoats for economic woes. Under some austerity measures, civil servants are facing pay cuts from 5 - 25 percent; are having bonuses and holiday pay cut; are having their retirement age raised; are being put on unpaid involuntary furlough; and are having their work weeks extended, often without extra pay. Public sector freezes and massive layoffs are a common strategy for Eurozone governments desperate to shave budgets to meet EU targets. Among other things, these freezes and layoffs result in additional—and often impossible —workloads for the remaining public workers.

Another hard-hit group are low- and moderate-income families who are experiencing cuts in welfare benefits, family support allowances, disability pensions, and governmental subsidies, including pharmaceutical and transportation subsidies. This group is also facing higher user fees for public services, especially in healthcare.

European governments are pressured to make it appear that the pain and hardship of austerity measures are being spread evenly among the classes. As such, there is a presumed balance between spending cuts and higher taxes, although austerity measures seem to lean more towards spending cuts. While taxes are raised (and benefits cut) on small and medium incomes, there are also tax increases for corporations and the rich. (Ireland is an exception since the government has refused to raise the 12.5 percent corporate tax rate, the lowest in the EU.) Overall, the pretense of equitably socializing the pain of austerity is disingenuous, since tax increases and benefit cuts have a differential impact on various economic classes. For instance, a significant rise in the VAT (a common austerity measure to raise revenue) will have greater impact on a family earning $12,000 a year than one earning $500,000. The loss of a public sector job is not an equivalent hardship to a 50 percent luxury tax on a yacht or jet. Even a significant rise in the personal income tax of very high wage earners has far less impact on them than a small tax increase does on a low or moderate income family. While higher corporate taxes may appear equitable, the costs are often passed on in higher prices or cuts in the labor force.

There is a clear message in Eurozone austerity measures: Repayment to creditors is more important than pushing an economy into recession and high unemployment. Severe austerity measures will invariably lead to lower levels of consumption, higher unemployment, and greater social instability as young workers lose hope of ever finding work. Paul Krugman (2011) points out that:

> … the nations now in crisis don't have bigger welfare states than the nations doing well—if anything, the correlation runs the other way. Sweden, with its famously high benefits, is a star performer, one of the few countries whose GDP is now higher than it was

> before the crisis. Meanwhile, before the crisis, "social expenditure"—spending on welfare-state programs—was lower, as a percentage of national income, in all of the nations now in trouble than in Germany, let alone Sweden. Oh, and Canada, which has universal health care and much more generous aid to the poor than the United States, has weathered the crisis better than we have. The euro crisis, then, says nothing about the sustainability of the welfare state.... (p. 14)

Applying Structural Adjustment Principles to the Eurozone

The austerity-driven economic policies of the Troika share the same lineage as the shock policies the IMF forced upon developing countries as a prerequisite for loans and assistance. SAPs were mandated by the IMF and the World Bank as a condition for developing countries to secure new loans or to lower interest rates on existing ones. The goal was to ensure repayment of debt by reducing a country's fiscal imbalances through spending cuts in health, education and social services; imposing higher user fees on state services; privatizing and selling off state assets; deregulation; eliminating trade barriers; and by monetary reform. Borrowers who failed to meet these conditions could be subjected to various fiscal penalties. Critics argued that financial threats to poor countries constituted blackmail, since they had no recourse but to comply. Critics of SAPs also claimed they compromise a nation's sovereignty, since an outside organization is dictating economic policy based on decisions made thousands of miles away (Karger, Iyani, & Shannon, 2007). Although SAPs were originally designed to address the economic conditions of developing countries, a SAP-based approach has been applied to heavily indebted Eurozone nations. As such, the critiques of SAPs above all too frequently apply to some southern Eurozone nations as well.

The IMF uses conditionality (i.e., conditions attached to a loan or aid) in developing countries to make sure loans are paid back (Dreher, 2004). With Eurozone borrowers, the conditionalities are based on austerity measures that lower the deficit regardless of the consequences to employment or the health and welfare of the population. In that sense, these conditions are harsher than those imposed on developing countries, since the IMF and World Bank require these countries to submit a Poverty Reduction Strategy Paper (PRSP) developed within a broad-based participatory process (Palast, 2003; World Bank, 2002). A PRSP is not something required of Eurozone borrowers.

There is a lack of evidence around the effectiveness of SAP-like approaches (Public Broadcasting System, n.d.). Sherle Schwenninger (2011) notes that in Greece the EU austerity program has set in motion "a vicious cycle of recession and debt, whereby austerity leads to recession, which in turn produces even larger deficits and debt, which in turn prompts calls for more austerity… ." (need pp #)

Paul Krugman (2011) argues that:

> austerity has been a failure everywhere it has been tried: No country with significant debts has managed to slash its way back into the good graces of the financial markets. For example, Ireland is the good boy of Europe, having responded to its debt problems with savage austerity that has driven its unemployment rate to 14 percent. Yet the interest rate on Irish bonds is still above 8 percent—worse than Italy. (p. 14)

The Dangerous Road

Forcing a severe SAP-like approach into the European context can have dangerous consequences. For instance, the slowdown in growth can exacerbate the current anti-immigrant backlash in Europe as jobs become scarcer and immigrants are seen as lower-paid competition. The dearth of jobs and benefits can also lead to an exaggerated form of nationalism ripe for extreme right-wing or fascist political movements. Sigmar Gabriel, Chairman of the German Social Democratic Party, warns that the austerity measures being imposed on Europe indicate how little we learned from the rise of the Nazi Party. Gabriel points out that the Chancellor of the Weimar Republic, Heinrich Brüning, cut successive budgets during the Great Depression. The end result was six million unemployed Germans who were fodder for a rising Nazi party (McGreevey, 2011). A similar warning was issued by Nikos Hatzopoulos, president of a Greek trade union:

> the wave of spending cuts that drives the social insurance system to the brink of collapse and Greek society to extreme poverty, is not the way. The collapse of the welfare system could trigger extreme unprecedented social tension within Greece in a first phase and a domino effect across Europe. (CNC World, 2011)

Gabriel and Hatzopoulos' warnings help explain the growth of far right-wing, anti-immigrant and pro-fascist parties across Europe. These groups include Austria's Freedom Party (formerly led by Nazi sympathizer Jörg Haider); Belgium's Flemish Block, Danish People's Party, France's National Front, Germany's Republican Party, German People's Union and National Democratic Party (largely neo-Nazi youth protest movements), Greece's Hellenic Front, and Italy's Northern League and National Alliance (pro-fascist). Other right-wing groups include Netherlands Pim Fortuyn's List (LPF), and Liveable Netherlands, Norway's Progress Party, Portugal's Popular Party, Swiss People's Party, and the British National Party (*The Guardian*, 2011).

Although France's far-right National Front, now led by Marine Le Pen (daughter of the founder Jean-Marie Le Pen), has moderated its positions somewhat, it still espouses a halt to immigration, reclaiming French sovereignty from the European Union, restoring the death penalty, and implementing "national preference" to reserve jobs, financial aid and public housing for French citizens over foreigners (Crumley, 2011). In a surprise vote, Le Pen placed third in the 2012 French presidential election with almost 18 percent of the vote.

Hungary is an epicenter of the neofascist movement in Europe. A 2012 survey by the Anti-Defamation League found that more than 60 percent of Hungarian respondents said that Jews "talk too much about the Holocaust" and 73 percent said Jews have too much power in the business world. Compared to 2009, the survey also found that "levels of anti-Semitism have increased most dramatically in Hungary, as well as in the UK and Spain" (Jovanovski, 2013).

Hungary's Jobbik Party was founded in 2003 by a group of Protestant and Catholic university students. It came to international attention when it received almost 15 percent of the votes in the European Parliament elections. In 2010 it became Hungary's third largest political party, capturing almost 17 percent of the vote. Jobbik is a virulently anti-Semitic and anti-Roma (Gypsy) party that proposes to abolish abortion, re-establish the death penalty, and create a special police unit to deal with "gypsy delinquency." Jobbik also operates a paramilitary arm called the Hungarian Guard (Hockenos, 2010; Ostrovsky, 2013; Stancil, 2009). Marton Gyöngyösi, a Jobbik MP, typified the anti-Semitism when he called for the creation of a "registry" of Jewish MPs and government officials in Hungary.

Perhaps not coincidentally, Hungary's public debt is the highest in central and eastern Europe, and its 2012 unemployment rate was almost 11 percent (nearly 30 percent for those under 25). It has been under the EU's deficit management procedure since 2006, the longest of any country (Globalpost, 2013).

German economic analyst Michael Mross observes that "Austerity means cuts. That means that you have cut the income of the poorest, that the social welfare will be cut down" (RT.com, 2011). In a modern industrial society, the welfare state acts as a buffer against absolute deprivation; promotes greater social mobility through affordable education, thereby making class lines more porous; redistributes resources; encourages consumption by providing social welfare benefits; and enhances economic productivity by providing affordable health care.

Conclusion

Europe's harsh austerity measures are counterproductive since they are leading to a cycle of recession, high unemployment, greater social instability, and accelerated income inequality. In the end, it is becoming increasingly harder for Eurozone nations to repay their debts in the context of their contracting or moribund economies. After years of harsh austerity measures, countries like Greece, Italy, Spain, Ireland and Italy have yet to return to economic health. If the developing world's experience with SAPs is any indication, the prognosis for achieving a strong economy through "expansionary austerity" is extremely poor. More likely, continuing severe austerity measures will only lead to more hardship. As the political demonstrations illustrate, Europe's population—especially the young—are increasingly less able to see a light at the end of the economic tunnel.

The stagnant or deteriorating economies of indebted Eurozone nations has caused the EU to rethink its austerity approach and begin to focus on stimulus and growth. European Commission officials are calling on member states to focus on increasing competitiveness by growth-boosting economic reforms. It is also asking member states to focus on lowering youth unemployment from their current disastrously high levels. At the same time, they are urging austerity measures to continue (Petroff, 2013). In the end, novel solutions—based on growth and stimulus—are needed for countries to rebound from their financial calamity without eviscerating their health, welfare, and education of its citizens.

Note: For consistency, all currency has been converted to U.S. dollars.

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