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AUSTERITY IS DESTROYING ANY CHANCE FOR ECONOMIC GROWTH IN STRUGGLING EUROZONE COUNTRIES, NEW LEVY STUDY SAYS

Eurobonds and More Powerful Federal Institutions Are Needed, Scholar Suggests

ANNANDALE-ON-HUDSON, N.Y.— With Spain, one of Europe's largest economies, now taking center stage in the financial crisis in the eurozone periphery, a new study from the Levy Economics Institute of Bard College argues that it is critical for European (EU) policymakers to adopt a pro-growth stance. In his new Public Policy Brief, *The Mediterranean Conundrum: The Link between the State and the Macroeconomy, and the Disastrous Effects of the European Policy of Austerity*, Levy Research Associate and Policy Fellow C. J. Polychroniou contends that the crisis in the eurozone has its roots in the imbalances generated by the flawed design of the European Monetary Union, as well as the regressive neoliberal political agendas in Greece, Spain, and Portugal over the past two to three decades.

In his study, Polychroniou traces some of the political roots of the economic crisis and argues that Greece, Portugal, and Spain had structural economic problems long before their entry into the eurozone. He chronicles the manner in which the governments of these three countries pushed a regressive agenda over the past 20 to 30 years, producing a macroeconomic climate that led to growing poverty and inequality, and that failed to lay the groundwork for sustainable growth. "Upon close inspection, the crisis in southern Europe (and, in all likelihood, in Ireland as well) evinces a strong relationship between political regimes, social policies, and the national macroeconomic environment, but not in the way it is usually portrayed by Brussels bureaucrats and the media," writes Polychroniou. "Instead of overly generous regimes, we have governments that aggressively pursued a neoliberal agenda, promoting the privatization of state assets and

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lagging far behind the rest of Europe in human and social services, investment in education, unemployment benefits, and tax collection. In fact, contrary to popular belief, government policies in countries like Greece, Portugal, and Spain, which form the core of the crisis in southern Europe, have on the whole been regressive rather than progressive." Polychroniou maintains that structural problems in countries in southern Europe became deeper during the process of European integration, as industry and agriculture shifted from the periphery to the core. "Once in the eurozone, southern European economies saw their competitiveness decline, and increasingly relied on borrowing as a means of sustaining an artificial 'bubble' economy," he writes.

Polychroniou contends that fiscal coordination, the EU's main task for stabilization, makes a mockery of the notion of an Economic and Monetary Union and that a more centralized plan for growth is needed. "The crisis in the periphery can be solved only through the EU's introduction of institutions and mechanisms that bear the distinct mark of a federal state: a powerful parliament with the authority to transfer surplus revenue for budget stabilization, a central bank that can act as a lender of last resort, the issuing of some type of eurobond, and a balanced relationship between federal authority and state (national) rights," he writes. "This is the direction the EU must take if it intends, not merely to survive, but to fulfill the aspiration of a continent to become a global actor, and to reclaim the values of sustainable economic progress and social justice that have been trampled by Brussels' neoliberal agenda."

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