One–Pager | No.26

25TH ANNIVERSARY
LEVY ECONOMICS INSTITUTE
of Bard College

The New European Economic Dogma: Improving Competitiveness by Reducing Living Standards and Increasing Poverty

February 14, 2012

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On Sunday, February 12, 2012, a day that will live in infamy, Greek lawmakers from the nation's two major political parties agreed on more austerity measures in exchange for a new European Union / International Monetary Fund (EU/IMF) bailout. They did so in order to "save the nation" from bankruptcy. The extent to which they read or even understood what the new EU/IMF memorandum documents entail is an open question (a number of ministers have admitted publicly to not even having read the terms of the first bailout package!). Essentially, what they agreed to are additional measures that are specifically designed to reduce the standard of living for the majority of the working population as a means of improving the nation's competitiveness. Aside from firing civil servants, the new memoranda are all about major private sector wage cuts and an overhaul of labor rights. In short, the new bailout package will do absolutely nothing to address the nation's economic crisis because, just like the first bailout scheme, it is not designed to rescue Greece's embattled economy. In fact, just like the first one, it will have the unwanted effect of keeping the nation locked in a vicious cycle of debt—and leading, finally, to its exit from the eurozone.

Greece is in some ways a hopeless case. Its political elite are thoroughly corrupt and incompetent. Three years into the nation's most ominous crisis in recent history and the political establishment continues to practice "politics as usual," failing to push forward with even basic and long-needed reforms. Greece's European partners are fed up with the country's political elite and its administrative system, but the policies they implement only make things worse.

The problem is that today's Europe is far more committed to economic dogma than to addressing economic realities. The EU (Germany, if we are to call a spade a spade) has a particular fixation with bringing down labor costs in order to improve competitiveness. As far as Berlin is concerned, Greece, in order to recover economically, must reduce wage costs to levels that prevail in the economies of the Baltic states! This is one of Germany's most important objectives in its handling of the Greek case. For Chancellor Merkel and the EU technocrats (and this includes the European Central Bank), national economies are like firms. They need to be as efficient as possible in order to compete effectively in world markets.

There are many things wrong with this dogma. First, competitiveness is in itself a highly misguided idea. It can mean different things and can be measured in rather different ways. There are at least four separate concepts of competitiveness: internal market competitiveness, external price competitiveness, external cost competitiveness, and competitiveness based on growth. Moreover, competitiveness is not an absolute but rather a relative concept. Germany's main source of growth has been its current account surplus, a direct result of deficits in the economies of the southern eurozone members. Indeed, with competitiveness there are always winners and losers. As such, eurozone economies would benefit more if there were stronger economic growth in Europe, instead of having governments adopt "lean and mean" survival tactics so that their economies can compete more effectively with one another.

Second, Germany's notion of competitiveness is not only misguided but also highly dangerous. There is a huge difference between a national economy and, say, Coca-Cola or Nokia. The only real concerns of the president and the executive board of a business firm are profit making and keeping the shareholders satisfied. A national economy, on the other hand, has a government (usually democratically elected) that has duties and obligations for its citizens' welfare and a general responsibility toward the common good (which means looking after the nation's national security, maintaining order, enhancing the cultural heritage, and protecting the environment for current and future generations).

In the case of Greece, restoring international competitiveness is being engineered to take place through a major "internal devaluation." Cutting wages—and, by extension, reducing living standards and increasing poverty—is the surest way to enforce "competitiveness," according to the German way of economic thinking. In sum, this is what the Greek lawmakers of the two major parties voted for the other day—in spite of huge opposition from the citizenry, which has long regarded its elected officials as "thieves" and "traitors." The shocking violence that has taken place in the streets of Athens and other major Greek cities, perpetrated by a bunch of political criminals on the day lawmakers voted on the new bailout, may be a prelude of things to come; especially when, a few months from now, the "troika" sees that its policies are making things even worse and insists on yet more austerity measures—with a finger pointing toward the eurozone exit.

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