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EU's Anorexic Mindset Drives the Region's Economies into Depression

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Despite the considerable evidence regarding the dramatic failure of Hooverian policies during the 1930s depression in the United States, Europe's political and economic elite have been responding to the current global crisis with measures that are overwhelmingly antigrowth and broadly concerned with price stability. The weapons used are restrictive fiscal policies, austerity, and wage cuts.

The coordinated contractionary policy on the part of the European Union (EU) was inspired by its belief that this is the most effective way to tackle the eurozone's "debt crisis," and, as such, it would help to revive business and consumer confidence. However, by ignoring the endemic problems of unemployment, poverty, and homelessness—all of which have as their underlying cause the contraction of economic activity—European economic policy reveals a growing gap with the real world. As a result, it poses serious dangers to the region's economies, most of which are already fragile and on the brink of a sharp and extended downswing, and to the prospects for a global recovery as well.

The EU's economic mindset is plainly neo-Hooverian in origin and scope. Its leaders have misjudged the nature of the problem facing the eurozone and the policies it implements are making the euro crisis worse. Yet, the EU chiefs remain stubbornly committed to flawed and dangerous economic dogma. Worst of all, blind faith in Calvinistic/free-market capitalism has become institutionalized in the EU, thus depriving national governments in the eurozone of the ability to rescue their faltering economies by adopting alternative, pro-growth economic strategies.

The southern eurozone has already been converted into an economic wasteland. In Greece, the austerity measures imposed have led to an incredible shrinking of the gross domestic product. Greece's GDP had declined by 17 percent in the last few years, and will soon reach the rate of GDP decline Argentina experienced when it defaulted in 2001. Greece's unemployment rate has skyrocketed during the last two years and now stands at slightly above 20 percent. Youth unemployment is a staggering 48 percent. More than 60,000 businesses faltered between 2009 and 2011, and an equal number are predicted to shut down this year. Thus, the unemployment rate will increase even further in the near future, especially when the conditions of the new bailout agreement (approved on February 20) go into effect. These include the layoff of 15,000 public employees and a new round of stringent austerity measures.

In Portugal, the situation is equally dire. Extreme fiscal tightening and harsh austerity measures have precipitated a violent decline in the standard of living, and unemployment has risen to more than 14 percent. The country's debt-to-GDP ratio has increased from 107 percent prior to the rescue package to 113 percent today, and it is expected to jump to 120 percent by the end of the year. Note that this is a nation that has done everything asked of it by Germany and the EU masters to get its fiscal house in order and to revive economic growth. In Ireland, yet another eurozone member state under joint supervision of the EU and the International Monetary Fund, the picture that emerges leaves hardly any room for celebration. The unemployment rate exceeds 14 percent and more than 70,000 people have emigrated because of a lack of jobs. Irish migration today is worse than it was in the 1980s.

In Italy, the official unemployment rate is 8.6 percent, but there are reliable sources (including the Bank of Italy) that estimate the real unemployment rate to be above 11 percent. Youth unemployment stands at 31 percent. Just recently, Italy's National Institute of Statistics reported that 24.5 percent of the population lives close to the poverty line.

In France, the second-largest economy in Europe and a stronghold of industrial capitalism, the unemployment rate approached 10 percent in 2011, while youth unemployment (ages 15–24) rose above 21 percent. In Spain, overall unemployment is 22.9 percent, and youth unemployment, at 48.7 percent, rivals that in Greece. The lowest youth unemployment rates are to be found in the core eurozone countries: Germany (7.8 percent), Austria (8.2 percent), and the Netherlands (8.6 percent).

Overall, eurozone unemployment stood at 10.4 percent at the end of 2011, with the figure registering an increase over the previous year. This translates to 16.5 million unemployed people.

To say that Europe has a serious unemployment problem is probably an understatement. For years now, Europe has been commited to "inflation targeting" and public deficit reduction rather than to growth and employment—and its societies are paying a huge price. The culprit is conservative economic policy.

Europe is in dire need of an economic and political revolution. It needs an immediate return to Keynesian measures and a new institutional architecture for the eurozone. It needs to move toward a United States of Europe. If such steps are not taken, Europe's economies and societies could very well end up in a situation similar to that of the United States in the 1930s.

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