The EU's deal on Greece shows that Europe remains wedded to the politics of austerity

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On 20 February, Greece agreed to a four month extension of its current bailout programme, subject to the approval of reform measures proposed by the Greek government. **André Broome** *writes that while the election of the Syriza-led coalition in Greece was initially hailed as a game-changing event that could bring an end to austerity in Europe, the negotiations between Greece and the 'Troika' demonstrate why a sharp turn away from austerity policies in Eurozone bailouts remains highly unlikely.*

The fiscal straightjacket laid down by the 'Troika' of the European Commission, the European Central Bank (ECB), and the International Monetary Fund (IMF) in return for sovereign bailouts in the Eurozone has repeatedly pitted the 'will of the people' against the 'austerity consensus' shared among key players in Brussels, Frankfurt, Berlin, and Washington DC in the last five years.

Maintaining austerity regardless of the level of popular contestation and resistance has become the central pillar around which the EU's response to the Eurozone debt crisis has been woven, leading to a crisis of democracy as elected politicians from Greece to Cyprus to Portugal and elsewhere failed to respond to public demands for policy alternatives. As a result, the economic and social pain associated with Eurozone bailouts has severely undermined public legitimacy for the policy decisions taken by political elites in distressed Eurozone economies and, arguably, for EU institutions that have become the enforcers of 'fiscal consolidation' in debtor states.

Wolfgang Schäuble, Germany's Federal Minister of Finance, Credit: Chatham House (CC-BY-SA-3.0)

Even within the supranational governance arrangements of a monetary union, individual national governments usually seek to maximise their discretion over major fiscal policy choices, and will often resist or simply ignore external policy advice that cuts across their domestic political interests. These dynamics are dramatically altered when external policy recommendations become formal 'conditions' that are backed up with financial incentives for domestic compliance through sovereign bailouts. In such circumstances external pressure for a government to comply with a shopping list of specific policy changes does more than simply limit the immediate range of policy choices politicians have at their disposal as crisis management tools, it also shapes how key economic problems are defined, establishes an order of policy priorities, and signals the direction of longer-term structural reform objectives.

In previous crisis episodes the IMF has often played the controversial role of championing fiscal austerity in its interactions with governments that need emergency financial assistance. An important distinction in the Eurozone debt crisis is that the IMF has gradually moved to rehabilitate its damaged reputation through embracing unorthodox policy tools such as capital controls and by arguing against the theory that austerity somehow stimulates growth.

This time, it seems, those on the receiving end should blame key European decision-makers and EU institutions for the burden of austerity along with their own governments as much as, if not more than, they attribute blame to an international organisation based in Washington DC.

Even so, the idea that fiscal austerity is an essential ingredient for *economic stabilisation* – if not for growth as such – is one of the few pieces of IMF policy advice the organisation has consistently urged its borrowers to adopt throughout financial crises over the last three decades. For the IMF, as for the Commission and the ECB, getting the basics right in managing a sovereign debt crisis requires cuts in public spending, or at least slowing the rate of spending growth.

The 'new' politics of austerity in Europe

The public contestation of austerity measures remains highly uneven both within the Eurozone and across the wider EU. A large part of the British public has implicitly accepted austerity as an inevitable response to an earlier bout of overspending, while in Germany the government continues to prefer a strategy of 'muddling through' the Eurozone crisis rather than engaging in a bolder rethink of the consensus among the EU's political elites on the need for 'austerity-at-any-cost'.

In non-Eurozone economies such as the UK, the obsession with austerity as the linchpin of crisis management has reduced the political pressure to engage with the problem of growing household indebtedness to compensate for stagnant or falling wages. Within the Eurozone this obsession has focused public attention on the new Greek government's attempts to ease the terms of its bailout loans as though it is akin to a high-stakes poker match between two players, a zero-sum game where one player's victory means substantial losses for the other player.

Like the Syriza-led coalition government in Greece, any government that engages in hardball sovereign debt renegotiations will need to tough it out in the face of enormous pressure to settle as debt repayments start to fall due. Yet by turning this challenge to Europe's austerity consensus into a long-running poker game, the focus on the Greek government's battle with the 'Troika' risks obscuring the fact that it is driven by widespread public demands for elected representatives to contest the idea of austerity as the 'silver bullet'solution to economic distress in Europe.

The IMF has shown in recent years that even highly bureaucratic organisations with long-standing preferences can gradually rethink the merits of policy paradigms they previously championed, resulting in a slow process of transformation and, potentially, institutional renewal. While the organisation may continue to make a virtue of the need for fiscal consolidation by indebted economies, compared with the rest of the 'Troika' the IMF is quite conspicuously a champion of economic stabilisation rather than austerity-at-any-cost.

As an earlier spat with the Commission over the IMF's willingness to admit to making policy mistakes in its response to the Greek debt crisis suggests, decision-makers in Brussels as well as in Frankfurt and Berlin are now the main defenders of a one-size-fits-all approach to crisis management in Europe. Regardless of how good or bad the deal is that is eventually agreed (or, perhaps, not) between Greece and the Commission, the ECB, and the IMF, as long as Europe's decision-makers remain committed to prioritising fiscal consolidation by debtor states over democratic responsiveness to public demands for policy alternatives, the 'new' politics of austerity in Europe will continue to closely resemble the 'old' austerity of the last five years.

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