HEINRICH BÖLL STIFTUNG
NORTH AMERICA

The Euro Zone Drama: Classical Drama in Five Acts or Reincarnation of an Old Idea?

by David Hoffmann

About the Author

David Hoffmann is an intern in the Heinrich Boell Foundation North America's Economic Governance program. He is currently completing a Master's degree in Global Political Economy at the University of Kassel.

Published by the Heinrich Böll Stiftung
Washington, D.C., May 2015

Author: David Hoffmann
Editor: Nancy Alexander, Lauren Edwards
Design: Lauren Edwards
Cover image: P6260243, photo by FP #168563 (CC BY 2.0)

Heinrich Böll Stiftung

Washington, D.C. Office
1432 K Street, NW
Suite 500
Washington, D.C. 20005
United States
T +1 202 462 7512
F +1 202 462 5230
E info@us.boell.org
www.us.boell.org

The Euro Zone Drama:

Classical Drama in Five Acts or Reincarnation of an Old Idea?

by David Hoffmann

A political earthquake marked the beginning of the year 2015. For the first time in the history of the European Union (EU), a populist left party, SYRIZA – which is the coalition of the radical left in Greece – won a major election. This atypical alliance of different streams within the left spectrum offers new perspectives on the current crisis. Such perspectives also come from the new Greek Finance Minister Yanis Varoufakis, who in his previous academic work presented alternative approaches to the current austerity regime and an economically imbalanced Europe. His ideas will be described in this paper as part of the solution for the European crisis. However, since January 25th, the day when the Greek people gave SYRIZA and its charismatic political leader Alexander Tsirpas the mandate to lead Greece out of the crisis, the EU has faced an existential challenge, the solution to which determines nothing less than the collective survival of the EU or its dissolution into single nation-state entities. Some people might find this terminology a bit too harsh or even dramatic but it seems that the vaunted "muddle through" tactic of the European leaders has reached its endpoint, and the European community is facing a watershed moment.

This paper contends that it is still possible to overcome the disparities between the wealthy northern European member states and their poor southern counterparts - which over the course of the European crisis reached a peak level. But this possibility can only emerge if the EU agrees on a major political shift away from an exploitive and destructive austerity regime and towards a sustainable and solidly united Europe. If the EU fails to shift its position, fascist, Populist Rightwing Party's could utilize the desperation and anger of the people and fuel nationalism, xenophobia, racism and finally tear down the whole European project. Sound dramatic? Indeed it is, but thankfully all European citizens are actors in this political drama and instead of the fatalistic beliefs and resignation of characters in the classical dramas of the 18th century, the people of Europe can decide about their own agency, and each one can advocate for a better and sustainable Europe. This paper can be understood as a piece of advocacy for a more sustainable Europe, but there is not much time left since four out of five acts are already over and we have to ensure that this political drama does not end in the classic catastrophe of the fifth act.

Act One: The Dawn of the Crisis

The scenery of the euro zone drama takes place on the European continent. After the devastating moment of World War II, the continent experienced an unprecedented time of growth, harmony and prosperity. Despite plenty mistrust and aversion between different European countries, the predecessor institutions of the EU initiated a process of economic integration. In the beginning, the integration was purely understood as an economic necessity to facilitate growth and prosperity in the post-war economies. The formulation of the European treaties became soon a political project in itself, which was based on trust, shared values and interest in long-term peace and partnership within the continent. In light of this political project, the main character of our drama, the "European Monetary Union (EMU)", hit the stage in 1992 through the Treaty of Maastricht. Seen as the most visible manifestation of the European integration process, the EMU was supposed to strengthen the single market, reduce transaction costs, facilitate further intra-European trade and thereby guarantee long-term growth.

The main character of our drama, the "European Monetary Union (EMU)", hit the stage in 1992 through the Treaty of Maastricht.

Paul Krugman (2011) criticizes that the European leaders of those days overemphasized the symbolic political power of the euro and disregarded the economic difficulties of a currency union. Despite doubts about whether southern member states such as Greece were even complying with the basic convergence criteria,[1] the EMU was implemented as a strong political statement. Accordingly, as early as 2002 when the Euro was launched, economists pointed out that long-term problems such as increasing disparities and the vulnerability of the whole system were likely to occur. "EMU is a high-risk strategy. There is a serious economic risk in the irrevocable fixing of exchange rates and 'one-size-fits-all' monetary policy, while other adjustment mechanisms are still very weak and economic divergence persists [...] EMU could have a negative effect in terms of output and employment for the Union as a whole, with more losers than winners" (Tsoukalis 2008: 245).

This assessment was pretty accurate, because since the eruption of the 2008 financial crisis, the EU experienced a neverending crisis, including huge economic disparities between and among countries, which were facilitated within the first years of the EMU. Strong export-oriented nations gained huge trade surpluses on the one side, while there were importing nations with low competitiveness but new access to cheap capital on the other. Germany, for instance, was able to increase its competitiveness through structural reforms[2] in the early 2000s and was transformed through its massive

1 See the website of the EU: http://europa.eu/legislation_summaries/other/l25014_en.htm
2 The economic success of the structural reform program in Germany is now a day's more accepted than ever before. However, the social costs were immense and till today not acknowledged in the mainstream debate: millions of people plunged in precarious employment and poverty, justified by

export surpluses from the "sick man of Europe" to the economic superstar of the continent (Dustmann et.al. 2014, 168). Greece, on the other hand, financed its huge growth rates in the beginning of the century on the basis of imports, which triggered a massive current account deficit and increased debts (especially the debts of private actors). The outbreak of the financial crisis of 2008 and the widespread recession in Europe triggered necessary and inevitable changes in internal European trade relations, business as usual was not an option anymore.

Act Two: The Rise of the Austerity Regime

In act two of a classical drama, the situation usually tightens and the already evident antagonism between the characters intensifies. Similarly, in the course of the euro zone crisis, the separation between North and South got even worse. Some crisis countries were not able to pay their debts anymore and were in need of bailouts by the wealthier countries. The priority of the creditor countries was to guarantee the payments of debtor countries to foreign (mostly German and French) banks and to avoid bankruptcy of those financial institutions, which were labeled as "too big to fail" (Polychroniou 2013, 3). The so-called country bailouts were accordingly bailouts for northern European banks, which transformed private debts into public debts. Now these public debts are a huge burden for the current and future generations of all involved states. However, the money for the bailouts was only provided under specific conditions, which should finally facilitate the recovery of the crisis economies. Led by the influential German government, the European strategy to revitalize growth in the crisis countries was and still is based on public debt reduction and increased competitiveness with the aim of boosting export-led growth (Berger 2013, 1). The strategy created constraints and obstacles within the EMU because its member states were not able to implement the common approach to such situations – namely, to devaluate the national currency. They could, however, decrease Unit Labor Costs (UCL).

The so-called country bailouts were accordingly bailouts for northern European banks, which transformed private debts into public debts.

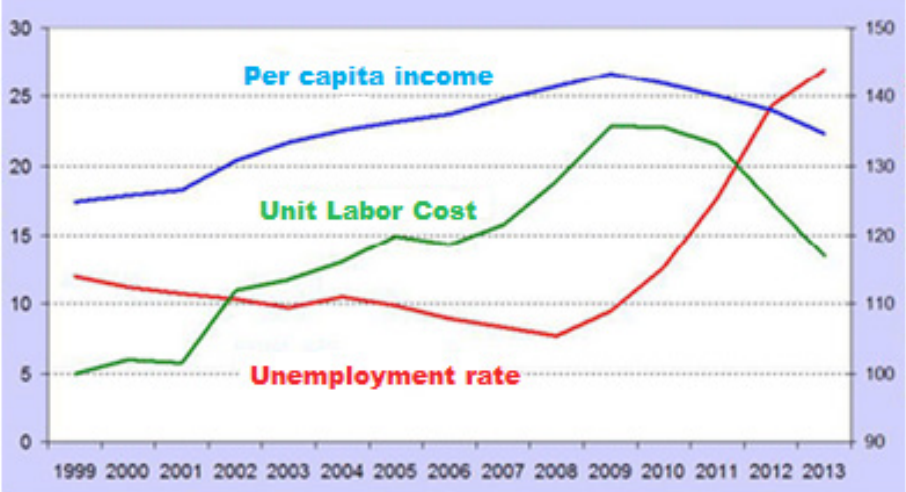
"The program had to work within the constraints of the fixed exchange rate and engineer an internal devaluation. Part of the adjustment in ULC would come from the economic slowdown that would exert downward pressure on wages. The rest would follow from structural reforms that would free up Greece's [and all other crisis countries] rigid labor and product markets and raise productivity" (IMF 2013, 22).

Thus, the concerned countries massively cut Unit Labor Costs. Greece's reform package was especially successful concerning the internal devaluation

the agenda policy in the name of competitiveness (Butterwegge 2013).

and thereby also achieved the desired increase of exports (See Figures 1 & 2).

Figure 1: Labor statistics after austerity (Berger 2013, 3)



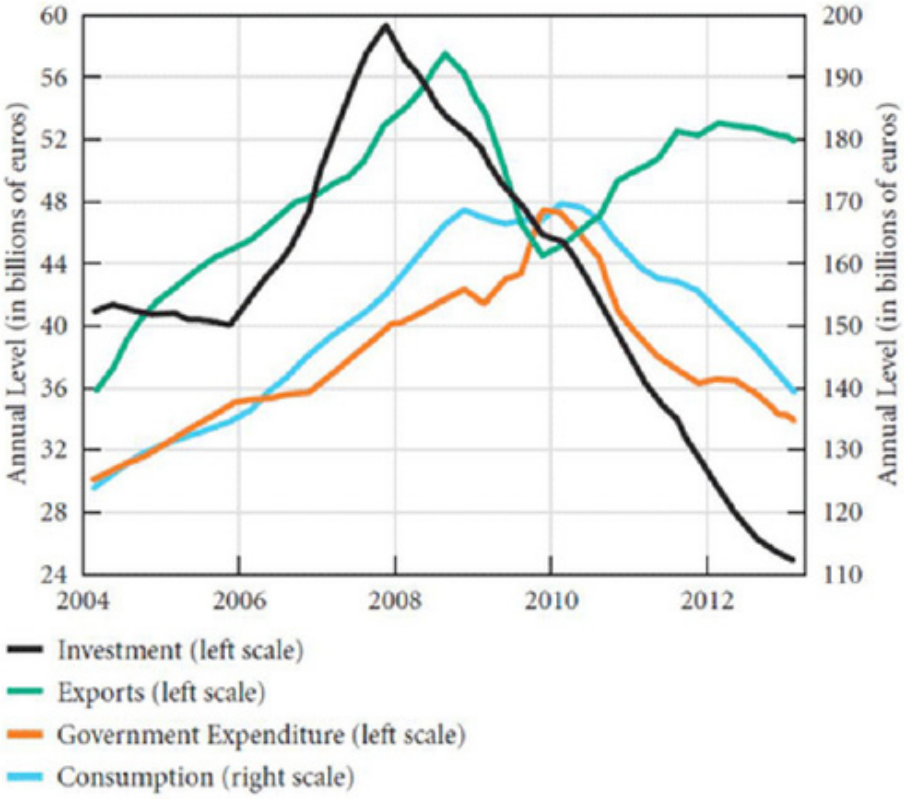
The reanimation of the economies failed and the combination of public budget cuts and significant decreases in wages further facilitated the race to the bottom.

Nevertheless the program failed in its aim to lead the affected countries and especially Greece out of their crisis. In their calculations for the structural reform packages, the so-called Troika (alliance of the creditors and responsible for the elaboration and supervision of the reform programs), the International Monetary Fund (IMF), European Central Bank (ECB) and European Commission (EC), completely underestimated the decrease in domestic demand and its shocking consequences for local businesses and private households (Berger 2013, 3). Flassbeck (2013) concludes that despite a USD 8 Billion increase of exports, the reanimation of the economies failed and the combination of public budget cuts and significant decreases in wages further facilitated the race to the bottom.

However, the drama did not only intensify within the economic sphere, but also the political arena. Under the lead of the German Chancellor Merkel, the austerity regime was preached as "without an alternative", and indeed, regardless of whether the national governments consisted of center-left or center-right parties, the austerity regime continued in defiance of the demands for change articulated by the people. The Belgium political scientist Chantal Mouffe (2014) sees a huge threat in this empty form of political contest. She predicts that populist right-wing parties will thrive as a direct consequence of this form of "alternative-less" politics. "Either the people lose their interest in politics – that's why there is so much abstention – or the people tend to vote for right-wing populist parties." The European elections of 2014 provide evidence for such a radicalization of Europe. Populist and extremist parties celebrated huge victories all over Europe, and the Front National became the strongest French party in the European Parliament

(EP). Some of these parties are considered a real threat to the European project, opposing other cultures, the European identity and showing openly their fascist and xenophobic way of thinking.

Figure 2: Trade statistics after austerity (Berger 2013, 3)



Instead of a necessary, intensive political contest about policy alternatives, the EU faces a populist and nationalist debate.

Instead of a necessary, intensive political contest about policy alternatives, the EU faces a populist and nationalist debate. The economic imbalances exacerbate diplomatic tensions between the different member states of the euro zone (Fantacci 2012, 4). Because the European identity is so brittle, the region's population creates "others" that reinforce their own national identities. As a result, national identity is negatively constructed as something which needs to be protected from the outside (Faramelli 2013). Accordingly the discourse is full of militaristic and nationalistic populism. Only two examples out of countless newspaper smear campaigns or populist statements of European politicians follow:

Sweden's Finance Minister, Anders Borg, said: "Obviously, Swedes and other taxpayers should not have to pay for Greeks who choose to retire in their 40s" (The Guardian 2015b).

Die "Schummel-Griechen machen mit ihrem Schuldendrama unseren Euro kaputt" (BILD 2010). Own translation: The cheating Greeks destroy our

Euro through their debt drama.

Citizens also broaden the use of negative stereotypes and use the "other" to strengthen their national identity as contrasted with their fellow Europeans. Some protesters, for instance, used pictures of Chancellor Merkel in a Nazi uniform during their demonstrations against austerity in the streets of Athens. They argue that the German government follows some form of neo-colonial desire to destroy the heritage of the Greek ancient empire (a clear use of othering). These examples show that the political climate in the euro zone shifted tremendously within the last decade from a atmosphere of European unity towards a fragile imbalanced Europe with revitalized nationalism - an precursor of the imminent climax of our drama in the third act.

Act Three: The Humanitarian Crisis and SYRIZA's Victory

The previous acts illustrated that the structural reformation of the crisis economies did not leave the citizens within the concerned countries unharmed; to the contrary, it created a destructive power never before imagined that plunged millions of people into poverty. It is beyond the scope of this paper to describe the situation of the affected people, which creates the climax of our drama. However, act three should be understood as an effort to demonstrate the destructive power of austerity. All countries that were required to implement the austerity regime face similar consequences and patterns of impoverishment among massive parts of their populations. Austerity affects almost every sphere of daily life: education, labor, mobility, health, nutrition, energy, civic rights, democracy and many more. In the following section, only two spheres are described in a bit more detail to illustrate the grievances of millions of affected people in the periphery of Europe: labor and health. Since Greece faced the most radical austerity regime, the following data and examples describe the Greek case. However, all affected countries share similar patterns and show comparable data for their impoverished citizens.

Austerity affects almost every sphere of daily life: education, labor, mobility, health, nutrition, energy, civic rights, democracy and many more.

Labor: The expansion of precarious employment in southern Europe is not new. Even before the bailouts and the conditions of the Troika were introduced, market reforms were adopted and the strength of labor movements was sapped. However, the scale and scope of this process intensified tremendously through the agreements with the new creditors (Papadopoulos 2013, 213). One of the most important preconditions of the 2010 bailouts was the flexibilisation of labor. Part-time jobs significantly increased through the implementation of the structural reform package,[3] as the number of

3 In 2009 16,7% of all new signed contracts were part-time contracts. In 2010 this number reached 26,1% and 2011 30,9% (Papadopoulos 2013, 214).

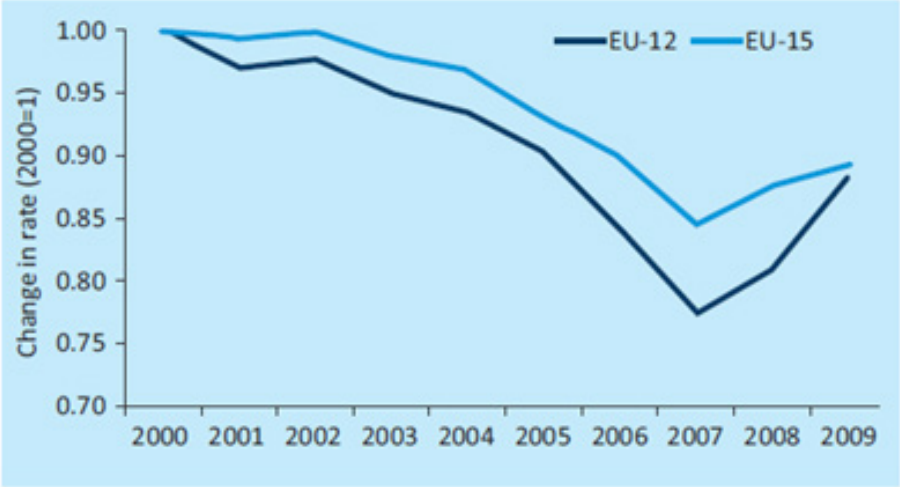
new full-time contracts reverted to the level of previous years (ibid.). "It is interesting to note here that current wage levels for part-time (4 hour/ working day) jobs are at €293 (€250 after contributions)" (ibid., 214). To further facilitate the internal devaluation of the Greek economy, the IMF also recommended a real wage decrease of at least 15% in the private and public sector. Once again, the PASOK government (center left) was overly ambitious and decreased the wages in the public sector by about 25%. In the private and public sector, minimum wages were massively reduced and further constraints for young workers hit this vulnerable group especially hard (ibid.). Accordingly, a new wave of emigration occurred in the course of the crisis. Young and educated people especially tried to escape and start a new promising life in Northern European countries. The immigration from Greece to Germany, for instance, increased by about 73% between 2011 and 2012 (Berger 2013, 10).

The reform package facilitated ongoing processes of dispossession and threw millions of people into precarious employment and poverty.

The creditors also demanded huge reductions in government spending, which forced state servants to retire or be fired in large numbers. "In November 2012, and in order to reduce government expenditure, the government voted for 30,000 public servants, all aged over 60 to be placed on an official "labor reserve", with the number expected to reach 100,000 by the end of 2015" (ibid., 213). This labor market reform, initiated and required by the Troika in return for the bailouts, illustrates the consequences for normal laborers in Greece and helps explain the following statistics: in 2013 "the official unemployment rate in Greece [stood] at 27 percent, while youth unemployment [...was] above 62 percent and more than 30 percent of the population live[d] near or below the poverty line" (Polychroniou 2013, 3). The overall assessment of the labor market reforms in the course of implementing the structural adjustment packages is shocking. The labor force was dismantled and weakened as never before. The reform package facilitated ongoing processes of dispossession and threw millions of people into precarious employment and poverty.

Health: The breakdown of the Greek health system illustrates how austerity is not only impoverishing people, but literally is killing them. This justifies the dramatic framing of a humanitarian crisis. The most obvious statistic is probably the suicide rate in the EU. After years of decreased rates within Europe, suicide rates increased again after the onset of the crisis (See Figure 3). Long-term studies showed that social protection systems and active labor market programs are key strategies to avoid an increase in suicide rate in times of crisis – but the austerity regime in Greece is dismantling those (McKee et. al. 2012, 347). Another indirect consequence of the crisis and austerity in Greece is the increase in diseases such as HIV/AIDS. Impoverished people increasingly used intravenous drugs to deal with their new realities in the face of the crisis and austerity programs (ibid.).

Figure 3: Trends in suicides in Europe - indexed on the rate in 2000 (WHO mortality database)



All these examples illustrate Greece moving downstream from a wealthy European periphery state towards a developing country, which cannot provide its citizens with basic services because of its fiscal obligations.

However, beyond these indirect health consequences of the crisis and austerity, austerity directly caused tremendous harm through cuts in the budget of public health care system. A cut in the subsidies for pharmaceutical products led to a collapse in necessary supplies of basic medicines. Budget cuts led also to several shutdowns of public health stations and triggered a service shortage in many regions of Greece, which again triggered a reality wherein a shocking "number of people [...] were not seeking care even though they believe[...] it to be medically justified" (McKee et.al. 2012, 248). Street clinics - originally used to treat undocumented immigrants - are nowadays increasingly used by ordinary Greek people. Hospitals, highly constrainted by the budget cuts, are complaining about the lack of equipment for certain operations and the fact that expensive pharmaceutics for cancer patients are no longer available (Berger 2013, 10). All these examples illustrate Greece moving downstream from a wealthy European periphery state towards a developing country, which cannot provide its citizens with basic services because of its fiscal obligations.

The recent victory of SYRIZA needs to be understood in the light of these dramatic developments for the people of Greece.

"A public debt crisis has been used as an opportunity to dismantle the social state, to sell off profitable public enterprises and state assets at bargain prices, to deprive labor of its most basic rights, and to substantially reduce wages and pensions - creating de facto a banana republic" (Polychroniou 2013, 3).
SYRIZA used this momentum and formed an alliance with the ordinary Greek people to fight the austerity regime, the profiteers of the system and the lack of democracy. Their election campaign was primarily focused on

the shift from an exploitive austerity regime towards a sustainable Europe. They utilized populism, made many promises and advocated for an end to the humanitarian crisis as soon as possible. However, following Mouffes already outlined argument, SYRIZA finally won because they offered a radical alternative to the current political elite, which refused to break with the imposed austerity regime and preached its infamous slogan "there is no alternative." That is why the huge victory of SYRIZA can be understood as an overthrow of the former political class in Greece and a last chance for democracy to fulfill its political mandate against the interest of the European creditors. Berger (2013, 10) fears that if SYRIZA fails, the Greek electorate will draw its last available card: the openly fascist and xenophobic Golden Dawn Party, which has already drawn more and more support in the course of the crisis and was the third strongest party in the January elections (Guardian 2015a).

Act Four: Time is running out

Three months after the Greek elections and countless EU summits later, the situation in Europe has not yet significantly changed. The southern European countries are struggling with their fiscal obligations, populist left and especially right movements are thriving, and the humanitarian crisis still continues. There is a new development though - the strong antagonism between the newly elected Greek government (demanding a change) and the other European member states (preferring business as usual). SYRIZA seems serious about its mandate to end austerity – a demand of Greek citizens - and is advocating a paradigm shift in Brussels.

The southern European countries are struggling with their fiscal obligations, populist left and especially right movements are thriving, and the humanitarian crisis still continues.

This envisaged paradigm shift away from austerity was already promoted earlier by the newly appointed EC after the last European elections and numerous Members of the EP, who have been calling for an investment program for the crisis countries for several years - among them multiple green parliamentarians. Recently, a group German leftist Greens formulated a position paper in which they demanded urgently an end of austerity and, instead, an approach which fosters sustainable green investments against the crisis (Grün Links Denken 2015). Unfortunately, those approaches have not yet been heard and their power is limited. Even the investment plan of EC president Jean-Claude Juncker did not find support with the national governments and seems too small to make any difference (Die Linke 2015).

However, right now the situation is dramatic. Greece needs more money to service its debts and avoid uncontrolled bankruptcy, thereby forcing an exit out of the EMU. "The last three month have produced a series of meetings [with the aim of renegotiating the debt deal] characterized by increasing frustration on both sides" (Guardian 2015b). The European finance minis-

ters demand a precisely developed plan and commitment to structural reform as a precondition for a new debt deal. Yanis Varoufakis and the Greek government are willing to deliver certain reformations, but only if they do not follow the irrational logic of the past programs. "The Greek government wants a fiscal-consolidation path that makes sense, and we want reforms that all sides believe are important" (Varoufakis 2015). At the time of writing, it seems as though the negotiations have reached a deadlock:

"I would describe today's meeting as a complete breakdown in communication with Greece." Malta's finance minister Edward Scicluna (The Guardian 2015b).

"FDR, 1936: >>They are unanimous in their hate for me; and I welcome their hatred<<. A quotation close to my heart (& reality) these days" Tweet from Yanis Varoufakis (Twitter, 04.26.2015)

If Greece does not receive another payment from its European creditors in the end of June, bankruptcy will not be averted.

The antagonism between the two negotiating parties is too huge to muddle through once again. In addition, time is running out. If Greece does not receive another payment from its European creditors in the end of June, they will not be able to service their debts with other creditors anymore and bankruptcy will not be averted. Is this deadlock an omen of an imminent catastrophe in the fifth act?

Act Five: GR€XIT or the reincarnation of an old idea?

Every classical drama ends with a catastrophe in the fifth act; usually, the leading characters face a disastrous destiny, like the character Hamlet, who is destined to die in the fifth act of the play by William Shakespeare. The catastrophe of the euro zone drama would be the uncontrolled bankruptcy of the Greek state – the so-called GR€XIT (Greece's exit from the EMU), which would than possibly trigger the collapse of the EU through an uprising of right wing parties all over Europe, beginning in Greece itself through the Golden Dawn Party. The threat of such a scenario is more probable than ever before, since the negotiators are not yet able to agree on the next step in the debt negotiations. Chantal Mouffes' argument illustrates that "business as usual" is not an option anymore. If the EU wants to avoid majorities for radical right wing parties, they have to offer real political alternatives and listen to the demands of the citizens of Europe. However, these alternatives are barely present in the current political discourse. The position paper already mentioned by some green politicians is one of the rare positive exceptions.[4]

4 The full position paper: http://www.gruen-links-denken.de/wp-content/uploads/2015/03/Wirtschaftswandel-statt-Kosmetik.pdf

It is a bit different if we examine the academic discourse and a specific school of economics: Keynesianism. Plenty of Keynesian scholars and politicians (among them Yanis Varoufakis) advocate for the reincarnation of an old idea promoted by John Maynard Keynes at the Bretton Woods Conference in 1945: an international clearing union (ICU). According to them, this institution would be able to solve the EMU's systemic failures and create a more sustainable Europe without economic disparities. Keynes dedicated his entire life to finding a solution for the inherent trade problem of disequilibria in trade.

"The problem of maintaining equilibrium in the balance of payments between countries has never been solved, since methods of barter gave way to the use of money and bills of exchange. [...] [T]he failure to solve this problem has been a major cause of impoverishment and social discontent and even wars and revolutions" (Keynes 1941, quoted in Fantacci 2012, 2).

Surprisingly, about 70 years later, the current crisis within the EMU is based on exactly the same problem: imbalanced trade relations.

Surprisingly, about 70 years later, the current crisis within the EMU is based on exactly the same problem: imbalanced trade relations (as outlined in the first and second act). Keynes's passion for this problem is grounded in his experience of witnessing two world wars, the causes of which were at least partly rooted in economic imbalances and the failure of the Versailles peace treaty (1919), which did not embrace a restructuring of the global economic system (Fentacci 2012, 3). The purpose of the Bretton Woods conference was exactly this restructuring of the global economy towards a more sustainable and balanced system. At this conference, two plans were discussed in detail, Keynes's ICU and a plan by Harry Dexter White, a US attorney. Keynes Plan was rejected and White's plan, representing the interests of the US, prevailed. It introduced the Bretton Woods System of fixed exchange rates, as well as the IMF and the World Bank as leading financial institutions. Unfortunately, these institutions had no mechanisms to avoid structural trade disequilibria. However, over almost three decades the system worked well, since the plan was intended to facilitate the reinvestment by the USA of its trade surplus overseas. Germany and Japan were chosen to fulfill similar surplus positions at a regional level. The Marshall Plan was one element of the plan to secure the rise of Japan and Germany as economic powerhouses in their region (Varoufakis 2011, 3). Keynes, however, was aware that a system of fixed exchange rates could not withstand a major economic crisis. Countries would try to depreciate their currencies and follow a "beggar thy neighbor" policy, as they did in the early 1970's, when the US itself became a deficit country. At that point, the USA had to declare the end of the Bretton Woods System, but "the greatest loser would not be the United States itself but Europe and Japan; the two economic zones that had benefited mostly from the global plan" (Varoufakis 2011b, 6). Through this historic example, it becomes clear that highly interconnected economies

at the international or regional level need a surplus recycling mechanism, which is stable enough to avoid or at least withstand economic crises. Such a mechanism is very common on the national level, where economically strong regions support the weaker ones through a redistributive tax system or similar mechanisms (Varoufakis 2011, 3). If interrelated economies are to attain long-term stable growth, they cannot allow fissures among its single entities, such as what happened in the early 1970's and is currently happening in the euro zone. "We cannot all be simultaneously successful neomercantilists" (Krimpas 2010, 4). Keynes plan of 1945 took this into account when he developed the ICU and created incentives for both surplus and deficit countries to reach a current account equilibrium. The aim of his ICU was "to facilitate the expansion and growth of international trade, [...] to promote exchange stability, [...] and lessen the degree of disequilibrium in the international balances of payments of members" (Keynes quoted in Massimo and Fantacci 2013, 122). According to several authors of the Keynsian school of thinking, the ICU could be one mechanism to solve the euro zones systemic contradictions and create a sustainable trade regime.

If interrelated economies are to attain long-term stable growth, they cannot allow fissures among its single entities, such as what is currently happening in the euro zone.

Keynes greatest challenge was to create a mechanism that ensures that surplus and deficit countries have an interest in achieving a trade equilibrium. First, the deficit country obviously has an interest in leaving its disadvantaged position in trade relations invest in the own economy to foster demand and productivity. "The ICU would grant each member country an overdraft facility, i.e. the right to borrow at a zero interest [rate] from the International Central Bank. [...] In this manner, deficit countries would be given the flexibility to boost demand in order to arrest any debt-deflation cycle without seeking to undervalue the currency" (Varoufakis 2011, 5). This completely contradicts the logic that we are witnessing in the southern European deficit countries, wherein domestic demand collapses in course of the internal devaluation and the absence of necessary investments. However, these investments are needed to regenerate domestic demand; even the EC president acknowledged this through his investment plan. One may wonder about the source of money for an overdraft facility, but this is the key of the Keynesian mechanism. That is, it creates an incentive for each surplus country to minimize such surpluses and reach an internal equilibrium. The mechanism would call for charging a penalty when a country accumulates large trade surpluses, which in turn is used to finance the overdraft facilities and investments for the deficit countries (Varoufakis 2011b, 5). A situation such as the one we face in Europe right now would not occur, because the German government would spend billions of euro as penalties for their huge trade surplus and would have the incentive to boost the domestic demand e.g. through wage increases, rather than focusing predominantly on exports and boosting its competitive advantages. It is this surplus recycling mechanism that is needed in the euro zone, where the austerity regime and inter-

nal devaluation have failed so badly. However, it will be extremely difficult to convince the surplus countries in particular to agree to such a mechanism, since short-term economic success is accorded greater value by the electorate than the erosion of sovereignty and the financing of deficit countries, even though it would create greater prosperity for the entire euro zone in the end. Nevertheless, it is important to advocate this or other ideas that offer a path towards a sustainable, united Europe and end the crisis, because if we cannot change the status quo soon, the euro zone drama will most likely end in the classic catastrophe of the fifth act. And even if the EU does not implement the ICU, one thing has become clear: austerity failed and is only exacerbating the crisis.

Literature

Berger, Jens (2013): Austeritatspolitik in Griechenland: Oekonomische Verwuestung statt eines exportgetragenem Wachstums, [online] available at: http://www.nachdenkseiten.de/?p=19020 (Accessed 30th April 2015)

Butterwegge, Christoph (2013): Auf dem Weg nach Unten, In: Süddeutsche Zeitung, April 3rd 2013, (online) available at: http://www.sueddeutsche.de/politik/zehn-jahre-agenda-auf-dem-weg-nach-unten-1.1638856 (Accessed 30th April 2015).

BILD (2010): Studie uber Athener Pleite-Wirtschaft, [online] available at: http://www.bild.de/politik/wirtschaft/griechen-zahlen-laut-transparency-1355-euro-bestechungsgeld-11669512.bild.html (Accessed 30th April 2015).

Die Linke (2015): Junckers Investitionsoffensive schon gescheitert? (online) available at: http://www.die-linke.de/nc/die-linke/nachrichten/detail/artikel/junckers-investitionsoffensive-schon-gescheitert/ (Accessed 30th April 2015).

Dustman, Christian; Fitzenberger, Bernd; Schoenberg, Uta; and Alexandra Spitz-Oener (2014): From Sick Man of Europe to Economic Superstar: Germany's Resurgent Economy, in: Journal of Economic Perspectives – Volume 28, Number 1, p. 176-188

Faramelli (2013): Immigration Manhunts and British Post-Colonial Identity, [online] available at: http://criticallegalthinking.com/2013/08/15/immigration-manhunts-and-british-post-colonial-identity/ (Accessed 08th December 2014).

Fantacci, Luca (2012): Why not Bancor? Keynes's currency plan as a solution to global imbalances, Bocconi University.

Flassbeck, Heiner (2013): Der Multiplikatorstreit zeigt vor allem eines: Die Dynamik einer monetaren Marktwirtschaft ist weiterhin unverstanden, [online] available at: http://www.flassbeck-economics.de/der-multiplikatorstreit-zeigt-vor-allem-eines-die-dynamik-einer-monetaren-marktwirtschaft-ist-weiterhin-unverstanden/ (Accessed 30th April 2015).

Grün Links Denken (2015): Wirtschaftswandel statt Kosmetik, (online) available at: http://www.gruen-links-denken.de/wp-content/uploads/2015/03/Wirtschaftswandel-statt-Kosmetik.pdf (Accessed 30th April 2015).

IMF (2013): Greece. Ex post evaluation of exceptional access under the 2010 stand-by arrangement. [online] available at: http://www.imf.org/external/pubs/ft/scr/2013/cr13156.pdf (Accessed 30th April 2015).

Krimpas, G.E. (2010): The Recycling Problem in a Currency Union, in: Working Paper, Number 595, Levy Economics Institute of Bard College.

Krugman, Paul (2011): Can Europe be saved? In: New York Times, January 12th 2011, [online] available at: http://www.nytimes.com/2011/01/16/magazine/16Europe-t.html (Accessed 30th April 2015).

Massimo, Amato and Fantacci, Luca (2013): The end of Finance, Hoboken.

McKee, Martin; Karanikolos, Marina; Belcher, Paul and Stuckler, David (2012): Austerity: a failed experiment on the people of Europe. In: Clinical Medicine, 2012, Vol. 12, Number 4, p. 346-350.

Mouffe, Chantal (2014): Populism is a necessity, in: Interview with The European, [online] available at: http://www.theeuropean-magazine.com/chantal-mouffe--4/8420-why-the-eu-needs-populism (Accessed 30th April 2015).

Papadopoulos, Theodoros and Roumpakis, Antonios (2013): Familistic welfare capitalism in crisis: social reproduction and anti-social policy in Greece, in: Journal of International and Comparative Social Policy, Vol. 29, Number 3, p. 204-224.

Polychroniou, C.J. (2013): A failure by any other name: The international bailouts of Greece, in: Policy Note, 2013, Number 6, Levy Economics Institute of Bard College.

The Guardian (2015a): Syriza has allowed Greeks to dream again. But the real struggle is just beginning. [online] available at: http://www.theguardian.com/commentisfree/2015/jan/26/syriza-greeks-dream-again-struggle-beginning (Accessed 30th April 2015).

The Guardian (2015b): What happens if Greece can't pay its debts? [online] available at: http://www.theguardian.com/business/2015/apr/25/what-if-greece-cant-pay-debts-to-eu-imf-eurozone-crisis (Accessed 30th April 2015).

Tsoukalis, Loukas (2008): Political Cultures, States, Money, and the EMU, in: Anthanassopoulou, Ekavi (2008): United in Diversity: European Integration and Political Cultures, Tauris & Co. New York, p. 223-246.

Twitter (2015): Tweet from Yannis Varoufakis, [online] available at: https://twitter.com/yanisvaroufakis/status/592264336107806720 (Accessed 30th April 2015).

Varoufakis, Yanis (2011): Chapter 3: The Global Plan, [online] available at: https://varoufakis.files.wordpress.com/2011/02/chapter-3-the-global-plan.pdf (Accessed 30th April 2015).

Varoufakis, Yanis (2011b): Surplus recycling, currency unions and the birth of the Global Minotaur. [online] available at: http://yanisvaroufakis.eu/2011/02/10/surplus-recycling-currency-unions-and-the-birth-of-the-global-minotaur/ (Accessed 30th April 2015).

Varoufakis, Yanis (2015): A New Deal for Greece – a Project Syndicate Op-Ed. [online] avail-

able at: http://yanisvaroufakis.eu/2015/04/24/a-new-deal-for-greece-a-project-syndicate-op-ed/ (Accessed 30th April 2015).