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European governments repeat mistakes of the Treaty of Versailles

From Prof Emiliano Brancaccio, Prof Riccardo Realfonzo and others.

Sir, The European crisis continues to destroy jobs. The employment crisis strikes, above all, the peripheral member countries of the European monetary union, where an exceptional rise in bankruptcy is also under way, whereas Germany and the other central countries of the eurozone have instead witnessed growth on the job front. The European authorities have taken a series of decisions that have in actual fact, contrary to announcements, helped to worsen the recession and widen the gaps between the member countries. In June 2010, when the first signs of the eurozone crisis became apparent, a letter signed by 300 economists pointed out the inherent dangers of austerity policies, which would further depress the demand for goods and services as well as employment and incomes, thus making the payment of debts, both public and private, still more difficult. This alarm was, however, unheeded. The European authorities preferred to adopt the fanciful doctrine of “expansive austerity”.

The correction of the imbalances within the eurozone would require concerted action on the part of all the member countries. Expecting the peripheral countries of the union to solve the problem unaided means requiring them to undergo a drop in wages and prices on such a scale as to cause a still more accentuated collapse of incomes and violent debt deflation with the concrete risk of causing new banking crises and crippling production in entire regions of Europe.

John Maynard Keynes opposed the Treaty of Versailles in 1919 with these far-sighted words: “If we take the view that Germany must be kept impoverished and her children starved and crippled . . . If we aim deliberately at the impoverishment of Central Europe, vengeance, I dare predict, will not limp.” Even though the positions are now reversed, with the peripheral countries in dire straits and Germany in a comparatively advantageous position, the current crisis presents more than one similarity with that terrible historical phase, which created the conditions for the rise of Nazism and the second world war. All memory of those dreadful years appears to have been lost, however, as the German authorities and the other European governments are repeating the same mistakes as were made then. This short-sightedness is ultimately the primary reason for the waves of irrationalism sweeping over Europe, from the naive championing of flexible exchange rates as a cure for all ills to the more disturbing instances of ultra-nationalistic and xenophobic propaganda.

In the absence of conditions for a reform of the financial system and a monetary and fiscal policy making it possible to develop a plan to revitalise public and private investment, counter the inequalities of income and increase employment in the peripheral countries of the union, the political decision makers will be left with nothing other than a crucial choice of alternative ways out of the euro.

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For a longer version of this letter and other signatures see: www.theeconomistswarning.com

Letter in response to this letter:

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