



## Eurozone Crisis 2.0

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Since last month's Greek bond swap, which erased some 100 billion euros from Greece's sovereign debt, various European leaders—from “visionary” French President Nicholas Sarkozy to Italian prime minister and “techno wizard” Mario Monti—have declared the eurozone crisis over, or “almost over.” This is great news, except for the millions of EU citizens, particularly in the peripheral countries, whose lives are being destroyed by the brutality of German-inspired austerity. Indeed, Euroland's current economic reality begs to differ, rather violently, with politicians out of touch with ordinary people. The EU periphery is a sinking ship, and even several core states are experiencing primary symptoms of post-traumatic stress disorder as a result of what we might call the transition to a new, maladjusted economic order.

Take, for example, Greece, whose bond swap has been celebrated as bringing an end to the eurozone crisis. However, it's widely acknowledged that the bond swap won't make any difference in the country's overall ability to service its debt, and almost everyone anticipates another “haircut” down the road—if not another bailout. In fact, the International Monetary Fund (IMF) sees a funding gap for Greece after 2014 that may range anywhere from 32 to 67 billion euros. According to this same scenario, the country's debt-to-GDP ratio will reach 171 percent in 2014 and remain close to 150 percent in 2020. The Greek tragedy is anything but over.

Exactly why are things going so badly for Greece? Because its economy is taking a world-class beating by the EU and IMF's insistence on imposing severe austerity measures in a nation that is in economic free fall. And as the patient has gotten worse, the quack doctors have doubled the dose of the very medication that made the patient ill in the first place. So, after having received a second bailout and the imposition of huge losses on private investors, the Greek government is expected to introduce eight billion euros' worth of austerity measures between 2013 and 2015—all this in an economy with a GDP that has shrunk by nearly 18 percent since 2009, an unemployment rate near 22 percent, and a standard of living rapidly declining to 1960s levels.

In Portugal, the debt crisis has also taken a turn for the worse since the country received an EU/IMF bailout totaling 78 billion euros. Its public deficit tripled in the first two months of this year, thanks to declining tax revenues directly related to the harsh austerity measures imposed as a condition of the bailout. The wise bet is that Portugal will undergo a debt restructuring deal similar to the one arranged for Greece. Expect the Portuguese drama to intensify in rather dramatic fashion in the months ahead.

In Spain, the debt crisis is nowhere near stabilizing, much less subsiding. In fact, it may be approaching an explosive stage, with severe socioeconomic and political ramifications. (Indicative of the developing situation in Spain, a million people recently took to the streets to protest neoliberal reforms in the labor market.) Yields on Spanish 10-year bonds are again trending upward—in spite of the government's recent decision to implement 27 billion euros in additional cuts, in an economy that already posts the largest unemployment rate (23 percent) in all of Europe.

Indeed, a new eruption of the eurozone debt crisis is under way. In Italy, bond returns are also going up, and many market analysts are predicting that the yields on both Italian and Spanish bonds could soon climb to 7 percent.

What seems to be happening in these two economies—the largest in the eurozone periphery—is that the impact of cheap European Central Bank (ECB) loans is wearing off. And, interestingly enough, signs that the European Commission (EC) will soon increase its “firewall” to nearly 1 trillion euros don't seem to be having any effect on the sovereign debt situation in the periphery. Why? Because investors can read the economic data for themselves, and what they see is not fiscal problems but, rather, weakening economies, growing unemployment, and policies and trends that cement the reality of a two-speed Europe.

The eurozone crisis isn't back: it never left. It merely went into a very brief hibernation, as the world watched Europe's leaders trying out various fixes for the wrong crisis. No matter how much cheap money the ECB provides or how high the EC “firewall” rises, Europe's economic sickness will not be cured without massive government intervention to get the regional economy rolling again.

Europe's debt and fiscal crisis surfaced because of the financial crisis of 2008, which exposed the faulty architecture of the euro. The crisis has since gotten much worse, because the focus was, and remains, expansionary fiscal consolidation and gut-wrenching austerity—part and parcel of a perverted effort to regain business confidence when growth-oriented policies would have had more immediate and long-lasting results. What's needed by Europe's economies, especially those in the periphery, are strong, proactive economic policies that will put people back to work, increase state revenues, and improve the standard of living.

The bottom line? It's still not too late for EU leaders to turn this ship around. But if they don't, get ready for Eurozone Crisis 2.0.

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