

# 1. Introduction

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## GROUPTHINK

... a pattern of thought characterized by self-deception, forced manufacture of consent, and conformity to group values and ethics. (Merriam Webster online dictionary)

We bouwen op drijfzand [We are building on quicksand]. (André Szász, former Director of the De Nederlandsche Bank, 1999)

This book critically examines the options that the Eurozone nations have to address the social and economic crisis that has bedevilled them since 2008. The book elucidates these options within an historical understanding of the path taken to create the Economic and Monetary Union (EMU). The historical experience highlights the difficulties that nations with very different economic structures and a lack of cultural solidarity face when they try to fix exchange rates and adopt a common currency. It also allows us to understand how the growing dominance of neo-liberal economics in the 1980s intersected with the post World War II Franco-German rivalry to create a destructive Groupthink that undermines prosperity, denies reality, and rejects viable solutions to the crisis on ideological grounds.

There are superior options to austerity, even within the common currency arrangement. But if sustainable prosperity is to be achieved then the Eurozone should be dismantled in an orderly fashion and national currencies restored. If such a development cannot be brokered between the Member States, then the superior option for nations such as Italy, Greece, Spain and such is to unilaterally exit the EMU and restore their own sovereignty.

The great European visionaries in the immediate post World War II period did not desire to put the European economies into a straitjacket of austerity and hardship. Rather they aimed to achieve peacetime prosperity. Europe's political leaders devised the 'European Project' as an ambitious plan for European integration to ensure that there were no more large scale military conflicts fought on continental European soil. The Project began at a time when the advanced nations had embraced a broad

Keynesian economic policy consensus with governments committed to sustaining full employment.

The Keynesian era emerged out of the Great Depression, which taught politicians that without major government intervention, capitalism is inherently unstable and prone to delivering lengthy periods of unemployment. Full employment came only with the onset of World War II as governments used deficit spending to prosecute the war effort. The Keynesian era of macroeconomic policy that followed was thus marked by government deficits supplementing private spending to ensure that all workers who wanted to work could find jobs. The broad political and economic consensus that emerged after the war brought very low levels of unemployment in most Western nations, which persisted until the mid 1970s, although some European nations had bouts of sustained higher unemployment as a consequence of having to defend their weaker currencies.

Within this broad policy consensus, the discussions about integration were conditioned by Franco-German rivalry. France was determined to create institutional structures that would stop Germany from ever invading it again. It saw an integrated Europe as a way of consolidating a dominant role in European affairs but was determined to cede as little national sovereignty as possible to achieve these aims. France was also resentful of the influence that the US was exerting in Europe, particularly through the Marshall Plan, which intrinsically tied West Germany to the US.

The Germans, suffering a deep shame for their past militarism and associated deeds, had only their economic success including the 'discipline' of the Bundesbank to generate national pride. As well as a need to expand its export markets, Germany wanted to be part of the 'European Project' to demonstrate a rejection of its ugly history. But an obsessive fear of inflation meant that this participation had to be on German terms, which meant that the new Europe had to eventually accept the Bundesbank culture. This became a grinding process. Within the German 'stability' environment, it was seemingly overlooked that Germany, in fact, relied on robust import growth from other European nations for its prosperity. The fact that not all nations in a Bundesbank centric 'stability environment' could have balance of trade surpluses was ignored.

After World War II, the advanced nations also agreed to fix their exchange rates relative to the US dollar, which in turn was linked to the price of gold, because they believed this would bring economic stability. But the so-called Bretton Woods system, established in July 1944, was under pressure from the start because countries with trade deficits always faced downward pressure on their currencies. In order to maintain their exchange rates they had to: buy their own currencies in the foreign exchange markets using their foreign currency reserves; push up domestic

interest rates to attract capital inflow; and constrict government spending to restrain imports. The nations with weaker currencies were thus often faced with recessed growth rates, higher unemployment, and depleted foreign reserves, and this created political instability. The effective operation of the system required the nations to have more or less similar trade strength, which was of course an impossibility and ultimately proved to be its undoing.

The Franco-German rivalry structured a series of less than effective compromises on the way to monetary union. The 1957 Treaty of Rome was heavily biased in favour of the occupied France at the expense of the aggressors Germany and Italy. But Germany's growing industrial and export strength became an increasingly significant threat to the French economy. German industrial ambition eventually required France to compromise on its own fierce resistance to ceding any national sovereignty to a European level entity. The early experience with the Common Agricultural Policy (CAP), introduced in 1962 as the first major initiative of the newly formed EEC, should have taught the European nations that entering a currency union would be a fraught exercise. France wanted to protect French farmers and Germany wanted to expand its industrial export market. To achieve their goals, the Germans agreed to provide subsidies through the CAP to French farmers: a gnawing tension that remains today. But the administrative viability of the CAP required a very stable exchange rate environment because a multitude of agricultural prices had to be supported across the Community. Once the Member States locked in the CAP they were also trapped into pursuing the impossible task of maintaining fixed exchange rates. The German mark became the strongest currency in the 1960s as Germany's export strength grew, which put France and Italy under constant pressure of devaluation and domestic stagnation and undermined the CAP. The various agreements to maintain fixed parities between the European currencies all largely failed because of the different export strengths of the Member States. But instead of taking the sensible option and abandoning the desire for fixed exchange rates, the European political leaders accelerated the move to a common currency when the Bretton Woods system collapsed in 1971. The lessons from the Bretton Woods fiasco were not learned.

The 1970 Werner Report outlined a comprehensive timetable for the creation of a full economic and monetary union by the end of the decade. It was clear the Committee wanted monetary and fiscal policy to be centralised with the 'centre of decision of economic policy . . . [to] . . . be politically responsible to a European Parliament' (Werner Report, 1970: 13). A later study by the MacDougall Committee in 1975 also emphasised that an effective economic and monetary union would require a strong

fiscal presence at the federal level. They assessed that 'It is most unlikely that the Community will be anything like so fully integrated in the field of public finance for many years to come as the existing economic unions we have studied' (MacDougall Report, 1977: 11).

There are many competing explanations as to why Werner's plan failed to materialise, but the basic reason is that in an era of growing currency instability the French fear of German dominance and their unwillingness to cede power to supranational institutions, combined with the German inflation obsession, stood in the way. The two nations could clearly find ways to cooperate on a political level but trying to form an economic and monetary union was difficult. In 1972, the Governor of the Danish Central Bank said, 'I will begin to believe in European economic and monetary union when someone explains how you control nine horses that are all running at different speeds within the same harness' (McAllister, 2009: 58).

In 1972, social psychologist Irving Janis identified group behaviour he termed 'Groupthink', which is a 'mode of thinking people engage in when they are deeply involved in a cohesive in group, when the members striving for unanimity override their motivation to realistically appraise alternative courses of action' (Janis, 1982: 9). It 'requires each member to avoid raising controversial issues' (Janis, 1982: 12). Groupthink drives a sort of 'mob rule' that maintains discipline within the group or community of decision makers. These communities develop a dominant culture, which provides its members with a sense of belonging and joint purpose but also renders them oblivious and hostile to new and superior ways of thinking. Groupthink becomes apparent to the outside world when there is a crisis or, in Janis's words, a 'fiasco', such as the Global Financial Crisis (GFC).

What eventually allowed the 'nine horses' to be harnessed together was not a diminution in Franco-German national and cultural rivalry but rather a growing homogenisation of the economic debate. The surge in Monetarist thought within macroeconomics in the 1970s, first within the academy, then in policy-making and central banking domains, quickly morphed into an insular Groupthink, which trapped policy makers in the thrall of the self-regulating, free market myth. The accompanying 'confirmation bias', which is 'the tendency of people to only notice information consistent with their own expectations and to ignore information that is inconsistent with them' (IEO, 2011: 17) overwhelmed the debate about monetary integration. The introduction of the Monetarist-inspired Barre Plan in 1976 by French Prime Minister Raymond Barre, under President Valéry Giscard d'Estaing, showed how far the French had shifted from their Gaullist 'Keynesian' days. Across Europe, unemployment became a policy tool aimed at maintaining price stability rather than a policy

target, as it had been during the Keynesian era up until the mid 1970s. Unemployment rose sharply as national governments, infested with Monetarist thought, began their long-lived love affair with austerity.

The Delors Report (1989), which informed the Maastricht conference, disregarded the conclusions of the Werner and MacDougall Reports about the need for a strong federal fiscal function because they represented 'old fashioned' Keynesian thinking, which was no longer tolerable within the Monetarist Groupthink that had taken over European debate. The new breed of financial elites, who stood to gain massively from the deregulation that they demanded, promoted the re-emergence of the free market ideology that had been discredited during the Great Depression. The shift from a Keynesian collective vision of full employment and equity to this new individualistic mob rule was driven by ideological bullying and narrow sectional interests rather than insights arising from a superior appeal to evidential authority and a concern for societal prosperity.

The Monetarist (neo-liberal) disdain for government intervention meant that the EMU would suppress the capacity of fiscal policy and no amount of argument or evidence, which indicated that such a choice would lead to crisis, would distract Delors and his team from that aim. Delors knew that he could appease the French political need to avoid handing over policy discretion to Brussels by shrouding that aim in the retention of national responsibility for economic policy making. He also knew that the harsh fiscal rules he proposed that restricted the latitude of the national governments would satisfy the Germans. Monetarism had bridged the two camps.

The whole process had a surrealistic air about it at the time.

To fully appreciate the options available for the Eurozone, the discussion has to be framed within a valid economic framework. While poor political motivation cannot be ignored, a major part of the problem that currently besets the Eurozone nations arises from the application of a flawed macroeconomic framework that has been used by officials and their political masters since the 1980s.

The Eurozone is now locked down in a straitjacket of economic austerity, driven by an economic ideology that is blind to the evidence of its own failure. The neo-liberal policies of deregulation and the demonisation of the use of discretionary fiscal deficits (government spending greater than tax revenue) created the crisis in the first place, and now the same sorts of policies are prolonging it. The current policy approach has institutionalised economic stagnation, widespread retrenchment, and the deterioration of working conditions and retirement pensions. Millions of European workers are now unemployed, youth jobless rates are around 60 per cent in some advanced nations, inequality and poverty rates are rising, and

massive daily losses of national income are being endured. The dramatically high youth unemployment rates will ensure that the damage will span generations and undermine future prosperity as a cohort of jobless youth enter adulthood with no work experience and a growing sense of dislocation from mainstream societal norms.

The Eurozone political elites claim that there is no alternative (TINA) but to impose more austerity by cutting fiscal deficits and enforcing widespread cutbacks to social welfare systems. The major political parties in most nations, whether in government or opposition, have unquestionably accepted the dominance of neo-liberal ideology, which has not only homogenised the political debate but also obscured the only credible routes to recovery. A correct assessment of the current state indicates that fiscal deficits have to increase. Austerity is exactly the opposite of the policy response that is required. A sustained recovery in the Eurozone and elsewhere requires a categorical rejection of mainstream macroeconomic theory and practice and a reorganisation of the institutional structures to allow deficits to increase. The assessment is that this can only be done if the union is dismantled.

This book rejects the TINA mantra that has been a powerful organising framework for conservatives to promote the myth that fiscal discipline and widespread deregulation will allow a free market to maximise wealth for all. The argument rehearsed in the book is fairly simple even if the concepts that underpin it are not. The neo-liberal economic framework, promoted vigorously by many economists, the multinational agencies such as the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD), and conservative politicians including the Eurozone establishment in Brussels and Frankfurt, blinds the public eyes to realistic alternatives by confining the boundaries of the public debate through the use of selective priorities, wrongful causalities, and scandalous misrepresentations of reality. Thus before one can really appreciate the alternatives, the underlying economics needs to be reframed. The actual and superior alternatives to the current fiscal austerity are too easily dismissed as being naïve, unrealistic or just downright crazy, if they are viewed and assessed through the neo-liberal economic lens.

The major conjecture in the book is that the European policy-making elites – the politicians, the supporting bureaucracies, the central bankers and expert consultants – remain trapped in neo-liberal Groupthink that created the euro monster in the first place. It is a group dynamic that resists change and explains the arrant disregard of viable alternative policy paths that could restore growth.

American biologist Joseph Altman specialised in neurobiology and

discovered adult neurogenesis in the 1960s. He showed that adult brains could create new neurons but the idea was fiercely denied by contemporary thought at the time. It wasn't until the phenomenon was 'rediscovered' by another scientist (Elizabeth Gould in 1999) that the proposition became fashionable. Neurogenesis is now one of the most significant areas in neuroscience. Why were Altman's discoveries ignored for almost 30 years? Charles Gross wrote in 2008 that 'the dogma of "no new neurons" was universally held and vigorously defended by the most powerful and leading primate developmental anatomist of his time' (Gross, 2008: 331).

Altman's experience helps us understand the enduring crisis within the EMU. First, academic disciplines (such as neurobiologists, economists and so on) work within organised 'paradigms', which philosopher Thomas Kuhn identified as 'universally recognized scientific achievements that for a time provide model problems and solutions for a community of practitioners' (Kuhn, 1996: X). Typically, the body of knowledge that defines the paradigm are 'recounted . . . by science textbooks, elementary and advanced' (Kuhn, 1996: 10). Kuhn challenged the notion that 'scientific' activity is a linear process, whereby scholars add new empirically supported facts to the knowledge base to replace previously accepted notions. Rather, Kuhn said that dominant viewpoints persist until they are confronted with insurmountable anomalies, whereupon a revolution (paradigm shift) occurs. The new paradigm exposes the old theories as inapplicable, introduces new concepts, asks new questions and provides students with a new way of thinking with a new language and explanatory metaphors. Once supplanted, the old theories are no longer considered valid knowledge. Kuhn also noted that there is a sort of mob rule among practitioners within a dominant paradigm and they vehemently hold onto their views even in the face of logical or empirical anomaly. The dominant group becomes trapped in Janis's Groupthink and initially vilifies those who propose new ways of thinking. Altman's work represented the potential for a paradigm shift and was resisted by the mob until change became ineluctable.

Imre Lakatos extended Kuhn's notion of a scientific community by introducing the concept of a 'research programme', which consisted of a hard core (theories that define the paradigm), auxiliary assumptions (the 'protective belt') and methodological rules or heuristics (Lakatos, 1970). The hard core is akin to a religious belief in that it is never subjected to empirical scrutiny by the group and is protected by the heuristic. It defines what the group stands for. The positive heuristic defines the day to day research activities, the allowable questions that can be explored, and the research methods that are acceptable. It is permissible to challenge some of the auxiliary hypotheses, which in themselves, plausible or

not, provide no threat to the core theories. The core is protected by the negative heuristic, which essentially bans certain questions from being asked and forms of enquiry or evidence being admitted, even when strong contrary evidence is produced. One might think of this as denial. For a time, a research program maintains dominance because it adds content, which is considered to advance knowledge and is of interest to the group. At some point a research program may become degenerative in that its content diminishes in the face of increasing empirical anomaly, that is, the theory no longer provides an adequate explanation of what people know and see. But a degenerating research program can maintain its hold on a professional group for an extended period, such is the resistance to change among those within it.

Just before the GFC revealed its worst, Olivier Blanchard, the chief economist at the IMF, reviewed the understanding that macroeconomists had of the real world and claimed that the 'state of macro is good' (Blanchard, 2008: 2). He asserted that a 'largely common vision has emerged' (p. 5) in macroeconomics, with a 'convergence in methodology' (p. 3) such that research articles in macroeconomics 'look very similar to each other in structure, and very different from the way they did thirty years ago' (p. 21). They now follow 'strict, haiku-like, rules' (p. 26). He also noted that the dominant 'New Keynesian' approach in macroeconomics had 'become a workhorse for policy and welfare analysis' (p. 8) because it is 'simple, analytically convenient . . . [and] . . . reduces a complex reality to a few simple equations' (p. 9). It didn't seem to matter to these economists that in the 'basic NK model . . . there is no unemployment' (p. 12), such that all fluctuations in measured joblessness are characterised largely by workers choosing whether or not to work as part of a so-called optimal choice between work and leisure.

The mainstream macroeconomists, who have an abiding faith in the ability of the self-regulated market to deliver optimal outcomes, which we will refer to as the neo-liberal approach, had declared some years before the crisis, with an arrogance common to the discipline, that the 'business cycle is dead'. That is, the large swings in macroeconomic performance (recessions and mass unemployment and boom and inflation) that had dominated the attention of economic policy makers in the post World War II period and led to fiscal policy (the manipulation of taxation and government spending) being the primary tool governments used to maintain full employment and price stability were now being denied. University of Chicago professor Robert Lucas Jnr gave an extraordinary address to the American Economic Association in 2003 where he claimed 'that macroeconomics in this original sense has succeeded: Its central problem of depression-prevention has been solved, for all practical purposes, and



has in fact been solved for many decades' (Lucas, 2003: 1). A year later, the US Federal Reserve Bank Governor Ben Bernanke claimed that as a result of the policy shift away from governments attempting to manage total spending in the economy by varying fiscal policy settings in favour of using monetary policy (interest rate setting by central banks) to concentrate purely on price stability and the pursuit of fiscal surpluses, the world was enjoying the Great Moderation (Bernanke, 2004).

Allegedly, damaging recessions were a thing of the past and low inflation and steady growth were now the norm. The public was led to believe that these mainstream economists had triumphed over the old Keynesian interventionists who had over regulated the economy, sucked the enterprise out of private entrepreneurs, allowed trade unions to become too powerful, and bred generations of indolent and unmotivated individuals who only aspired to live on income support payments. The dominant narrative was that with the economic cycle now under control, economic policy should concentrate on deregulating labour and financial markets and reducing income support payments to reduce the subsidy to the unemployed so that the 'market' can work more efficiently. This was denial writ large. Paul Krugman (2009) said these alleged 'successes' defined a self-styled 'golden era for the profession'. The mainstream paradigm in economics was blind 'to the very possibility of catastrophic failures in a market economy' (Krugman, 2009), and its policy prescriptions, based on an unjustified belief in the efficiency of markets, created the circumstances that would lead to the crisis. The worst economic crisis in 80 years was building while most economists waxed lyrical in their own world of self-aggrandisement and self-congratulation.

This view of economics dominates the academy, which then feeds into the domain of policy making. But the GFC has made it starkly obvious to all that mainstream economics is a degenerative research program with little empirical validity. Krugman (2009) said that 'the economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth.' The American institutional economist David Gordon (1972) wrote that whenever the mainstream economics paradigm is confronted with empirical evidence that appears to refute its basic predictions, it creates an exception by way of response to the anomaly and continues on as if nothing had happened. As a result, the mainstream macroeconomics textbooks, which students are forced to use, contain very little that is useful for understanding how the real world actually works. Students are given false accounts of how the financial sector, including banking, works; are taught a number of myths about the impact of the government on the private markets; and, above all, are taught that if markets are left to their own devices, the outcomes will be superior to

those that involve regulation or government oversight. As the gap between theory and outcome has become obvious to all, it is easy to cast those who hang onto the mainstream theoretical propositions as cult worshippers who have lost all 'scientific' credibility.

These cult worshippers maintain their hegemony in a number of ways, including control of teaching programs in universities; control of hiring processes within the academy; control of key publication outlets; control of major research funding bodies; and dominating the linkages between the academy, business and government. Much of the control is implicit and accomplished through networks to get around external oversight such as anti-discrimination legislation. Jack Barbash discussed the way in which the economics profession protects its belief system from criticism and avoids, as far as possible, addressing real world problems. He notes that there is 'no formally coercive apparatus' but 'the equivalent of an "old boy" network' in operation (Barbash, 1982: 51). Advantages (publications, research grants, promotions, consulting opportunities, influence, etc.) accrue to those who conform to the rules. Socialisation begins in one's student days where the masters of the paradigm control the curriculum; the grading systems; and who gets postgraduate scholarships to pursue doctoral studies. The indoctrination intensifies when one enters the postgraduate stages. In economics, the graduate student learns that 'rigor is more important than substance' and 'method is more important than result' (p. 52). Remember those haiku-like rules that govern an economics paper's chance of publication success.

More insidious is that neo-liberal economics privileges the interests of capital and the financial elites. To understand why there is so much resistance to abandoning failed economic theories, we need to understand that the mainstream economics paradigm is much more than a set of theories with which economics professors indoctrinate their students. Blyth (2013: 100) notes that these mainstream economic theories 'enshrine different distributions of wealth and power and are power resources for actors whose claims to authority and income depend upon their credibility', which explains, in part, why there is such resistance to abandoning them, even though it is clear that they are bereft of any evidential standing.

Historically, the body of theory that now represents neo-liberal economics was first developed in the late 19th century as an antidote against the rising influence of Marxism, particularly in Europe. Marx's message that profits were the reward for ownership of capital, not a reward for any contribution to production, resonated strongly with workers. The capacity of owners of capital to take the surplus labour of the workers for nothing was an inflammatory idea. Workers considered this essential feature of capitalism to be patently unfair and increasingly violent protests threatened the

capacity of capital to maintain its elite position relative to the vast bulk of the population. Clearly a solution was needed. Industrialists recruited economists to develop theories that made capitalism look as though it was fair and rewarding productive input in proportion to its contribution to final output. Later this was refined as attacks on government policy aimed at redistributing national income. Yet all the time, the interests of those who owned or served capital were being advanced at the expense of the less advantaged.

Which leads us to the second reason why the Altman case is of interest to anyone seeking to understand why the EMU is in such a mess. The neo-liberal Groupthink, which dominates economic policy making in Europe, is a case of denial on a grand scale. It not only created economic structures and policy frameworks that spawned the crisis, but has also led to a policy response which has ensured the massive costs will endure for generations while the problems remain unsolved. It was obvious that the Eurozone was doomed from the start and now the same neo-liberal ideology is masquerading as the solution. Groupthink suppresses alternative thinking and evidence that is contrary to the dominant viewpoints.

In 2011, the IMF's Independent Evaluation Office (IEO) released a scathing assessment of the institution's performance in the lead up to the GFC (IEO, 2011). The IEO said, 'Warning member countries about risks to the global economy and the build up of vulnerabilities in their own economies is arguably the most important purpose of IMF surveillance' (IEO, 2011: vii). However, the IEO identified neo-liberal ideological biases at the IMF and determined that the IMF failed to give adequate warning of the impending GFC because it was 'hindered by a high degree of groupthink' (p. 17), which among other things suppressed 'contrarian views' where an 'insular culture also played a big role' (p. 17). The report said, 'Analytical weaknesses were at the core of some of the IMF's most evident shortcomings in surveillance' (p. 17) as a result of 'the tendency among homogeneous, cohesive groups to consider issues only within a certain paradigm and not challenge its basic premises' (p. 17).

The prevailing view among IMF staff – a cohesive group of macroeconomists – was that market discipline and self-regulation would be sufficient to stave off serious problems in financial institutions. They also believed that crises were unlikely to happen in advanced economies, where 'sophisticated' financial markets could thrive safely with minimal regulation of a large and growing portion of the financial system. (p. 17)

The External Evaluation Report says that 'IMF economists tended to hold in highest regard' (p. 18) economic models of the world proven to be inadequate (so-called Dynamic Stochastic General Equilibrium models).

Willem Buiter (2009) described these economic models as useless ‘self-referential, inward-looking distractions at best’, which exclude ‘everything relevant to the pursuit of financial stability’.

Economist Robert Schiller (2008), who says Groupthink tells us why ‘panels of experts could make colossal mistakes’, also implicates central bankers in this self-censoring behaviour where ‘mavericks’ are put under intense pressure if they question the ‘group consensus’. For example the US Federal Reserve Bank ‘through its extensive network of consultants, visiting scholars, alumni and staff economists, so thoroughly dominates the field of economics that real criticism of the central bank has become a career liability for members of the profession’ (Grim, 2009). Not only does the Federal Reserve fund a huge amount of non-staff economic consultancies but also ‘keeps many of the influential editors of prominent academic journals on its payroll’ (Grim, 2009). By controlling what gets published in the key journals, the bank also influences the career trajectory of economists, and thus suppresses independent research that might be critical of the way the central bank operates. The Federal Reserve has an ‘intolerance for dissent’, something that well-known economist Alan Blinder found out quickly, when he joined the bank as a vice chairman. He lasted around 18 months after ‘a lot of senior staff . . . were pissed off . . . [because he was] . . . not playing by the customs that they were accustomed to’ (Grim, 2009). His sin? He asked too many questions and challenged too many assumptions. Even a moderate critic of the bank, Paul Krugman, reported that he was ‘blackballed from the Fed summer conference at Jackson Hole . . . ever since I criticized Governor Alan Greenspan’ (*Democracy Now!*, 2007).

Some economists (rightly) observed that the lack of a federal fiscal capacity and the binding restrictions on national governments’ fiscal policy would bias the EMU towards low growth and persistently high unemployment, and ultimately ensure that the system was incapable of withstanding a large spending collapse of the type that hit the world economy in 2008. But the Groupthink erected a wall of denial and the European politicians successfully convinced people that by maintaining price discipline, economic growth would be maximised. The GFC exposed how ridiculous that mantra was. But those who dared question the Monetarist supremacy at the time, and instead advocated Keynesian remedies to reduce the entrenched European unemployment, were met with derision from the bulk of the profession who had embraced the new economic theory and its policy implications.

Further, by insisting on economic and monetary union under these terms and then imposing self-defeating austerity onto the nations suffering the most from that dysfunctional design, the European political

elites have undermined the long-standing European Project. Germany had successfully reinvented itself as a good European citizen, after its disastrous and criminal behaviour during World War II. But as the perceived 'enforcer' of austerity, Germany is now vilified again: the 'ugly German' has returned. The unelected economic mandarins in Brussels and Frankfurt, aided and abetted by the unaccountable officials from the IMF, now have influence on who remains in political office in some nations (for example, the appointment of Lucas Papademos in Greece). The citizens were initially bullied into accepting the euro and all that went with it by their political leaders and now the same leaders are seen to go cap in hand to the Troika to preserve their hegemony, while imposing untold social and economic hardship on their citizens. Open expressions of racism are proliferating (for example, the 'lazy Greek' narratives). The media and politicians now regularly engage in the language of retribution, with cooperation giving way to hostility, resentment, and a breakdown in the social order.

These tensions expressed themselves at the 2014 European Parliament elections, with the anti-austerity parties at the extremes of the political spectrum enjoying stunning success in several countries. The majority of the Parliament remains pro EU but the shift away from that position at the 2014 poll was monumental. The French press carried headlines like 'séisme', 'éruption volcanique' to express the view that the anti EU vote was a 'political earthquake'. Similar sentiments were expressed in many different languages across the European media. The new leftist party in Spain has driven a wedge into the two main political parties' hold on power and the stunning success of the far right in France tells us that the French people are sick of austerity and the bullies from Brussels, Frankfurt and Washington. The success of anti EU parties in Denmark (Danish People's Party), Britain (UKIP) and Greece (Syriza) are also symptomatic. The right wing parties have also promoted anti-immigration policies, which are becoming increasingly popular. Economic austerity has morphed into a very nasty confection.

The current policy options are thus not working and will not underpin sustained prosperity. Eventually, the European economies will stabilise and start growing again, but the residual damage from the austerity will be massive and span generations. Millions will be poorer and without reasonable opportunities as a result. The neo-liberal political leaders will rejoice and claim success but they won't advertise the low base from which the growth has resumed. The EMU is a flawed system. It has to change and the question that this book addresses is the form that change should take.

Three main options are considered in detail. First, the viability is assessed of establishing a true federation, with a European level fiscal

capacity to ensure that total spending in the Eurozone is sufficient to generate enough jobs to satisfy the desire of the workers. Various hybrid schemes that have been proposed by economists in Europe and beyond are considered. However, the differences between the European nations are so great that such a choice is highly unlikely despite the fact that the EMU could function effectively if there was such a capacity.

Second, the proposal known as Overt Monetary Financing (OMF) is advanced. OMF would require the ECB to use its currency issuing capacity to underwrite the fiscal deficits of the Member States in order that they create growth and employment in their domestic economies without encountering the restrictions that private bond markets place on their spending. OMF, erroneously called the 'printing money' option, is universally considered to be taboo among neo-liberals because they wrongly claim it will lead to inflation, and perhaps hyperinflation. Our analysis shows that it can be a very effective way for governments to responsibly manage economic growth without having to issue public debt. OMF is a strategy that could render the EMU workable. It also represents a desirable operational option should the euro be abandoned by one or more nations, in which case the OMF would be facilitated by the newly empowered central banks in the exiting countries.

The third option considered in detail is the so-called exit option. This is the preferred option, since it accords with the historical and cultural realities of Europe. It would be ideal if the Eurozone nations agreed to an orderly dismantling of the common currency and a restoration of the individual currency sovereignty for each nation. In lieu of such an unlikely turn of events, exit remains the superior option for an individual nation such as Greece or Italy, acting unilaterally. In fact, given the size of the Italian economy in relation to the overall Eurozone economy, Italy should demonstrate leadership by finalising a negotiated exit with Brussels that minimises the damage for all parties. This would provide the blueprint for other nations such as Greece, Spain, Portugal and others to follow.

In one sense, the story of this book is black and white. The choice is stark, abandon this neo-liberal nightmare or continue the suffering. An orderly exit with policy choices that stimulate growth rather than entrench stagnation and suffering is a superior route for most European citizens, notwithstanding the substantial costs that would be involved in recreating national currencies. This matches the dichotomous nature of the TINA strategy employed by the neo-liberals: that the euro is the salvation and is irrevocable, and that abandoning it would be catastrophic. There are no nuances to the TINA approach.

The book is in three parts. Part I provides a detailed critique of the historical decisions that led up to the Maastricht Treaty in 1991 and the

decision to introduce the single currency. This decision had very little economic basis and was largely driven by the French desire to be a dominant European force interacting with the obsessive fear of inflation among German policy makers. This dysfunctional Franco-German dynamic took a turn for the worse when it intersected with the resurgent neo-liberal economic ideology in the late 1980s. The Treaty of Maastricht was a direct result of this combination of factors.

Part II examines the period after the inception of the common currency up to the crisis. Despite the claims by the political leaders that the introduction of the euro had been a great success, the preconditions for the crisis were being put in place. The attack by Germany on workers' capacity to enjoy real wages growth, and their mercantile obsession with increasing export surpluses, created dangerous imbalances in other parts of Europe, which would intensify the crisis once started. But the crisis could have been minimised and a speedy return to growth guaranteed if the Stability and Growth Pact (SGP), an essential part of the neo-liberal attack on the capacity of governments to pursue responsible spending policies in the face of external shocks, had not been enforced. The ECB could have used its currency issuing capacity to ensure the Member States did not run foul of private bond markets. The ECB's reluctance to act responsibly ensured that the private debt crisis became a public debt crisis.

Part III provides a detailed analysis of the options outlined above. It is clear that there are two realities that have to be addressed. The first relates to the intrinsic politics of Europe, which is exemplified by the decades-long Franco-German rivalry. The second relates to the stranglehold that the neo-liberal economists have on the policy debate. The exit proposal is consistent with the first reality: breaking the economic union will help restore the effectiveness of the political aspects of the 'European Project'. There is no suggestion that the European Union needs to be dismantled to jettison the euro. Whether the Union is functional is a separate discussion, which is outside the ambit of this book. But for exit to be a superior option, governments need to abandon their neo-liberal pretensions and more fully understand the opportunities that they have when they restore their own currencies, float them on international currency markets, and re-establish their own central banks with the capacity to set their own interest rates.

There is a detailed discussion debunking the neo-liberal myths that have constructed austerity as the only alternative. That part of the narrative provides the reader with an adventure into a new way of thinking about economics, one that requires the economics profession to realise that the current economics 'paradigm' has failed and needs to be replaced. That

task alone will be massively resisted by the entrenched interests that derive their power from maintenance of the economics status quo, no matter how disastrous it has been for the ordinary citizens.

At the moment, Europe is trapped in a destructive neo-liberal Groupthink, which represents denial on a grand scale.

A major jail break is required to restore prosperity and hope.