

# Europe's Not So Shiny 'Recovery'

**Exclusive:** The mainstream U.S. press explains the overwhelming Crimean vote to leave Ukraine as vote-rigging or coercion, but the reality is that "European aspirations" are not so attractive to people aware of the painful life for many in the EU's "periphery," from Spain to Greece, as Andrés Cala reports.

By Andrés Cala

As the West tries to lure crisis-stricken Ukraine into the European Union's fold, a major selling point is the promise of a brighter economic future. But the reality for many Europeans especially in countries pummeled the hardest by the Great Recession isn't all that appealing, even as some EU bureaucrats are touting a recovery.

It's true that raw numbers show that the recession appears to have bottomed out, even in some of those hard-hit nations on Europe's "periphery," from Ireland in the west through Portugal, Spain and Italy in the south to Greece in the east. For instance, Spain's economy contracted 1.2 percent in 2013, but most of that was in the first half of the year, and the EU projects 1 percent growth for Spain in 2014 and 1.7 percent in 2015. Plus, for the first time in years, Spain had positive net job creation in February.

But that will translate into little relief for the nearly 27 percent of Spain's population which is unemployed, or for the nearly 1.5 million who fell into extreme poverty during the crisis, according to a bellwether report in Spain. During the crisis – to meet EU "austerity" demands – pensions were frozen, the welfare state was slashed, and taxes ate away purchasing power. There's little hope, too, for the millions more who lost their middle-class status.

At the street level, the "recovery" is nowhere to be seen, at least not for nine of every ten Spaniards who say this tepid economic growth has not trickled down to them. Almost three-quarters of Spaniards expect that conditions will remain the same or get worse in 2015, according to several recent polls.

When you walk around Spanish cities, what you see is a very noticeable increase in visible poverty, including people who until recently might have been considered middle class. You see middle-aged men in suits begging in the streets or waiting in charity lines. You see evicted families seeking refuge, immigrants on the move, and I'll-work-for-food offers online.

Thus, while the Spanish government and the EU can tout the signs of a recovery, a sense of hopelessness still hovers over the many unemployed and real panic

grips even people with jobs because they fear what may lie ahead.

One reason for the discrepancy between improving economic numbers and most people's perceptions of their own situations is the spread of income inequality during the crisis. The wealthy few experienced significant improvements thus bumping up the GDP numbers while most everyone else either barely held steady or declined, sometimes sharply.

During the crisis, salaries rose for the biggest earners, but decreased 16 percent for the bottom brackets, according to official statistics. All that has left Spain with the EU's second worst wealth distribution, according to the Gini coefficient, the most widely accepted barometer in the field.

## **Two Narratives**

In Spain's political world, the two conflicting narratives one buoyant and one depressing coexist with most of officialdom pushing the positive, but other political leaders noting the negative or what they would call the reality.

Antonio Argandoña, emeritus of economic and business ethics in IESE Business School, explained to me the logic of these diametrically opposed narratives: "If you eat a chicken and I don't eat any, we have each eaten half. That's the Spanish economy."

So, when Spain's Prime Minister Mariano Rajoy of the conservative People's Party talked recovery in February's parliamentary state of the union debate, opposition Socialist leader Alfredo Pérez Rubalcaba angrily asked, "What country do you live in?" He called the government's policies the "apotheosis of inequality."

But Rajoy answered with fury of his own. "Your apocalyptic speech does not correspond with reality," Rajoy said. "We have reversed course, from declines to recovery, from peril to hope."

Most agree that Spain did what it was ordered to do by the EU and what it was given little choice to do by financial markets. As a result, Spain's fragile economic recovery has drawn support from the European Central Bank, and investor appetite for investing in Spain and other countries on Europe's "periphery" has improved as broader European risk perceptions have subsided.

Many Spaniards agree that some painful reforms were unavoidable because the economic model that had generated a boom in the previous two decades was artificial, much as it was in many other parts of the Western world. Cheap credit fueled rising home prices and a construction-driven economy, but the underlying economic pillars were weak.

A false sense of prosperity continued only as long as the bubble kept expanding. Millions of Spaniards enjoyed the good times, with wasteful spending on extravagant public projects, a swelling civil servant population and an inflated real-estate market.

Blue-collar workers bought homes, cars and vacation spots on cheap credit. Consumers spent and spent. People lived beyond their means as the cash kept flowing and the economy expanded. When the bubble burst amid the Wall Street crash of 2008 the illusion of prosperity disappeared quickly. Money and credit evaporated, but costs didn't. Debt levels starting rising, along with defaults.

The EU's central bankers responded with harsh demands for austerity to bring public spending in line with the reduced capacity of these suddenly shrunken economies, especially in the "periphery" nations, such as Ireland, Spain, Portugal, Italy and Greece. Spending was cut drastically and millions were thrown out of work.

Spain's record high public deficit, which in essence shut out Spain from credit markets, has gradually shrunk and now stands at 7.2 percent of the gross domestic product, but that's still more than twice the 3 percent ceiling mandated by the EU. Meanwhile, the total public debt as measured against the reduced GDP has soared to 100 percent, a record.

According to projections, the deficit will continue decreasing in coming years, but not as fast as the EU is demanding and the EU has warned Spain not to scale back on austerity because its raw numbers remain in the red zone, even if things are improving.

Beyond austerity, Spain needs to cheapen its economy to make it more competitive, but devaluing its currency by printing more money, as most countries have done, including the U.S. and Japan, is not an option because Spain uses the euro which is controlled by the EU's central bank.

Economists agreed that the only option left to both spur private investment and access cheap credit was to force an internal devaluation, which translated into lowering labor costs by allowing companies to dismiss more workers and cut salaries of those who remained.

Thus, labor statistics show average wages falling hitting lower earners especially hard and Spaniards working more, as expressed through increased labor hours. For 2014, the trend is expected to continue since this internal devaluation process is not complete.

## **Economic Remedies**

With the worst part of the economic crisis now presumed to be over not just in Spain but more broadly in Europe the debate is now focused on how to distribute the benefits of the recovery so the growth can be more sustainable.

Last month, the International Monetary Fund published a paper that suggested that too much austerity is bad for long-term growth and stability, contradicting decades of dominant economic theories that policies designed to distribute wealth can hamper economic growth. The study challenged that “free-market” conventional wisdom:

“On average across countries and over time, the things that governments have typically done to redistribute do not seem to have led to bad growth outcomes. And quite apart from ethical, political, or broader social considerations, the resulting equality seems to have helped support faster and more durable growth.”

Along those lines, the Spanish government has promised tax cuts and other measures that it claims will ease austerity and create jobs. But the EU is keeping Spain on a tight leash, meaning that there may not be much relief for most Spaniards. Much will depend on the resilience of larger European economies.

Politically, Prime Minister Rajoy’s government has until 2015 before it faces regional and national elections. How painful the austerity still is could determine whether Rajoy and his party will gain another term.

But Spain’s unemployment rate is simply too high and the economic growth too slow to expect things to bounce back to where they were any time soon. In fact, they won’t. The most likely future for the average Spaniard, like other Europeans in the hardest-hit economies, is a painful and difficult one.

If Ukraine does decide to move toward integrating into the EU’s economy, Ukrainians, too, can expect a painful adjustment.

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## Risks of a New ‘Zero-Sum’ Cold War

The one-sided uproar in Official Washington over the Ukraine crisis, a cartoonish depiction even including parallels to Hitler, ignores the many on-the-ground gray areas. It also threatens to recreate the Cold War’s dangerous “zero-sum” calculations, says ex-CIA analyst Paul R. Pillar.

By Paul R. Pillar

It is perhaps unsurprising, but nevertheless unhelpful, for so much of the discussion in the United States about policy toward Ukraine to be fueled by Cold War-type juices that the crisis has gotten flowing. Current-day Russia gets equated with the earlier USSR, within a frame of mind that equates any Russian advance with a setback for U.S. interests.

Even the Cold War itself was never that zero-sum, and a failure to realize that fact got the United States into some significant mistakes, the Vietnam War being the costliest one. But at least in the Cold War there was a global competition of ideologies, in which the United States and the Soviet Union were the two lodestars.

No such competition is involved in the standoff in Crimea. The balance of forces in the northern Black Sea region is of major importance to Russia; it is not of such importance to the United States.

Some of the most outspoken and unadulterated expressions of the frame of mind involved come from Sen. John McCain. He declares that for Vladimir Putin, "all rivalries are zero-sum." The senator warns us that even if President Obama says we are not in competition with Russia, "Mr. Putin believes Russia is in competition with us, and pretending otherwise is an unrealistic basis for a great nation's foreign policy."

Of course Russia is in competition with the United States in various respects, just as every other nation in the world, including ones generally termed "allies," are in competition with the United States on something or other. But clearly McCain is making a much more extensive assertion than that, one that sees an all-encompassing zero-sum competition.

Even if Putin did think in such terms, why should the United States let itself get sucked into a similar brand of mistaken thinking? That sounds like letting our competitor set the rules of the game.

This situation most resembles accepting a playground dare: buying into some win-or-lose proposition just because a tough kid we don't especially like challenges us to do so. And don't worry, Sen. McCain assures us, about possibly losing, because, check your lexicon of foreign policy clichés, the "tide of history" is on the side of Ukraine and "the political values of the West."

In fact, Putin surely is smart enough to realize that not all rivalries are zero-sum. Moreover, he probably realizes what he would be losing if he swallows Crimea. The losses would include not only economic countermeasures by the West but also a major blow to any hope of moving the rest of Ukraine, shorn of one of

its more pro-Russian pieces, closer into the Russian orbit.

A tough-thinking Vladimir Putin has good reasons to be thinking about possible ways out of this crisis that are not all unilateral, not all military, and certainly not all zero-sum.

While he is doing such thinking, he also sees how domestic Russian politics have been working to his benefit in a traditional rally-round-the-flag way in response to this crisis and to how the Russian regime and media have been spinning it. The tough Putin we see is surely responding more to this political dynamic than acting out delusions about zero-sum competition with the West.

The West does have an interest in this dynamic, but it is not the one Sen. McCain is talking about. We have an interest in not encouraging and empowering the sort of elements within Russia that would welcome a new Cold War. Unfortunately a zero-sum, Cold War-like reaction from our side may already be tending to do that.

The Center for the National Interest's Dimitri Simes observes about what is going on in Russia, "Hard-line people, more nationalist people, they are being energized, they think this may be their moment," and besides the hardliners from whom we are already hearing "there is a lot behind them that is potentially more serious and more ominous."

There is much sound policy advice about the Ukraine crisis available on the U.S. side that is not at all stuck in Cold War thinking, such as from John Mearsheimer or Graham Allison. Mearsheimer stresses the importance of thinking in geopolitical terms, understanding the concept of spheres of interest, and realizing that Russia has much more at stake in and around Ukraine than the United States does.

Such thinking is what leads two of America's foremost elder strategists steeped in the continental realist tradition, Zbigniew Brzezinski and Henry Kissinger, both to invoke explicitly Finland as a model for how Ukraine could exist peacefully and prosperously with both Russia and the European Union. That concept is in sharp contrast to how "Finlandization" was used as a dirty word at times during the Cold War and again has been invoked as a pejorative in the current crisis.

The zero-sum mentality frequently accompanies the notion of supposed American weakness as the cause of ills throughout the world, and McCain joins in that theme with gusto. He blames the current U.S. administration and "a growing disregard for America's credibility" for having "emboldened" not only Vladimir Putin but a wide variety of "other aggressive actors."

Looking backward, that notion is invalid as gauged by the historical record. Looking forward, the notion is poor policy guidance both for that reason and because if one were to start drawing lines in sand to try to demonstrate credibility, the Ukraine crisis would be a poor place to do it.

Mearsheimer persuasively emphasizes how much the current crisis grew out of earlier Western and especially U.S. moves to bring Ukraine and Georgia into NATO. The fact that a central part of the crisis has been the overthrow of a fairly elected, even if corrupt, leader also ill serves the cause of democracy and other “political values of the West.”

In years following the Cold War one has heard much lecturing in Washington about the need to get past a “Cold War mindset.” Such a mindset, unfortunately, is alive and well today, although not primarily in the government bureaucracies that were the principal targets of the lectures.

Vladimir Putin and Barack Obama have many challenges if they are, along with leaders of the European Union and Ukraine, to resolve the current crisis successfully. One of those challenges is to cope with domestic elements in both countries that pine for the Cold War and that end every addition problem with the number zero.

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## Letting Egypt Abuse Code Pink Leader

The U.S. State Department, which in just the past year has made excuses for violent coups toppling democratically elected leaders in Egypt and Ukraine, showed more disdain for democracy by tolerating Egypt’s mistreatment of U.S. peace activist Medea Benjamin, writes Lawrence Davidson.

By Lawrence Davidson

For several months, the peace organization Code Pink was in communication with Egyptian diplomatic representatives in the United States to arrange the arrival of approximately 100 women from around the globe who would go to Egypt and then travel up to the Rafah border crossing with Gaza. If prevented from crossing into the besieged territory, they would hold a demonstration on International Women’s Day (March 8) to show solidarity with the women of Gaza.

One of the principal organizers of this event was the well-known peace activist Medea Benjamin, winner of such awards as the Martin Luther King Peace Prize (2010), the Marjorie Kellogg National Peacemaker Award (2012), the Thomas Merton Center Peace Award (2012), and the Peace Foundation Memorial Award (2012). Benjamin is, as the *Los Angeles Times* put it, "One of the high profile leaders" of the American peace movement.

Here then was the situation: We had a nationally known personality traveling to Egypt for a publicly scheduled and well-advertised peace mission. The Egyptian government knew she was on her way and it is probable that the U.S. government also knew her plans.

Benjamin, along with several other members of Code Pink, arrived at Cairo's international airport about 8 p.m. on March 3. In her own words here is what happened next:

"I arrived at the airport. When I gave in my passport, I was taken aside, brought into a separate room, where I was held for seven hours without anybody ever telling me what was wrong. Then I was put into a jail cell at the airport, held overnight. And in the morning, five very scary-looking men came in and wanted to take me away. And I said, the [U.S.] embassy is coming. They were supposed to have arrived. Instead, the men dragged me out, tackled me to the ground, jumped on me, handcuffed my wrists so tight that they started bleeding, and then dislocated my shoulder, and then kept me like that grabbing my arm."

In the meantime, both the Code Pink members who had accompanied Benjamin to Egypt as well as those in the U.S. were pleading for help from the U.S. embassy in Cairo. They would continue to plead for some 13 hours. The embassy refused any assistance, telling the women that they "were on their own."

To this day Benjamin has not received any explanation for the incident from either the Egyptians or the Americans.

When an official at the Egyptian Interior Ministry, Brigadier Alaa Mahmoud, was asked about the incident by CNN, he replied, "Benjamin was not detained. She was denied entry because her stated reason for visiting Egypt was to make a trip to Gaza. Authorities explained to her that the crossing was closed and consequently refused to allow her to enter the country." He denied that she was assaulted or that force was used on her.

Mahmoud did not explain how Benjamin ended up on a plane to Turkey with a broken arm and a dislocated shoulder. Further, he did not explain why many other Code Pink women coming to Egypt for the same purpose as Benjamin were allowed entry into Egypt? Maybe it was because CNN did not ask these questions.

## Who Has Responsibility?

Here is what I surmise happened. Medea Benjamin's horrid treatment was not a mistake. It was not the action of a few rogue border officials. It was a premeditated act on the part of the military dictatorship that now passes for a government in Egypt.

Who gave the orders? No doubt this plot started in Washington when someone, probably a security officer attached to the visa department at the Egyptian embassy, recognized Benjamin's name. He alerted someone in Cairo that a major supporter of the Palestinians and someone who had spoken up for democracy across the region was coming to Egypt. Then someone in Cairo decided to make an example of her.

The next question is: Would you do that to a high-profile American activist without running the scheme by some relevant U.S. official? I guess that depends on just how cocky the Egyptian security folks have gotten. However, considering the reaction (or lack thereof) of the U.S. embassy personnel in Cairo, it sure looks like the U.S. government was in on the plot. And, if they were, one has to ask the question why.

After all, when an American embassy gets a call from a U.S. citizen who has just been assaulted and harmed to the point that they need hospitalization, the standard policy is to render assistance. If necessary an embassy representative is dispatched to the scene to ensure such assistance. To deny such aid is so counter to policy that any embassy employee doing so is putting their job in jeopardy.

Unless, of course, someone higher up has explicitly changed the rules. That is unlikely to have been done on the spur of the moment by someone at the embassy in Cairo. Such a negation of policy would have had to come from someone relatively high up in the Department of State or perhaps the White House.

There is actually precedence for this flip-flopping of the rules, and it is found at the U.S. embassy in the country of Israel. As the American activist Rachel Corrie and others who have protested Israeli treatment of Palestinians have discovered, in Israel the *denial* of assistance to U.S. citizens in trouble is the rule, not the exception. That might now be the case in Egypt too. (Corrie was crushed to death by an Israeli military bulldozer on March 16, 2003, when she tried to prevent the destruction of a Palestinian house.)

As a matter of training and policy American diplomatic personnel are not supposed to cooperate with the hired thugs of Egyptian dictators or the military murderers of various regimes ranging from South and Central America to the

Eastern Mediterranean. They are not supposed to conspire in the denial of the rights of American citizens just because they, or their bosses, disapprove of the political positions and actions of those citizens. To do so is to utterly trash the U.S. Constitution.

But we know that in practice our diplomats are quite capable of doing just this. And, while you will never get the bureaucrats to admit it, I am pretty sure that there are government officials both in Washington and the U.S. Embassy in Cairo who conspired with the thugs now employed by Abdel Fattah el-Sisi to drag the U.S. flag through the mire by turning their backs on Medea Benjamin. There should be consequences for such treason.

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