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ECONOMIC ORTHODOXY AND CRISIS IN THE 21ST CENTURY

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Purpose: The paper aims to identify and critically assess theoretical and practical aspects of economic orthodoxy in euro area in the context of the global financial crisis.
Scientific gap: Most studies stick to either theoretical or practical aspects of the current version of capitalism. This paper aims to fill this gap. The paper also tries to enliven the debate on the socio-economic performance of the EMU peripheral countries over 16 years after the collapse of Lehman Brothers.
Design/methodology/approach: Philosophical discussions and critical assessment of literature, comparative studies, case study/ historical and institutional approach.
Findings: Economic policy conducted in the euro area after the collapse of Lehman Brothers fully complied with neoliberal orthodoxy. In the case of peripheral countries it proved ineffective.
Practical implications: Keynesian policies are better suited to fight with these type of crises.
Originality/value: The paper combines theoretical and practical aspects of global financial crisis in the EMU. It is addressed to scholars, students and a wider audience interested in economics.
Keywords: global financial crisis, euro area, neoliberalism, the peripheral countries, austerity.
Category of the paper: conceptual paper and case study.

1. Introduction

More than 16 years passed since the collapse of Lehman Brothers in September 2008 which marked the symbolic beginning of the global financial crisis. It was the biggest financial crisis since the Great Depression of the 1930s. Hence, the recession that followed the turmoil in the financial sector in the US and later in European countries was dubbed Great Recession. It is beyond doubt that "Europe was long headed for economic stagnation because of its embrace of the neoliberal economic model that undermined the income- and demand-generation process. That stagnation was serially postponed by a number of developments, including the stimulus from German re-unification and the low interest rate convergence produced by creation of the euro" (Palley, 2013, p. 48).

The first part of the paper focuses on the theoretical aspects of the current neoliberal paradigm. The second part investigates the economic situation of selected ‘peripheral’ European countries before, during and after the crisis. This part demonstrates that the orthodox policy of internal devaluation and drastic austerity measures extend socio-economic woes in these countries.

2. Neoliberalism as a new paradigm

‘The term neoliberalism, in the modern sense, probably appeared for the first time in 1925 in a book entitled Trends of Economic Ideas, written by the Swiss economist Hans Honegger’ (Plehwe, 2009, p. 10). In the 1930s the neoliberalism was propagated by a loose group of economists, philosophers, and sociologists located in Paris who organized the Walter Lippmann Colloquium, while after the Second World War its influence was reinforced by establishment of the Mont Pèlerin Society (MPS) at a conference organized by Friedrich August von Hayek in a village close to Lake Geneva in April 1947.

As noted by Ratajczak (2021, p. 20) only several years after Richard Nixon’s famous speech ‘we are all Keynesians now’ in 1971 ’took place a radical turn in the direction to what is popularly described by the term neoliberalism, the emanation of which in scientific sphere was the creation of the so called mainstream economics which was related to liberal tradition of neoclassical economic’. In fact, already “on August 15, 1971, the U.S. President Richard Nixon stunned the world by closing the gold window (ending the ability of foreign central banks to convert their dollar holdings into gold) and slapping a 10 percent surcharge on imported goods” (Irwin, 2012, p. 1). ‘The U.S. decision to suspend gold convertibility ended a key aspect of the Bretton Woods System. The remaining part of the system, the adjustable peg disappeared by March 1973” (Bordo, 2017, pp. 24-25).

According to Harvey (2005, p. 2) ‘neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets and free trade’. Mirowski (2013, p. 42) notes that ‘David Harvey propounds the Marxist position that it is straightforwardly a class project masked by various versions of “free market” rhetoric. For him, the ideas are far less significant than the brute function of serving the interests of finance capital and globalized elites in the redistribution of wealth upward’. Philip Mirowski and Wendy Brown share the view that ‘neoliberalism became a “constructivist” project, no matter how much it was a term against which Hayek often railed (Mirowski, 2013, p. 41). Indeed, economic capitalism becomes progressively unmoored from any social principles and financial profit becomes an end in itself, mainly via the use of debt as a weapon’ (Crockett, 2021, p. 2).

According to Söderbaum (2019, p. 192) "the present kind of capitalism is largely made legitimate through the domination of neoclassical economics as economics paradigm and neoliberalism as ideology". He also claims that neoclassical economics and neoliberalism are not totally separate but rather overlapping. Mainstream is a neoclassical school comprising neoclassical orthodoxy, welfare economics, monetarism, public choice theory, supply-side economics and New Institutional Economics (Czaja, 2012). Mainstream (orthodoxy) has been going in the direction of the New Neoclassical Synthesis which merges the classical and New Keynesian elements. The latter substantially differs from Post-Keynesian heterodox school. This implies that neoliberalism is a dynamic and in certain spheres flexible system which has the ability to adapt to challenges faced in real capitalist economy.

Macher (2023, p. 2) utilizes the Lacanian psychoanalytical concept of fantasy to maintain that "neoliberalism revolves around a central fantasy narrative, in which the "free market" functions as the crucial object of desire, constructed as uniquely able to deliver transcendental freedom, order, and material prosperity. Further, the neoliberal fantasy determines a priori that all historical and material progress is necessarily a result of the free market, and that any failings can be blamed on its binary opposite, the transgressive state".

In most cases, this criticism is unfounded as the main causes of crises in the last 40 years are deregulated financial markets which breed speculation and massive asset price bubbles. Such events can be explained by the Minsky crisis (not by orthodox efficient market hypothesis).

"Mainstream economics reduces "society" to being an aggregation of individuals who act purely out of individual self-interest (i.e. maximising their own personal utility) and are basically identical (both ethnically and psychologically). As such it cannot explain the historical variety in social provisioning systems – production and consumption patterns – throughout history and across contemporary cultures" (Spash, Guisan, 2021, p. 208). In this atomistic environment comprising of identical representative agents there is no place for power relations.

In real life, however, production could be dominated by oligopolies or even monopolies, while individuals are highly varied for example in terms of wealth, earnings, education, etc. Generally, ahistoricism is a typical feature of economic mainstream. In neoclassical economics and neoliberalism historical aspects are marginalized and the maxim "life's teacher" is ignored (Pysz, 2013, p. 506).

This could prove instrumental for maintaining fantasy or myth that suits advanced economies and multinational companies. Thus, colonization of the Global South, profiting from slave labour or the environmental damage resulting from industrialization (deforestation, elevated greenhouse gas emissions[1], etc.) could be forgotten.

[1] Greenhouse gas emissions per capita in a number of African countries for decades have been even ten times lower than in European advanced economies. Interestingly, according to the UN data from 1970 till late 2010s net greenhouse gas emissions per capita in the Netherlands and Germany were higher than in Poland.

Underlying neoliberal orthodoxy, in turn, focuses mainly on future in order to portrait itself as progressive force building unified, smoothly-functioning modern society. Individualism and ahistoricism is fully consistent with Margaret Thatcher's political philosophy according to which 'there is no such thing as society' (Thatcher, 1987) what marked an important and debatable break with the one-nation conservatism of her predecessor (Campbell, 2011). Shortly after becoming British Prime Minister M. Thatcher declared (Thatcher, 1981): Economics are the method; the object is to change the heart and soul'.

The evolution of new neoclassical synthesis and neoliberalism was further reinforced by the fall of communism and the Washington Consensus which cemented the dominance of capitalism based on the deregulation of markets, privatisation, the increasing role of financial sector and changing anti-trust laws in favour of big companies. The Second Chicago School carried further the antipathy of the First toward government involvement in the marketplace, rejecting any antitrust policy beyond a prohibition of collusion and mergers to monopoly or near-monopoly (Posner, 1979, p. 928), rejecting government regulation of natural monopoly, and certainly rejecting public enterprise (Martin, 2007). Posner (1979, p. 932) also writes that opposition to cartels was "partly, perhaps, for tactical reasons (not to seem to reject antitrust policy in its entirety)"[2]. Employment and wages, by contrast, "are only assessed as a category of costs (which should be reduced), not as a way of boosting demand, social justice and social welfare" (Polak, 2012, p. 198).

The inclusion of the new Keynesian school into the orthodoxy was possible only because it accepted key elements of monetarism and new classical macroeconomics. As labour market need not clear and small transaction costs result in significant monetary nonneutrality, changes in monetary policy, even if expected, may result in changes in equilibrium output and employment (Ball, Mankiw, Romer, 1988, p. 66). New Keynesians do give much greater weight to the stabilizing role of the monetary policy compared to the old Keynesian view, hence New Keynesian school could also be dubbed 'new monetarist economics' (Mankiw, Romer, 1991; De Long, 2000).

New Keynesians do not hold a unified view on the desirability and feasibility of activist (discretionary) stabilization policy (Snowdon, Vane, 2005, p. 364). At the same time, they advocate rough tuning (as a response to massive changes of production and employment and, above all, to the bursting of the asset price bubble) rather than fine tuning. Neoliberalism rejected the idea of smoothing business cycle via market demand (Sadowski, 2014, p. 153) what provides an opportunity for implementation of modernization doctrine based on shock therapy (Szydło, 2014). Therefore, the mop up strategy – the massive injection of liquidity in order to avert economic catastrophe (Issing, 2009) is consistent with economic orthodoxy.

[2] Adam Smith (1776), in contrast, harshly criticized monopolies.

Consequently, big companies may expect to be bailed out as they are ‘too big to fail’. This type of government or central bank intervention is wholly legitimated by the orthodoxy, unlike Keynesian or Post-Keynesian-type fiscal policy focusing on boosting effective demand by public works or its modern incarnations like the so-called helicopter drop. In effect, neoliberalism is a system that socializes costs and privatizes profits (Berger, 2017).

Systemically vital companies amass high profits during boom years while in the rainy days (during crises) benefit from hefty bailouts from government or central bank. Crises, as in the case of global financial crisis, are often referred to as Black swan (i.e. extremely rare) events, therefore massive bailouts of private companies by central banks and government are either silently accepted or after sufficient time-lag intelligently criticised for being the (old) Keynesian-type intervention. In this context the definition of neoliberalism as an “extreme business and market ideology” (Söderbaum, 2019, p. 192) is not precise as it does not take into account an active role of government, central bank and other public institutions in propping up big business especially at the time of crisis.

It is hard to escape the obvious conclusion that “neoliberalism is not just an economic theory or policy approach, but a coherent system of economic ideas and economic, social, and political institutions, as well as a particular form of the capital-labor relation and of relations within capital” (Kotz, 2015). More precisely, ‘neoliberalism is a new stage of capitalism (...) [which] expresses the strategy of the capitalist classes in alliance with upper management, specifically financial managers, intending to strengthen their hegemony and to expand it globally (Duménil, Lévy, 2011, p. 1).

4. Neoliberalism and crisis

As markets are allegedly ‘free’ and self-regulating there is little room for public institutions to assess possible excesses in these markets. National statistical offices and mass media are preoccupied with public sphere, particularly budget deficits and public debts. The existence of other types of debt such as private company debt (both non-financial and financial companies) and household debt for years were not present in popular debate. According to this rhetoric rising private debt is a natural phenomenon, such as natural unemployment rate.

To illustrate this point it is worth quoting Alan Greenspan who served as the 13th chairman of the Federal Reserve from August 1987 to January 31, 2006 – the second-longest tenure in the position (Friedman, 2008): ‘generally I do not recollect a decade free from fear connected with rising household and company debt. These types of anxieties ignore fundamental fact of the contemporary life: in market economy rising indebtedness goes hand in hand with development’. Greenspan maintains that ‘debt will almost always rise relative to incomes so long as we have an ever-increasing division of labor and specialization of tasks, increasing productivity and a consequent rise in both assets and liabilities as a percentage of income. Thus, a rising ratio of debt to income for households, or of total nonfinancial debt to GDP, is not in itself a measure of stress'(Greenspan, 2007)[3].

Already on August 9, 2007, shortly after the publication of the Greenspan's book, 'traders in New York, London, and other financial centers suddenly faced a dramatic change in conditions in the money markets' what was qualified as one of those highly unusual "black swan" events (Taylor, Williams, 2008, p. 1). The situation further deteriorated what led to the collapse of the Lehman Brothers on September 15, 2008.

Little regard to private sector nonfinancial debt proved to be a serious mistake. In 19 European countries this kind of debt jumped over 30% of GDP in 2000-2008, while in 13 countries it shot up by over 50% of GDP. At the same time, only in one country (namely Portugal) the public debt increased by more than 20% of GDP in the same period. In many peripheral countries (Ireland, Spain, Cyprus) and Central and East European countries (such as Bulgaria, Croatia, Czechia, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia) public debt was well below the Maastricht treaty threshold of 60% of GDP. This did not insulate these countries from the global financial crisis. The majority of once very popular debt clocks were and still are merely public debt clocks. It a clear display of the neoliberal fixation on public debt. It is entirely consistent with the neoliberal fantasy narrative according to which the government and public sector as a whole are to blame for the crisis (the government failure narrative). At the same time, market failures are not at all recognized. In fact, the expansion of both public and private debt serve the financial markets which are favoured by neoliberal doctrine. The budget surpluses in the US at the turn of the century where cause for concern as they could lead to the diminishing of the bond market and falling effectiveness of central bank's short term interest rate policy. In contrast, higher debt to GDP ratios usually translate to higher costs of servicing debt and higher profits of banks and financial market. In consequence, the power shifts from indebted governments and non-financial private sector to the financial sector.

According to the popular narrative neoliberal policymakers aim at lowering public debt. The performance in this sphere in the last four decades contradicts this rhetoric. The real focus of economic orthodoxy is to cut taxes for the rich, safeguard access to tax havens (despite massive scandals such as Panama papers and Pandora box) and maintain sufficiently large market for government bonds which jointly provide ample investment opportunities for the rich. The existence of relatively high public debts is an inherent feature of neoliberal system. However, orthodoxy is very successful in portraying high budget deficits and public debts as a consequence of ostensibly excessive welfare spending.

[3] Greenspan (2007) notes that nonfinancial debt includes the debt of households, businesses, and government but excludes the debt of banks and other financial intermediaries.

The process of financialization (excessive growth of the financial sector) is characteristic of the current neoliberal system. Within macroeconomic modelling in the 1990s, central bank activity came to be represented solely by an inflation target pursued by control of the official interest rate by an independent central bank (Crowe, Meade, 2007; Cukierman, 2008). This ‘new consensus’ approach to the theory of central banking shared with its predecessors (i.e. Monetarist and then New Classical theory) a neutral-money (closed-system) ontology (Fontana, 2007). ‘Within this approach, money is simply a technical input into exchange, financial, markets are efficient, inflation is a monetary phenomenon and it is in the power of central banks to control it’ (Dow, 2017, p. 1541). ‘The central bank managed the creation of liquidity with the objective of sustaining the continuous increase in asset values; it also assured the viability of the ‘shadow’ banking system and financial intermediaries’ (Bellofiore, 2013, p. 501). This was fully compatible with the originate-to-distribute model conducted by banks and other financial institutions leading to the unprecedented creation of complicated derivatives (ABSs, MBSs, etc.) and expansion of derivative markets. ‘Through Greenspan, quantitative monetarism stepped down, being replaced by a policy where money was made available in unlimited amounts at any interest rate established by the central bank. The money supply became flat and was finally recognised as endogenous even within the mainstream‘ (Bellofiore, 2013, p. 501).

Indeed, the orthodox money multiplier model is nowadays discarded not only by Post-Keynesians but also central bank economists. Hence, the neoliberal concept of exogenous money becomes obsolete as money is endogenously and *ex nihilo* created by banks. Yet, higher private debt levels strengthen the power of a central bank to shape disposable incomes of indebted households and companies and thus enable it to target inflation by manipulating interest rates. The orthodoxy, however, has problems with imported cost inflation as during recurrent commodity prices booms in the 21st century. The effectiveness of ultra expansionary monetary policy proved very limited. Several years after the collapse of Lehman Brothers R.C. Koo (2013) noted ‘today private sectors in the US, the UK, Spain and Ireland (but not Greece) are undergoing massive deleveraging in spite of record low interest rates. This means that these countries are all in a serious balance sheet recessions. The private sectors in Japan and Germany are not borrowing, either. With borrowers disappearing and banks reluctant to lend, it is no wonder that, after nearly three years of record low interest rates and massive liquidity injections, industrial economies are still doing so poorly’.

Orthodox economists entered the Global Financial Crisis with a conviction that monetary policy was nearly omnipotent in its capacity to achieve macro stabilisation. Fiscal policy was seen as irrelevant (Fiebiger, Lavoie, 2021, p. 55). The crisis in the European Monetary Union (EMU) shows that fiscal policy was, in fact, pro-cyclical, especially in the peripheral countries. The austerity measures favoured by the Troika (the consortium of the European Commission, the ECB and the IMF) deepened and prolonged recession.

During the global financial crisis and subsequent Great Recession in Europe neoliberals coined the term ‘debt crisis’ to indicate that the crisis was caused by excessive public debts in the EU peripheral (especially South-European) countries. This explanation, however, does not stand to facts as high public debts were generally the consequence of the global financial crisis not its causes. Greece with its public debt at 109.4% GDP in 2008 has been perceived as a perfect example of fiscal profligacy. The country of 10.4 million inhabitants has been accused of causing the crisis in the Eurozone or even in the EU (with the current population of 448.8 million). Along with four other EMU peripheral countries it was stigmatized by a number of economic commentators (mostly from the core countries) who devised acronym PIIGS referring to Portugal, Italy, Ireland, Greece and Spain.

The medicine administered by the Troika was internal devaluation and harsh austerity measures. Typical improvement of competitiveness via external devaluation was not possible as the countries in crisis remained in the euro area. Keynesian or Post-Keynesian policy to boost demand in order to end recession was also rejected. Austerity turned out to be the only option under neoliberal regime. The consequences for most peripheral countries were dire.

It is clear that neoliberals avoid the problem of rising private sector debt (i.e. the debt of households and private companies[4]) and prefer to put the blame for various crises on ostensibly rising public indebtedness. High household indebtedness is instrumental in keeping labour in check (reduces bargaining power of workers). It also reinforces the effectiveness of central bank short term interest rates to stabilize inflation, especially when it is affected by demand-side factors (for example high demand caused by sudden surge of household incomes). Under neoliberalism the power is skewed in favour of capitalists, either directly or indirectly (i.e. via public institutions), at the cost of labour. In such an environment, the work by Polish Post-Keynesian economist M. Kalecki which deals with “the general case of imperfect competition, without assuming any particular market structure” (Szymborska, Toporowski, p. 109) proves invaluable. Lavoie (2015, p. 59) points out that Kalecki “has stressed the importance of excess capacity, arguing that firms would not be operating at full capacity utilization, even in the long run.” This stands with stark contract with the economic orthodoxy which takes pride in creating mass consumption society (especially in developed countries) and at the same time criticises the population for creating various crises (environmental, economic and financial).

For neoliberals, as well as for the Austrian school (Kraciuk, 2014, p. 146), the labour market should be flexible. New Keynesians prefer to use the term ‘NAIRU’ (non-accelerating inflation rate of unemployment) concept, rather than Friedman’s ‘natural rate’ when discussing long-run unemployment. NAIRU ‘takes into account inertia in the system which allows a protracted response of the economy to various economic shocks’ (Snowdon, Vane, 2005). This persistence of high unemployment could be complementarily explained by ‘hysteresis’ theories which state

[4] Private companies comprise non-financial and financial companies.

that the natural rate of unemployment or NAIRU partly depends on the history of the equilibrium rates. Hence, the return to equilibrium in the labour market at NAIRU with hysteresis effects takes much longer time than according to natural rate hypothesis. Potentially higher social costs of various shocks (including disinflation policies) are well recognised by economic orthodoxy. This does not change the neoliberal priority to keep inflation low, rather than actively fight with (persistently) high unemployment as in the case of Greece and Spain.

‘The inability of the governments of the member states to coordinate a policy response that could serve the interests of the people of the Eurozone as a whole has been the key reason for the abysmal performance of the Eurozone economy, and the unbalanced distribution of crisis-related costs among different member states’ (Orphanides, 2014). Undoubtedly, the Deauville meeting on 18 October 2010 shows a lack of coordination between top policymakers in the EMU. In consequence the long term-treasury bond spreads increased exponentially in peripheral countries (especially in Greece). Already in 2012 Pitelis (2012, p. 84) claimed that “there is now a widely held view among many Greeks that the apparent lack of vision by European leaders may be better explicable in terms of them aiming to establish economic spheres of influence – of the neo-economic colonialism type, revanchist policies by Germany, and buying the country on the cheap (the Greek stock market lost 51.88% of its value in 2011, and 10% of the Greek telecoms company was already purchased by a German company for a fraction of its recent past price)”. Tooze (2018) describes Deauville as Europe’s “Lehman moment”. Hence, it was practically impossible to reduce public debt to GDP ratio in peripheral countries (table 1) as numerator was boosted by mounting costs of servicing debt (especially after the Deauville meeting), while denominator was decreasing due to prolonged recession. The core countries such as Germany and the Netherlands did not have these problems. Young (2015, p. 79) claims that “there is little hope that the ordoliberal values and ideas still dominant in the Bundesbank and the Federal Ministry of Finance will shift to a more Keynesian type of demand-led growth model”. It could be reasonably argued that “the EMU constituted at Maastricht embodied a neoliberal theory of interstate federalism. Most eloquently elaborated by Hayek in 1939, this constitutional imaginary seeks to narrow the confines of governmental capacity with regard to economic affairs at all levels of government” (Lokdam, 2023, p. 296). Hence, the dominance of monetary policy conducted by the ECB over fiscal policy performed by individual countries.

Table 1.
General government gross debt (Percent of GDP)

	CYP	**GRC**	**ITA**	**PRT**	**ESP**	AUT	DNK	DEU	NLD	SWE
2008	44.1	109.4	105.8	75.6	39.6	68.7	33.2	64.6	54.4	37.7
2019	93.0	185.5	133.6	116.6	97.6	70.6	33.8	58.6	47.6	35.7
2024	70.6	159.0	136.9	94.4	102.3	78.7	28.2	62.7	44.3	36.4

Note: Peripheral countries in bold.

Source: IMF.

Generally, the economic growth in the euro area has been unsatisfactory since the collapse of Lehman Brothers. Between 2008 and 2024 the real GDP grew by 15% in Spain, 16.4% in Germany and fell by 17% in Greece. In contrast, it increased 39% in the US, 54% in Romania and 75.8% in Poland. Therefore, the average annual GDP dynamics amounted to mere g_{Spain}=0.83% in Spain and more pronounced g_{Poland} = 3.37 % in Poland.

Table 2.
GDP per capita, constant prices (purchasing power parity; 2017 international dollar). Pre-crisis peaks in 2007 or 2008

	2007	2008	Above peak after (years)	Change (%) since peak pre 2020	Change (%) since peak pre 2020
CYP		45722.76	8	2.68	15.21
GRC	41967.37		(-)	-21.11	-11.79
ITA	53650.06		17	-6.33	0.04
PRT		37251.19	6	8.16	16.31
ESP	45101.31		7	3.57	7.49
AUT		62653.41	1	5.1	2.6
DNK	63819.71		6	5.4	15.1
FRA	53423.68		4	6.5	8.6
DEU		56854.19	1	11.5	9.8
NLD		64538.92	5	6.7	11.1
SWE	56883.82		2	7.8	11.0
CZE		42352.28	4	17.7	17.8
JPN	42487.34		3	6.2	9.9
KOR		37180.34	no recession	34.3	49.0
POL		25868.89	no recession	48.4	75.6
USA	61170.17		3	13.6	24.6

Source: Author's calculations based on IMF.

Real GDP growth per capita (purchasing power parity; 2017 international dollar) was also very slow (table 2). In 2024 this indicator in Greece was still below the pre-crisis peak in 2007 by 11.79%. It took 17 years for Italy to marginally break the 2007 peak by 0.04%.

For an extended period of time several peripheral countries were in a serious balance sheet recession. Deleveraging deepened the recession. 'Although shunning fiscal profligacy is the right approach when the private sector is healthy and is maximizing profits, nothing is worse than fiscal consolidation when a sick private sector is minimizing debt' (Koo, 2013, p. 53). Deleveraging in the EU core economies and the CEE countries did not help the peripheries to boost economic growth. It seems that export-led model was imposed on the whole European Union. However, major importers, such as the US, may no longer be willing to import. This will pose challenge especially for the core countries.

5. Conclusion

Neoliberalism as an all encompassing individualistic and ahistorical ideology and the New Neoclassical Synthesis as an economic orthodoxy complement each other perfectly. On the one hand, the neoliberal framework utilizes attractive, relatively simple and at the same time productive myth of the free market which explains the world for curious non-specialists. On the other hand, orthodox economists are preoccupied with sublime representative agent models which comply with Friedman dictum 'the more significant the theory, the more unrealistic the assumptions'.

Internal devaluation was the method to solve the crisis in the euro area peripheral countries. Drastic austerity measures were administered by the Troika (which resemble structural adjustment programs imposed on developing countries which apply for a loan from the IMF or the World Bank). Fiscal policy was thus pro-cyclical. This flawed strategy combined with the lack of coordination between top politicians and the ECB (as in the case of the Deauville Franco-German compromise in October 2010) drastically worsened financial and in consequence socio-economic situation in peripheral countries. Expansionary monetary policy also proved ineffective due to deleveraging which contradicts mainstream exogenous money supply theory. Neoliberal policy led to the drastic increase of unemployment.

The core countries continued their self-centred export-led growth strategy which hampered demand for imports of goods and services from the peripheral members of the EMU. Therefore, the South European economies found it more difficult to recover from the crisis. 'Neoclassical economics and neoliberal doctrine poorly manage complexities of global economy. Inadequate regulation of the financial sector created the problem of financialization. In this situation one can observe the need to change the economic paradigm' (Mączyńska, Pysz, 2014, p. 243). However, Mączyńska, Pysz (2014, p. 243) correctly maintain that this change will take time given that economics has been subject to neoliberal doctrine for decades. One has to agree with Palley (2013, pp. 49-50) that Europe needs a structural Keynesian model that "can restore full employment with shared prosperity".

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