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Euro crisis, growing imbalances and social ruptures in Europe

A critical perspective in the context of sustainable development

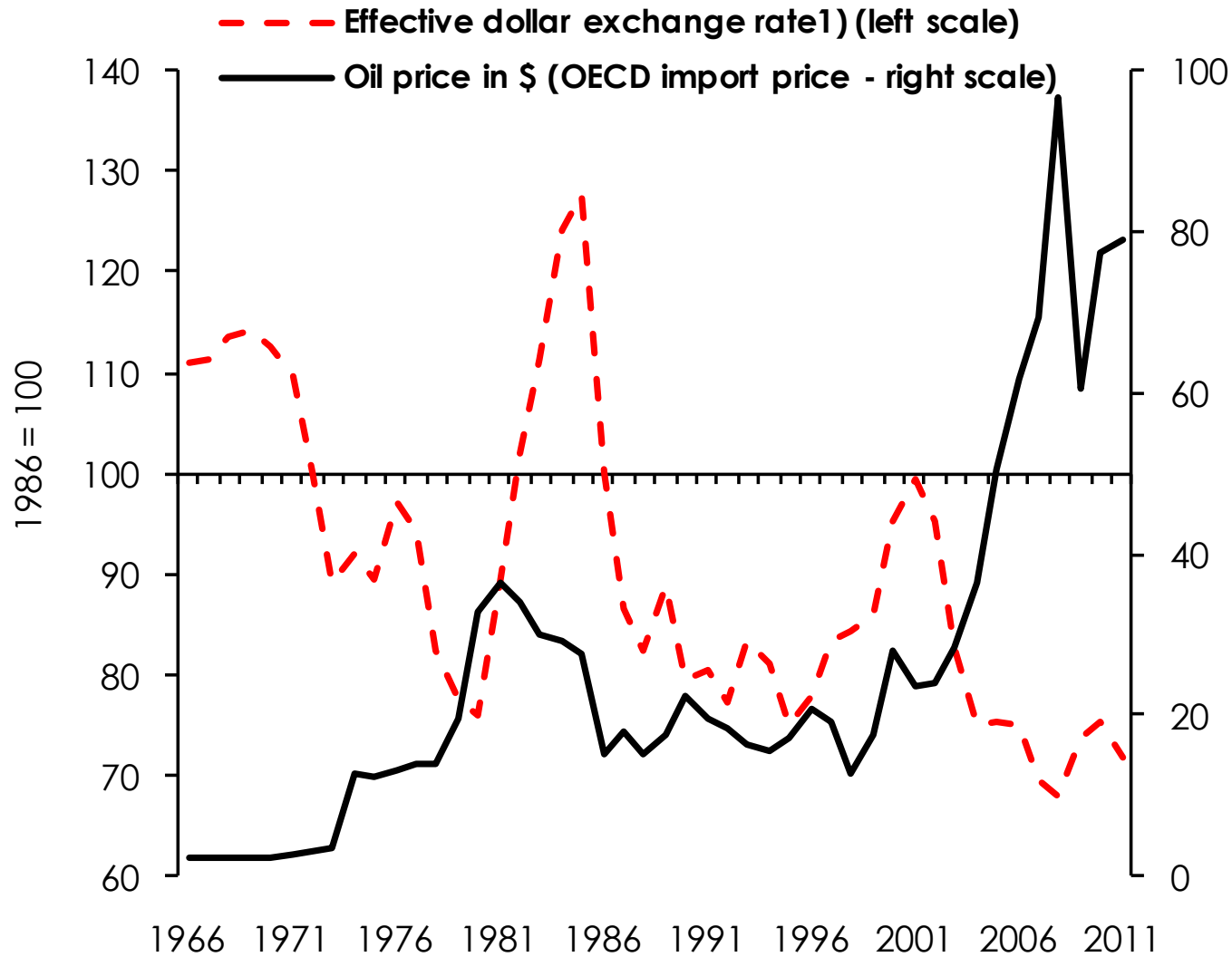
Stephan Schulmeister

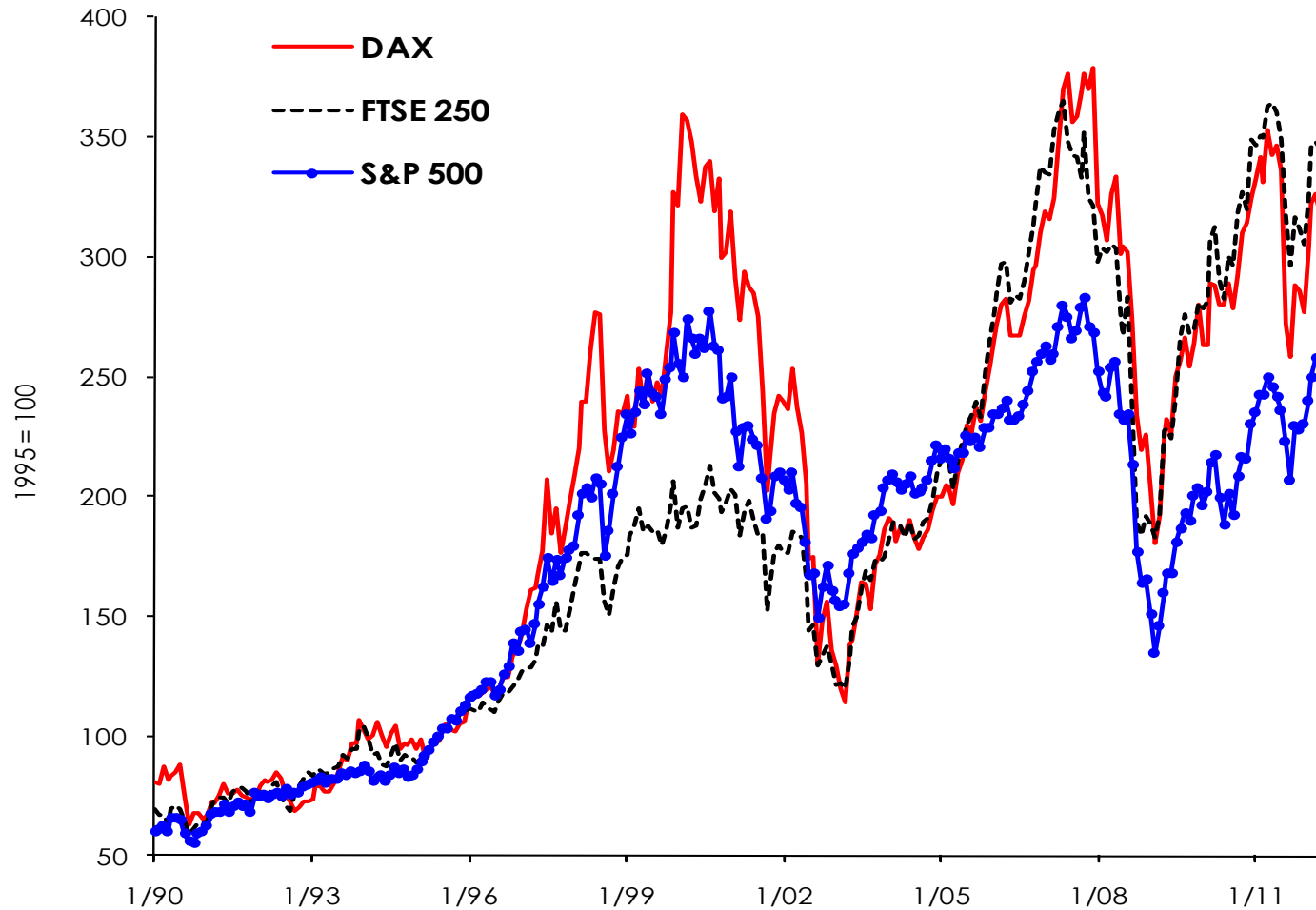
**Keynote presentation at the ESDN conference in
Copenhagen on June 28, 2012**

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- Crisis = „fruit“ of neoliberalism and finance capitalism
 - Two regimes: Real and finance capitalism
 - Long cycle = Sequence of these regimes:
1873ff/1890/1914/1920s/1929ff/1950/1970s/2007ff
 - “Freest” markets built up the potential for the crisis
 - Cannot be realized/digested by the elites >
 - More of the same > Fiscal pact
 - Systemic approach: Striving for profit has to be shifted from the financial sphere to the real sphere >
 - Renovation of the concept of a „social market economy“ and a “New Deal for Europe”

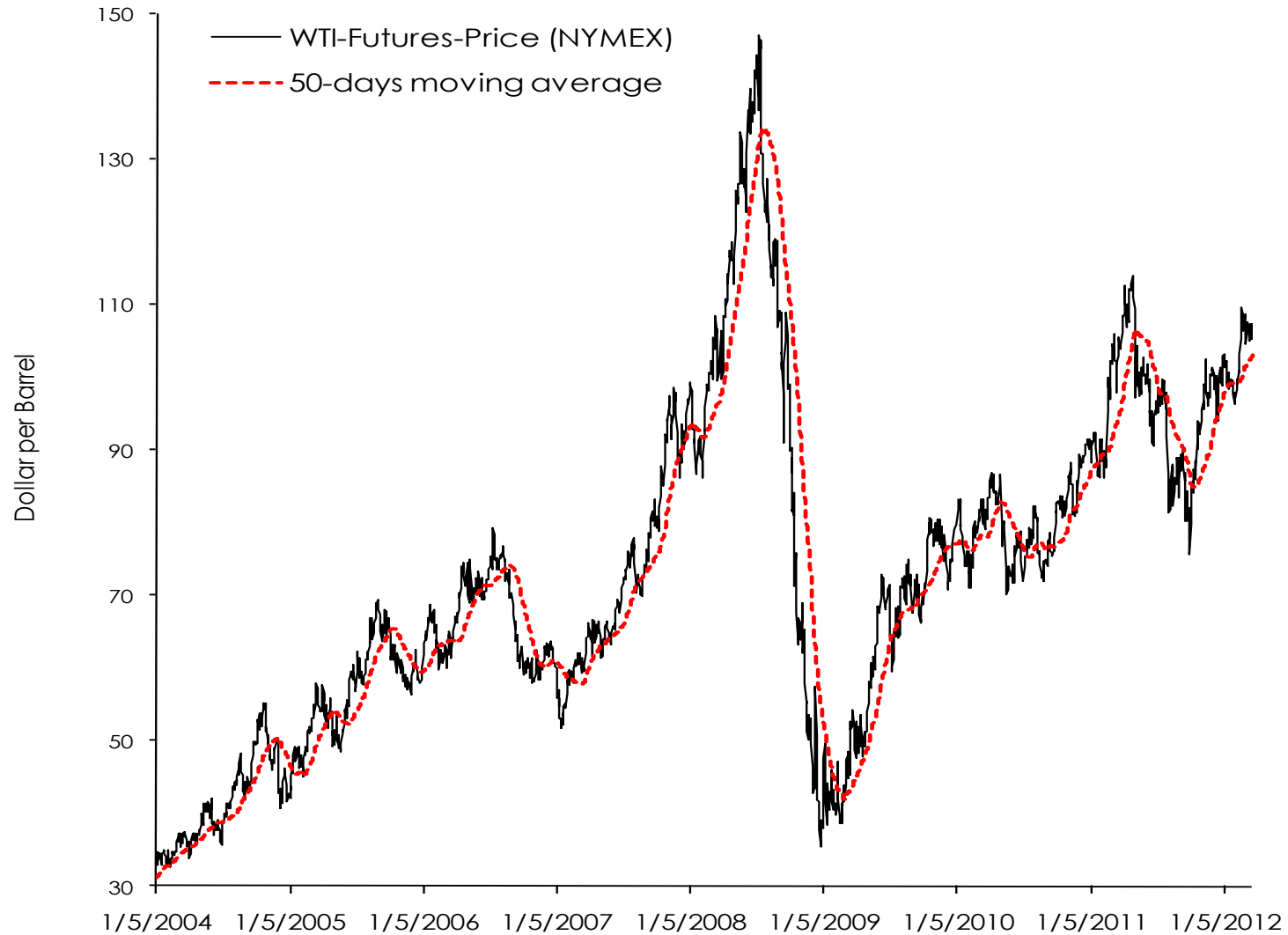
	Real capitalism	Finance capitalism
Implicit coalition	Labor & Real capital	Real capital & Finance capital
Business/unions	Corporatisms	Conflict
State/market	Complementary	Antagonistic
Targets of economic policy	Many: From full employment, high growth to social security and „fair“ distribution	Price stability, „sound“ public finances, regulation of policy, de-regulation of markets
„Power center“ of economic policy	Government	Central bank
Economic paradigm	Keynesianism	Monetarism/Neoliberalism
Diagnosis/Therapy	Systemic	Symptom-oriented
Financial conditions	Interest rate < growth rate, „calm“ stock markets, stable exchange rates and commodities prices	Interest rate > growth rate, boom und bust on stock markets, unstable exchange rates and commodities prices
Striving for profits focuses on	Real economy (Positive-sum game)	Finance economy (Zero-sum game)
Economic model	Social and regulated market economy	„Pure“ market economy

Dollar exchange rate and oil price dynamics



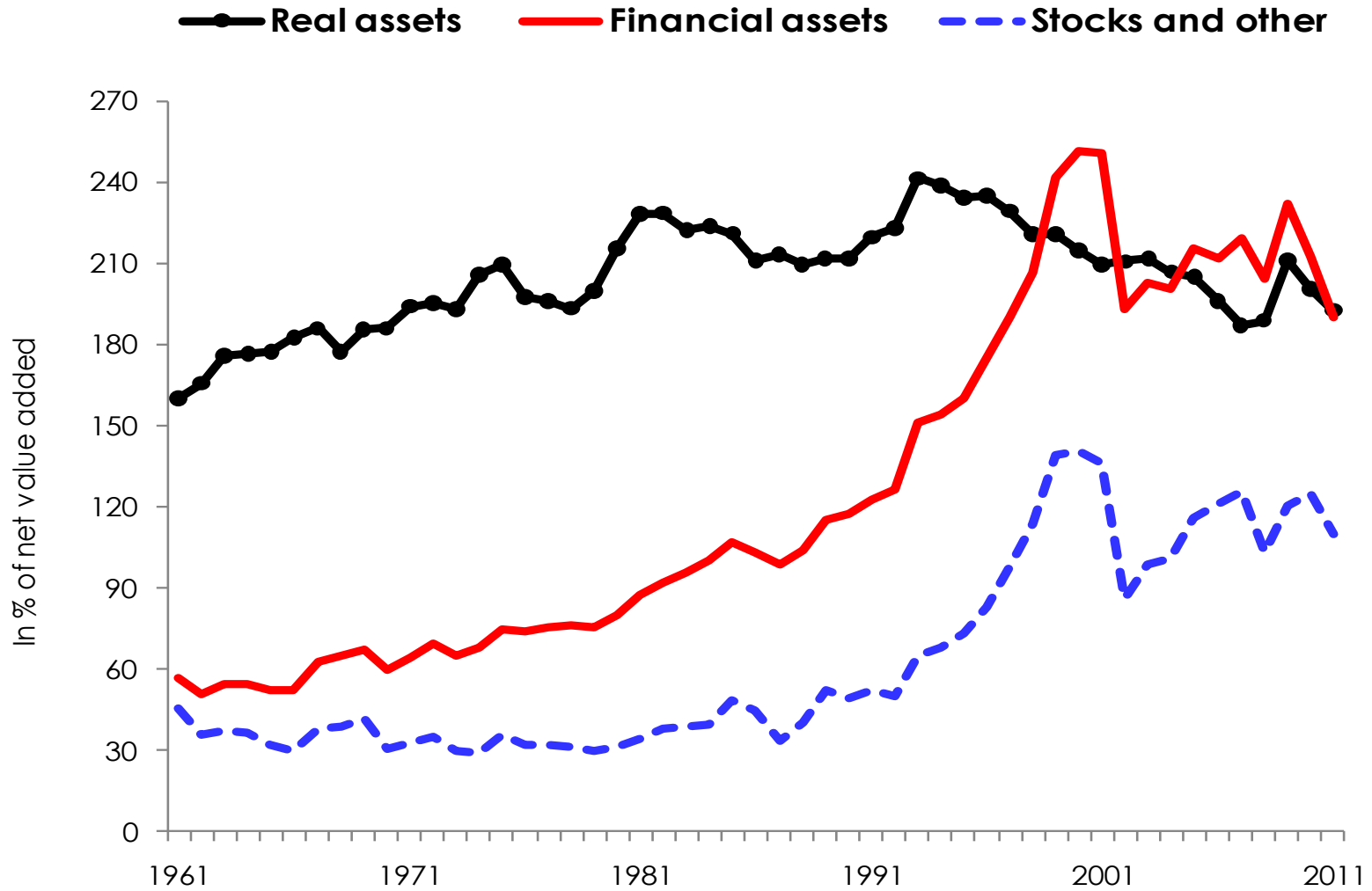


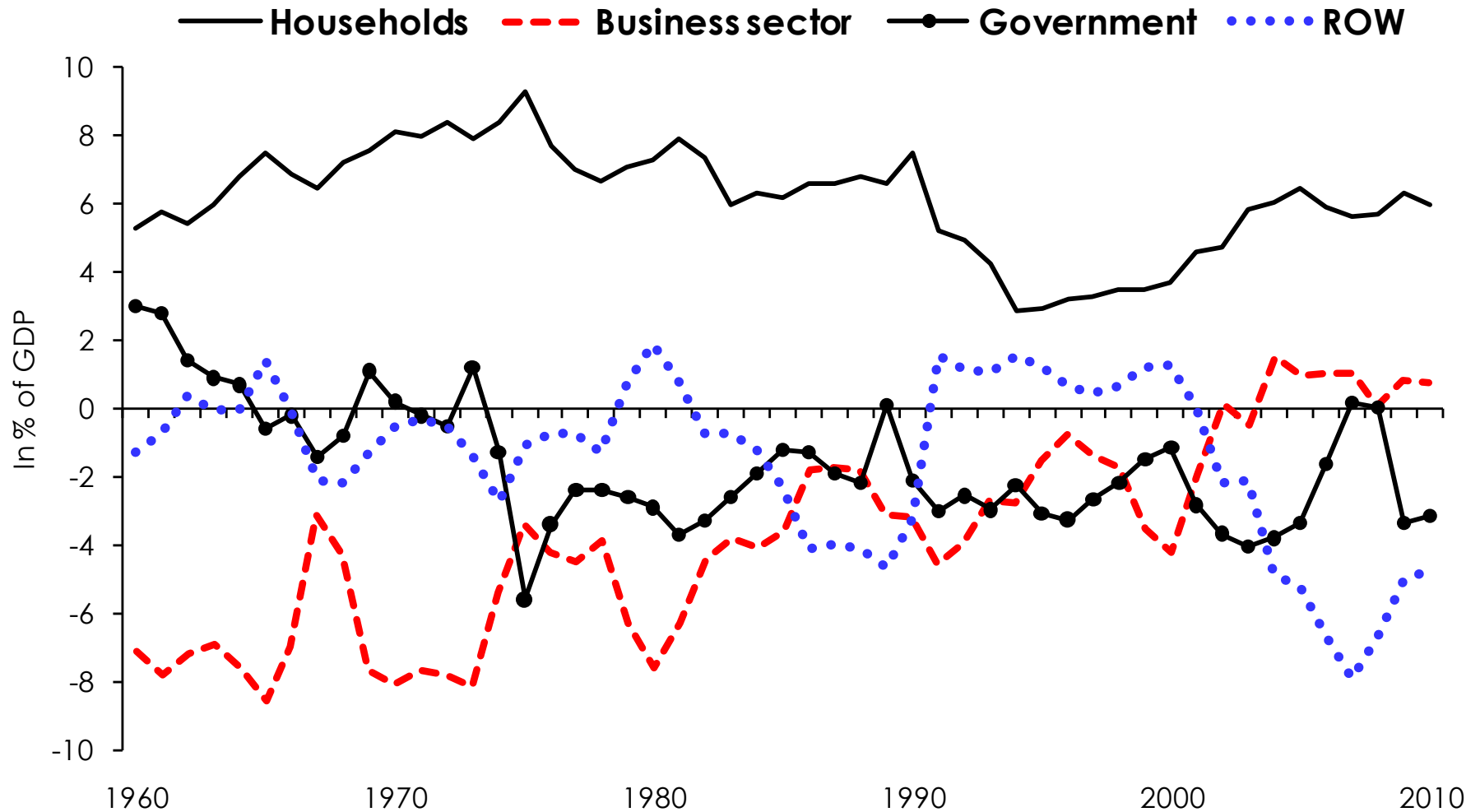




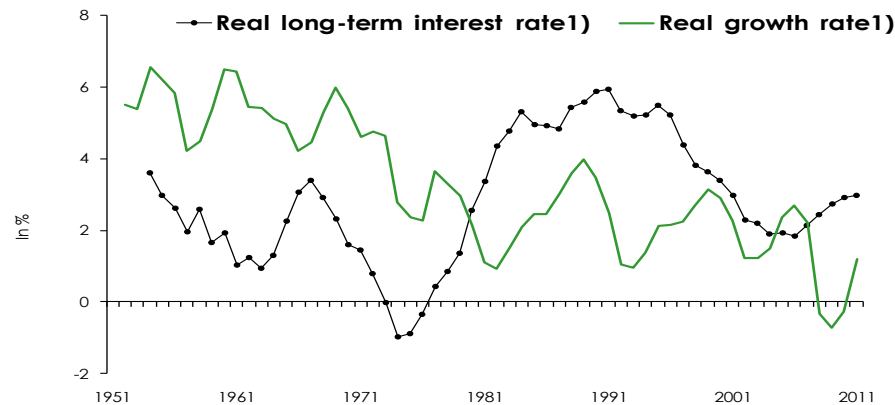
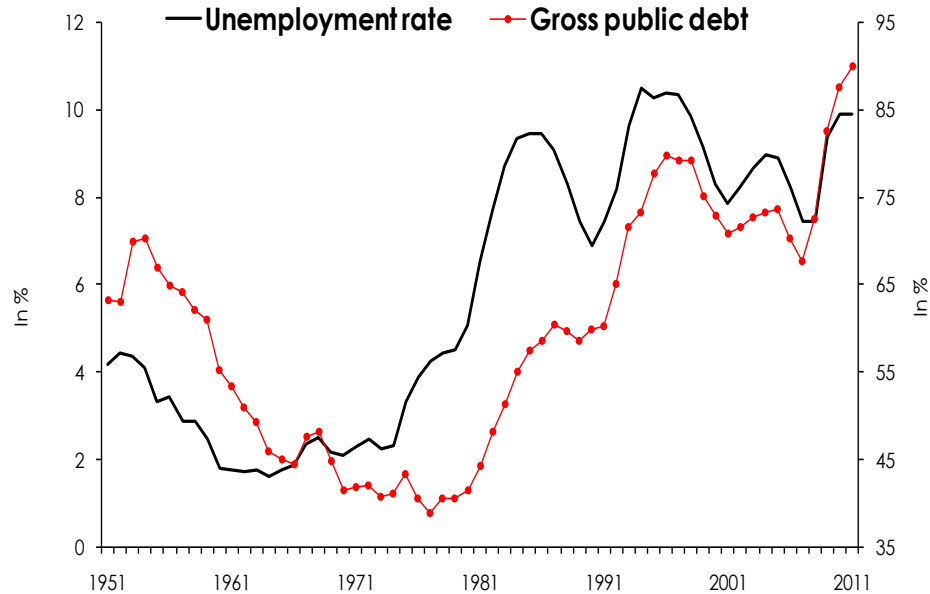


Real and financial assets of non-financial business in Germany





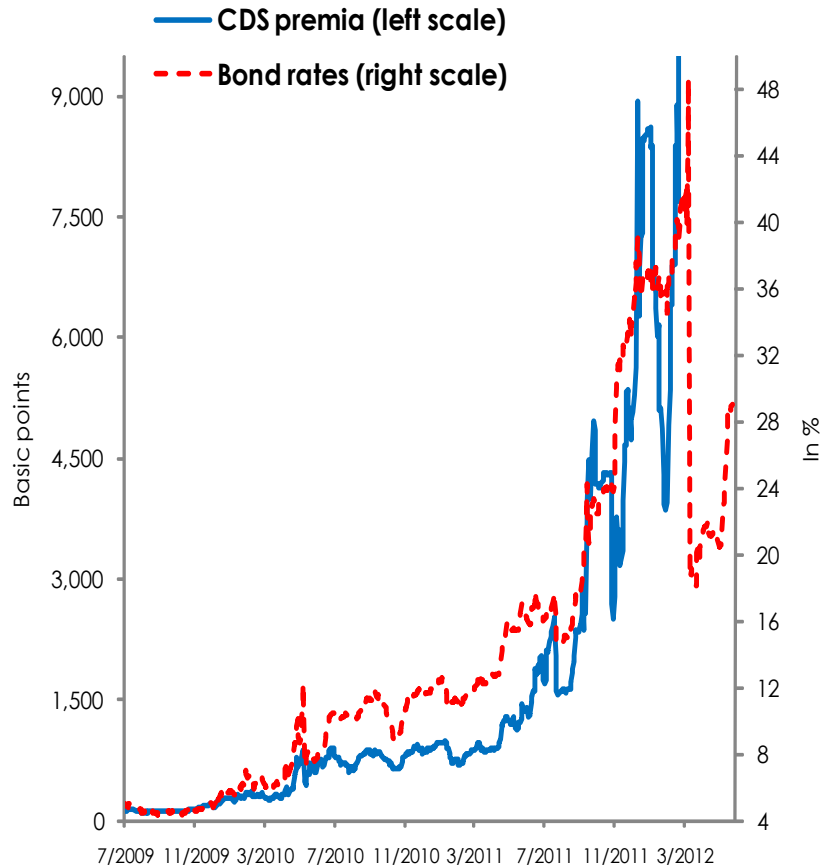
Interest rate, growth rate, economic performance – Western Europe



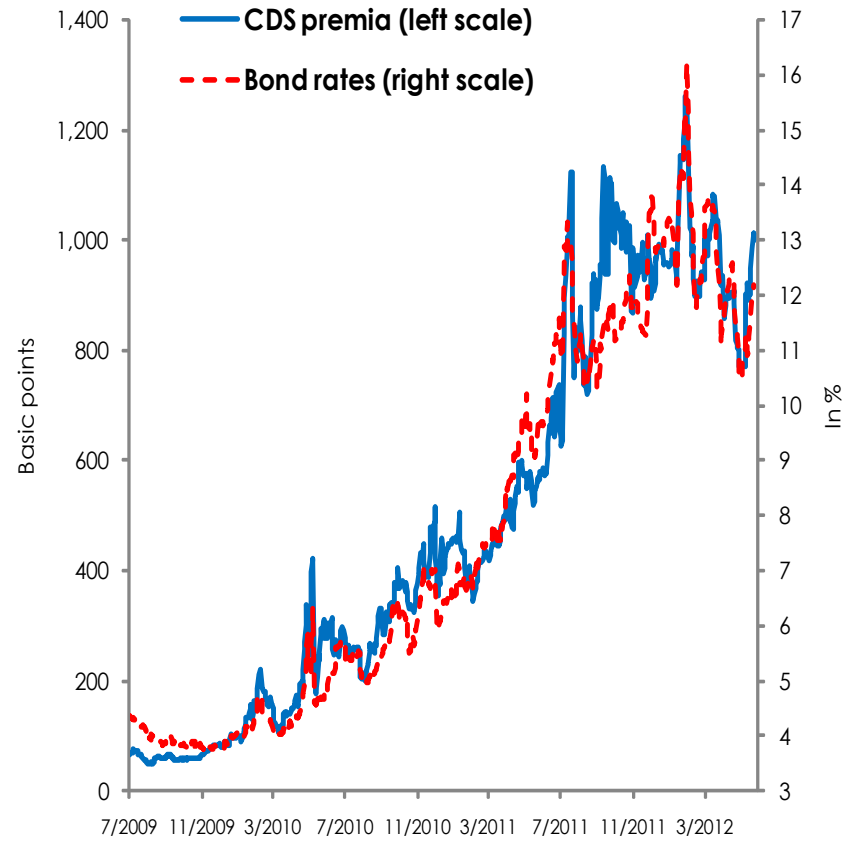
1) Gleitender 3-Jahresdurchschnitt.

CDS premia and interest rates on government bonds

Greece

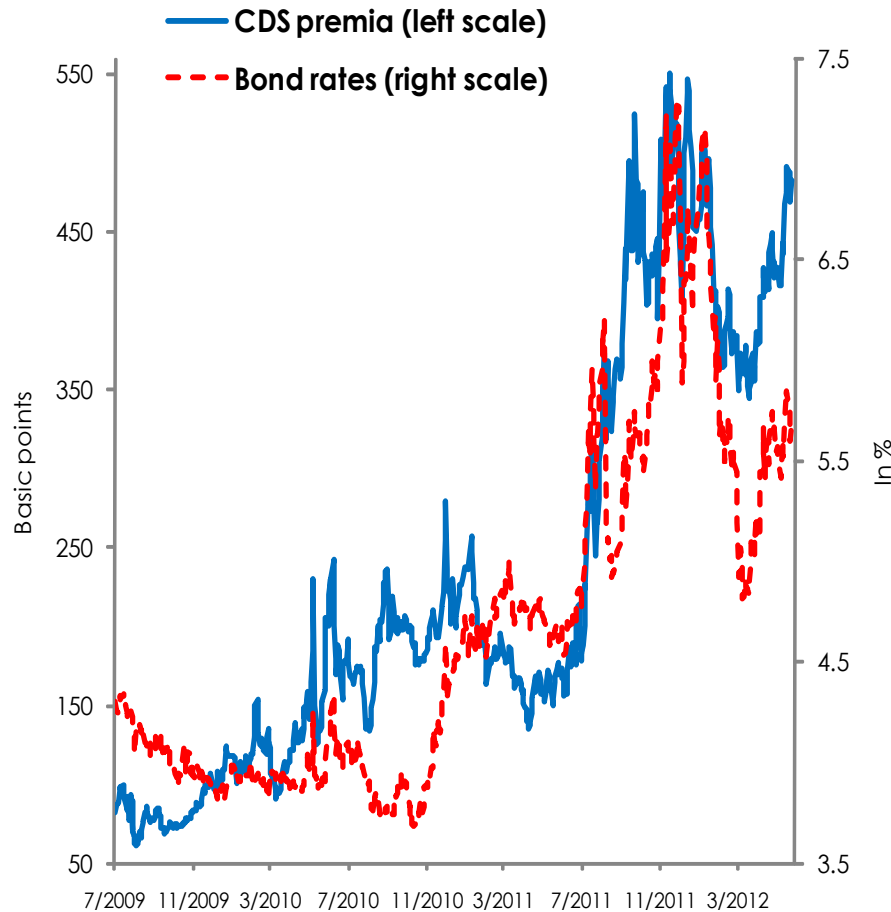


Portugal

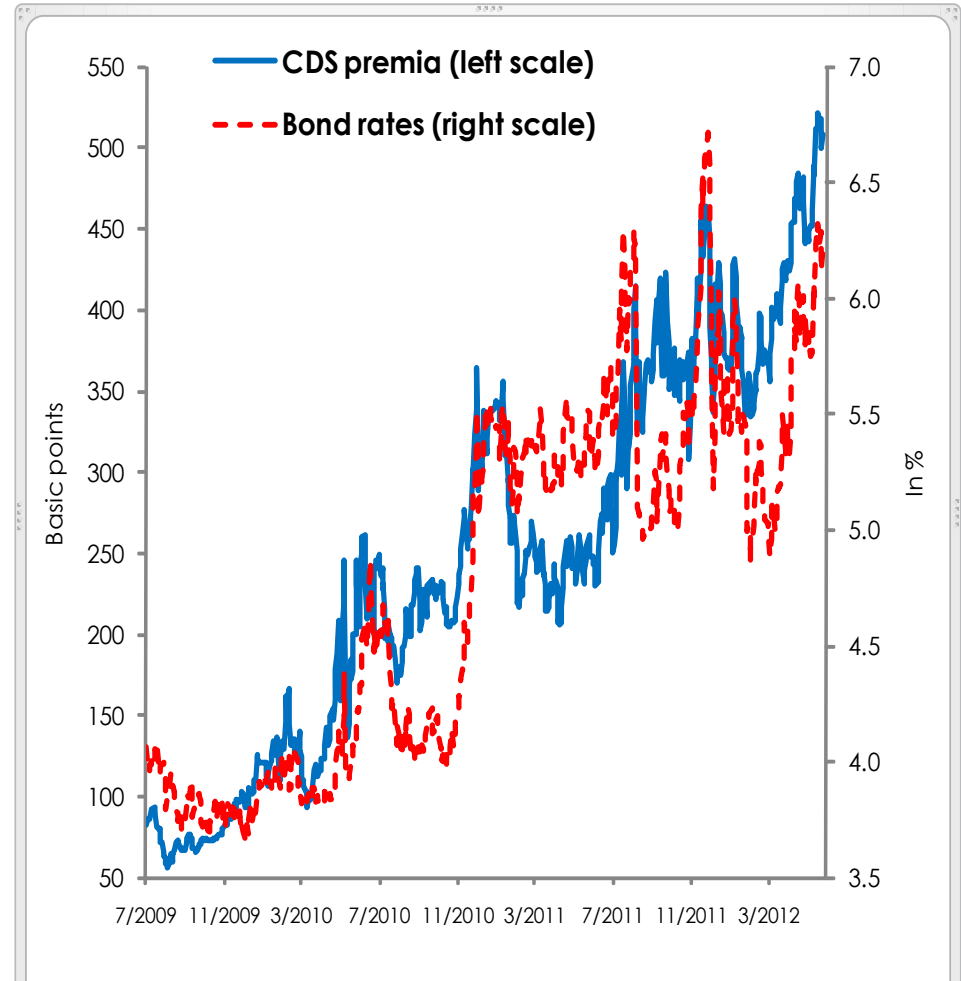


CDS premia and interest rates on government bonds

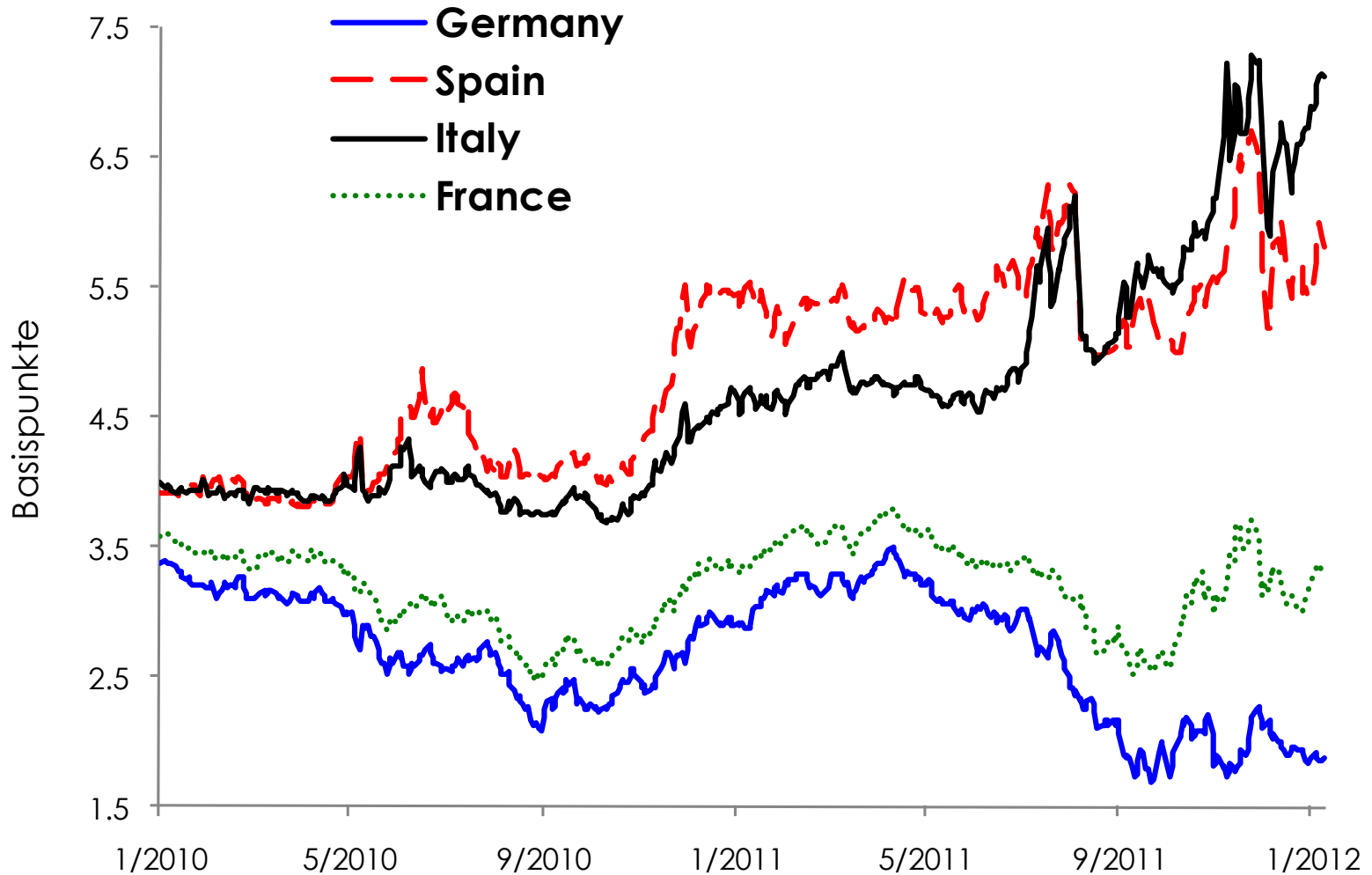
Italy



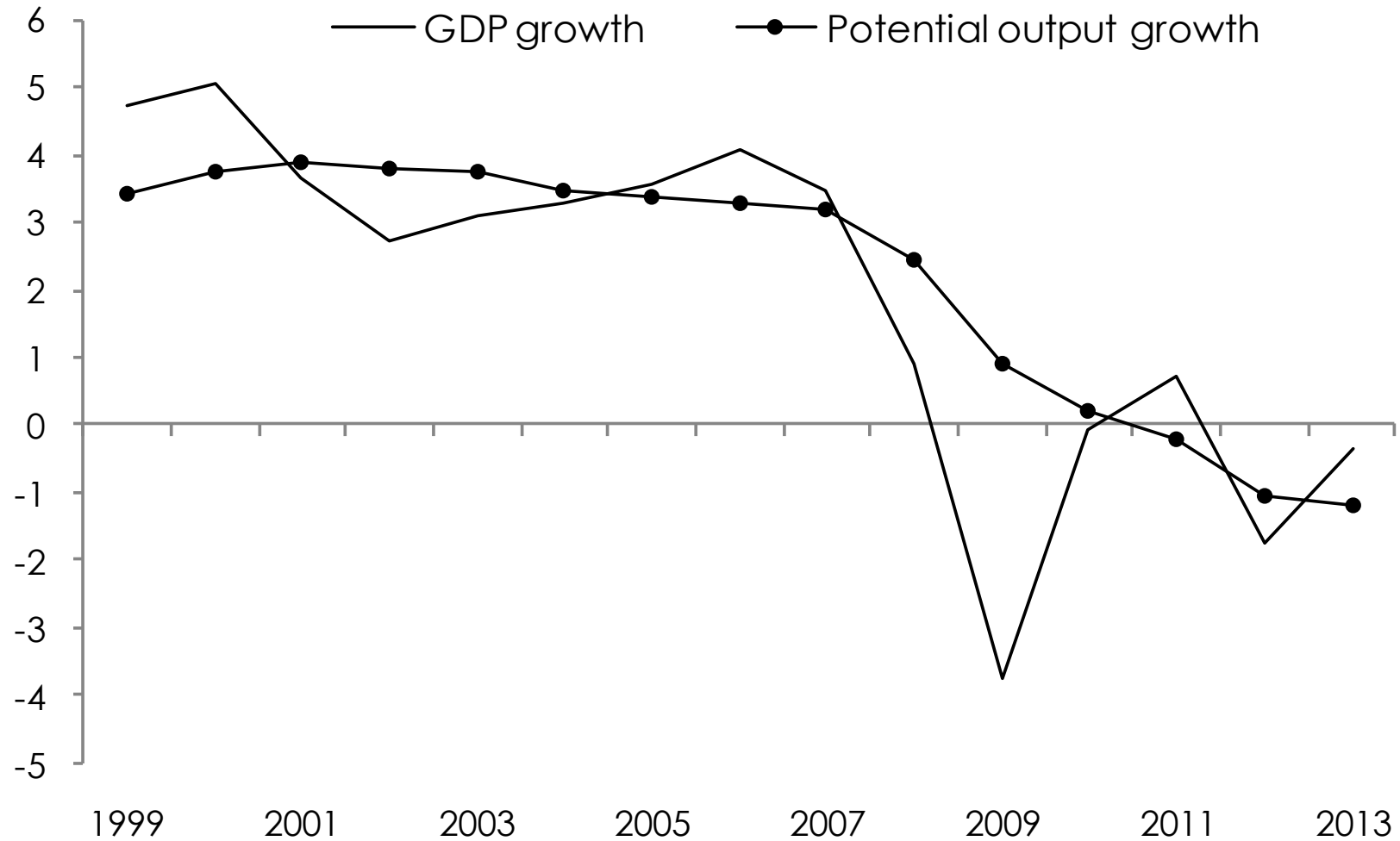
Spain

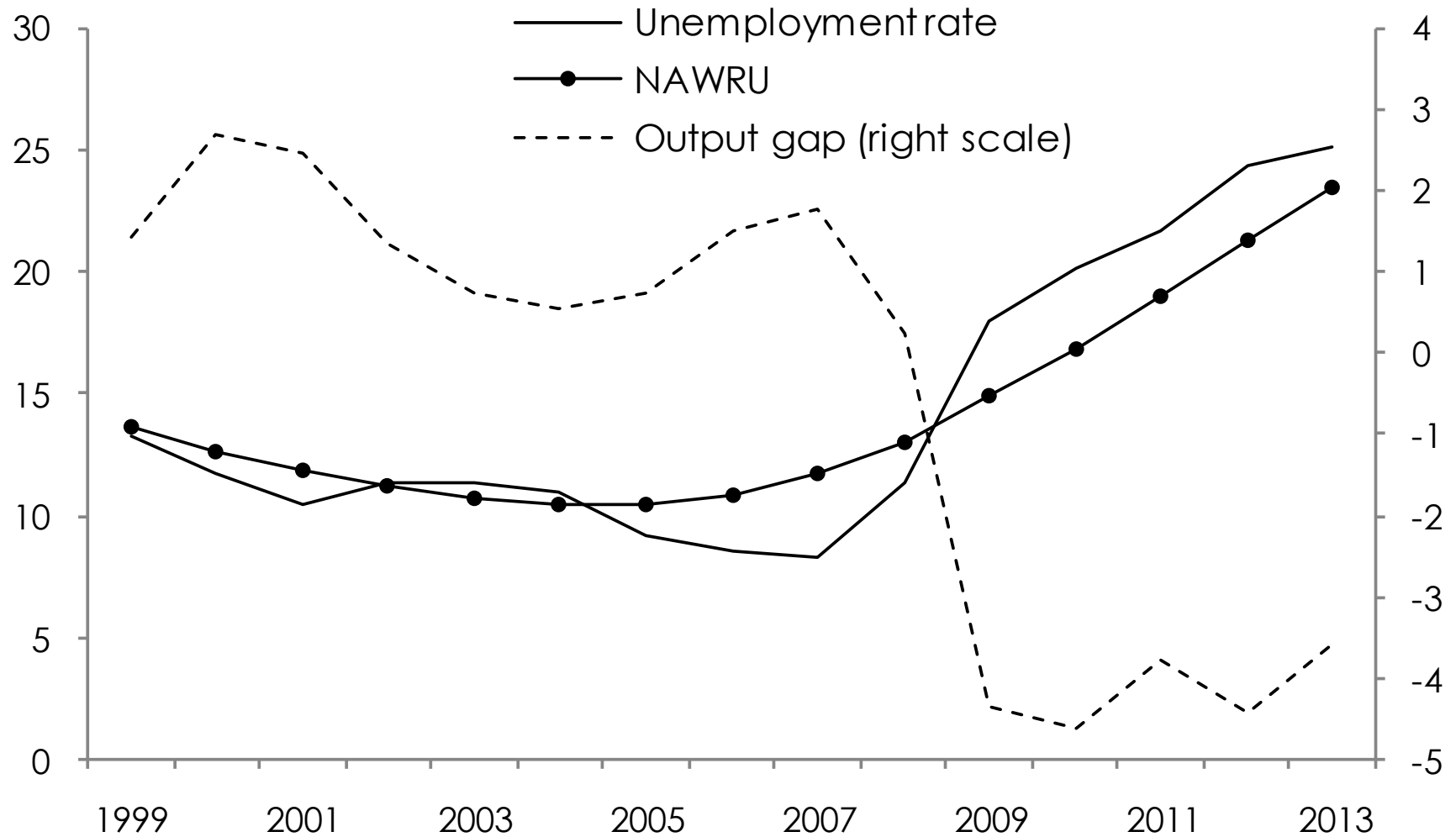


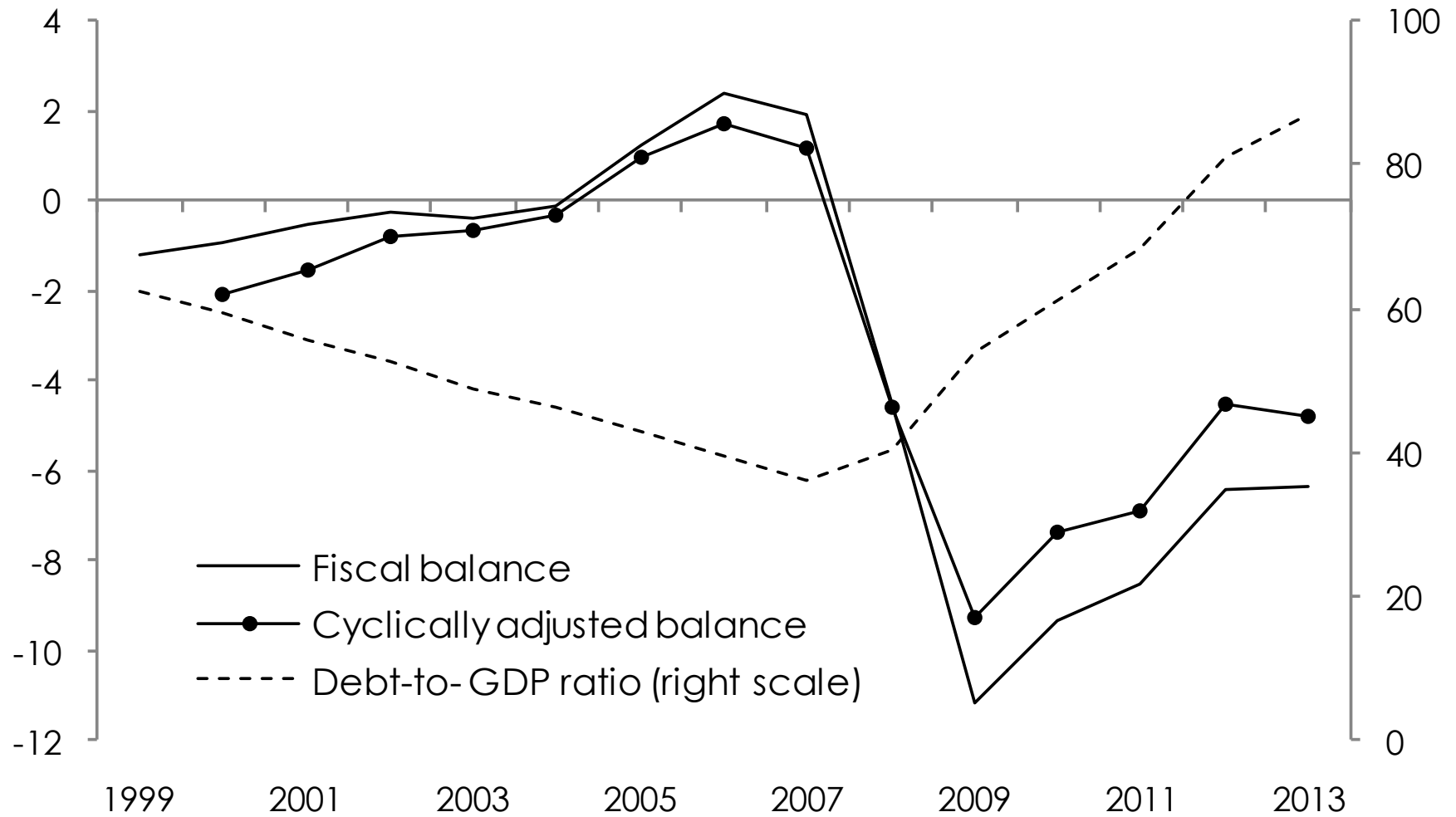
Interest rates on 10-year government bonds



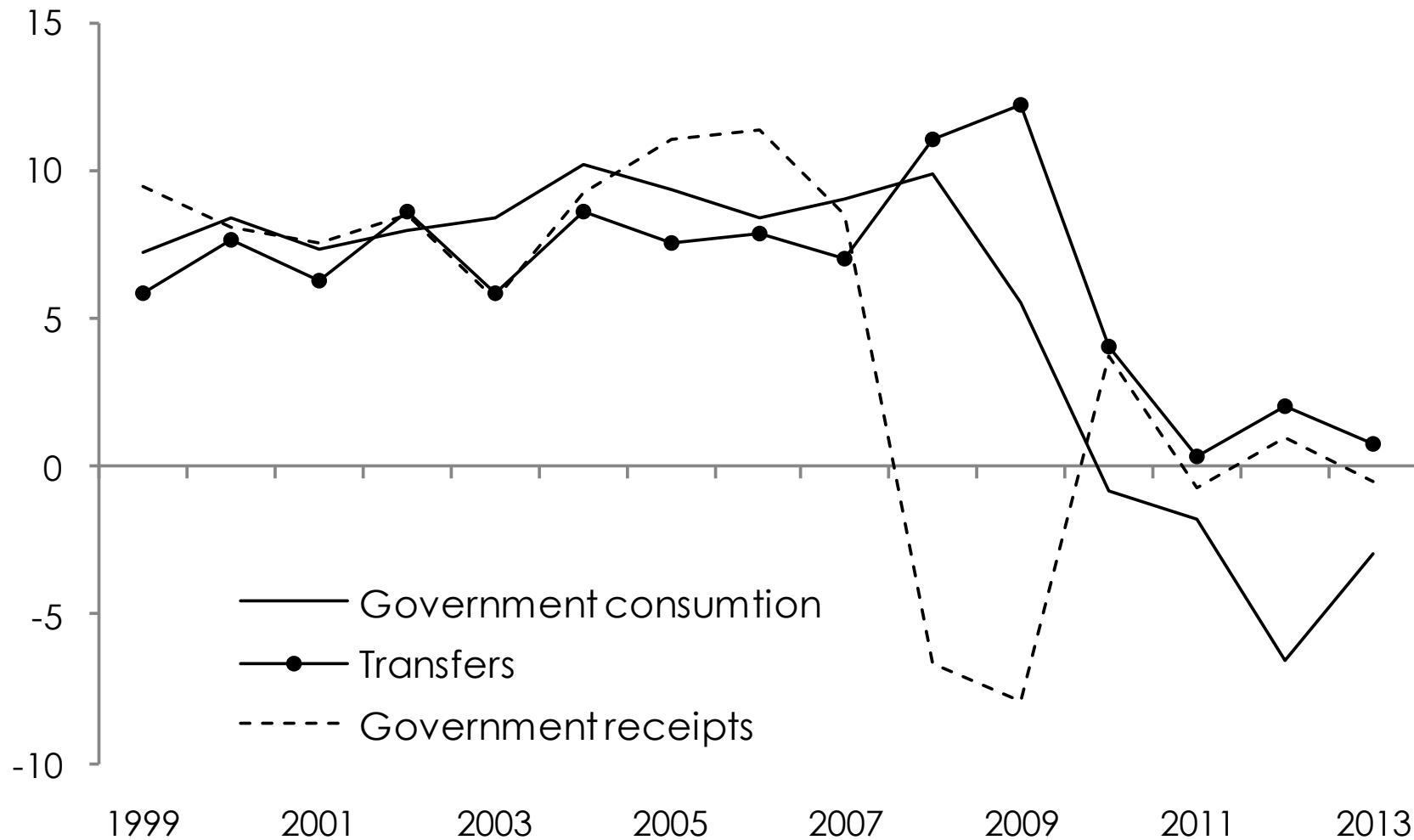
- **Double rule for fiscal policy**
- **Structural deficit less 0.5% plus 1/20-debt-rule**
- **Based on neo-classical assumptions (market clearing, crowding out, no feed-backs from austerity policy, natural rate of unemployment, Cobb-Douglas production function)**
- **Estimation method of structural deficit >**
- **Economists determine limits to fiscal policy**
- **If assumptions do not hold > vicious circle > depression**





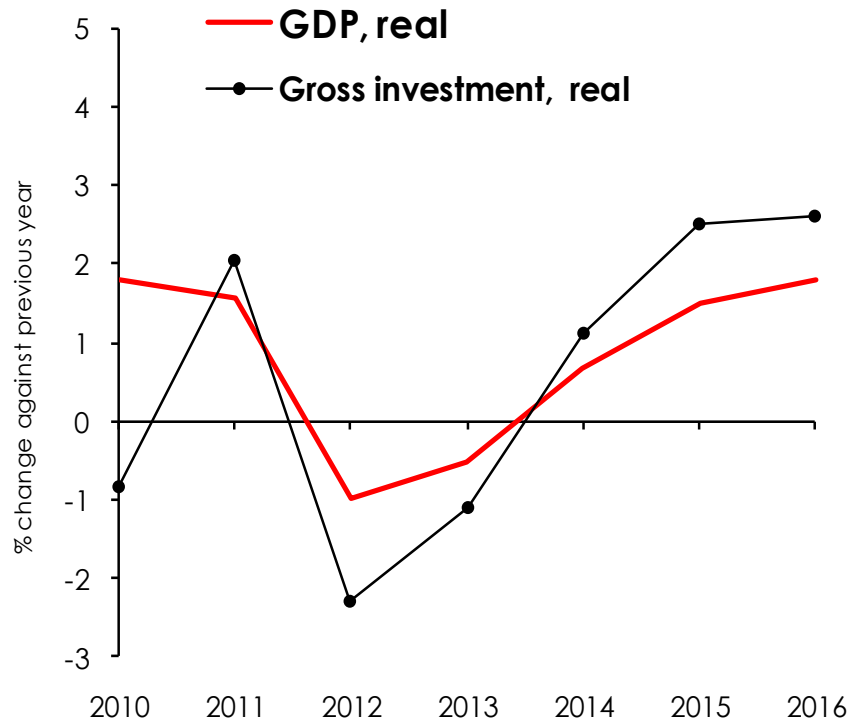


WIFO ■ Government outlays and receipts: Spain

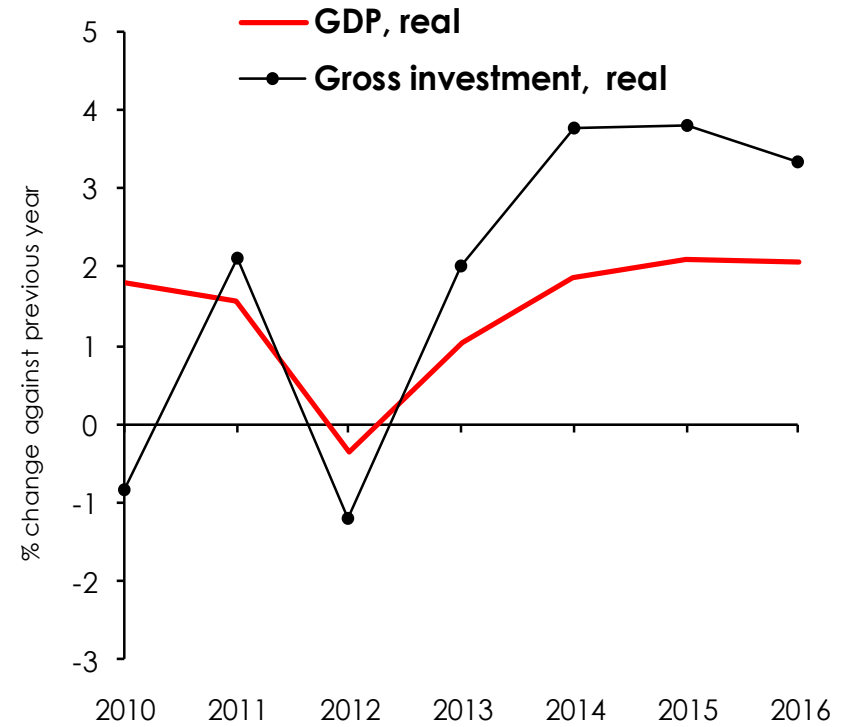


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- **Agency for financing euro governments**
 - **Sells common instruments (Eurobonds/-deposits)**
 - **At fixed interest rates below the medium-term growth rate**
 - **Unlimited guarantee by all euro states**
 - **Full backing by the ECB**
 - **Not tradable (like German „Schatzbriefe“) but fully liquid**
 - **Strict conditionality, not exclusively restrictive**

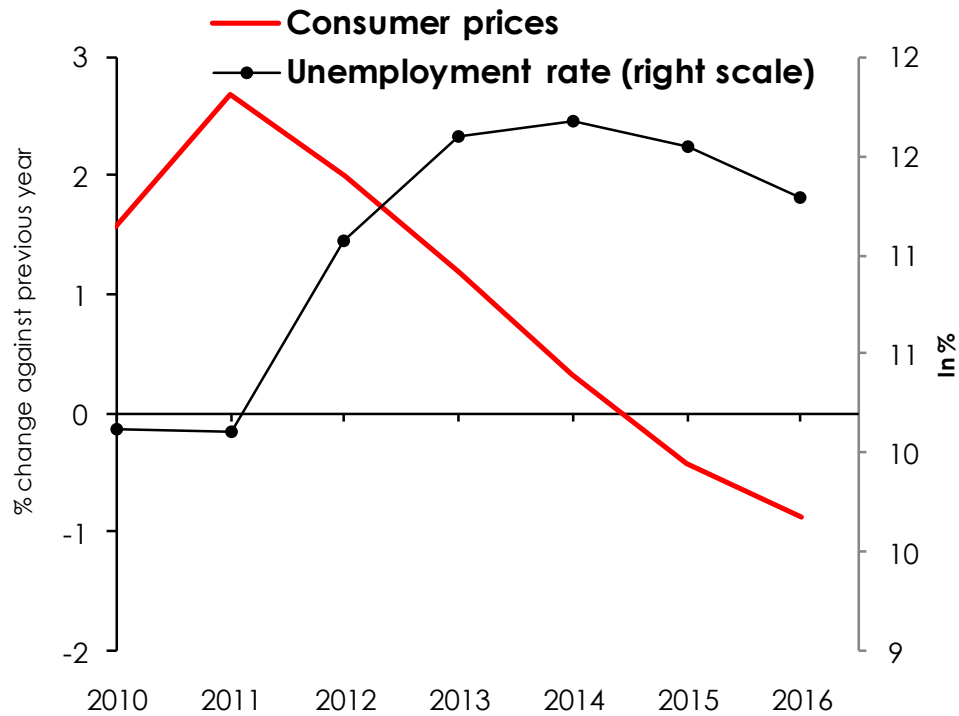
Fiscal pact



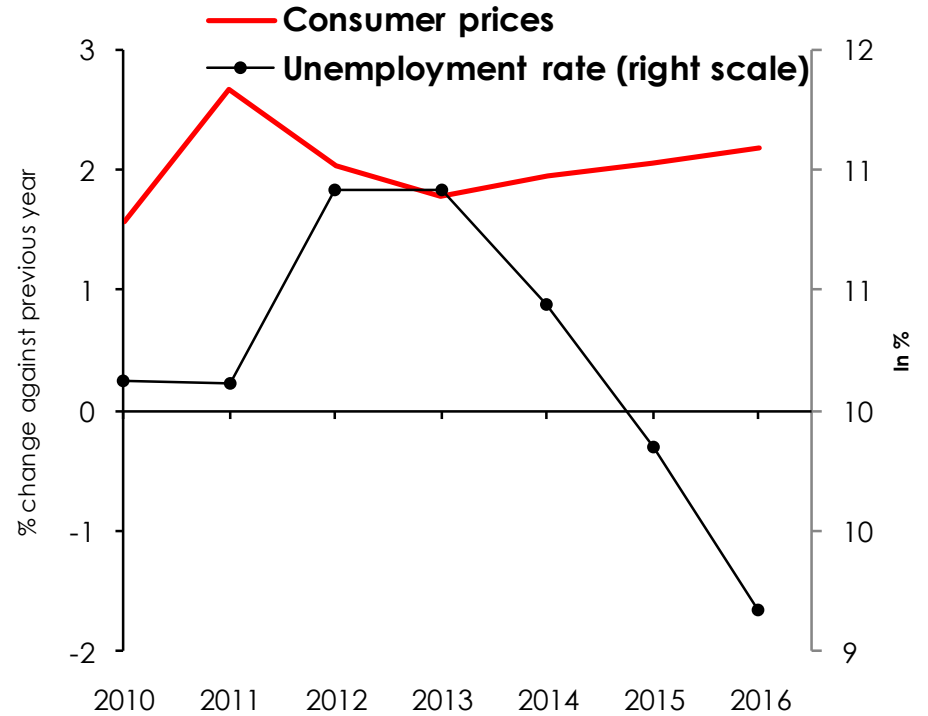
Eurobonds



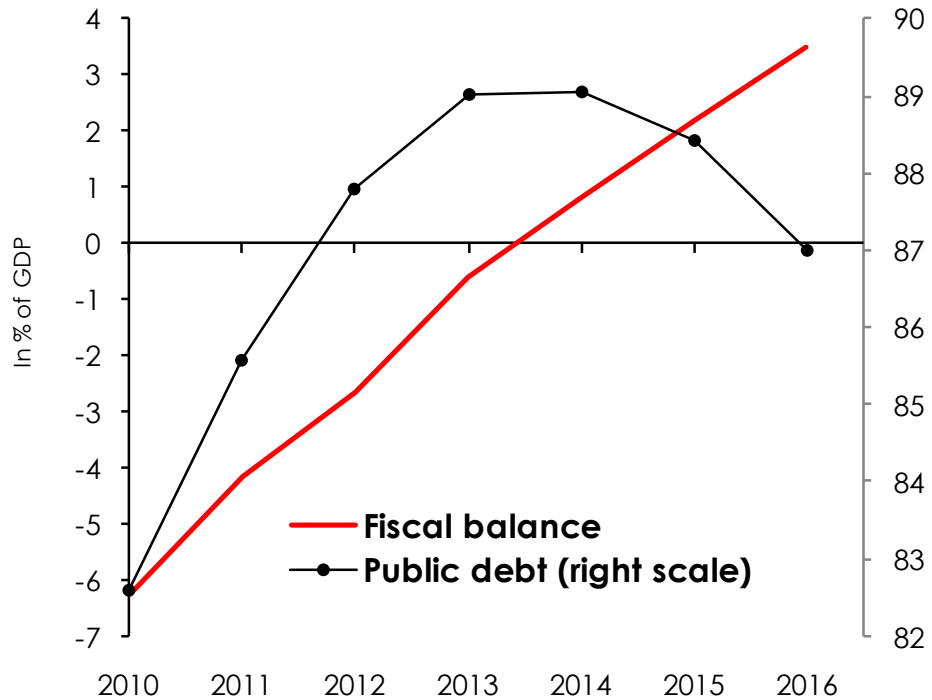
Fiscal pact



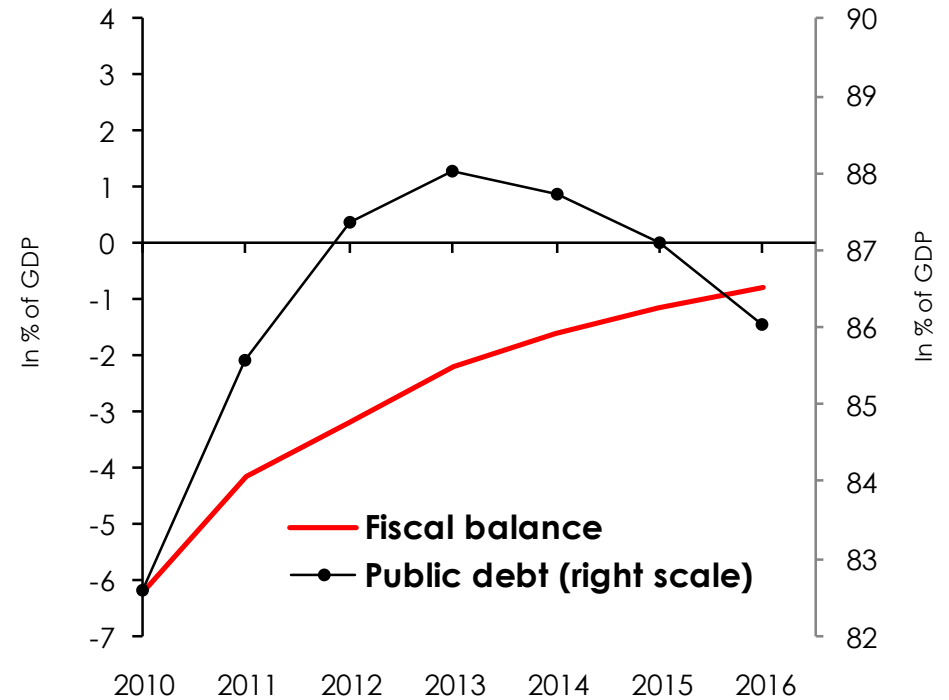
Eurobonds



Fiscal pact



Eurobonds



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- **Better balance between**
 - **Competition/cooperation**
 - **Economy/politics**
 - **Market/State**
 - **Technical/social innovations**
 - **Striving for profits > real economy**
 - **Globalization of politics**
 - **Extension of the European Social Model by environmental components**
 - **Budget consolidation through stable and green growth**

- Interest rates below rates of economic growth
- General financial transactions tax (FTT)
- „Re-education“ of banks > serving the real economy
- Stabilization of commodity price paths, esp. for crude oil
- Global strategies for the environment
- Transnational infrastructure in EU
- Social minimum standards in EU (including minimum wages and subsistence income)

- **Innovative working time models:**
 - **Adjustment to business cycle (e. g., German „Kurzarbeitsmodell“)**
 - **Long-term reduction of life time working hours**
- **Investment in environment (from building insulation to new forms of mobility)**
- **Recovery of the welfare state (redistribution, education, public health and pension system, etc.)**
- **Support the young generation (jobs and flats)**

- **Basic conditions, in particular for fossil combustibles:**
- **Exhaustible plus social costs (climate change etc.)**
- **Equilibrium price path: Oil price must rise continuously faster than general price level**
- **(Derivatives) markets fail completely >**
- **CO2 taxes and emission trading also fail**
- **Producers and consumers change energy use mainly through strong and reliable price signals**
- **Long amortization periods of energy saving investments**

- **Target: Limit climate change to plus 2°C**
- **No-regret-option (“low carbon roadmap”): Price increase by 370 € per ton CO₂ or 0.74 € (0.93 \$ at 1 € = 1.25 \$) per liter crude oil >**
- **Final oil price in \$: 0.63 (at present at 100\$/barrel) plus 0.93 = 1.56*159 = 248 \$ >**
- **If target to be reached by 2020: Annual price increase by 12%**
- **Basic conditions, in particular for fossil combustibles:**
- **Exhaustible plus social costs (climate change etc.)**

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- **Guidelines: Shift in incentive structure from**
 - Finance towards real world activities
 - Saving towards consumption and investment
 - Wealth concentration towards a more equal distribution
 - Ressource-intensive towards „greener“ activities
 - **General financial transactions tax**
 - **Higher taxes on financial returns**
 - **Increase of high/top income tax rates**
 - **Higher wealth taxes (including inheritance tax)**
 - **Environmental taxes (instead of emissions trading)**