Euro crisis, growing imbalances and social ruptures in Europe
A critical perspective in the context of sustainable development

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Some theses as introduction

- 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 and finance capitalism

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<td>Interest rate &lt; growth rate, „calm“ stock markets, stable exchange rates and commodities prices</td>
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Dollar exchange rate and oil price dynamics

- Effective dollar exchange rate (left scale)
- Oil price in $ (OECD import price - right scale)

Graph shows the fluctuation of the effective dollar exchange rate and oil price from 1966 to 2011, with 1986 = 100.
Trading system for crude oil futures

WTI-Futures-Price (NYMEX)

50-days moving average
Trading system for rice futures
Real and financial assets of non-financial business in Germany

- **Real assets**
- **Financial assets**
- **Stocks and other**

Graph showing the percentage of net value added for real and financial assets, with a peak around 2001.
Interest rate, growth rate, economic performance – Western Europe

1) Gleitender 3-Jahresdurchschnitt.
CDS premia and interest rates on government bonds

Greece

Portugal

CDS premia (left scale)
Bond rates (right scale)
CDS premia and interest rates on government bonds

Italy

Spain

CDS premia (left scale)
Bond rates (right scale)
Interest rates on 10-year government bonds
Concept of the Fiscal Pact

- 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
Actual and potential output: Spain

- GDP growth
- Potential output growth

1999 2001 2003 2005 2007 2009 2011 2013
Unemployment and output gap: Spain

- Unemployment rate
- NAWRU
- Output gap (right scale)

Graph showing the unemployment rate and output gap for Spain from 1999 to 2013.
Government outlays and receipts: Spain

- Government consumption
- Transfers
- Government receipts
Concept of the EMF

- 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 „Schatzbriehe“) but fully liquid
- Strict conditionality, not exclusively restrictive
Euro area

Fiscal pact

- GDP, real
- Gross investment, real

Eurobonds

- GDP, real
- Gross investment, real
Euro area

**Fiscal pact**

- **Consumer prices**
- **Unemployment rate (right scale)**

**Eurobonds**

- **Consumer prices**
- **Unemployment rate (right scale)**

% change against previous year

- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
- 2016

In %
Guidelines of a „New Deal“

- 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
Components of a „New Deal“ I

- 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)
Components of a „New Deal“ II

- 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 insolation 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
Pricing of fossil combustibles in the EU

- 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.)
Financing the „New Deal“

- Guidelines: Shift in incentive structure from
  - Finance towards real world activities
  - Saving towards consumption and investment
  - Wealth concentration towards a more equal distribution
  - Resource-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)