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

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

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

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

1995 = 100

- DAX
- FTSE 250
- S&P 500
Daily US dollar/euro exchange rate

- **Daily price**
- **50-day moving average (MAL)**

<table>
<thead>
<tr>
<th>Date</th>
<th>Value</th>
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<tbody>
<tr>
<td>10/26/2000</td>
<td>0.8271</td>
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<tr>
<td>1/31/2002</td>
<td>0.8594</td>
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<td>12/30/2004</td>
<td>1.3623</td>
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<td>11/14/2005</td>
<td>1.2446</td>
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<td>4/22/2008</td>
<td>1.601</td>
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<td>12/3/2009</td>
<td>1.5081</td>
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<td>5/3/2011</td>
<td>1.4875</td>
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<td>2/18/2009</td>
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<td>6/7/2010</td>
<td>1.1959</td>
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<td>2/24/2012</td>
<td>1.3463</td>
</tr>
<tr>
<td>10/3/2011</td>
<td>1.3281</td>
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</tbody>
</table>
Trading system for crude oil futures

WTI-Futures-Price (NYMEX)

50-days moving average

Dollar per Barrel

Trading system for rice futures

- Daily price
- 50-days moving average

Cents per hundredweights

Real and financial assets of non-financial business in Germany

- **Real assets**
- **Financial assets**
- **Stocks and other**
Financial balances in Germany

In % of GDP

- Households
- Business sector
- Government
- ROW


In % of GDP
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

-5 -4 -3 -2 -1 0 1 2 3 4 5 6
1999 2001 2003 2005 2007 2009 2011 2013
Unemployment and output gap: Spain

- Unemployment rate
- NAWRU
- Output gap (right scale)
Fiscal stance: Spain

- Fiscal balance
- Cyclically adjusted balance
- Debt-to-GDP ratio (right scale)
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 „Schatzbriefe“) but fully liquid
• Strict conditionality, not exclusively restrictive
Fiscal pact

Eurobonds
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“:

- 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)
Pricing of exhaustible and environmentally harmful resources

- 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.)
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
  - 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)