The euro crisis,
a structuralist macroeconomics approach

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The European Union

- Is the more extraordinary and successful case of political engineering that I know.
- It is the gradual contruction of the **first multinational state in history** originated from sovereign nations states.
- It is the gradual give away of the sovereignity of nations that, for centuries, fought wars among themselves.

In january 2002 the Euro Zone adopted the euro*

- It was initially a major success.
- Countries like Sweeden that rejected the idea proved apparently mistaken.

But since 2010 the euro is in crisis.

A deep and resistant financial crisis.

The worst crisis that the EU ever faced. A crisis that is **threatening the survival of the European Union.**

*The euro was introduced to world financial markets as an accounting currency on 1 January 1999, replacing the former European Currency Unit (ECU).

Three questions

1. Which is the **origin** of the euro crisis?
2. Why is it a sovereign crisis?
3. Which are the alternative solutions?

1. Which is the **origin** of the euro crisis?

The general origin of the crisis

- The 2008 Global Financial Crisis (that probably was the final crisis of the 30 Neoliberal Years of Capitalism (1979-2008)).

- The financial crisis was the **trigger** that declenched the euro crisis.

  -it lead policymakers to correctly adopt expansionary fiscal policies that made relatively vulnerable the states' finances,

  -and made the crisis appear to be a fiscal crisis.

But, essentially, the euro crisis is a currency crisis

Not a fiscal crisis.
It is not a crisis caused
by the indebtedness of the state,

but

by the high indebtdness of the private sector in foreign currency.

Spain/Germany public and private debt

	Spain/Germany Public Debt/ GDP	Spain/Germany Private Debt/ GDP
2007	40 / 60	317 / 200
2009	64 / 73	334 / 207

A dívida pública da Espanha era menor do que a da Alemanha;
a dívida privada é que era absurdamente maior.

GIPS/Germany public debt and current account déficit

	Public Debt/ GDP (%)	Current account déficit (US$ bi)
2005	67/53	−4.1/+5.1
2009	77/57	−4.3/+5.9
2011	90/56	−3.8/+5.7

The difference in terms of public debt increased, but it is minor when compared with the difference in current account deficits that include the private debts.

Thus, the problem was not in the budget but in the current account

- Budget deficits of the GIPS were moderate, except Greece.
- If we look to the public debts of theses countries, they were also under control.
- while
- Current accounts were very high.

The material origin of the crisis: Germany's corporative agreement to compete abroad

no wage increases for no unemployment

- In 2001 – the euro was launched, interest rates fall in the GIPS.
- In 2003 Schroeder made the agreement.
- Italy entered the euro with an overvalued Italian euro
- The other turned euphoric, wages increased more than productivity, the unitary cost of production increased in relation to Germany, and their internal or implicit exchange rate appreciated.
- In consequence, major current account deficits x major current account surpluses.

The next tables and graphs show the whole history

1. The unitarian cost of labor
2. Current account deficits
3. The misaligements of the implicit euros

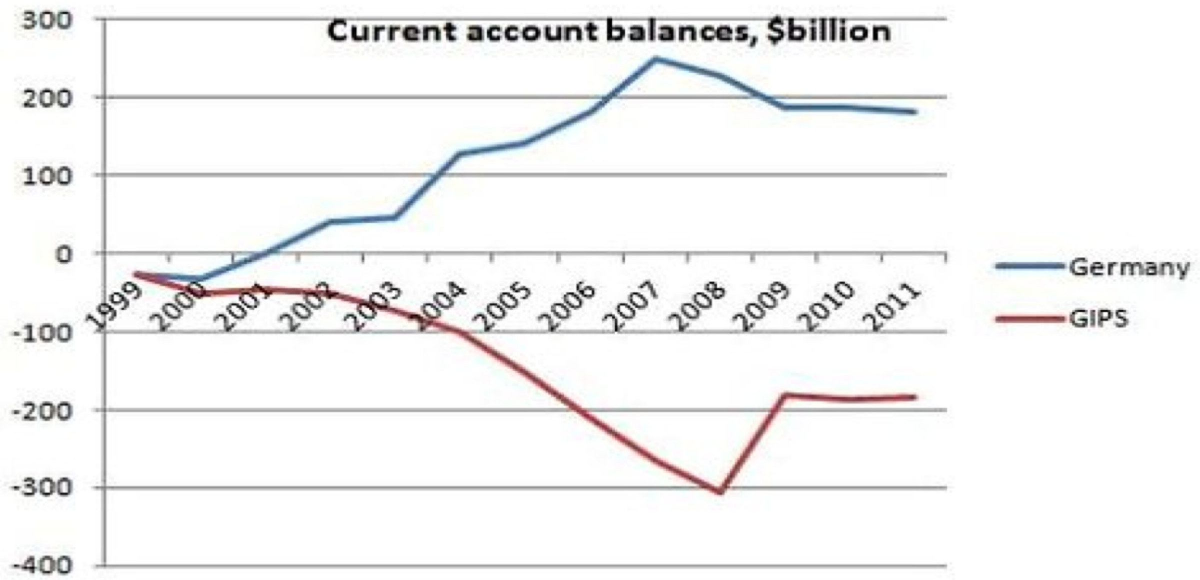
Unitarian labor cost
increased more in the GIPS than in Germany

(wages/productivity)

	1996-2011
German y	8%
France	15%
Portugal	24%
Spain	35%
Italy	37%
Greece	59%

Source: Marko Malovic (2012) apud *The Economist*.

Current account: Germany x GIPS (199-2011)



Source: The Economist Intelligence Unit/Krugman (2011*)

Misalignments 1994-2011 (%)

Germany	-23.1
France	-13.0
Italy	+3.1
Spain	-5.5
Portugal	-7.9
Greece	-21.8
Ireland	-7.0
Euro Zone	+3.3

Source: Duwicquet, Mazier e Sadadoui (2012).

What do mean high current account deficits?

- Assuming that the fiscal accounts are balanced (public debt % growth ≤ GDP % growht), they mean that:

1-the exchange rate turned overappreciated.
2-the private sector got indebted.

Why euro policymakers did not prevent the current account deficits

- The neoclassical/neoliberal economists of the European Commission believed in the Lawson doctrine ("the private sector is always in equilibrium; the problem is the public sector")

and

- accepted passively high current account deficits
- (they were only concerned with budget deficits).

The currency crisis caused the fiscal crisis

- The public debt had increased for the 2009 expansionary policies
- The current account deficits increased vulnerability of national banks
- The banks were again helped by the state
- The public debt increased
- Financial markets lost confidence; attacked; and the crisis materialized in skyrocketing interests on the public debt.

- 2. Why is it a sovereign crisis?

This is a currency crisis

- For the appreaciation of the implicit national exchange rates in the GIPS
- For the huge current account deficits
- For the increase in the private (and public) debts
- For the rise of a “foreign debt” for each one of the GIPS – i.e.,
  - –a debt in a foreign currency: the euro!

This is the crisis of a foreign currency: the euro

- In creating the euro the European countries swap their actual national currencies for

  - A FOREIGN CURRENCY
    - (a currency that they cannot either issue or devalue)

- But they all continued to have implicit national currencies.

  (the scourge of developing countries that cannot get indebted in their own money)

A crisis in foreign curency is sovereign crisis

A country indebted in foreign currency is not a sovererereign country.

Because

- In the moment that the debt is in a foreign money, the country is at the mercy of the creditors.

- This happened to Greece and Italy clearly; but also to the other GIPS.

3. Which are the alternative solutions?

1.The basic Germany solution: austerity

- It is formally aimed at resolving the “fiscal crisis”.
- But we know that it is innefective in relation to the fiscal problem, because pro-cyclical.
- Its real aim is, through unemployment, **to reduce wage and correct the exchange rate**
- It can work. But

-this will take time, and

-it will involve high economic and human costs.

2.The muddling through policy
(besides austerity)

- Reject restructuration of debts; after, accept it limitely.
- Create first a provisory (EFSF), second a permanent rescuing fund (ESM).
- Reject BCE rescuing banks, but eventually accepting huge increase in liquidity
- Fourth, rejecting the centralization of bank supervision, but recently tending to accept it.
- Fifth, rejecting eurobonds, but eventually accepting the BCE buying government bonds in the secondary market.

3.The false Keynesian policy

Austerity, but not so much.

4. The smart non-alternative

Expand state expenditures now, but commit the government formally to reduce them in the near future.

5.The federation alternative

- The Federation is the ideal solution.
- It means transfering national sovereignties of the 17 countries that form the EU to central power.
- Financial attacks would be inviabilized, but
- 1. European fiscal system is not prepared for that (Brussels controls 1% of total budget when it should control at least one third).
- 2. Europeans are not ready to lose their national sovereignty to save the euro: they still value more the nation than the euro.
- 3. There is no time.

6.The Draghi alternative: BCE power without Federation

Draghi is the author of the only two bold policies:

1. The November 2011 huge increase in credit to the banks.
2. The present decision to buy huge amounts sovereign bonds in the secondary market on conditionality of austerity.

Maybe it works

1. The BCE is the only sovereign institution in the EU
2. The power of denying additional credit is unreal power.

But

1. Can the BCE be a lender of last resource as a state is?
2. Is the European society prepared to accept this role for the BCE?
3. Will the financial system believe, and attacks, dismissed?
4. It this crisis is overcome, which is the guarantee that in the near future currency misalignments will not reapper and a new crisis does not breake up?

7. The agreed and well programmed discontinuation of the euro

I believe that it is the best alternative.

It implyies

1. Agreed devaluation of currencies
2. Agreed bailout of the banks.
3. Use of the BCE as supervisor of banks and manager of a new European currency unit.
4. Returning to the euro some years ahead (not defined how many), when required conditions materialize.

8.The euro plusieurs vitesses

- C’est la proposition de Jacques Mazier
- Implique la descontinuation de l’euro en tant que monaie nationale, et la dépreciation accordée.
- Mais la mantient comme “monaie externe” et come base pour la fluctuation des euros nationales.
- Il s’agit d’une variation de la simple descontinuation de l’euro, peut être plus palatable politiquement.

Why it is not adopted, not even discussed?

Official causes:

1. It would be a step backwards
2. It would cause a major crisis anyway.

Real causes

1. Fear combined with hubris
2. Interest or rentier capitalists and financiers who will lose with the devaluation.

Rentier capitalists know that the devaluations are required

- But they were able to impede debate, and transformed the continuation of the euro into a **tabu.**

- They want that the devaluations are gradual, soft, gentle (to them).
- They value austerity. It works in their favor.
- It does not matter that it is deshuman and ineficient (to the others).

References

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- Malovic, Marko (2012) “Get Over or Game Over: The Rise and Fall of the EMU”, paper presented to the Bilbao Post Keynesian Conference, June 2012.
- Mazier, Jacques and Pascal Petit (2012) “In search of sustainable paths for the Eurozone in the troubled post 2008 world”, Copy, July 2012.

Why does the current account gets negative?

1.Causes deriving from liberal-othodox policies

Active causes

- To grow with "foreign savings",
- To control inflation with the exchange rate
- To eliminate "financial repression" by increasing real interest rates.

Passive cause

- Liberal-orthodox policimakers believe and assume that "the private sector is always in equilibrium due to the market; the problem are the politicians" (the Lawson doctrine).

2.Causes deriving from populist or vulgar-Keynesian policies

- Irresponsible budget deficits
- Fixing the exchange rate to increase wages and control inflation

3. Causes of socio-political character

- Wages in relation to produtivity increase more than in other countris due to different societal and institutional environments.

Yes, the eurobonds

would solve the financial problem, because financial markets would not be able to attack the finances of the individual nation-states.

- But

That would mean to come to the Federation solution, since it would mean a great control of the fiscal accounts by the central authority.

How ready are Europeans to the Federation?

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