

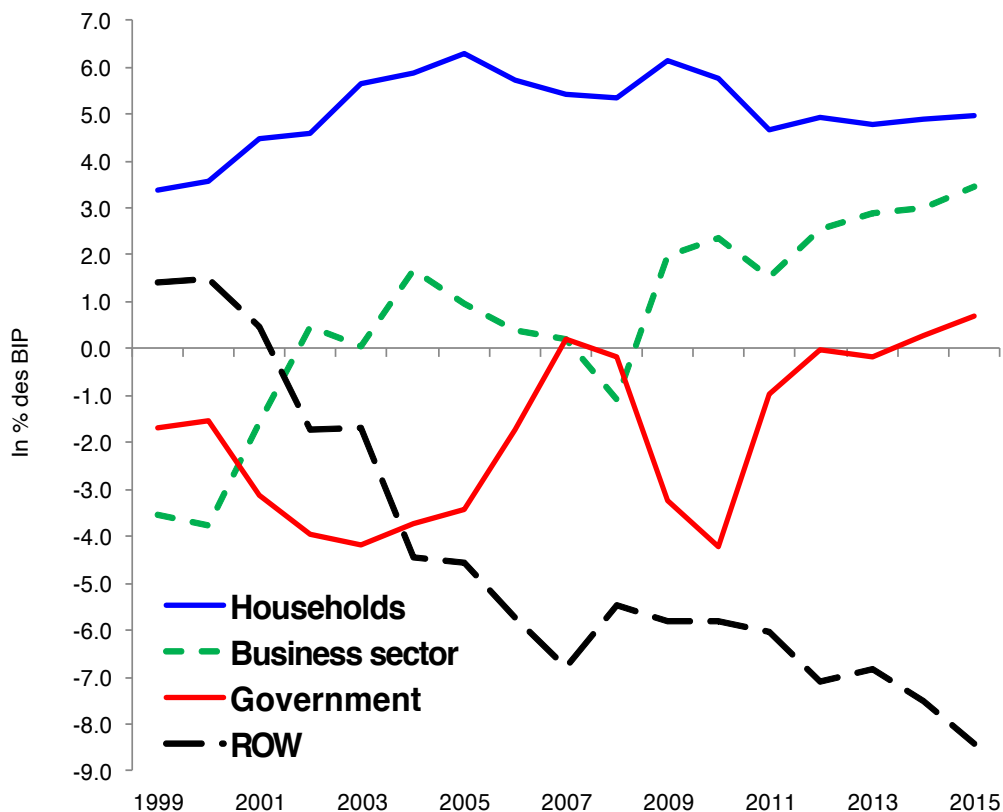
Stephan Schulmeister

The Eurozone – integration, des-integration and possible future developments

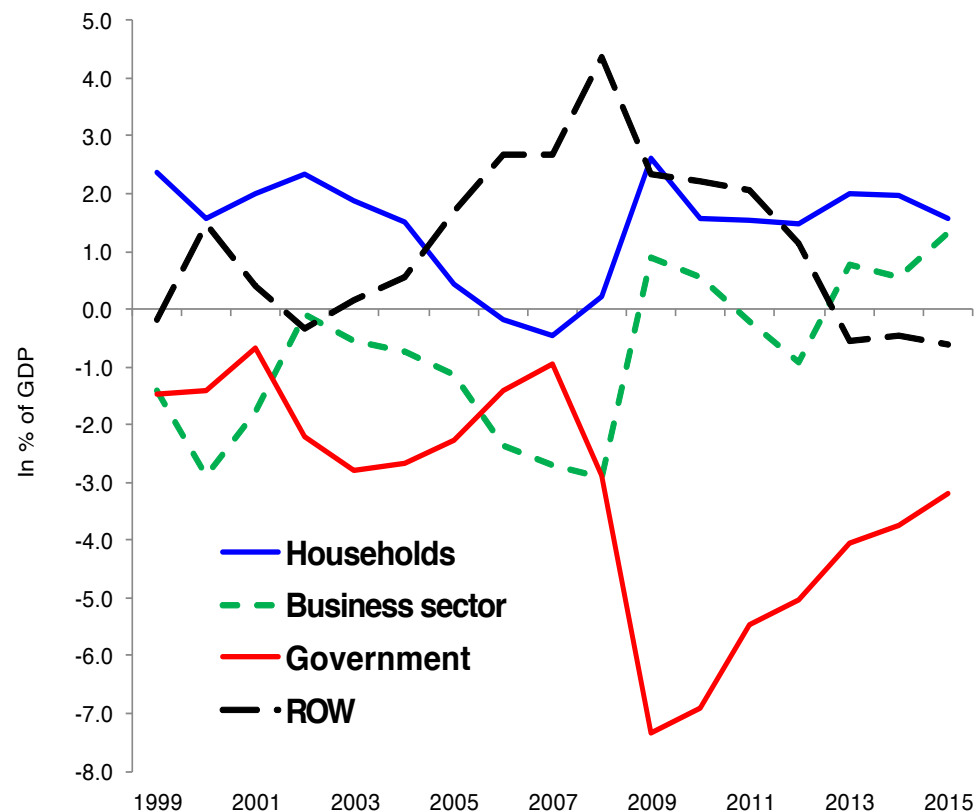
**18th Monetary Policy Workshop at the Berlin School of Economics and
Law, 12 – 13 October 2017**

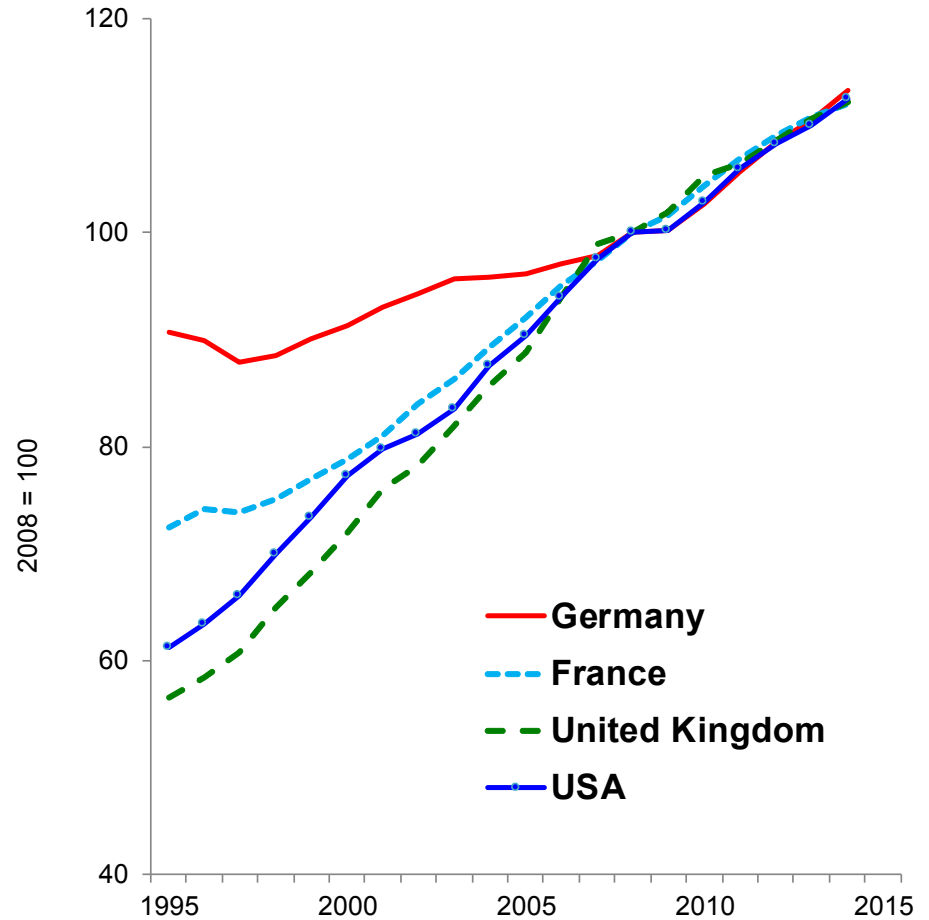
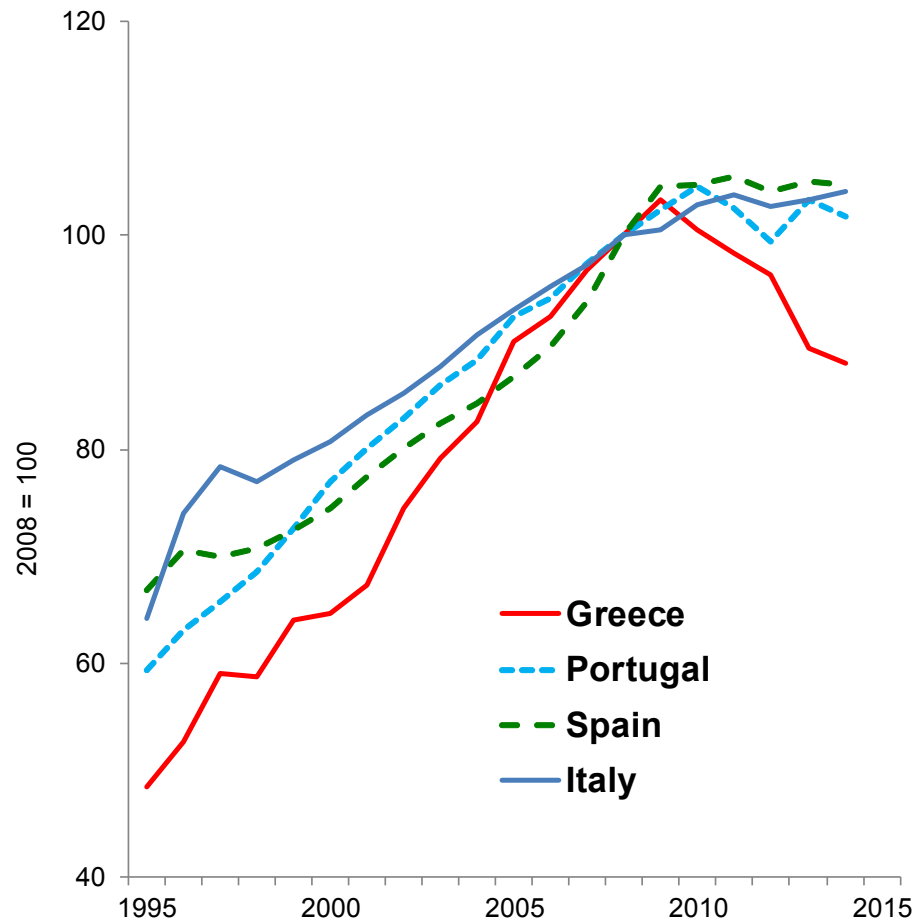
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- **Position 1: The euro itself is the problem, right and left populists stress different aspects**
 - **Position 2: The finance-capitalistic “game” as a whole is the problem, the euro is the right within the wrong**
 - **Comparing the two positions against the background of euro’s history**
 - **Pre-history of the euro crisis: Building-up imbalances in the first half of the euro era (1999-2008)**
 - **Asymmetric policy in Germany and in Southern Europe: >**
 - **Reciprocal benefits plus rising creditor-debtor-positions**
 - **Crisis 2008f and Greek “confession” > no financial support >**
 - **New game: Betting on state bankruptcy > Greece > Ireland > Portugal > Spain > Italy**
 - **Draghi’s “Whatever it takes”-remark plus QE plus ignoring the fiscal compact enable Portugal, Spain and Italy to recover.**

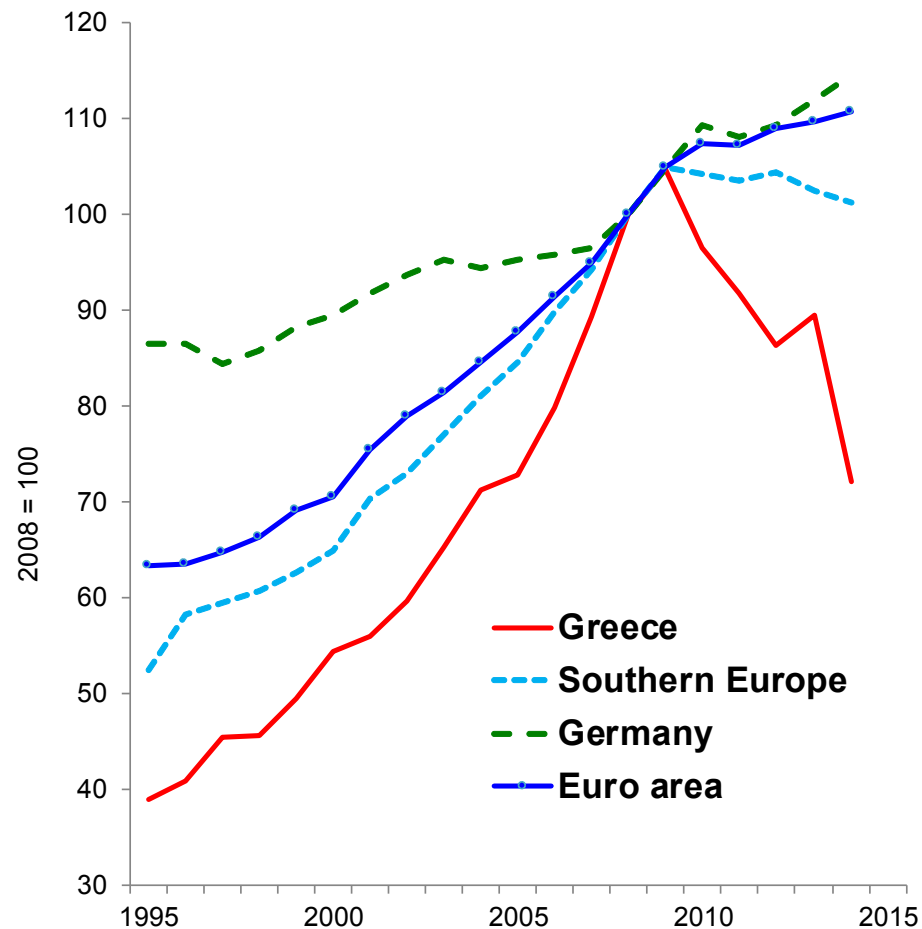
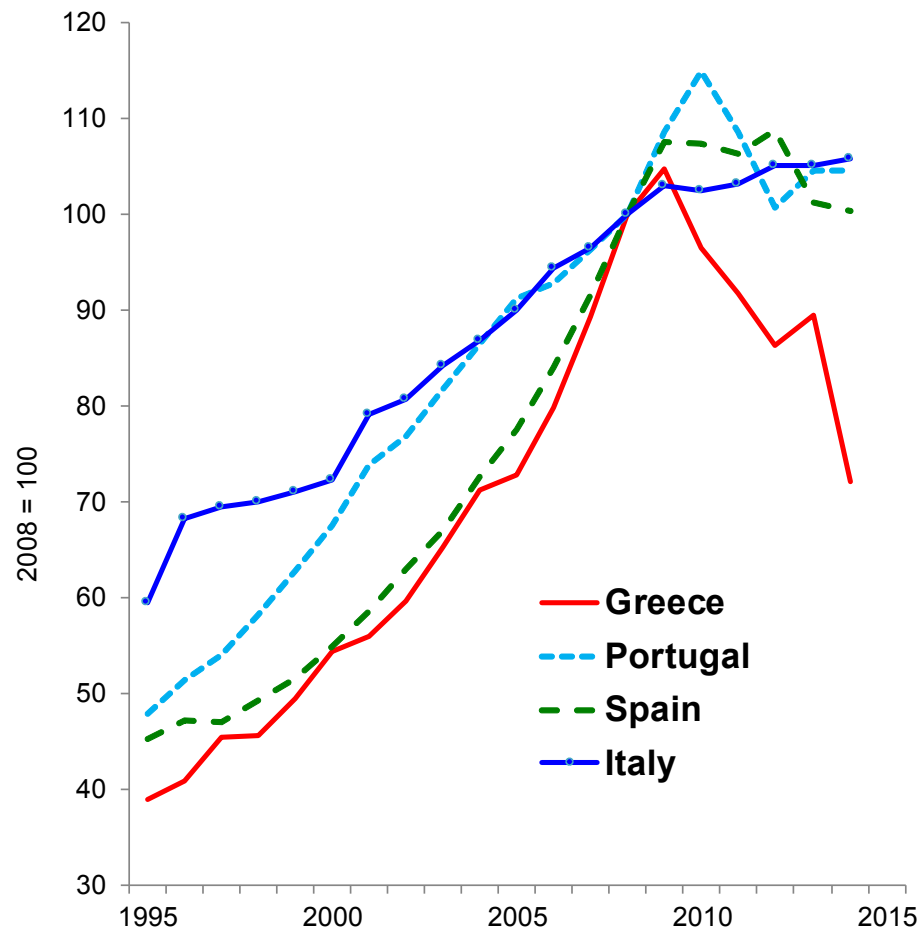
GERMANY



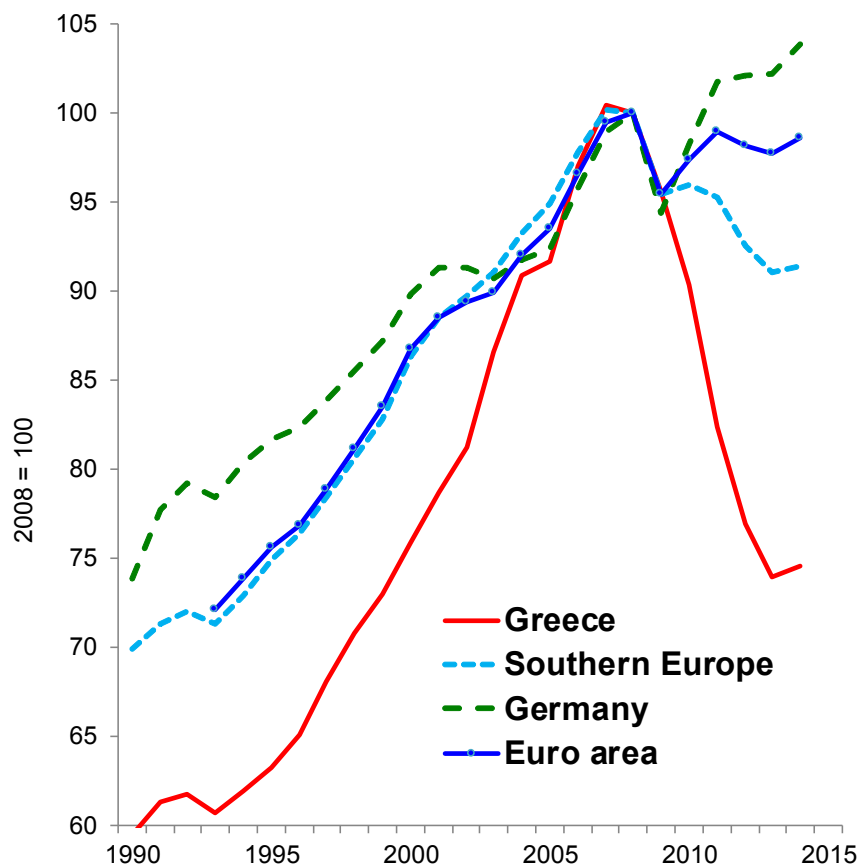
EURO AREA without Germany



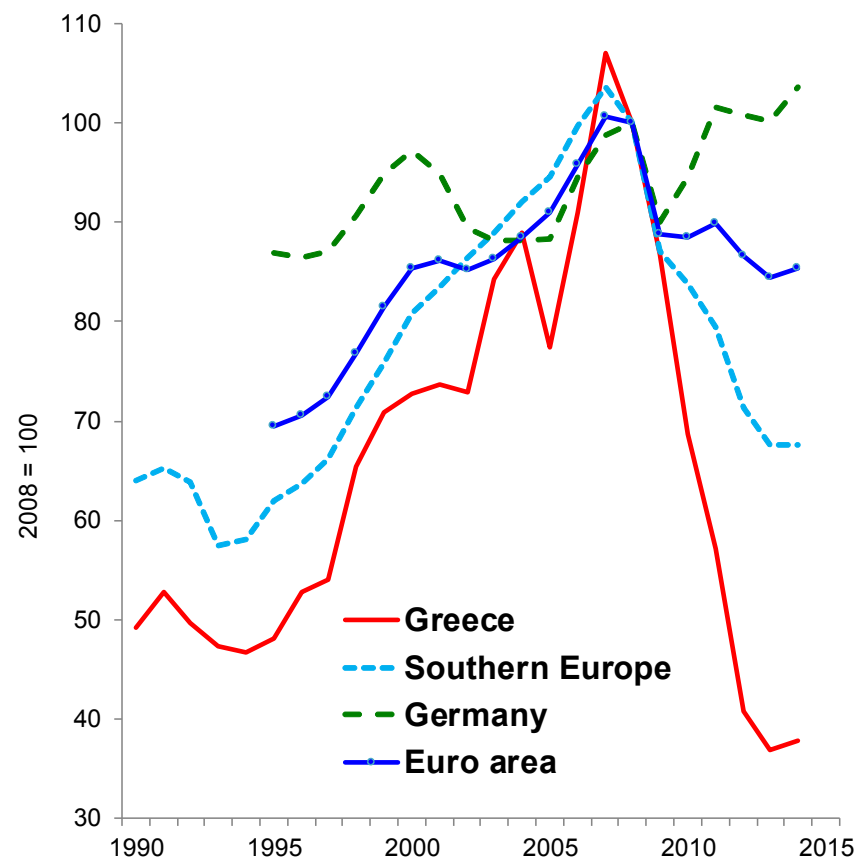


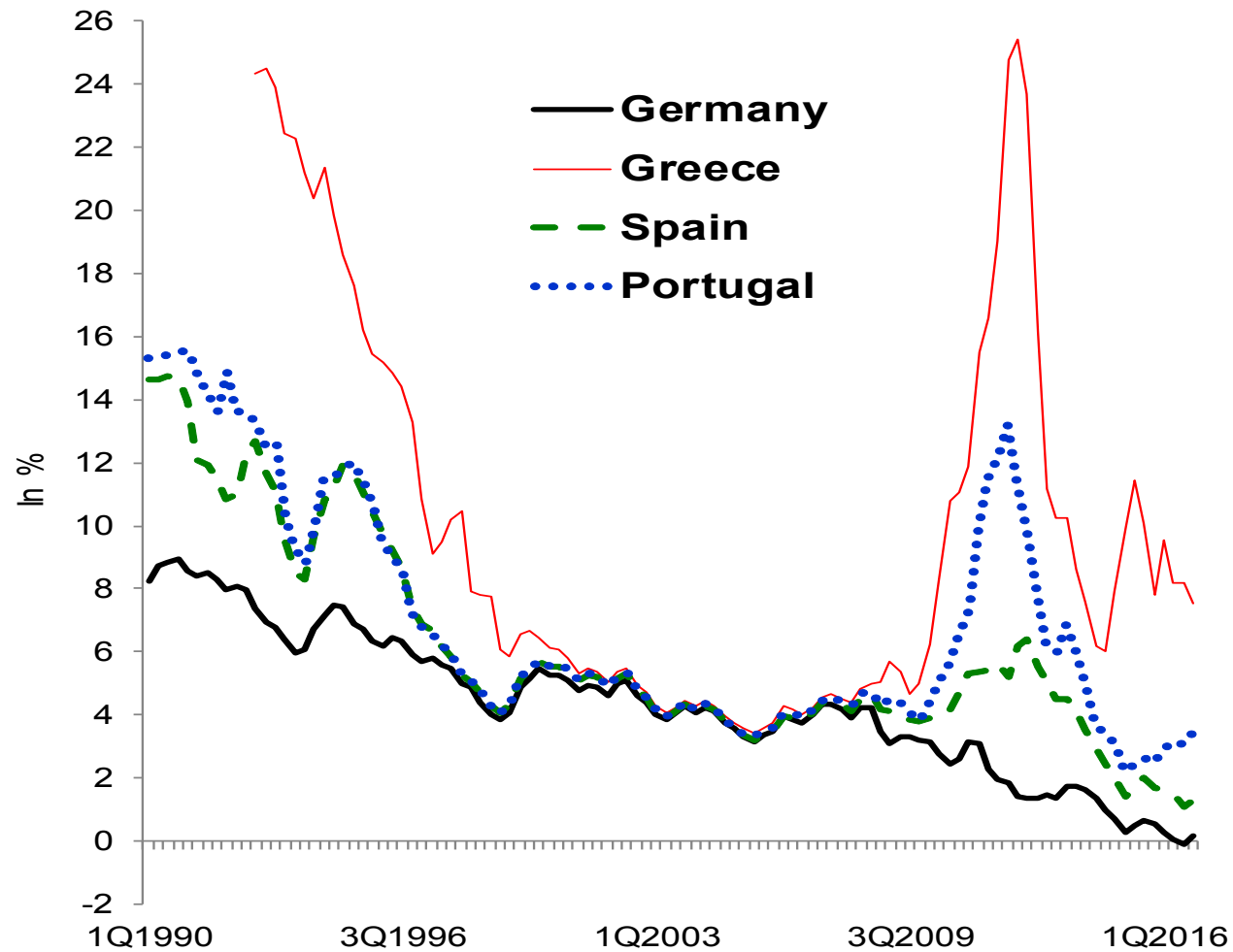


GDP

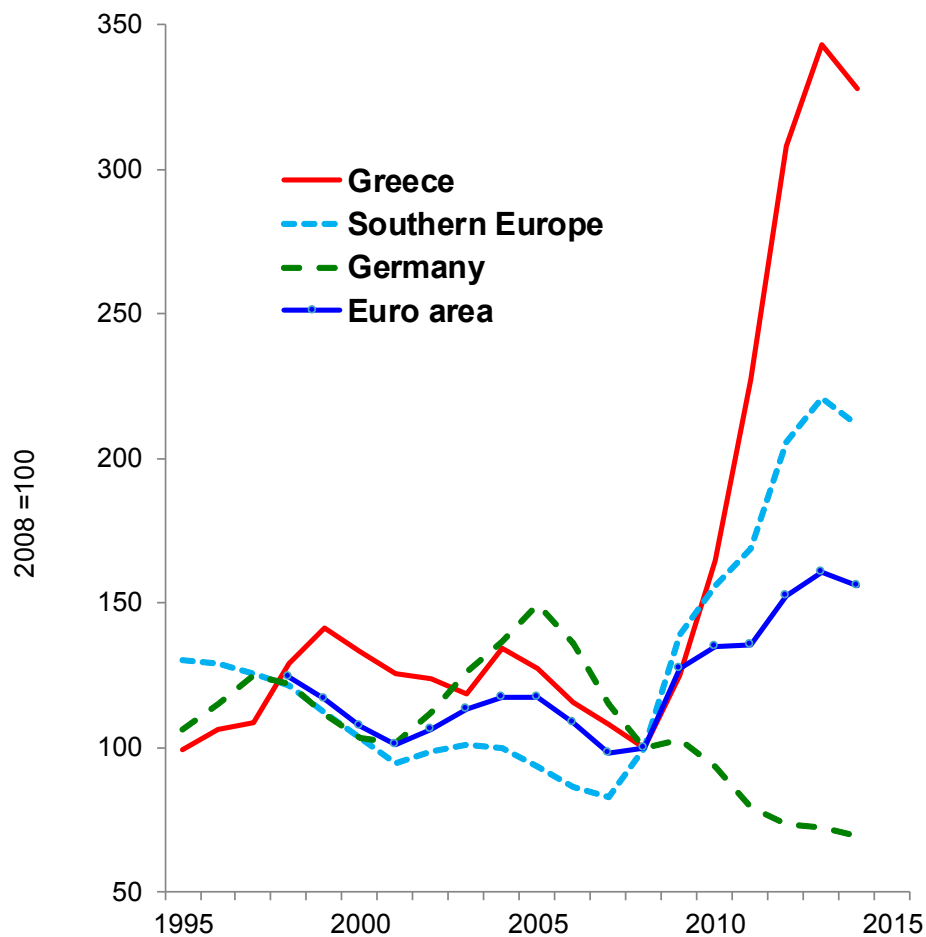


Gross investment

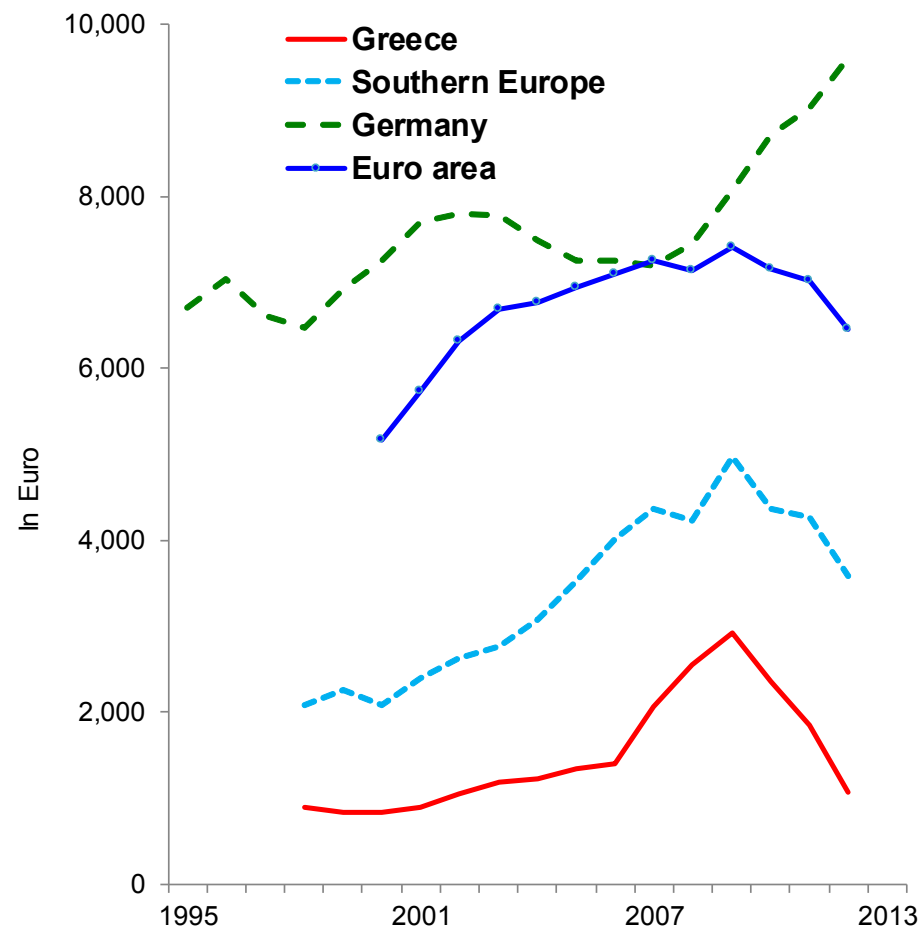




Number of unemployed

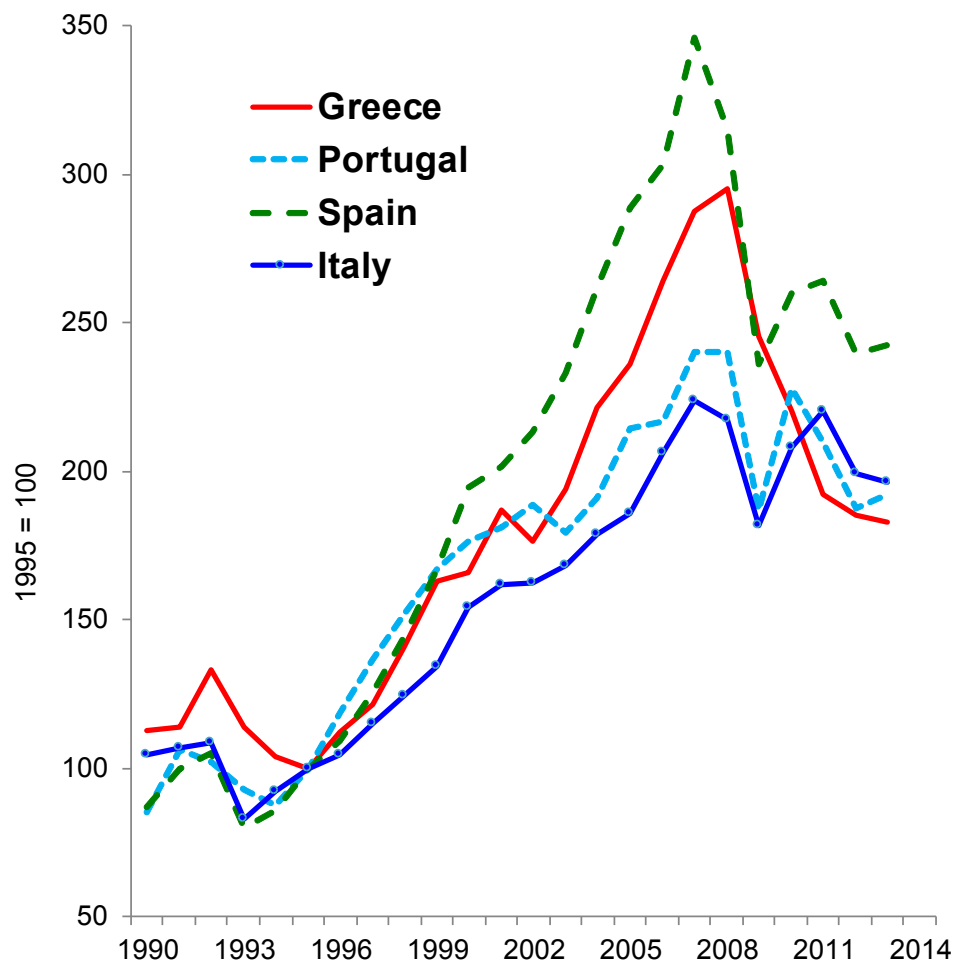


Annual benefit per unemployed

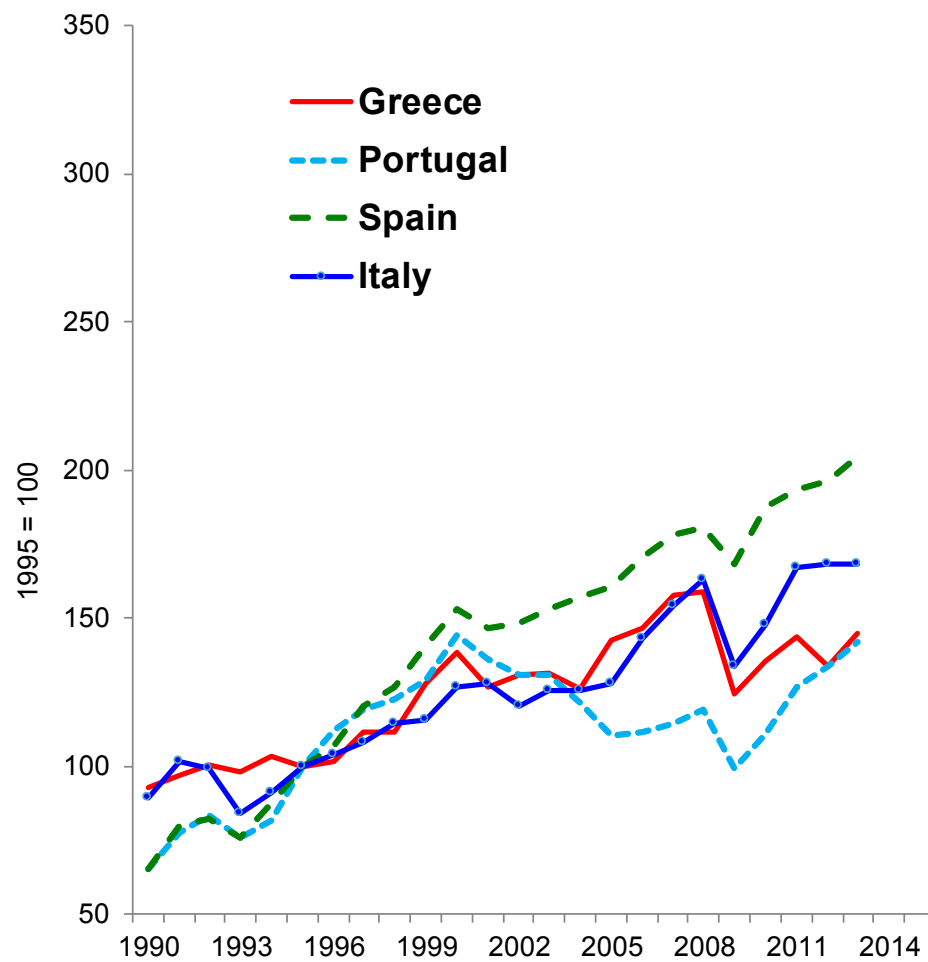


Total exports and imports of Germany by partner countries

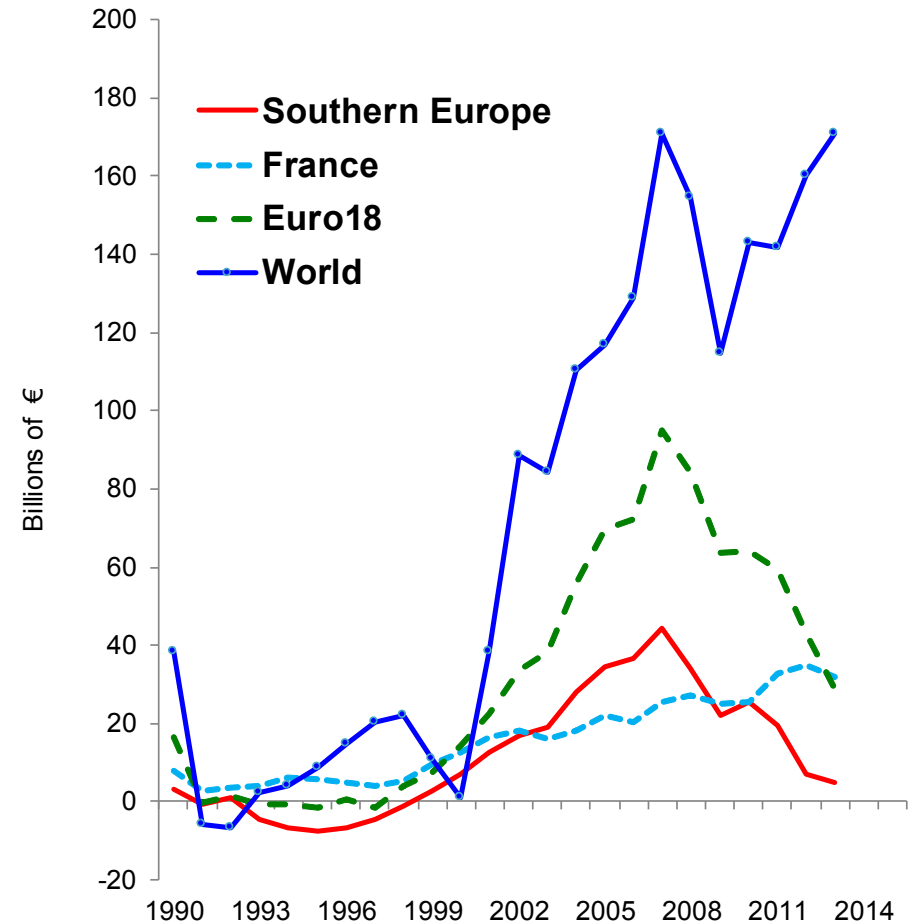
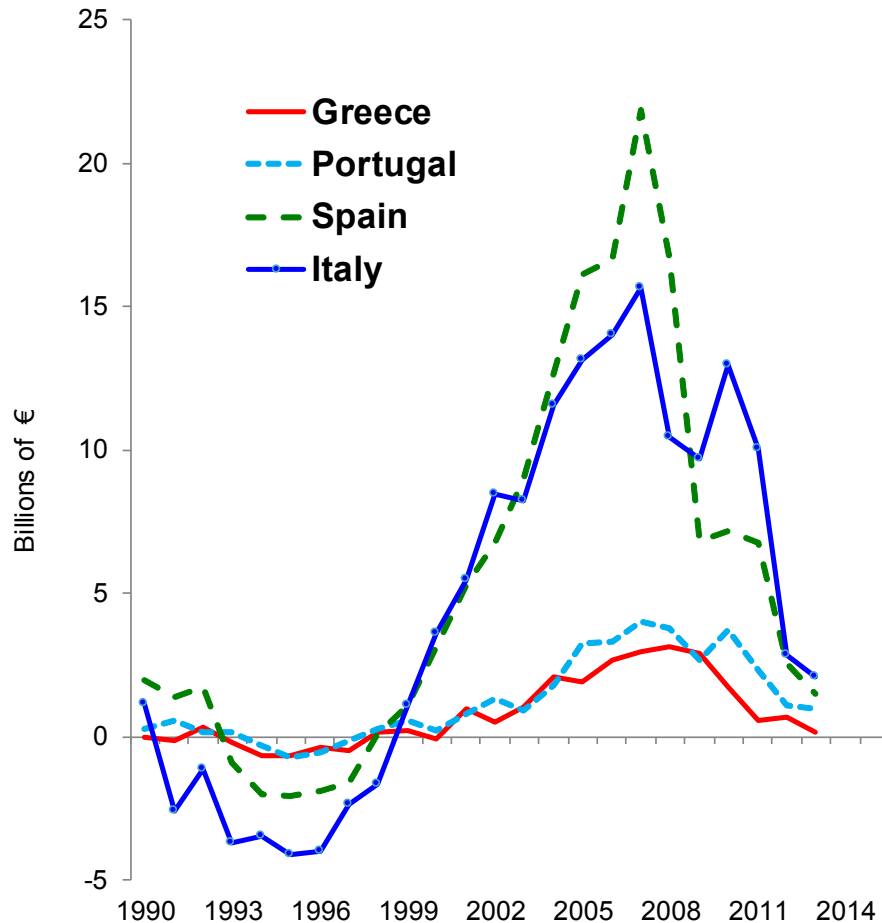
Exports

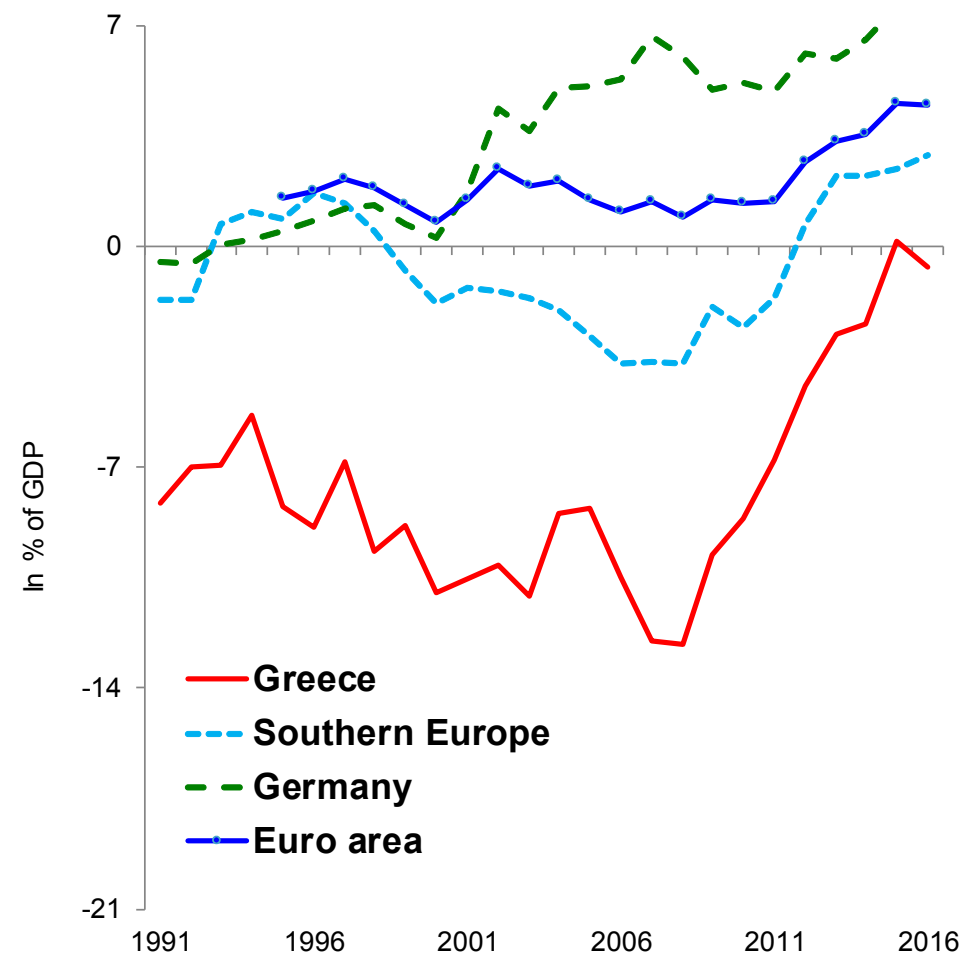
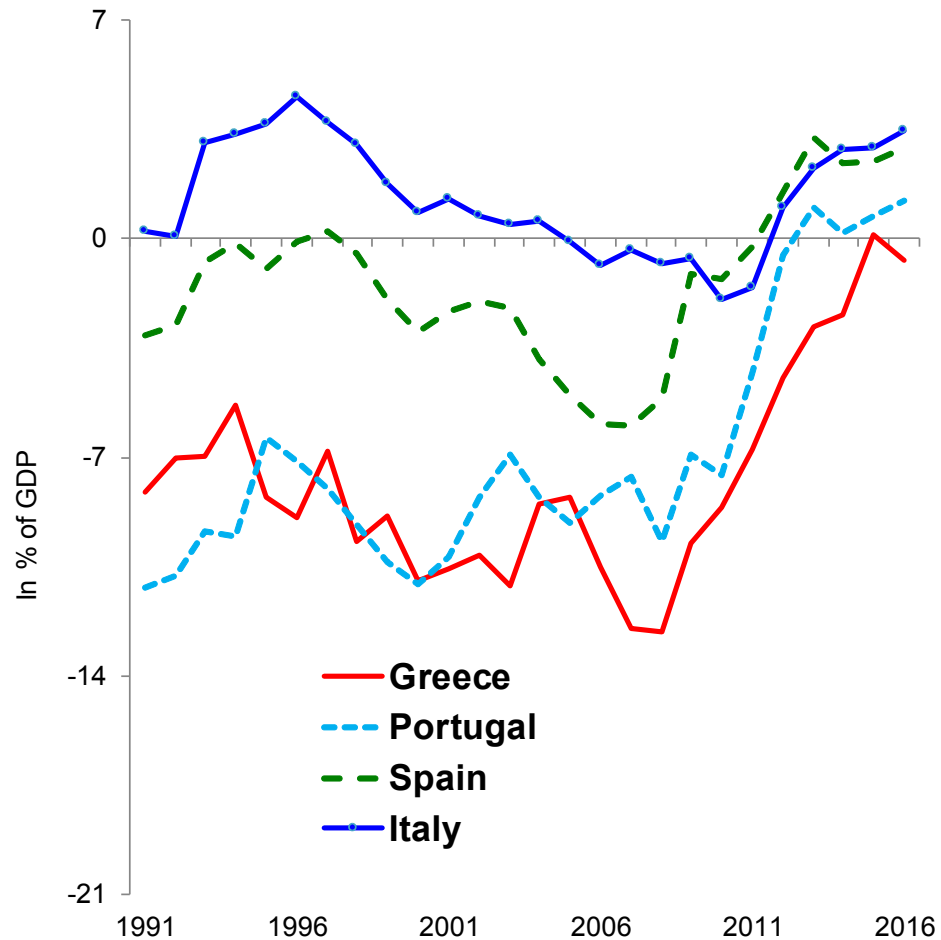


Imports

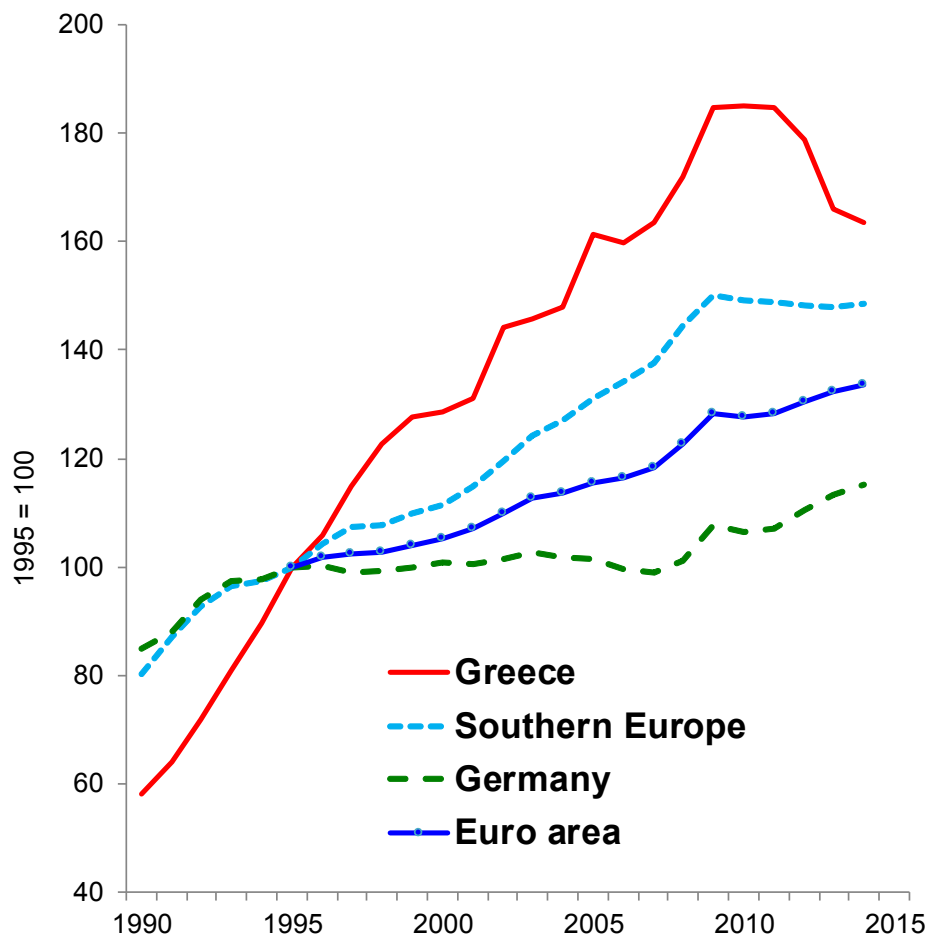


German current account By partner countries

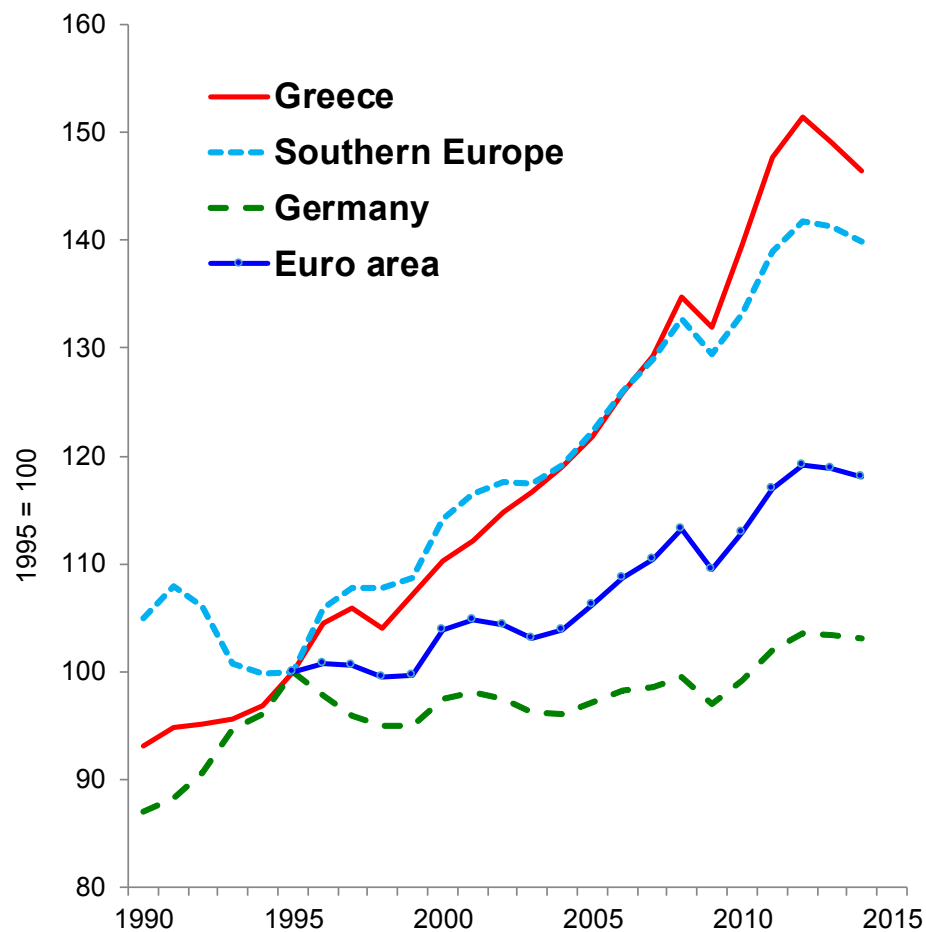




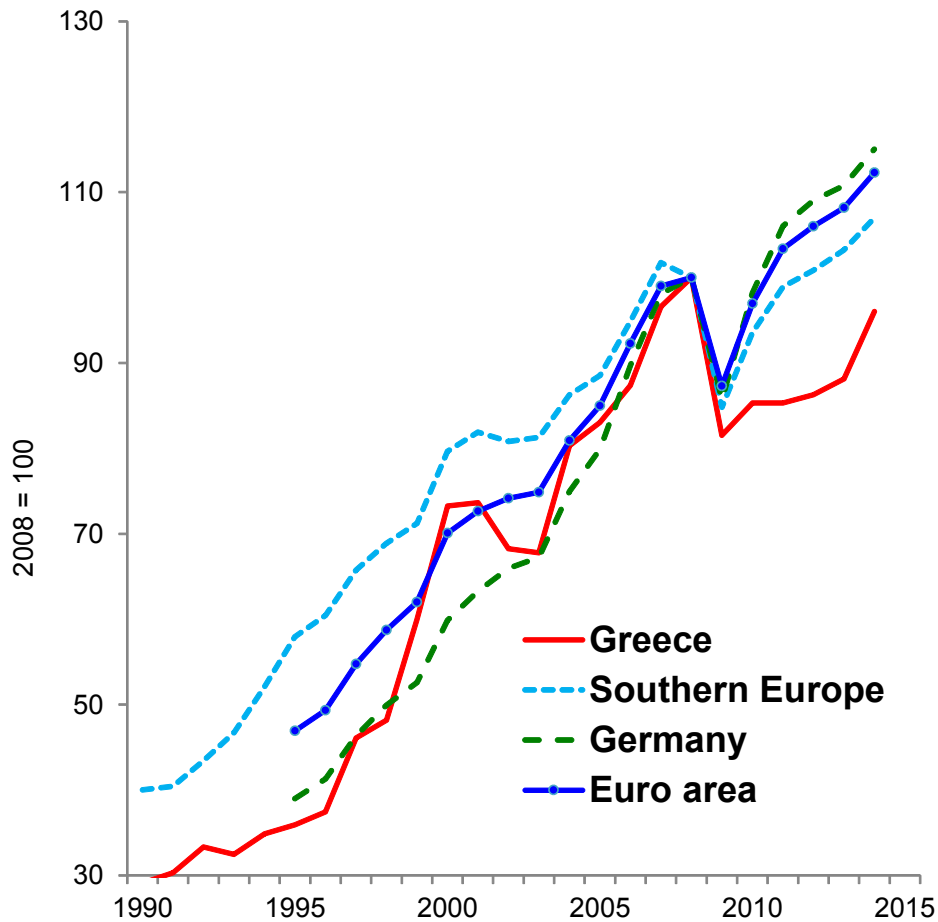
Unit labour costs



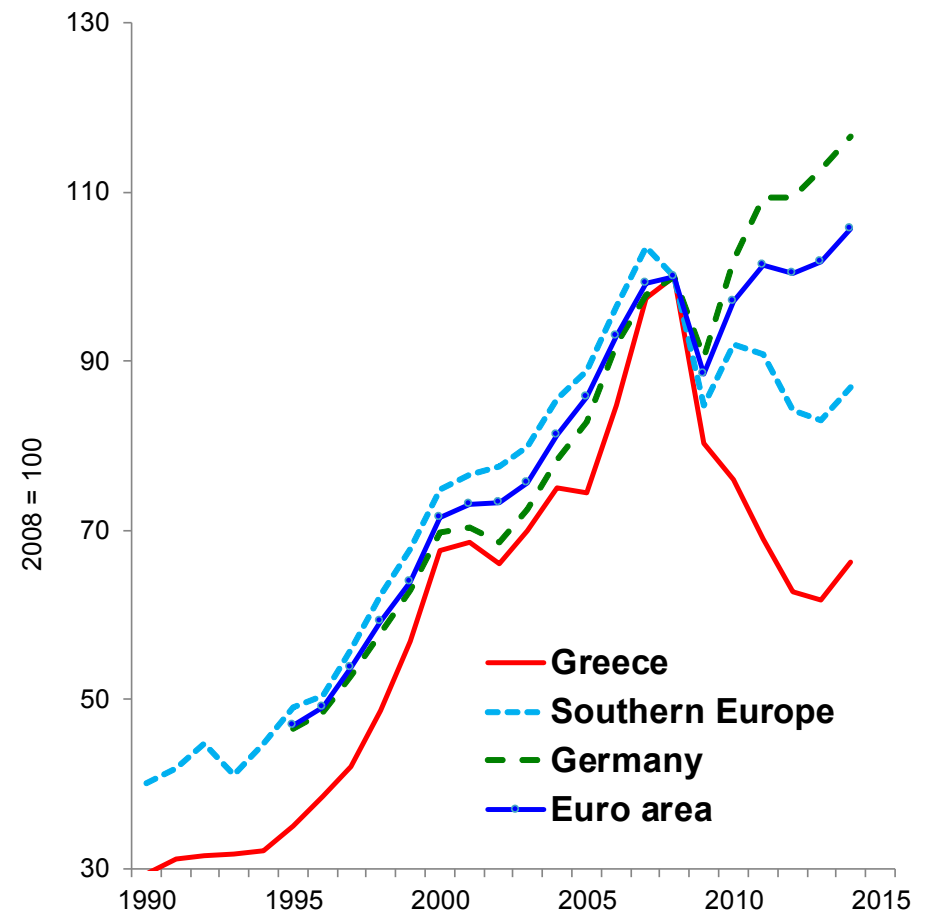
Export prices



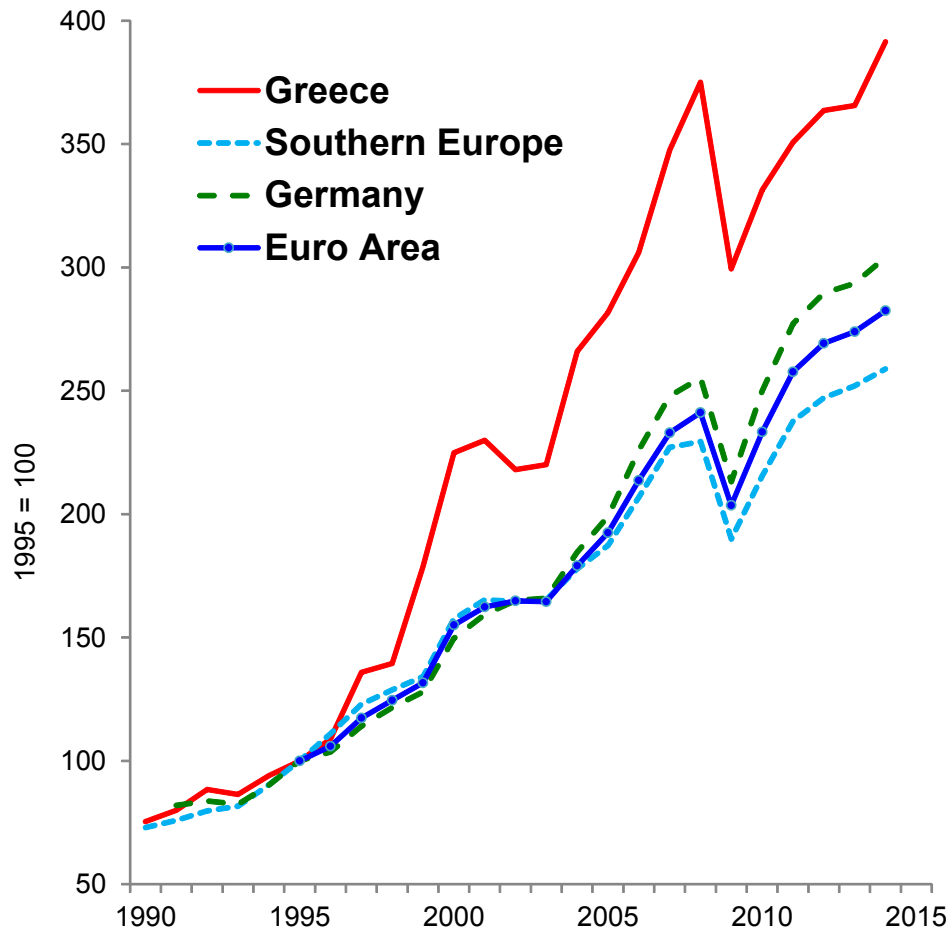
Exports



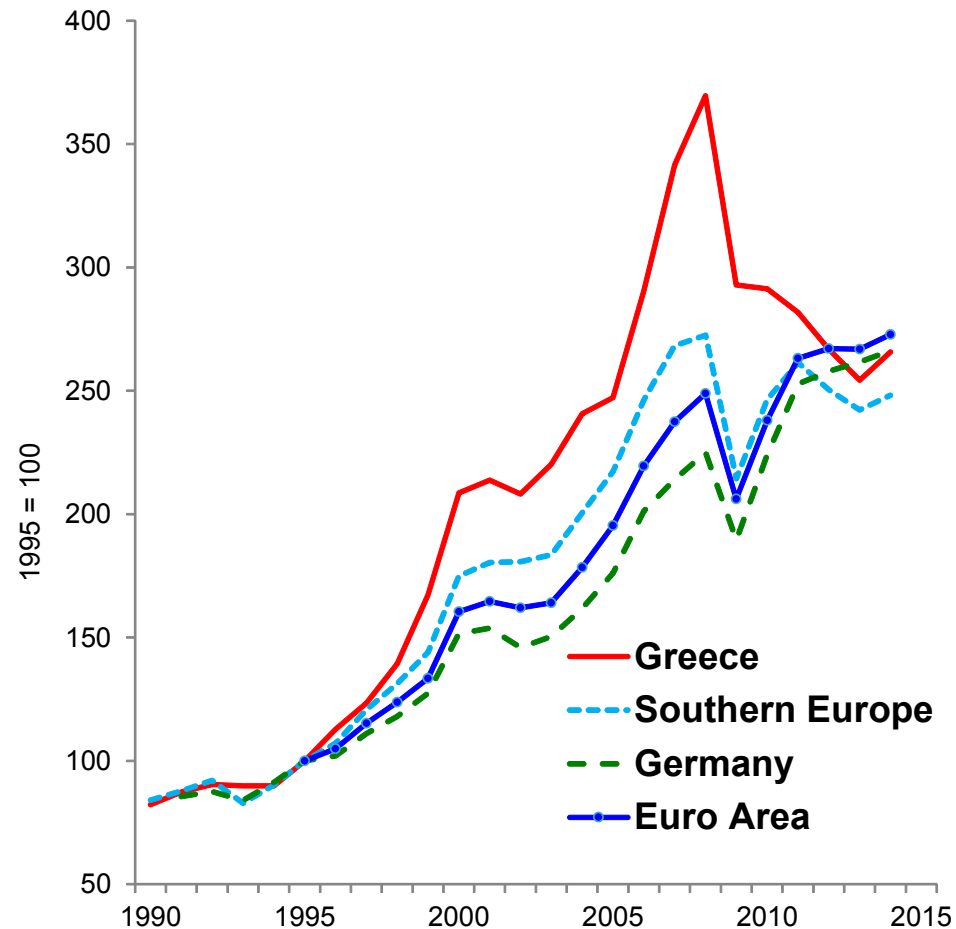
Imports



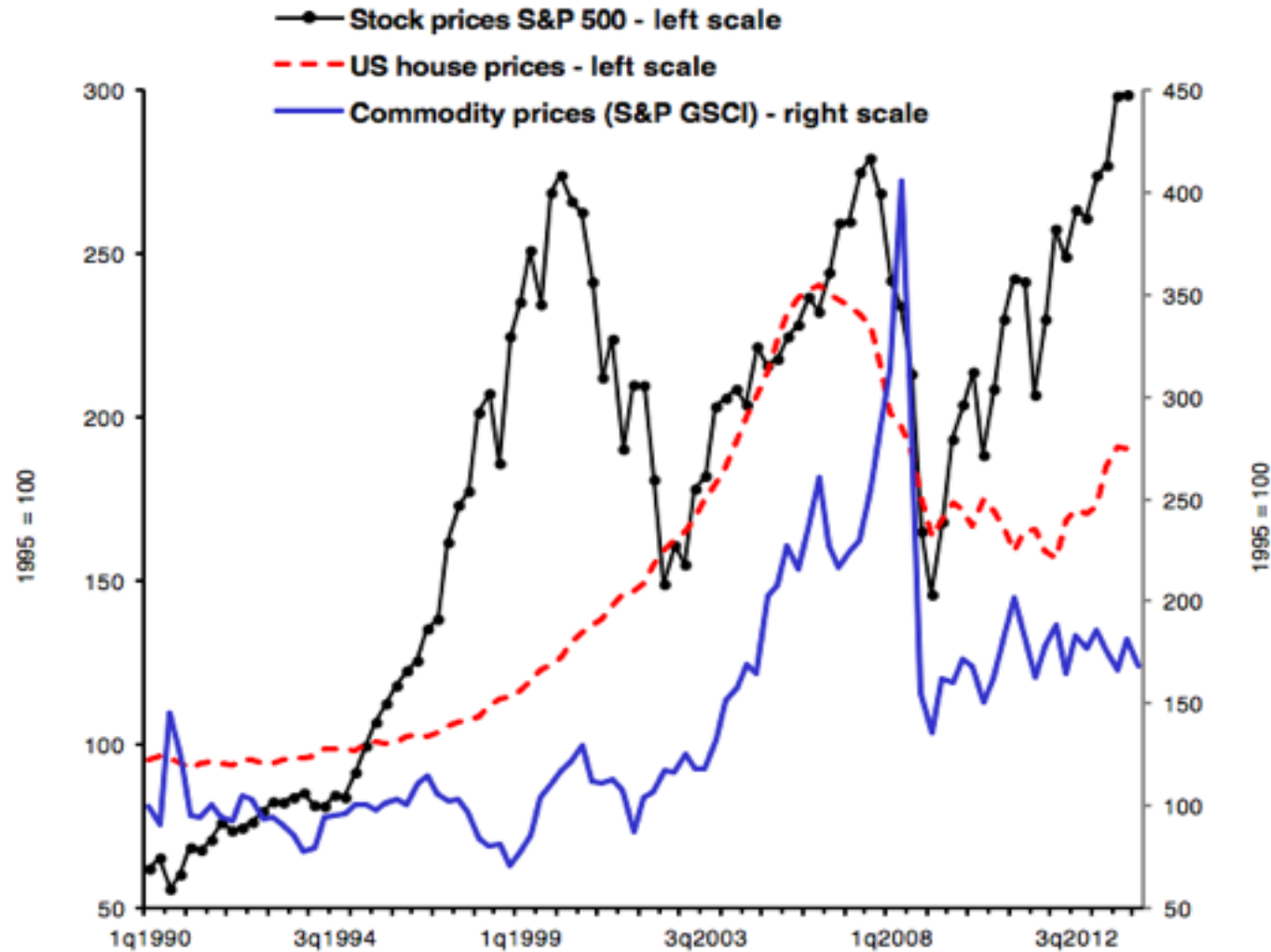
Exports



Imports

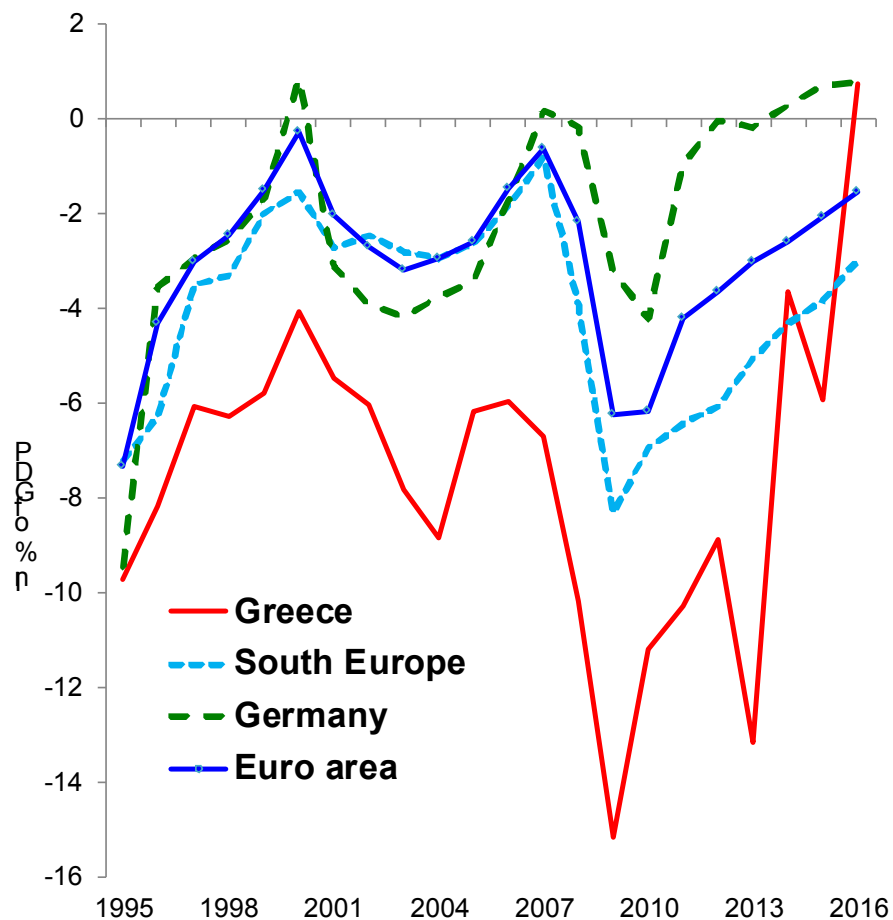


Three bear markets and the great crisis

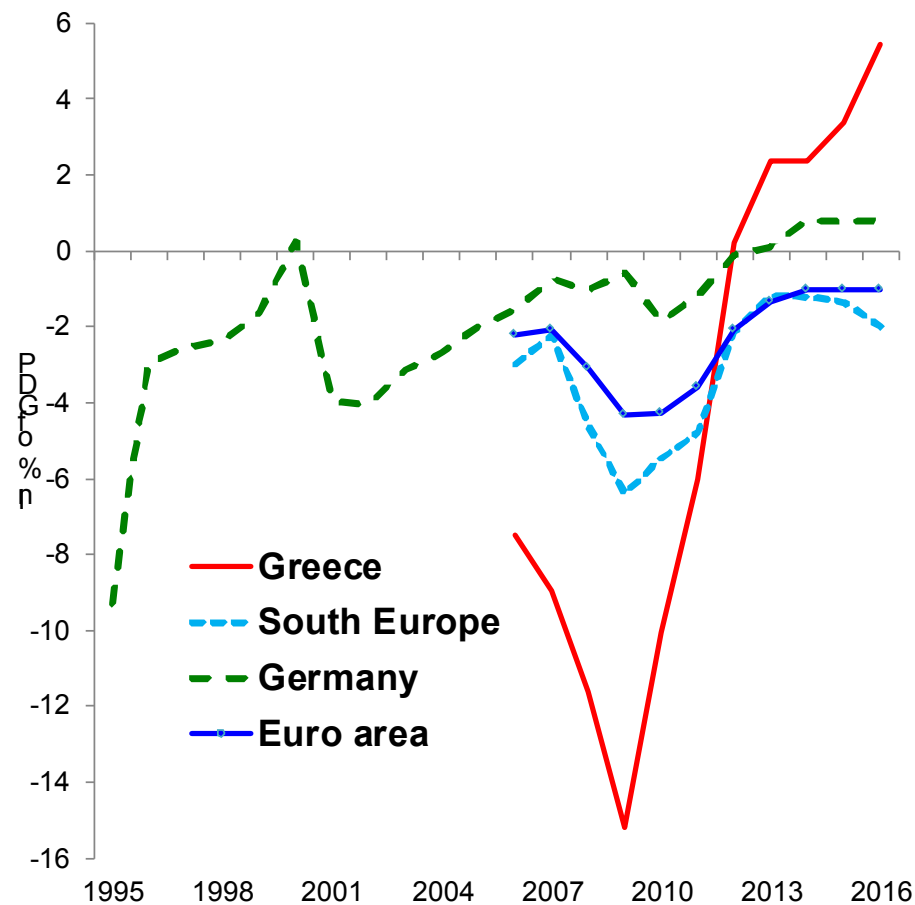


Total and structural balance of government

Overall Balance

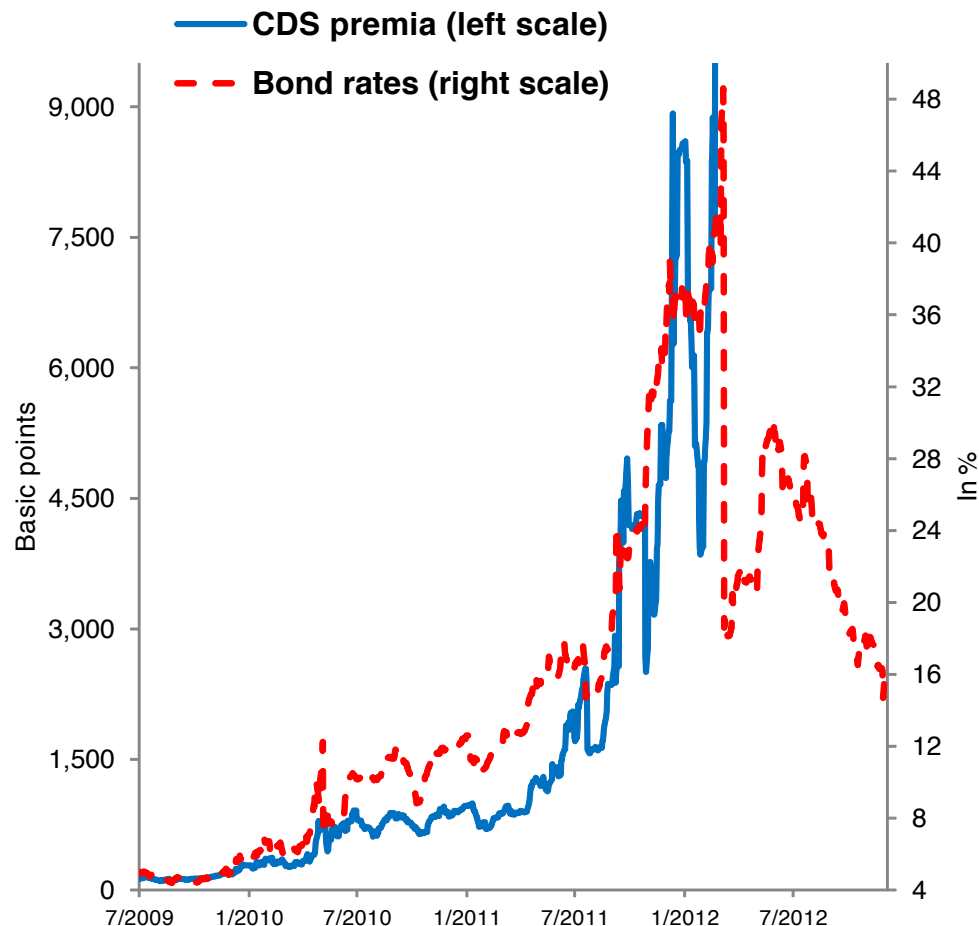


Structural Balance

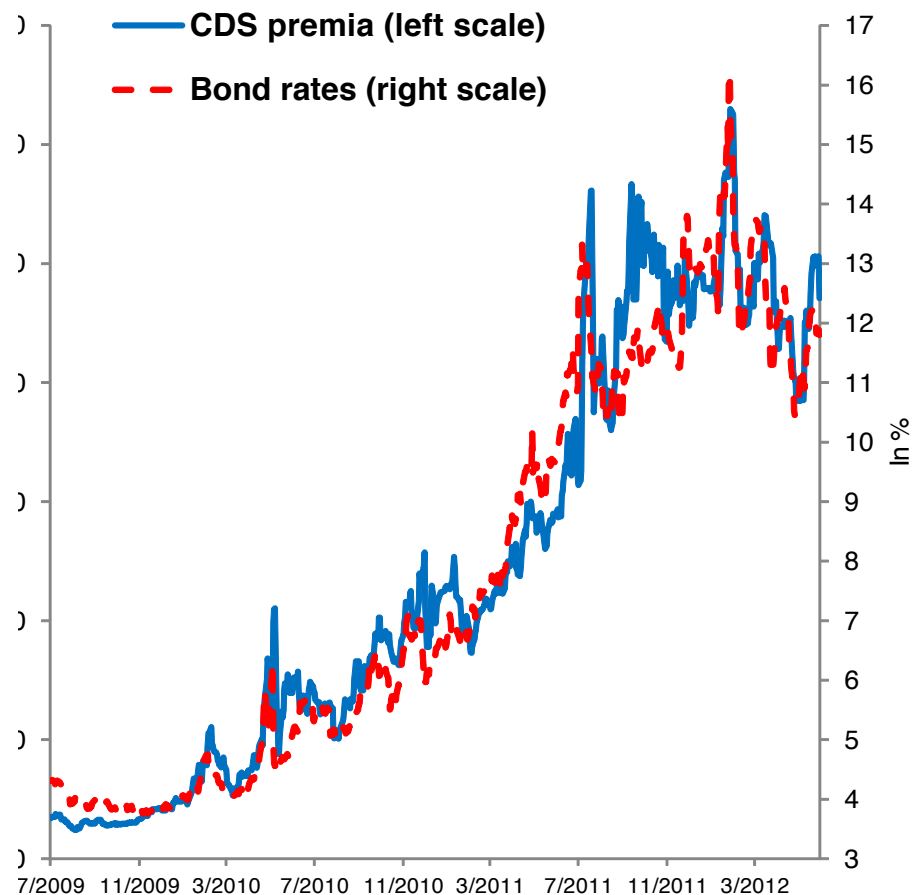


CDS premia and interest rates on long-term government bonds

GREECE

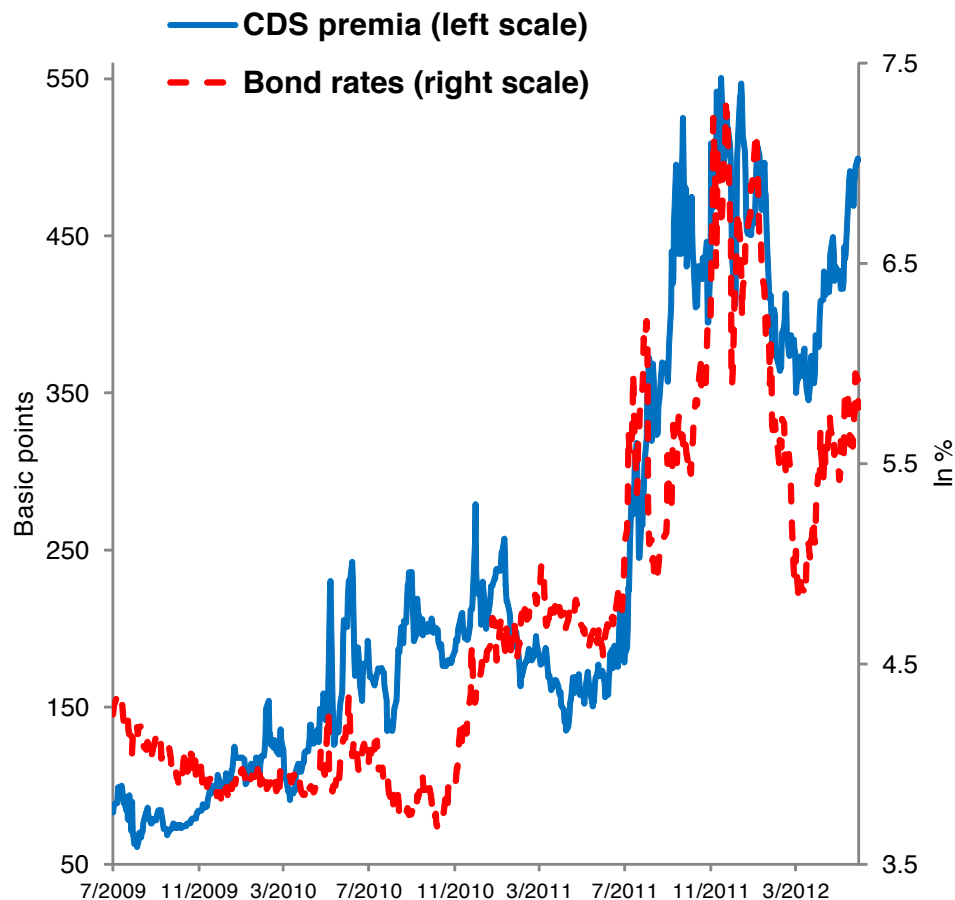


PORTUGAL

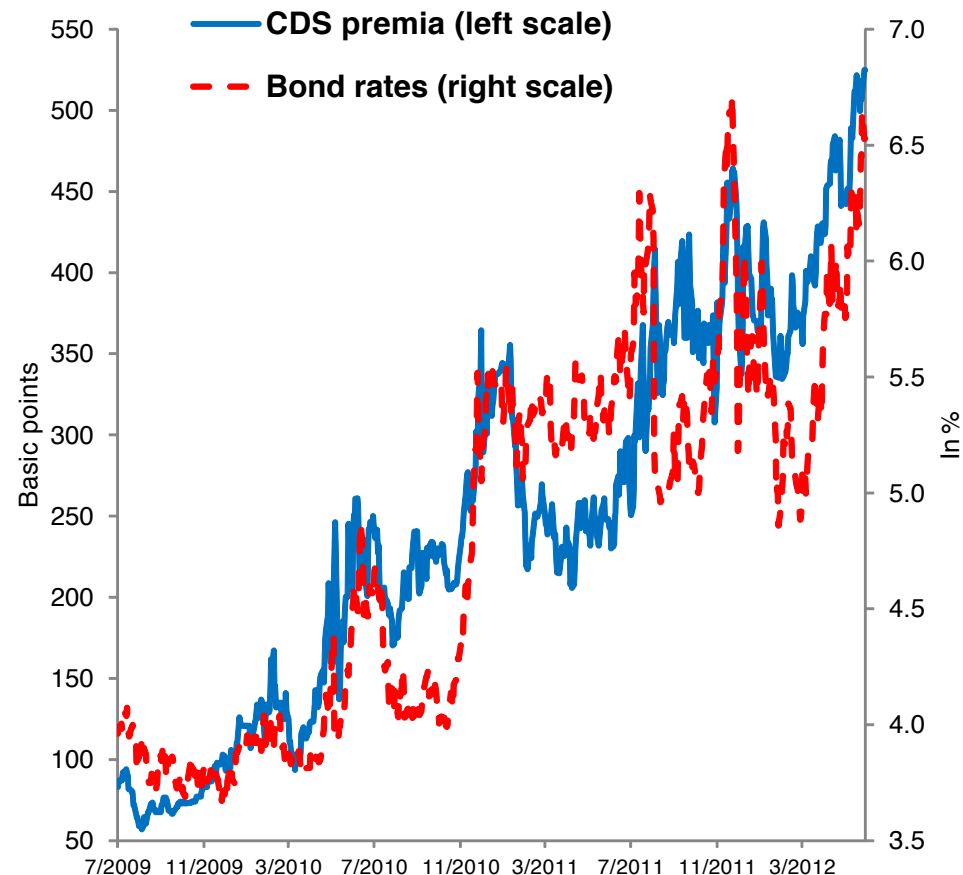


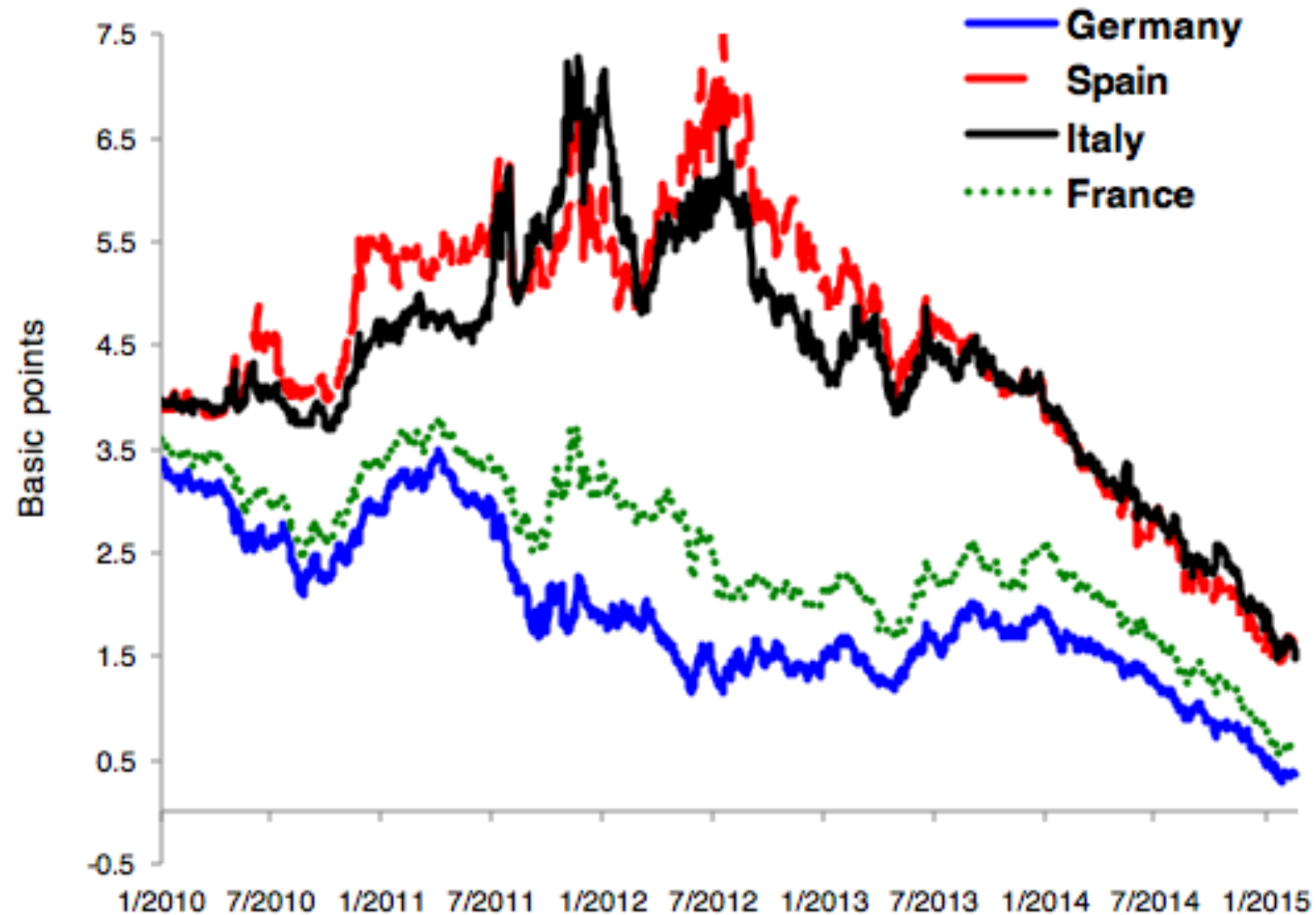
CDS premia and interest rates on long-term government bonds

ITALY

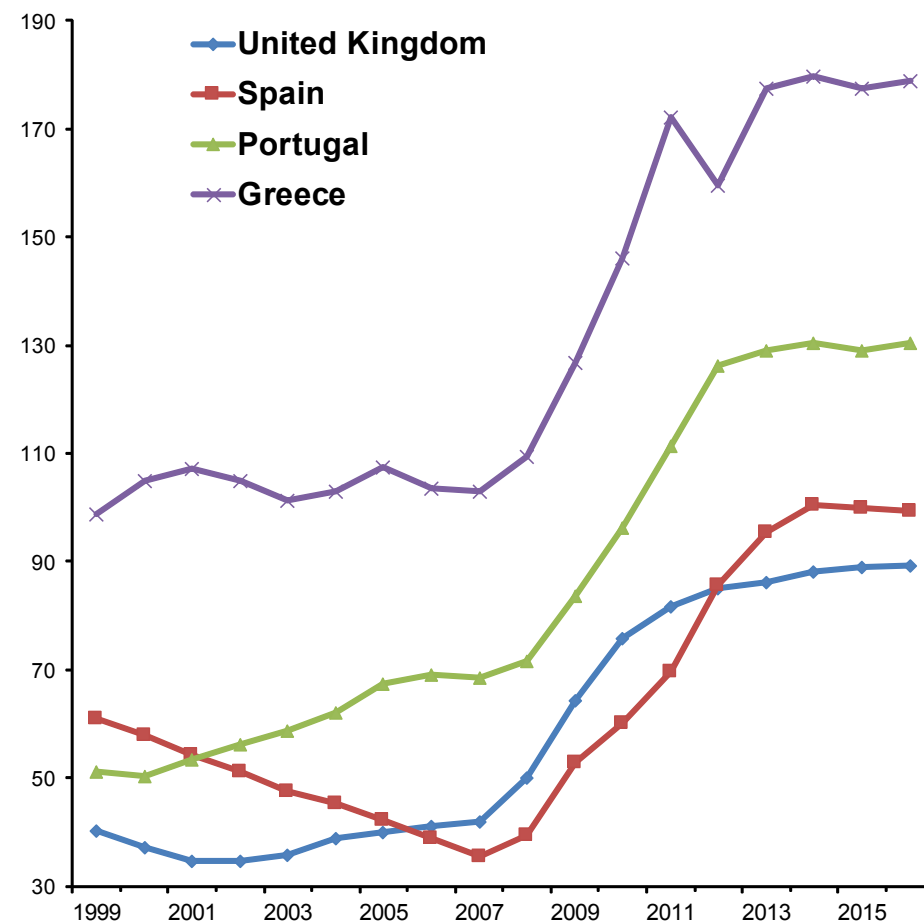
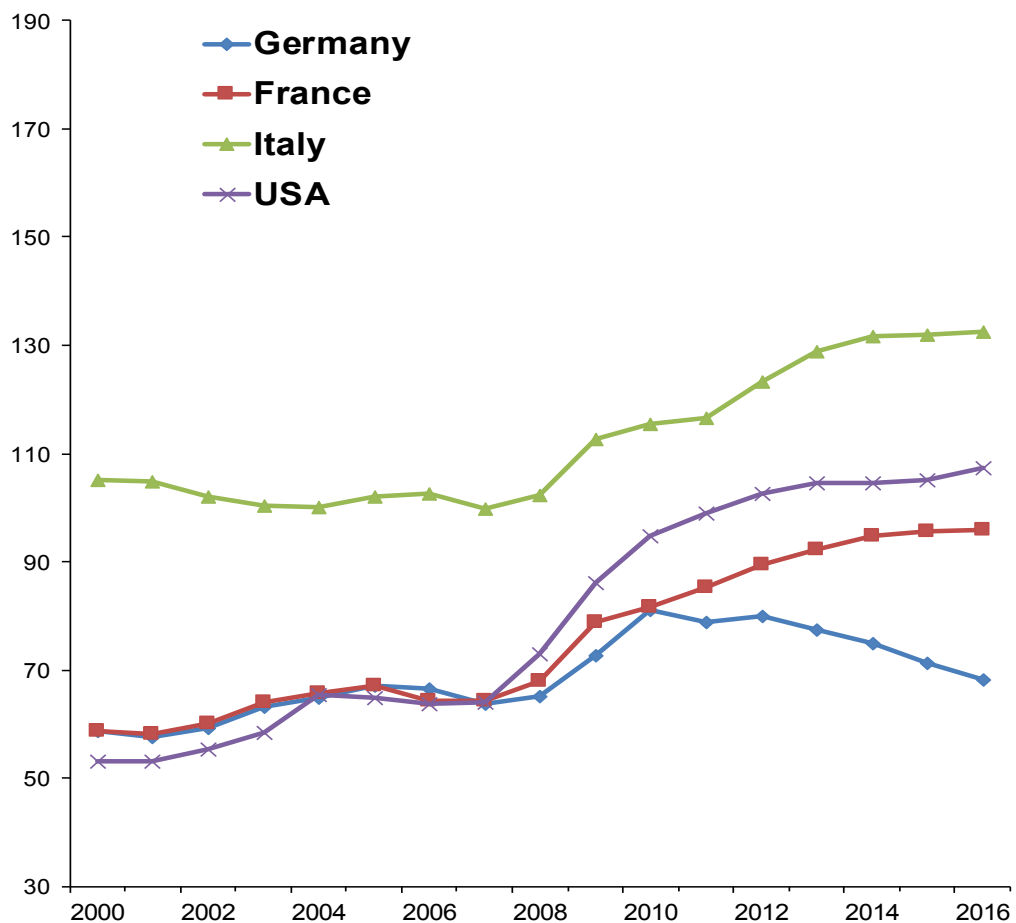


SPAIN





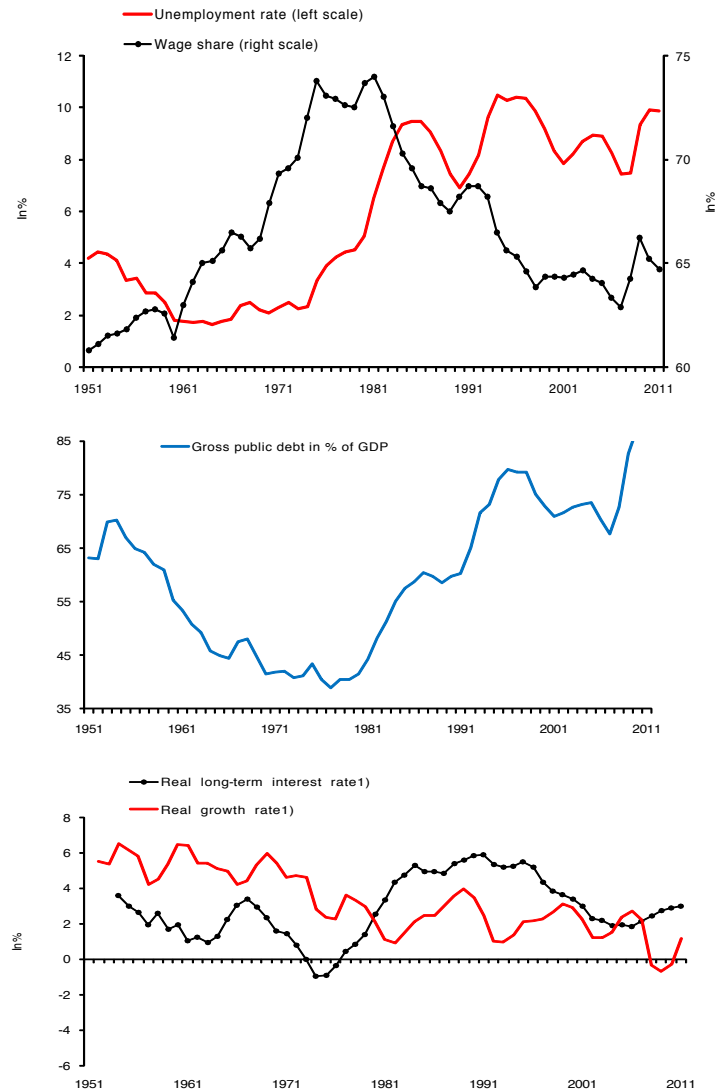
Government debt in % of GDP

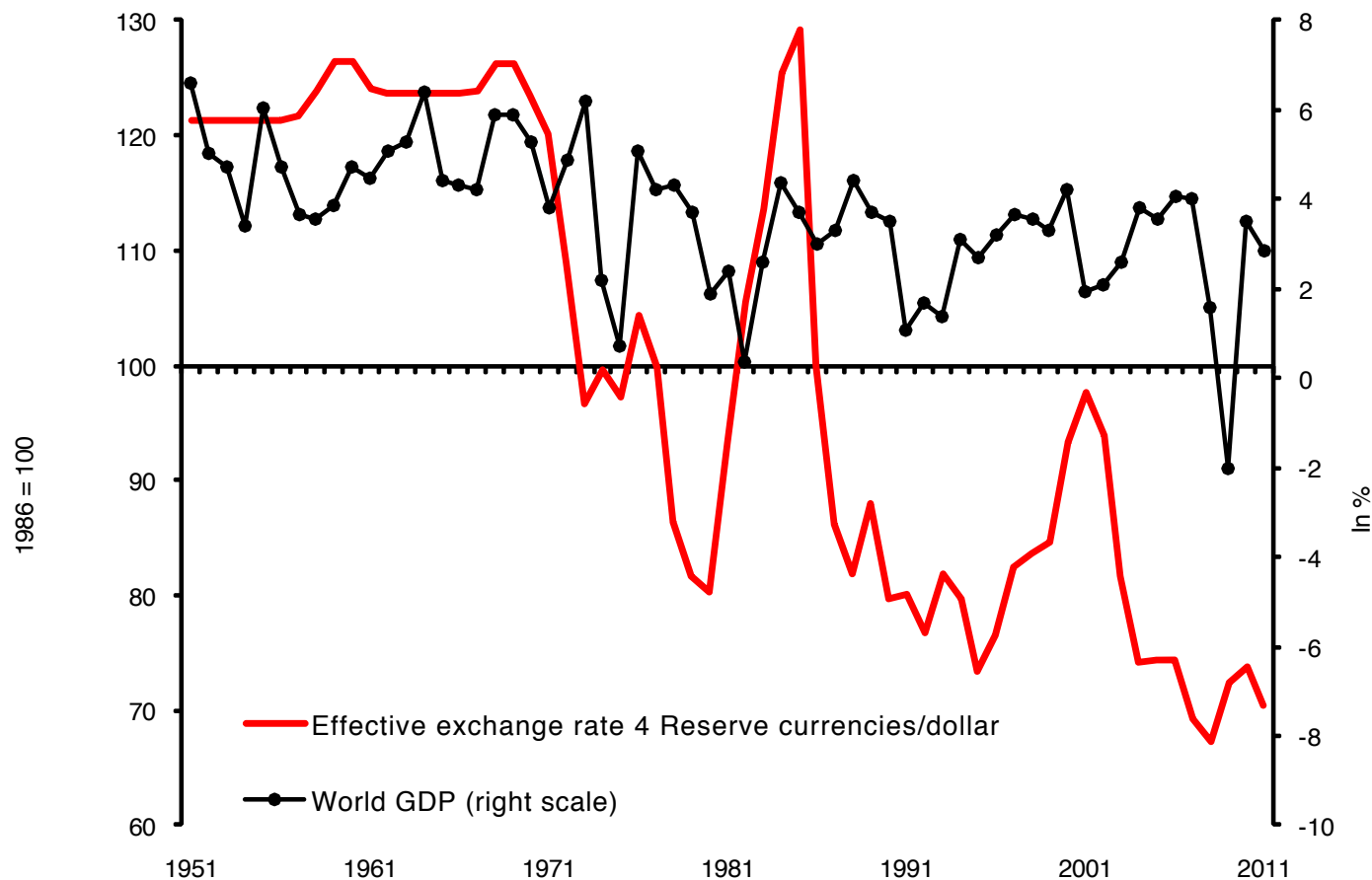


	Labor	Real Capital	Finance Capital
Economic interests	Full employment Real wage increases	High Profitability of real investments: - Low interest rates - Low exchange rates - Stable financial markets	High profitability of financial investments: - High interest rates - High exchange rates - Unstable financial markets
Conflicts of interests	Rising wages	←-----→	←-----→ Rising interest rates
Potential coalition partners	Real capital	Labor or finance capital	Real capital
Economic interest in state/ government	Full employment policy Social security Education Public services	Anticyclical policy Growth policy: Infrastructure Education, etc.	Strong central bank Restriktive monetary policy Privatisation of social security
Political interests	Strong welfare state Strong trade unions	Weak welfare state Weak trade unions	No welfare state No trade unions

	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

Long-term economic development in Western Europe





Real and finance capitalism in Europe and US

Institutional frame conditions	Macro- economic framework conditions	Real capitalism	Finance capitalism	Mixed (Bastard-Keynesian monetary and fiscal policy, speculation focused on stock market)
European Social Model		Europe until ~ 1973/80	Europe since ~ 1973/80	—————
US- Model		US until ~ 1973/80	US since ~ 1973/80	US since ~ 1990

- **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**

- **Agency and bank for financing euro governments**
- **Sells Eurobonds and offers Euro-Accounts**
- **At stable interest rates below the medium-term growth rate**
- **Unlimited guarantee by all euro states**
- **Full backing by the ECB**
- **Fully liquid, yet not tradable (like former German “Schatzbriefe”)**
- **Strict conditionality, not exclusively restrictive**

- Interest rates below rates of economic growth
- Target zones for key exchange rates
- Stabilization of price paths of key commodities like crude oil
- General financial transactions tax (FTT)
- „Re-education“ of FAB banks > serving the real economy
- Global strategies for the environment
- Transnational infrastructure in EU
- Social minimum standards in EU

- **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.)**

- **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)**