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German Wage Restraint as a Shining Example?
Franco-German Perspectives on Wage Policies in the Euro Area

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Outline

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2. Disparities in the euro zone, before the crisis
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The two crises

- Euro zone countries suffer currently from two crises:
- The first crisis is a crisis of global financial capitalism, which also hit the US and the UK.
- The second is a euro zone crisis. Euro zone countries introduced a common money without adequate governance. Disparities between countries increased from 1999 to 2007 and became unsustainable after the financial crisis.
- Some countries in Europe such as Germany, Austria, and Sweden succeeded to implement social compromises which allowed to recover after the crisis, even if the inequalities increased. Other countries experienced strong external imbalances, then high unemployment rates.
- France is in an intermediate situation. But France suffers today from a large external deficit, from industrial production stagnation and is unable to find a satisfactory growth.

The two crises

- Two views can be opposed on what should be done in France, Germany and Europe.
- According to a first view, France and most others MS should follow the German model: wage stagnation, cuts in social protection and public spending in order to lower taxes and employers' social contributions and regain competitiveness.
- According to another view, Germany is heavily responsible for the euro zone crisis. Germany and others Northern countries should implement more cooperative policies to contribute to Euro area growth and to reduce imbalances in the area.

Current Account Balances, % of GDP

	1997	2007	2013
Sweden	*4.1*	*9.2*	*6.2*
Germany	-0.4	7.5	7.0
Netherlands	6.6	6.7	9.2
Japan	*2.2*	*4.8*	*0.7*
Finland	5.2	4.1	-0.2
Austria	-2.5	3.5	2.9
Belgium	6.5	1.8	-0.1
Denmark	0.4	1.4	7.0
Euro Area	*1.4*	*0.2*	*2.2*
France	2.6	-1.0	-1.9
UK	*-0.1*	*-2.3*	*-3.8*
Italy	2.7	-2.4	0.9
USA	*-1.7*	*-5.1*	*-2.3*
Ireland	2.4	-5.4	7.0
Spain	-0.1	-10.0	1.1
Portugal	-5.9	-10.1	0.4
Greece	-3.9	-14.6	-2.3

The neo-liberalism crisis

- Capital today can choose its workers. It can produce in Western Europe, where wages are relatively high but workers are skilled and infrastructure iq developed, in Eastern Europe, in countries around the Mediterranean sea, in Asia.
- Capital can choose the country where it is imposed.
- Low-skilled workers in developed countries come into competition with workers in Eastern Europe and East Asia. The result is a general downward trends in low-wages.
- Due to the capital, the wealthiest and highly-qualified workers' mobility, nations are obliged to engage in wages, social and tax competition.
- The opening of economies increases the profitability of competitiveness strategies by wages, social protection and public spending cuts. The general tendency is thus a decline in the share of wages in value added.

The neo-liberalism crisis

- At the same time, the neoliberal counter-revolution and financial globalisation induce an increase in profit required by shareholders and financial markets. The capitalist class becomes again greedy.
- But the increase in the required profit rate does not translate in an increase in physical investment as growth is slowing in developed countries.
- In each country, financial markets as competitiveness strategies tends to put downward pressure on wages, social and public spending. So consumption stagnates, which induces a permanent deflationary in developed countries.

The neo-liberalism crisis

- The largest countries, the winners of globalisation, have chosen two types of contrasting strategies: mercantilism or financialisation.
- In "mercantilist" countries (such as China, Germany), growth is driven by strong competitiveness gains: wages are low relatively to productivity; firms can make strong profits; exports are driven by competitiveness and by the industrial strength induced by good company profitability; domestic demand is relatively low. The good economic performance contrasts with the extent of poverty in the population.
- This growth model is not sustainable: the resulting surpluses are obtained at the expense of partner countries (the US for China, other European countries for Germany); they are forced to increase their debt, which inevitably results in a debt crisis. China can complain for having to accumulate reserves in dollars, Germany for having to finance Southern Europe countries, without seeing that it is their own policies which have increased global imbalances.

The neo-liberalism crisis

- In Anglo-Saxon countries, wages and incomes of the majority of households have stagnated. Growth is supported by the development of financialisation: middle-class households are benefiting from the rise of stock markets, from real estate prices and by rising debts.
- Growth can be strong despite wage stagnation, without public deficit. It is the “great moderation” miracle.
- The system is not sustainable because it is based on continuing rises in asset prices and on a continuing rise in indebtedness. It requires low interest rates and high and rising asset prices, such that imbalances are widening.
- Since 2000, the United States maintained low interest rates which allowed the rise in debt and inflated assets prices.

The neo-liberalism crisis

- The system leads to the accumulation of huge masses of capital looking for profitability and liquidity. Financial institutions are in permanent competition to attract them. In the long-term, capital cannot have the required profitability of 15% per year. These returns are not obtained by real investments, but by speculative operations relying on financial bubbles. Financial capitalism cannot grow steadily, but illusory alternating periods of high returns, in large part, obtained by the rise in financial bubbles, followed by periods of collapse. Financial globalization generates sustainable rise of imbalances which finally burst.

- Huge assets accumulation of some agents should have a counterpart in the fabulous indebtedness of others. Countries, companies and households that receive large amounts of external funds are at the same time vulnerable, since they become heavily indebted: this is the **borrowers' curse**. Lenders are looking for high returns which weakens borrowers; they want to invest large sums, but then worry that borrowers are too indebted: **this is the lenders' curse.** The world lives constantly under the threat of the debt crisis.

The neo-liberalism crisis

- At the global level, there no State, no monetary policy, no fiscal policy, therefore no institution guaranteeing macroeconomic regulation.

- The 2007-2009 crisis shows the failure of this model. It is a banking, financial, but also economic crisis. It is accompanied by a productive crisis and an ecological crisis. Large firms base their development plan in emerging countries where growth is highest and wages lowest. The scarcity of energy resources and raw materials will increases their prices; the fight against greenhouse gas emissions requires a profound change in the structure of production and consumption.

- The 2007-2009 crisis is a deep crisis of financial capitalism, which would have requested a strong policy response from governments to reduce the weight of finance and the necessity of public and private debts, to implement a global macroeconomic strategy to reduce macroeconomic imbalances, to engage the ecological transition. Profitability required by firms should have been reduced. Mercantilists as Anglo-Saxon countries should have distributed more wages and social benefits. But it is not the strategy adopted by the leading classes.

The Eurozone crisis

- The situation is particularly worrying in the euro area where the economic policy framework is not satisfactory. This appeared both in the rise of disparities before the crisis and the inability of the area to respond to the public debt crisis in Southern countries. The 2007-2009 financial crisis can be viewed as a test of the euro area's ability to react adequately to shocks affecting the EU economy. The result is clearly negative.
- The single currency suffers from original sins, which are difficult to correct:
- According to economic theory, there cannot be a single currency between countries with different economic situations and who wish to keep independent economic policies. The single currency entails introducing precise economic policy coordination or solidarity mechanisms. Otherwise how to prevent the emergence and persistence of imbalances between some countries running large external deficits and some others running large surpluses? How to handle these situations?

The Eurozone crisis

- These mechanisms cannot consist in arbitrary numerical rules enshrined in a Treaty (such as: public deficits should not exceed 3% of GDP, public debts should not exceed 60% of GDP, structural government budget in balance in the medium term). These mechanisms must be both soft (the objectives should be agreed between countries accounting for the current economic context) and binding (everyone must comply with decisions agreed in common). But how may governments with necessarily different interests and analyses reach agreement on economic policy strategies? How to convince a country to change its economic policy in order to meet common rules?

The Eurozone crisis

- The rules of the game should have been set by clearly considering all possibilities of symmetric or specific shocks, accounting for different objectives. What should be done if a country wishes to build current account surpluses? What should be done after a common or specific shock? How to define the nature of the shock? But no such rules were settled. For instance, no one could imagine in 1997 a situation where monetary policy would not be able to cut nominal interest rates, where public debts would have risen due to banks' rescue packages, etc…
- Coordination must not only apply to public finances, but also, as showed by the crisis to external balances (and therefore competitiveness, wages, internal demand) and even banking system, taxation, ... The tricky point is that the issue is no more, not to impose uniform and arbitrary standards to each country, but to reach an agreement on targets differentiated by country.

Disparities in the euro area

- EMU has seen from 1999 to 2007, the persistence of relatively low growth and increasing disparities between Member States in terms of growth, inflation, unemployment and external balances.
- These disparities were exacerbated by the economic policy framework in the euro area, which imposes similar macroeconomic policies for countries in different situations.
- Before the crisis, EMU seemed to have made winners (Ireland, Spain, Greece) and losers (Germany, Italy, Portugal).
- In most countries, particularly the larger ones, the introduction of the euro did not cause the acceleration of growth promised.
- For others, the growth acceleration was paid by the increase in imbalances difficult to sustain.

Disparities in the euro area

- The euro area suffers from the widening of disparities that the economic framework established by the Maastricht Treaty was unable to prevent.
- These disparities were induced by from two instable macroeconomic strategies :

1. Northern MS (Germany, Austria, Netherlands, Finland) undertook mercantilist strategies, who consisted to restrain wages and social spending in order to obtain competitiveness gains and strong current account surpluses. From 2000 to 2007, the share of wages in the AV declined by 4 points in Germany, by 5 points in Austria. The weakness of domestic demand in these countries as their competitiveness gains weighed on growth in all of their partners in the euro area (the Southern MS, but also France and Italy).
2. Southern countries (Spain, Greece, Ireland) experienced strong growth, driven by low interest rates relative to growth rates inducing housing bubbles. Moreover, Ireland undertook a policy of fiscal dumping. They have accumulated large external deficits.

GDP and domestic demand 1999-2007 (annual average)

	GDP	Domestic demand	External balance contribution
Euro area	**2.15**	**2.0**	**0.15**
Belgium	2.15	1.9	0.25
Germany	1.6	0.6	1.0
Greece	4.2	4.4	-0.2
Spain	3.6	4.4	-0.8
France	2.05	2.4	-0.35
Ireland	5.7	5.8	-0.1
Italy	1.55	1.6	-0.05
Netherlands	2.2	1.8	0.4
Austria	2.4	1.5	0.9
Portugal	1.5	1.3	0.2
Finland	3.5	3.2	0.3
Denmark	*1.85*	*2.5*	-0.65
Sweden	*3.2*	*2.7*	0.5
UK	*3.2*	*3.4*	-0.2
Japan	*1.5*	*1.0*	*0.5*
US	*2.65*	*2.8*	*-0.15*

Inflation and real interest rates

	Inflation (GDP deflator)	Real interest rate less GDP growth rate	
	1999-2007	1992-1998	1999-2007
Euro area	**2.0**	**2.5**	**0.0**
Belgium	1.9	1.6	0.25
Germany	0.8	1.6	1.5
Greece	3.2	6.7	-2.2
Spain	3.9	2.1	-2.9
France	1.8	2.9	0.2
Ireland	3.5	-3.5	-5.2
Italy	2.4	3.9	0.7
Netherlands	2.6	0.9	-1.0
Austria	1.5	1.3	0.5
Portugal	3.1	1.6	-0.1
Finland	1.4	1.3	-0.7
UK	*2.4*	*3.7*	*-0.5*
US	*2.4*	*-0.1*	*-0.55*

Adjusted wage share in GDP, 1998/2007

	Change in percentage point, 1998-2007
Euro area	**-2.6**
Belgium	-2.8
Germany	-4.1
Greece	-4.1
Spain	-4.2
France	-0.8
Ireland	-0.5
Italy	-0.9
Netherlands	-2.7
Austria	-6.0
Portugal	-0.9
Finland	-2.0
Denmark	*+1.1*
Sweden	*-0.7*
UK	*+0.5*
Japan	*-7.4*
US	*-1.9*

Productivity and real wage evolution (2007/1998)

	Wage	Productivity	Unemployment rate (2007)
Euro area	0.45	1.0	7.6
Belgium	0.85	1.2	7.5
Germany	**0.3**	1.2	8.8
Greece	2.1	2.6	8.3
Spain	**-0.5**	0.3	8.3
France	0.8	0.95	8.3
Ireland	2.0	2.3	4.6
Italy	**0.45**	0.5	6.1
Netherlands	1.2	1.7	3.6
Austria	0.9	1.8	4.4
Portugal	0.8	1.2	8.1
Finland	1.9	2.1	8.3
Denmark	1.35	*1.2*	3.8
Sweden	2.1	*2.2*	6.1
UK	2.35	*2.15*	4.6
Japan	***0.3***	*1.6*	*5.3*
US	*1.6*	*-1.95*	*4.6*

Competitiveness (inverse of Relative ULC to industrialized countries

	1997/2007	2007/2013
Euro area	-27.2	0.4
Belgium	-4.1	-5.4
Germany	16.2	-1.9
Greece	-2.9	17.5
Spain	-13.9	10.9
France	-4.2	-1.7
Ireland	-18.2	15.9
Italy	-5.9	-3.2
Netherlands	-10.9	-0.8
Austria	7.6	-3.2
Portugal	-10.5	6.3
Finland	1.6	-10.7
Denmark	-13.7	*-1.3*
Sweden	7.4	*-4.2*
UK	-15.2	*19.2*
Japan	*-39.3*	*-3.7*
US	*8.3*	*6.4*

Disparities in the euro area

- In 2007, some countries ran substantial current account surpluses: the Netherlands (8.9% of GDP) and Germany (7.9%), Austria and Finland (3.5%) whereas some others ran large deficits: Portugal (-8.5% of GDP), Spain (-9.6%) and Greece (-12,5%).
- The 260 billion surplus of Germany, Netherlands, Austria and Belgium, and the 40 billion surplus of Scandinavian countries generate and finance the 180 billion deficit of Mediterranean countries and the 50 billion deficit of the NMS.
- The relation Germany-NL-Austria *versus* Portugal-Spain-Greece is the same at the euro-zone level than the relation US *versus* China, with the same instability. It raise the same issue: how to convince virtuous countries to spend more and to increase their real exchange rates so that sinner countries can reduce their external deficits without depression?
- The financial crisis has made it impossible to continue this debt accumulation.

Current account balance in 2007

	Billions euros	% of GDP
Luxembourg	4	10.0
Sweden	29	8.6
Netherlands	48	8.4
Germany	183	7.6
Finland	8	4.2
Austria	11	4.0
Belgium	13	3.9
Denmark	3	1.3
Italy	– 20	– 1.3
France	–26	– 1.4
United-Kingdom	–46	– 2.2
Slovenia	–2	–4.6
Czech Republic	–7	–5.1
Ireland	–10	– 5.5
Slovakia	–3	–5.6
Hungary	– 7	– 7.4
Spain	– 105	– 10.0
Portugal	– 17	– 10.2
Cyprus	-2	– 11.6
Romania	– 17	– 13.6
Lithuania	– 4	– 15.0
Estonia	– 3	– 15.7
Greece	– 39	– 17.6
Latvia	– 5	– 22.4
Bulgaria	– 8	– 25.2
Total	– 45	– 0.4

Poverty rates in Europe

	1997	2007	2012	Evolution
Germany	12	15.2	16.1	+4.1
Austria	13	12	14.4	+1.4
Belgium	14	15.2	15.0	+1.0
France	15	13.1	14.1	-0.9
Netherlands	10	10.2	10.1	+0.1
Spain	20	19.7	22.2	+2.2
Greece	21	20.3	23.1	+2.1
Italy	19	19.8	19.4	+0.4
Portugal	22	18.1	17.9	-4.1
Denmark	10	11.7	13.1	+3.1
Finland	8	13	13.2	+5.2
Sweden	8	10.5	14.1	+6.1
Ireland	19	17.2	15.2	-3.8
United Kingdom	18	18.6	16.2	-1.8

Source: Eurostat.

What lessons from the German experience ?

- Germany succeeded in improving its external balance from -1.8 percent of GDP in 2000 to 7.5 in 2007 (+9.4 points). Also, there were strong improvements in Austria (4 points), the Netherland (4 points). The euro zone balance improved by 0.8 points.
- In the same period, the external balance decreased in Italy (1.8 point), France (2.4 points), Belgium (2.6 points), Finland (4 points), Ireland (5 points), Spain (6 points), Greece (7 points)
- During the years 2001-2005, Germany GDP increased by 2.8% against 8.3% for France and 9.1 for the Eurozone (excluding Germany).
- The German public deficit was above 3% of GDP in 2002-03-04-05.
- This strategy was costly for Germany and for the euro zone.
- Income inequalities increased (like in Nordic countries).
- The fixed exchange rate and excessive confidence on financial markets allowed for the burst of unsustainable imbalances. 3 solutions: return to exchange rate flexibility? Financial market discipline? More wages, costs and domestic demands coordination?

EU strategies after the crisis

- Even if the causes of the crisis do not lie in excessive increases in public expenditure, nor in excessive public deficits, nor in too large wage increases, wages, nor the rigidity of the labour market, it is these four points that the Commission want to correct rather than the excessive weight of finances or than the strategy of wage and social spending reduction.
- Can crisis exit strategies ignore the causes of the crisis? The crisis is due to growth strategies based on pressures on wages and social incomes, the decline in demand was offset by gains in competitiveness for neo-mercantilists countries, by financial and real-estate bubbles, by household debt growth in Anglo-Saxon and southern Europe countries. The failure of these strategies has forced the government deficit to take over as a growth engine.
- We need an another growth strategy. Its should be based on the distribution of wage and social incomes, in neo-mercantilist as Anglo-Saxon countries; on a new industrial policy, to organize and finance the development of a more sustainable economy.

EU strategies after the crisis

- At the European level, the single currency’ survival requires an open coordination of economic policies, without *a priori* rules, with objectives of growth, full-employment, industrial renewal in the Southern countries, ecological transition and coordinated reduction of external imbalances.
- This is not easy to implement because Northern MS want rigid rules, refuse to question their strategies of competitiveness and their accumulation of external assets, refuse an unconditional solidarity with Southern MS and ask them to make efforts in terms of structural reforms and public deficit reduction.
- At the same time, the policy of generalized austerity maintains Europe in recession.
- Peoples refuse an Europe which imposes austerity and unpopular reforms.
- Among MS, external imbalances are getting smaller, but differences in terms of growth and unemployment are growing.

EU strategies after the crisis

- In 2011 a first 'European semester' was introduced, during which MS present their fiscal plans and structural programs to the Commission and the European Council, who both give their opinion before the vote in the National Parliament in the second semester of the year.
- Such a process could be useful if the objective was to define an agreed economic strategy, but, actually this semester increases the pressure on each MS to implement austerity measures and liberal reforms.
- No agreed plans to reduce imbalances between MS or to support growth have been implemented.

EU strategies after the crisis

- In 2014, the priorities are:

1. Pursuing differentiated, growth-friendly fiscal consolidation
2. Restoring bank lending to the economy
3. Promoting growth and competitiveness for today and tomorrow
4. Tackling unemployment and the social consequences of the crisis
5. Modernising public administration

- The 2014 report writes: “To stimulate job creation, action should be taken to reduce the tax wedge on labour, in particular for low paid workers and young workers; to make sure that wage developments should be in line with productivity and thus supportive of both cost competitiveness and aggregate demand; continue to modernise employment protection legislation to remedy persistent labour market segmentation and to reinforce the fight against undeclared work”.

EU strategies after the crisis

- The Commission monitors excessive macroeconomic imbalances by following a scoreboard of a set of indicators (external deficit, competitiveness, public and private debts, unemployment rate).
- An excessive imbalance procedure (EIP) could be launched. Recommendations will be sent to countries experiencing such imbalances. Fines could be decided. But the thresholds are arbitrary. But there is no indication that the Commission will promote a coordinated strategy.
- In 2014, the Commission points out that :

1. External deficit increased in FR and UK ; external surplus was too high in DE,LU and NL..
2. Net external position is too negative for IE, EL, ES, CY,PT.
3. Only LU saw an excessive growth of its Nominal ULC.
4. The fall of export market shares is important for CY,IT and FI
5. Private debts are too important for most MS, but credit expansion are too low.
6. Public debt are too high for most MS.
7. Unemployment rates are too high for EE,IE;EL,ES, LV, LT, PT,SK.

So what ?

EU strategies after the crisis

- As concerns nominal ULC, they should not increase by more than 9% in 3 years.

In 2012, the 3y change was 3% for DE, IT and NL ; 4.1% for FR and AUT ; 5% for FI ; but -10.4 for IE ; -8.1 for EL ; -5.3 for PT ; -5.6 for ES.

There is not minimum threshold.

- The Commission recommends a moderation of minimum wage to France and Slovenia ; it imposes it to Greece, Ireland and Portugal.
- The Commission recommends decentralisation of collective bargaining to Belgium, Italy, Spain ; it imposes it to Greece and Portugal.
- The Commission recommends abolition of wage indexation to Belgium and Luxembourg.

EU strategies after the crisis

- Led by Germany, the European Council of 11 March 2011 adopted a **Competitiveness or Euro Plus Pact**. At the beginning of each year, MS must make specific commitments to their peers and to the Commission
- Each countries should follow the same strategy. But a common strategy should promote growth and cooperation in Europe. The opposite of the strategy of competitiveness Pact, which requires salaries to each country to make efforts to attract capital by being the least demanding in terms of wages and social benefits.
- Each country must commit itself to strengthen its competitiveness or to introduce liberal reforms.
- Countries must improve their competitiveness by monitoring changes in unit costs of labour, they must review the indexation of wages on prices (it is not written that wages should follow the productivity growth and that a catch-up should be carried out in Germany or Austria, where wages have increased less than productivity)
- The promotion of employment passed through reforms of the labour market reforms, by enhancing the attraction of the job, not by macroeconomic or industrial policy.
- This agreement allows European institutions to intervene directly in two areas that were previously national prerogatives: social protection and wage bargaining.

EU strategies after the crisis: Fiscal austerity

- In 2012, the output gap remained significantly negative in all euro area countries. At the euro area level, the estimates vary currently from -2.2% according to the Commission, to -3.7% for the OECD and -10% for OFCE.
- At the beginning of 2013, the Commission estimates euro area potential GDP to have grown by around 0.5% per year since 2009 . Such estimates suggest that Europe has no other choice but accept weak growth and high unemployment.
- Under the pressure of financial markets, of the European Commission (and of the Troika as concerns Greece, Ireland, and Portugal), all euro area MS have implemented fiscal consolidation policies starting either from 2010 or 2011. these policies amount on average to around 1.7% of GDP in 2011, 2.0% in 2012 and 1.1% in 2013
- The cumulated negative GDP impact would reach 8 percentage points for the euro area. The *ex ante* favourable impact of restrictive fiscal policies on public balances would be strongly reduced by this depressive effect. The public debt-to-GDP ratio would decrease in many countries, due to the strong fall in output.
- The austerity policy stopped the growth revival in 2011 and engaged the Eurozone in 3 no-growth years.

EU strategies after the crisis: Fiscal federalism

- The proposals made by the Commission in November 2012 in **A blue print for a deep and genuine monetary and economic union** suggest new steps towards federalism.
- In particular, the EMU could be entitled to support structural reforms, i.e. to have a "**convergence and competitiveness instrument**". A country could sign an agreement with the Commission, according to which it would implement structural reforms (concerning, according to the Commission, the performance of labour and products markets, the efficiency of the public sector, employment and social inclusion, ...) and would therefore get a financial reward from other MS. But can we imagine that a country would get subsidies in order to abolish its minimum wage, or its public pensions system? Can we imagine that France would have to pay to subsidise the implementation of such measures in Spain or in Italy? Can we even imagine a country to agree to finance vocational training or education programmes in another MS ?

EU strategies after the crisis: Fiscal federalism

- Since the Fiscal Pact prevents MS to implement stabilisation fiscal policies, some economists and the Commission have proposed to **implement a system of transfers between MS** to ensure that countries in good economic situation finance the MS in depression.
- In the spirit of these promoters, this system should avoid permanent transfers, each country should alternatively be paying or receiving transfer.
- Some propose to base these transfers on output gap differentials forgetting that it is a vague concept, with a questionable and variable over time measurement:
- Some propose the unification of unemployment allowance systems, since they are pro-cyclical public expenditure, but national systems are currently very diverse and are often managed by social partners. The unemployment concept should be standardised (what about vocational training, disability pensions, or early retirement beneficiaries?). A country having made efforts to reduce its unemployment rate will refuse to pay for high unemployment rates countries, and will blame the latter for not having undertaken the necessary reforms.
- Others propose transfers between countries based on differences in unemployment rates levels or variations: this raises the same problems.
- The proposed transfers are generally of small size and vanish if depression is widespread.
- According to us, MS do no need fiscal federalism, but they need to regain full freedom to undertake stabilization fiscal policies.

EU strategies after the crisis: Financial solidarity

- Financial solidarity has increased progressively since the beginning of the crisis, despite the reluctance of Northern economies, especially of Germany. However, solidarity remains conditional and limited. In 2013, three mechanisms are in place.

- **The European Stability mechanism** (ESM) introduces some degree of financial solidarity between the MS, but this solidarity is limited and has a very high price. Countries may benefit from the ESM if they have adopted the Fiscal pact and have fulfilled it. The ESM support will be conditional: a country needs to commit to fulfil a drastic fiscal adjustment programme imposed by the Troika, and will therefore lose all domestic fiscal autonomy and have to accept a long austerity period. The Greek example shows that this type of plan is not the way out of the crisis.

EU strategies after the crisis: Financial solidarity

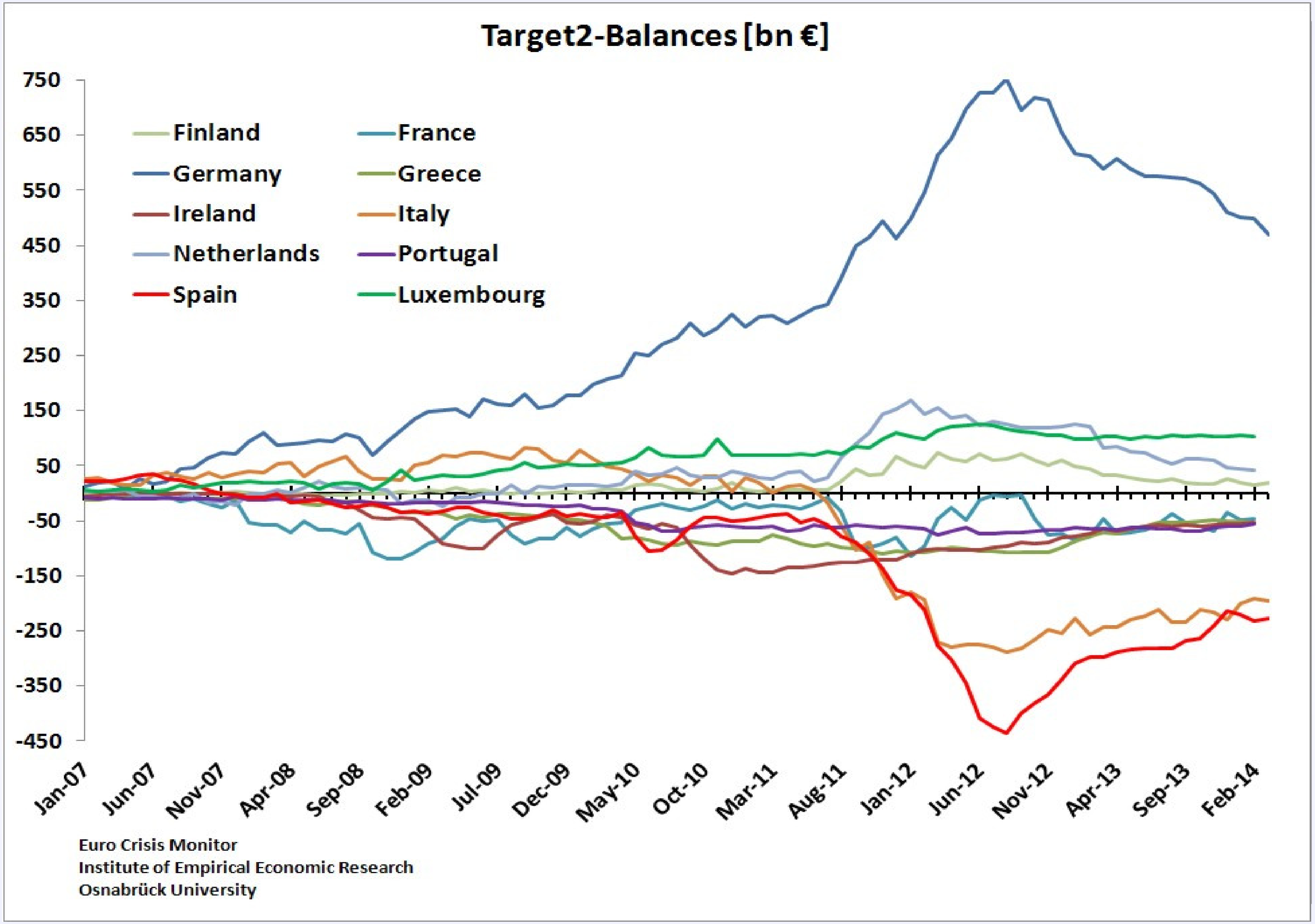
- On 6 September 2012, the ECB announced a purchasing bonds programme on the secondary markets, for short-term bonds (1-3 years), the so-called OMT (outright monetary transactions). ECB interventions will be subject to strict conditionality. Countries will have to agree on an adjustment programme with the Commission and to make commitments in terms of fiscal consolidation and structural reforms.
- In putting no ceiling to its interventions, the ECB reassured markets on default risks in the concerned countries, on the risks of a euro area break-up. The ECB broke the spiral of self-fulfilling expectations, so that finally it did not have to intervene.
- Spreads between MS public debt remain but were dramatically reduced. Lower interest rates can help to boost activity.

10-year government interest rates

	February 2012	February 2013	May 2013	September 2013	March 2014
Greece	40.8	11.1	9.6	10.5	6.3
Portugal	12.3	6.9	5.5	6.7	4.0
Spain	5.05	5.15	4.2	4.45	3.2
Italy	5.5	4.45	3.9	4.35	3.3
Ireland	7.8	3.1	3.45	4.15	2.95
Belgium	3.65	2.3	2.05	2.8	2.15
France	2.95	2.2	1.85	2.5	2.0
UK	2.1	2.1	1.9	2.8	2.6
Sweden	1.8	2.0	1.8	2.5	2.0
USA	2.0	1.95	1.85	2.8	2.6
Austria	2.85	1.9	1.7	2.35	1.75
Netherlands	2.2	1.8	1.6	2.3	1.85
Finland	2.3	1.8	1.5	2.2	1.8
Germany	1.9	1.6	1.35	1.9	1.5
Japan	1.0	0.7	0.6	0.75	0.6

EU strategies after the crisis : Financial solidarity

- In practice transfers between euro area banks are done through **the Target 2 system** balances. If a country runs a current account deficit which is not financed by capital inflows, or if it suffers from capital flights, its banks will have an imbalance which they will be able to finance through borrowing from the ESCB. Conversely, countries running surpluses become lenders to the ESCB.
- However, this system does not work directly for public debts, since governments have the obligation to issue debt on markets, and at markets' conditions.
- This mechanism guarantees automatic financing of national banking systems; questioning it more or less significantly would make the euro fragile, either through introducing debt ceilings by country or higher refinancing interest rates for banks in some countries. This mechanism compensates money transfers between banks of different countries inside the area.
- This mechanism leads countries running surpluses to use their surpluses for not very productive purposes, while Northern countries could use their surpluses to finance foreign direct investment, or to lend to Southern euro area countries or countries outside the euro area. It is their choice not to do so.
- The German or Dutch paradox is that these countries want to accumulate assets to finance their pensions tomorrow but these assets are not invested in productive activities (in their country or abroad), but in monetary assets in fragile States.


Target2-Balances [bn €]
750
650
550
450
350
250
150
50
-50
-150
-250
-350
-450
Finland
France
Germany
Greece
Ireland
Italy
Netherlands
Portugal
Spain
Luxembourg
Jan-07
Jun-07
Nov-07
Apr-08
Sep-08
Feb-09
Jul-09
Dec-09
May-10
Oct-10
Mar-11
Aug-11
Jan-12
Jun-12
Nov-12
Apr-13
Sep-13
Feb-14
Euro Crisis Monitor
Institute of Empirical Economic Research
Osnabrück University

After the crisis

- The European strategy should have included measures to support activity and measures to reduce the disparities between countries.
- As the readjustment of exchange rates was not possible, the Northern countries should have undertaken wages, social and tax reevaluation measures while the Southern countries should have undertaken wages, social and tax devaluation.
- As EU institutions and Northern MS refused to organize a coordinated strategy, the adjustment fell on the Southern MS.
- Due to prices rigidity, wages, social and tax devaluations are more painful than an exchange rate devaluation. A large part of the effort is used to increase the firms (and specially exporters) margins.
- To gain again competitiveness is difficult in a depressive situation.

After the crisis

- One could have expected that market forces facilitate the adjustment: for instance, wages increase in the low-unemployment MS and decrease in the high-unemployment MS.
- But market forces can increase imbalances: high unemployment leads to low wages, low consumption and higher unemployment; low wages evolution leads to deflation, which means high real interest rates and indebtedness ; public debt leads to high interest rate, low growth and higher public debt ; exchange rate appreciation can offset the effects of wages restrictions or fiscal devaluation.

After the crisis

- Domestic demands remain low (-2.2 % in the Euro zone in 2012,-0.9% in 2013), even if it is more strong in Germany (-0.3 and 0.7). External balance contributions was positive for Spain, Greece, Portugal.
- Current accounts remain strongly positive for Germany and the Netherlands. Only France has a deficit. The overall surplus induced euro appreciation. The answer is not an euro depreciation but an expansion of domestic demand.
- Southern MS (Greece excepted) have good export performances. Their cost-competitiveness improve. But the process is slow and costly as wage growth remain low in Germany, Austria and The Netherlands.
- The discrepancy Germany/France-Italy remains.
- In the beginning of 2014, deflation is menacing in many MS (Cyprus, Greece, Portugal, Ireland, Spain, Italy)

GDP and domestic demand 2007-2012

	GDP	Domestic demand	External balance contribution
Euro area	**-0.3**	**-0.75**	**0.4**
Belgium	0.4	0.6	-0.2
Germany	0.75	0.75	0.0
Greece	-4.5	-6.4	1.9
Spain	-1.0	-2.8	1.8
France	0.1	0.1	0.0
Ireland	-1.5	-4.8	3.3
Italy	-1.4	-1.9	0.5
Netherlands	-0.15	-0.35	0.2
Austria	0.6	0.6	0.0
Portugal	-1.1	-2.5	1.4
Finland	-0.7	0.1	-0.8
Denmark	*-0.9*	*-1.2*	0.3
Sweden	*0.9*	*1.0*	-0.1
UK	*-0.6*	*-0.9*	0.3
Japan	*-0.25*	*0.4*	*-0.65*
US	*0.8*	*0.1*	*0.7*

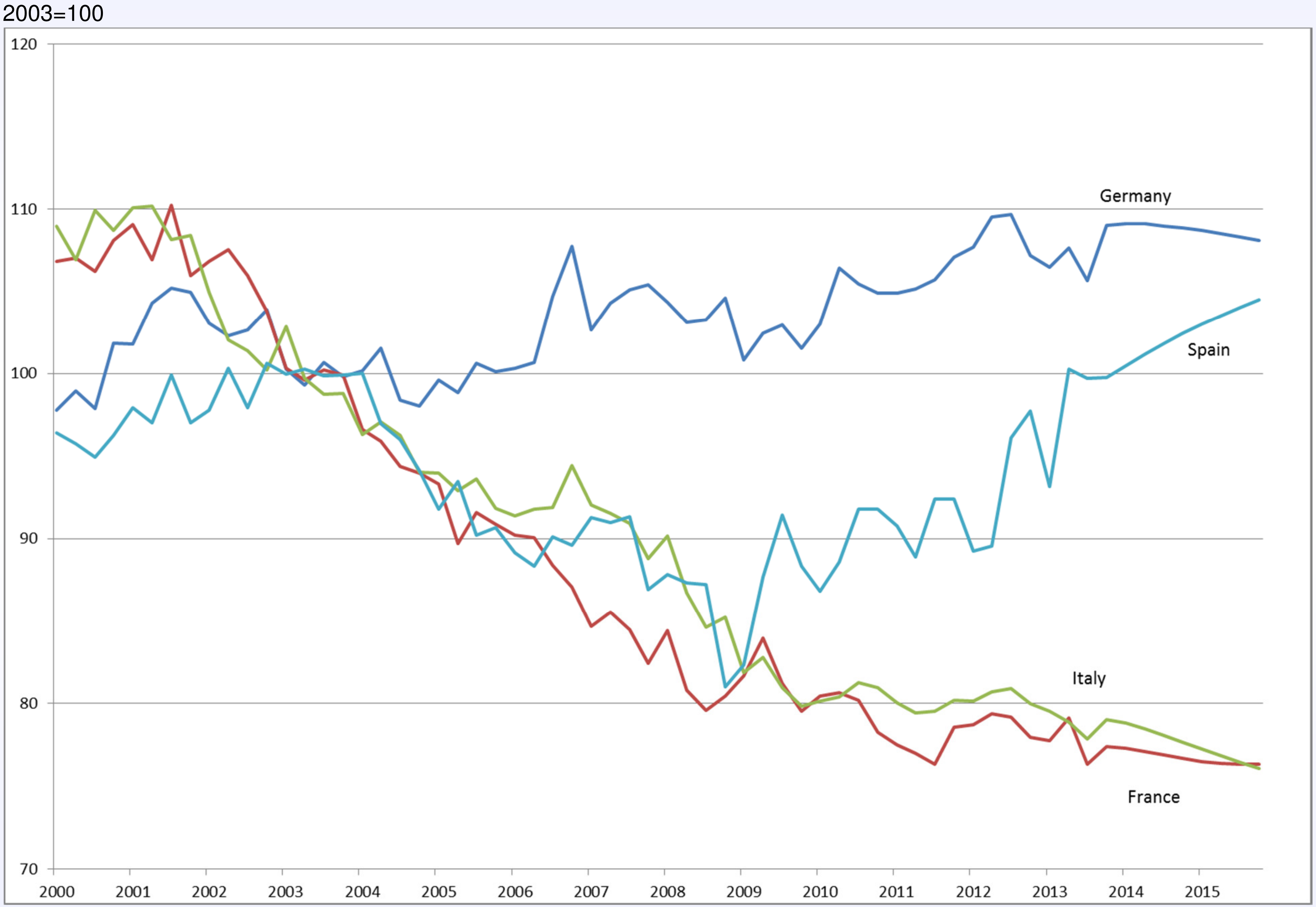
Current Account Balance

	1997	2007	2013
Sweden	*4.1*	*9.2*	*6.2*
Germany	-0.4	7.5	7.0
Netherlands	6.6	6.7	9.2
Japan	*2.2*	*4.8*	*0.7*
Finland	5.2	4.1	-0.2
Austria	-2.5	3.5	2.9
Belgium	6.5	1.8	-0.1
Denmark	0.4	1.4	7.0
Euro Area	*1.4*	*0.2*	*2.2*
France	2.6	-1.0	-1.9
UK	*-0.1*	*-2.3*	*-3.8*
Italy	2.7	-2.4	0.9
USA	*-1.7*	*-5.1*	*-2.3*
Ireland	2.4	-5.4	7.0
Spain	-0.1	-10.0	1.1
Portugal	-5.9	-10.1	0.4
Greece	-3.9	-14.6	-2.3

Export performance (2009-13)

Euro area	**2.1**
Belgium	2.1
Germany	6.5
Greece	-20.5
Spain	6.2
France	-1.4
Ireland	4.0
Italy	-6.7
Netherlands	6.0
Austria	-4.7
Portugal	12.7
Finland	-22.0
UK	*-2.8*
US	**1.2**

Export market shares (trade in goods)



Source : OFCE

Inflation

	Inflation (GDP deflator) 2007-2013
Euro area	**1.25**
Belgium	1.8
Germany	1.3
Greece	1.0
Spain	0.5
France	1.35
Ireland	-1.1
Italy	1.55
Netherlands	1.2
Austria	1.7
Portugal	0.8
Finland	2.2
UK	*2.4*
US	**1.5**

Adjusted wage share in GDP, 2013/2008

	Change in percentage point, 2013-2008
Euro area	**2.2**
Belgium	3.2
Germany	3.2
Greece	-6.4
Spain	-2.3
France	2.9
Ireland	-0.8
Italy	2.1
Netherlands	2.4
Austria	3.5
Portugal	-2.9
Finland	7.4
Denmark	*-1.9*
Sweden	*3.0*
UK	*2.4*
Japan	*-1.1*
US	-2.7

Productivity and real wage evolution (2013/2007)

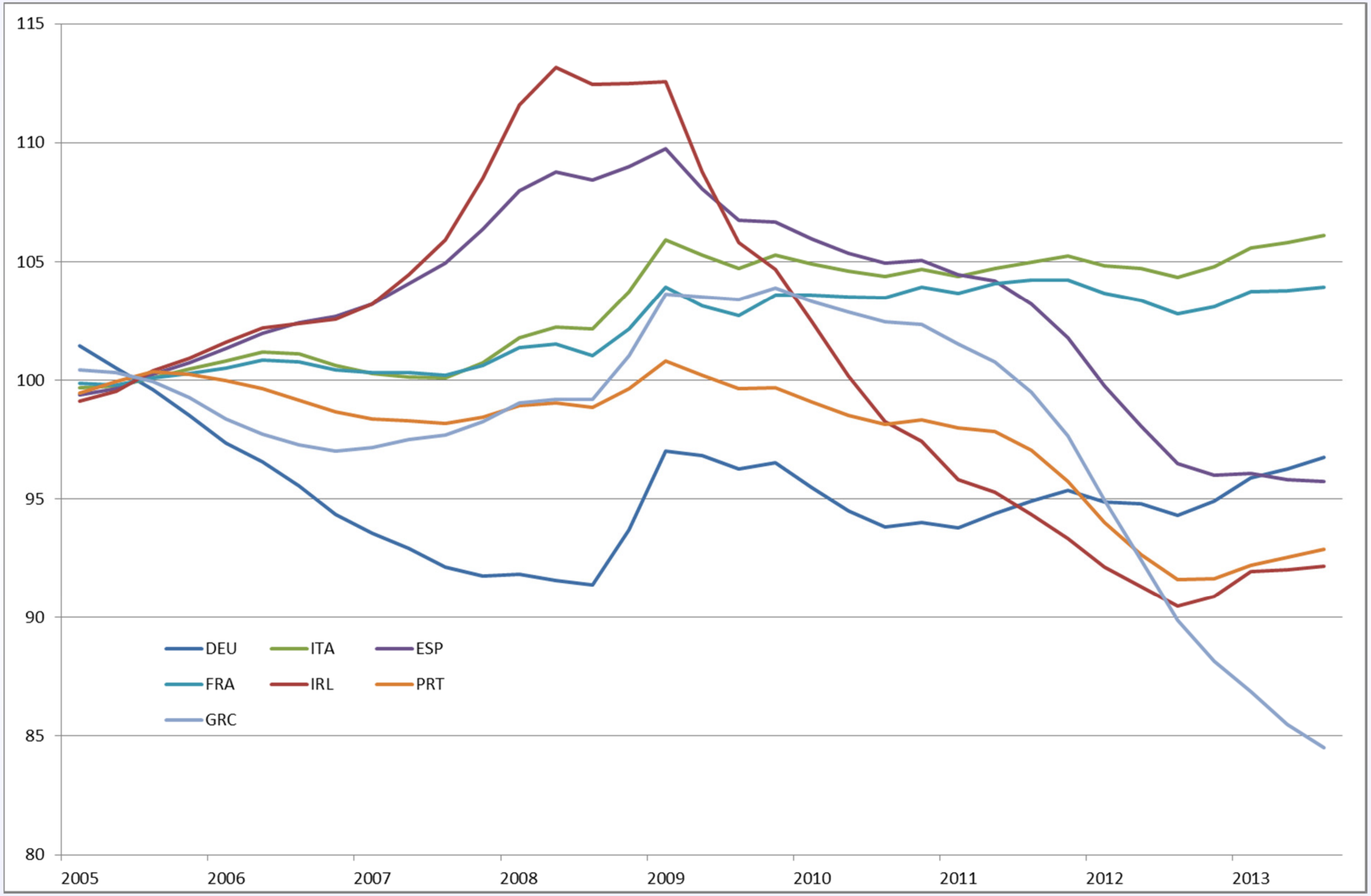
	Wage	Productivity	Unemployment rate (2013)
Euro area	0.9	**0.3**	12.1
Belgium	0.7	-0.2	8.4
Germany	0.7	-0.15	5.3
Greece	-2.8	-1.0	27.3
Spain	1.1	2.2	26.4
France	0.9	0.3	10.8
Ireland	1.1	1.0	13.1
Italy	0.4	-0.3	12.2
Netherlands	0.6	-0.1	7.4
Austria	0.7	-0.15	4.9
Portugal	0.5	1.0	16.5
Finland	0.7	-1.0	8.2
Denmark	0.0	*0.0*	7.0
Sweden	0.6	*0.35*	8.0
UK	-0.2	*-0.5*	7.4
Japan	0.7	0.4	4.0
US	0.85	-1.5	7.4

Nominal unit labour cost (annual average growth)

	98/07	07/13
Euro area	1.5	**1.8**
Belgium	1.6	2.7
Germany	-0.1	2.2
Greece	2.6	-1.0
Spain	3.0	0.0
France	1.8	2.0
Ireland	3.5	-0.9
Italy	2.3	2.3
Netherlands	2.1	1.9
Austria	0.5	2.5
Portugal	2.7	0.4
Finland	2.4	3.9
Denmark	*2.45*	*2.3*
Sweden	*1.4*	*1.8*
UK	*2.35*	*2.7*
US	2.0	0.8

Cost-competitiveness

2003=100



Source : European Commission

When France tries to follow Germany

- Germany appears now as a model for French politicians. The issue is : what are the causes of the German success and what can France copies.
- It is difficult to copy the excellence of the Germans in the industrial sector, their reputation in the capital goods sector, the qualities of their social relations.
- Many economists or politicians estimated that France should copy the German taxation system or should reduce its public spending.
- But France has nuclear weapons ; France has more children than Germany ; the relative level of pensions is higher.

When France tries to follow Germany

- In comparison with its EU partners, and in particular Germany, France has four characteristics:
- Two taxes on incomes (IR and CSG), but their total amount is relatively low. Conversely, the property tax is relatively heavy.
- Employers' contributions are high; employee contributions are relatively low.
- Business taxation is relatively heavy
- Capital taxation is relatively high, while consumption taxation is rather low.
- Of course, there is no reason why bringing French taxation in line with our EU partners (especially Germany) should be the norm. It is normal that social contributions are high in a country where social insurance benefits are high. The high level of employers' contributions is partly offset by the level of net wages.
- However, these figures would suggest that France should increase the weight of its income tax, suppress the taxation of households capital and its VAT and should reduce employers' social contributions, in other words implement a tax competition strategy, which is questionable.

Taxation Structure

In % of GDP

	Germany	France
Total	37.3	42.4
Personal income	9.4	7.0
Corporate income	1.3	1.5
Employees' social contributions	6.3	4.1
Employers' social contributions	6.8	11.3
Others' social contributions	1.4	1.3
Wage taxes	-	1.3
VAT and others indirect taxes	11.1	10.6
Business tax	-	1.5
Taxes on capital	0.9	3.4
Household local tax		1.1
Household property tax	0.2	0.7
Firm property tax	0.3	0.6
Wealth tax	-	0.2
Inheritance/donations	0.2	0.4
Transactions	0.2	0.4

Source: OCDE, Public Revenues Statistics, 2011.

Public expenditure per function in 2010, GDP percentage points

	France	Germany	Euro zone	UK	USA
General Service	4,1	3,6	4,0	2,3	1,3
Interest charge	2,4	2,5	2,8	3,0	3,7
Defence	2,1	1,1	1,4	2,7	5,1
Public order	1,7	1,6	1,8	2,6	2,3
Economic Affairs	3,4	4,8	4,9	3,1	4,1
Total	14,1	13,6	14,9	13,9	16,7
Environment	1,0	0,7	0,9	1,0	0,0
Housing, collective amenities	1,9	0,6	1,0	0,8	1,0
Culture	1,5	0,8	1,2	1,1	0,3
Health	8,0	7,2	7,5	8,2	8,9
Education	6,0	4,3	5,1	7,0	6,5
Social protection	24,2	20,6	20,6	17,9	9,2
Total	56,6	47,8	51,0	50,3	42,5

Source : OCDE.

Employment policy

- In mid-2013, the French unemployment rate reached 10.6% against 5.3% for Germany .
- France's potential labour force grows by 0.6%. As firms have implemented labour hoarding due to the 2008-12 crisis, output needs to grow by around 2.4 % per year to bring in 10 years the unemployment rate down to 7%.
- President Hollande aims is to reform labour market functioning, through social dialogue between trade unions and employers. The challenge is that France abandons a State-led model to move towards a social democratic model (with peaceful relations between trade unions and employers, with mutually beneficial agreement) rather than towards the liberal model (where the role of unions is denied). But can this succeed in times of rising unemployment, when firms want more flexibility in terms of layoffs, work organisation and working hours, wages and trade unions want more security and more control on layoffs?

Employment policy

- In January 2013, the employers' organisation (the Medef) and three (out of five) employees' trade-unions signed an agreement, the ANI (*inter-professional national agreement),* which will facilitate lay-offs, internal flexibility and agreements between workers and employers cutting working hours and wages to maintain jobs in case of firms' difficulties.
- In exchange, the agreement discourages part-time jobs with very few hours and generalises complementary health insurances for salaries.
- For many economists, companies will hire more easily since they will be no longer paralyzed by the fear of not being able to lay off. For us, there is a risk to increase the precariousness of employment.
- Nevertheless, both the socialist government and the trade unions involved in the deal seem to accept the liberal view according to which the unemployment level in France is due to labour market rigidities and not to macroeconomic disequilibria.

An ambitious industrial policy?

- The France suffered since 10 years of a widening of its trade deficit, induced by its industrial deficit.
- The debate on the causes of this degradation oppose four point of view:

1. competition from low-wage countries destroyed our traditional industries. Firms are encouraged to locate their activities in emerging countries, both for reasons of cost and markets. The euro is overvalued.
2. France, as the countries of the South of Europe, is a victim of the competitiveness Germany strategy.
3. France is penalized by a poor competitiveness, which comes primarily from the high level of its employers social contributions
4. France lacks industrial dynamism; France has not been able to compensate for losses in traditional industries by gain in the higher-end industries. Its firms are not enough profitable and cannot therefore make efforts for the necessary adaptations. They also suffer from an excess of regulations, in particular from the working regulation. The taxation of firm, managers and and the high wages salaries is too heavy.

An ambitious industrial policy?

- François Hollande's programme was insisting on the need to 'relaunch production, employment and growth'.
- The new government includes a ministry for 'Productive Revival' (*Ministère du redressement productif*) which has settled delegates in each region in order to help companies in difficulty. The BPI, Investment Public Bank, is designed to finance innovative companies. The Minister wishes to re-value the 'made in France', to make clear that France produces high quality and friendly-environmental products, to develop economic 'patriotism' and to push households to buy French products.
- At the EU level, France would try to make the role of the DG Competition and of the Competitiveness Council to evolve and to implement an industrial policy, allowing public aid to innovating firms or to sectors in difficulty; fighting unfair competition; implementing a protecting trade policy and reciprocity agreements on social and environmental areas and on climate-energy taxation, organizing a decrease in the euro *vis-à-vis* the dollar and the Yuan.

An ambitious industrial policy?

- Thus the French strategy would involve a substantial public role. The government would chose the sectors to be protected and the sectors to develop. These sectors would receive support in terms of taxation, specific aid (investment, innovation), of own funds and credits by the IPB.
- The productive revival would be piloted by the ministry, the IPB, regions, social partners, by “competitiveness cluster”, “sectorial committee” and not only by firms’ managers or owners.
- The government should guide industry development towards green and innovative products and production.
- Can such a strategy be implemented today? Can it be consistent with EU constraints, with the functioning of a capitalist system? Will the strategy succeed to mobilize workers in concerned companies, civil servants in concerned ministries, bankers in the IPB, regions, firm’s managers to impulse a new growth model?
- Until now, France continues to suffer month after month of factories closures (about 270 in 2012) : Florange (Arcelor-Mittal), Aulnay (Citroën), Goodyear, Doux (Brittany), Nantes (Seita), etc.

A competitiveness shock?

- In view of the deterioration of French industrial performance, many (among them the MEDEF, the employers' association, and also the CFDT, a reformist employees' trade union) advocate a competitiveness shock.
- The plan is to cut employers' contributions by at least 30 billion euro (1.5 percentage point of GDP), and to rise in counterpart households' taxation, via VAT or CSG (a flat social contribution on all personal incomes).
- In February 2012, the former government had decided such a measure at a limited scale (cutting employers' contributions by 13 billion,). The measure was to be introduced by October 1st 2012.
- The current government abolished this measure. But he requested Louis Gallois, former head of EADS, who had expressed his opinion in favour of the competitiveness shock to prepare a report on this topic.

A competitiveness shock?

- There was a debate between increasing CSG or VAT.
- However, a rise in VAT induces a rise in inflation which has an automatic impact on the minimum wage (SMIC), on social benefits, as they are fully price-indexed and, after wage bargaining, on other wages, which imply that the gain in terms of companies’ competitiveness/profitability may be short lived.
- On the contrary, the victims of a rise in CSG would not benefit from indexation rules and would have to accept lower purchasing power.
- The main issue is to know if firms are going to respond by keeping their prices unchanged in order to rebuild their margins, which would entail a substantial loss in French households’ purchasing power by reducing their prices in order to gain competitiveness.

A competitiveness shock?

- The philosophy of the 'competitiveness shock' is that households accept a strong fall in purchasing power to improve the firms competitiveness even if consumption was already stagnant and even if France firms need more demand.
- Should France follow the German strategy: winning competitiveness at the expense of households' purchasing power, knowing that this strategy would be catastrophic at the euro area level ? Of course, this kind of measures comes in replacement to devaluation which has become impossible in the monetary union.
- But it is harmful for euro area partners (who would respond in proceeding like France), and there is no certainty that there will be competitiveness gains vis-à-vis non-euro area countries, as they depend mainly on the euro exchange rate developments. It cannot be a substitute to a reform of economic policy in the euro area.

A competitiveness shock?

- In 2012, France was in an intermediate position between Northern countries which have gained substantial competitiveness gains at the expense of domestic households' purchasing power; and Southern countries, where wage growth have been too rapid.
- In 2000, the wage share in value added stood at 66.8% in Germany, 66.9% in France, 65.5% in the euro area as a whole. In 2007, it had decreased to 61.2% in Germany (-5.6 percentage point), 62.8% in the euro area (-2.7 percentage point), 65.7 in France (-1.2 percentage point). Should workers compete in Europe to agree on a lower wage share?
- On a 2000 basis=100, the real wage level was in 2011 at 97.9 in Germany, 111.2 in France (i.e. +1% per year, the trend growth rate of productivity). Who is wrong?

A competitiveness shock?

- The gross operation surplus share in company value added stood at 29.6% in 1973. It fell to 23.1% in 1982, and then increased to 30.8% in 1987. It stood at 30.8% in 2006, a satisfactory level.
- The fall since 2007 is due to the output fall and labour hoarding, which in principle is a temporary phenomenon. It was not caused by higher taxation, or excessive wage increases. It must be cured by a growth shock.
- The profit share came back to a satisfactory level in 2012. The problem is that investment was similar in terms of size to profits in 1973; while it is now 4 percentage points of value added below.
- Which companies will commit to, in terms of investment and jobs in France, in exchange of a measure that would substantially increase their profits? How to avoid that they raise their dividends or investment abroad?

French companies: Ratios to Value Added (en %)

	1972	1982	1992	2002	2006	2012
Wages	71,2	74,9	66,5	66,0	65,6	67,7
In which: Employers contributions	16,7	19,4	18,2	16,4	16,0	16,7
Net Production taxes	0,3	1,9	2,7	3,8	3,6	3,9
Margin	28,6	23,1	30,8	30,2	30,8	28,4
Interest charge	5,2	8,0	6,6	1,2	1,9	2,1
Net Dividends	4,1	3,1	3,8	7,3	6,9	7,9
Net CIT	1,7	1,4	0,5	2,6	3,8	2,0
Others	3,8	3,5	2,5	2,5	2,2	2,4
Retained profit	13,8	7,1	17,4	16,8	16,0	14,0
Investment	23,5	19,9	18,3	18,2	20,3	19,6
Net borrowing	9,7	12,8	0,9	1,4	4,3	5,6

A competitiveness shock?

- Using internal devaluation means that France suffers mainly from deficit in price-competitiveness.
- But de-industrialisation probably has other deeper roots.
- Firms prefer to expand their activities in emerging countries,
- Young people refuse to start their careers in industry because it is not sure that the French industry has a future and because wages are too low.
- France succeeds neither to protect its traditional industries, nor to develop in innovating sectors, the financial sector prefers speculation to financing production and innovation, etc.
- This would not be solved by devaluation.
- France needs an industrial rebound, which has already started with competitiveness clusters, R&D tax credit, which should be financed by the IPB, the capacities of which should be increased and the intervention criteria more precisely defined.

An ambiguous strategy

- Despite these challenges, the government decided, on November 2012, to undertake competitive real devaluation.
- From 2014, firms will benefit from a tax credit for competitiveness and employment (CICE) of €20 billion, calculated as 6 percent of their wage bill for wages between 1 and 2.5 times the minimum wage.
- These €20 billion will be financed by €7 billion from a VAT rise, by €3 billion from an increase in ecological taxation in 2016, by €10 billion from additional cuts in public expenditure;.
- This tax credit is not subject to any condition, but companies will have to establish a report showing that these tax credits were used for investment, employment or R&D.
- These €20 billion amount to a mere 2.5% cut in total wage costs; only one-third will benefit to the industry. The impact is low for exporting firms due to the 2.5 ceiling.

An ambiguous strategy

- The "responsibility Pact" announced in January 2014 by François Holland provides a further reduction in the contributions employers for 10 billion euro, half on low-wage, half on wages below 3.5 times the minimum wage.
- The new Prime Minister announce also tax reductions for 10 billions in 2015-17 : the CIT rate will decreased for 33.3%/38,1 to 28%..
- Not enough to the Medef, which, to consider the creation of one million jobs, want 50 billion more in tax reductions, want a reduction of work regulations, to make more easy to dismiss or to restructure, reducing the salaries consultations obligations, the removal of production norms and of markets regulations, and even a right of veto on decisions "stressing entrepreneurs".
- In total, the CICE and the "Responsibility pact" will represent 40 billion without commitment on the part of companies. Could we not use these 40 billion to finance more directly investment in the ecological transition?
- One may fear that the Government more or less abandons any active interventionist industrial strategy to promote a liberal policy, i.e. to increase firms' profit in praying that they will invest.

An ambiguous strategy

- In 2013, the French public deficit was 4.3% of GDP.
- The target for 2017 is now 1.5% of GDP.
- The government announced tax cuts: 40 billion for enterprises; 5 billion for households.
- In 2014, VAT increased by 7 billion and other households' taxes by 5 billions.
- The government announced that it will equilibrate by public spending reduction.
- If public spending cuts are 15 billions by year (-5,7% in 4 years), as announced, the deficit will remain near 3% of GDP in 2017 (if the multiplier is nil); near 3.6% (if the multiplier is 1).
- To achieve the target, public spending cuts should amount to 89 billion in 4 years (-8.4%) if the multiplier is nil, 145 billion (13.6%) if the multiplier is 1.
- It will be hard to undertake such a drastic reduction without damaging the French social model.

A social, green scenario with growth and solidarity

- Europe needs a rupture on its functioning and its aim. Europe should not try to impose austerity or liberal reforms, but to support a specific model of society, to impulse sustainable growth.

- If the rise in public debts and deficits in advanced economies is the answer to world imbalances, then one cannot reduce these deficits without handling these imbalances. The world economy would be in a better situation if countries running surpluses based their growth on domestic demand and if their capitals would take the risk of direct investment. In Anglo-Saxon economies, higher increases in wages and social incomes, lower income inequalities would mean that rise in financial bubbles, households' and public debts would be less necessary;

- MS public debt should be guaranteed by the ECB so that MS recover their monetary sovereignty. Financial markets should not be allowed to speculate on MS default. All countries must be able to finance long term at low rates, less than 2% today, lower than the nominal growth rate of the area in general.

A social, green scenario with growth and solidarity

- A coordination process needs to be implemented between countries. Coordination should target growth and full employment; it should account for all economic variables; countries should have an economic policy strategy allowing to meet an inflation objective and an wage objective.
- Countries should announce and negotiate their current account balance targets; countries with high external surpluses targets should agree to lower them or to finance explicitly industrial projects in Southern economies.
- The process should always reach a unanimous agreement on a coordinated but differentiated strategy. Public deficits resulting from this process should be financed through debt issuance guaranteed by all euro area countries and by the ECB.
- The Treaty needs to maintain an effective process in the case where no agreement is reached. In that case, the new debt issued by countries outside the agreement would not be guaranteed; but this case should never occur.

A social, green scenario with growth and solidarity

- Wage and labour cost coordination should be part of the economic coordination. Its relative wage level should allow each MS to reach a agreed external balance target with a satisfying level of employment.
- In the medium run real wages should grow in line with labour productivity.
- In the short-term adjustment processes should be implemented by countries where wages have increased too rapidly, or not sufficiently; rises or cuts in social contributions may be used to facilitate the adjustment process.
- This would avoid non-cooperative national strategy of wage, social or fiscal devaluation.
- Internal devaluation should be undertaken only by MS having specific imbalances in the framework of a coordinated strategy.

A social, green scenario with growth and solidarity

- Wage coordination is not easy to undertake as wages determination are not the same in each MS.
- MS can give guidelines, can use tax tools, can use public wages.
- There are no minimum wages in Italy, Austria, Sweden, Denmark, Finland and Cyprus. It will be introduced in Germany (from 2015 to 2017), which is a good news for Europe.
- MW represent in general 50% of the median wage, (but 62% in France, 43% en Greece). Expect in France, few workers are paid at the minimum wage.
- IAGS 2014 suggested a coordination of minimum wage evolution, but is seems difficult as MW has not the same weight in each MS and as it may distort the wage structure.
- But a coordination of the MW level (at least 50% of the national median wage) is necessary to reduce wage competition.

Conclusion

- The euro area needs to recover the 10 percentage point of GDP lost due to the crisis. The deficit in each country of the area would be sustainable if the activity losses were recovered. Give up this goal means accepting the perpetuation of mass unemployment in Europe. Instead of focusing on public deficits, the EU authorities should implement an exit strategy, based on demand: consumption, public spending and investment for the future. This strategy should involve maintaining low interest rate and public deficits, as long as they are necessary to support output.

- The euro zone must reduce its imbalances in a coordinated manner: surplus countries must pursue expansionary policies - higher wages, social spending ... - to offset the restrictive policies of the South, which should be strongly reduced. A broad European fund, financed by subscription from the public -at low but secured interest rate- moving towards ecological conversion of the European economy and the re-industrialization of the South.

- The euro area's survival implies that the European project becomes again popular, thus enabling growth, social progress and solidarity. Only then could e institutional progress be made.

Thank you for your attention.

Vielen Dank!

Merci!