



IPE Berlin  
Institute for International  
Political Economy Berlin



Hochschule für  
Wirtschaft und Recht Berlin  
Berlin School of Economics and Law

# Economic Stagnation and Social Polarization in the Eurozone

*Trevor Evans*  
*IIPPE Conference, Naples*  
*16 September 2014*

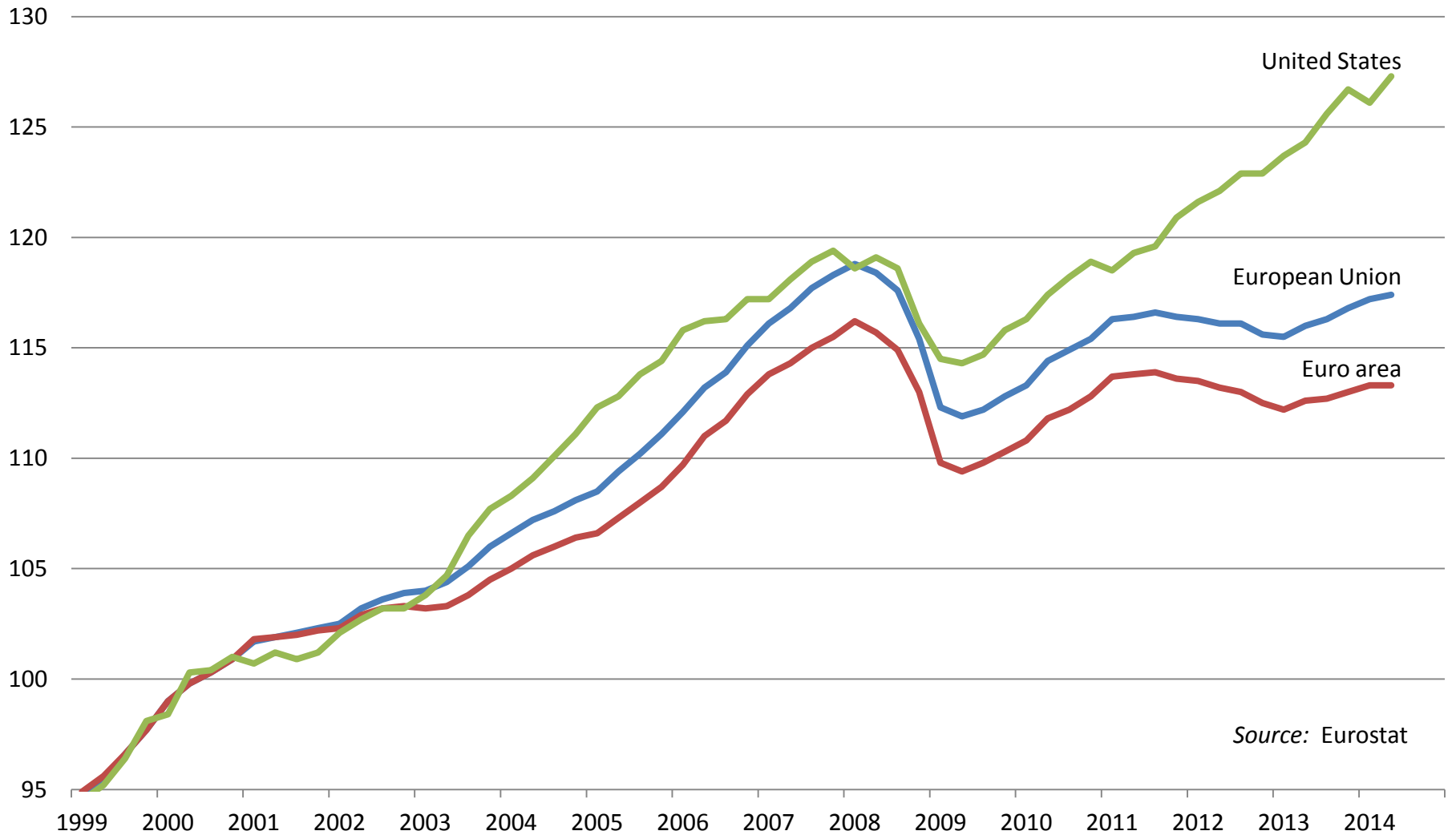
# European monetary unification

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- Introduction of euro (1999): restructuring of capital
  - Germany: labour market 'reforms', wage stagnation, expansion of exports
  - Southern Europe: lower interest rates, higher growth, expansion of imports
- BoP imbalances: Southern deficits financed by Northern banks
- Northern banks hit strongly by crisis in US (2007-2008)
- Collapse of lending to Southern countries
- Massive assault on labour and social standards
- Subordination of Euro area periphery to Euro area core

# Economic output in EU & US

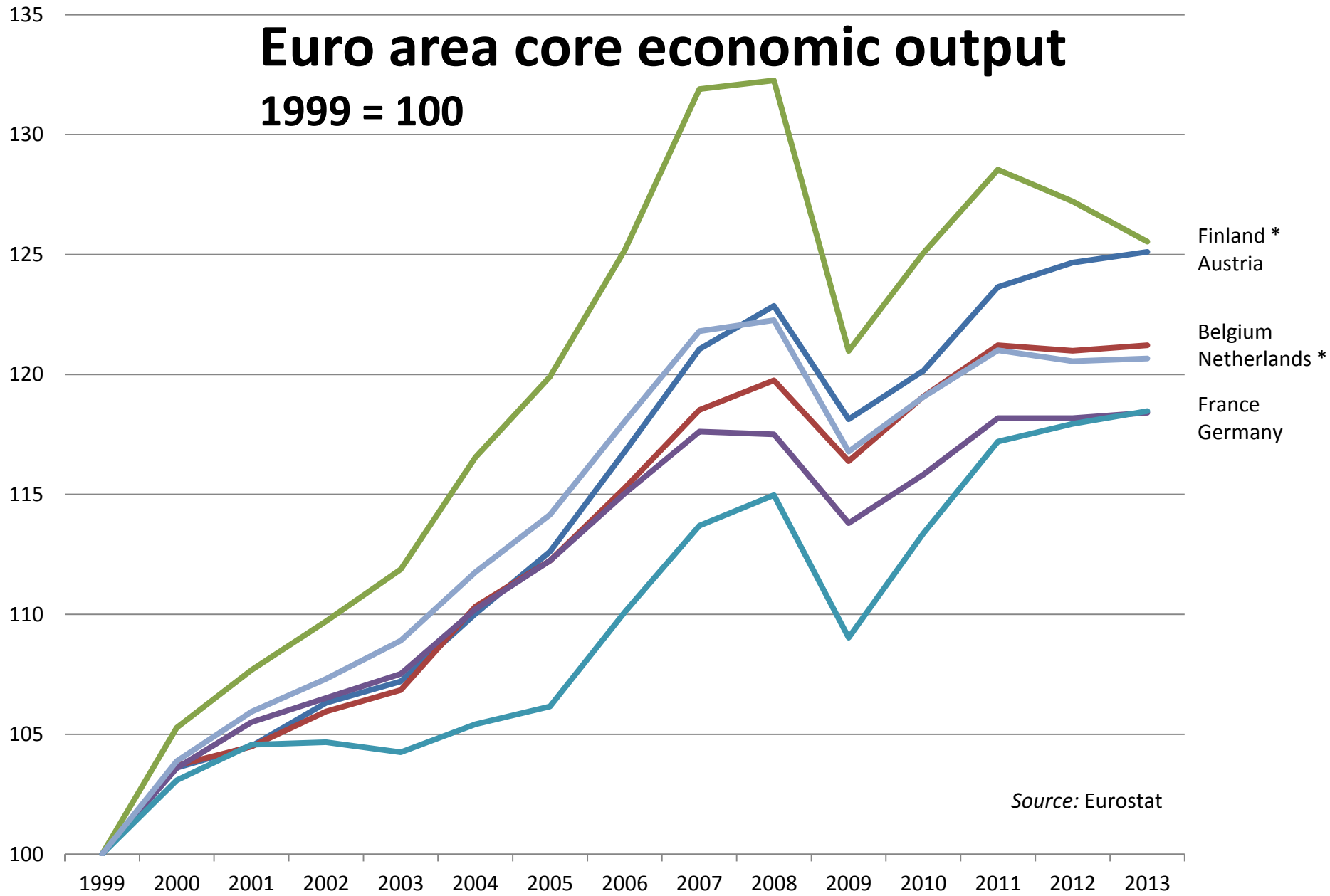
## 2000 = 100



Source: Eurostat

# Euro area core economic output

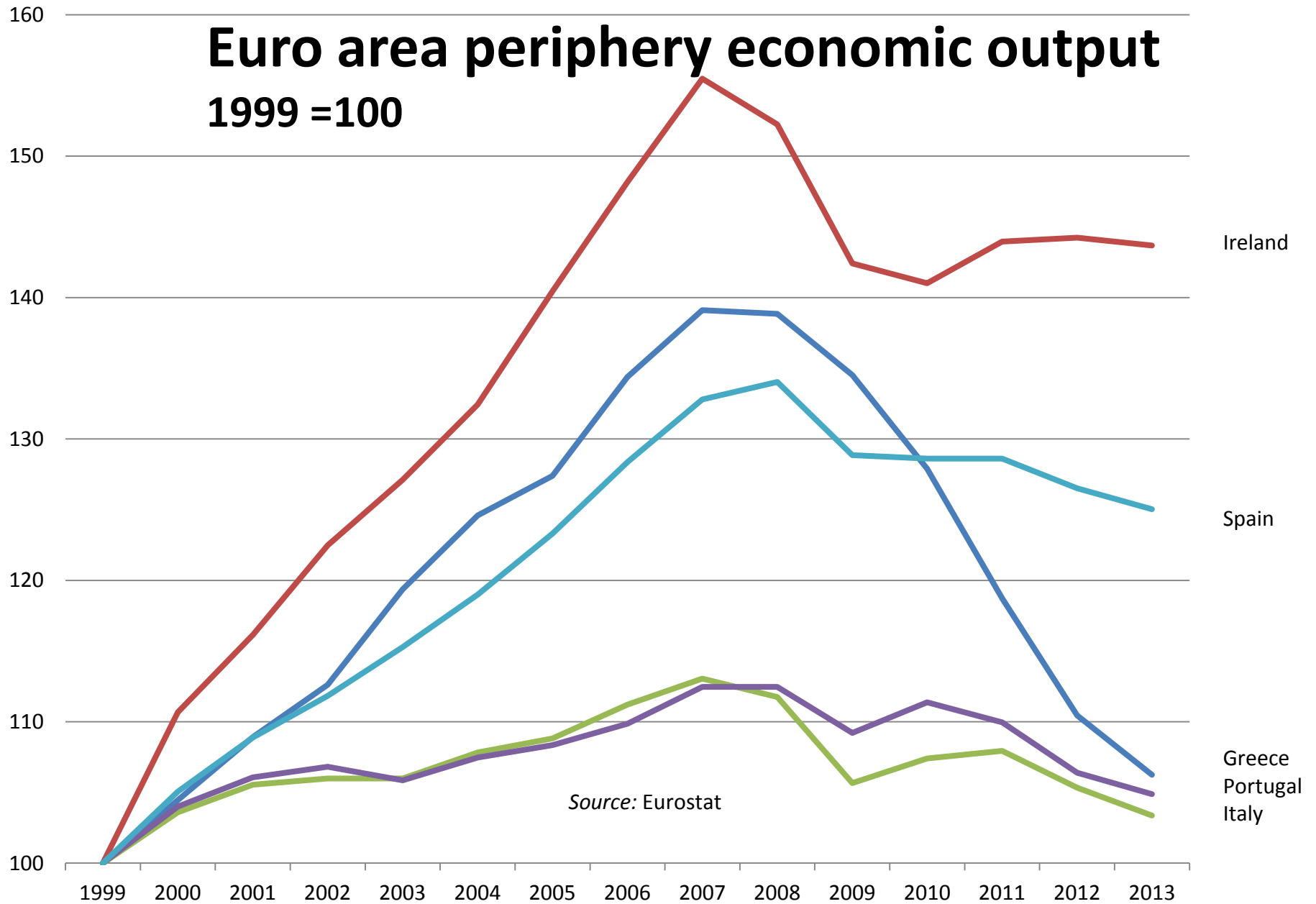
1999 = 100



Source: Eurostat

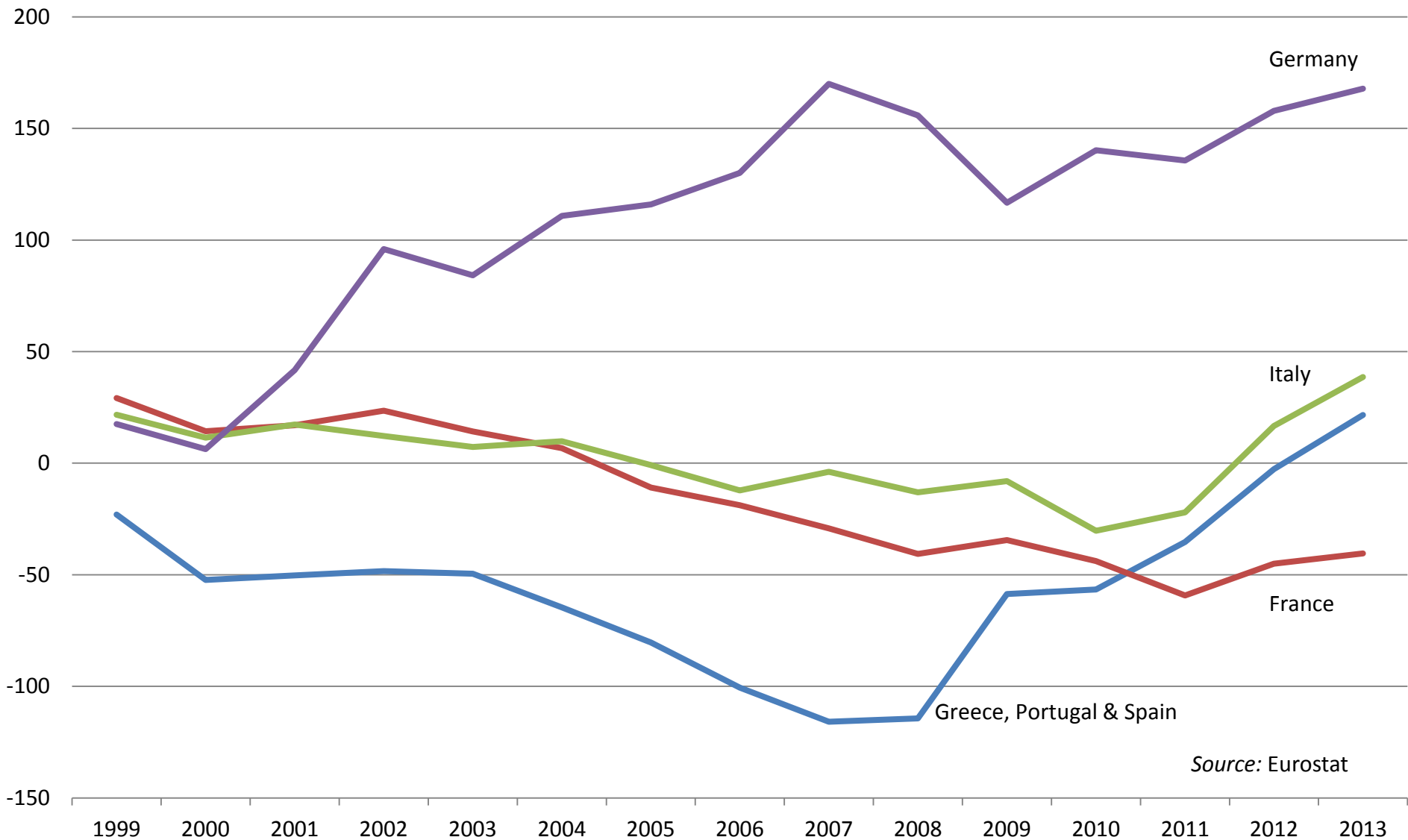
# Euro area periphery economic output

1999 = 100



Source: Eurostat

# Trade balance (€ billions)



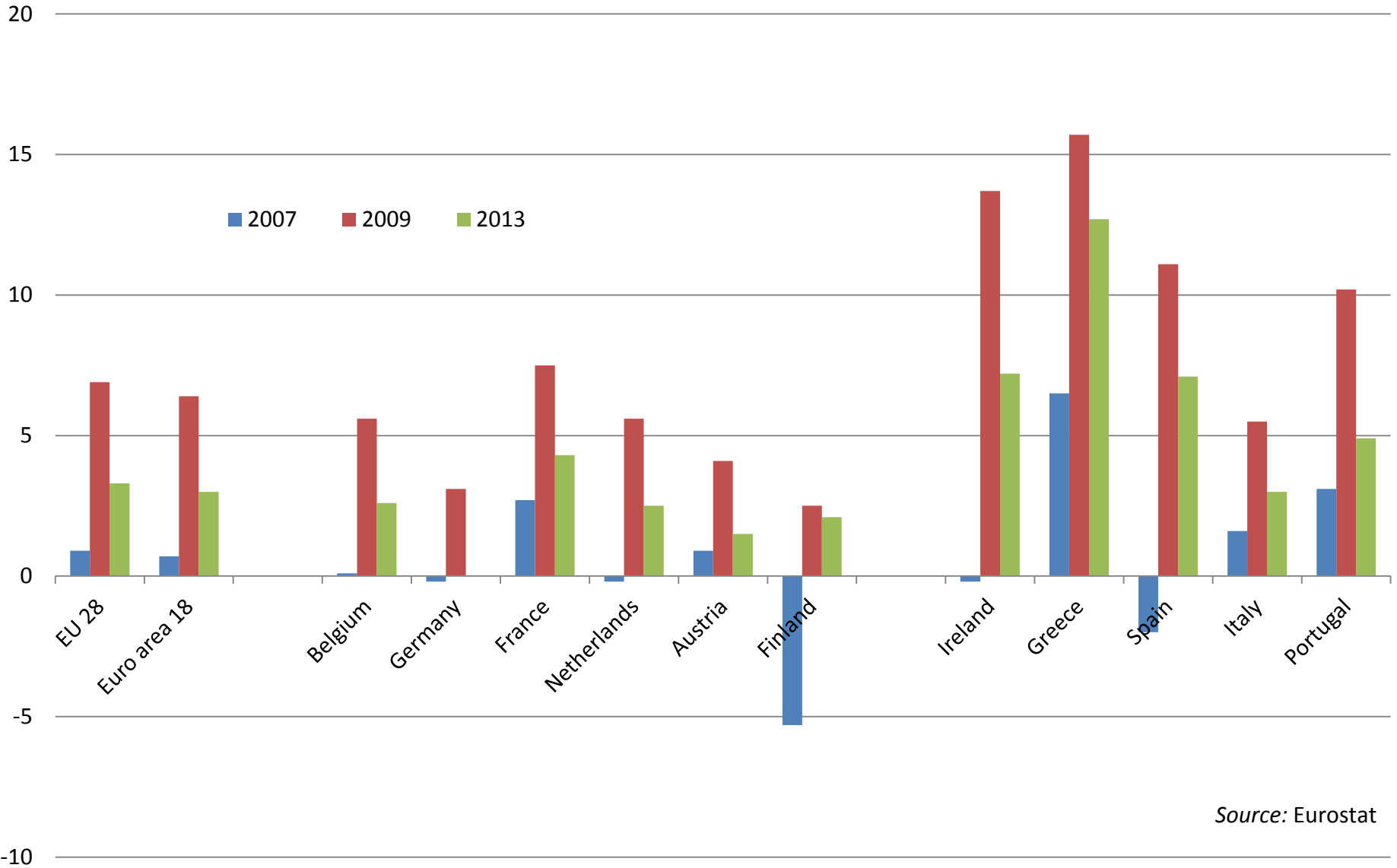
Source: Eurostat

# Fiscal retrenchment

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- Crisis → rise in fiscal deficits
- Euro area countries indebted in 'foreign' currency; sharp rise in peripheral countries interest rates
- Creation of 'rescue' funds
  - European Financial Stability Facility (\$440 billion, 2010)
  - European Stability Mechanism (\$500 billion, 2012)
- Loans to crisis countries
  - Unwind loans from Northern banks
  - Highly restrictive conditions
- Surveillance state
  - 'Six pack' (Dec 2011)
  - Fiscal compact (Jan 2012)
  - European semester (May 2013)

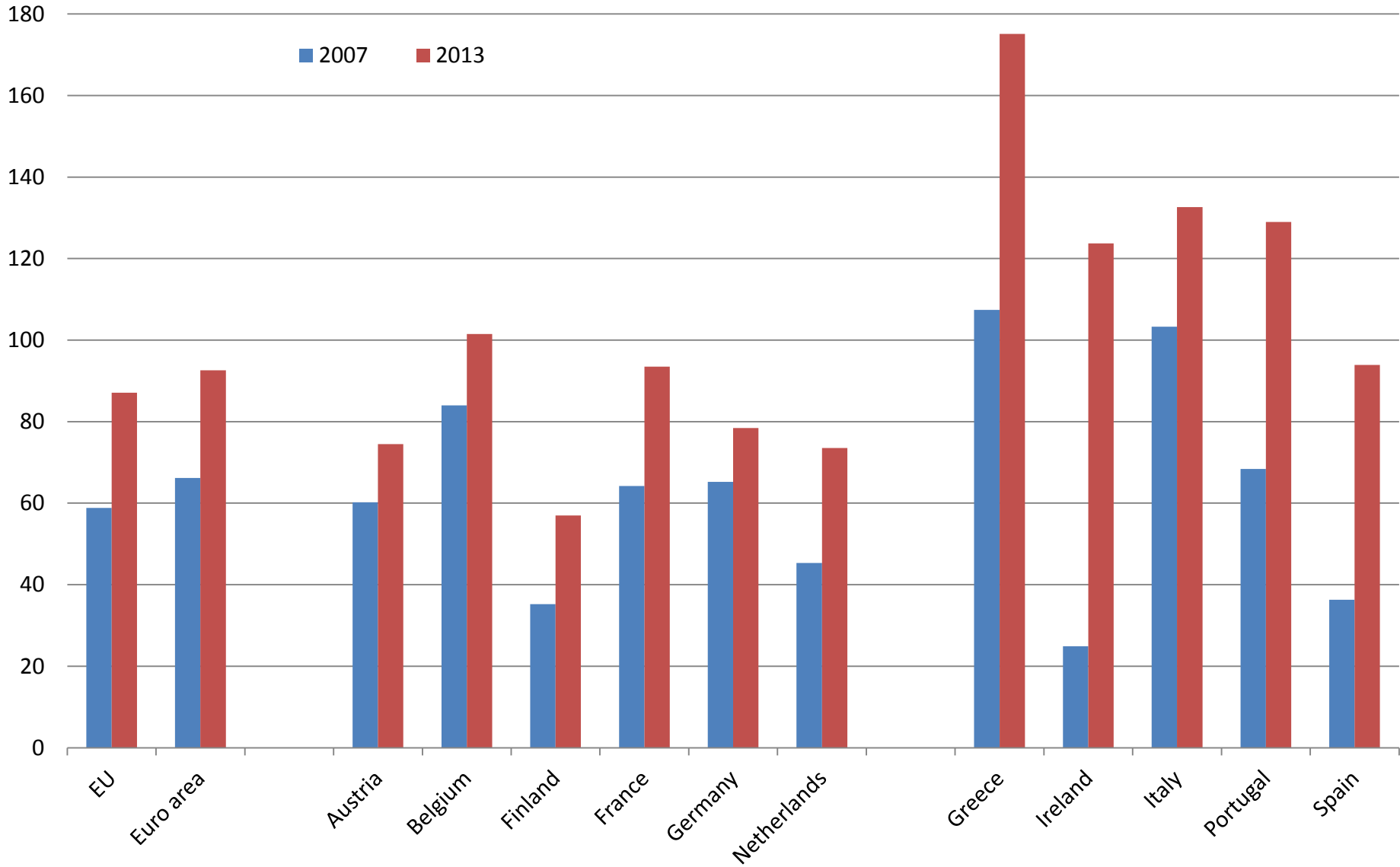
# Euro area fiscal deficit, % GDP



Source: Eurostat



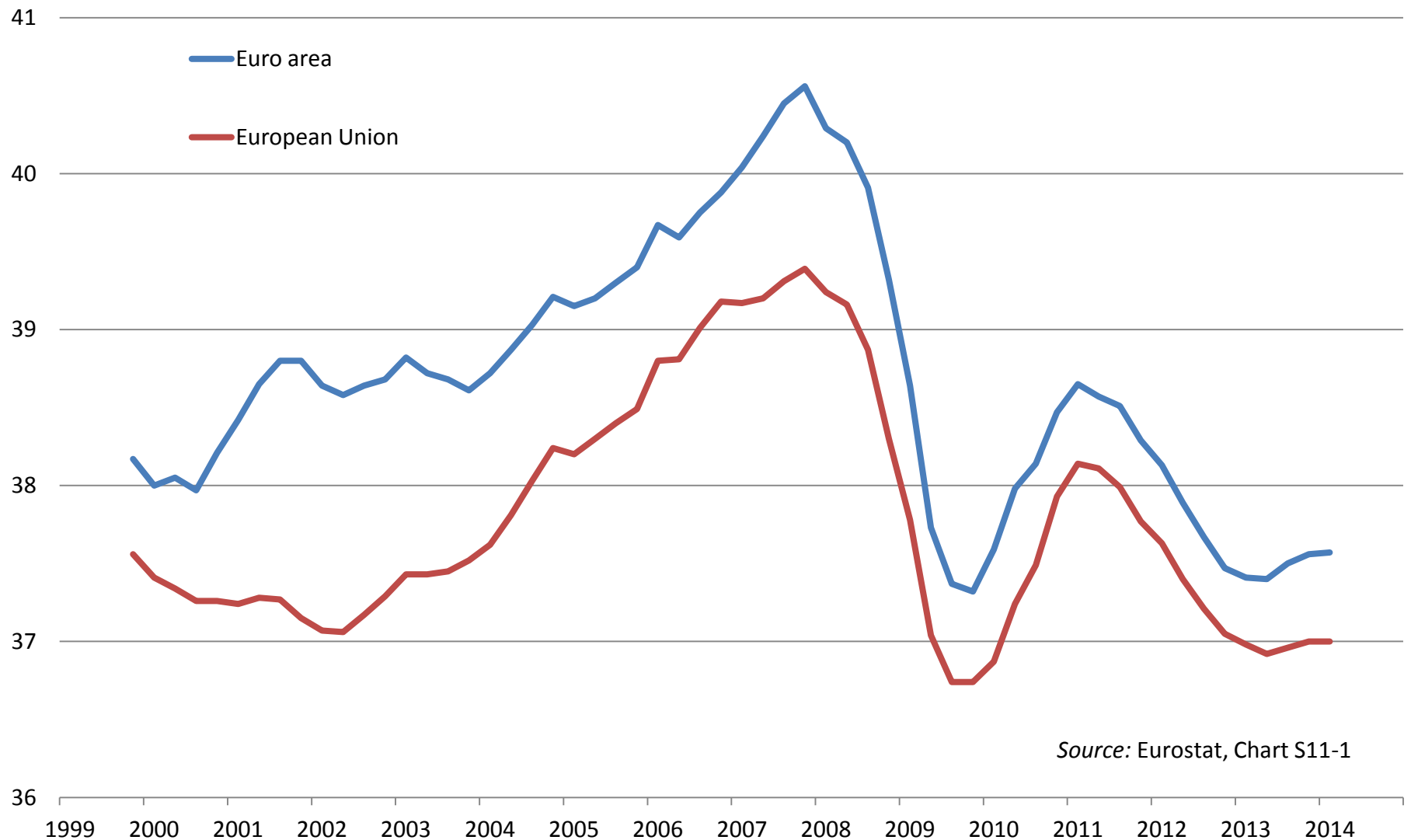
# Government gross debt, % GDP



# **Non-financial corporations**

# Gross profit share of non-financial corporations

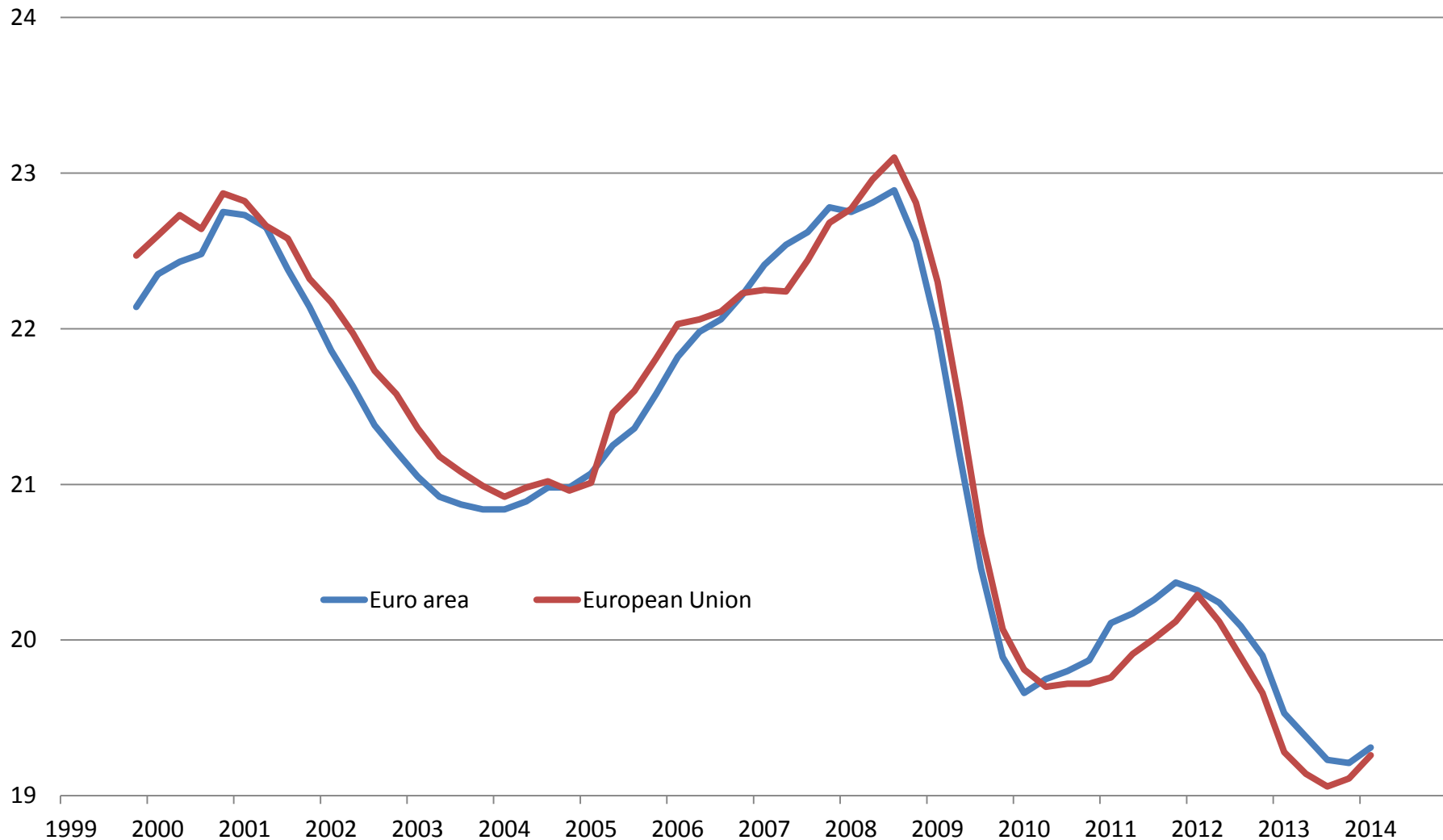
(gross operating surplus as percentage of gross value added, four-quarter-cumulated sums)



Source: Eurostat, Chart S11-1

# Investment rate of non-financial corporations

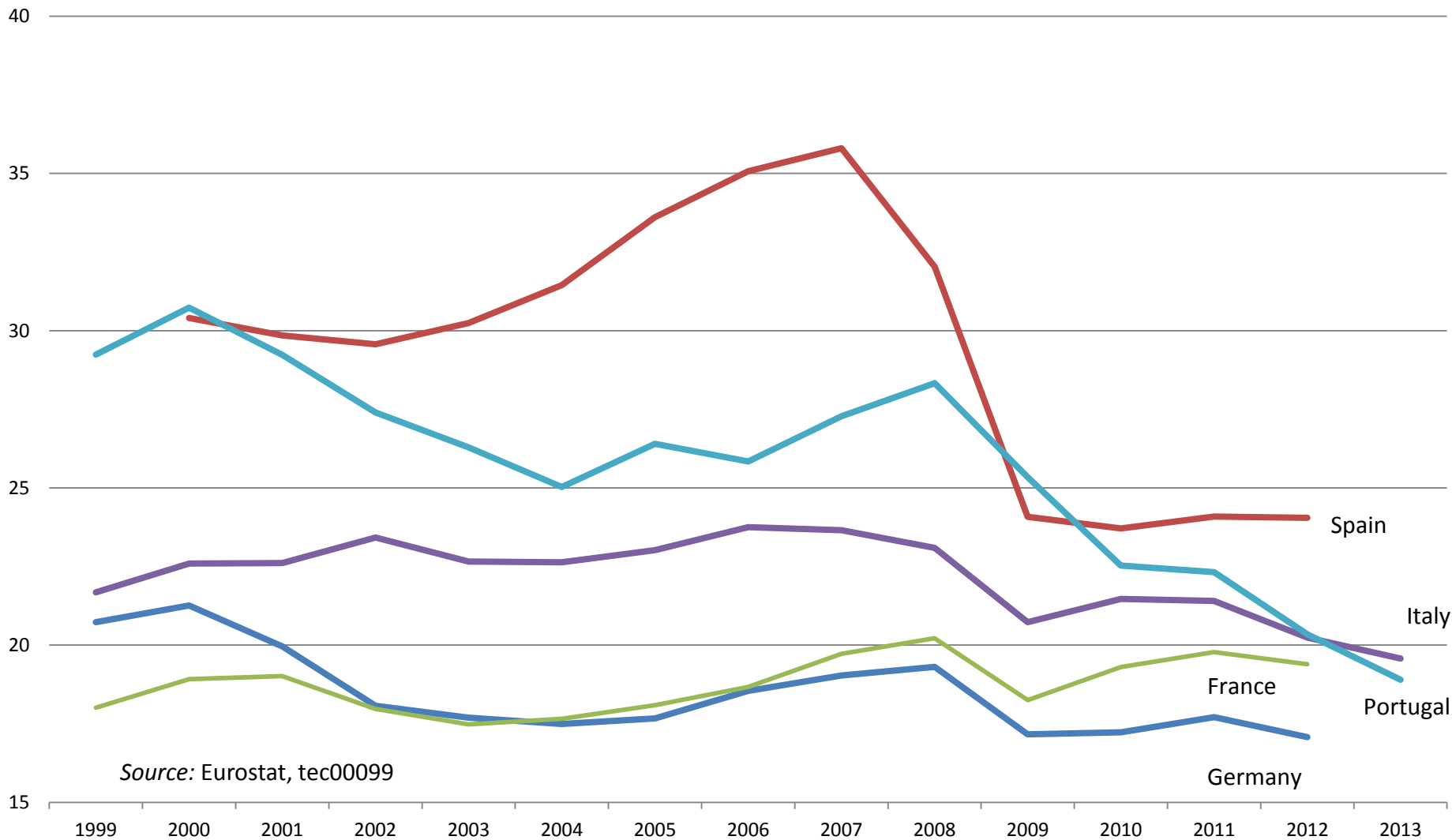
(Gross fixed investment as percentage of gross value added, four-quarter-cumulated sums)



Source: Eurostat, Chart S11-4

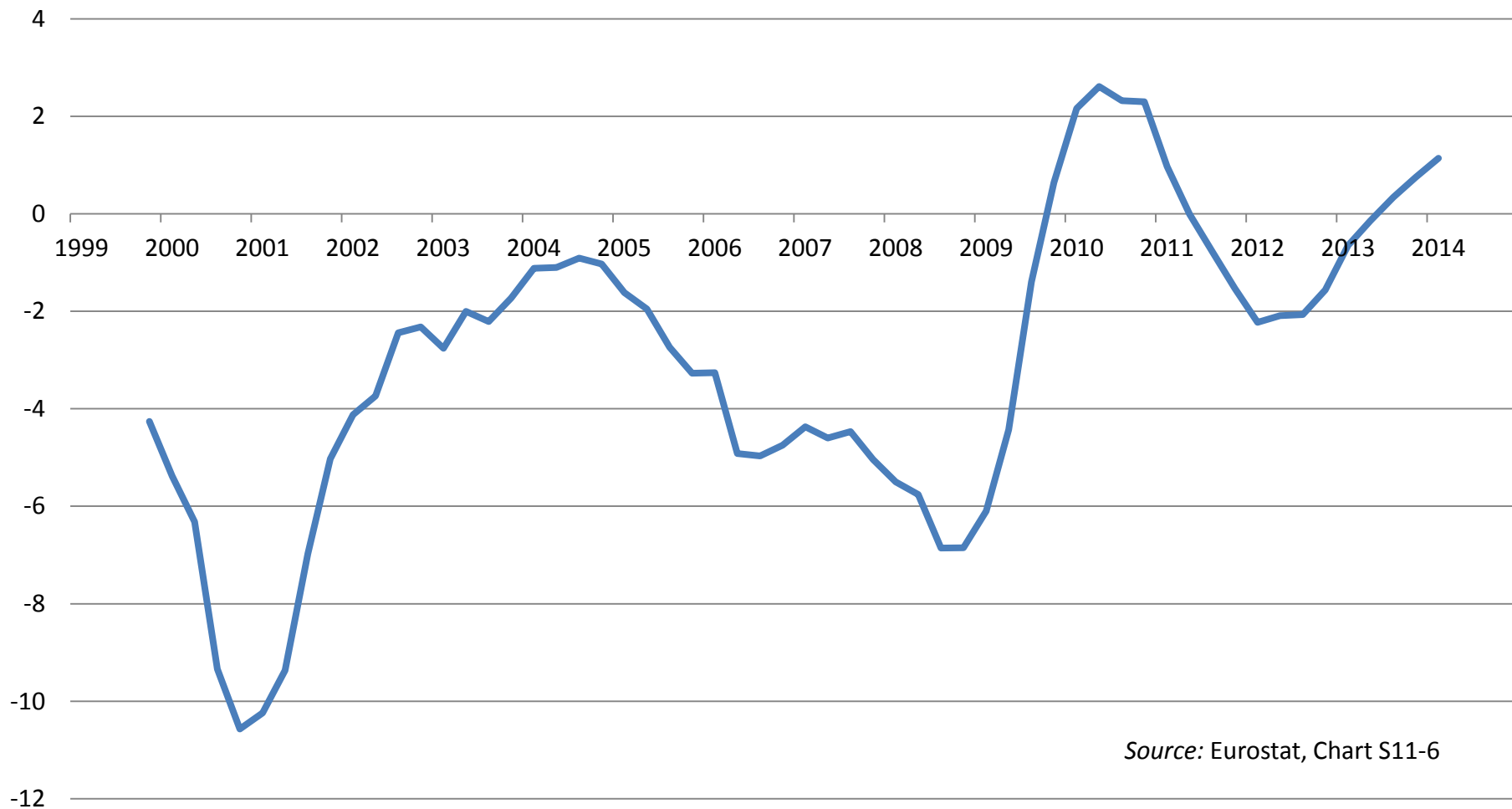
# Investment rate of non-financial corporations: selected countries

(Gross fixed investment as percentage of gross value added, four-quarter-cumulated sums)



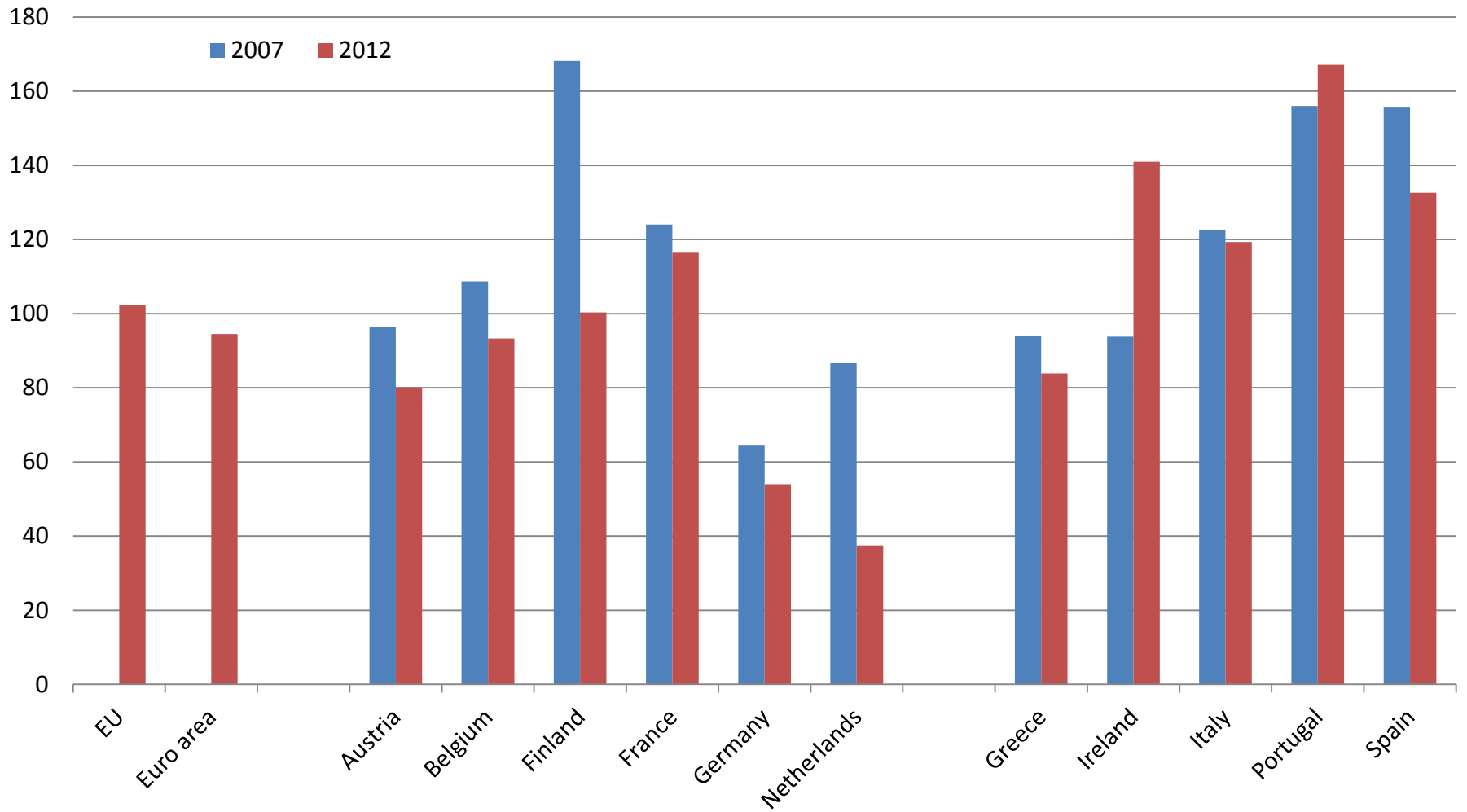
Source: Eurostat, tec00099

# Net lending (+) / net borrowing (-) of nonfinancial corporations in euro area (percentage of net value added, based on four-quarter-cumulated sums)



Source: Eurostat, Chart S11-6

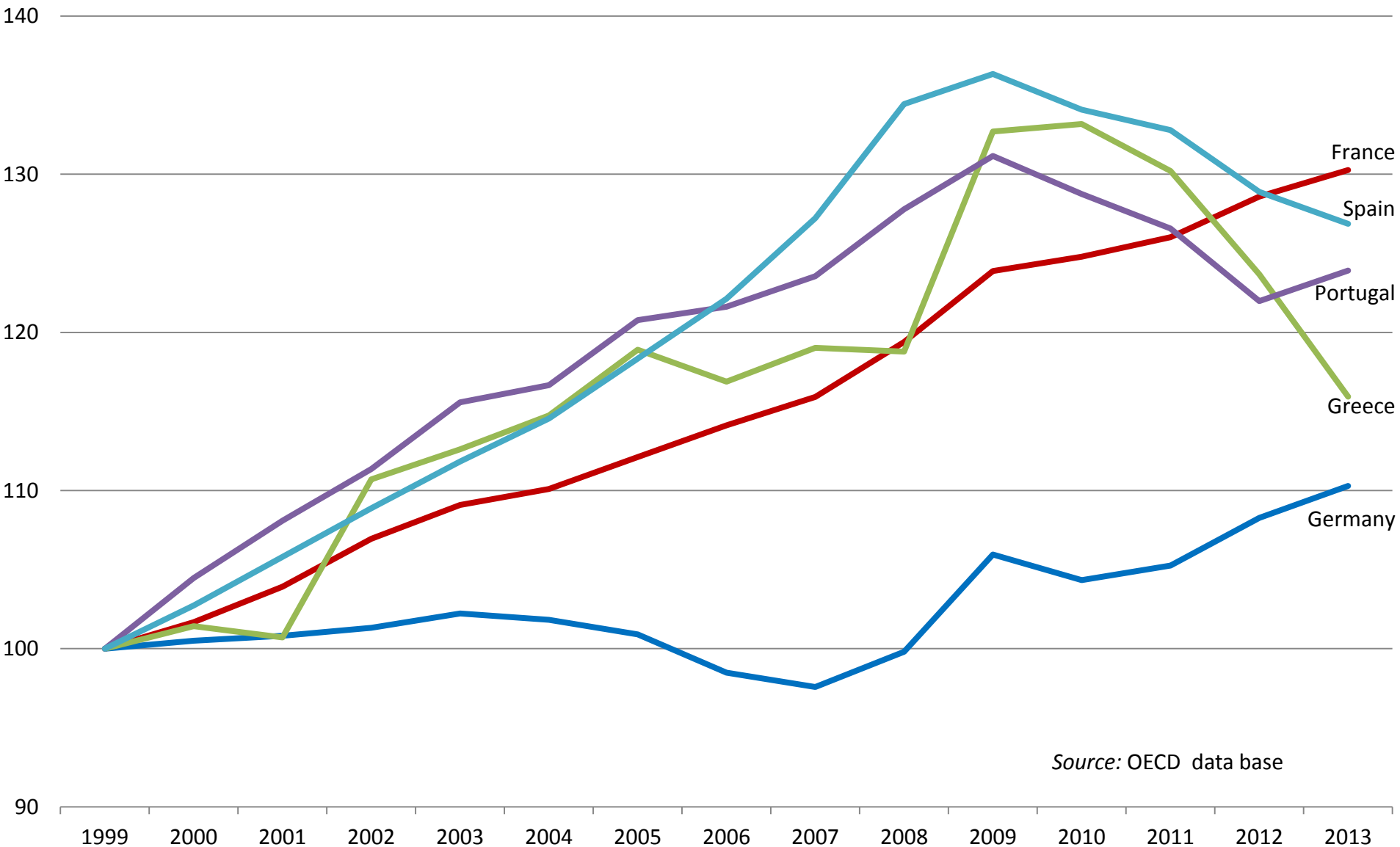
# Non-financial corporations net financial liabilities, % GDP



# **Wages & labour costs**

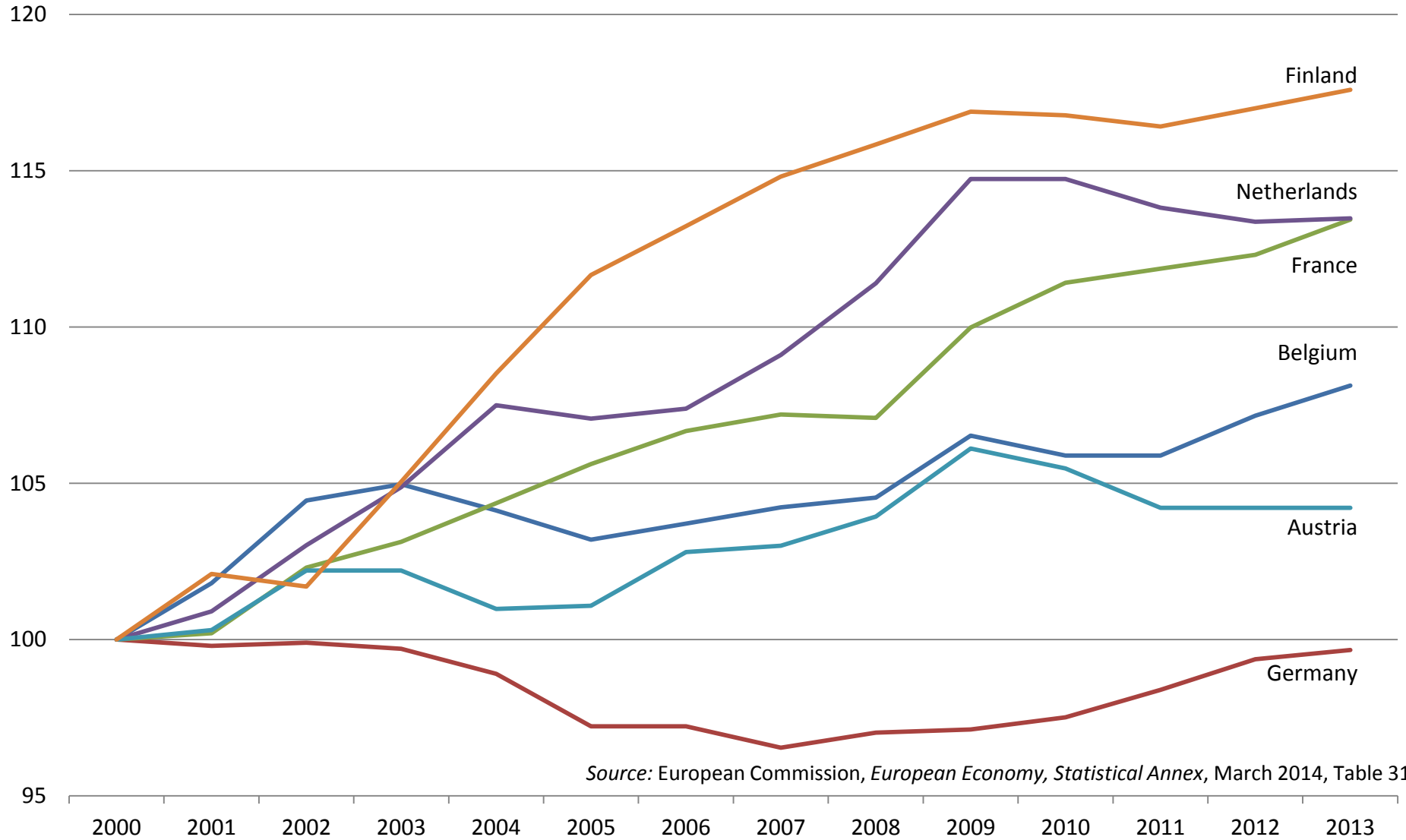


# Unit labour costs, 1999 = 100



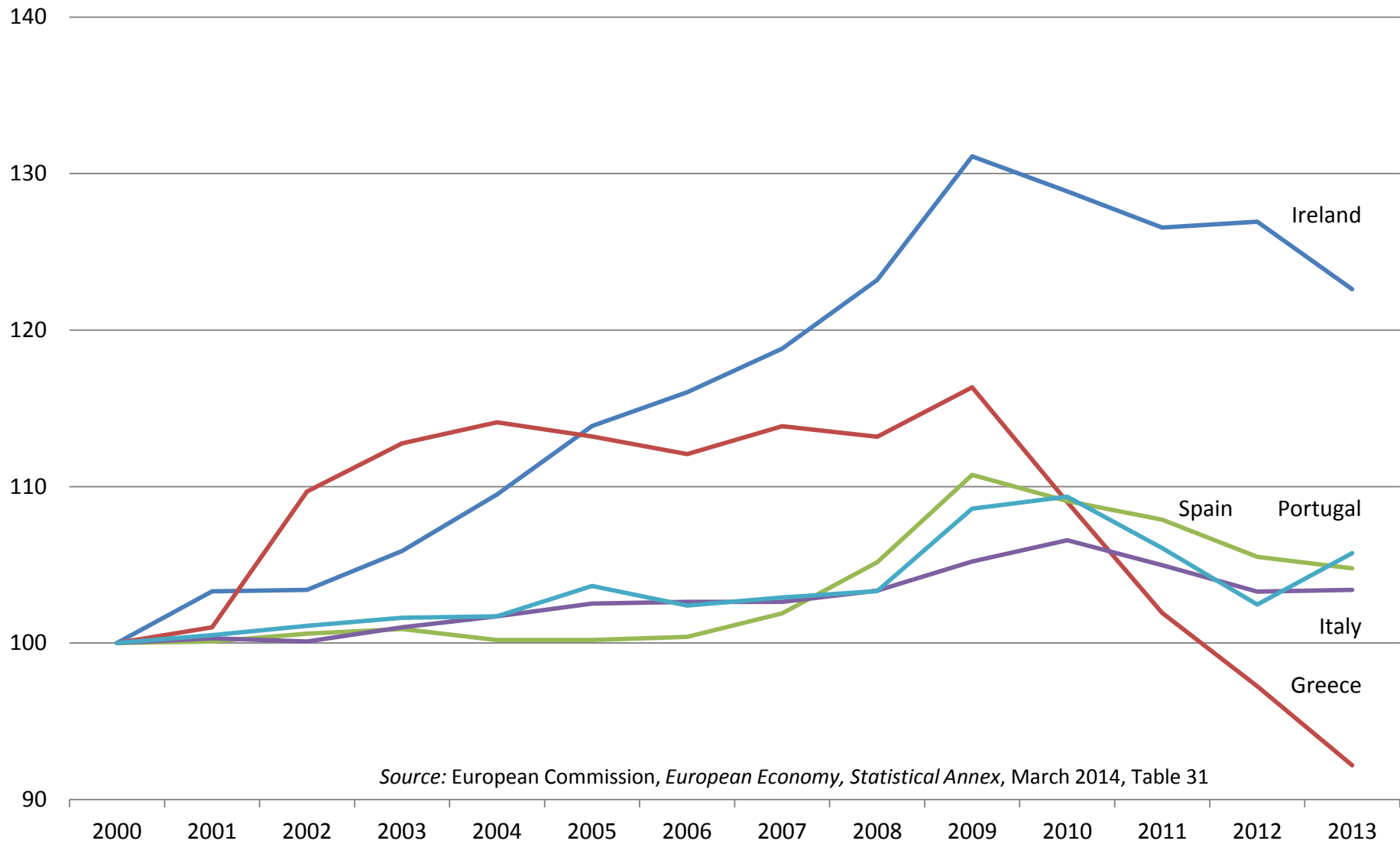
Source: OECD data base

# Euro area centre: Real compensation per employee, 2000 = 100 (deflator private consumption, total economy)



Source: European Commission, *European Economy, Statistical Annex*, March 2014, Table 31

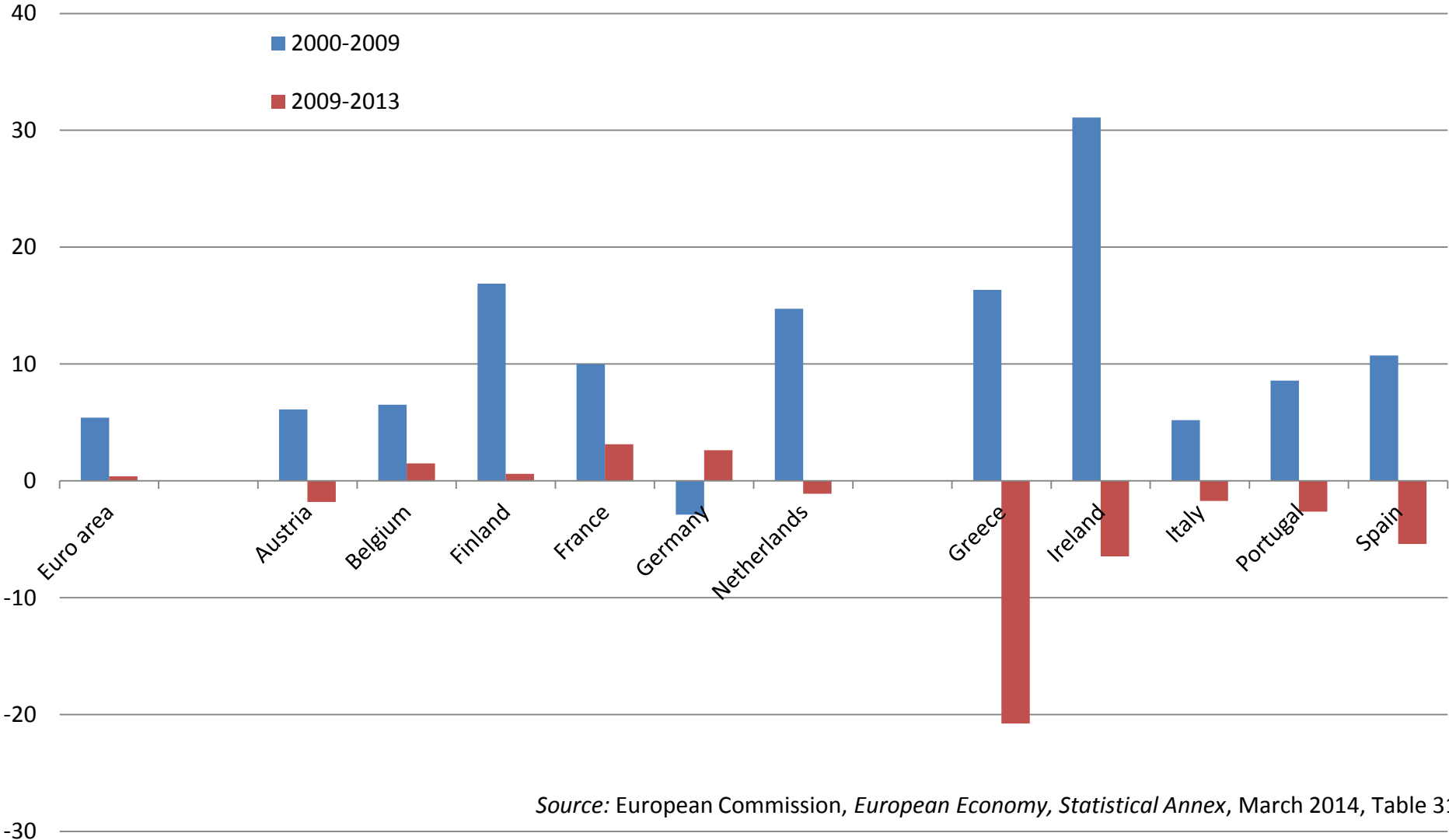
# Euro area periphery: Real compensation per employee, 2000=100 (deflator private consumption, total economy)



Source: European Commission, *European Economy, Statistical Annex*, March 2014, Table 31

# Change in real compensation per employee, %

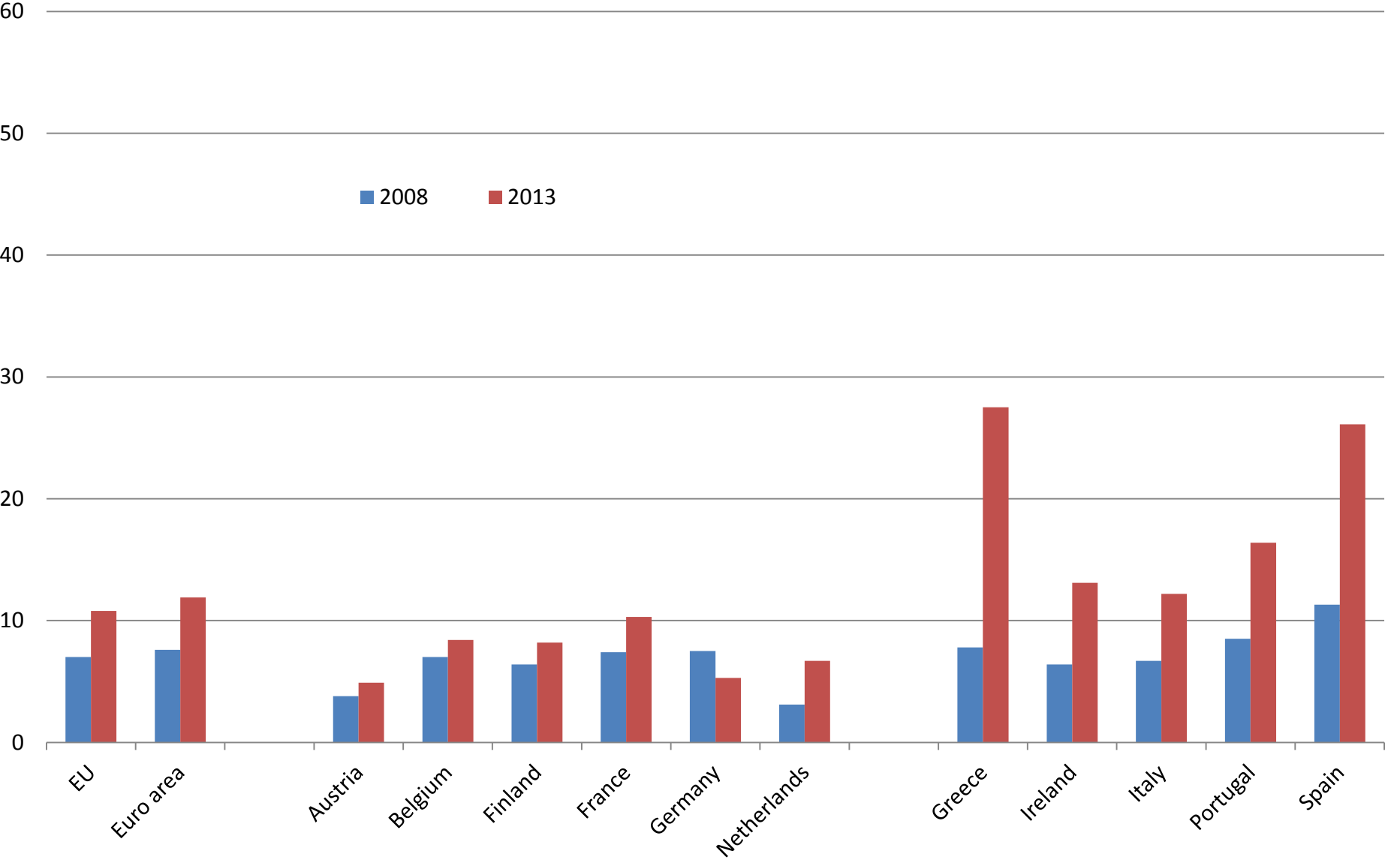
(deflator private consumption, total economy)



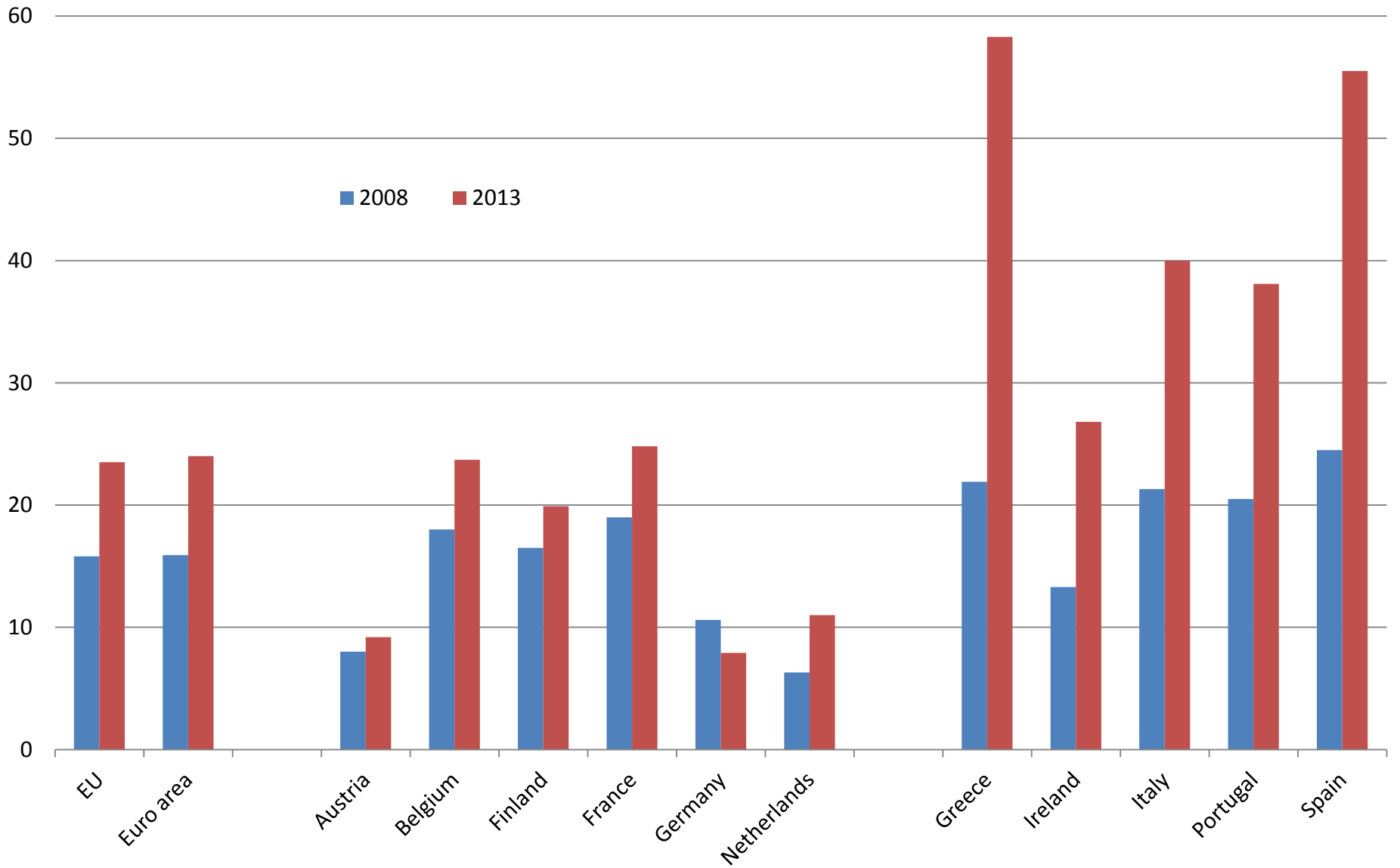
Source: European Commission, *European Economy, Statistical Annex*, March 2014, Table 31

# Unemployment

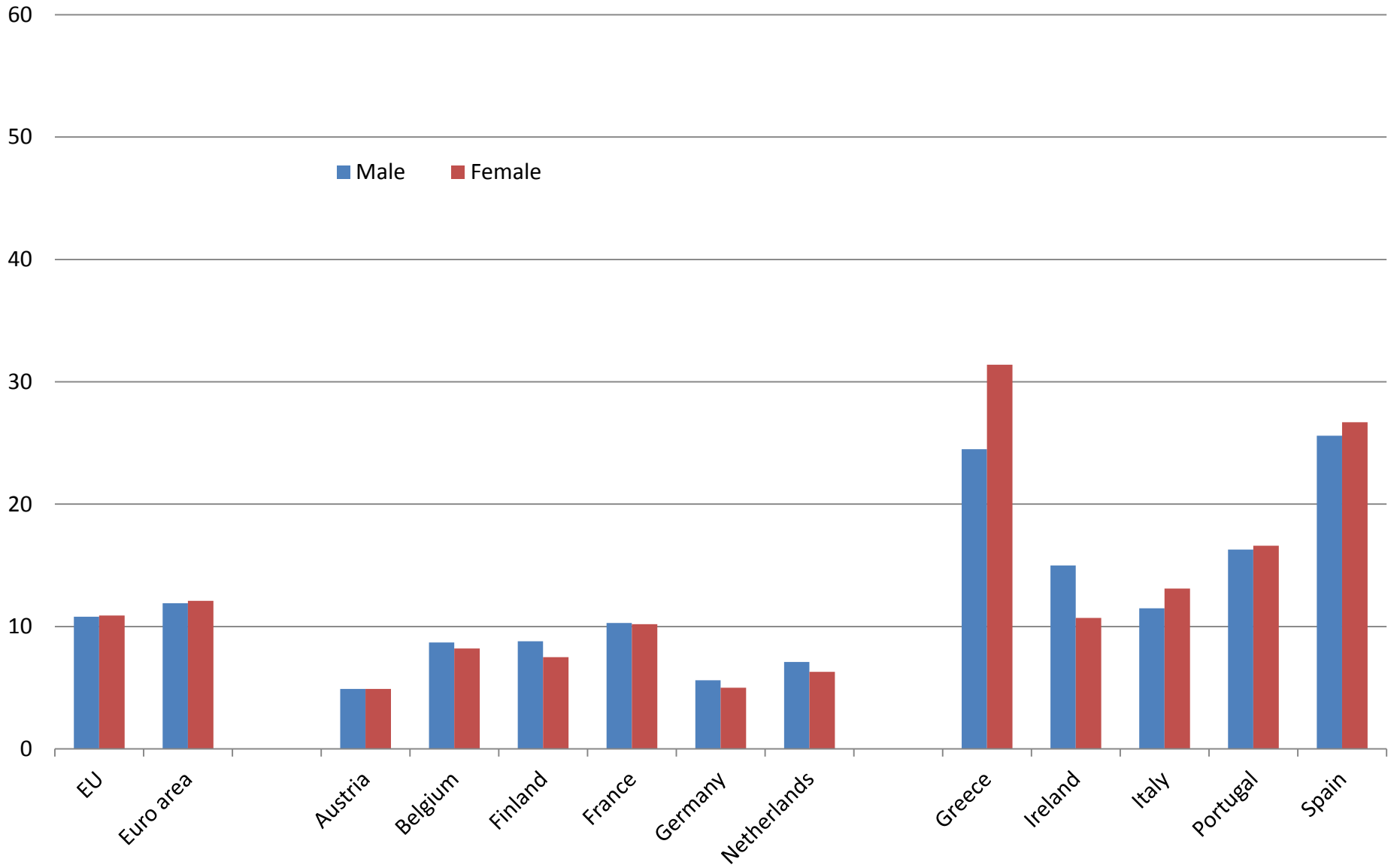
# Unemployment rate: All workers, %



# Unemployment rate: Under 25s, %



# Unemployment rate by sex, 2013, %





# European Central Bank

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- Long Term Refinancing Facility: 3 year loans to banks with no conditions (€493 billion Dec 2011; €529 billion Feb 2012)
- Fragile stability following Draghi's promise to do 'whatever it takes' to defend euro (July 2012)
- Main refinancing rate reduced to 0.05%; deposit rate *minus* 0.2%
- Draghi proposal for ECB to purchase asset backed securities
- Banks not lending ('Zombie banks')
- Banking union (agreed 2012)
  - Single Supervisory Mechanism: due November after 'stress tests'
  - Single Resolution Mechanism: procedure requires national approval
  - Deposit insurance: remains effectively national
  - But: No lender of last resort function

# ECB policy interest rates

Per cent

## Oct 2008

The ECB, the US Federal Reserve and other central banks cut interest rates in a co-ordinated move. Between Oct 2008 and May 2009 the eurozone lending rate falls from 4.25% to 1%

## Nov 2011

Mario Draghi takes over from Jean-Claude Trichet as ECB president and immediately cuts the refinancing rate to 1.25%

## Jul 2012

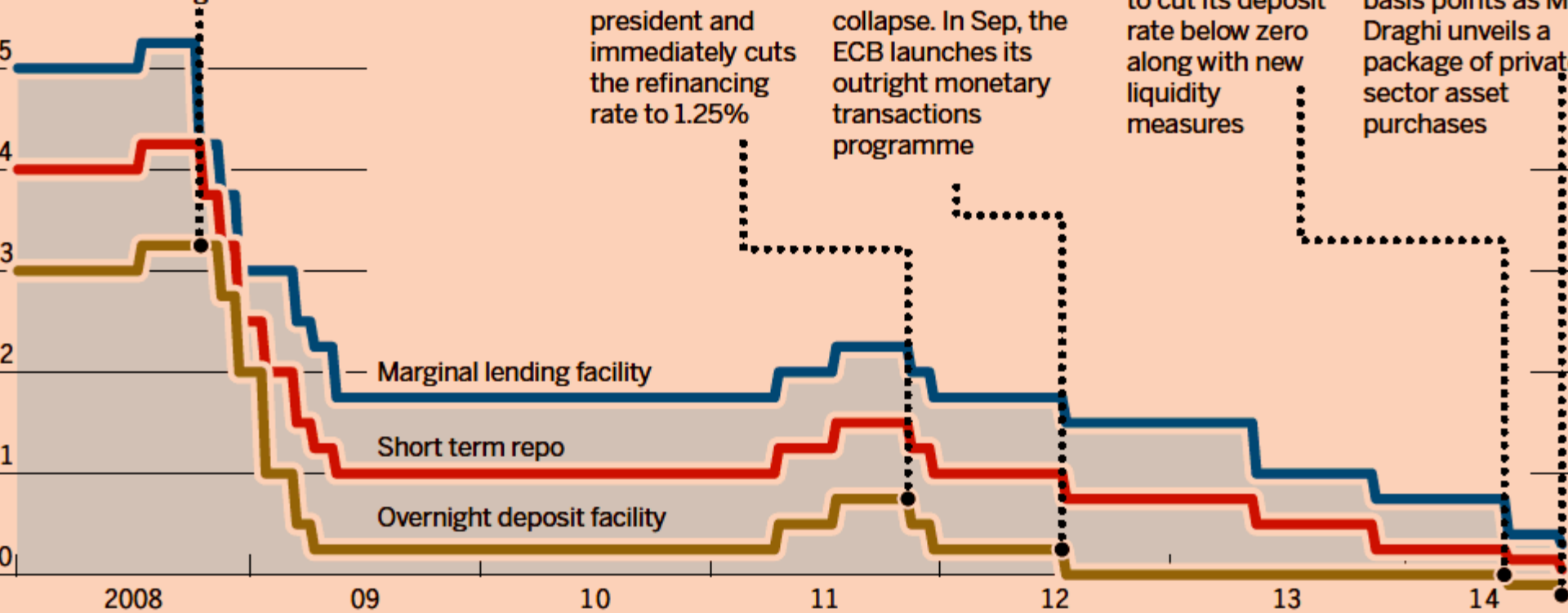
Mr Draghi pledges to do 'whatever it takes' to save the eurozone from collapse. In Sep, the ECB launches its outright monetary transactions programme

## Jun 2014

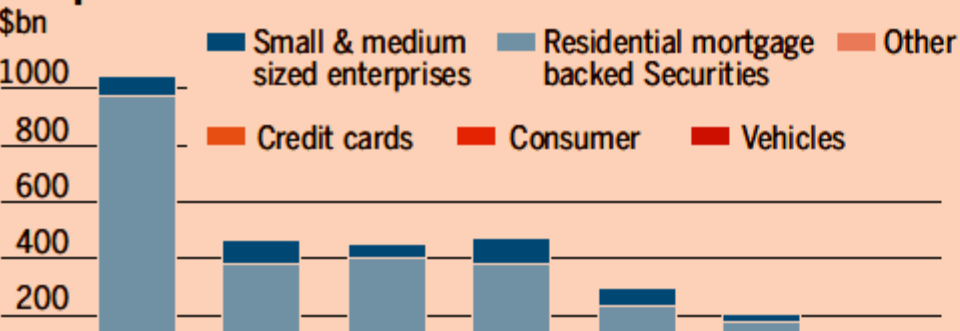
The ECB becomes the first big central bank to cut its deposit rate below zero along with new liquidity measures

## Sep 2014

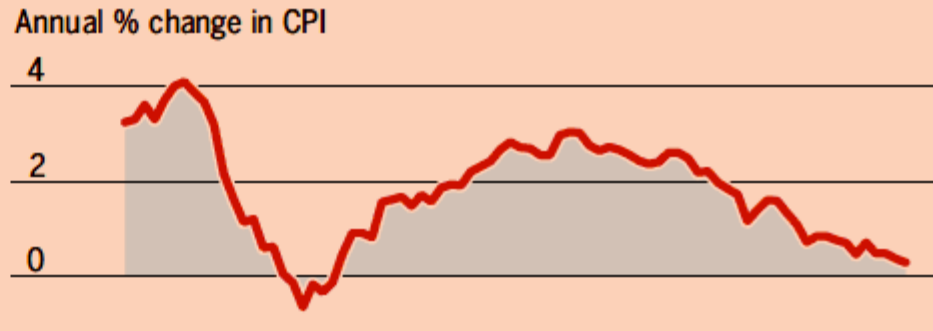
The ECB slashes all main rates further by 10 basis points as Mario Draghi unveils a package of private sector asset purchases



## European asset backed securities issuance



## Eurozone inflation



# Prospects

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- Protracted stagnation
- Little decline in unemployment
- Depressed (at best) real wages
- Downward pressure on social spending
- Widening polarisation between and within states
- Tensions
  - Renzi (Italy): need for flexibility in fiscal rules
  - France: repeated failures to meet target for fiscal deficit
  - Szczurek (Poland): €700 billion investment programme
  - Syriza? Podemos? ...

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