Economic Stagnation and Social Polarization in the Eurozone

Trevor Evans
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European monetary unification

• 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
Trade balance (€ billions)

Source: Eurostat
Fiscal retrenchment

• 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

- EU
- Euro area
- Austria
- Belgium
- Finland
- France
- Germany
- Netherlands
- Greece
- Ireland
- Italy
- Portugal
- Spain
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
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
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, %

2008 2013

EU Euro area Austria Belgium Finland France Germany Netherlands Greece Ireland Italy Portugal Spain
Unemployment rate by sex, 2013, %

Male  Female
European Central Bank

- 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 Mr Draghi unveils a package of private sector asset purchases

European asset backed securities issuance

$bn

2008 2009 2010 2011 2012 2013 2014

Small & medium sized enterprises
Residential mortgage
Other backed Securities
Credit cards
Consumer
Vehicles

Eurozone inflation

Annual % change in CPI

4 2 0 2008 2009 2010 2011 2012 2013 2014
Prospects

• 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? ...