

# The Euro crisis and the future of the European Union

Conference in Firenze

Prof. Dr. Klaus Busch

2012/10/24

# Contents and Main Theses

1. Defects of the Maastricht Treaty are one main cause of the crisis. Sharp increase of public debt is result of the world financial crisis not the other way round
2. The policies of austerity have deepened the debt crisis and led Europe to a recession
3. The crisis has led to a fundamental attack on the European Social Model (Trade unions, Welfare State)
4. A fundamental solution of the crisis needs a paradigm shift in five dimensions: „More Europe, but different“
5. European trade unions and Social Democrats without alternative „narrative“
6. Three possible outcomes: muddling through, break-up, paradigm shift

# Main causes of the crisis

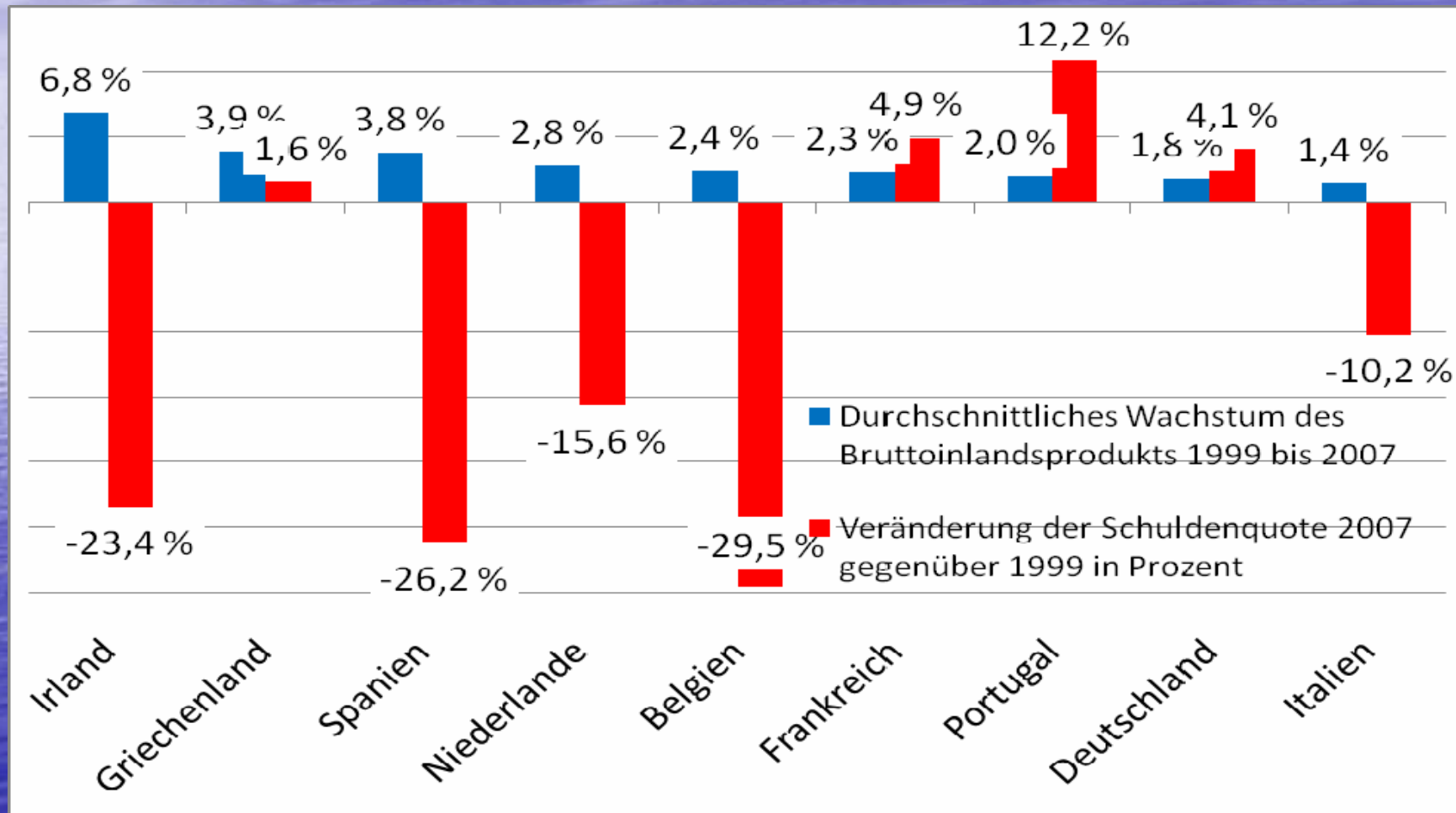
## 1. Falsities of the Treaty of Maastricht:

- Common currency without a Political Union
- Monetary „Government“ but no Fiscal government
- Priority on fiscal consolidation and not on growth
- System of competing states

## 2. World Economic Crisis and Debt Crisis

- Debt reduction before and sharp increase after 2007
- Misrepresentation of causes and effects in mainstream discourse

# Growth and Public Debt

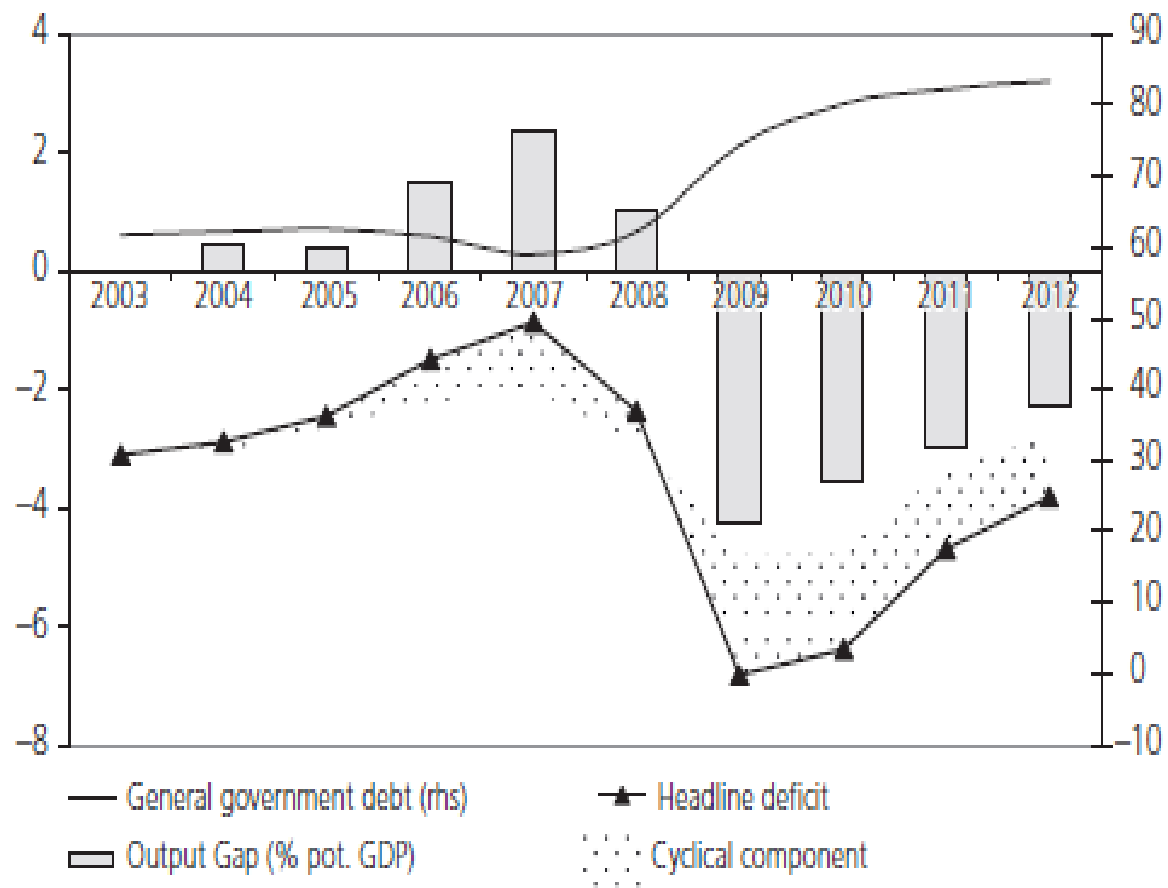


# Public Debt in Europe

	<b>Haushaltsdefizit (in % des BIP) 2010</b>	<b>Schuldenquote (in %)</b>	
		<b>2007</b>	<b>2010</b>
Griechenland	-9,5	99,2	140,2
Irland	-32,3	25,0	84,1
Spanien	-9,3	36,1	97,4
Portugal	-7,3	62,7	82,8
Italien	-5,0	112	118,9
Belgien	-4,8	84,2	98,5
Frankreich	-7,7	63,8	83
Deutschland	-3,7	64,9	75,7
Eurozone	-6,3	65,9	84,1
Großbritannien	-10,5	44,5	77,8
USA	-11,1	62,1	92,7
Japan	-9,6	187,7	225,9

Quelle: EU-Kommission, Internationaler Währungsfonds (IWF)

# Economic cycle and public debt in the EU



Source: Directorate-General for Economic and Financial Affairs of the European Commission (2011: 31)

# Austerity Policy and Recession in Europe

- In contrast to the facts mainstream politics is reading the crisis as caused by debts
- Tough austerity programmes in Greece, Portugal, Spain and Italy
- Recession is back: the tougher the debt cuts, the deeper the crisis

# Growth rates of GDP and Public deficits

## Growth rates of GDP of selected countries 2009-2012

	Griechenland	Spanien	Italien	Portugal	Deutschland	Eurozone	USA
2009	- 3,3	- 3,7	- 5,5	- 2,9	- 5,1	- 4,3	- 3,5
2010	- 3,5	- 0,1	1,8	1,4	3,7	1,9	3,0
2011	- 6,9	0,7	0,4	- 1,6	3,0	1,5	1,7
2012	- 4,7	- 1,8	- 1,4	- 3,3	0,7	- 0,3	2,0

European Commission: Statistical Annex of European Economy, Spring 2012, Table: 10 and 11, Brussels

## Public Deficits of selected countries 2009 - 2012

	Griechenland	Spanien	Italien	Portugal	Deutschland	Eurozone	USA
2009	- 15,6	- 11,2	- 5,4	- 10,2	- 3,2	- 6,4	- 11,5
2010	- 10,3	- 9,3	- 4,6	- 9,8	- 4,3	- 6,2	- 10,6
2011	- 9,1	- 8,5	- 3,9	- 4,2	- 1,0	- 4,1	- 9,6
2012	- 7,3	- 6,4	- 2,0	- 4,7	- 0,9	- 3,2	- 8,3

European Commission: Statistical Annex of European Economy, Spring 2012, Table: 76 and 77, Brussels



## Dept quota 2009 to 2012

	Griechenland	Spanien	Italien	Portugal	Deutschland	Eurozone	USA
2009	129,4	53,9	116,0	83,1	74,4	79,9	90,4
2010	145,0	61,2	118,6	93,3	83,0	85,6	99,1
2011	165,3	68,5	120,1	107,8	81,2	88,0	103,5
2012	160,6	80,9	123,5	113,9	82,2	91,8	108,9

European Commission: Statistical Annex of European Economy, Spring 2012, Table: 78 and 79, Brussels

# The Euro crisis and the European Social Model

1 Policy of Austerity has led to

- a weakening of trade unions (layoffs, wage cuts, labour market reforms)
- an attack on social security systems (pension reforms, cuts in health care and unemployment benefits)

2 Euro Pact Plus and Procedure against excessive macroeconomic imbalances (EIB) one-sidedly burden deficit countries

# EU summits and ECB intervention

- Summit after summit since 2010 and no solution
- Summit of June 2012: „growth pact“ and „banking union“
- „Growth pact“ as a „bluff package“
- Easing of the crisis after the announcement of Draghi in July 2012
- Discussion on the Rompuy group paper

# New Paradigm I: European Growth Initiative

- European „New Deal“ for Qualitative Growth and Development
- Changing Germany's export-oriented model: developing Germany's internal market by higher wages and more public investment in services
- Growth instead of austerity in the „PIGS“ countries

## New Paradigm II: European rules for financing of public debts

- European Financial Stability Facility and European Stability Mechanism are necessary steps
- Additional step: Introduction of Eurobonds
- EU member states should be responsible for public debts of all EU member states (step vis-a-vis the so-called „union of transfers“)

## New Paradigm III: European Coordination of wages, social costs and taxes

- Need of coordinating national wage policies
- European approach to coordinate welfare states policies („corridor model“)
- European coordination of tax policies

# New Paradigm IV: European Economic Government

European Economic Government is essential

- to implement common countercyclical policies
- to apply a flexible policy-mix to coordinate monetary and budgetary policies
- to effectively control budgetary and debt policies of member states
- to conduct joint debt management

## Euro crisis European trade unions and European Social Democrats

- Trade unions: primarily national responses and no European strategy
- Social Democrats: partly supporting austerity programmes (Greece, Portugal, Spain), partly and inconsistently asking for an alternative (France, Germany)
- In sum: there is no alternative and consistent „narrative“ vis-a-vis neoliberal austerity



# Europe at the crossroads (three outcomes)

- 1 Muddling through path:  
easing of the programme for Greece, ESM credit for Spanish banks, some ECB intervention, but on solution of the fundamental problems (recession and debts)

# Europe at the crossroads II

- 2 Collapse of the Eurozone:  
as a result of „herd instinct“ on the  
markets, policy failures and/or political  
resistance in Germany

# Europe at the crossroads III

3 „More Europe but different“:

is being supported: Marshall-Plan,  
Common Debt Management, Social  
Europe, Wage Coordination, Sharp  
Regulation of the financial markets and  
European Economic Government