

General Causes of Public Imbalances in Europe

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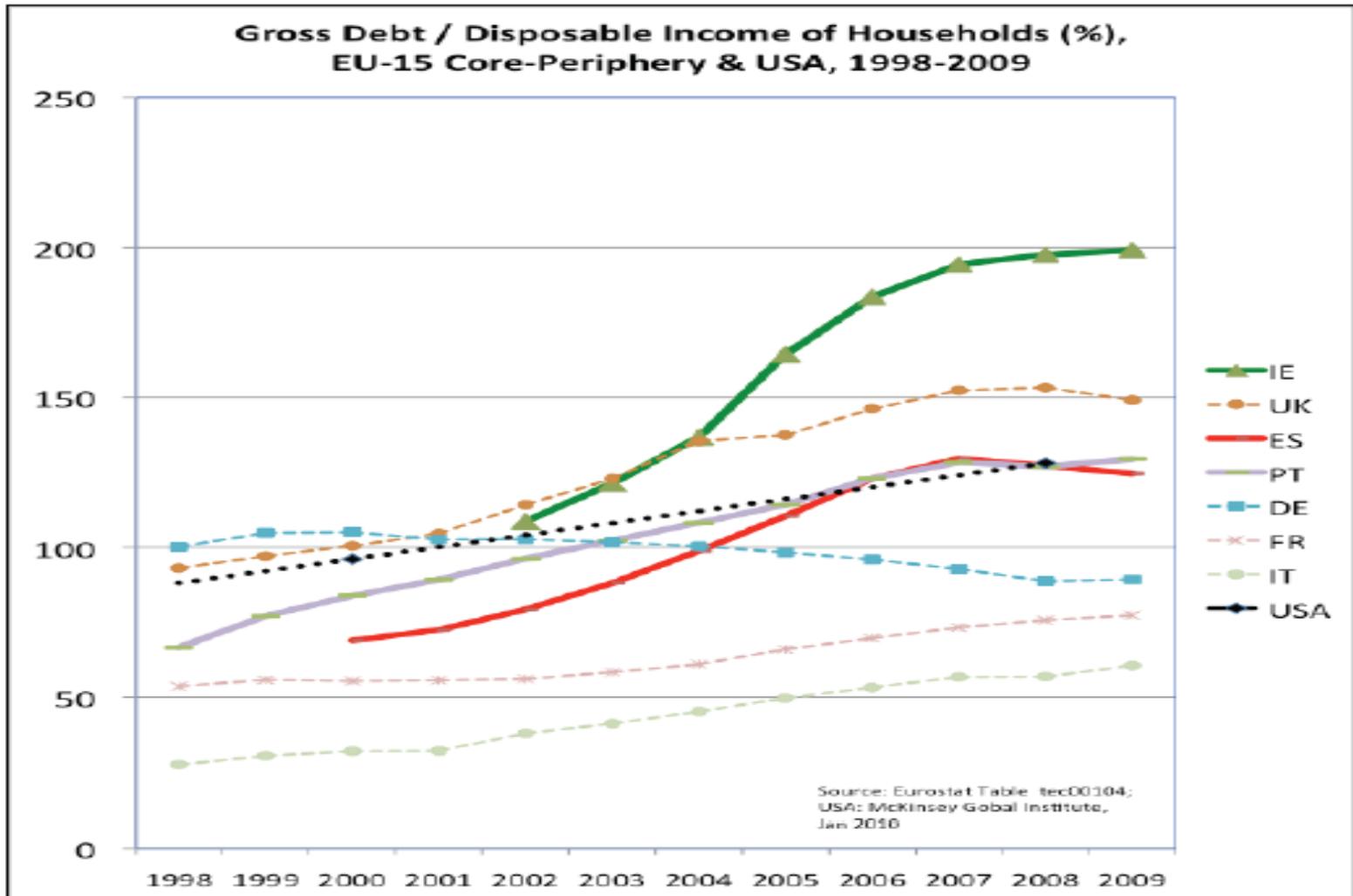
General Causes of Public Imbalances in Europe

1. Theoretical perspective and pre-crisis political economy
2. The economic crisis and the public debt crisis
3. Public debt in Europe
4. (Public) debt in perspective
5. How to (not) escape the debt trap?
6. Conclusions

1. Theoretical perspective and pre-crisis political economy

- Modified **regulation theory**
- Problem of **overaccumulation/realization** of surplus value
 - **Decreasing wage share** (EU15 74% in 1975 to 66% in 2010), increasing inequality
- **Crisis was postponed by asymmetric interaction** of national regimes of accumulation
 - **Neo-mercantilist** Germany (and some linked economies) active extraversion, productive regime, export of capital (lending money to periphery)
 - European periphery: passive extraversion, **financialization** (=increasing private and/or public debt)

Gross Debts/Disposable Income



Source: Roberts 2011

2. The economic crisis and the path to the public debt crisis

Neo-liberal character of European Integration and Euro contributed to the asymmetric interaction of national regimes of accumulation, but with the crisis

- Current account **imbalances** and related (external) debts became **subject of public concern**
- **Additional public debts** due to financial crisis (socializing losses, bailing out banks including EFSF)
- **CDS spreads increased**: Greece 2y gov. bond: 75%, 10y gov. bond: 25% (German Bund: 1,7%) (problem ECB is not a Lender of Last Resort for Euro governments)
- → widening „imbalances“/**increasing contradictions**, limits to specifically linked growth regimes in Eurozone

3. Public Debt/GDP and Change in Debt

	EU 27	UK	Germany	France	Belgium	Italy
2007	59.0	44.5	64.9	63.9	84.2	103.6
2008	62.3	54.4	66.3	67.7	89.6	106.3
2009	74.4	69.6	73.5	78.3	96.2	116.1
2010	80.2	80.0	83.2	81.7	96.8	119.0
2011	82.3	84.2	82.4	84.7	97.0	120.3
2011-2007	23.4	39.7	17.4	20.7	12.8	16.7

	Ireland	Greece	Spain	Portugal	Latvia	Lithuania
2007	25.0	105.4	36.1	68.3	9.0	16.9
2008	44.4	110.7	39.8	71.6	19.7	15.6
2009	65.6	127.1	53.3	83.0	36.7	29.5
2010	96.2	142.8	60.1	93.0	44.7	38.2
2011	112.0	157.7	68.1	101.7	48.2	40.7
2011-2007	87.0	52.3	32.0	33.5	39.2	23.8

Source: Onaran 2011

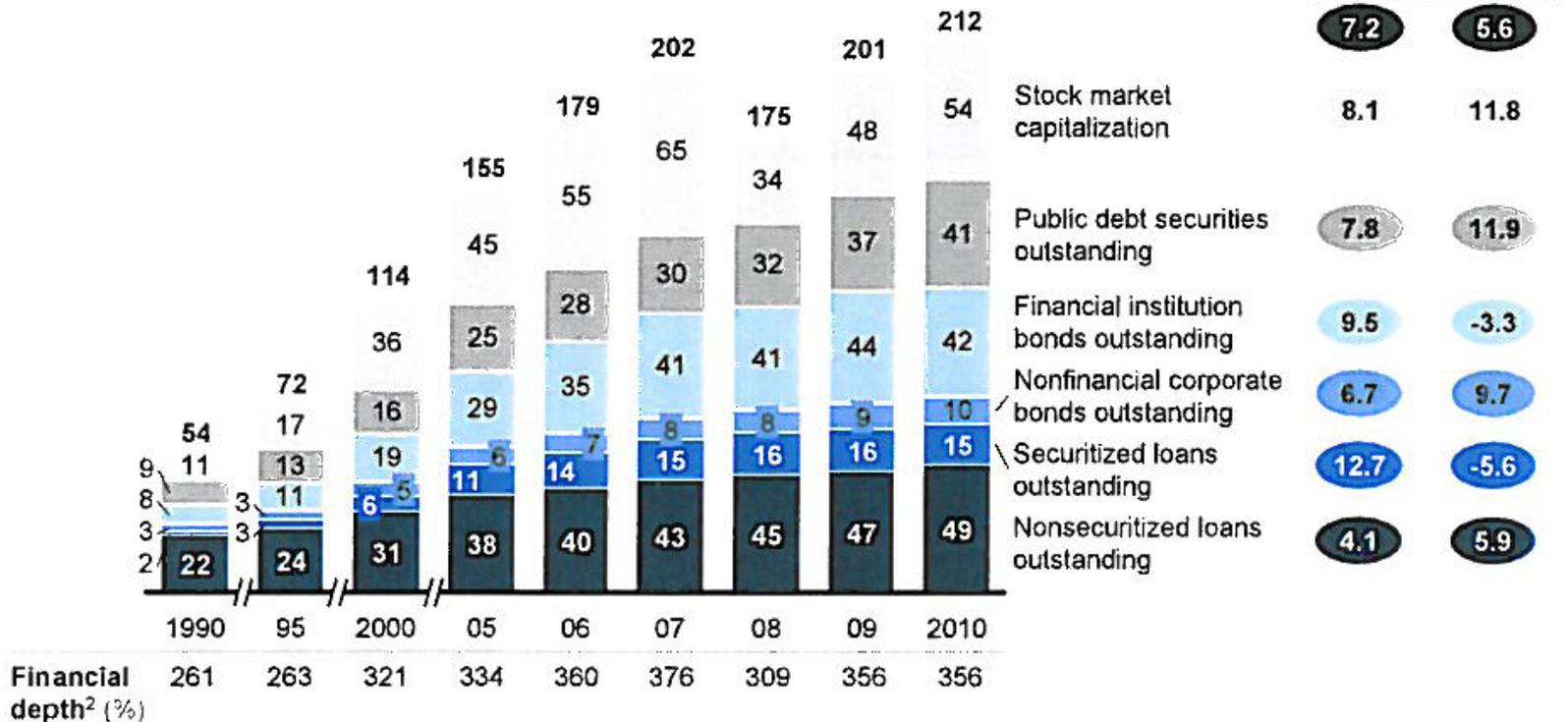
4. (Public) debt in perspective (1)

Global financial stock has surpassed pre-crisis heights, totaling \$212 trillion in 2010

Global stock of debt and equity outstanding¹
\$ trillion, end of period, constant 2010 exchange rates

Compound annual growth rate
%

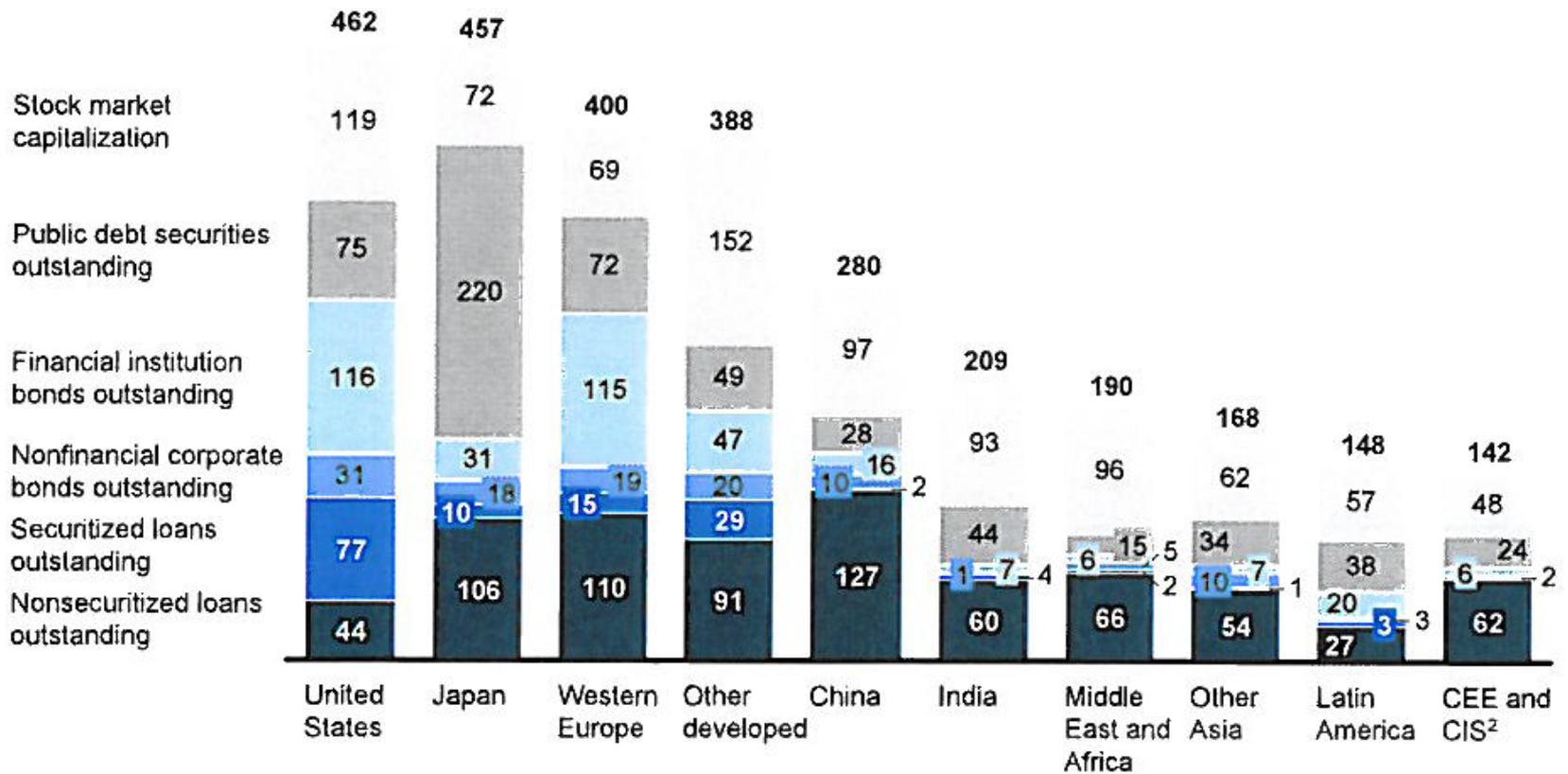
1990-09 2009-10



Source: McKinsey 2011

(Public) debt in perspective (2)

Financial depth,¹ year end 2010
% of regional GDP



Source: McKinsey 2011

5. How to (not) escape the public debt trap?

1. Fiscal austerity (the European way) → deepens crisis

2. Inflate away the debts (Rogoff) (very problematic distributional effects likely), ECB Lender of Last Resort for governments

3. Stop to pay and make the **banks and rich pay** (by increasing taxes, expropriating wealth)

Inequality = indebtedness (IMF: Kumhof/Rancière 2011):

„... in the long run there is simply no way to avoid addressing the immense inequality problem head-on“

4. Address additionally structural contradictions within Europe by re-organizing integration in order to obtain growth

6. Conclusions

- Public imbalances are expression of a **structural crisis** of regimes of accumulation that are asymmetrically linked (at the surface it appears as a public debt crisis)
- **Responses to the crisis tend to radicalise neoliberalism**
 - German government based on dominant position of German capital in the European productive system dominates anti-crisis policies
 - EFSF, ESM, new European economic governance include built in permanent austerity mechanisms (threat on the welfare state)
 - Financial sector and its destructive power remains untouched (despite of Basel III etc.)
 - in favour of capital (expression of class struggle from above)
- ... **contradictions will increase** (expressed by higher public debts, decreasing wages, increasing unemployment, deepening gap between core and periphery in Europe)
- Call for **radical redistribution** (debt cuts), and socialization of financial industry, redirection of economy (**new capitalist growth model**)
- ... or **radical reformism** not just to overcome structural crisis but to implement a political economy based on solidarity and sustainability

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