

Crisis in Europe Germany's Position in the Crisis

Dr. Axel Troost

Nürnberg, 4. Mai 2013

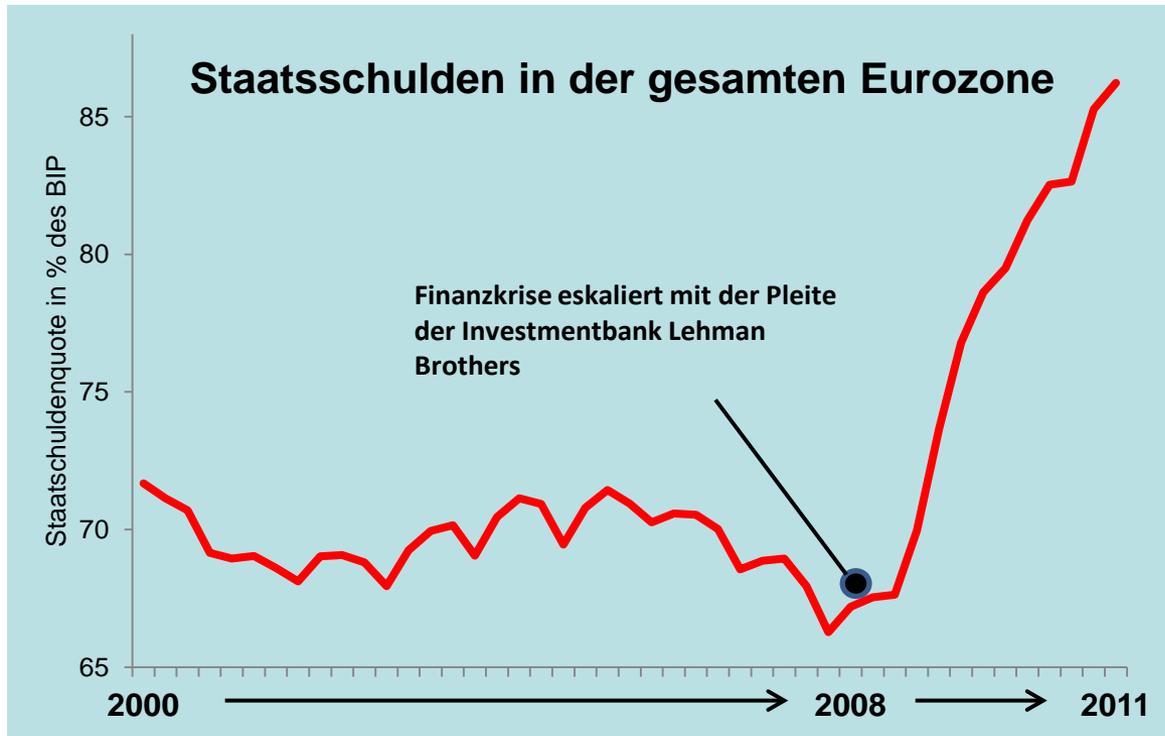
What does the presentation want to show?

- Cause
- Wrong bailout policy
- It is possible to put an end to the crisis– the concept for an alternative policy

Causes of the Euro Crisis

- High costs of the financial crisis
(Bank rescue operations, recovery plans, real estate bubbles)
- Constructional defect of the Monetary Union
(uncoordinated economic and fiscal policy leads to massive rejection)
- Home made problems
(Corruption, tax evasion, rigged budget figures, ...)

Public debt explodes since the breakout of the financial crisis



Germany: Rise of ca. 300 bi. € (gross debt)

Public debt in % of the GDP

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Europäische Union (27 Länder)	61,9	61,0	60,4	61,9	62,3	62,8	61,5	59,0	62,5	74,7	80,1
Euroraum (17 Länder)	69,2	68,1	67,9	69,1	69,5	70,1	68,5	66,3	70,1	79,8	85,3
Euroraum (16 Länder)	69,2	68,2	68,0	69,2	69,6	70,2	68,6	66,4	70,2	79,9	85,5
Belgien	107,8	106,5	103,4	98,4	94,0	92,0	88,0	84,1	89,3	95,9	96,2
Bulgarien	72,5	66,0	52,4	44,4	37,0	27,5	21,6	17,2	13,7	14,6	16,3
Tschechische Republik	17,8	23,9	27,1	28,6	28,9	28,4	28,3	27,9	28,7	34,4	37,6
Dänemark	52,4	49,6	49,5	47,2	45,1	37,8	32,1	27,5	34,5	41,8	43,7
Deutschland	60,2	59,1	60,7	64,4	66,3	68,6	68,1	65,2	66,7	74,4	83,2
Estland	5,1	4,8	5,7	5,6	5,0	4,6	4,4	3,7	4,5	7,2	6,7
Irland	37,5	35,2	31,9	30,7	29,4	27,2	24,7	24,8	44,2	65,2	92,5
Griechenland	103,4	103,7	101,7	97,4	98,6	100,0	106,1	107,4	113,0	129,3	144,9
Spanien	59,4	55,6	52,6	48,8	46,3	43,1	39,6	36,2	40,1	53,8	61,0
Frankreich	57,3	56,9	58,8	62,9	64,9	66,4	63,7	64,2	68,2	79,0	82,3
Italien	108,5	108,2	105,1	103,9	103,4	105,4	106,1	103,1	105,8	115,5	118,4
Zypern	59,6	61,2	65,1	69,7	70,9	69,4	64,7	58,8	48,9	58,5	61,5
Lettland	12,4	14,1	13,6	14,7	15,0	12,5	10,7	9,0	19,8	36,7	44,7
Litauen	23,6	23,0	22,2	21,0	19,3	18,3	17,9	16,8	15,5	29,4	38,0
Luxemburg	6,2	6,3	6,3	6,1	6,3	6,1	6,7	6,7	13,7	14,8	19,1
Ungarn	56,1	52,7	55,9	58,6	59,5	61,7	65,9	67,0	72,9	79,7	81,3
Malta	54,9	60,9	59,1	67,6	71,7	69,7	64,1	62,1	62,2	67,8	69,0
Niederlande	53,8	50,7	50,5	52,0	52,4	51,8	47,4	45,3	58,5	60,8	62,9
Österreich	66,2	66,8	66,2	65,3	64,7	64,2	62,3	60,2	63,8	69,5	71,8
Polen	36,8	37,6	42,2	47,1	45,7	47,1	47,7	45,0	47,1	50,9	54,9
Portugal	48,5	51,2	53,8	55,9	57,6	62,8	63,9	68,3	71,6	83,0	93,3
Rumänien	22,5	25,7	24,9	21,5	18,7	15,8	12,4	12,8	13,4	23,6	31,0
Slowenien	26,3	26,5	27,8	27,2	27,3	26,7	26,4	23,1	21,9	35,3	38,8
Slowakei	50,3	48,9	43,4	42,4	41,5	34,2	30,5	29,6	27,8	35,5	41,0
Finnland	43,8	42,5	41,5	44,5	44,4	41,7	39,6	35,2	33,9	43,3	48,3
Schweden	53,9	54,7	52,5	51,7	50,3	50,4	45,0	40,2	38,8	42,7	39,7
Vereinigtes Königreich	41,0	37,7	37,5	39,0	40,9	42,5	43,4	44,4	54,8	69,6	79,9

Debt level of countries in % of the GDP

Schuldenstand der Staaten in % des BIP

	2000	2007	2011		2000	2007	2011
Europäische Union (27 Länder)	61,9	59,0	82,5	Lettland	12,4	9,0	42,2
Euroraum (17 Länder)	69,2	66,3	87,3	Litauen	23,6	16,8	38,5
Belgien	107,8	84,1	97,8	Ungarn	56,1	67,0	81,4
Bulgarien	72,5	17,2	16,3	Malta	54,9	62,1	70,9
Tschechische Republik	17,8	27,9	40,8	Niederlande	53,8	45,3	65,5
Dänemark	52,4	27,5	46,6	Österreich	66,2	60,2	72,4
Deutschland	60,2	65,2	80,5	Polen	36,8	45,0	56,4
Estland	5,1	3,7	6,1	Portugal	48,5	68,3	108,1
Irland	37,5	24,8	106,4	Rumänien	22,5	12,8	33,4
Griechenland	103,4	107,4	170,6	Slowenien	26,3	23,1	46,9
Spanien	59,4	36,2	69,3	Slowakei	50,3	29,6	43,3
Frankreich	57,3	64,2	86,0	Finnland	43,8	35,2	49,0
Italien	108,5	103,1	120,7	Schweden	53,9	40,2	38,4
Zypern	59,6	58,8	71,1	Vereinigtes Königreich	41,0	44,4	85,0

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- Fundamentally, public debt is generated when a state spends more than the regular incomes it disposes of. To cover these extra expenses the state must take out loans, generally for a certain period of time. This funding is called **net borrowing**, or rather **net indebtedness**.
- At the end of the period of time the loans must be paid back, whereupon the state can take out new loans. The sum from the net borrowing and the revolving credits to repay the expire credits is called the **gross borrowing**, or rather the **gross re-indebtedness**.
- Net borrowing is only a minor part of the gross re-indebtedness. In 2011 net borrowing in Germany amounted ca. 12 bi. Euro, whereas the biggest part (280 bi. Euro) of the taken-out loans was used to pay back the existing debt.

„It sometimes seems to me that most of the politicians have difficulties realizing how much they already are under the control of the financial markets and even dominated by them.“

Chairman of the Bundesbank Hans Tietmeyer at the World Economic Forum of Davos, in 1996
(in front of standing ovations)

Interest expenses in % of tax revenues

GEO/TIME	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Europäische Union (27 Länder)	8,9%	8,6%	8,0%	7,6%	7,2%	6,9%	6,6%	6,8%	6,9%	6,7%	6,9%
Euroraum (17 Länder)	9,4%	9,3%	8,7%	8,2%	7,8%	7,5%	7,2%	7,3%	7,5%	7,1%	7,0%
Euroraum (16 Länder)	9,4%	9,3%	8,7%	8,2%	7,8%	7,4%	7,2%	7,3%	7,5%	7,1%	7,0%
Euroraum (15 Länder)	9,4%	9,3%	8,7%	8,2%	7,8%	7,4%	7,2%	7,3%	7,6%	7,1%	7,0%
Euroraum (13 Länder)	9,4%	9,3%	8,7%	8,2%	7,8%	7,4%	7,2%	7,3%	7,6%	7,1%	7,0%
Euroraum (12 Länder)	9,4%	9,3%	8,7%	8,2%	7,8%	7,5%	7,2%	7,3%	7,6%	7,2%	7,0%
Belgien	14,3%	14,0%	12,3%	11,6%	10,3%	9,3%	8,7%	8,5%	8,4%	8,2%	7,6%
Bulgarien	13,2%	13,9%	8,0%	7,2%	5,9%	5,1%	4,3%	3,6%	2,8%	2,7%	2,2%
Tschechische Republik	2,4%	2,9%	3,3%	3,0%	3,0%	3,1%	3,0%	3,1%	3,0%	3,8%	4,0%
Dänemark	7,4%	7,0%	6,5%	5,9%	5,1%	4,0%	3,5%	3,2%	2,9%	3,9%	3,9%
Deutschland	7,6%	7,7%	7,4%	7,5%	7,3%	7,2%	7,2%	7,1%	6,9%	6,6%	6,4%
Estland	0,7%	0,5%	0,7%	0,7%	0,7%	0,6%	0,6%	0,5%	0,7%	0,5%	0,3%
Irland	6,2%	4,9%	4,6%	4,1%	3,6%	3,3%	3,1%	3,2%	4,4%	6,8%	10,5%
Griechenland	20,5%	18,6%	15,8%	14,7%	14,6%	13,7%	14,1%	14,1%	15,1%	15,8%	17,6%
Spanien	9,4%	9,0%	7,8%	6,9%	5,8%	4,9%	4,4%	4,3%	4,8%	5,6%	5,8%
Frankreich	6,3%	6,7%	6,6%	6,3%	6,2%	6,0%	5,7%	6,0%	6,5%	5,6%	5,5%
Italien	15,3%	15,4%	13,9%	12,5%	11,8%	11,7%	11,1%	11,6%	12,0%	10,6%	10,4%
Zypern	19,4%	18,8%	17,7%	18,9%	17,4%	17,3%	15,7%	13,1%	7,4%	7,3%	6,4%
Lettland	3,3%	3,2%	2,6%	2,4%	2,6%	1,9%	1,5%	1,1%	2,0%	5,5%	5,3%
Litauen	5,8%	5,3%	4,6%	4,4%	3,3%	2,8%	2,5%	2,4%	2,2%	4,3%	6,7%
Luxemburg	0,9%	0,8%	0,7%	0,6%	0,4%	0,4%	0,5%	0,7%	0,9%	1,0%	1,1%
Ungarn	13,4%	12,3%	10,7%	10,7%	11,7%	11,2%	10,6%	10,3%	11,2%	11,6%	11,1%
Malta	28,5%	24,6%	25,4%	23,8%	25,0%	24,7%	23,6%	21,7%	9,2%	8,9%	8,8%
Niederlande	9,1%	8,2%	7,3%	6,9%	6,5%	6,2%	5,6%	5,7%	5,6%	5,6%	4,9%
Österreich	8,1%	7,6%	7,4%	6,9%	6,7%	6,9%	6,7%	6,7%	6,0%	6,4%	6,1%
Polen	9,3%	9,7%	8,8%	9,2%	8,8%	8,6%	7,9%	6,7%	6,5%	8,4%	8,5%
Portugal	8,8%	8,8%	8,2%	7,7%	7,6%	7,0%	7,5%	8,4%	8,7%	8,5%	8,8%
Rumänien	12,9%	11,9%	8,6%	5,7%	5,3%	4,3%	2,9%	2,4%	2,5%	5,6%	5,6%
Slowenien	6,4%	6,2%	5,7%	5,1%	4,4%	4,0%	3,6%	3,4%	3,0%	3,6%	4,3%
Slowakei	11,9%	12,0%	10,7%	7,6%	6,9%	5,5%	5,0%	4,8%	4,3%	5,0%	4,8%
Finnland	6,0%	6,0%	4,7%	4,3%	4,1%	3,8%	3,6%	3,4%	3,4%	3,3%	3,2%
Schweden	6,7%	5,5%	6,4%	4,7%	3,7%	3,8%	3,6%	3,7%	3,5%	2,5%	2,3%
Vereinigtes Königreich	7,2%	6,2%	5,5%	5,5%	5,4%	5,6%	5,4%	5,9%	5,8%	5,2%	7,8%
Island	9,1%	9,5%	8,5%	7,5%	6,4%	5,4%	5,2%	6,4%	9,1%	19,5%	15,8%
Norwegen	3,6%	4,3%	4,2%	4,3%	3,3%	2,8%	3,5%	3,0%	3,5%	3,4%	3,1%
Schweiz	6,1%	5,9%	5,7%	5,4%	5,2%	5,0%	4,6%	4,3%	3,8%	3,4%	3,2%

Interest expenditures

Zinsausgaben der Staaten in % des BIP

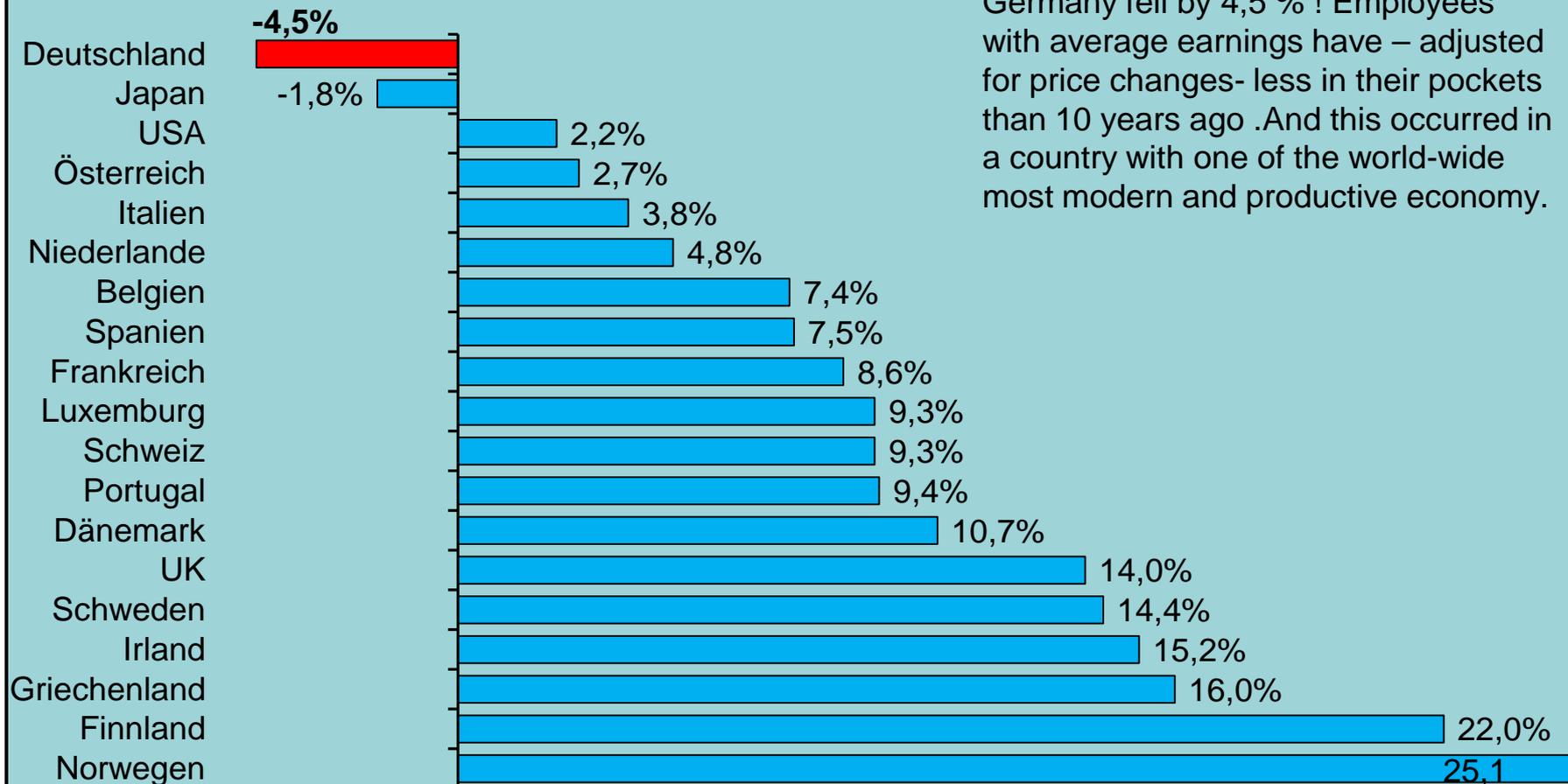
	2000	2005	2009		2000	2005	2009
Europäische Union (27 Länder)	3,6	2,8	2,6	Lettland	1,0	0,5	1,5
Euroraum (17 Länder)	3,9	3,0	2,9	Litauen	1,7	0,8	1,3
Belgien	6,6	4,3	3,7	Polen	3,0	2,8	2,6
Bulgarien	4,2	1,6	0,8	Portugal	2,9	2,4	2,9
Tschechische Republik	0,8	1,1	1,3	Rumänien	3,9	1,2	1,5
Dänemark	3,7	2,1	1,9	Slowenien	2,4	1,6	1,4
Deutschland	3,2	2,8	2,7	Slowakei	4,1	1,7	1,4
Estland	0,2	0,2	0,2	Finnland	2,8	1,7	1,4
Irland	2,0	1,0	2,0	Schweden	3,5	1,9	1,2
Griechenland	7,4	4,7	5,1	Vereinigtes Königreich	2,7	2,1	1,9
Spanien	3,2	1,8	1,8				
Frankreich	2,9	2,7	2,4				
Italien	6,3	4,7	4,5				
Zypern	3,4	3,5	2,6				

Root-cause analysis II

The Eurozone crisis is the manifestation of the fundamental structural defects of the monetary union

- A common currency cannot work without a minimum of coordination of the economic, social and wage policy.
- Consequences: serious imbalances in foreign trade between the Euro countries, rising external debt for countries with import surpluses.
- No central bank able to guarantee the government's financial solvency in case of doubts.
- ➔ We must fundamentally reform the monetary union or it will collapse. Savings glut alone isn't helpful.

Germany is world champion- at wage dumping!

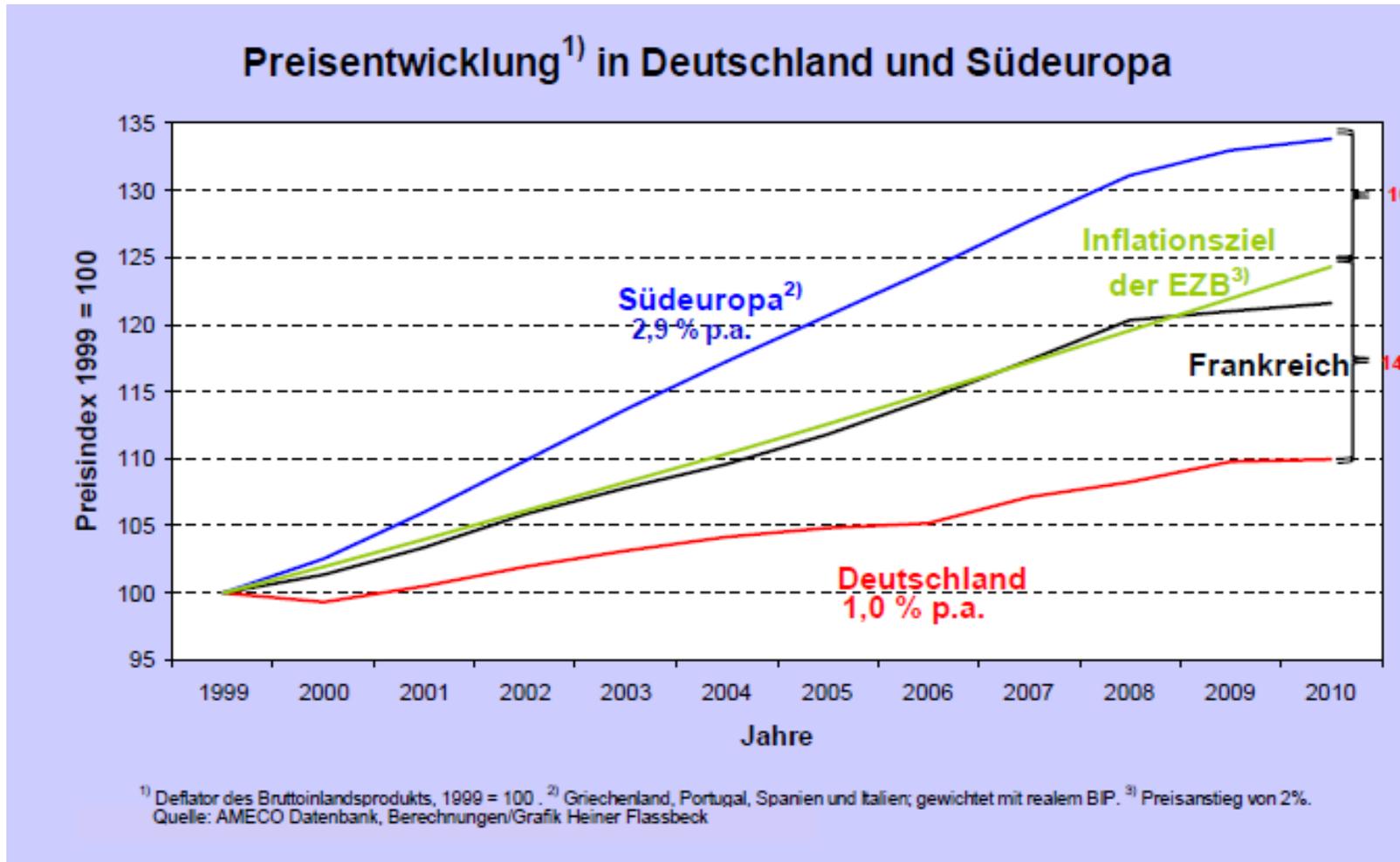


Between 2000 and 2010, real wages in Germany fell by 4,5 % ! Employees with average earnings have – adjusted for price changes- less in their pockets than 10 years ago .And this occurred in a country with one of the world-wide most modern and productive economy.

Quelle: Global Wage Report, Internationale Arbeitsorganisation Genf, Griechenland und Portugal Ameco-Datenbank

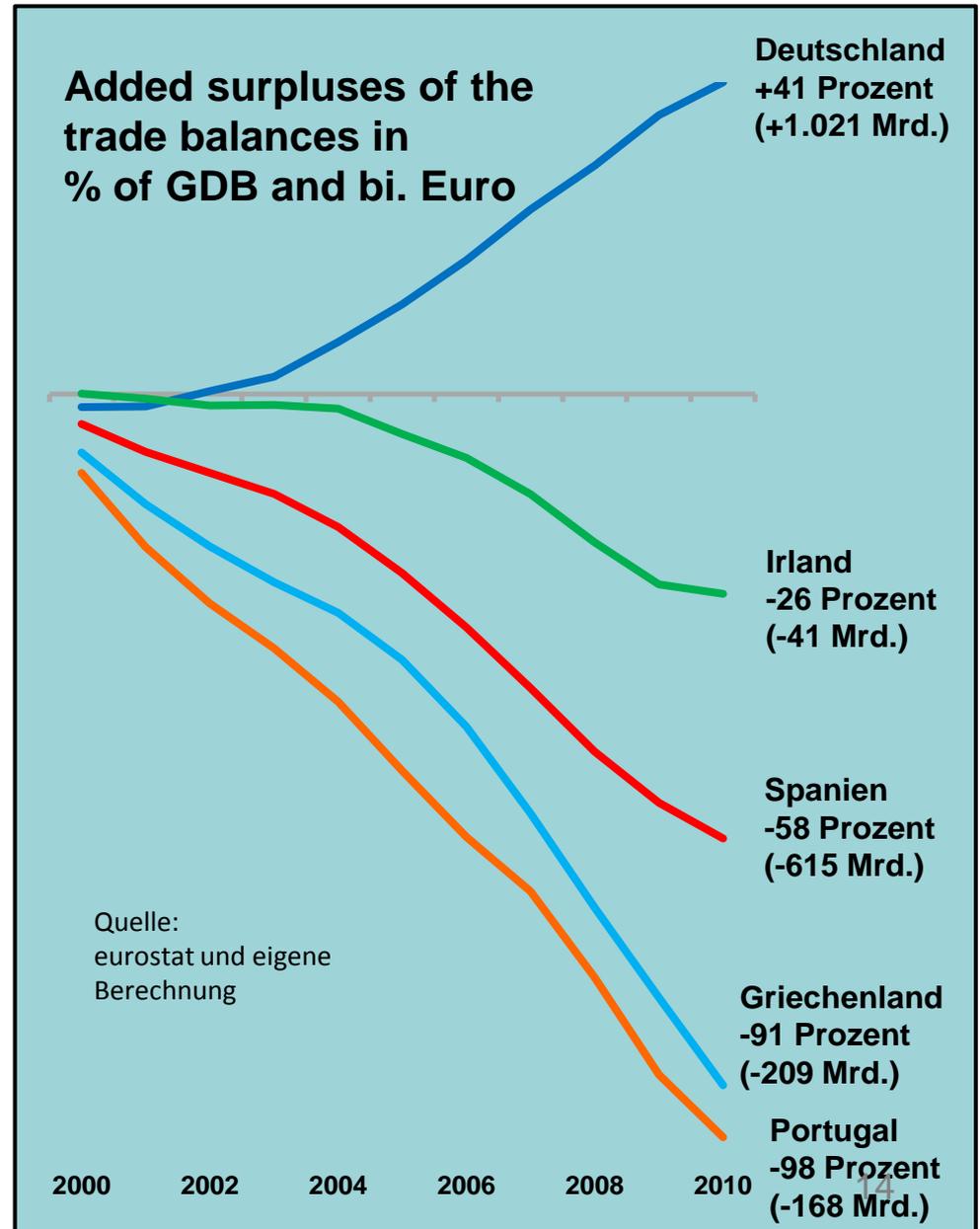
Who actually violates the rules of the games?

(Price development in Germany and Southern Europe)



Wages dumping causes high imbalances

Trade balance: the most important part of the trade balance is the trade in good and the services. A country with surpluses in its trade balance creates debt for ist neighbour. A country with deficit gets into debt. This is not sustainable.



2. Wrong Bailout Policy

Prevailing politics claims:

- The debt crisis is the result of too high public expenditures.



Policy of cuts – the example of Greece

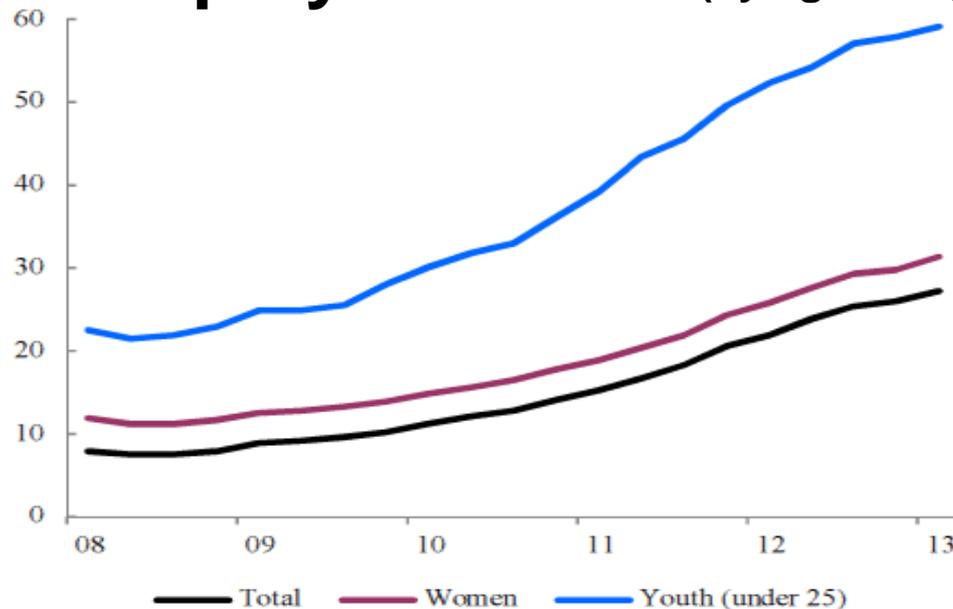
- Wage cuts of 30 % by the end of 2013
- Minimum wage reduced of 22 %,
for the youth until 25 years old: reduced of 32 %
- Basic public expenditures reduced of 21 %:

	2009 (Mrd. €)	2012 (Mrd €)	Differenz (Mrd. €)	Differenz (in %)	auf Deutschland hochgerechnet
Personal	31	24	-7	-23 %	85 Mrd. €
Sozialtransfers	18	13	-5	-26 %	61 Mrd. €
Sozialausgaben ohne Transfers (v.a. Renten)	49	46	-3	-7 %	37 Mrd. €
Gesamt	125	99	-26	-21 %	317 Mrd. €

The Greek economy is driven into recession

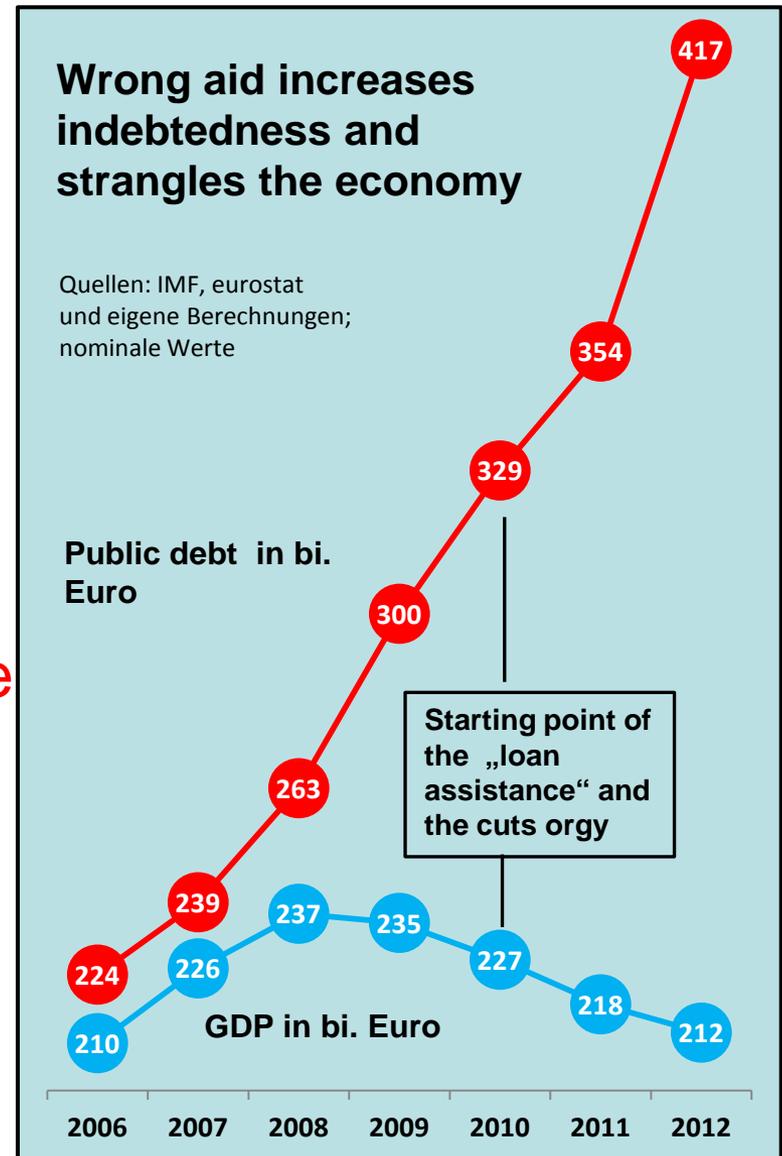
- Gross domestic product:
Since 2010, contraction by 20%
- Originally, the European Commission counted « only » on 6,6 %

■ Unemployment rate (by age and gender):



Greek Tragedy:

- There only was « loan assistance » when massive spending reductions were implemented. The country slipped into recession.
- ➔ Spending rises because of the growing unemployment, tax revenue drops because of the recession.
- ➔ Debts rise despite the so-called loan assistance.



Cuts cause a decline of the economic activity: in the vicious circle of public debt reductions

■ Italy

Contraction in GDP -2,3% (2012), -0,5% (2013)

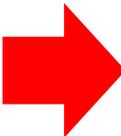
■ Spain

Contraction in GDP -1,4% (2012), -1,4% (2013)

Re-indebtedness 8% (2012) and 6% (2013) of GDP

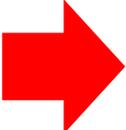
The measures established will not end the crisis

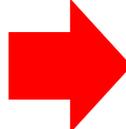
- The hitherto rescue policy leads to more debt and less growth.
- That is why all the so-called aid packages did not work— regardless how astronomically high their amounts have become within two years.

 Because this policy is wrong and an alternative crisis management is possible, the parliamentary group DIE LINKE voted against the « aid packages ».

Up-to-date: Fiscal treaty

- Debt brake
structural deficit cannot exceed 0,5 % of GDP
- Debt level cannot exceed 60 % of GDP
excessive debt must be settled within 20 years
- Access to ESM is conditional upon the ratification of the fiscal treaty.

 Guidelines force to Europe-wide cuts orgies
almost all EU countries have currently too high deficits

 Parliaments are put under tutelage
Budgetary sovereignty is strongly limited

Concessions to the SPD and the Greens for their approval: show event
(growth components, tax on financial transactions, ...)

Fiscal treaty II

After „show“ negotiations (growth components and tax on financial transactions), SPD and the Greens ensured the majority for constitutional changes in June 2012.

L

Frankfurter Rundschau

FORSCHER WARNT DIE SPD

Meinung - 29 | 5 | 2012

Gegen den Fiskalpakt ist Hartz IV eine Lappalie



Aktivisten wehren sich mit Farbe gegen die Räumung des Occupy-Camps in Frankfurt (16.05.2012).
Foto: afp

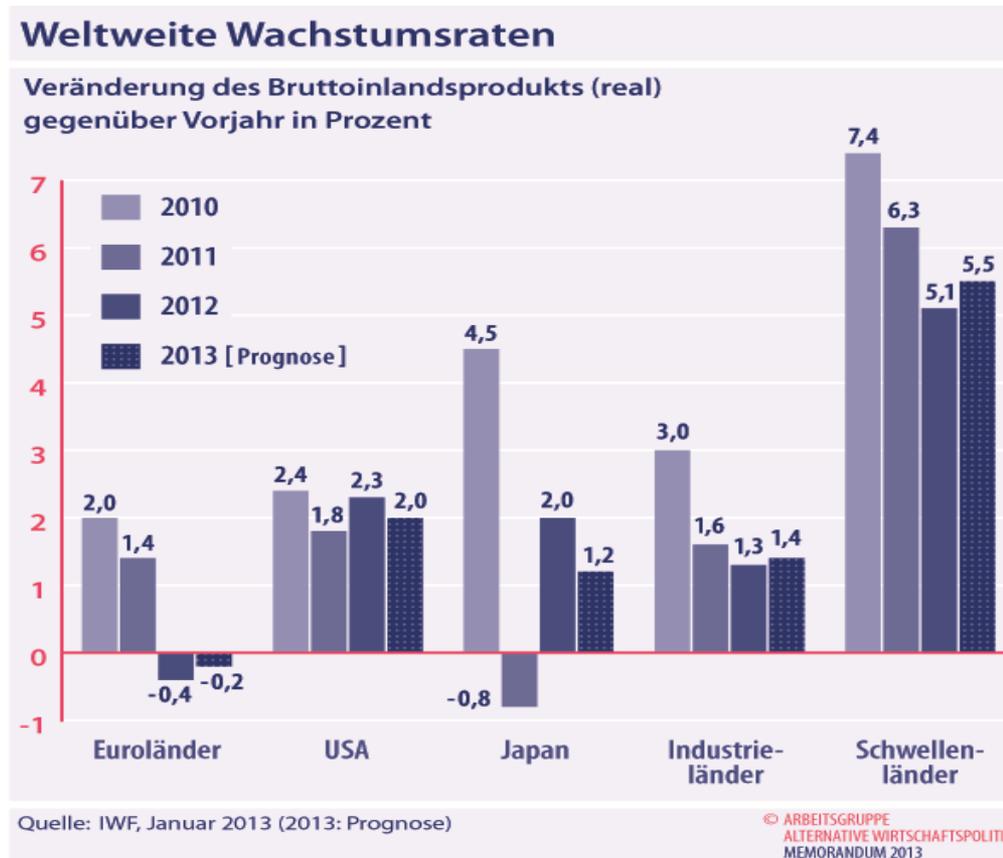
Von Stephan Schulmeister

Wenn die SPD dem Fiskalpakt zustimmt, schafft sie die Voraussetzung für die Vollendung des neoliberalen Projekts in Europa. Damit würde sie den größten Fehler der Nachkriegszeit begehen, Hartz IV ist dagegen eine Lappalie. Ein Kommentar.

Niemand darf über seine Verhältnisse leben. Deshalb ist der deutsche Staat schuld an seiner Verschuldung, die Griechen sowieso, aber auch alle anderen Staaten. Nüchtern formulierte Reichskanzler Brüning schon 1931: „Die Dinge liegen an sich eher einfach: Der oberste Grundsatz für die Finanzpolitik jedes Staates ist der, dass nicht mehr ausgegeben werden kann als eingenommen wird“.

World-wide growth rates

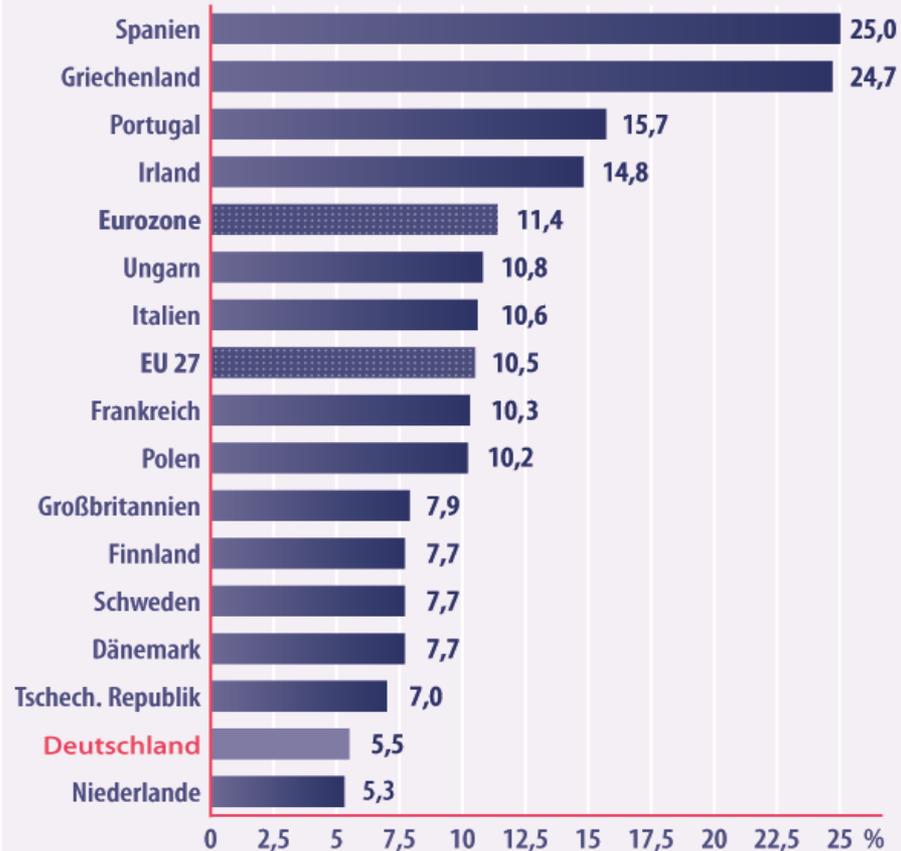
Change of GDP (real) compared with the previous year



Unemployment rates (2012)

Arbeitslosenquoten 2012

in Prozent, standardisierte (international vergleichbare) Werte nach ILO-Konzept



Quelle: AMECO/EU-Kommission.

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ALTERNATIVE WIRTSCHAFTSPOLITIK
MEMORANDUM 2013

3. Ending the Permanent Crisis is possible – a six-point programme for an alternative policy

- 1.** Ending immediately the dictated austerity programmes and the undemocratic interference
- 2.** Disconnecting the funding of government budgets from the financial markets
- 3.** Debt cuts for over-indebted states and European capital levy for the debt cuts
- 4.** Regulating strictly the banking sector and place it under public control
- 5.** Eliminating the imbalances in foreign trade
- 6.** Making the profiteers pay

1. Ending immediately the dictated austerity programmes

- Enough with the incapacity of crisis countries' parliaments to decide on their own policies. Enough with the takeover of other countries' leaders as well as undemocratic and illegitimate institutions (such as the ECB and the IMF).
- Immediate end of the cuts in pensions, wages, social budgets, as well as privatizations.
- Instead of saving until there is nothing more to save: relevant investments in the future for sustainable economical structures and energy supply systems. The DGB Marshall plan may not go far enough.

2. Disconnecting the funding of government budgets from the financial markets

- States must be able to finance their government bonds at low rates with a European bank, rather than having to borrow at too high rates from banks or other investors.
- Common bonds of Euro countries are a practical possibility to shape the interest charges of countries in crisis in such a way that it could reduce their level of debt.
- Thus, public finances would no longer be held hostage of the financial markets

3. Debt cuts for over-indebted states and European capital levy for the debt cuts

- Through a debt cut for over-indebted states and a European capital levy for millionaires, the public debts will be brought to a sustainable level.
- The debt cancellation pact designed by the German Council of Economic Experts (SVR) in the form of a responsible sinking fund. It would have a duration of up to 25 years and currently a volume of 2,6 trillions Euro. Germany would assign 537,8 bi. Euro to the sinking fund.
 - No conditions forcing the participating states to implement a rigorous austerity programme
 - Funding through a capital levy

4. The banking sector must be strictly regulated.

- Banks must be forced to confine their actions to serve the real economy. The business model should follow the lead of the savings and cooperative banks. First step: separation of investment and commercial banks.
- Recapitalization with public funds only in exchange of majority share holding. In the long-run: socialization of the large private banks.
- Re-regulation von short selling, credit default swaps, over-the-counter transactions, equity capital.
- End of the shadow banking, meaning end of hedge funds for big investors, funds to buy companies on credit („private equity”), as well as money market funds and special purpose vehicle.
- Public European rating agency
- Change of the supervisory culture: not „everything is allowed if it is not forbidden“, rather „only the products and business practises that have been approved are authorized“.

5. Eliminating the imbalances in foreign trade

- Surplus countries must be obliged to increase domestic demand, so that the deficit countries can export more.
- For Germany, it means: immediate minimum wage of 10 Euro, overcoming Hartz IV and a future investment programme financed through wealth tax, higher corporation tax, etc.
- Supporting deficit countries through a Marshall plan
- Adjustment union with penalty payment

Axel Troost & Lisa Paus: [Eine Europäische Ausgleichsunion – Die Währungsunion 2.0](#), Institut für Solidarische Moderne, 2011

6. Making the profiteers pay

■ Tax on financial transactions

- Together with other European states
- Broad alliance „Tax against poverty“, Attac, trade unions

■ Bank levy

