

# Economic situation March 2010

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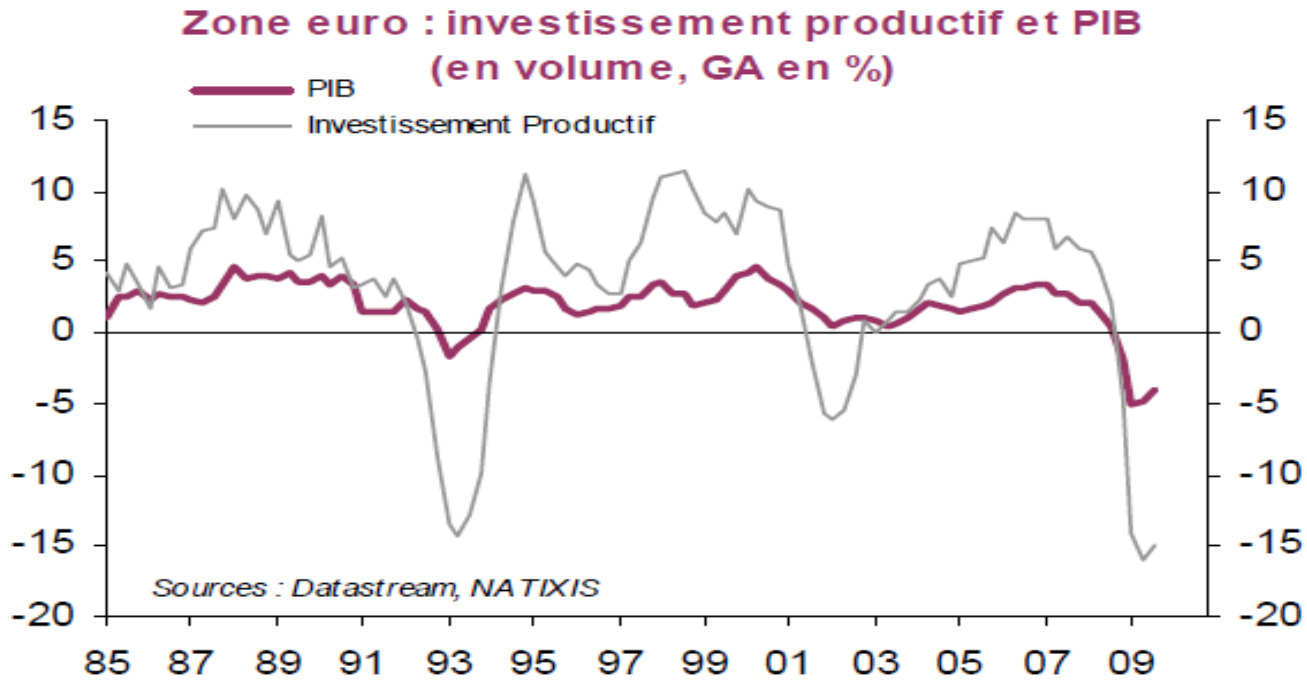
# Structure

- The 'Zombie' recovery
- Neo liberal arrogance : Turning things upside down
- The consequences : Europe has been there before
- Another Europe must be possible

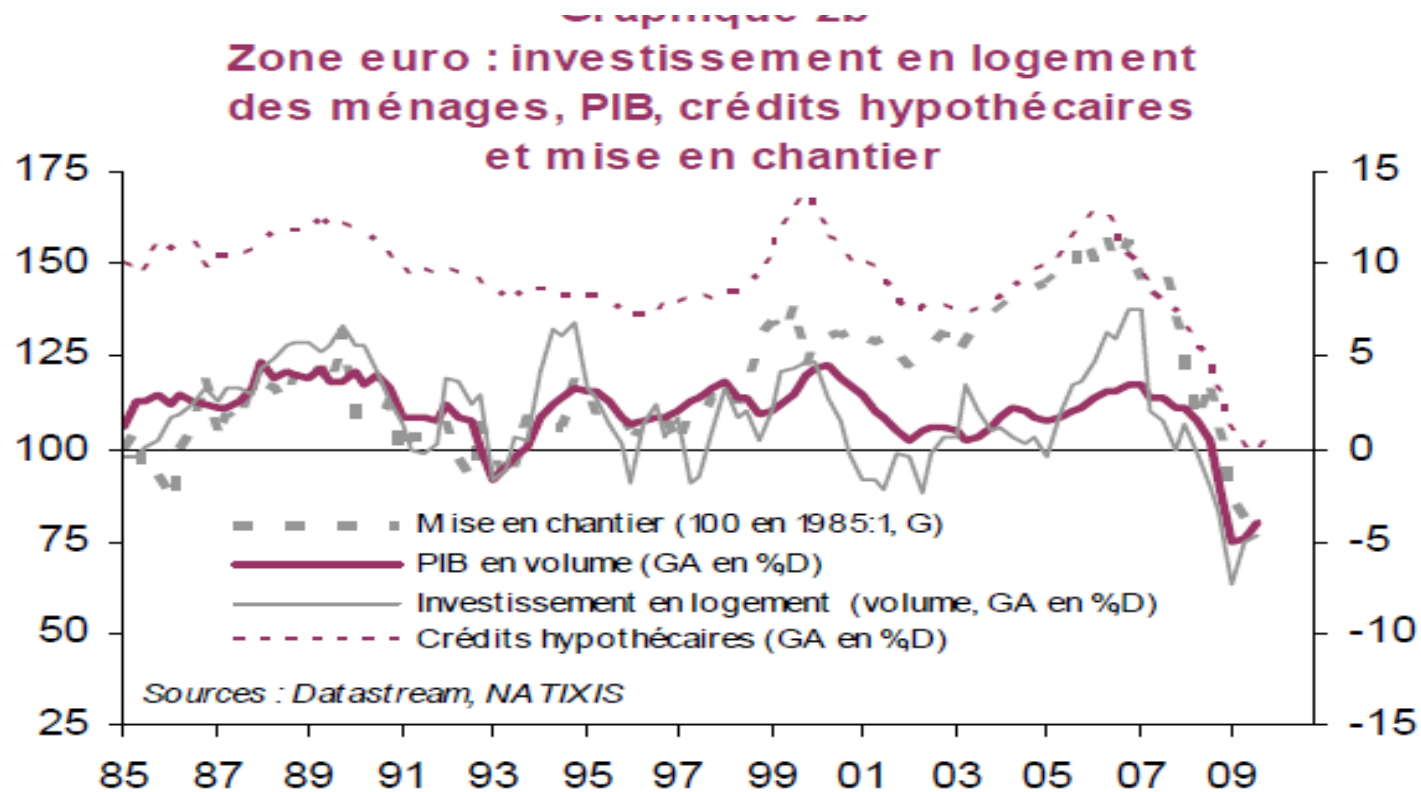
# A Zombie Recovery

- In a 'normal' business cycle, the economy recovers because :
  - Productive investments recover
  - Housing investment recovers
  - Household savings' rate fall
  - Total (real) wages (jobs and/or wages) recover

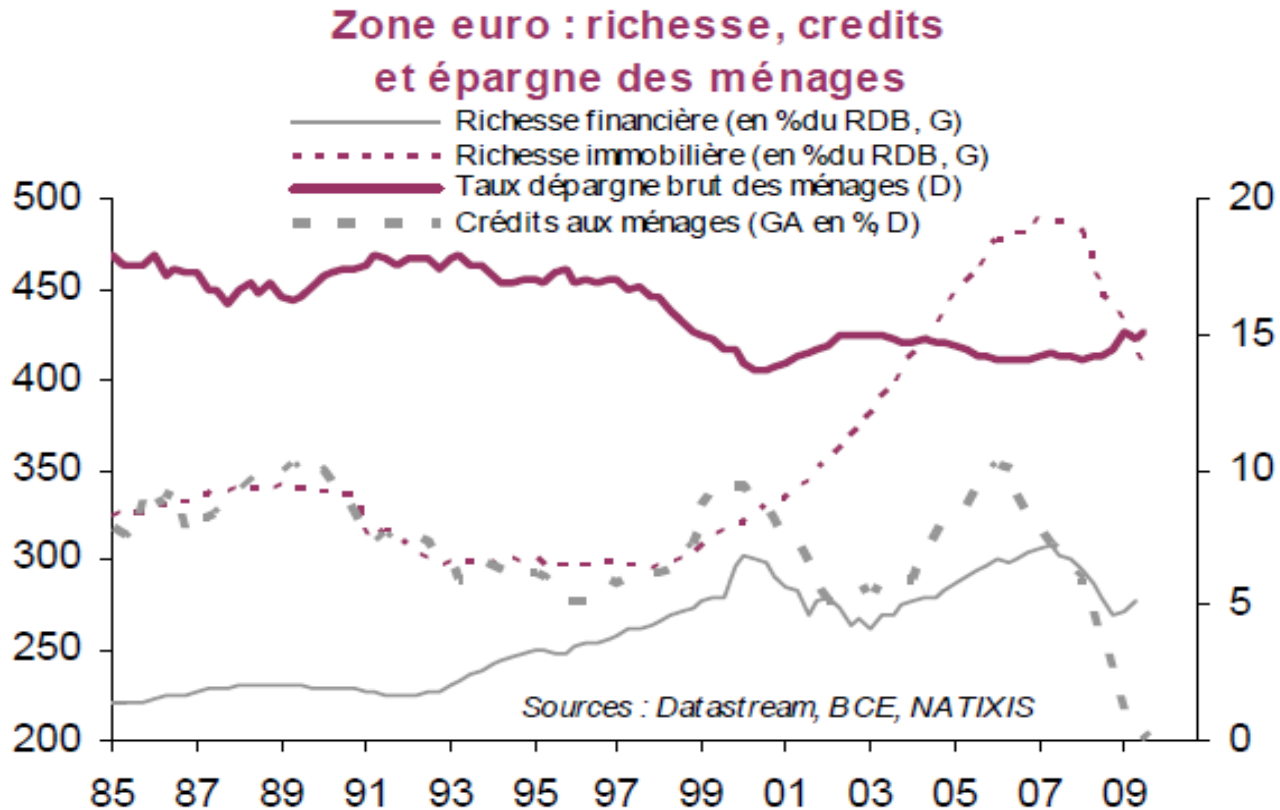
# Productive investment



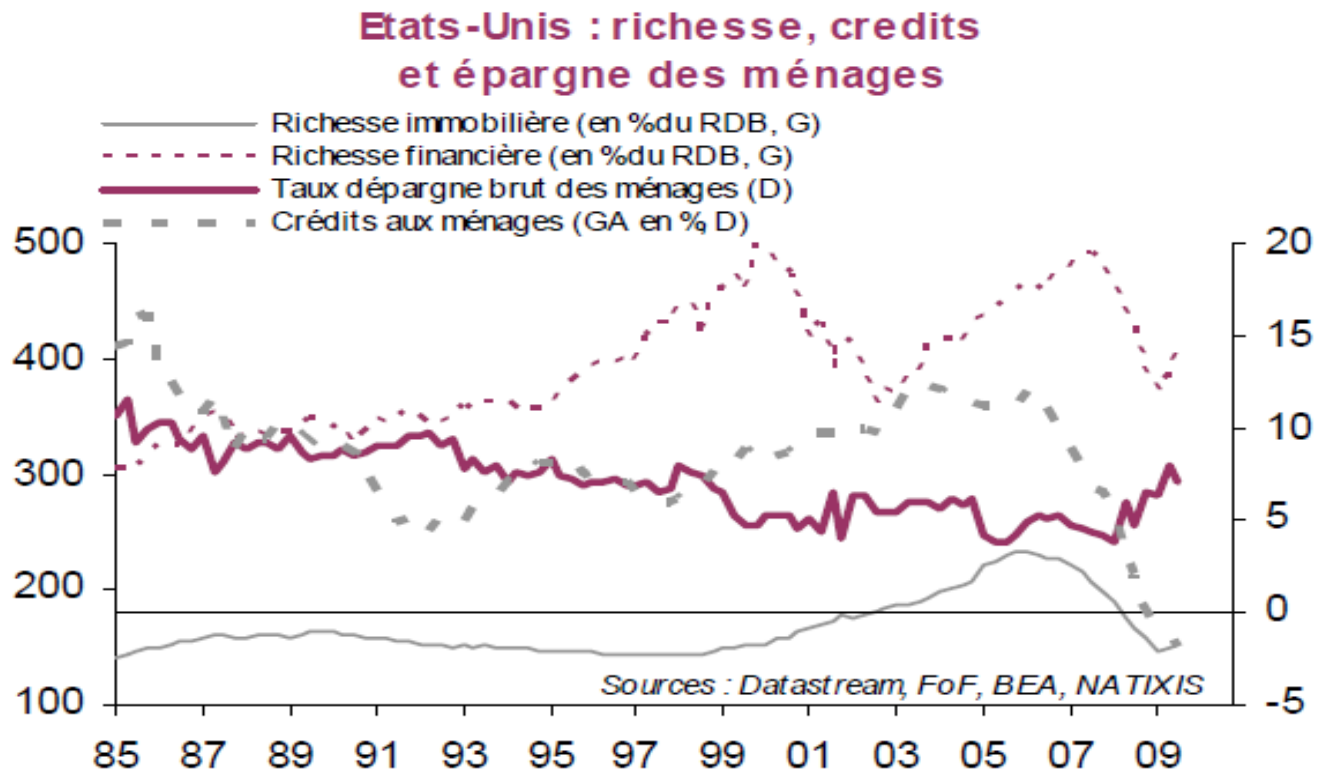
# Housing investment



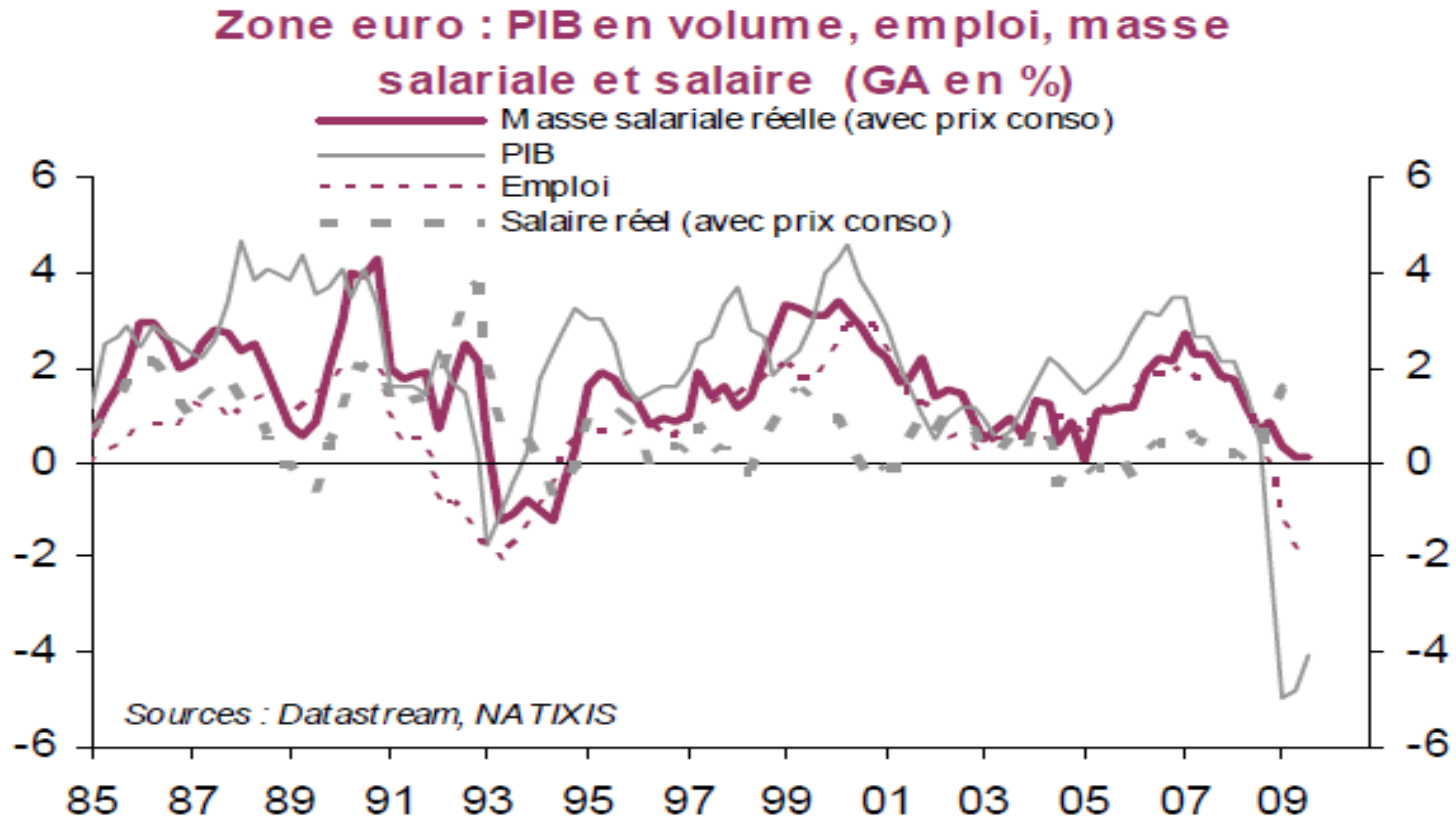
# Household savings



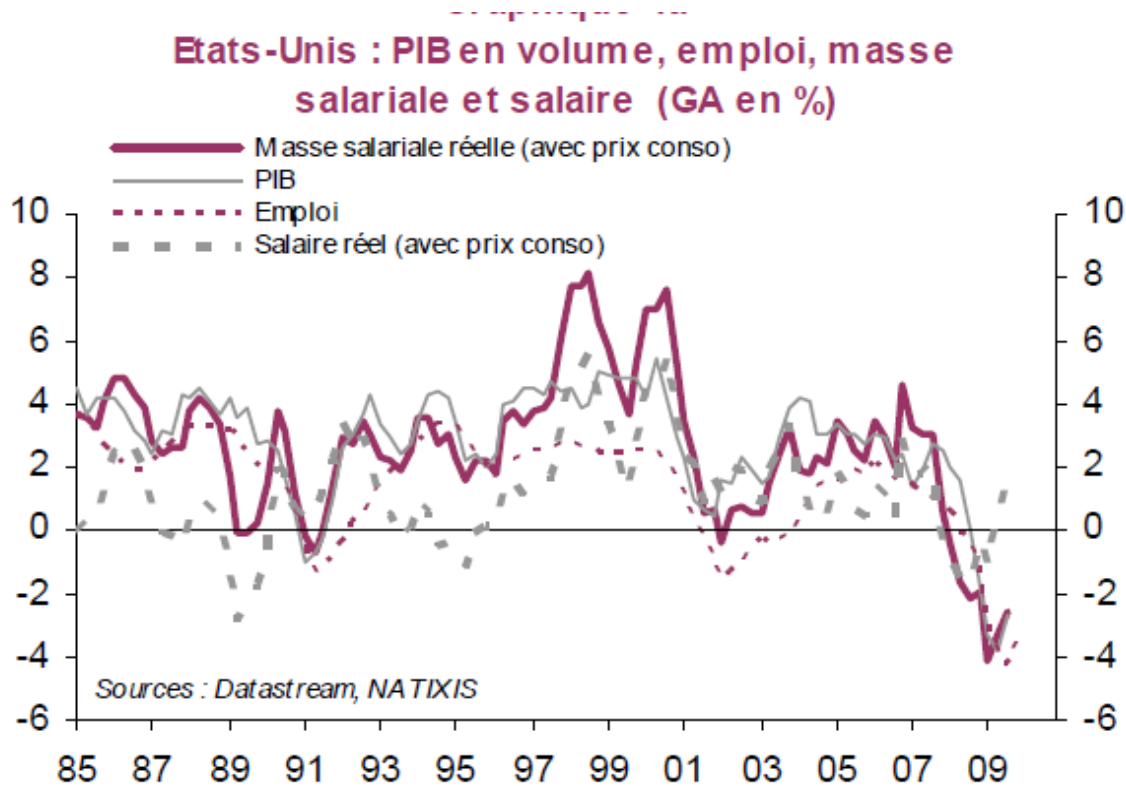
# Household savings in US



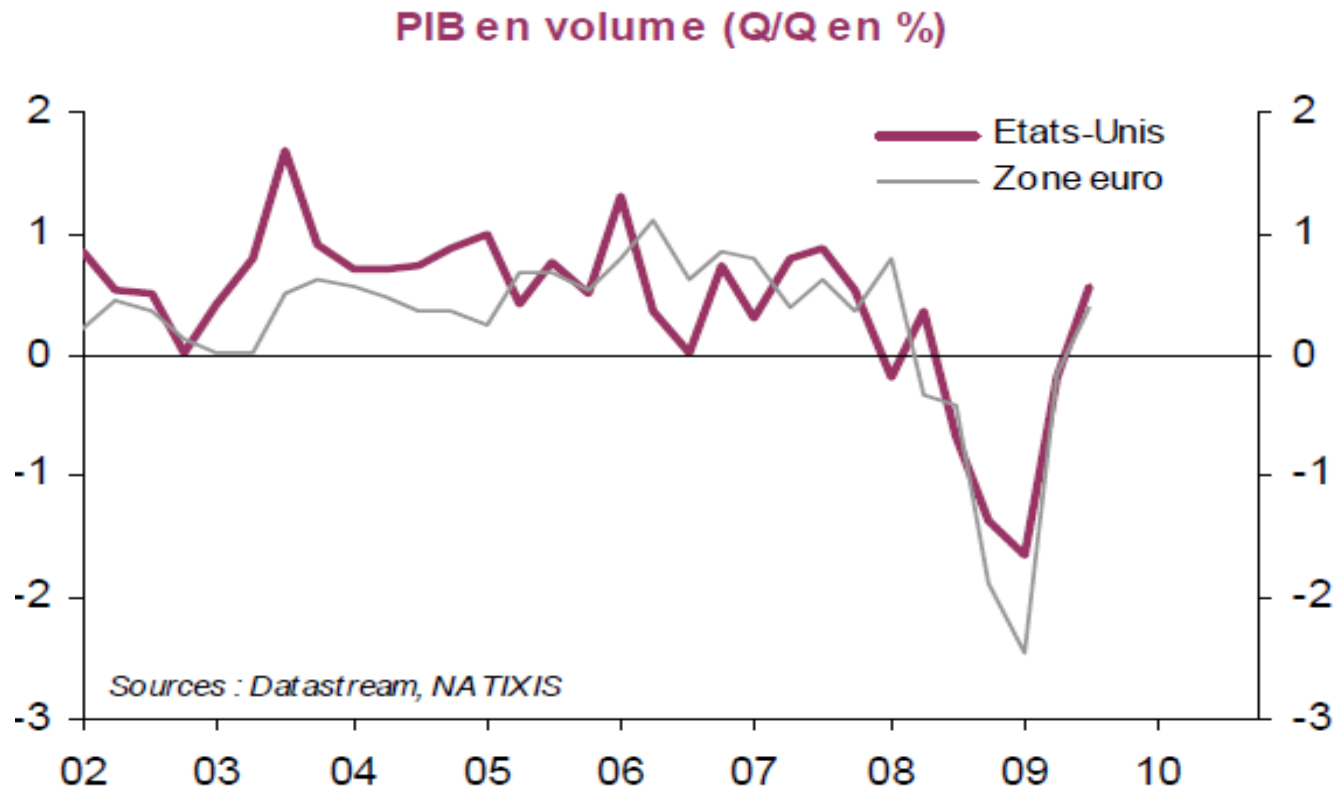
# Total (real) wage sum



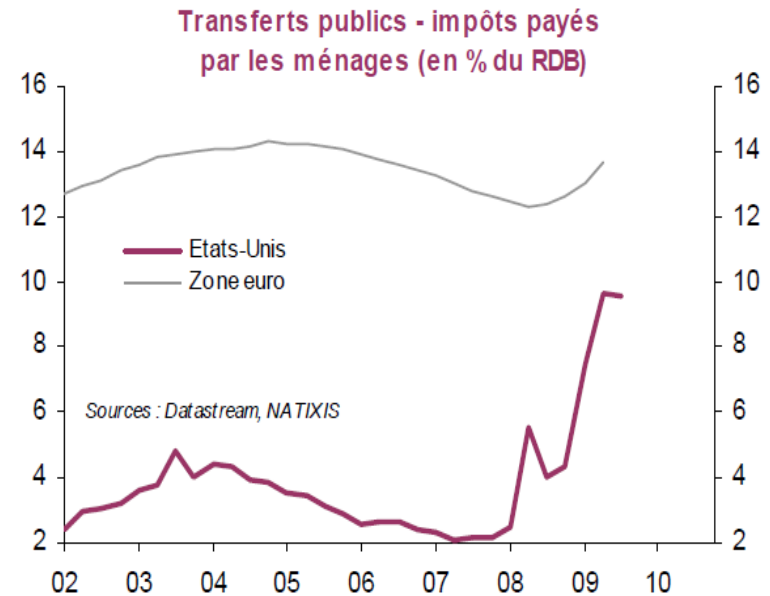
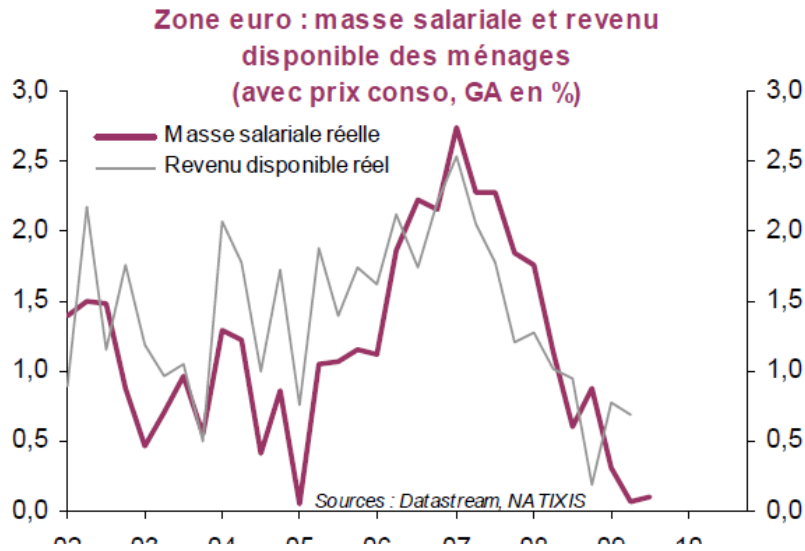
# Total wage sum falling even more in US



# So where does the recovery come from ?



# Public deficits supporting household income and demand



# 'One' problem with this

- To maintain existing level of demand and activity, high public deficits needs to be sustained
- To keep the economy growing in the absence of private demand dynamivs, high public defcits would need to increase further !

# Business arrogance:

- Not the market but the public sector is to blame  
:
- « Excessive public deficits are keeping interest rate high and ‘crowding out’ private investment. Cut deficits and business investment will recover »
- What is wrong with this argument
  - Mixes up cause and causality
  - Presumes there’s an aggregate savings (and not an aggregate demand) deficit

# However, triple pressure to cut deficits and cut them fast

- Finance ministers and Stability Pact
- Central bankers
- Financial markets and rating agencies
- These forces 'collude' and strengthen each other
- See the Greek case :

# The Greek case

- Central bankers and finance ministers ‘playing’ the (financial) markets. Once financial markets react, finance ministers and central bankers have a perfect ‘alibi’ (Cut deficits or face the punishment)
- Hard not to get cynical: Identical ‘perversity’ as in financial crisis. Markets at that time saved from themselves. Now, governments ‘obeying the market that nearly destroyed the world economy’ and refusing to save themselves and each other

# Stability plans: Extremely ambitious fiscal consolidation plans

- Over the next three years:
  - 5% of GDP for the UK
  - 3% of GDP for France, Germany, Italy
  - 9 to 10% of GDP for Greece, Spain
  - PM: 7% of GDP for US (but rest over next seven years)
  - To avoid a negative impact on economic activity, higher public savings need to be offset by lower private savings. Will this happen ?

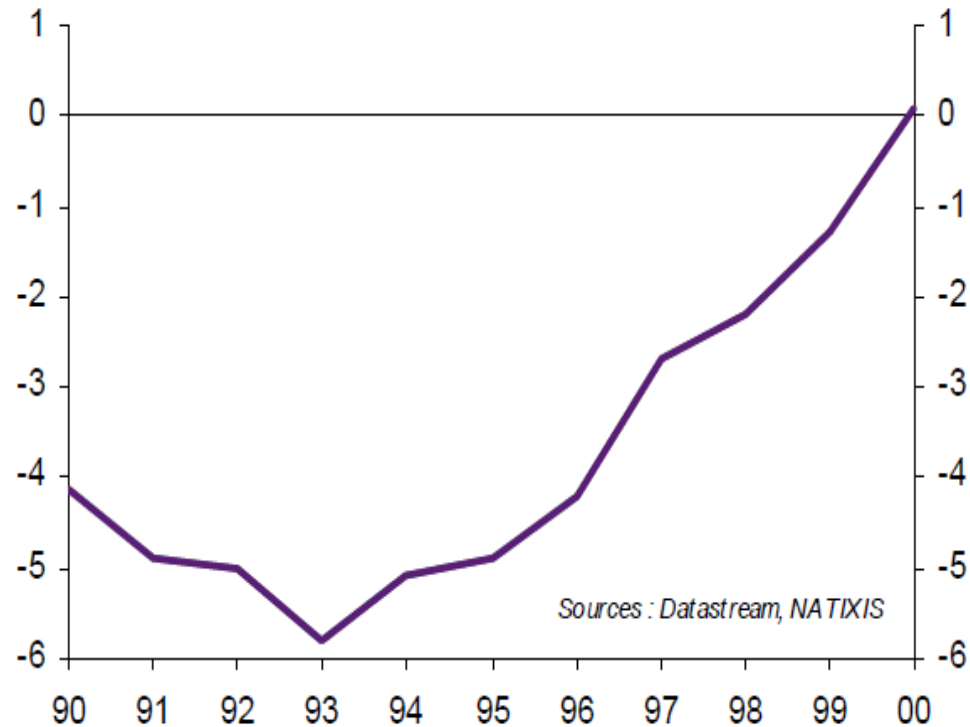
# Deficit targets

	2009	2010	2011	2012	2013
UK	12,6	12	9,1	7,3	5,7
GE	3	6	5	4	3
FR	7,9	8,2	7	6	5
IT	5,3	5	3,9	2,7	2,2
ES	11,4			3	
GR	12,7	8,7	5,3	2,8	2
IR	11,7	11,6	10	7,2	4,9
US	9,9	10,6	8,3	5,1	4,2
JP	7	7,2	7,1		

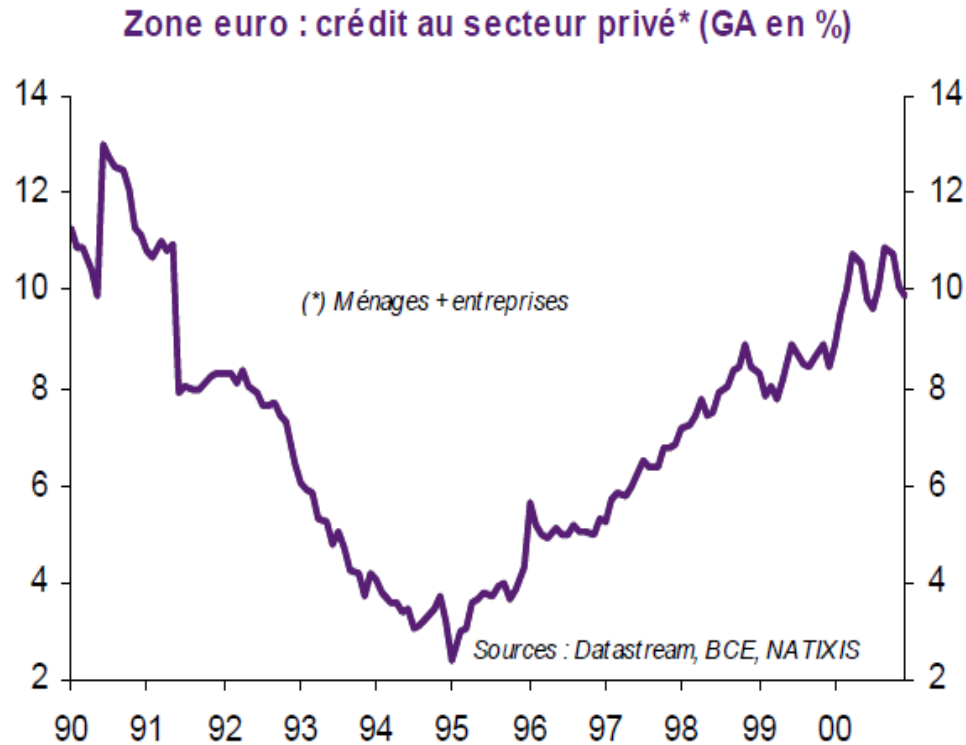
Source: Natixis, Flash 2010 64

# Europe has been there before: Hard fiscal consolidation '95 '97...

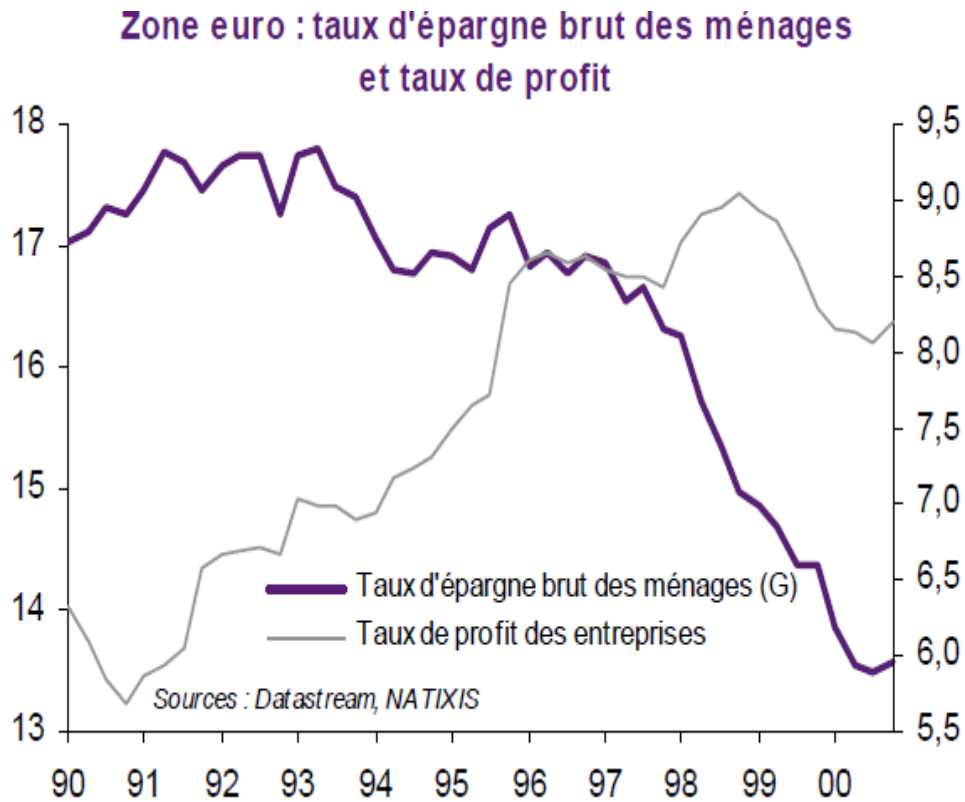
Zone euro : déficit public (en % du PIB)



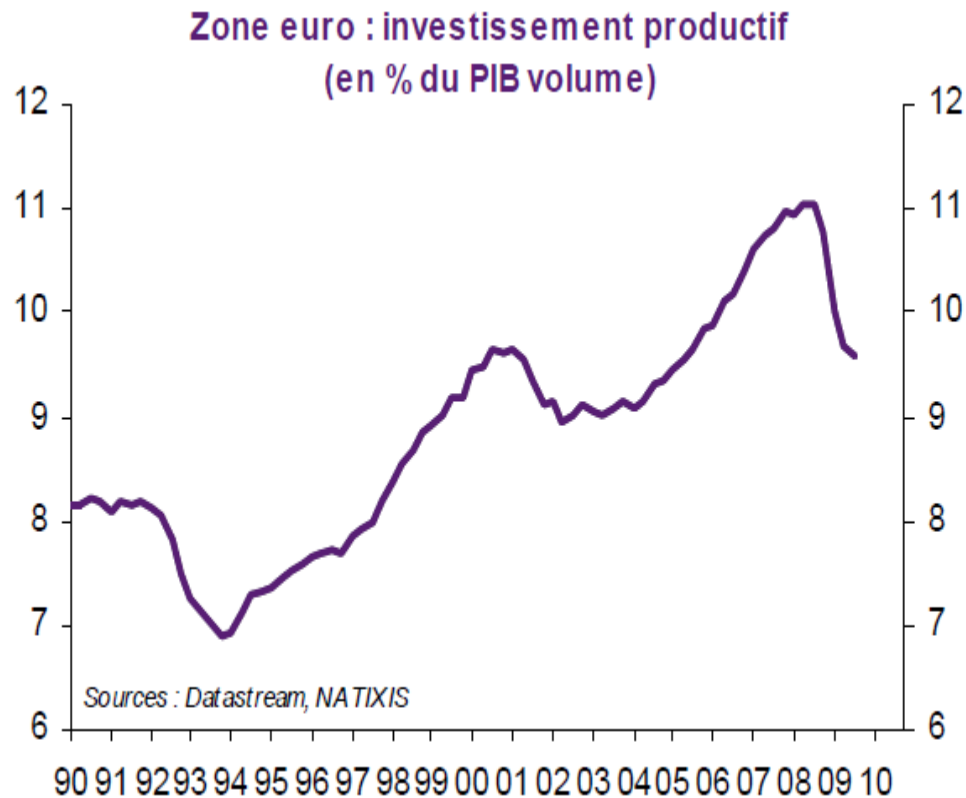
.... without a recovery in credit until  
97



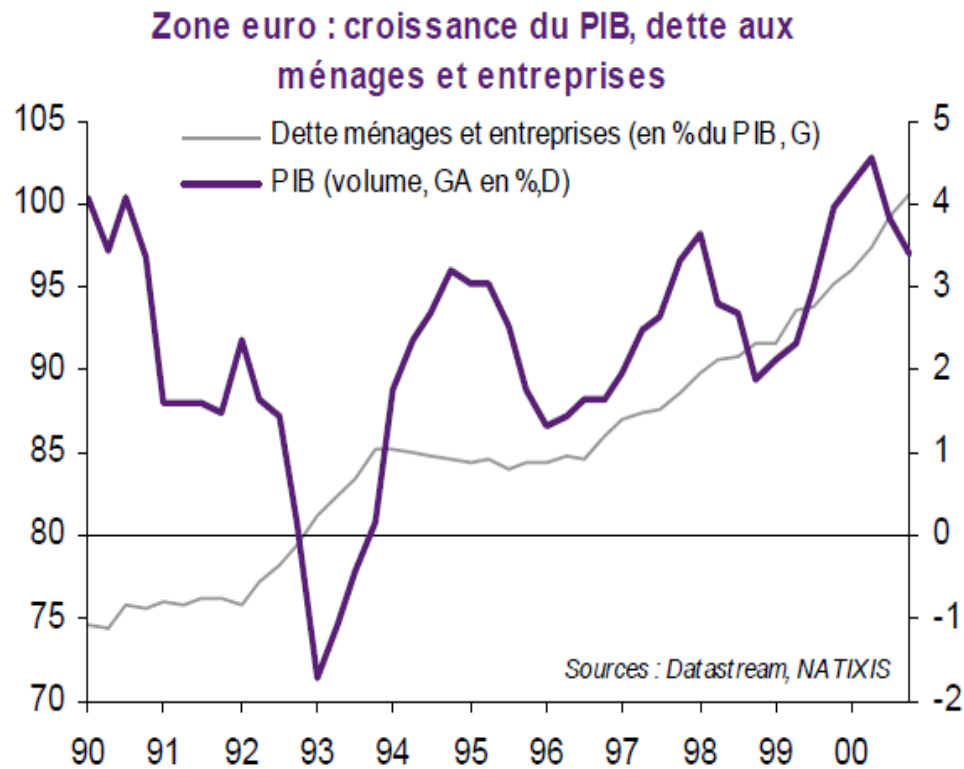
# ...and with higher private sector savings...



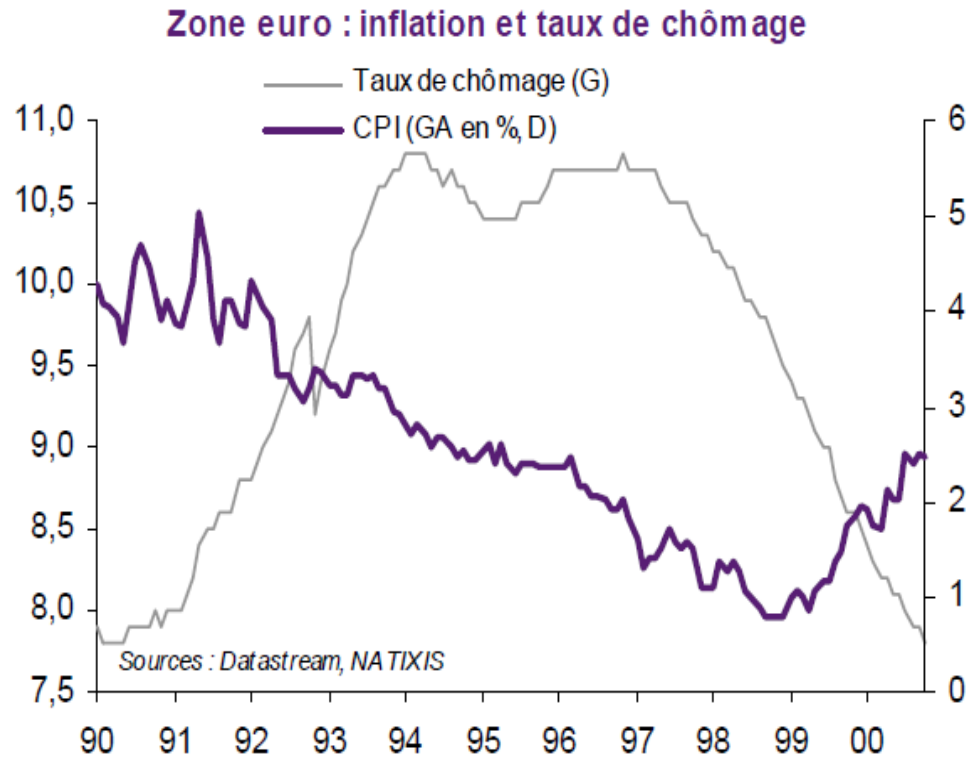
# ...not resulting in a recover in business investment...



# ...but in modest growth...



# ...and unemployment remaining high.



# The ETUC view

- We do not need a premature fiscal exit strategy, we need an entry strategy into jobs and investment.
- Sustained but better targeted recovery plans : Invest 1% of GDP in each of the next three years

# New sources of European finance

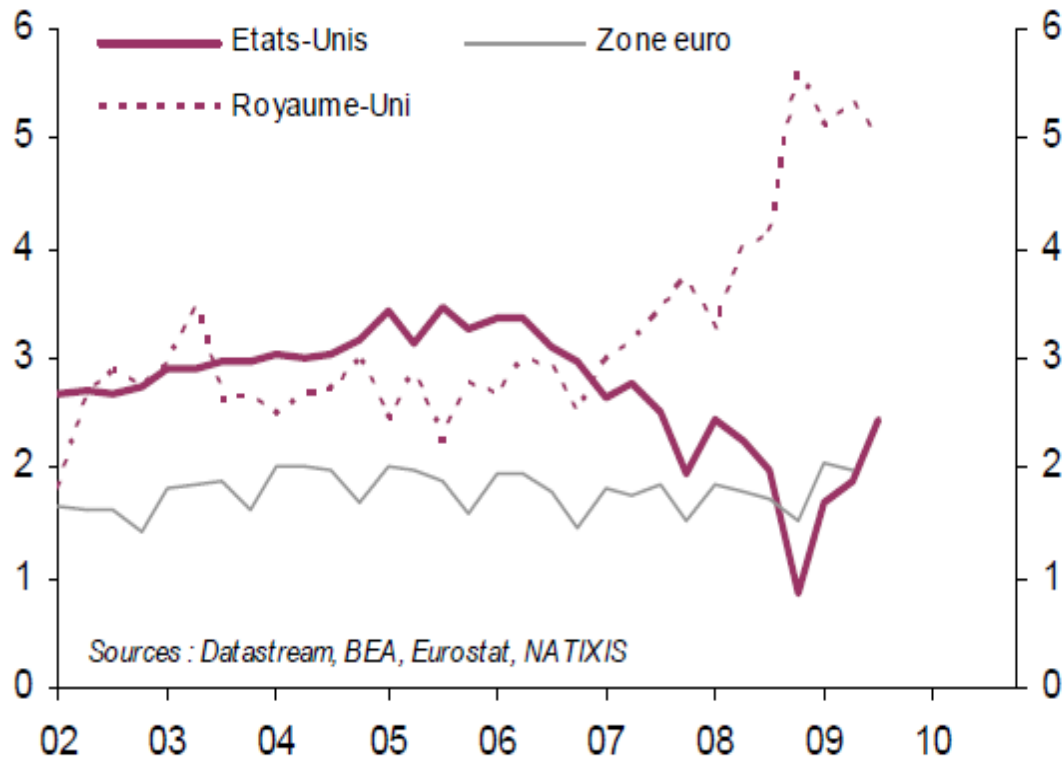
- A common Euro Bond, to be issued by the EIB, guaranteed by member states, accepted as collateral by the ECB.
- Advantages:
  - Fighting the ‘fire of speculation with fire’
  - Breaking the vicious cycle of ‘animal spirits’ from financial markets
  - Secure economic recovery: European investments to take up the slack of national fiscal consolidation.
  - European wide solidarity instead of ‘barbaric’ adjustment that pushed the liberal model of deregulation with European money

# New sources of European finance

- Financial transaction tax for Europe : 65 billion
- No free lunch for the banks: Three trillion of support for the banks in Europe provides banks with 'free insurance': Time for them to pay an insurance fee (A levy on banks' balance sheets)
- Tax bonuses, stock options, banking dividends

# Financial crisis ? What financial crisis ?

Profits du secteur financier (en % du PIB)



# 'Unconventional' fiscal policies

- Targeting and taxing high savings...
- ...and using these budgets to finance public investments with a high impact on demand.
- In this way, deficit can fall while aggregate demand can increase.
- Europe....