

Assessing the EU policies of fiscal stability

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EU policy to deal with the Eurozone crisis

- Fiscal stabilisation by imposing austerity
- Growth by imposing reduction of wages, privatisation, liberalisation
- Replace private with official flows of lending

Fiscal stabilisation measures

- Reinforce the Stability and Growth Pact – i.e., 3% budget deficit, 60% Debt/GDP
- Macroeconomic Imbalance Procedure
 - Detect imbalances through scoreboard and IDR
 - Surveillance of medium-term objectives
 - Correct imbalance through EIP
 - Financial sanctions

In practice

- IDR for 42 countries
 - EIP not yet implemented
 - Spain, Slovenia, Italy, Croatia
 - Too early to have an overall view of effectiveness, though the average fiscal deficit of the EU has shrunk toward 3% in 2014
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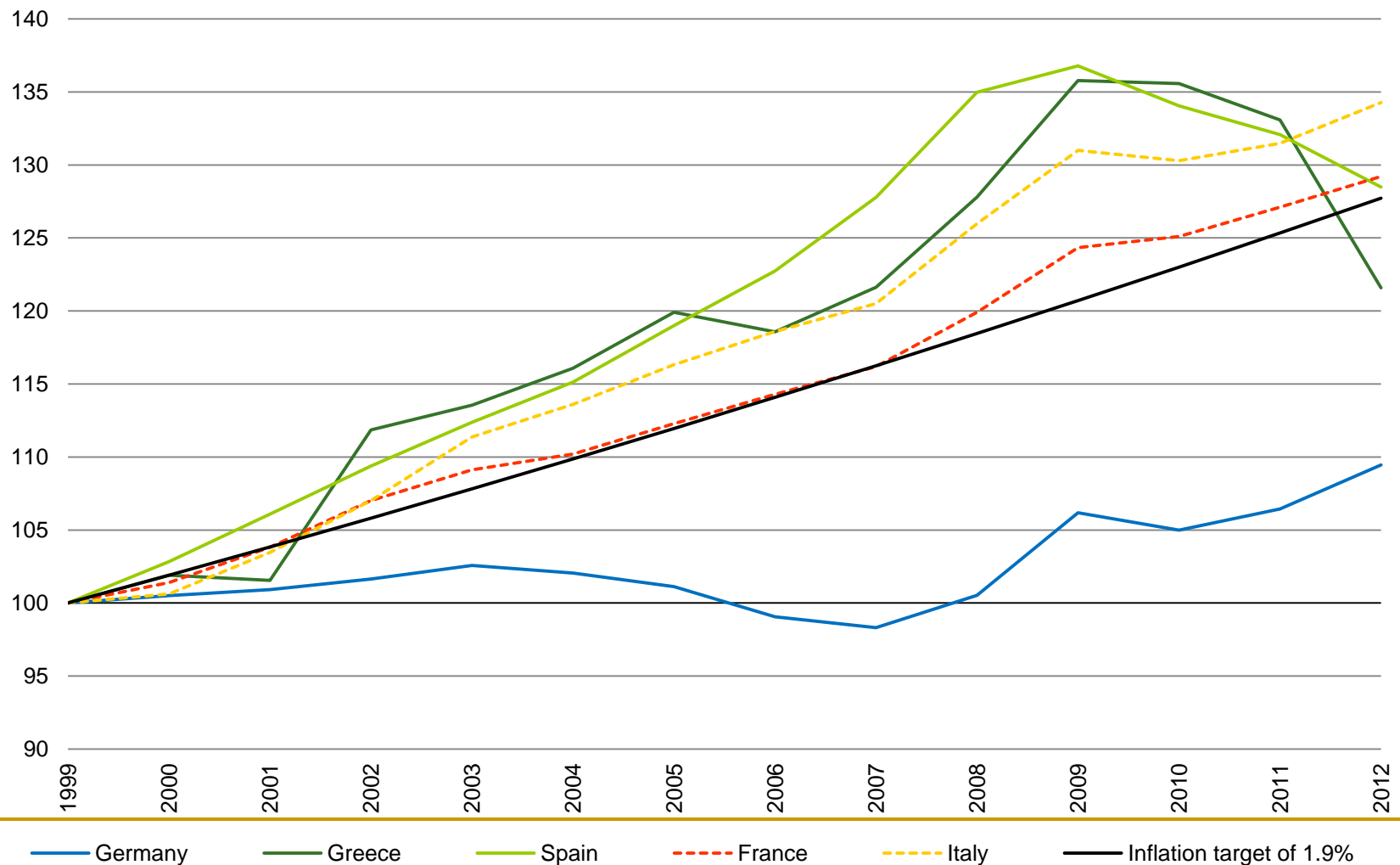
Not too early to have an assessment of the results of austerity

- Fall in demand, rise in unemployment, destruction of productive capacity
- Worsening of debt position
- Lack of growth prospects, huge social costs and tensions

Wrong analysis of the crisis, wrong treatment of the problem

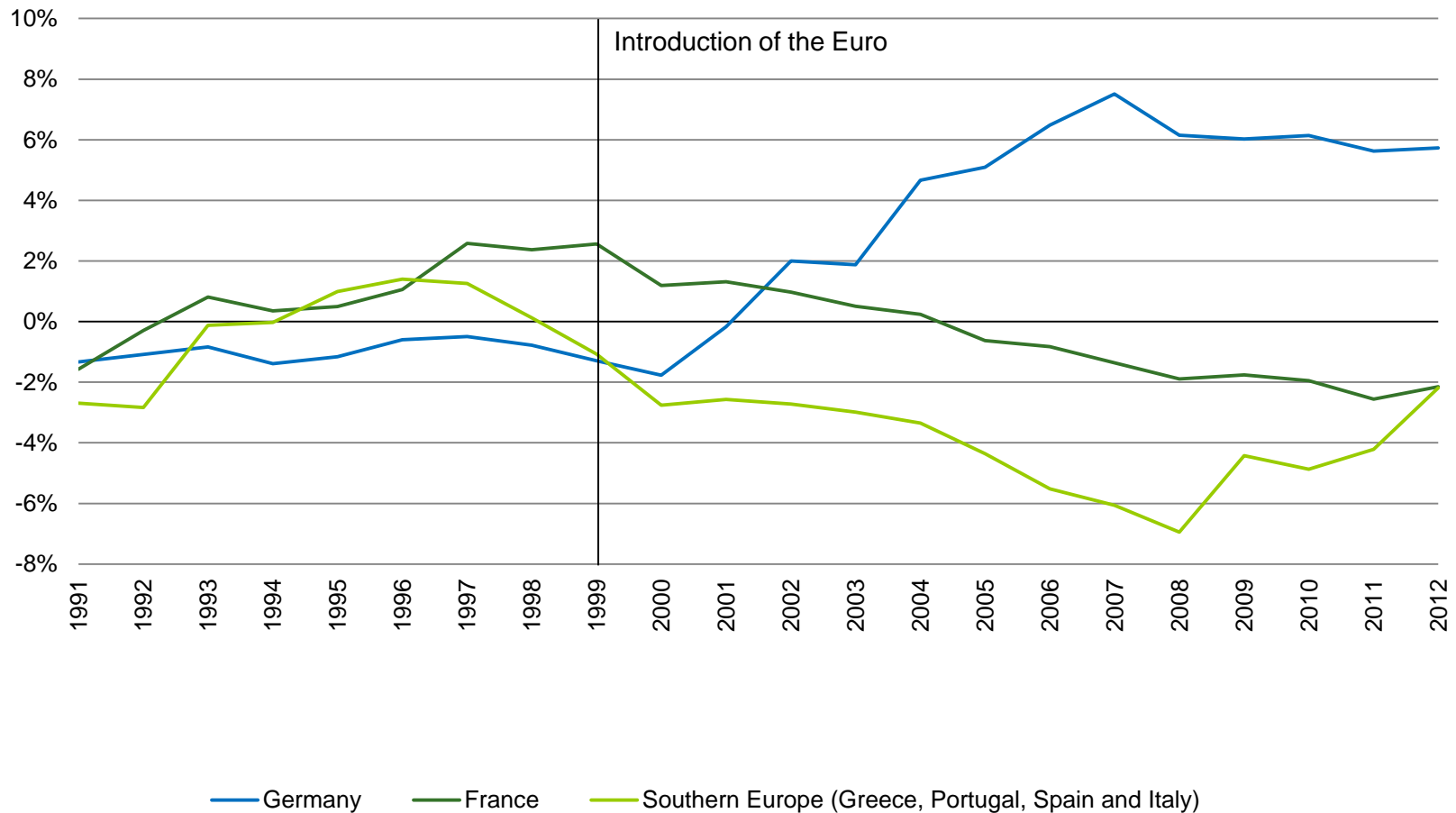
- The Eurozone crisis was caused neither by budget deficits nor by rising public debt. These were results of the crisis.
 - The fundamental cause of the crisis is diverging unit labour costs, above all, due to extraordinary German wage restraint.
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ULC and competitiveness in the Eurozone



Current account balances

Germany, France, Southern Europe

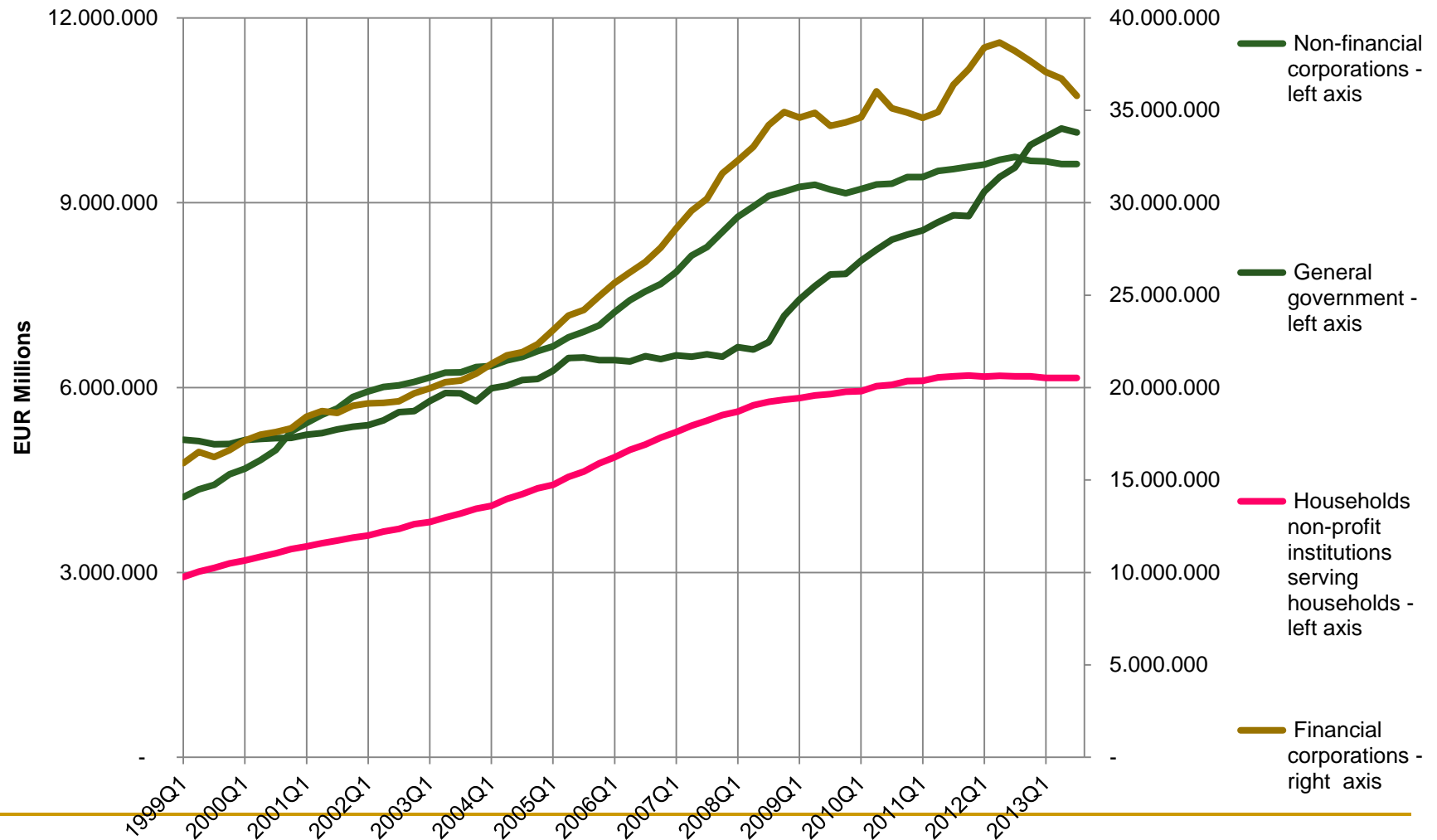


Erroneous policy to confront the crisis

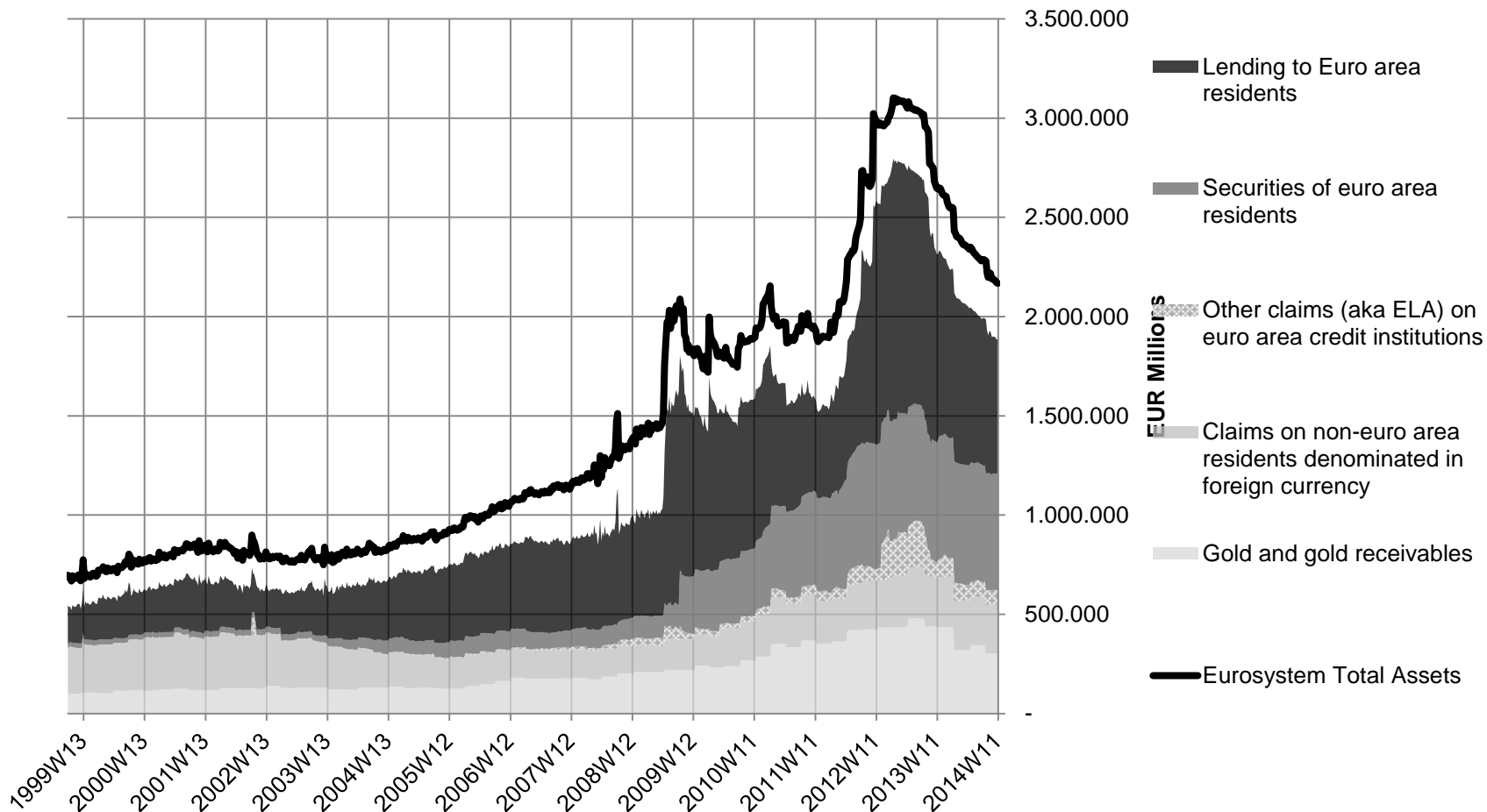
– the core gradually hit

- Core economy competitiveness gap
 - Accumulation of debt
 - Declining ECB liquidity
 - Falling bank credit
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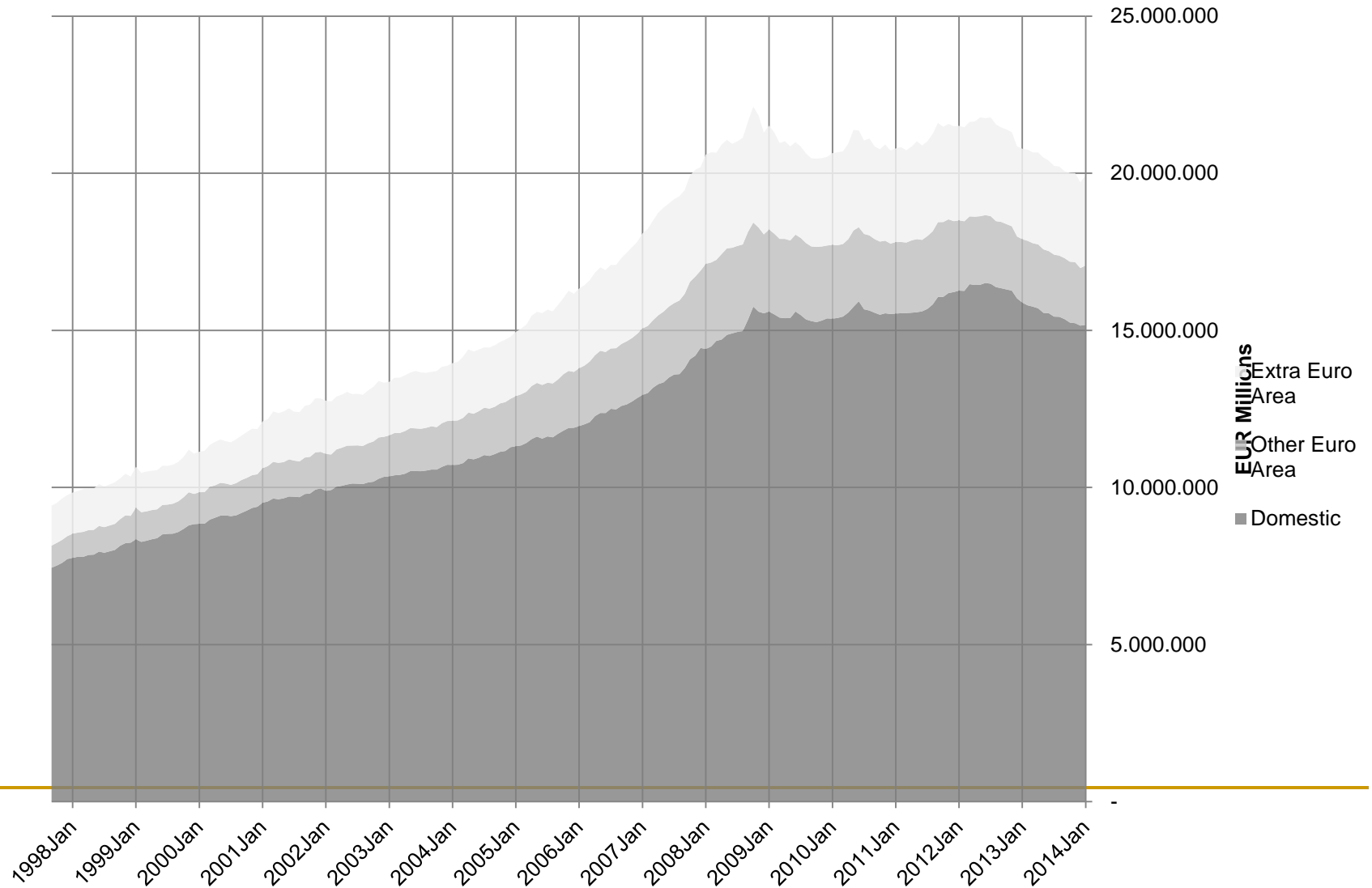
Eurozone debt composition



Liquidity provision by the ECB



Fall in bank lending



The EMU is failing

- Stability and Growth Pact exacerbates the situation
 - Growth prospects in the periphery are very poor
 - Social tensions and opposition to both the EMU and the EU are rising fast
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Are there other solutions?

- Political union is completely unviable
 - Mutualisation of debt will be opposed by surplus countries
 - The ECB could provide liquidity but that does not resolve the fundamental problem
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What should be done?

- The solution must start with Germany
 - End wage restraint
 - Boost domestic economy
 - Coordinate wage/inflation policy across the EMU
 - Allow a long period of time for the imbalances to heal
 - Introduce a programme of public investment
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If not?

- Break-up and collapse of the EMU cannot be excluded
- Peripheral countries must take action to protect their societies and economies
- Core countries should be ready to replace the EMU with managed exchange rates