Europe: Five years into the crisis

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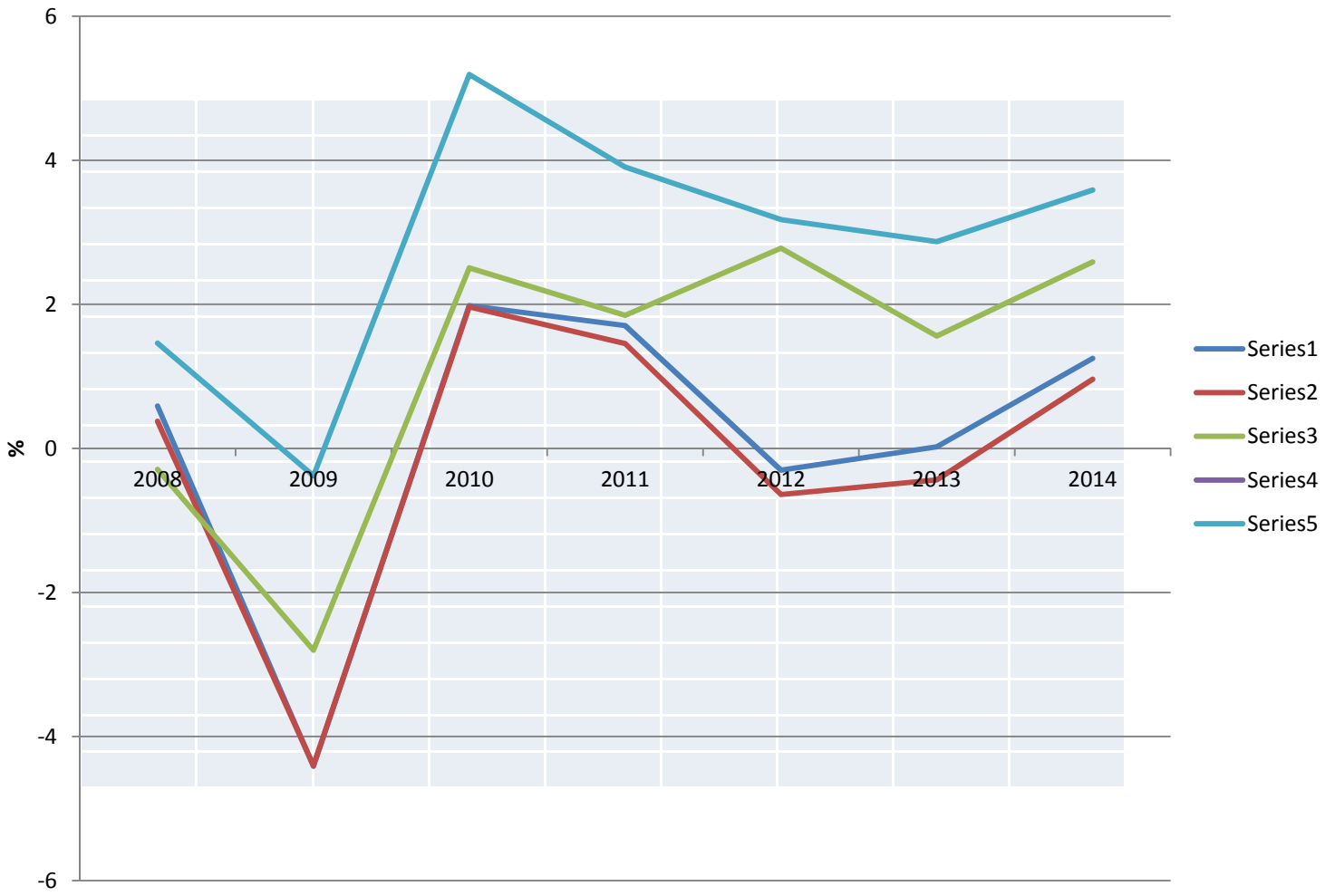
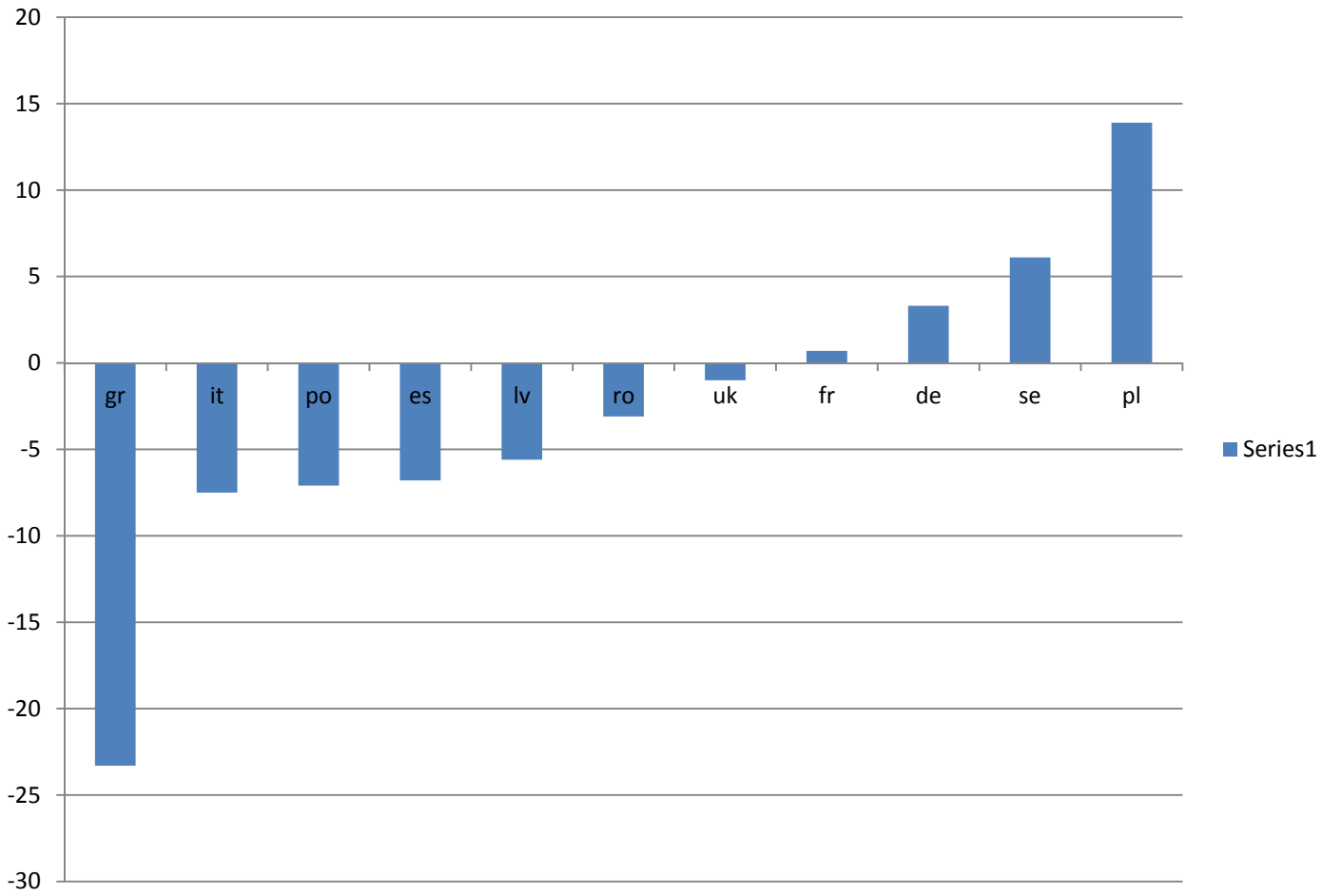
%age growth, world, USA, EU, Euro



State of the European economy

- Note three points; doing worse than other parts of the world, not just a eurozone issue, forecasts always optimistic, so far,
- wrong diagnosis of problems (caused from finance/banking and now helping even less; diagnosis in debt and competitiveness),
- wrong policies (strict austerity, ‘internal devaluation’),
- likely (very) slow recovery, but will be some,
- will be differences, increasing *divergences,* but not simply increasing old inequalities, performance diverging by several country groups.

%age growth 2008-2013



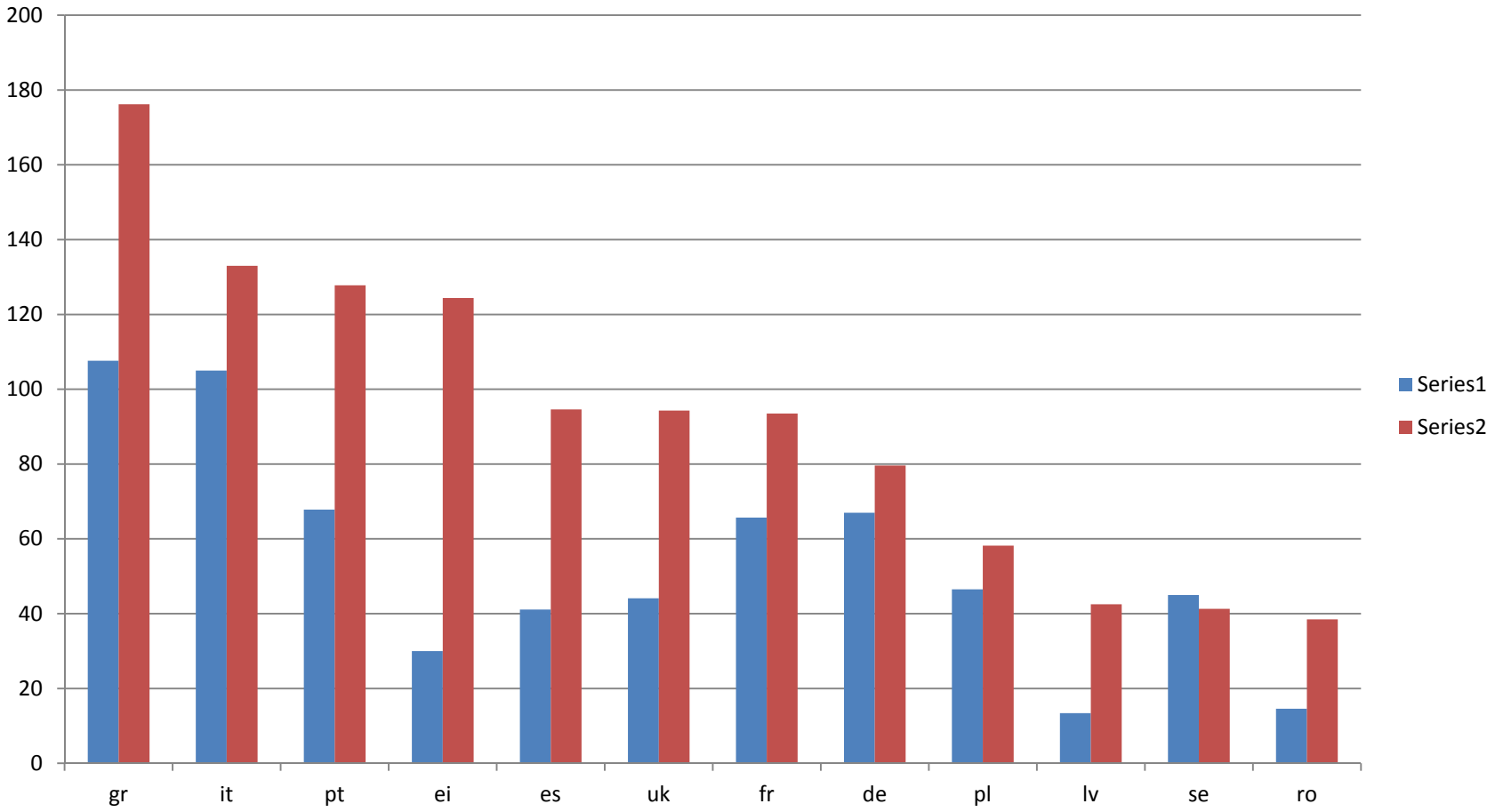
What causes prolonged depression?

- Downturn 2008-9 easily explained, differences between countries
- fall in financial inflows (esp private; hits Baltics, hu), fall in exports (de, cz, sk), gvt spending (continues old, not much conscious stimulus, counters),
- since 2009? Broadly, down from cuts in G ('austerity'), up from exports, highly varied,
- austerity deepens depression; promised to solve debt problems and meant to enhance international competitiveness.

Was debt the problem?

- Crisis not, in general, caused by past excessive gvt borrowing,
- debts grew with increased budget deficits after crisis,
- because of lower tax revenues, continued spending (in some), bank rescues (in several), further depression from austerity,
- note also that it doesn't seem to be a big worry, eg Ireland judged to be doing quite well…
- no precise point at which debt becomes 'unsustainable', (once central bank supports)…

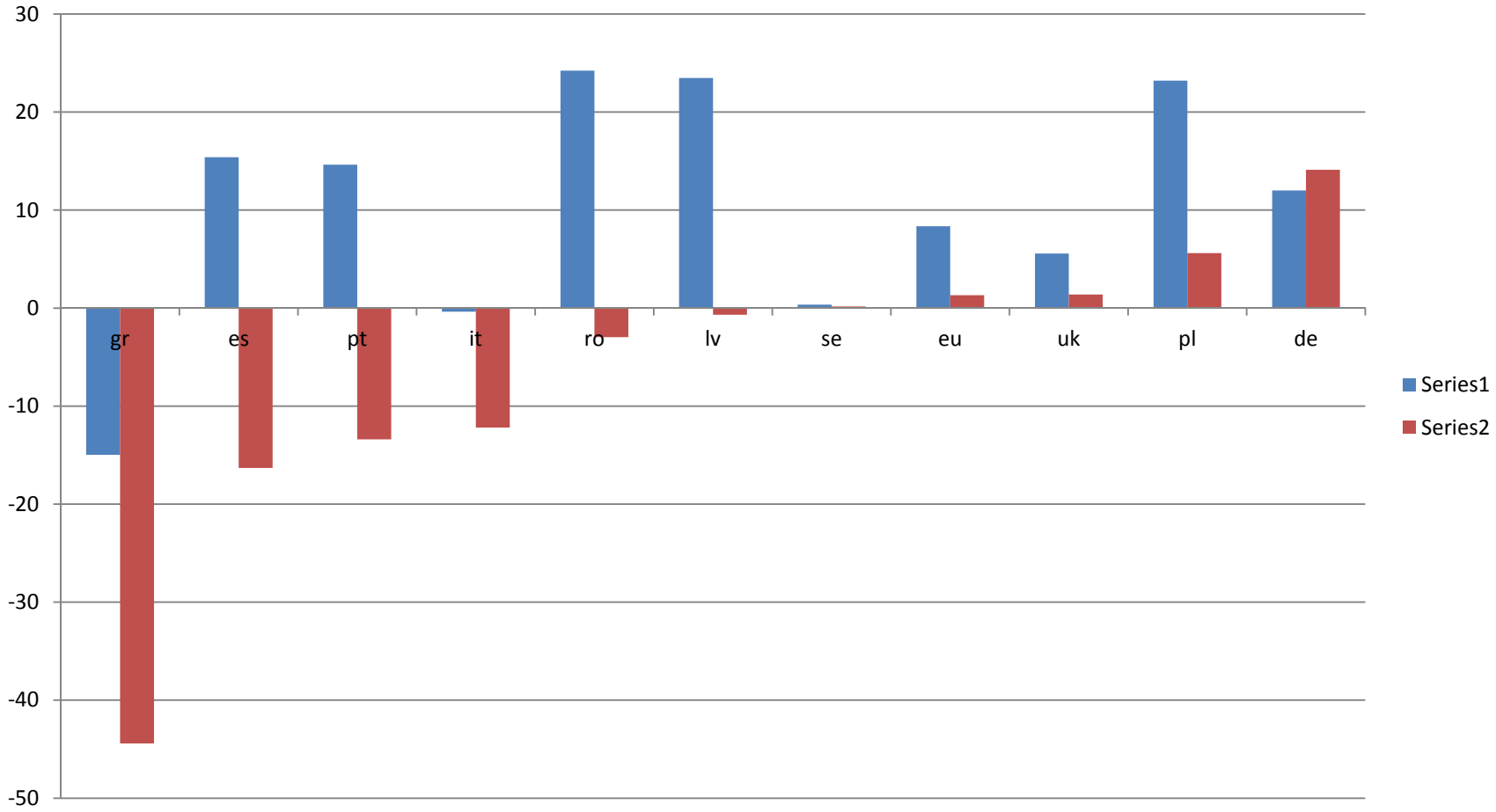
Debt/GDP, 2004-8 and 2013



Was balance of payments the problem?

- ‘surplus’ and ‘deficit’ countries, both within and outside euro zone,
- current account 2003-8;
- lv; -15.3% of GDP,
- gr; -13.8%,
- de; +5.3%,
- se; +7.7%,
- NOT cause of crisis, but coincided as deficits financed by inflows which stopped
- deficits massively reduced/reversed (2013; gr, -2.3%; lv, -1.6%, biggest deficit is uk, increased; -4.3%)
- but mostly from falling imports, seemingly random changes in exports…

Exports and imports, 2008 to 2013, 2005 prices



What explains export differences?

- Simple theory, cut wages, restore ‘competitiveness’, increase exports,
- wrong concept of competitiveness and hence wrong measure (ULC, taken as COSTS not productivity, quality),
- Note;
- - export growth not correlated with wage levels/cuts,
- - wages often rising precisely in export sectors (big falls, almost universal; public sector, health, education. Increases; ei, computer specialists; lv, manufacturing; es, motor vehicles). Often labour shortages…
- internal devaluation hits public sector, exports depend on markets recovering (Baltics), on having right products (de), on shift towards higher quality (ei).

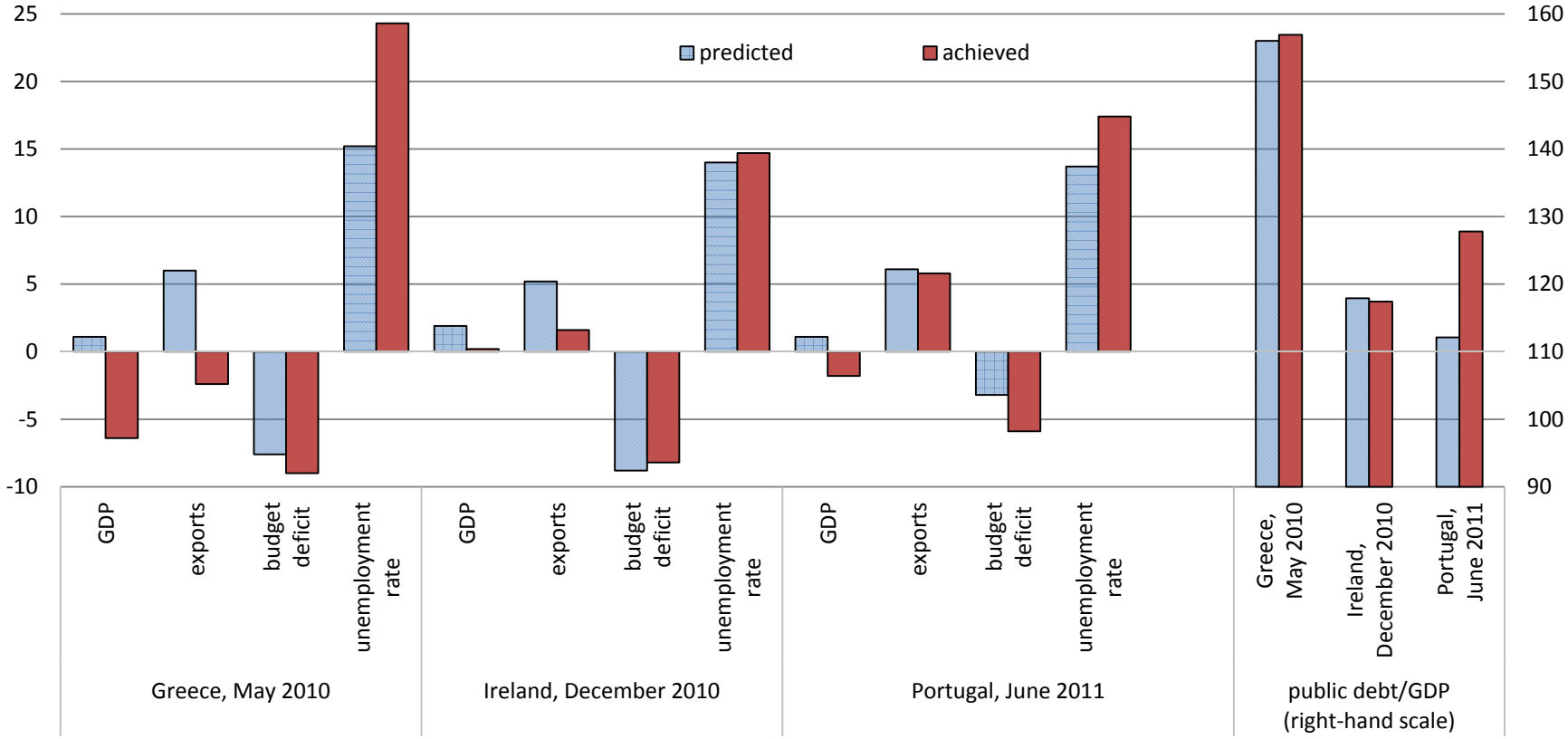
Losing long-term potential?

- Austerity and low wages – lose highly-skilled, research/education potential,
- Note investment - biggest item in decline,
- EU 2008-2013; -21%, Germany; -4%, Ireland; -52%, Greece; -56%, Latvia; -30%, due to private and public investment, due to reduced bank lending and to reduced public spending,
- Funds seeking long-term investment potential, low long-term interest rates (in some countries), not a question of can’t afford it,

Troika results

- Specific countries, price of credit escalating, turned to EU/IMF/ECB for help,
- strict conditions imposed for financial survival; cut public spending, then more vigorous ways to cut wages, to improve ‘competitiveness’,
- see results of policies they required,
- not precise, take forecast from EU, closest to agreement, and compare results after 2 years,

Troika results v forecasts



Conclusion

- If cuts have stopped, then should be some recovery,
- export growth, not universal, depends on demand elsewhere, slow growth in EU,
- restore growth? Banking, structural transformation, enable gvt borrowing, investment,
- individual .v. EU level policies? individual now can work only for some,
- European problem needs at least in part European solution.