The EU in a post-growth world

Gaël Giraud

Chief Economist | AFD
Senior Researcher | CNRS
Professor | ENPC
Director | Chair Energy and Prosperity

20/09/2018 #MondeEnCommun
Post-Growth Conference
I. Is another economic crisis looming?

II. Driving the ecological transition

III. Reforming EU institutions
Global economic growth is subject to uncertainties

- In 2017, highest global growth since 2011
- But many uncertainties in the short- and mid-term
  - Advanced economies: ageing population, low productivity growth (secular stagnation?)
  - Tertiarization increases working poor
  - China has no surplus any more

<table>
<thead>
<tr>
<th>Real GDP growth (%)</th>
<th>2017</th>
<th>2018 (p.)</th>
<th>2019 (p.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3,8</td>
<td>3,9</td>
<td>3,9</td>
</tr>
<tr>
<td>Developed economies</td>
<td>2,3</td>
<td>2,5</td>
<td>2,2</td>
</tr>
<tr>
<td>Developing and emerging markets</td>
<td>4,8</td>
<td>4,9</td>
<td>5,1</td>
</tr>
</tbody>
</table>

Source: IMF, WEO (Apr 2018)
In the Eurozone

- **Growth**
  - 2017: 2.7%, highest rate in a decade.
  - Lowest unemployment rate (8.4%) since 2009 (9.5%) since 2009

- **Inflation**
  - Inflation still below the ECB 2% target: 1.5% forecast in 2018, 1.6% in 2019
  - End of QE not until 2019

- **Deflationary threat:** private debts/GDP: 130% (public: 100%)

Source: European Economic Forecast – European Commission (May 2018)
Stretched public finances

Government debt ratio (% of GDP)

Source: Banque de France
Figure 16. UK private debt since 1880
Figure 19. US private debt and credit from 1834
Private debt growth

Private debt (% GDP)

Source: Banque de France
Have we learned from the 2007-2008 financial crisis?

- Basel III: Reserve requirements, capital ratio
- IFRS/IAS norms: Fair value
- Separation of deposit and investment banking activities
- HFT, shadow banking…

- CETA, Jefta, TISA, or TTIP will make financial regulation much more difficult (Veblen institute, report, forthcoming)
Vingt propositions pour réformer le capitalisme

Sous la direction de Gaël Giraud & Cécile Renouard

Champs essais

Gaël Giraud

illusion financière
Report to the European Parliament
Giraud & Kockerols (2015)
The European Banking union does not protect the European tax payers.
Shiller index
Scarcity of minerals

Figure 1: (A) Historical evolution of various indicators of prosperity and human activity. From Steffen et al., 2014. (B) Yearly production, between 1900 and 2015 of cement, steel, and Al. (C) Yearly production, between 1890 and 2015 of Cu, Zn, and Al. (D) Yearly production of rare-earth elements Se, Nb, Pt and Li. The dashed lines in (B–C) show the production calculated for the indicated growth rate. Figures 1A and 1B from USGS (2017b).
IPBES - Are we heading towards the 6th mass species extinction?

Decline of biodiversity
Over-exploitation of natural resources threatens the wellbeing of humans, according to IPBES

Key forecasts by region

- **EUROPE and CENTRAL ASIA**: Fish populations in decline in past decade.
- **AFRICA**: 50% of African bird and mammal species could be lost to climate change by 2100.
- **AMERICAS**: Expected loss by 2050 of the region’s original biodiversity under a ‘business as usual’ scenario for climate change.
- **ASIA-PACIFIC**: Percentage of corals expected to suffer severe degradation by 2050. Anticipated loss of habitats and species by 2050.

**Decline**
Expected decline in productivity of lakes by 2100.

Source: IPBES
Planetary Boundaries
A safe operating space for humanity

I. Is another economic crisis looming?
II. Driving the ecological transition
III. Reforming EU institutions
Defining development pathways
GEMMES World

**Scénario 1 (red):**
Without public intervention

**Scénario 2 (orange):**
Implementation of a carbon tax (high end of the recommendation of the Stern-Stiglitz report)

**Scénario 3 (blue):**
Scenario 2 carbon tax with a public sector subsidy for decarbonisation
The energy transition: concrete measures

- Thermic renovation of buildings
- Green mobility (electric car, hydrogen ...)
- Transformation of energy production methods (renewable energy)

Employment:
  + 6 million in EU (Ademe, 19 October 2017)
  + 2 million jobs in Europe by 2030 (ILO, 2018)
Financing transition?

Levers of financing?

- Carbon pricing: Stern-Stiglitz report, Macron speech (€44 euros in 2018 to €84 in 2022 in France)
- Apportionment rule against transfer pricing (at least €50 bn p.a. eurozone)
- Public guarantee
- Green supporting factor (Basel IV)
- European tax on profits: Monti report (2017)
- ECB/EIB green bonds
A floor carbon price (e.g. €40/t) would be compatible with ETS (cf. UK)

30€/t would provide €70 bn
Evolution du taux d’impôt sur les bénéfices en Europe et aux États-Unis entre 1993 et 2010
March 2017:

€2300 bn
since April 2014

of which: 10%
for the real
economy
Paradox: Money is already there

Central Banks printing money

Pension Funds lacking long term investment opportunities

Real economy lacking infrastructure assets

A unique macro-economic opportunity
I. Is another financial crisis looming?

II. Driving the ecological transition

III. Reforming EU institutions
EU: a crisis of legitimacy

- Truly ruling bodies: Commission, court of justice, Council, ECB not democratically accountable.
- Citizens are deprived of “voice” (A. Hirschman (1972)).
- Remain only “exit” or “loyalty”.
- Populist contestation.

Divorce between reality and the EU Charter of Fundamental Rights:

“Conscious of its spiritual and moral heritage, the Union is founded on the indivisible, universal values of human dignity, freedom, equality and solidarity; it is based on the principles of democracy and the rule of law. It places the individual at the heart of its activities, by establishing the citizenship of the
EU: Threat to democracy?

Bundesverfassungsgericht (06/30/2009): decision on the Lisbon Treaty

Pierre Mendès-France (1957)

Friedrich Hayek (1939).

Lobbying is not equivalent to democratic public deliberation
“Hyperconstitutinalisation”

“Postdemokratischer Exekutiv-Föderalismus” (J. Habermas)

Corrosion of solidarities

Solidarity only with private banks? Goldman Sachs?
ILO constitution (1919) + Philadelphia declaration (1944): “lasting peace can be established only if it is based on social justice”.

- Peace: first goal of the European adventure.

- But (despite Montesquieu) laissez-faire does not guarantee peace. (Martin et al. (2008))

- Mobility of capital ruins Ricardo’s (1817) theory of comparative advantages.

- Protectionism becomes the unique viable reply to capital mobility.
Mobility of capital: article 67 of the Treaty of Rome.

Tentative to subject the “rule of law” to economic competition (law shopping): post-liberalism
Solidarities re-emerge via an ethnic, nationalist, tribal, religious... introverted assertion of one’s collective identity.
Institutions for a democratic EU

- Transfer the power of law initiative from the European Commission to the Parliament

- Introduce a control of the Parliament over the ECB

- Make the European Council’s debates publicly transparent

- Create a Budget for the euro-zone (investor of last resort) managed by the European parliament:
  - Ecological transition
  - Industrial champions against GAFA and China (protection of civil rights)
  - social services

- Create a European prosecutor’s office (to challenge, e.g., the US extraterritorial imposition of American law)
The commons for Europe

Karl Polanyi, *The great transformation*

- Natural resources
- Labour
- Money
Thank you for your attention

@GaelGiraud_AFD
afd.fr
EU : threat to democracy? (2)

Pierre Mendès-France (1957) : « L'abdication d'une démocratie peut prendre deux formes, soit le recours à une dictature interne par la remise de tous les pouvoirs à un homme providentiel, soit la délégation de ces pouvoirs à une autorité extérieure, laquelle, au nom de la technique, exercera en réalité la puissance politique, car au nom d'une saine économie on en vient aisément à dicter une politique monétaire, budgétaire, sociale, finalement “une politique“, au sens le plus large du mot, nationale et internationale ».

Friedrich Hayek (1939).

Lobbying is not equivalent to democracy public deliberation
EU : threat to democracy?

Bundesverfassungsgericht:

“Das Recht der Bürger, in Freiheit und Gleichheit durch Wahlen und Abstimmungen die sie betreffende öffentliche Gewalt personell und sachlich zu bestimmen, ist in der Würde des Menschen verankert und elementarer Bestandteil des Demokratieprinzips. Das Demokratieprinzip ist nicht abwägungsfähig.”

“Das Europäische Parlament ist weder in seiner Zusammensetzung noch im europäischen Kompetenzgefüge dafür hinreichend gerüstet, repräsentative und zurechenbare Mehrheitsentscheidungen als einheitliche politische Leitentscheidungen zu treffen. Es ist gemessen an staatlichen Demokratieanforderungen nicht gleichheitsgerecht gewählt und innerhalb des supranationalen Interessenausgleichs zwischen den Staaten nicht zu maßgeblichen politischen Leitentscheidungen berufen”. (06/30/2009)