

From a false to a “genuine” EMU 1999-2012 and after

Introduction for TNI, RWE, CREA euro debate
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Start with the hot issue: to save the euro, currently rapid institutional developments:

"Towards a genuine Economic and Monetary Union" (Reports by Van Rompuy, June & October 2012)

- The implication: the current one is false/fake; hence the citizens of the EMU-countries have been misled.
- Mainly on a single EMU banking framework, and an integrated budgetary framework (*centralisation*).
- “Something” on **democracy** at the end: we must seek democratic legitimation: “strong mechanisms for legitimate and accountable joint decision making”.
 - Apparently an instrument instead of a target!

EU-EMU connection is falling apart (important in terms of legit.).



Generally: the history of EU/EMU as a **misperception of targets and instruments**

- E.g. <3% gvt deficit and <60% gvt debt.

The 1997 manifest on the euro

A monetary union requires (in brief):

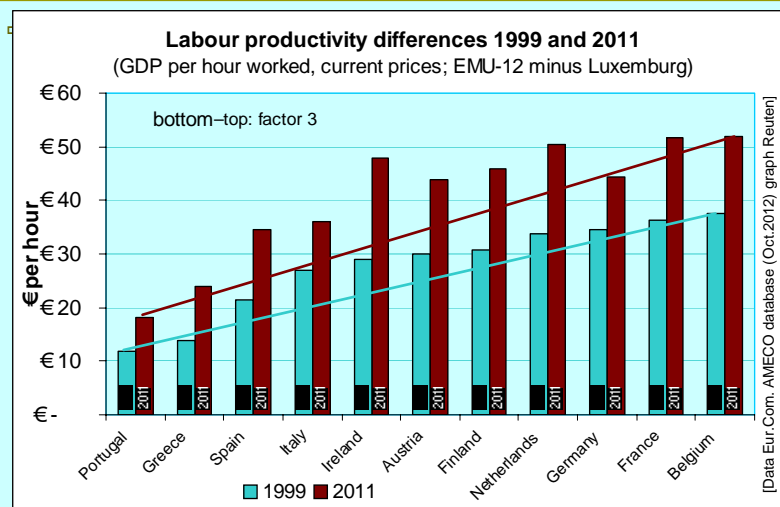
1. **solidarity** between countries
 - one condition: organic democracy
2. roughly **similar productivity** levels and development thereof
 - because the currency exchange rate *between* union countries is no longer an instrument [→ next slide]
3. the **Central Bank** (ECB) as a lender of last resort for banks and for states
 - also requires to be democratically embedded.

Not met.

- Deficient 2 might be compensated by more of 1: not at all the case. *Instead: union of **mutual distrust** and of country-wise **self-interest**.* [Union??]
- Problems of 2 might be alleviated by 3: not at all the case (though hesitation emerges).
- Organise around effects of the deficient 2.

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Roughly similar productivity levels??



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“Union” of mutual distrust

- Instead, actually in 1997 and onwards: **union of mutual distrust.**

Reflected in:

- Abandonment of independent macroeconomic policy.
- Instead: compulsory “target” ratio’s in terms of GDP of
 - 3% maximum government deficit and
 - 60% maximum government gross debt.
 - arbitrary numbers (no economic underpinning)
 - 3% maximum deficit pro-cyclical in times of crisis
 - the maximum gross debt ratio makes no sense at all (for any “number”) [gross debt as against net wealth]
- 2012: effort to reach these “numbers” by enforced commitments (distrust written in stone).

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EMU treaty reached the combination of:

- Unrestricted commodity trade (already introduced by EU prior to EMU);
- Unrestricted capital movement;
- Restricted currency exchange rates (in fact fixed);
- Restricted macro-economic policy.

→ Policy competition concerning:

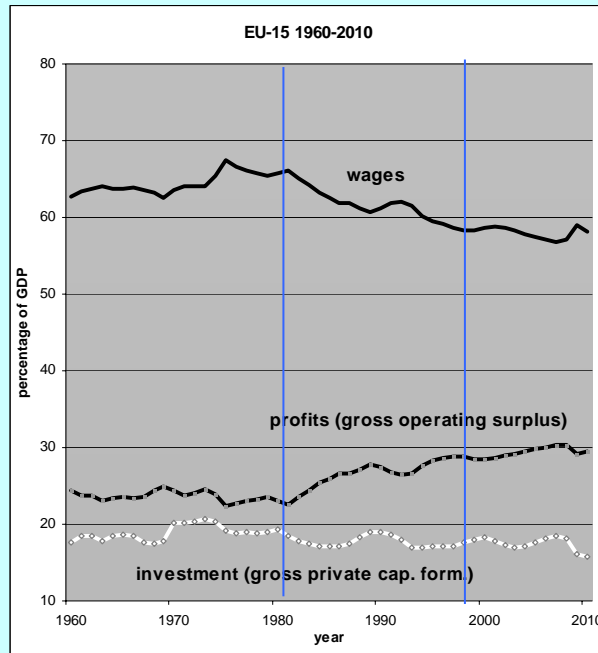
1. Labour [next slide]
2. Environment
3. Taxation (corporate ↓, personal ⚡, VAT ↑ → flat tax)
(race to the bottom)

What follows: mainly effects of the “common market” and single currency as between the countries.

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Shares in GDP

- * Early 1980s: EU + EMU preparation
- * 1999 commercial start of EMU



The Impact of EMU on Growth, Employment and Trade EC studies 10th anniversary of EMU

Barrell et.al 2008:

- **“Trade** effects have been the most widely discussed, but it is **not clear** that even if EMU has increased trade between members **that this will have a major impact on growth.**” (page 52)
- “Our analysis of the impact of **EMU** on output growth suggests that the introduction of the common currency has had a direct **positive impact on growth in the core Euro Area countries: France, Germany, Italy, Belgium and the Netherlands.**
 - Our estimates indicate that EMU will **eventually** directly raise output level by around 2 per cent in **these countries.** This is smaller than the impact of the Single Market Programme in the late 1980s and early 1990s, and like those effects it will build up only slowly.” (page 52)
 - *The Impact of EMU on Growth and Employment*, Ray Barrell, Sylvia Gottschalk, Dawn Holland, Ehsan Khoman, Iana Liadze and Olga Pomerantz (European Commission, Directorate-General for Economic and Financial Affairs Publications, 2008, http://ec.europa.eu/economy_finance/publications).

From a country's net exports (+/-) to its net lending (+) or borrowing (-)

mrd €	Greece	Netherlands	Germany
	2011	2011	2011
net exports of goods and services	-16	49	131
+ <i>net primary income</i>			
balance on current transactions	-24	45	135
+ <i>net current transfers + net capital transactions</i>			
Net lending (+) or net borrowing (-)	-21	43	135

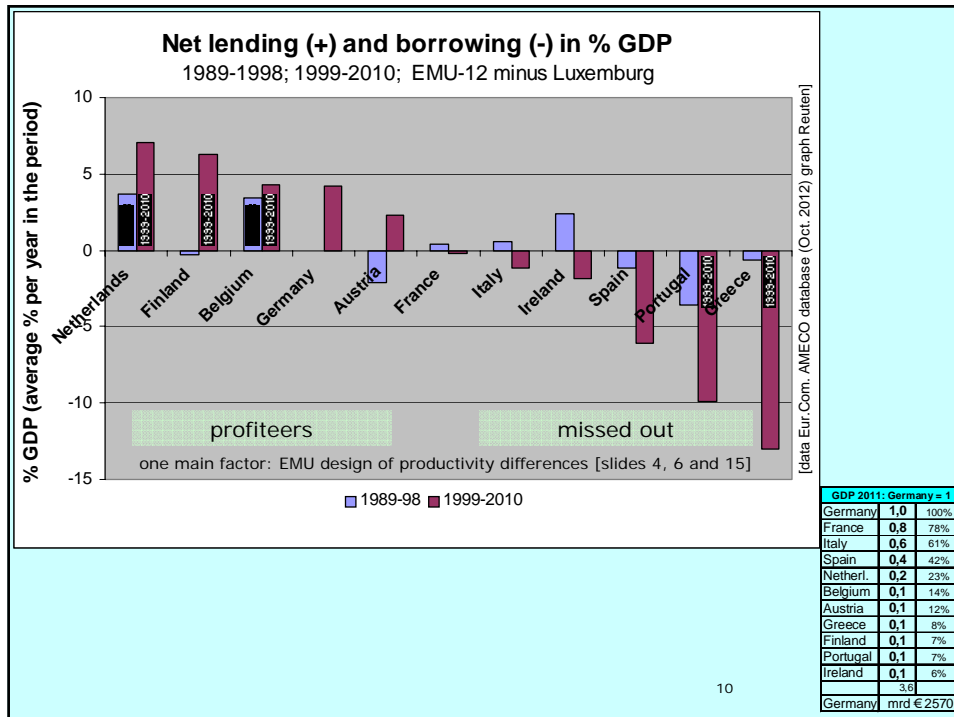
In brief: **Net exports + income transfers**, incl. EU transfers.

This is one main reason for this measure; the other: it measures international (in)dependency.

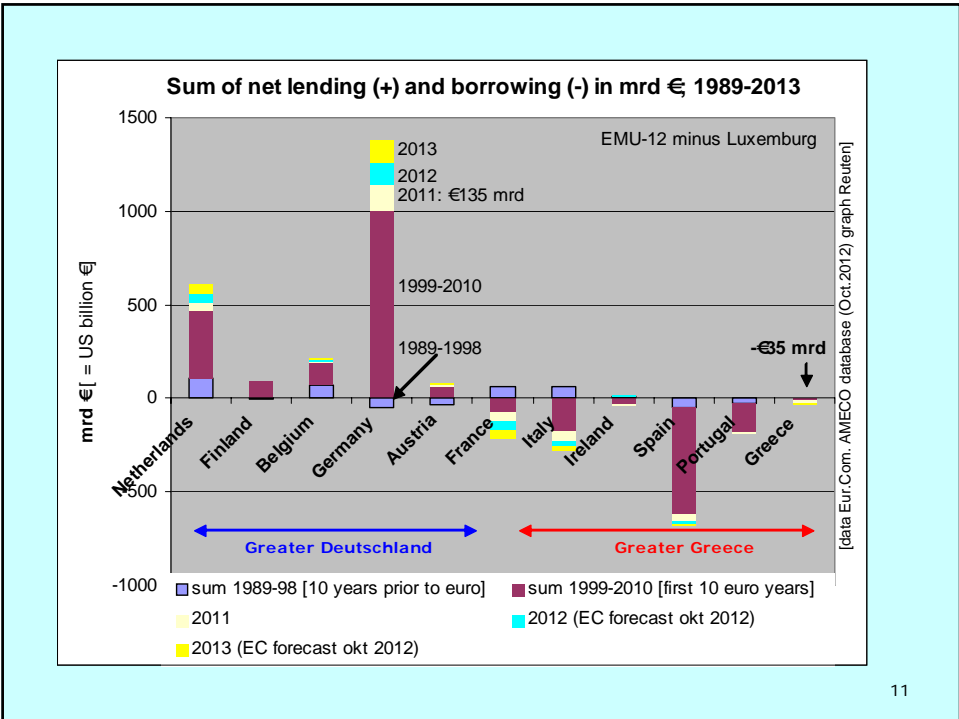
= "Effective" monetary saving or dissaving of a country.

Source of these data and those on the next slides: EC, AMECO data base

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Net lending (+) or net borrowing (-): total economy (mrd €)						index, Germany = 1, 2011					
1989-1998	1999-2010	2011	2012	2013		sum	GDP	GNI/head	GDP/hr	labour share	unempl.
sum	sum									GDP fc (adj)	2011
109	357	43	46	50	Netherlands	606	0,2	1,14	1,14	1,02	4%
-2	94	-1	-1	-1	Finland	90	0,1	1,13	1,03	1,01	8%
70	123	8	7	7	Belgium	214	0,1	1,07	1,17	1,07	7%
-48	1004	135	122	122	Germany	1335	1	1	1	1	6%
-35	62	5	4	6	Austria	41	0,1	1,12	0,99	1,00	4%
66	-71	-54	-46	-41	France	-145	0,8	0,98	1,165	1,06	10%
62	-178	-49	-35	-22	Italy	-221	0,6	0,81	0,81	0,98	8%
13	-35	-6	2	5	Ireland	-21	0,1	0,87	1,08	0,90	14%
-49	-571	-36	-15	-4	Spain	-675	0,4	0,71	0,78	0,91	22%
-29	-151	-9	-4	-2	Portugal	-195	0,1	0,48	0,41	1,01	13%
-1	-13	-10	-6	-5	Greece	-35	0,1	0,58	0,54	0,92	18%
					Germ.	mrd € 2571	€ 32.000	€ 44	64%		

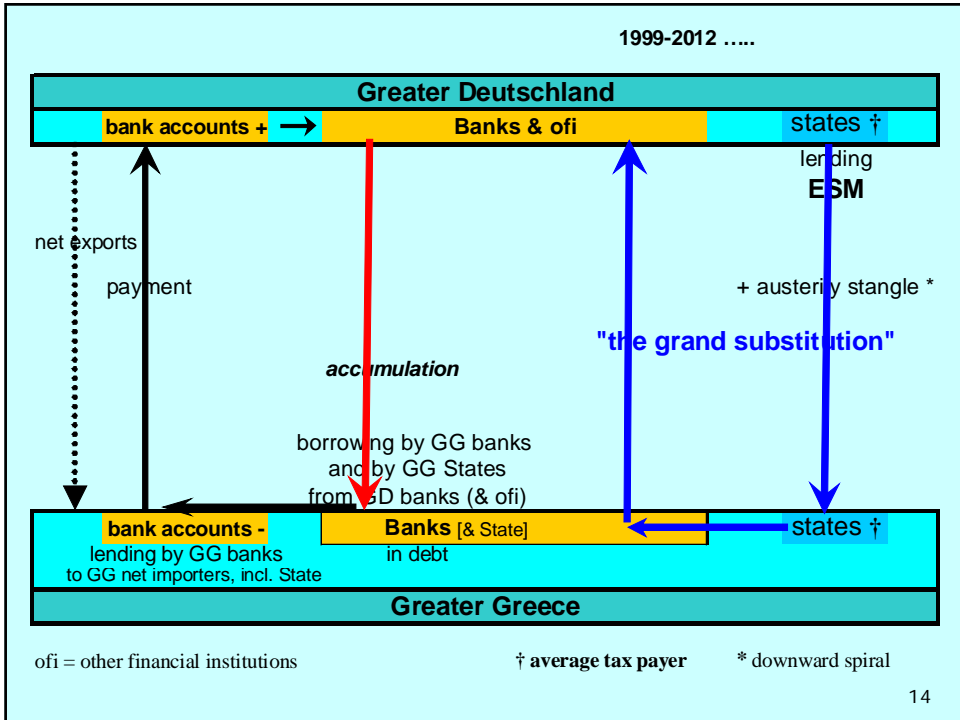
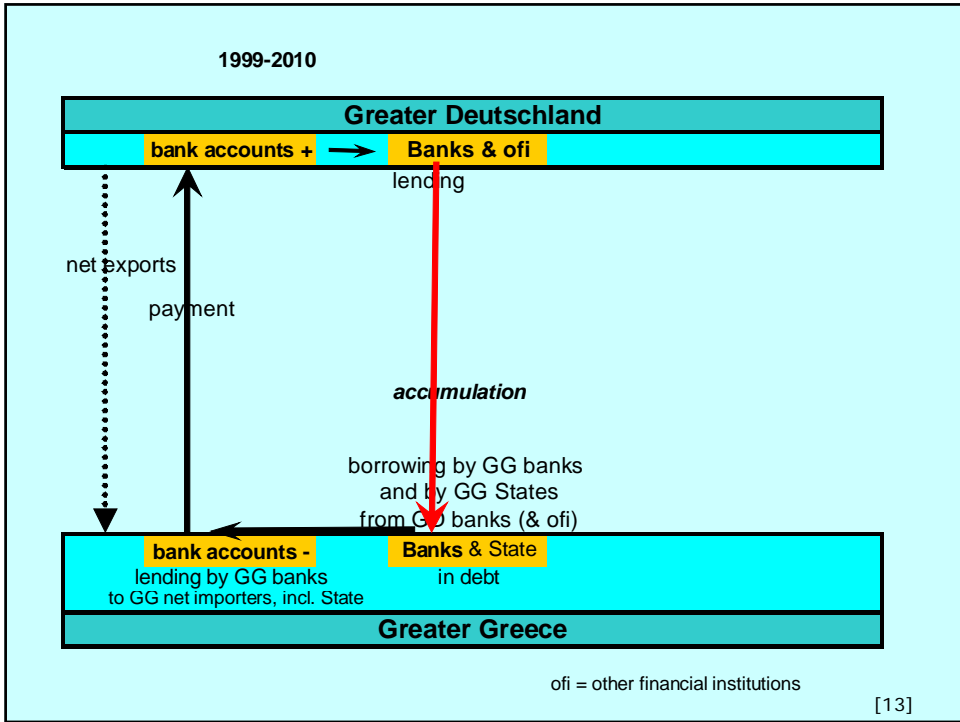
GDP Greece/Spain = 1/5

GDP 2011, Germany = 1	
Germany	1,0 100%
France	0,8 78%
Italy	0,6 61%
Spain	0,4 42%
Netherl.	0,2 23%
Belgium	0,1 14%
Austria	0,1 12%
Greece	0,1 8%
Finland	0,1 7%
Portugal	0,1 7%
Ireland	0,1 6%
Germany	3,6
Germany	mrd € 2570

Wage share in GDP (fc) 2011, Germany=1	
Belgium	1,07
France	1,06
Netherl.	1,02
Finland	1,01
Portugal	1,01
Germany	1
Austria	1,00
Italy	0,98
Greece	0,92
Spain	0,91
Ireland	0,90
Germany	64%

Comma read dot, dot read comma

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Two measures as an alternative

- Wage increases in GD
 - Export-import balance as a policy objective.
 - Contra unrestricted commodity trade [slide 6].
- In each country one national "payment" bank
 - assets in state bonds and in top safe 50%-first-mortgages only;
 - only these cover deposits guarantee;
 - all other banks left to the market.
- Will show the true character of the EMU
 - Bankers together with big corporations versus Labour

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Appendix: The Netherlands

(source: European Commission, AMECO data base)

	1989-1998	1999-2008		1999-2011
	(10 years)	(10 years)		(13 years)
	<i>averages per year</i>			
GDP: growth	3,2%	2,4%	➔	2,2%
GDP per head: growth	2,5%	2,0%	➔	1,4%
Employment (fte): growth	1,7%	0,8%	➔	0,6%
Labour share in GDP (level)	67,7%	65,7%	➔	65,8%
Investment share GDP (private) (level)	18,6%	17,0%	➔	16,4%
Net exports / GDP (level)	4,7%	7,3%	➔	7,1%

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