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- The institutional proposal promoted the reinforcing of the *Stability and Growth Pact*, by means of the following:
- 1) *European Semester* (January 2011): to deepen economic policy coordination
- 2) *Euro Plus Pact* (March 2011): to make concrete commitments of political reforms to improve the fiscal strength and competitiveness, it was initially called *Competitiveness Pact*, and later *Pact for the Euro*
- 3) *Six Pack* (December 2011): to provide a wide range of macroeconomic indicators to improve the surveillance of eurozone countries, through the *Macroeconomic Imbalance Procedure*
- 4) *Fiscal compact* (March 2012): which sets up the equilibrium rule for cyclical-adjusted budget balances (*Treaty on Stability, Coordination and Governance in the EMU*)



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- 5) *Two pack* (March 2013): two Regulations to reinforce coordination and surveillance of budgetary processes of Eurozone MS, namely under the EDP, and of MS with funding problems (*European Stability Mechanism*)
- In my view, however, monetary cooperation within the eurozone cannot be imposed through mere compulsory rules
- It also requires mutual trust, a *quid pro quo*
- New budgetary rules, as they do not tackle the core of the problem, that is, exchange rate misalignments and balance of payments disequilibria will neither remove the doubts, nor the anxiety of investors when financial markets will come again under strain
- If Chancellor Merkel really willing to create a European Treasury, Why does she refuses to launch the Eurobonds?



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Presentation Plan

1. An quick overview of European monetary integration
2. The economic rationale for a successful currency area
3. The launching of the euro and the global financial crisis
4. The euro under strain
5. Alternative proposals
6. Looking at the crystal ball



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- Unlike the previous, progress towards a genuine *fiscal union* would require greater coordination of fiscal policies between MS
- But also larger size and redistributive capacities of the EU budget to be used by the ECOFIN as a countercyclical device and, thus, to properly fulfil its macroeconomic stabilising function
- The introduction of a genuine European tax, to increase the own resources, strongly resisted by the Germans and the French
- Credits from the IEB and the EIF, and
- Transfers of funds to less favoured regions not to subsidize incomes "but to help to equalize production conditions through investment programmes in such areas as physical infrastructure, communications, transportation and education so that large scale movements of labour do not become the major adjustment factor"
[Delors Report, pp. 18-19]



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- The latter would bring us to the *union of financial transfers*, an issue politically unacceptable to both Chancellor Merkel and the German public opinion
- This unveils the *political nature* of the crisis of the euro
- Survival of the peripherals calls for as much fiscal consolidation progress as additional financial resources (capital transfers)
- Capital transfers will allow the peripherals to widen their capital stock, both public and human, to increase their economies' potential output and support them to compete with core countries on a level playing field
- Correcting the BoP disequilibria requires compensating for the natural (?) tendency for the bulk of investments and economic activity in Europe to concentrate in the *Blue Banana*: Hamburg-London-Paris-Milan



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- Further, if nominal exchange changes are not possible, external disequilibria in the EZ can only be achieved through changes in relative costs and prices
- Thus, *several alternative scenarios emerge*:
- 1) Capital transfers via the EU budget, something opposed by Germany
- 2) Internal devaluations in peripherals, already underway, together with internal revaluations in core countries, though not yet in Germany
- 3) An ECB temporary accommodating monetary and euro depreciation policies, which would temporarily produce high prices
- 4) Combining the previous three, which is far from being ideal but redistributes the burden of the adjustment more equitably



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- Core countries, more particularly the German authorities, have to understand that no country escapes undamaged from a eurozone crisis
- Any alternative has a cost that Germany cannot escape, but there is not such a thing as a free lunch in economics, neither for Germany
- The *proposal of an internal revaluation for Germany* would contribute to solve out the eurozone crisis
- There is a need to mobilise the excessive German savings by implementing a *labour cost expansion*, that is, an increase in labour costs whether wages or non-wage costs
- A *labour costs expansion* would expand the German domestic demand, and part of this expenditure would be growth supportive by stimulating German imports from the EZ countries



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- Whereas an increase in social security charges would strengthen the generosity of the German social protection schemes.
- Unlike the *fiscal expansion* proposed by Martin Wolf, a *labour costs expansion* would not penalise the German taxpayer, but the export-oriented German companies
- Export companies have to choose between either to increase prices and, thus loose competitiveness
- Or, to maintain competitiveness by squeezing profit margins (exorbitant), a feature that the German authorities do not underline quite often
- Reducing external surplus would stimulate growth, this would alleviate the periphery debt burden and fade away the risk of insolvency that German banks may fear on their debt holdings



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- Prospects about the euro are closely linked to the management of the crisis by the ECB, and by the progress on the *Banking Union*
- The banking and debt EU crisis unveiled at least three institutional weaknesses:
 - 1) real need to deepen financial integration;
 - 2) severe macroeconomic disequilibria; and
 - 3) policy mistakes from Member States
- Concerning the *Banking Union* the *Single European Supervisory* authority will be in force in November this year, and constitutes a not return point
- However, proposals on the *Single European Resolution* authority are yet clumsy and rely on the reluctance of German elites



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- There is still a long way to go to reach a final agreement on the second phase of the *Banking Union*
- Certain Member states remain intransigent, Germany has not approved the deal, and refuses to surrender its power to close down a bank to the ECB
- Member states want to keep most decision making power, whereas the EP and the ECB want a full mandate to resolve an ailing bank case, swiftly and with as little bureaucracy as possible
- Without a deal, everything will be pushed back by several months, even into 2015
- The latter could worry the markets and create mounting pressure on risk premia for the peripherals



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- It is imperative for the EU to shift the present economic and financial fragmentation of Europe
- We need to rescue the EU from the trap of the intergovernmental and post-democratic exercise of power into which it has fallen
- This would favour the come back of the so-called *méthode communautaire* to help construct Europe as a *transnational democracy*
- We need to legitimate the political decisions about Europe through both the National and the European Parliaments, as well as by means of the European Court of Justice
- German intransigence in several crucial areas must be swayed, namely as a result of the re-unification, which will allow the German elites to fully exploit the advantages of a brand-new national State



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- We need to reverse the German determination to look Eastern
- In this respect, Habermas is right when states "The Republic of Berlin [...] forgot the lessons that the Federal Republic learnt from history"
- And it is now embracing the road of the most pragmatic of national powers among European States
- It also undermines the credibility of the German political support to the current political initiatives to complete the eurozone and strews Europe with little shadowless bushes, paving the way for future national resentments
- The euro is the symbol of the Europe's sovereignty and Chancellor Merkel and her Government would do well to learn from Chancellor Kohl and, like him, reconcile allegiance to Germany with loyalty to Europe



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- The European Union is a great commercial and economic power, a worldwide savings superpower
- Great powers have great currencies (Mundell 1993)
- The euro is the political symbol of the European sovereignty
- That why, for us, the Europeans, the Euro is much more than a single currency
- It has also to become a common political currency



Thank you for your attention



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Unit Labour Costs: Spain 2010-13



4.8. COSTES LABORALES UNITARIOS. ESPAÑA Y ZONA DEL EURO (a)

■ Serie representada gráficamente.

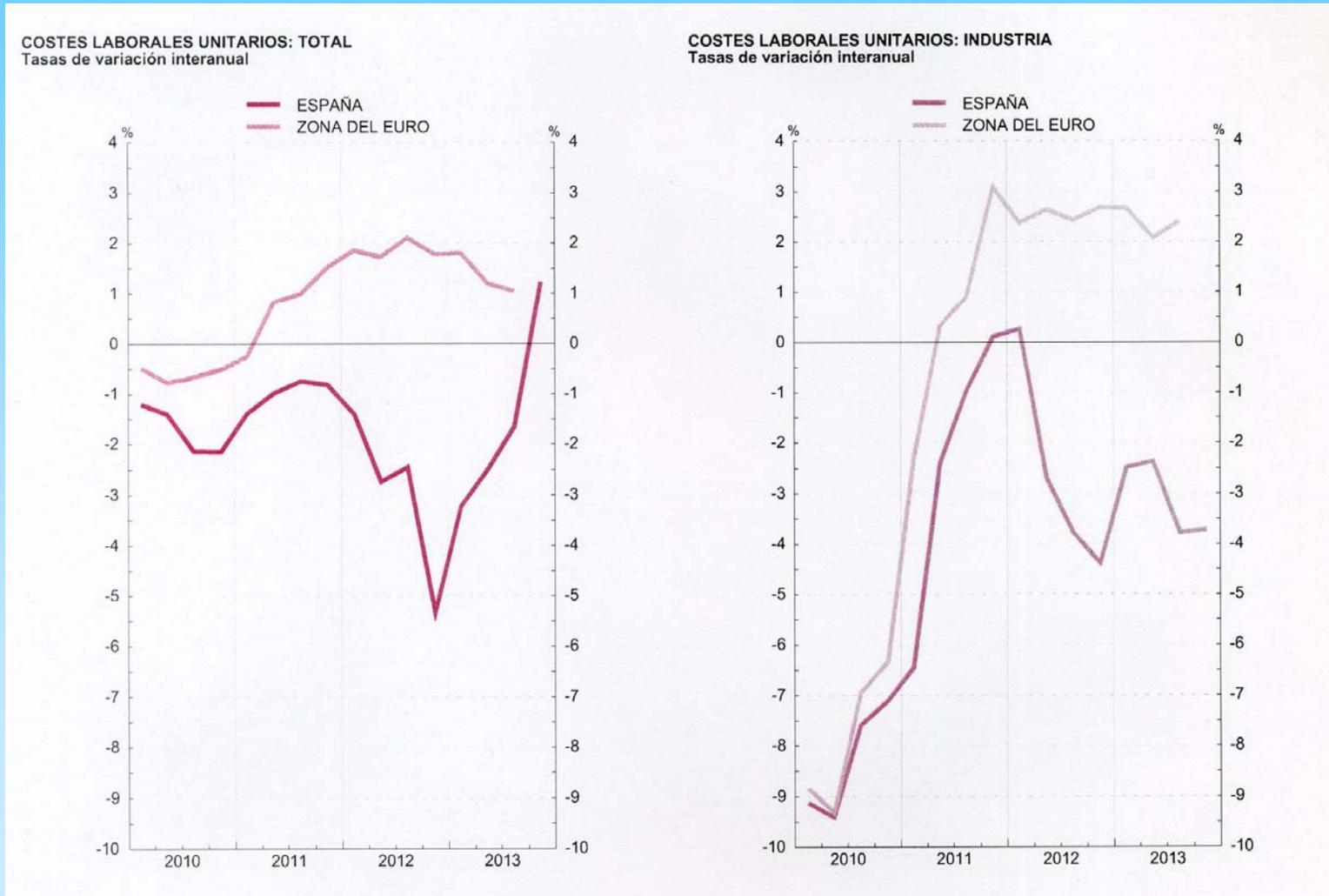
Tasas de variación interanual

		Costes laborales unitarios				Total economía				Pro memoria			
		Total economía		Industria		Remuneración por asalariado		Productividad		PIB (en volumen)		Empleo (ocupados) Total economía	
		España	Zona del euro	España	Zona del euro	España (b)	Zona del euro	España	Zona del euro	España	Zona del euro	España (b)	Zona del euro
		1	2	3	4	5	6	7	8	9	10	11	12
10	P	-1,7	-0,6	-8,3	-7,9	0,4	1,8	2,2	2,4	-0,2	1,9	-2,3	-0,5
11	P	-1,0	0,8	-2,5	0,5	1,3	2,1	2,3	1,4	0,1	1,6	-2,2	0,3
12	A	-3,0	1,9	-2,6	2,5	0,2	1,9	3,3	0,0	-1,6	-0,6	-4,8	-0,7
11 /	P	-1,4	-0,2	-6,4	-2,3	0,9	2,0	2,3	2,3	0,6	2,7	-1,7	0,4
II	P	-1,0	0,8	-2,4	0,3	0,9	2,1	1,9	1,2	0,3	1,8	-1,6	0,5
III	P	-0,7	1,0	-1,0	0,9	1,6	2,2	2,4	1,2	-0,0	1,4	-2,4	0,3
IV	P	-0,8	1,5	0,1	3,1	1,9	2,3	2,8	0,8	-0,6	0,7	-3,3	-0,1
12 /	A	-1,4	1,9	0,3	2,4	1,7	2,1	3,2	0,3	-1,2	-0,2	-4,3	-0,5
II	A	-2,7	1,7	-2,7	2,6	0,8	2,0	3,7	0,3	-1,6	-0,5	-5,1	-0,8
III	A	-2,4	2,1	-3,8	2,4	0,7	2,0	3,2	-0,1	-1,7	-0,7	-4,7	-0,6
IV	A	-5,3	1,8	-4,4	2,7	-2,4	1,5	3,1	-0,3	-2,1	-1,0	-5,0	-0,7
13 /	A	-3,2	1,8	-2,5	2,7	-0,5	1,6	2,9	-0,2	-1,9	-1,2	-4,7	-1,0
II	A	-2,5	1,2	-2,4	2,1	-0,1	1,6	2,5	0,4	-1,6	-0,6	-4,0	-1,0
III	A	-1,6	1,1	-3,8	2,4	0,5	1,6	2,2	0,5	-1,1	-0,3	-3,3	-0,8
IV	A	1,2	...	-3,7	...	2,7	...	1,5	...	-0,2	0,5	-1,6	...



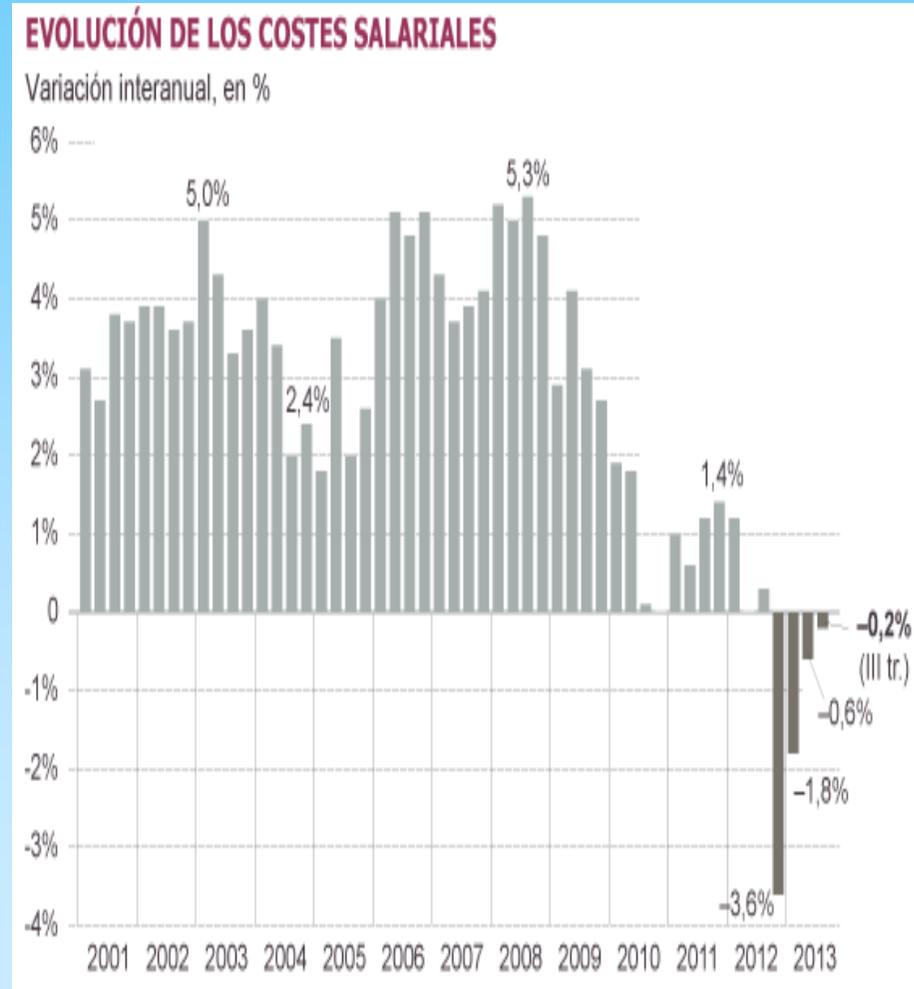
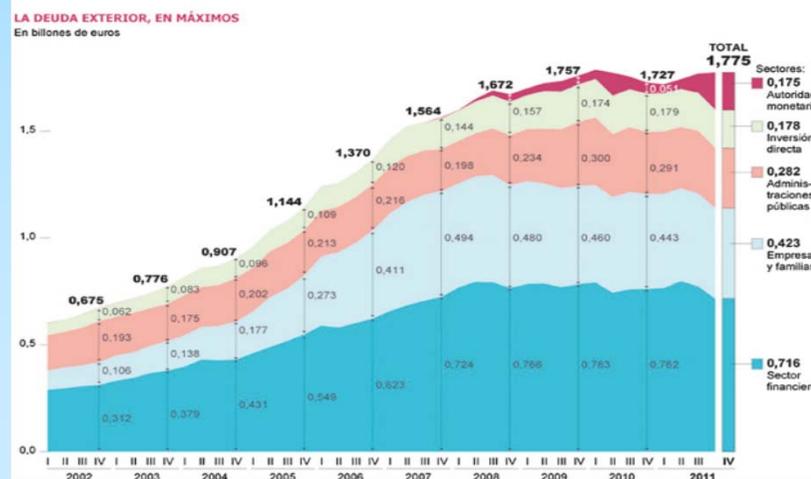
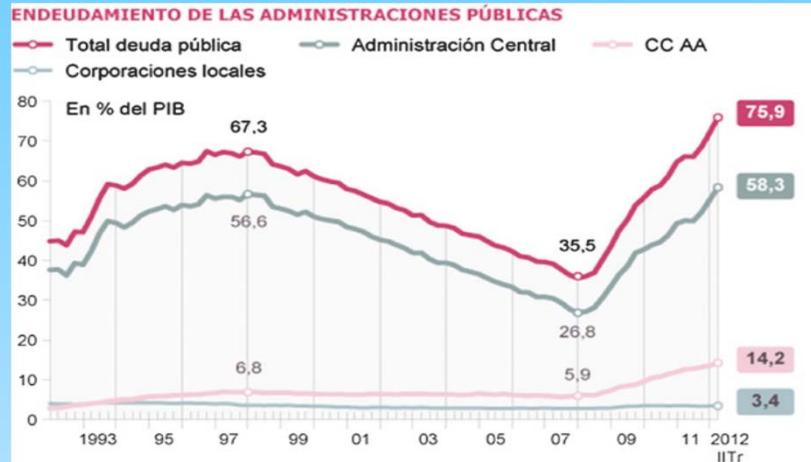
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Unit Labour Costs: Spain 2010-13





A not very common single currency General Government, external debt, and LCs



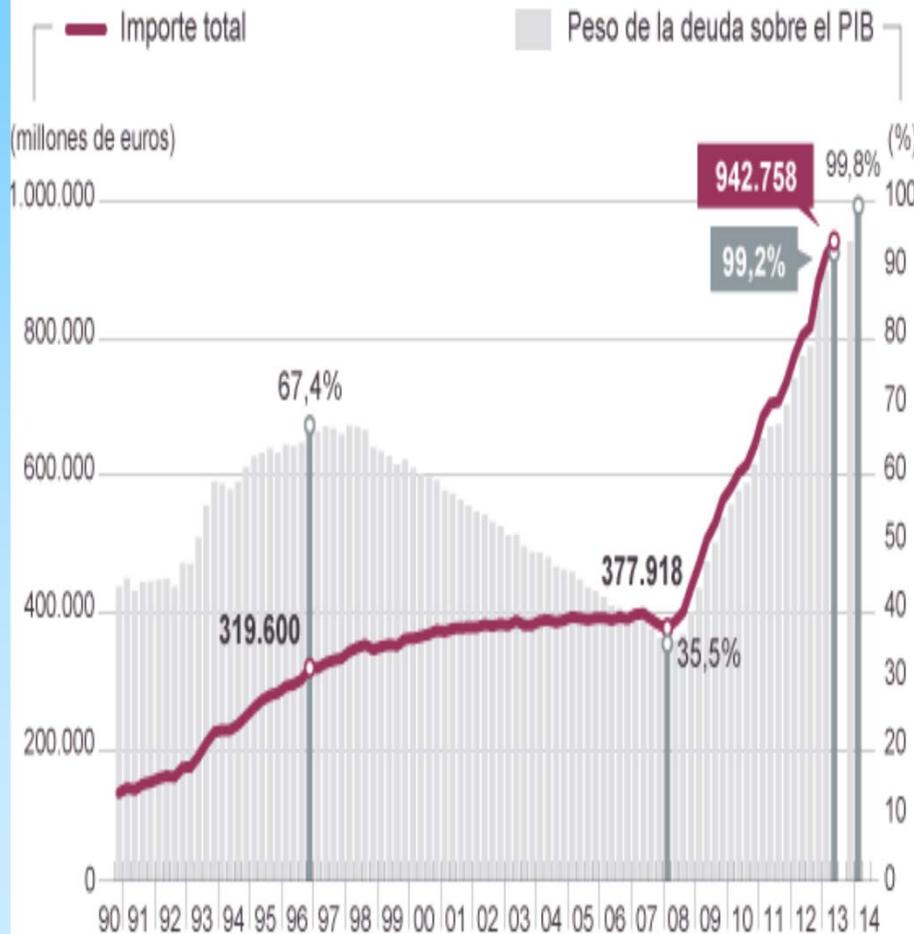


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General Government debts grow

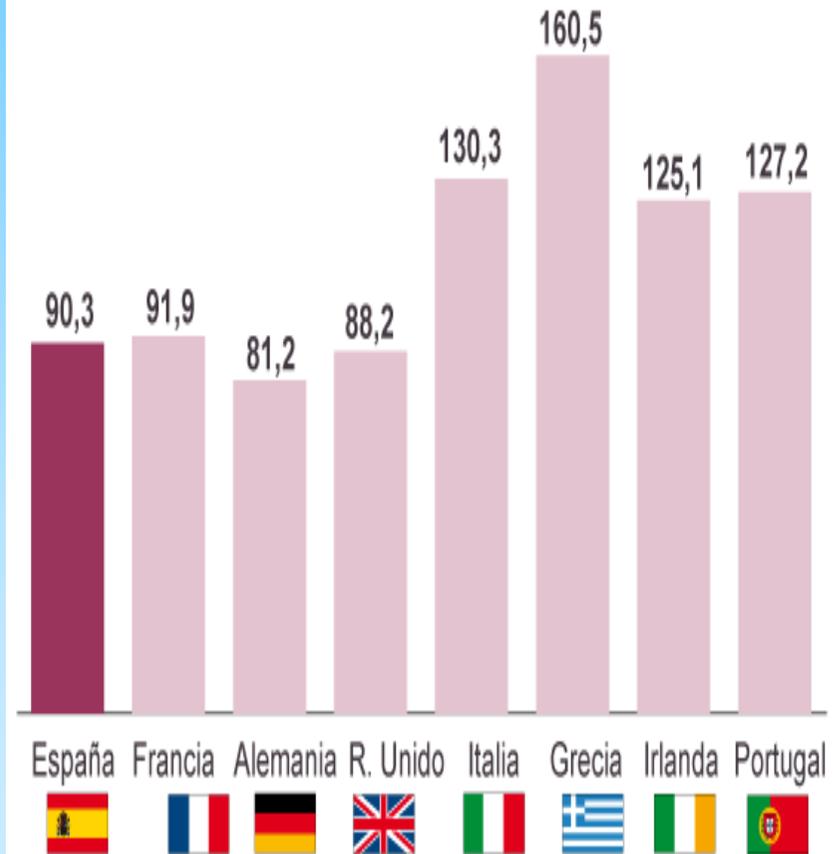


EVOLUCIÓN DE LA DEUDA DEL ESTADO



DEUDA PÚBLICA POR PAÍSES

En % del PIB





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Summary of the Spanish Crisis

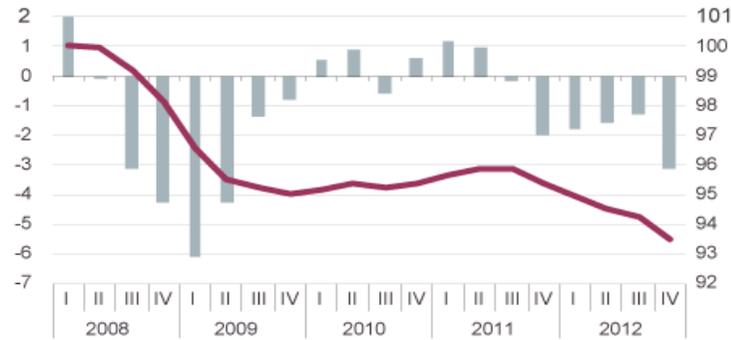


RETRATO DE UNA ECONOMÍA EN CRISIS

► PIB

Variación en % e índice 2008-I T = 100

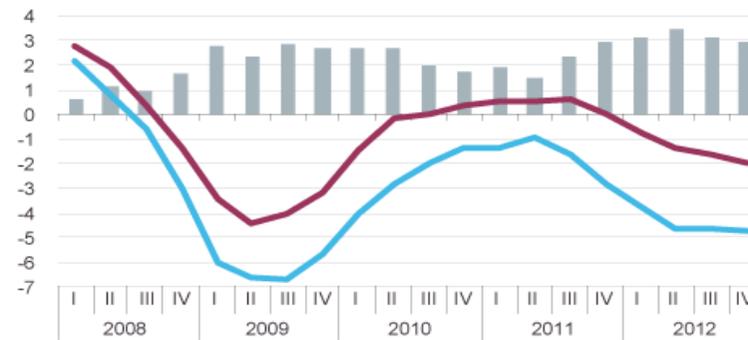
- PIB, tasa trimestral anualizada (izda.)
- Índice 2008 I T = 100 (dcha.)



► PIB, EMPLEO Y PRODUCTIVIDAD

Variación interanual en %

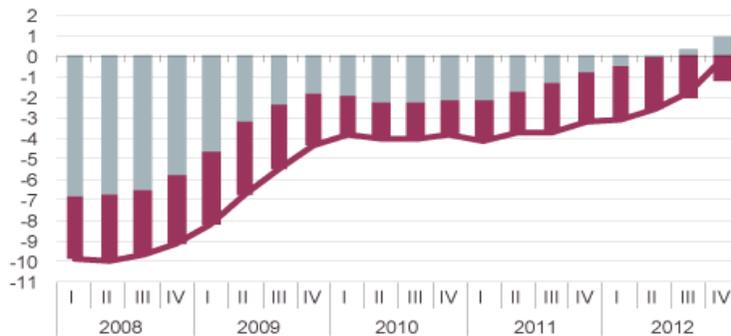
- Productividad por PTETC
- PIB
- Empleo (PTETC)



► CUENTA DEL RESTO DEL MUNDO

Porcentaje del PIB, MM4

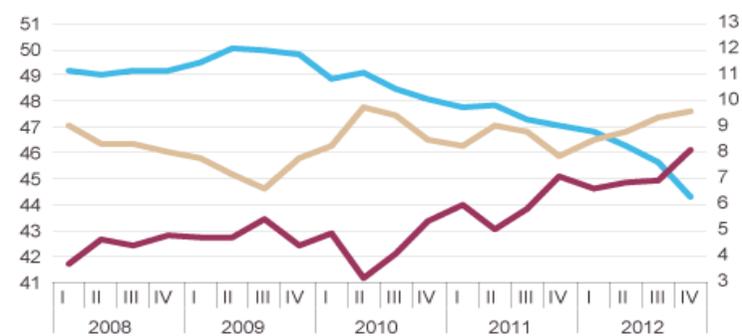
- Saldo de rentas y transferencias
- Saldo de bienes y servicios
- Necesidad de financiación frente al resto del mundo



► DISTRIBUCIÓN FUNCIONAL DE LA RENTA

Porcentaje del PIBpm, a tasa de salarización constante

- Remuneración de los asalariados (izda.)
- Excedente bruto de explotación / Rentas mixtas (izda.)
- Impuestos netos sobre la produc. e importaciones (dcha.)



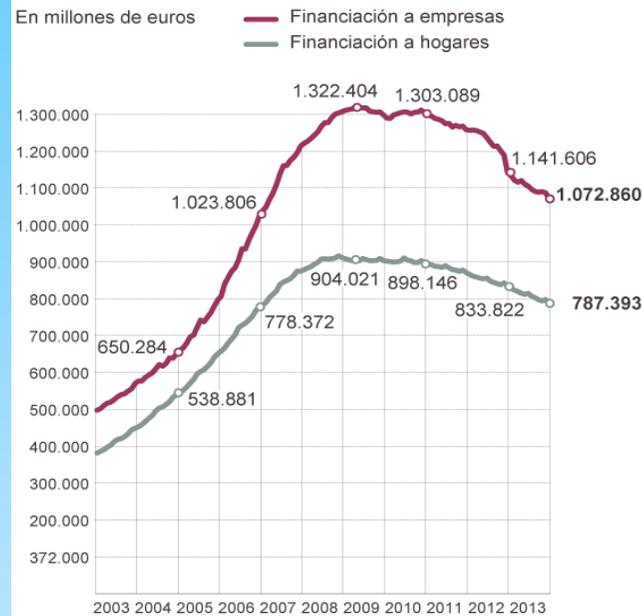


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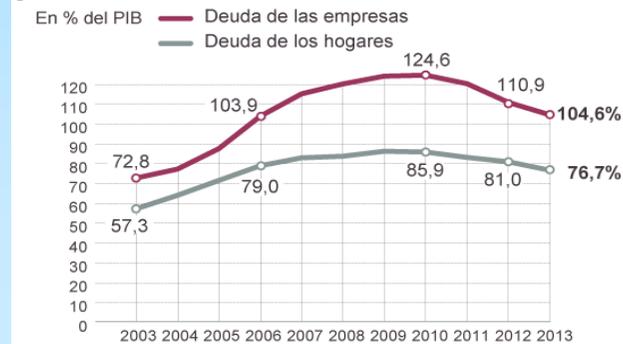


Private sector debts are being paid

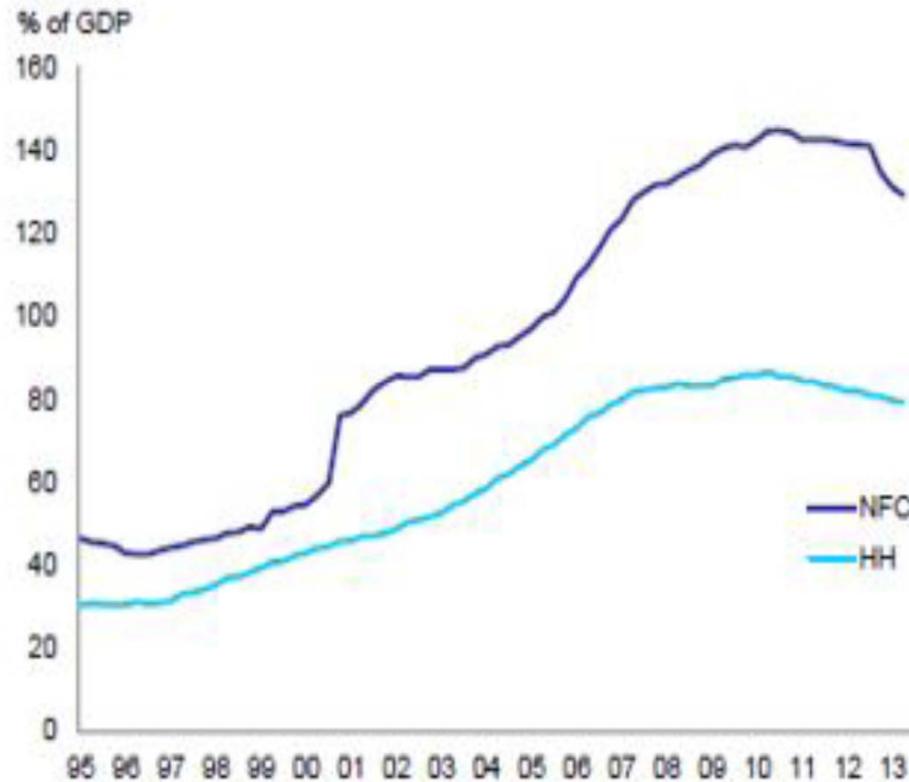
EL CRÉDITO AL SECTOR PRIVADO



DEUDA DEL SECTOR PRIVADO



Endeudamiento Empresas (NFC) y Familias (HH)



Fuente: Comisión Europea



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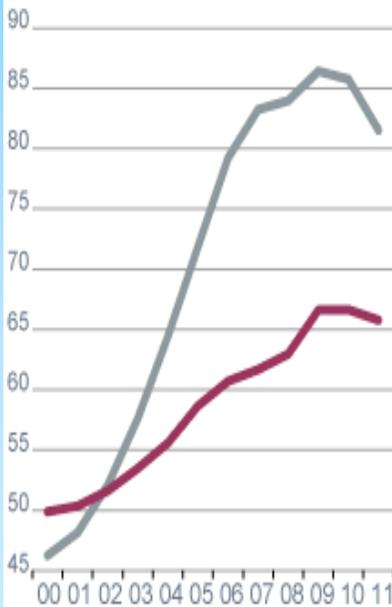
Private sector debts are being paid

EL ESCENARIO DEL DESENDEUDAMIENTO PRIVADO

DEUDA BRUTA DE LOS HOGARES*

En % del PIB anual

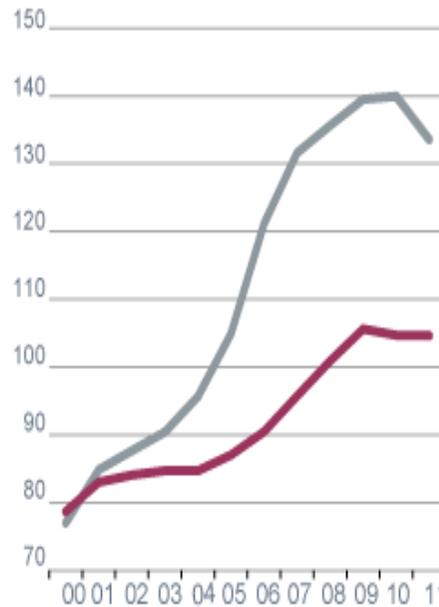
— España
— Zona euro



DEUDA BRUTA, SOCIEDADES NO FINANCIERAS*

En % del PIB anual

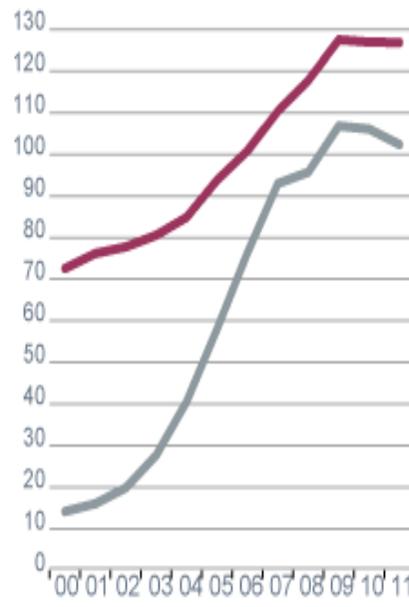
— España
— Zona euro



DEUDA BRUTA, INSTITUCIONES FINANCIERAS*

En % del PIB anual

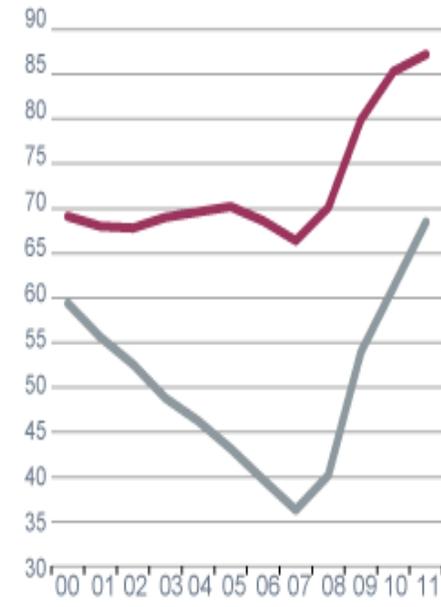
— España
— Zona euro



DEUDA BRUTA, ADMINISTRACIONES PÚBLICAS*

En % del PIB anual

— España
— Zona euro



(*) La deuda bruta incluye préstamos y valores distintos de acciones. La deuda de las instituciones financieras no incluye depósitos. La deuda de las administraciones públicas está expresada en términos del Protocolo de Déficit Excesivo.