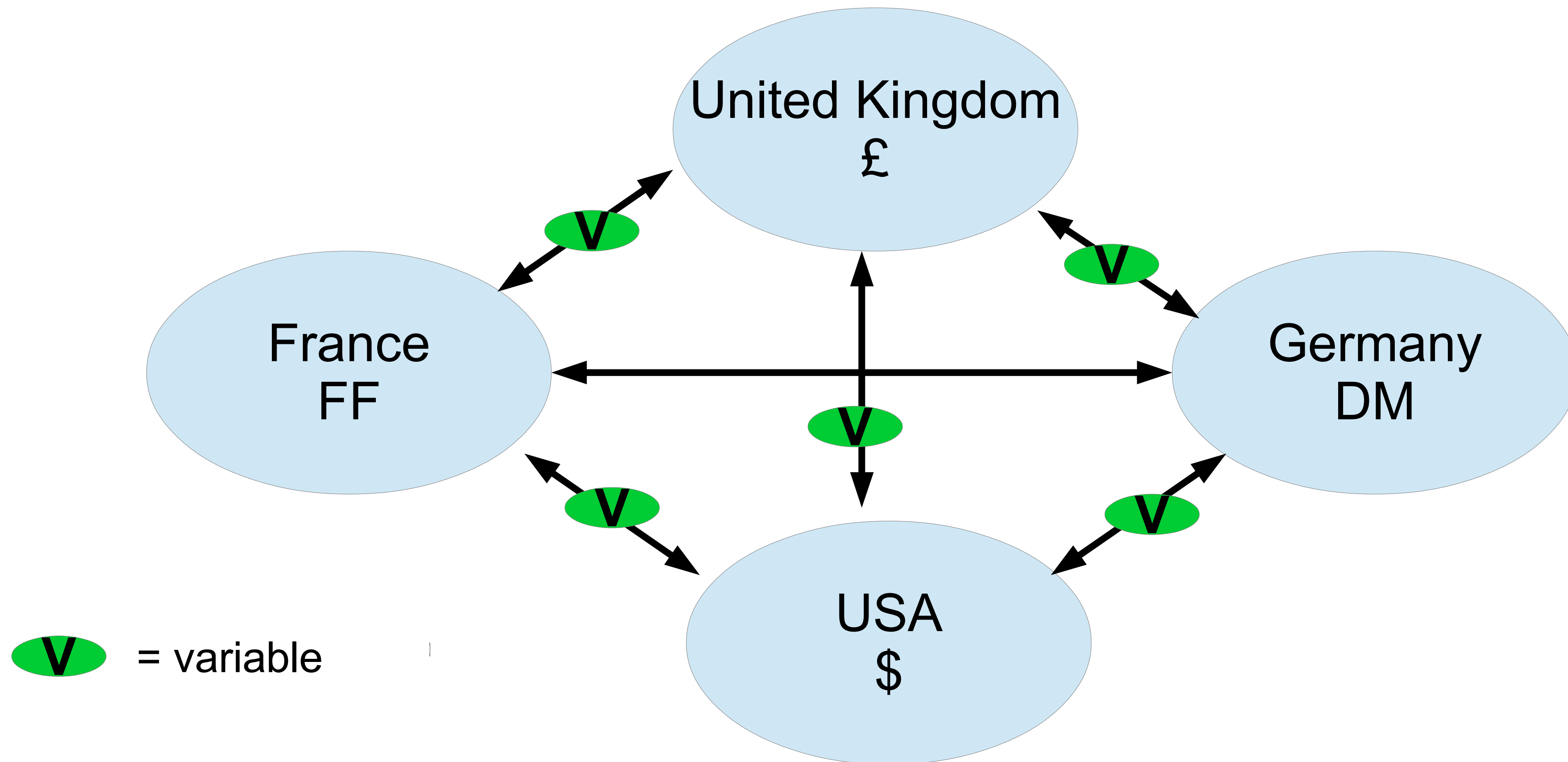
Structural inflexibility within the Eurozone

David Rees

Inter War years 1914-1940. Gold Standard abandoned



Countries use devaluation and protectionist tarrifs to promote exports and employment. Exports cheaper to others, imports more expensive hence consumption of home-made goods.

Essential non-domestic goods (oil) more expensive. Trade difficult due to currency fluctuations. International tarrif retaliation. World trade declines

Bretton Woods 1944. IMF, World Bank, GATT (WTO) and Dollar domination

United Kingdom
£

France
FF

Germany
DM

USA
$

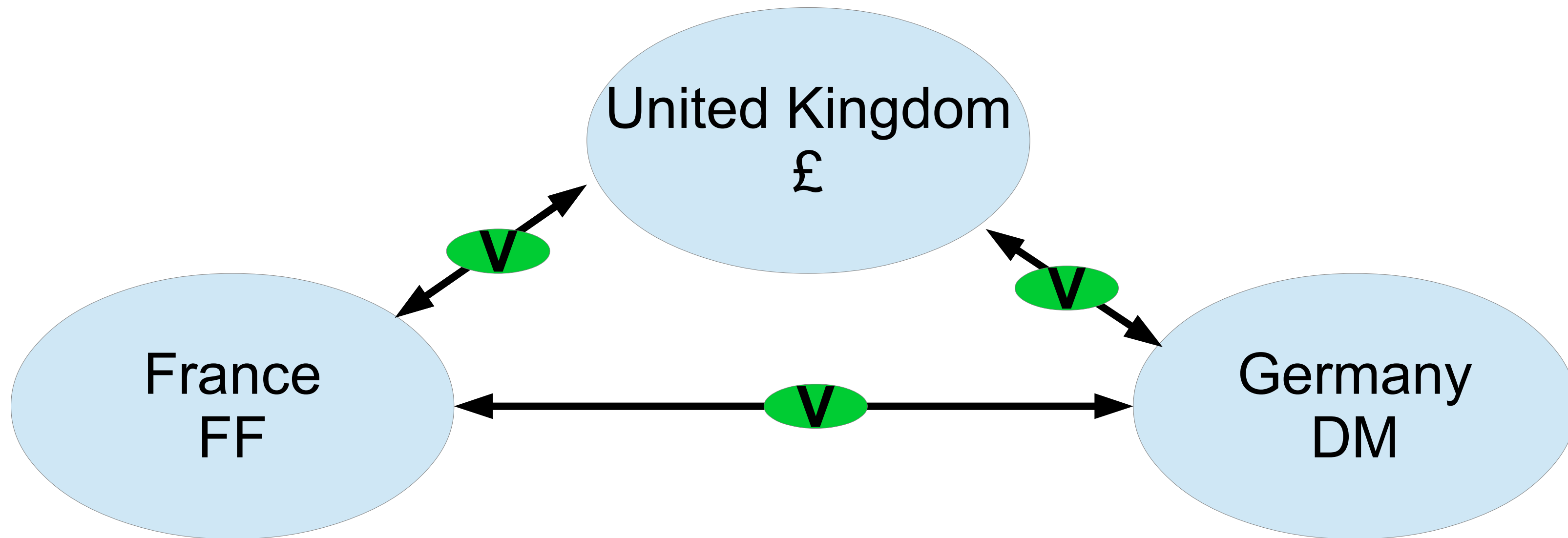
F = fixed

35$ / ounce

1976. Nixon breaks Bretton Woods agreement

Fixed currencies stabilise trade and remove speculation.
$ becomes the world reserve currency.
Productivity changes only can be expressed in employment or wages

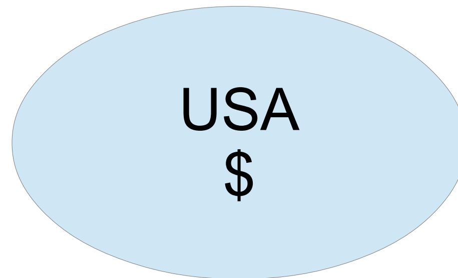
European Economic Community - Single Market



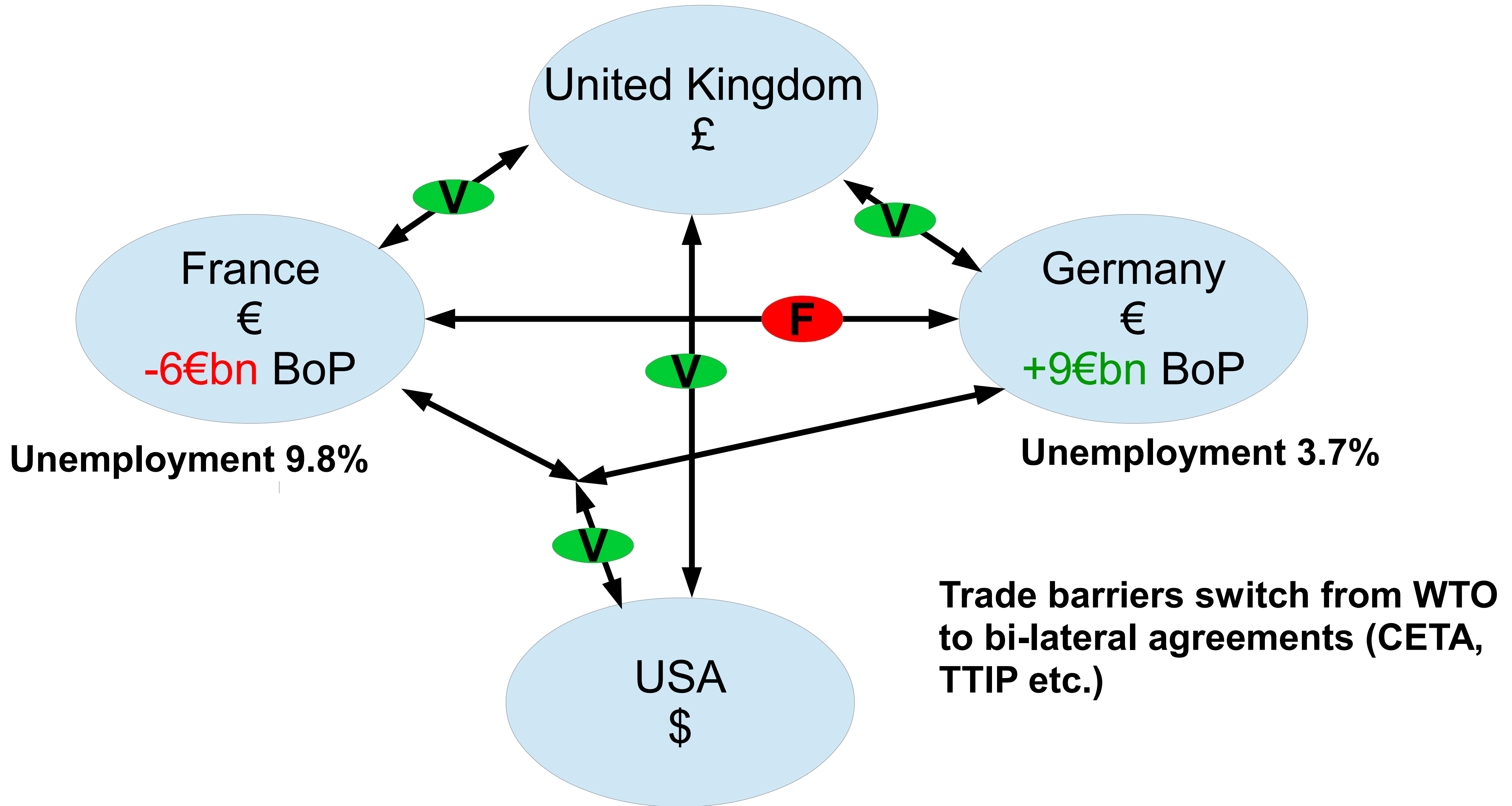
No tarrif barriers

Common Tarrif Barrier. Variable currencies

Tarrif barriers controlled by the WTO



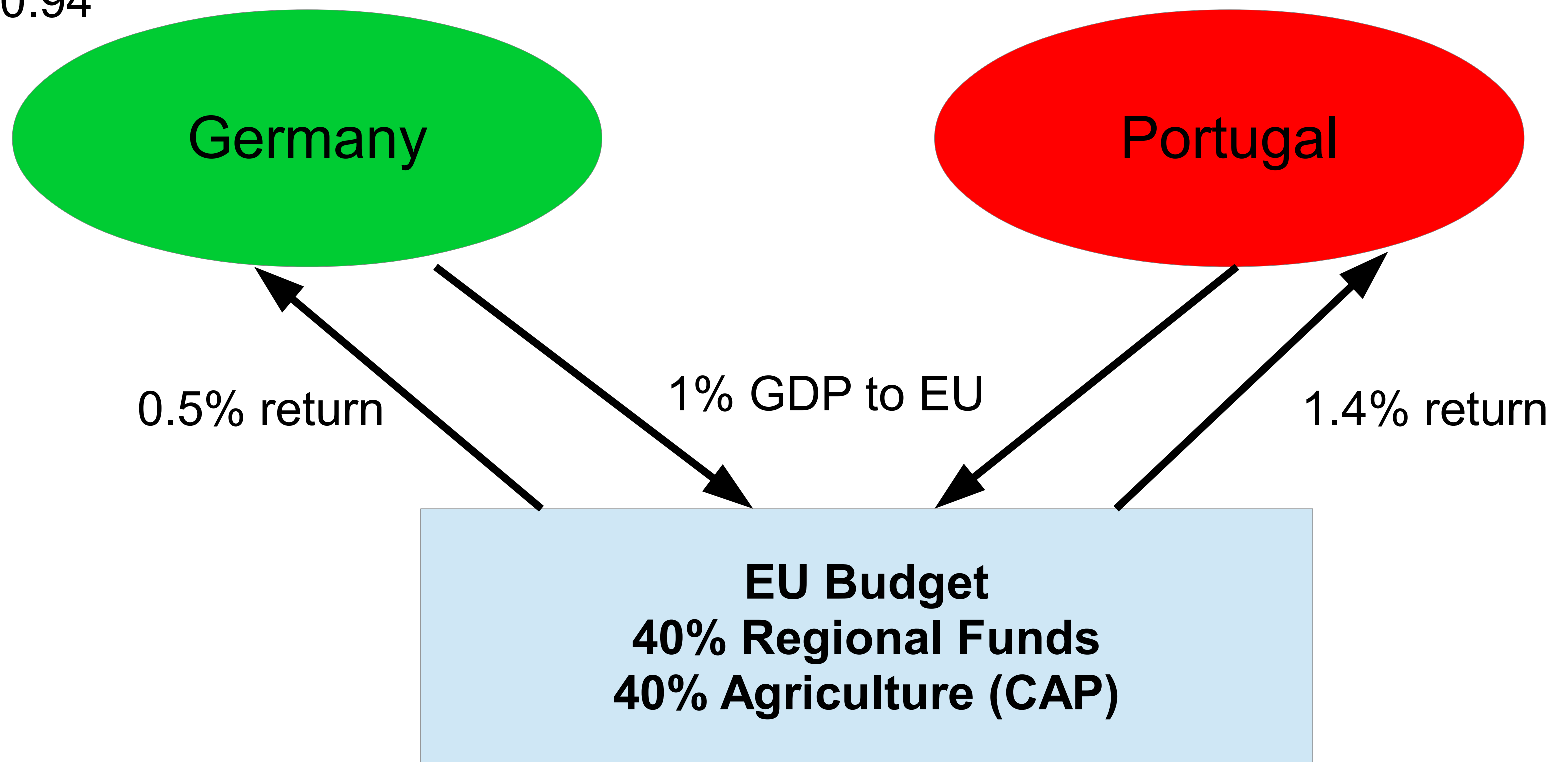
European Union. Economic and Monetary Union (Eurozone)



Theory: if Germany is more productive than France, Germany should have high employment and wage inflation leading to higher production costs and less export advantage. The Hartz Reforms under Schroeder reduce wages, pensions, unemployment rights, social securityand increase flexibility, precarious jobs and poverty. No minimum wage until 2017.

How does France resolve intra-Euro competition to reduce unemployment ?

European Union Solidarity Model

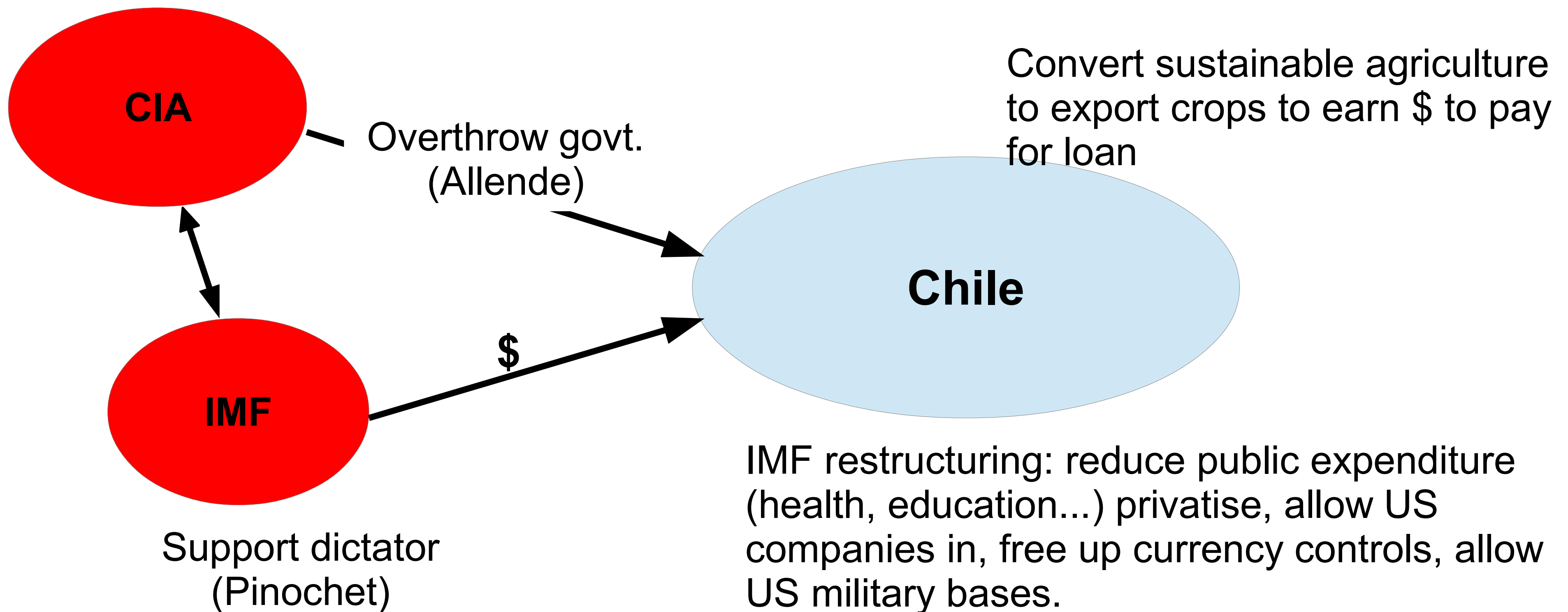


The difference in PPP (Purchasing Power Parity) means that 1€ in Portugal has 51% more value than in Germany. Then add on the Multiplier Effect (variable)

Poorer countries in the EU should become richer, which increases the market for goods from the richer countries. It's a win-win situation

But the Euro is too high for the Portuguese and too low for Germany. Even Wolfgang Schäuble admitted that "The exchange rate for the Euro is, strictly speaking, too low for the competitive position of the German economy" *(Financial Times, 31 January and 6 February 2017)*

Classic IMF debt control and restructuring (Truman Doctrine)



Do not allow the debt to be paid (currency control, FDI control...) to maintain debt control and military power. Use debt-equity swaps to buy up ressources.

Reading : John Perkins, Confessions of an Economic Hitman, The Secret History of the American Empire. Stephen Kinzer, Overthrow. John Pilger, The New Rulers of the World. Jeffrey Frieden, Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965-1985

EU Predation and debt-Control Model

2008 Sub-primes crisis: German and French banks exposed to bankruptcy.
European governments bail-out their banks and break the rules of the Stability Pact (<3% deficit and <60% debt / GDP)

Countries borrow via sovereign 10-year bonds on the open market. The Interest Rate depends on the risk rating from rating companies.

Greek bond IR goes from around 4% to 36% which increases deficit and debt, leading to worse rating, higher bond IR – a vicious circle.
The Troika (EU Commission (Eurogroup), ECB and the IMF) organise bailouts. 70% goes to paying interest to the banks, only 10% goes to Greece.

See my presentation on Greek Debt for more details

Greece loses its democracy (home of democracy!)
Austerity measures make things worse
IMF imposes restructuring to reduce health, education, transport, pensions, public salaries etc.
The Troika sells off Greek public services, property and land.
The Greek people vote for Syriza to stop the austerity, but the Troika controls the debt (having bought the debt from the private banks) and threatens to close the banks.

Austerity is imposed and results in far worse debt and unemployment than before.

ABANDON SHIP
EU
ECONOMI
FAILURE
POLITICAL CORRECTNESS
GREECE
TAXES
DEBT
BEN GARRISON