

Roundtable: “Never waste a crisis?: How Europe and Ecology could be the path out of the EU’s current dismay...”

Brussels, 19th October 2011

**Causes, consequences and (green)
ways out of the crisis: a perspective
from the periphery**

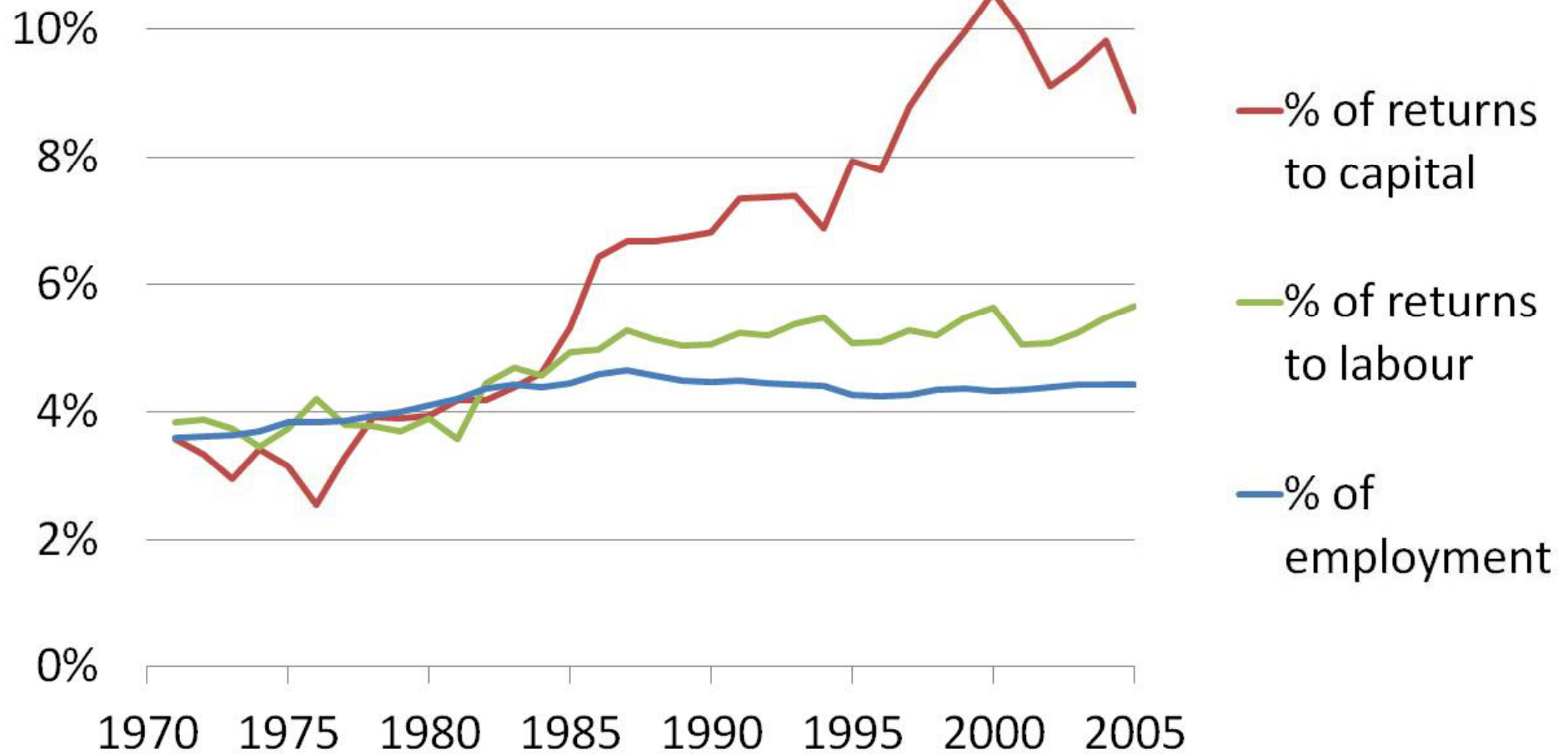
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1.

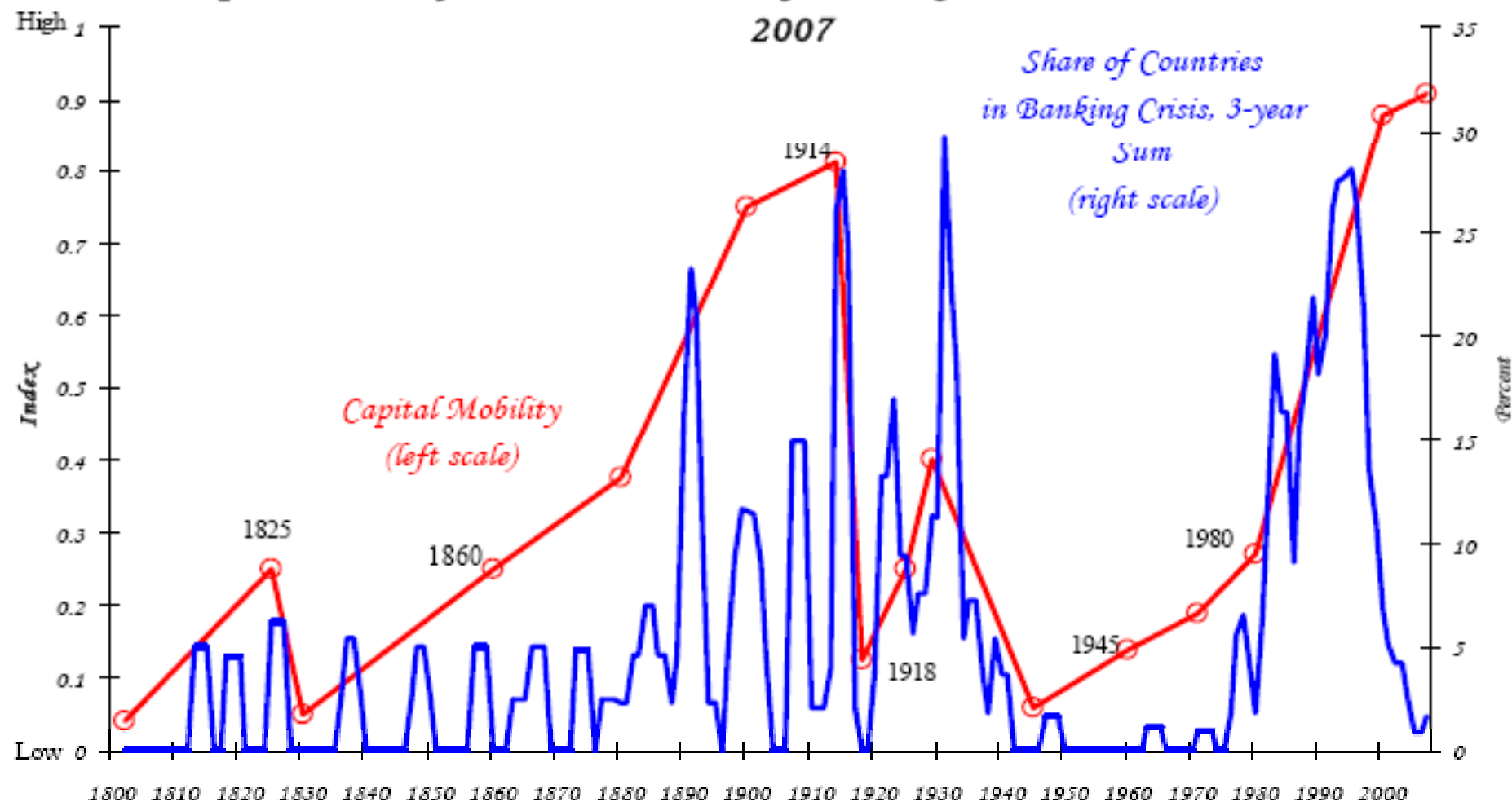
An oversized financial system and the unrestricted movement of financial capital are incompatible with sustainable development.

The weight of financial system in the US economy



Source: EU KLEMS database

Capital Mobility and the Incidence of Banking Crisis: All Countries, 1800-2007



Source: Carmen M. Reinhart & Kenneth S. Rogoff (2009). *This Time Is Different: Eight Centuries of Financial Folly*. Princeton University Press.

Oversized and largely unrestricted financial systems

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graph TD; A[Oversized and largely unrestricted financial systems] --> B[Financial and economic instability]; A --> C[Short-termism in investment decisions]; A --> D[Income inequality]; A --> E[Pressure on public finances]; A --> F[Erosion of democracy];
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Financial
and
economic
instability

Short-
termism in
investment
decisions

Income
inequality

Pressure
on public
finances

Erosion of
democracy

*To a some extent, this is the story of the last 30 years,
including the current crisis*

2.

The EU has not been a countervailing force to some of the most detrimental effects of financial globalization.

Three case-studies

1. Single market for financial services + No tax harmonization + Tax heavens => **tax evasion + erosion of public finances + income inequality.**

(In 2010, 80% of Portuguese direct investment abroad went to... the Netherlands.)

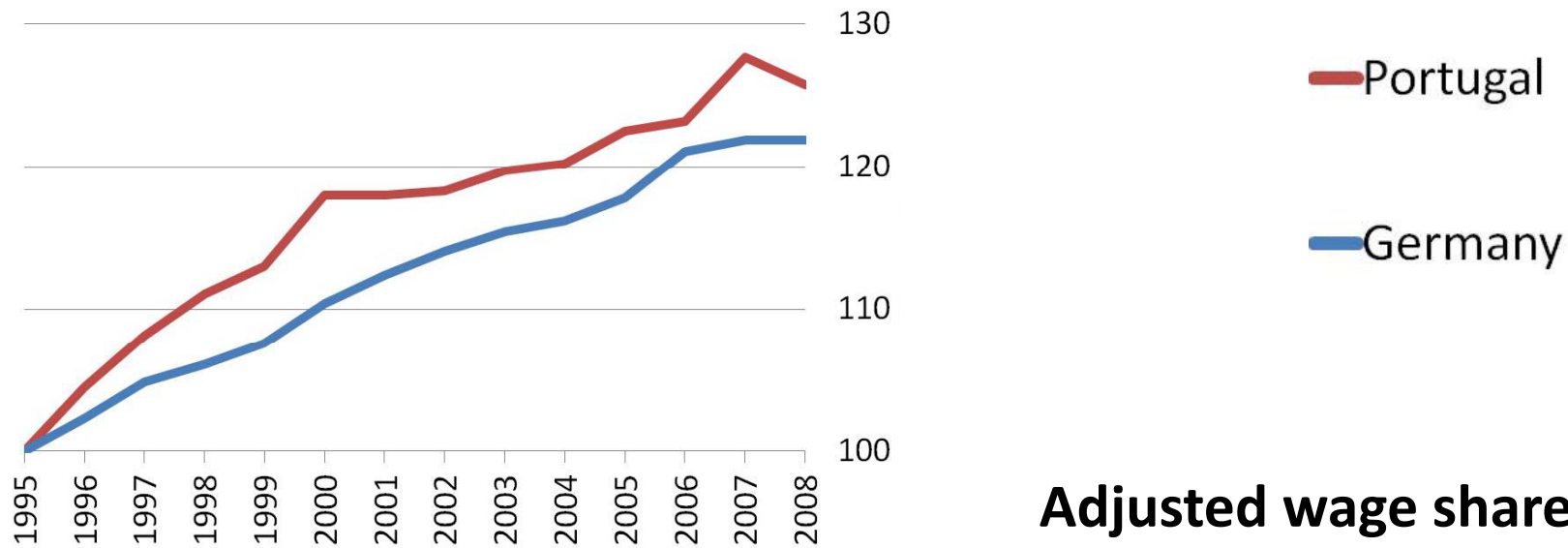
2. Single currency + SGP + No countercyclical budget transfers + No wage coordination => **downward pressure on wages + income inequality + austerity as the rule.**

(Profligate wage increases in the periphery, or insufficient wage increases elsewhere?)

3. Single currency + No lender of last resort + Incoherent leadership
=> **speculative attacks + unsustainable interest rates.**

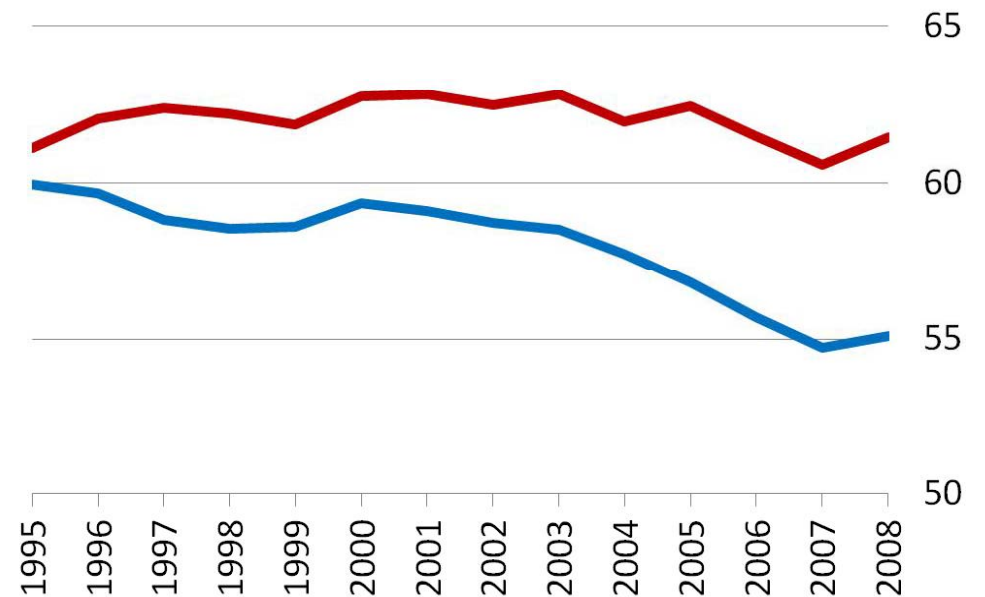


Labour productivity



Source: OECD

Adjusted wage share



Source: Eurostat

3.

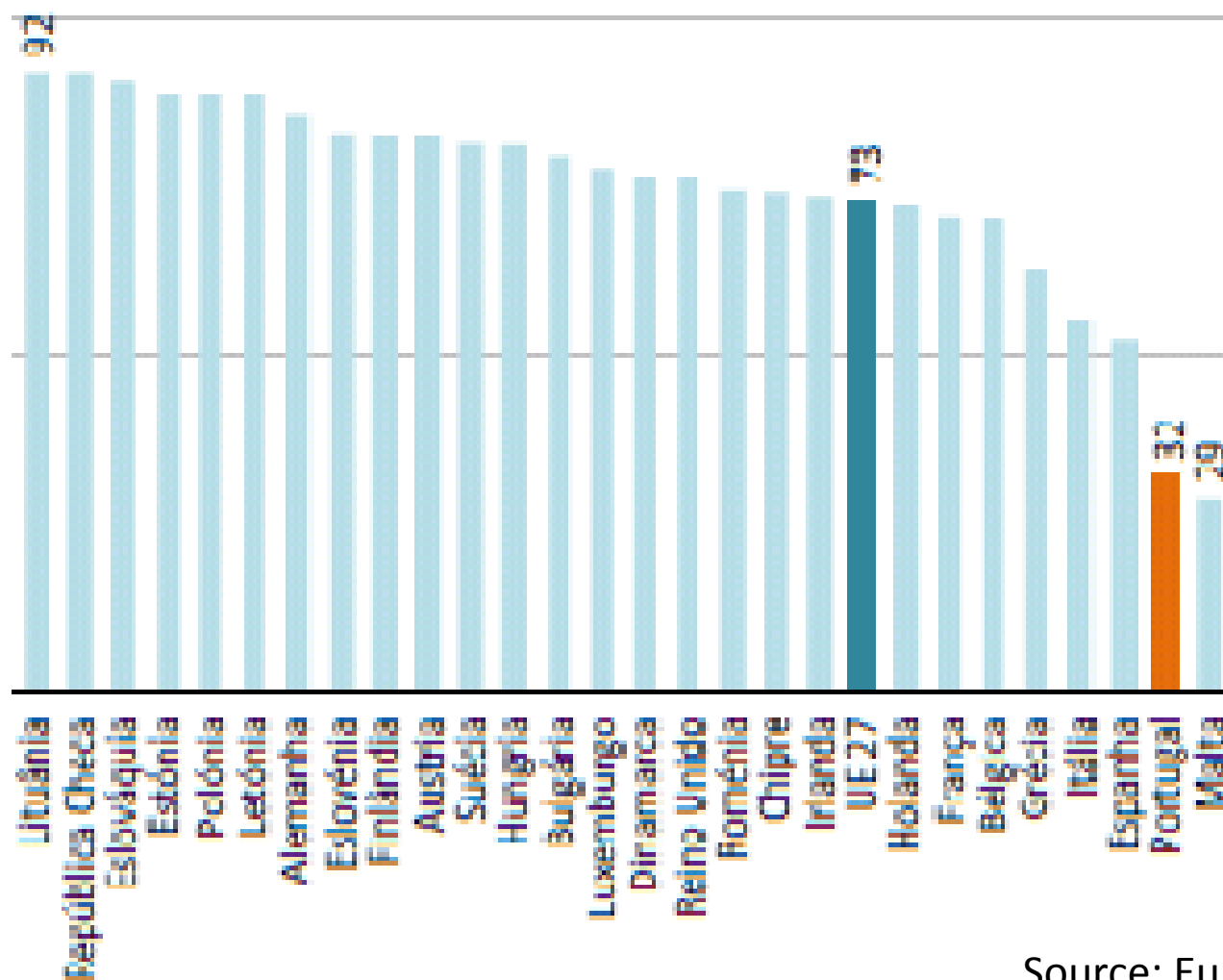
**Developments and decisions at the national
level have to be taken into account...
...and put in perspective.**

Four main structural weaknesses of the Portuguese economy

1. One of the lowest levels of education in the OECD.
2. A productive specialization profile based on low added-value, low-tech industries, and highly exposed to competition by emerging economies
3. A peripheral geographical position in the EU economy
4. A strong energy dependency (30-50% of the trade deficit).



% of population with secondary school (2009)

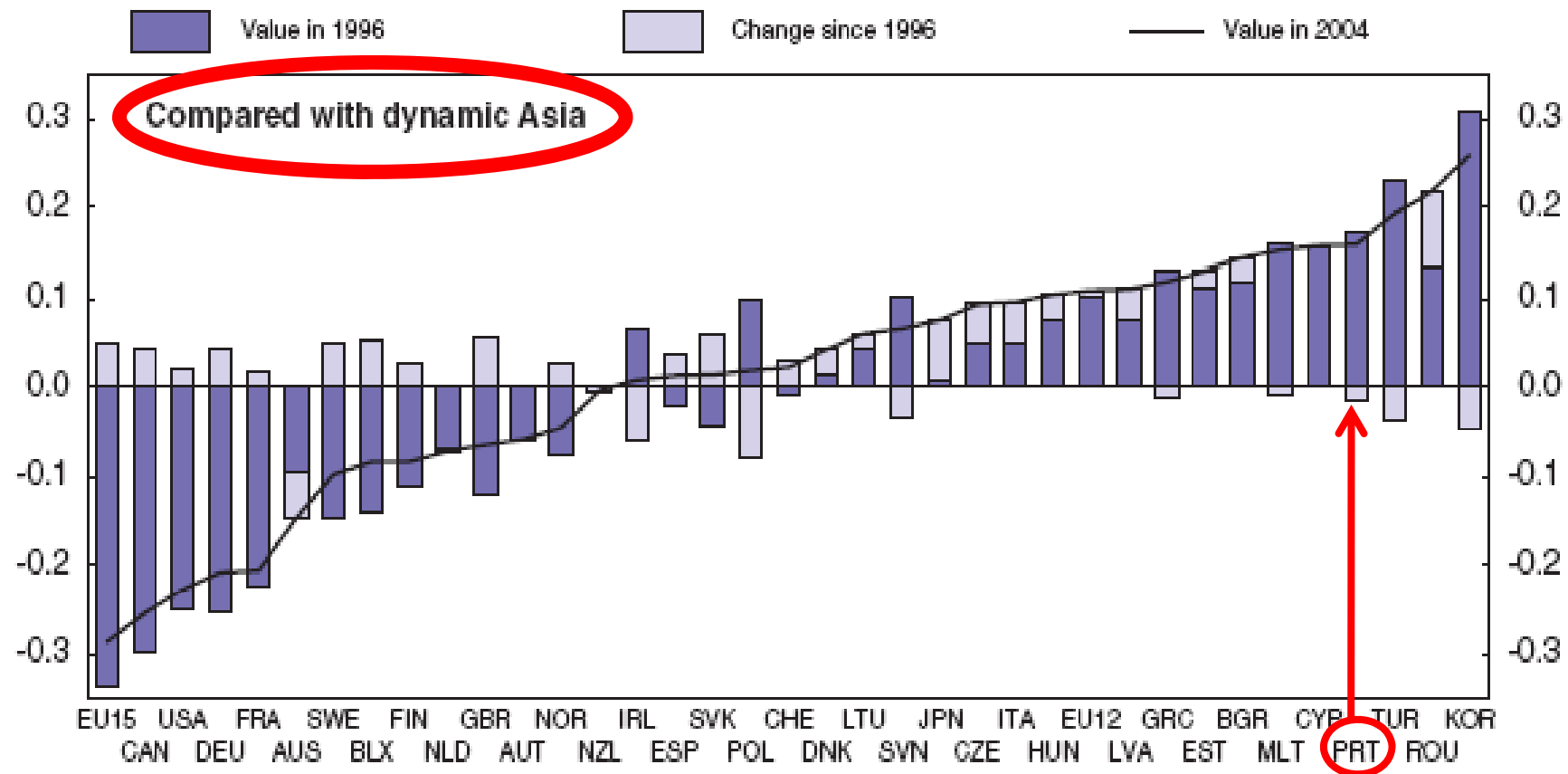


Source: Eurostat

Productive specialization profile

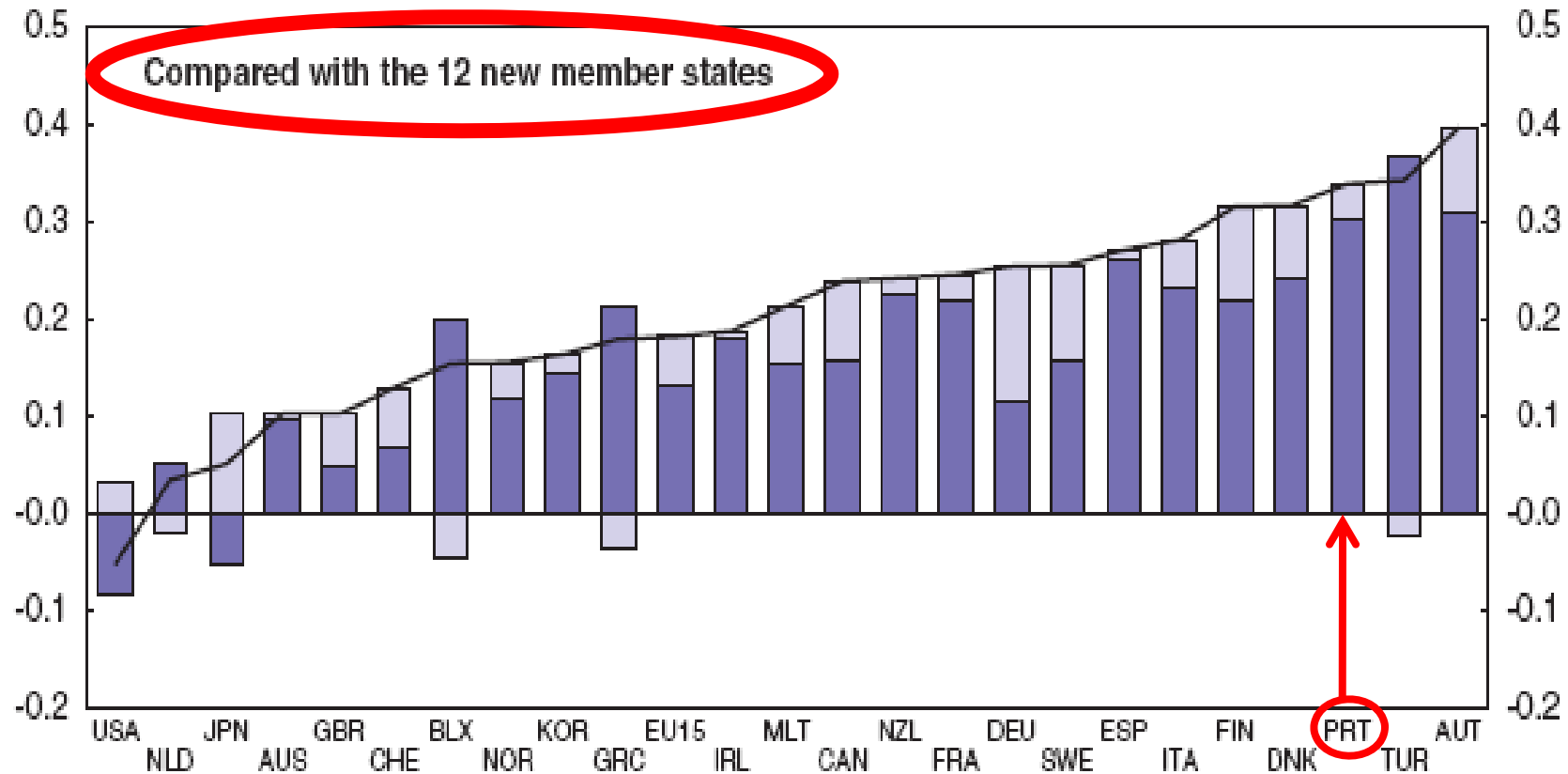
Figure 1.10. Trade specialisation

Rank correlation coefficient of RCAs¹



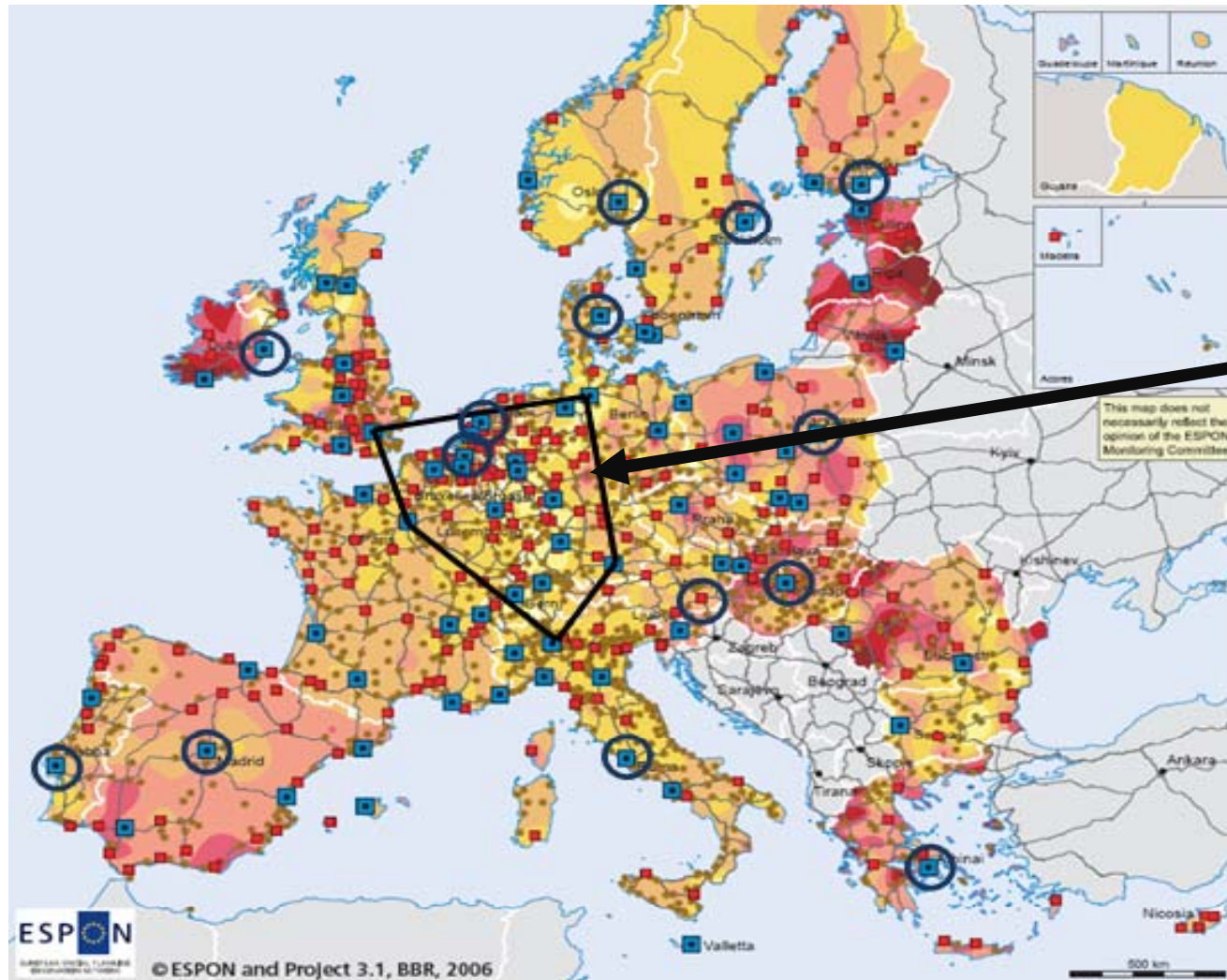
Source: OECD (2007)

Productive specialization profile



1. The revealed comparative advantage index is calculated across 1 043 categories of goods and services. The EU aggregates exclude intra-region trade.

The meaning of being peripheral



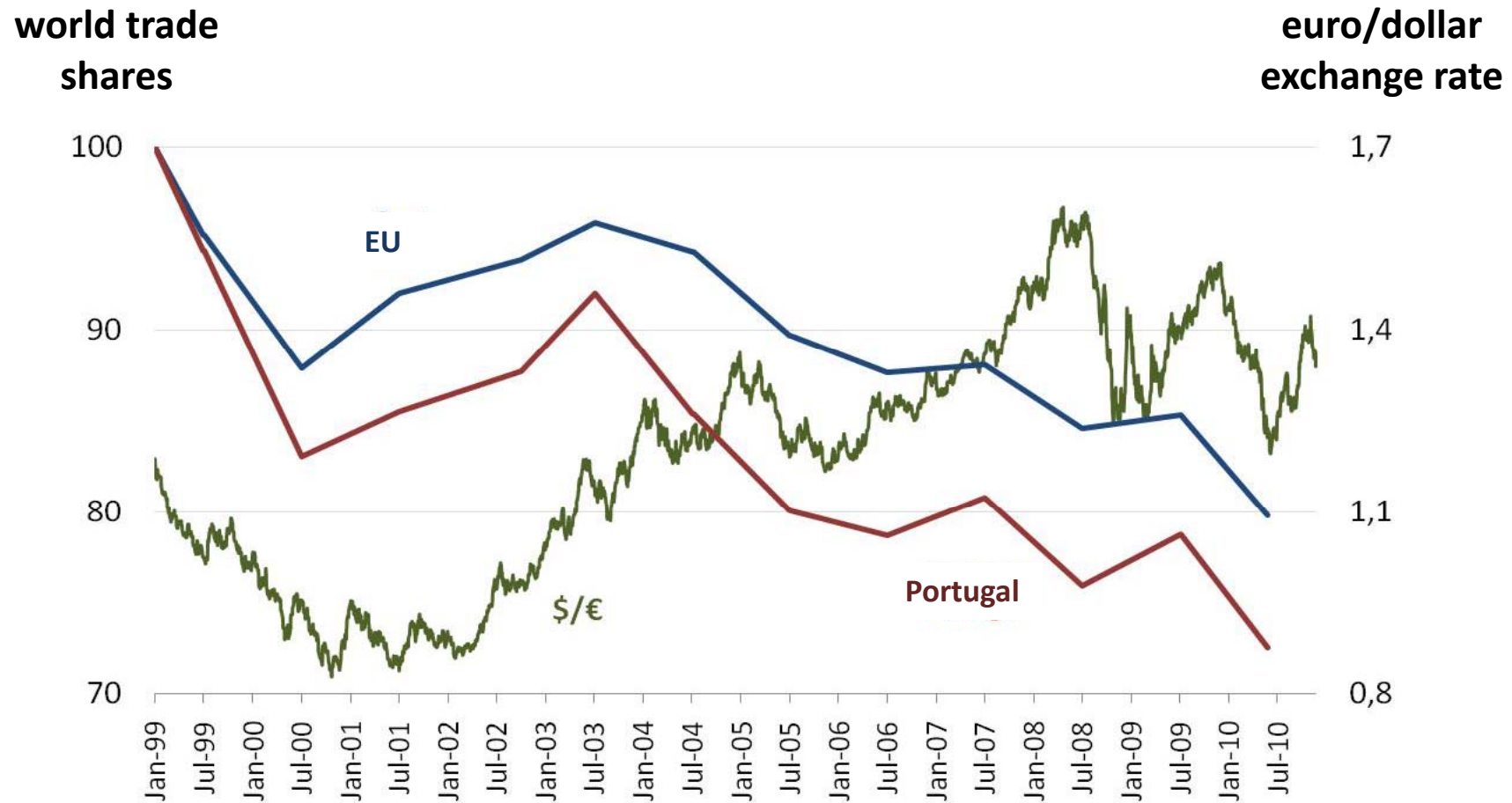
- Nearly ½ of EU's GDP
- 75% of EU's R&D

A succession of asymmetric, external shocks

- China's accession to the WTO in 2001 (and China/EU trade agreements, in general)
- EU's eastern enlargement in 2004
- Euro's exchange rate appreciation since 2002
- Steep increase in oil prices over the decade
- The Great Recession



The asymmetric impact of a strong currency



National policy options praised by international organizations (before the crisis)

See, e.g., OECD (2008), Economic Survey of Portugal.

- Strong increase in R&D
- Intensive use of ESF to promote education and training
- Strong investment in renewable energies
- Pioneering project of electric mobility
- Social security reform (2006)
- Reduction of civil servants (every year since 2005)
- Wage restraint in public sector (since 2001)
- Generalised e-government



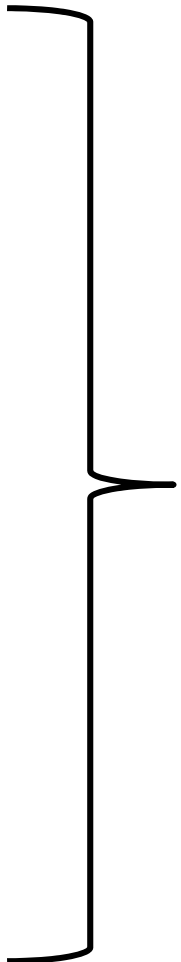
What could have been done better at the national level?

- Rejecting the Maastricht Treaty?
- Not participating in the euro?
- Rejecting EU's trade agreements?
- Vetoing EU enlargement?



What could have been done better at the national level?

- Less public investment?
(Transport infrastructure? Public transports? Renewable energies?)
- Labour market reform?
(Reduce collective bargaining? Simplify dismissals? Extend working time?)
(minimum wage = 486€;
week schedule=40h+2,5)
- Less social transfers?
(25% of the population is
at-risk-of-poverty or social exclusion)
- Further cuts in public servants wages?
(cumulative fall in real wages from 2001
to 2013 will greater than 20%)



Will this solve the
aforementioned
structural
weaknesses of the
Portuguese
economy?

Will this
contribute to the
sustainable
development of
Europe?

4.

Austerity is not addressing (some of) the crucial structural problems...

... it postpones essential measures to promote competitiveness...

... and is illegitimately imposing a social model for the future...

... which will spillover from the periphery to the centre of the EU.

5.

There is a green, progressive, non-sovereignist way out of the crisis. It implies:

- (1) accepting that there's no exiting the crisis without public investment;
- (2) accepting increased conditionality on national policies;
- (3) reclaiming democracy from a non-democratic Union.

Green measures that could make a (short- and long-term) difference in the periphery (and beyond)

- 1) Massively investing in energy efficiency (namely, in public buildings)
- 2) Completing the trans-european transport networks (namely, transport of goods by rail and sea)
- 3) Accelerating the diffusion of electric mobility (helping to take advantage of renewable energies)

How to do it?

1) Comprehensive approach: **A (green) new deal for Europe.**

Debt restructuring; Eurobonds; Continental-level push in smart public investment; Stricter regulation of the financial system; EU Budget with countercyclical functions; Tax harmonization; Minimum social standards; Green industrial restructuring; An elected European Government.

2) Modest approach: **Promote smart investments as part of the current adjustment programs.**

Exclude national co-financing of EU Cohesion Policy from budgetary targets, conditional to strict alignment with Europe 2020 Strategy.

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