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The Goals of the EU after the Treaty of Lisbon

Some urgent remarks

The State is not a Private Firm

The function of the state is to provide infrastructure and institutional setting for the ***reproduction*** of society. The function of private firms is to achieve ***the highest possible surplus*** of revenues over total cost – and in doing so to identify and initiate the best labor-productivity increasing innovations (Schumpeter perspective). Since the early 80-ties of the last century there has been a tendency to blur this useful division of labor and to subordinate (ideologically as well as in political decision-making) state functions to an overwhelming business-accounting scheme. The bottom line of the current crisis is the dramatic and sudden appearance that this tendency leads to disaster.

Financial Intermediaries are increasingly to be designed as Social Institutions

The role of **financial intermediaries** currently covers a whole range in between the two poles (State and Firm): From the ECB (plus national central banks), a governance institution, via hybrid forms of financial intermediaries to investment banks acting as private firms. As the long-run historical evolution shows, there is a trend away from private firm and towards public institution. Despite transitory resistance (showing the strength of some banks with vested interest) the 'financial market' is not an economic agent per se; like all market mechanisms it just is a regulation device installed by political authority, and thus subject to possible adjustments carried out by the latter. The more the divergence between financial growth and actual growth of labor productivity becomes visible, that is the more the failures of the mechanisms prevailing in contemporary financial market mechanisms become apparent, the more acute the change of these mechanisms by the power of political authorities becomes. It is evident that any such change will not be possible without strong resistance from the representatives of large private banks; in particular the fact that many of them are also involved in central political decision processes will make progress slow. In other words, the **art of coalition building** across all groups within political and scientific elites becomes mandatory to overcome these retarding forces.

In the medium-run Law Systems are Epiphenomena dominated by the needs of Political Economy

Serious redesign of regulatory devices, like market mechanisms, includes the need to change some rules of the existing law system, to change existing contracts. Though the rules for changing the rules usually are designed to be changed only slowly and with particular care for a good reason – no government elected for a few years should be able to turn democratic feedbacks into dictatorship by changing the rules for rules too easily – it nevertheless has to be understood that **dysfunction often appears suddenly**, and that it appears to the general public suddenly. It thus calls for **quick action of**

political authorities, and if those who are willing to save democratic mechanisms are not rapid enough, then proposers of less civilized solutions might use the energy of the rage of the population. The 30-ties of the last century – the times after the Great Depression - are not to be forgotten. If crisis proceeds long and deep enough – and this is the current forecast – then such a sudden swing to a new system will come anyway. The only question is in which direction it will lead, so let us prepare.

From Growth to Reproductive Change

The menace of a liquidity crisis of certain EU-countries therefore can be translated into this proposed framework as follows: A state providing the conditions for reproduction (infrastructure and institutions) builds up expenditure exceeding its tax revenues, i.e. public debt. As long as this debt is denominated in the currency the same state authority issues there is no severe problem, since any interest payment on this debt, even the repayment of the debt amount, is simply a question of handling the creditors' contractual demands. If these creditors are members of the same community interested in its own reproduction via its stately organization, then it simply means that contracts guaranteeing interest payments for the credit given to the state have to be rewritten. In a closed system it thus is immediately clear that growth of a conferred sum of money might be contractually fixed, but that this contract can only be fulfilled if a real growth of labor productivity within this system occurs. But, as argued above, increasing labor productivity has traditionally been the function of innovative private firms. If in a closed system growth aspirations of finance capital and growth of labor productivity diverge, then this indicates that private firms' innovative power has been lost. Now Greece is not a closed system, but the Euro-area countries' debt is mainly denominated in Euro. While the state system of the Euro area might be approximated as being closed, the production structure dominated by transnational corporations certainly is not, it is global. The interesting question thus is if, how and where the private firms active in Europe generate growth of labor productivity. The short answer to this question is evident: The major part of the increase of TNCs labor productivity is generated outside the Euro area. The consequence for the Euro state system has to be straight forward: Since there is no internal growth to distribute the regulatory framework for reproduction cannot pay interest on debt. If the local production system (firms) needs an infrastructure for which expenditure is higher than tax income, then savings might be allocated to fill the gap – but they cannot be expected to carry interest. **The yield on government bonds has to be zero to stabilize reproduction**. This by no means implies that there cannot be innovation, but innovation in the Euro area rather takes a turn towards social innovation: Reorganizing obsolete administrative procedures (including a reform of the political election systems), reorganizing the obsolete structures of labor time regimes, reorganizing the inadequate infrastructure for the new set of family structures, and the like. This is the new concept of **reproductive change** substituting quantitative growth.

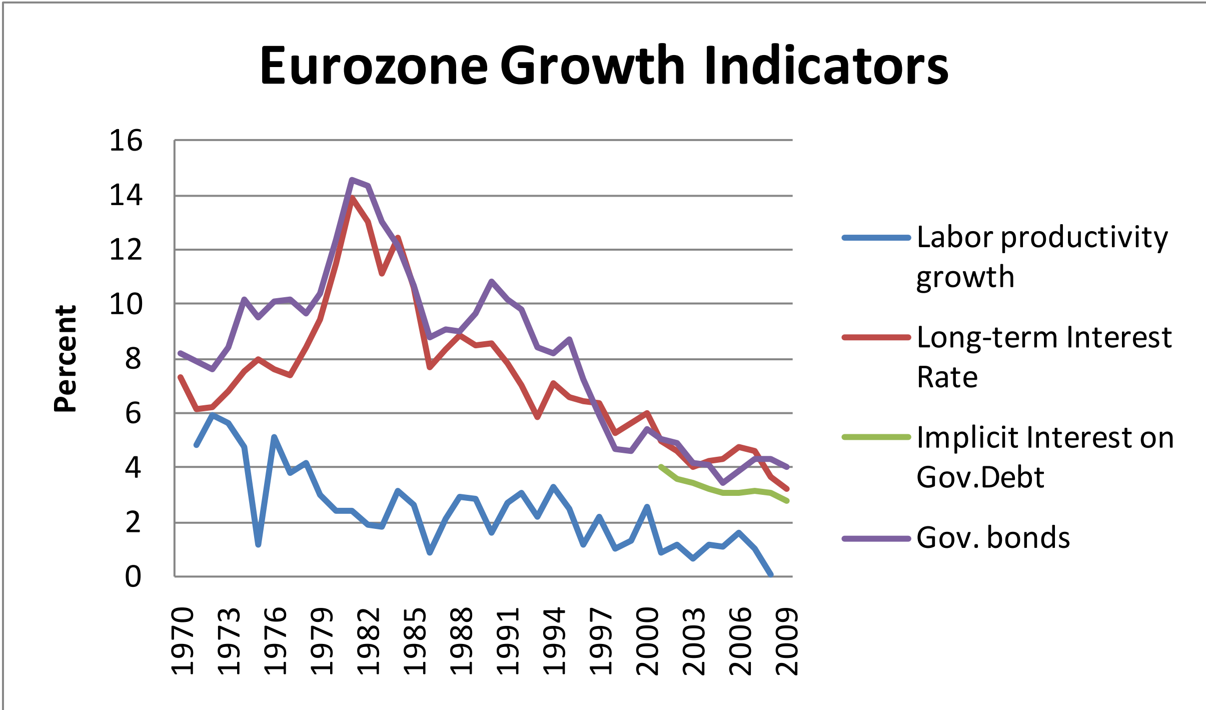
Caveat: Europe's place in the World

If the Euro area takes this turn, then it can be expected that a **continuous devaluation of the Euro** vis-à-vis the Dollar will occur. This will induce TNCs to produce a bit more in Europe and sell abroad, and will induce European households to buy a bit more domestic products than imported commodities. Via these channels global labor productivity growth can enter again and Europe can partially regain a bit of growth. But it would be misleading to overemphasize this side-effect. If it occurs it rather should be used to **speed up Europe's new leading edge in innovation: reproductive change**. Moreover, on a global scale reproductive change coincides with the tenets of global

environmental preservation, where a new leading role for the old continent might be envisaged. For the three major bottlenecks of global evolution Europe's lead in social innovation and reproductive change might thus be pivotal: Environmental problems, deteriorating wealth and income distributions, and the threat of a fallback to pre-democratic political regimes.

Some Data (source: Eurostat)

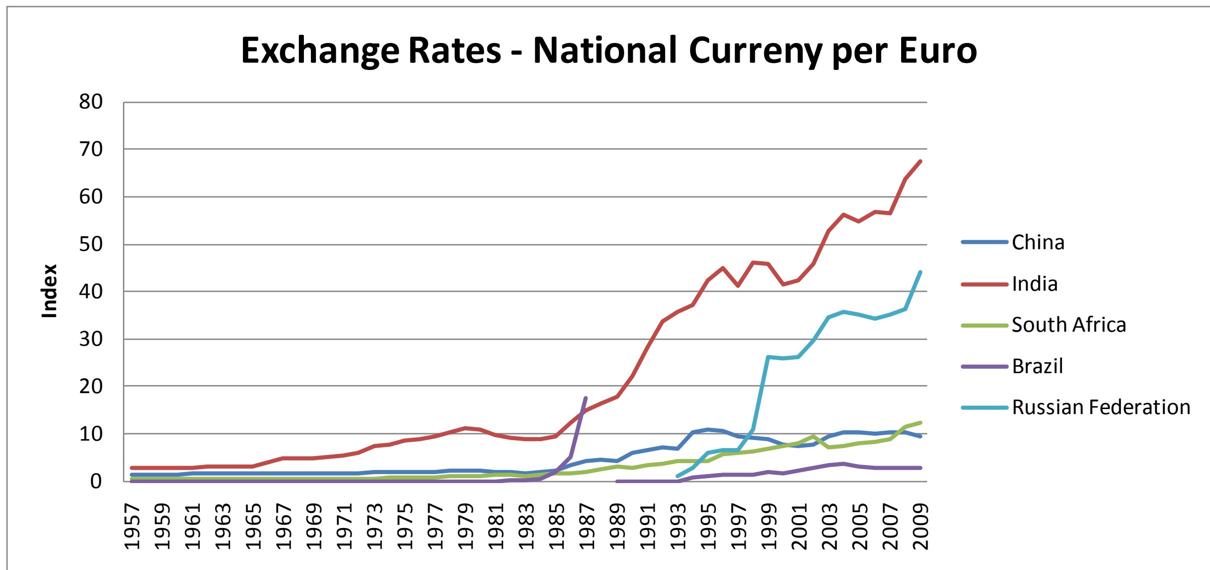
The following data collection shows that the arguments are supported by empirically observed developments. It centers on the Euro zone and its constituting countries.



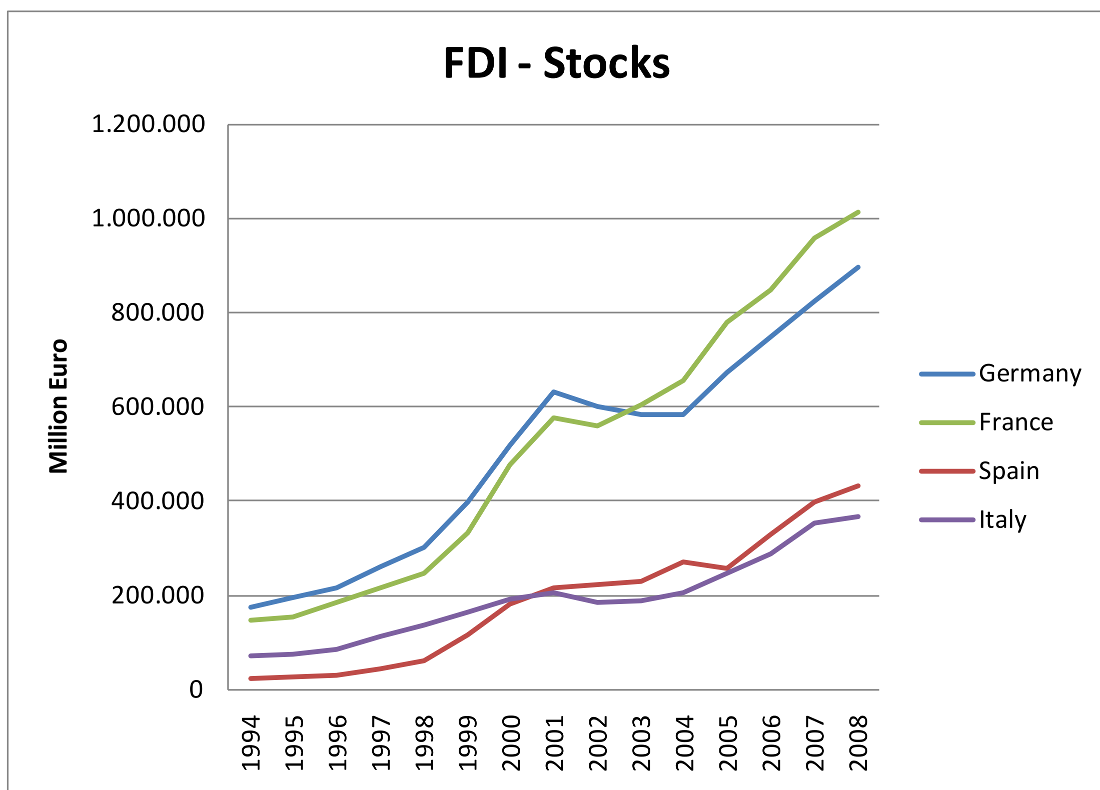
The overshooting of interest rates above productivity growth after the global political shock of the early 80-ties has been reduced only slowly in the following decades. Though the implicit interest rate (i.e. actually paid interest on government debt divided by total government debt) is a bit lower than the long-term yield on government bonds ('Gov. bonds' in the diagram) in recent years there still is a difference of approximately 2 percentage points.

The reasons why the shrinking difference could be held positive for almost thirty years at all can be found in a trend towards exploitation of areas outside the Euro zone via deteriorating exchange rates. European as well as the US firms could benefit from the trend of ever cheaper inputs needed to produce commodities in poor countries, and then selling them at prices which during the production time had grown via the exchange rate trend. Since the early eighties this mechanism was able to substitute the lack of productivity growth in the domestic economies. As the data indicates the mechanism worked with two waves: a first wave politically initiated by the breakdown of the Soviet Union, which then was stopped by the burst of the ICT bubble, and a second wave, which

probably had the stop of the devaluation process in China and South America as one of its underlying limits.

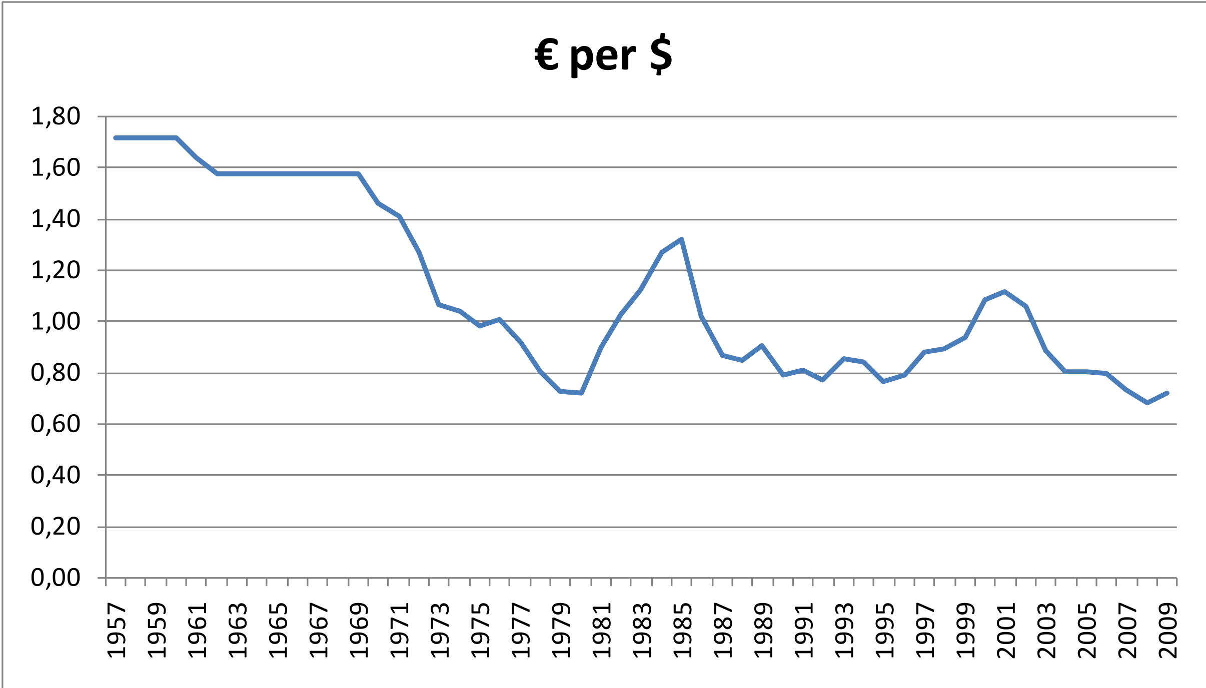


With China and Latin America sticking to their current policy it has to be doubted that this substitute for productivity growth can be reinitiated again. Though data on foreign direct investment is improving internal transactions of TNCs still leave much space for massive unobserved money flows. Nevertheless the following graph shows that in particular Germany and France did build up a massive stock with FDI during the above mentioned two waves since 1991.



A similar development could be shown for the USA, and the most interesting question thus concerns the future relationship between the Euro zone and the USA.

As the diagram on the Euro-Dollar exchange rate nicely shows, after the breakdown of Bretton Woods in 1971 there were two major bubbles of the US $: The first one initiated by the fundamental policy change of Ronald Regan and his explosion of government spending for the 'Star Defense Initiative', the second one again entering via financial markets financing the large ICT bubble which burst in 2001.



But apart from these two blows the rate seems to remain within a band of 10 percent around a value of 0.90 – perhaps with a slight appreciation of the Euro in the last 20 years. But since this spring a short-run depreciation of the Euro seems to be inevitable.

The reason for this prospect seems to be that the political will to restore labor productivity by reducing labor cost in Euro zone countries is becoming apparent. Ironically enough the carriers of this policy are not private firms, let alone TNCs, but governments, which got into a liquidity trap. As they tried to save banks, and to prevent a sudden burst of unemployment, they increased public debt and therefore the yearly interest to be paid for it. Greece in a sense was the logical first candidate for this malaise, but it only stands for the general case concerning all Euro zone countries. It is plain to see that reducing government expenditure in such a situation can only amplify the crisis and will boost public debt due to a decline of tax income much stronger than what has been saved by firing public employees. Indeed, discovering the logic of this vicious cycle has been the major contribution of John Maynard Keynes in the interwar period, there is no excuse for any informed politician not to have been warned. TNCs will not be impressed by austerity policy, and SMEs will rather suffer from loosing public subsidies. As the following tables show, the only recipe that promises a short-run reprieve from the downward spiral would be to suspend interest payments for public debt. This breathing space then will have to be used quickly and rather radically to reorganize the economy to enable reproductive change.

The tables not only show that for the total of the Euro zone 45% of the yearly deficit could be saved if the interest rate was set to zero, it also shows that the structural differences between the Euro zone countries are much less severe than data-free prejudices usually have them. Moreover a reduction of

interest rates is not a moratorium, it might well be arranged that social gains occasionally might have an institutionalized positive feedback on the owners of government bonds.

Finally it is clear that via institutionalized owners of government bonds (e.g. pension funds with a state-like collateral, etc.) repercussions will follow. That is, the interest on savings, which these institutionalized bodies had promised will also be reduced to zero. The turn towards reproduction instead of growth thus will have widespread consequences, which will have to be mastered. A more detailed macroeconomic model anticipating these consequences is currently developed. If this analysis is accurate, then time is scarce and intellectual forces have to be focused and stressed. Even if the current proposal cannot be fully implemented it might show the way to a more reasonable mixture of policy measures than the mainstream proposals brought forward so far.

	2009 Population		2008 GDP		2009	2009/2008 Growth	2009 Gov. Expenditure		2009 Gov. income
	1000 persons	share	share	mio € , nom	mio € , nom	%	mio € , nom	% of GDP	mio € , nom
Austria	8362	2,54%	3,04%	281868	276892	-1,77%	143364	51,8%	133808
Belgium	10790	3,28%	3,72%	344676	337284	-2,14%	183224	54,3%	162759
Cyprus	801	0,24%	0,19%	17248	16947	-1,75%	7861	46,4%	6832
Finland	5339	1,62%	1,99%	184179	170971	-7,17%	95015	55,6%	90903
France	64494	19,58%	21,04%	1948511	1907145	-2,12%	1067843	56,0%	922445
Germany	81874	24,86%	26,96%	2495800	2409100	-3,47%	1145270	47,5%	1065950
Greece	11260	3,42%	2,58%	239141	237494	-0,69%	119654	50,4%	87546
Ireland	4468	1,36%	1,96%	181816	163543	-10,05%	79166	48,4%	55820
Italy	60263	18,30%	16,93%	1567851	1520870	-3,00%	788810	51,9%	709135
Luxembourg	498	0,15%	0,42%	39348	37755	-4,05%	15997	42,4%	15720
Malta	415	0,13%	0,06%	5697	5712	0,26%	2532	44,3%	2314
Netherlands	16527	5,02%	6,44%	595883	570208	-4,31%	294258	51,6%	264128
Portugal	10638	3,23%	1,80%	166462	163891	-1,54%	83563	51,0%	68106
Slovakia	5418	1,64%	0,70%	64778	63332	-2,23%	25833	40,8%	21544
Slovenia	2042	0,62%	0,40%	37135	34894	-6,04%	17424	49,9%	15509
Spain	46180	14,02%	11,76%	1088502	1051151	-3,43%	482623	45,9%	365019
Euro area	**329367**			**9258896**	**8967187**	**-3,15%**	**4552438**	**50,8%**	**3987536**

	2009							
	Deficit mio € , nom	**Interest for G.Debt** mio € , nom	**Gov. Debt** mio € , nom	**Interest Rate** %	**Total Wages** mio € , nom	% of GDP	**Employment** in 1000 persons	**Average Wage** €, nom
Austria	9557	7550	184105	4,10%	140500	49,8%	4078	34457
Belgium	20465	12713	326606	3,89%	178283	51,7%	4421	40329
Cyprus	1029	422	9527	4,42%	7773	45,1%	381	20384
Finland	4112	2430	75217	3,23%	89801	48,8%	2457	36545
France	145398	44737	1489025	3,00%	1005426	51,6%	25704	39115
Germany	79320	63530	1762211	3,61%	1223330	49,0%	38797	31532
Greece	32108	11811	273407	4,32%	85999	36,0%	4509	19074
Ireland	23346	3444	104667	3,29%	71641	39,4%	1917	37372
Italy	79675	70163	1760765	3,98%	652362	41,6%	23025	28333
Luxembourg	278	189	5464	3,46%	17829	45,3%	217	82085
Malta	218	183	3948	4,65%	2503	43,9%	162	15438
Netherlands	30130	12775	347021	3,68%	298311	50,1%	8596	34703
Portugal	15458	4681	125910	3,72%	85604	51,4%	5054	16937
Slovakia	4290	948	22585	4,20%	24197	37,4%	2366	10226
Slovenia	1915	500	12519	4,00%	19017	51,2%	981	19392
Spain	117604	18826	559650	3,36%	511145	47,0%	18888	27062
Euro area	**564902**	**254902**	**7062625**	**3,61%**	**4413721**		**141553**	**31181**

	2009	
	Unemployment	
	in 1000 persons	u-rate
Austria	204	4,8%
Belgium	380	7,9%
Cyprus	21	5,3%
Finland	221	8,3%
France	2754	9,7%
Germany	3227	7,7%
Greece	471	9,5%
Ireland	259	11,9%
Italy	1944	7,8%
Luxembourg	12	5,4%
Malta	12	6,9%
Netherlands	304	3,4%
Portugal	529	9,5%
Slovakia	324	12,0%
Slovenia	61	5,9%
Spain	4150	18,0%
Euro area	**14872**	**9,5%**