

International Colloquium

***ECONOMIC CRISIS AND NEW NATIONALISMS:
GERMAN POLITICAL ECONOMY AS PERCEIVED BY EUROPEAN PARTNERS***

German Euro Policy: Keynesian or Ordoliberal?

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centro per lo studio delle istituzioni finanziarie
promosso dall'ente cassa di risparmio di firenze

Theoretical and Ideological Background (H)

Ordoliberalism 1:



Heir of neoclassical theory and, paradoxically, of the historical school

- General eq. theory
- Models of imperfect competition
- Monetary theory
- Institutionalism and historical school



Combinatorial theory of economic systems as ideal types (1940)

Walter Eucken

Aim: making theory and history meet

Illustrations: historical, such as monastery of Bobbio

Applications: - confrontation of 'centrally administrated' and 'market' economies
- competition policy
- division of labour between governmental institutions

Theoretical and Ideological Background (II)

Ordoliberalism 2:

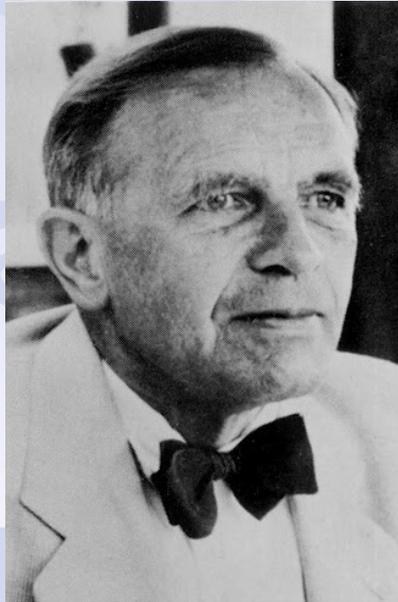


Alfred Müller-Armack

- The Social Market Economy as a shifting compromise
- The SME as an economic style
- The compromise between efficiency and redistribution
- The economic spirit as a spirit of compromise
- Origins of Müller-Armack's conception (1947) in his theory of business cycles (1926, indeterminacy of investment) and Weber's sociology of religion (e.g. on econ. style of Eastern Europe, 1945)
- Contribution to successive reforms as Secretary of State under Ludwig Erhard; environmental policies as part of a second phase of SME

Theoretical and Ideological Background (III)

Ordoliberalism 3:



Wilhelm Röpke

- The social crisis of the present (1942)
- Wilhelm Röpke as a pre-keynesian (1932: primary depression and secondary deflation; later against *permanent* Keynesian demand management)
- Critique of mass society, overcoming of the reduction of the worker to a proletarian status, strengthening the family, '*Vitalpolitik*', unification of British and German Liberalism. Economic and social order inseparable (against B. Croce). No success in Anglo-Saxon world, nor in Mont Pélérin Society.

Theoretical and Ideological Background (IV)

German Keynesianism:



Erich Schneider

- Several pre-Keynesians, apart from Röpke
- Keynes: The 'General Theory' applicable to a 'totaler Staat'? (1936)
- Keynesian theory studied in the 'Theoretischer Ausschuss des Vereins für Socialpolitik' after 1949
- Early analysis of problems of application of the multiplier (Giersch)
- Rapid convergence towards neoclassical synthesis
- Contradiction between ordoliberal conceptions and Keynesian insights never resolved (Schefold 1981)
 - Keynesian or ordoliberal explanation of export-led growth
 - 'magic quadrangle' and intergovernmental division of labour in times of crisis
 - from stagflation to monetarism – and back?
- A successful compromise: the automatic stabilisers

Origins of the European Union (I)

- **Until WW1:** Older versions of a 'Karolingian Europe' from Dante until World War 1
- **1923** Paneuropean Movement (Lord Coudenhove – Kalergi)
- **1929** Briand (French foreign minister): proposal of a European Union with federalist structure
- **1944** Resistance movements (including the German) demand European cooperation
- **1946** Churchill's Zurich speech
- **1950** Schuman Declaration
- **1957** Treaties of Rome (EEC) signed (Benelux, Germany, France, Italy: *Economic integration*)

Origins of the European Union (II)

- **1959** EFTA founded (Denmark, GB, Norway, Portugal, Sweden, Austrian, Switzerland: *Free trade area of sovereign states*)
- **1973** Accession of Denmark, GB, Ireland to EC (Northern Enlargement)
- **1979** European Currency System and European Currency Unit (ECU); European Parliament in Strasbourg
- **Further accessions:** Greece 1981; Spain and Portugal 1986; Austria, Finland, Sweden 1995; followed by Eastern enlargements
- **1993** Establishment of the European Union by the Maastricht Treaty with *currency union*
- **2009** European Union replaces EC, own legal entity

Origins of the European Union (III)

The Example of Edgar Salin (1958, 1959)



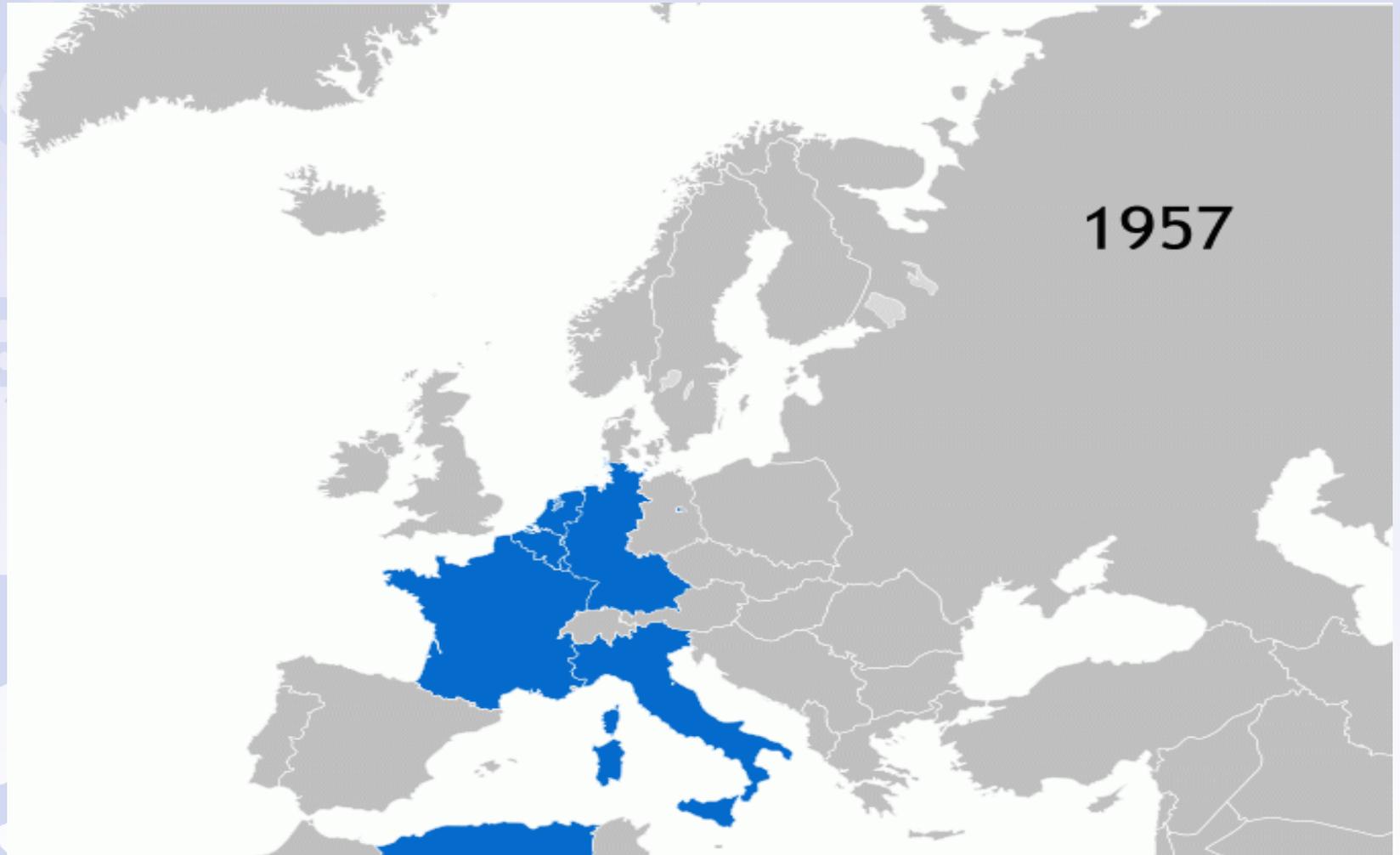
Edgar Salin

Precedents of the European Integration: Italian and German unification, but Friedrich Nietzsche (*Ecce Homo, Der Fall Wagner, Nr. 2*):

„Die Deutschen haben endlich, als auf der Brücke zwischen zwei *décadence*-Jahrhunderten eine *force majeure* von Genie und Wille sichtbar wurde, stark genug, aus Europa eine Einheit, eine politische und wirtschaftliche Einheit, zum Zweck der Erdregierung zu schaffen, mit ihren „Freiheits-Kriegen“ Europa um den Sinn, um das Wunder von Sinn in der Existenz Napoleons gebracht, - sie haben damit alles, was kam, was heute da ist, auf dem Gewissen, diese kulturwidrigste Krankheit und Unvernunft, die es gibt, den Nationalismus, diese *névrose nationale*, an der Europa krank ist, diese Verewigung der Kleinstaaterei Europas, der kleinen Politik: sie haben Europa selbst um seinen Sinn, um seine Vernunft – sie haben es in eine Sackgasse gebracht.“

The true precedent: Roman tradition and the church; humanism and latin communication; the Holy Roman Empire. Reasonable coexistence of EEC, aspiring to become a political unity, and EFTA as a free trade area, with GB as leading member.

Origins of the European Union (IV)



On the way to the European Monetary Union: Monetary Policy (I)

- **1970:** „**Werner Plan**“, idea of a European currency by 1980
- **1972:** “The snake in the tunnel”
- **1979:** Establishment of a **European Monetary System (EMS)**, which replaced the “The snake in the tunnel“, DM-block
 - Introduction of the **ECU**
 - **Parity Grid** defines exchange rates to ECU, $\pm 2,25\%$, $\pm 15\%$ since 1993
 - If the intervention of the central banks is not sufficient: **realignments**

On the way to the European Monetary Union: Monetary Policy (II)

Tabelle 5.2
Aufwertungen der Deutschen Mark gegenüber anderen EWS-Währungen
(gemessen an bilateralen Leitkursen, in Prozent)

	<i>Belg./Luxemb. Franc</i>	<i>Dänische Krone</i>	<i>Französ. Franc</i>	<i>Holländ. Gulden</i>	<i>Irisches Pfund</i>	<i>Ital. Lira</i>	<i>Total EWS^a</i>
Gewicht ^b (in %)	16,6	4,0	32,0	17,4	1,8	27,5	100
Neufestsetzung, gültig ab:							
24. September 1979	+2,0	+5,0	+2,0	+2,0	+2,0	+2,0	+2,1
30. November 1979	–	–	–	–	–	–	+0,2
23. März 1981	–	–	–	–	–	+6,4	+1,7
5. Oktober 1981	+5,5	+5,5	+8,8	–	+5,5	+8,8	+6,5
22. Februar 1982	+9,3	+3,1	–	–	–	–	+1,6
14. Juni 1982	+4,3	+4,3	+10,6	–	+4,3	+7,2	+6,3
21. März 1983	+3,9	+2,9	+8,2	+1,9	+9,3	+8,2	+6,7
22. Juli 1983	–	–	–	–	–	+8,5	+2,3
7. April 1986	+2,0	+2,0	+6,2	–	+3,0	+3,0	+3,8
4. August 1986	–	–	–	–	+8,7	–	+0,2
12. Januar 1987	+1,0	+3,0	+3,0	–	+3,0	+3,0	+2,6
8. Januar 1990	–	–	–	–	–	+3,7	+1,0
Kumulativ seit EWS Start 13. März 1979	+31,2	+35,2	+45,2	+4,0	+41,4	+63,5	+41,8

Quelle: Gros und Thygesen 1991, S. 68.

a. Durchschnittliche Aufwertung der Deutschen Mark gegenüber den anderen EWS-Währungen (geometrisch gewichtet); ohne Spanien

b. Gewichtungen der EWS-Währungen vom Außenhandelsanteil zwischen 1984 und 1986 abgeleitet, nach Berücksichtigung von Auswirkungen des Drittmarktes und ausgedrückt in im Verhältnis zum gewichteten Wert der Deutschen Mark

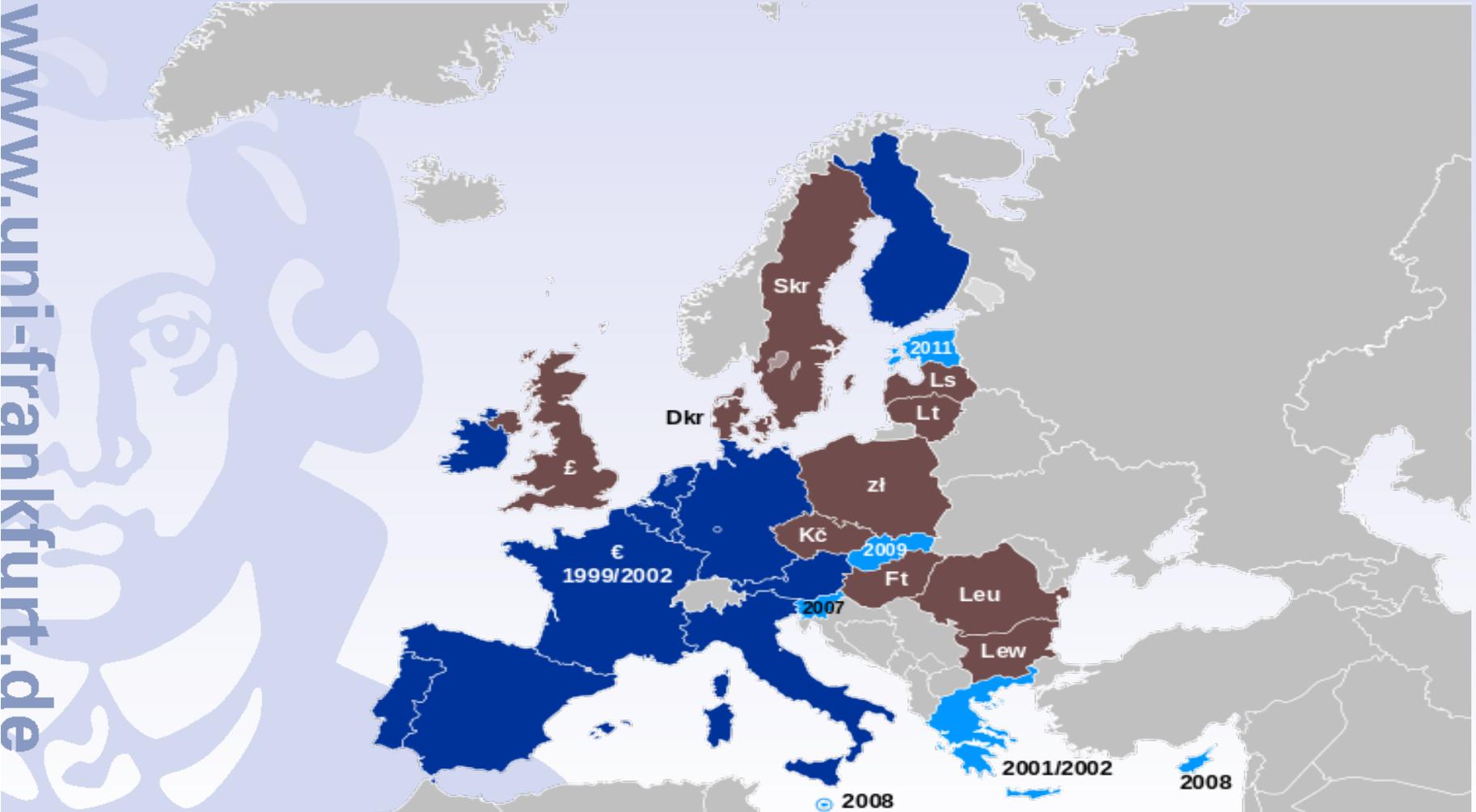
– = entfällt

Quelle: Eichengreen, B. (2000): Vom Goldstandard zum Euro. Die Geschichte des internationalen Währungssystems. Wagenbach, S. 216.

On the way to the European Monetary Union: Monetary Policy (III)

- **1989:** German unification and currency union: political motives
- European Economic and Currency Union in three steps
 - July 1990: Introduction of a free movement of capital, culmination in the Maastricht Treaty of 1992
 - January 1994: Establishment of the European Monetary Institute (EMI)
 - January 1999: EMI converted into the newly founded ECB, definition of the Euro exchange rates
- The experience with the previous systems lead monetary policy to the understanding that fixed exchange rates cannot be sustained. *But why should a currency union work?*

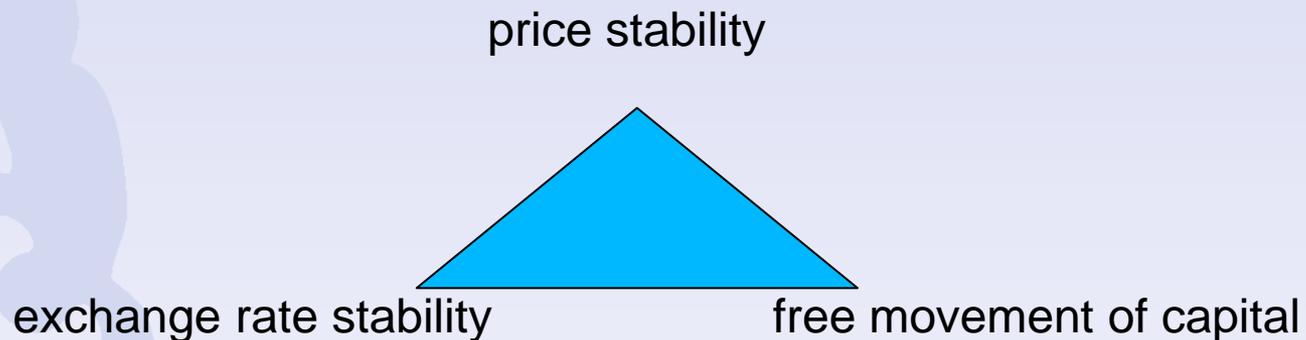
On the way to the European Monetary Union. Monetary Policy (IV)



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From the Economic Crisis to the Control of a Currency Area (I)

The uneasy triangle



- Free movement of capital: through European agreement and globalisation
→ e.g. 1992/93 devaluation of the Italian Lira by over 30% against DM
- The alternative for the monetary policy makers: flexible exchange rates or common currency – decided for an irrevocable currency union

From the Economic Crisis to the Control of a Currency Area (II)

The hen: the European state

The egg: the single currency

No problem when the hen lays an egg. **But:** Who breeds the egg when it was first?

→ *in the Monetary Union as well a divergence of price, wage and productivity evolution not only possible, but even likely!*

From the Economic Crisis to the Control of a Currency Area (III)

The hope of the monetary policy makers: **theory of coronation**

The measure of precaution: **convergence criteria**

Maastricht Treaty (ratified 1993):

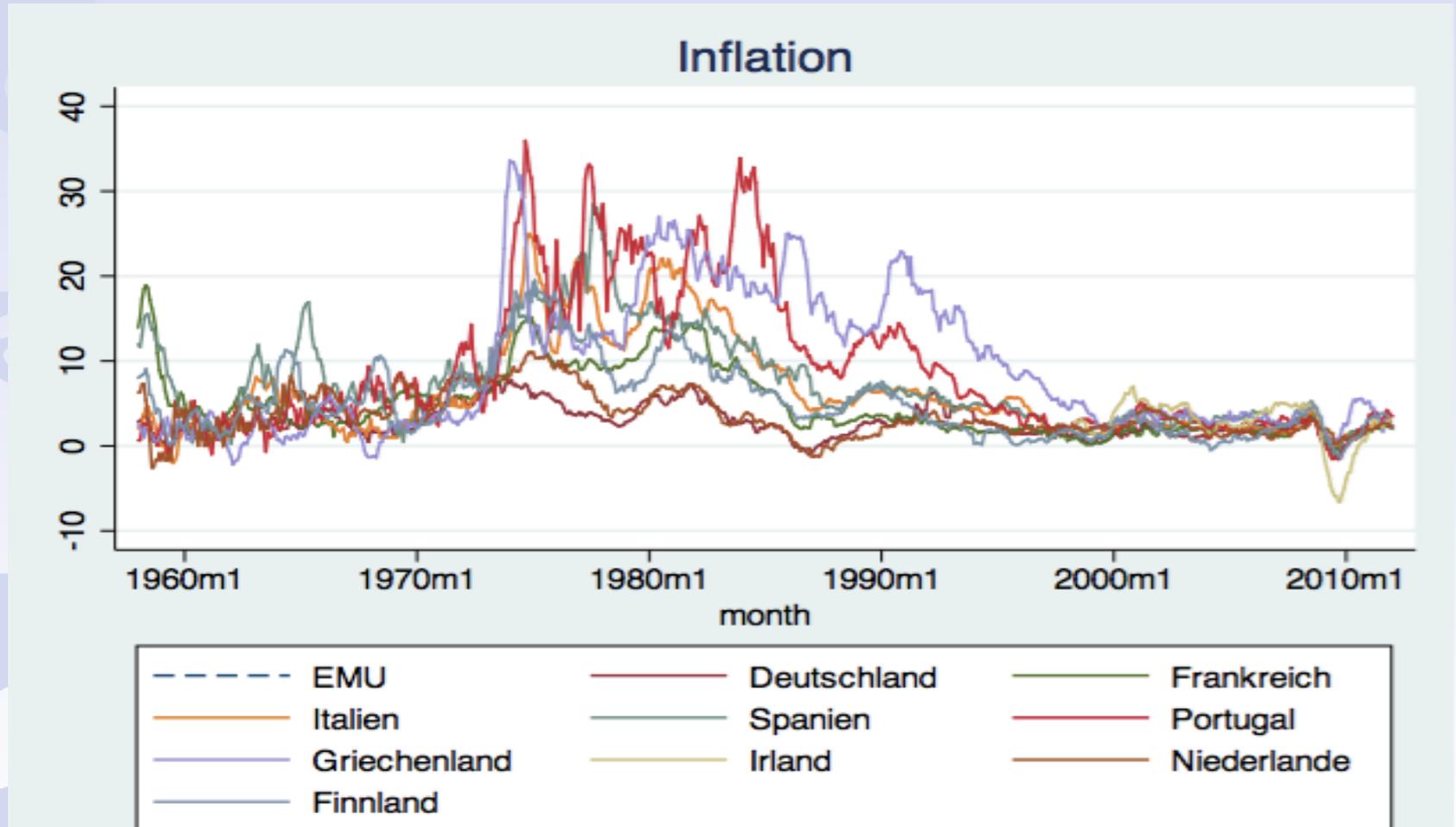
Low inflation rate – Sound public finances – Probation through participation in the fixed exchange rates – Harmonisation of the nominal interest rates

Issing (2008):

*"Alles in allem haben die Konvergenzkriterien ihre Aufgabe erfüllt". Aber: "Der Vertrag (Maastricht – BS) weicht ... der Frage aus, inwieweit aus dem Aufholprozess der ärmeren Länder ... Probleme für die einheitliche Geldpolitik entstehen könnten."**

*Otmar Issing: Der Euro. Geburt – Erfolg – Zukunft. München: Vahlen 2008, S. 13 f.

From the Economic Crisis to the Control of a Currency Area (IV)

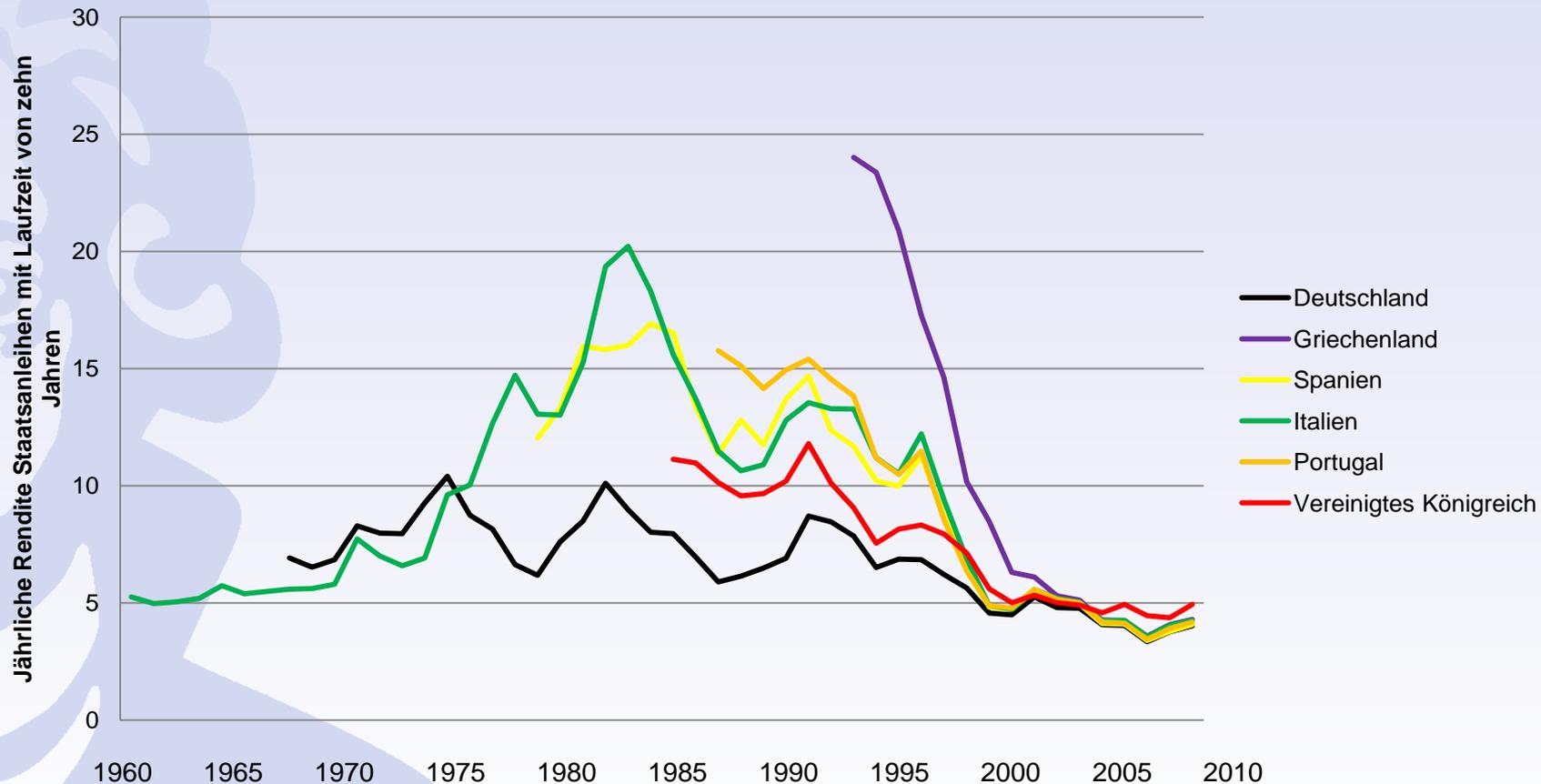


Quelle: IWF Statistical Yearbook 2012

From the Economic Crisis to the Control of a Currency Area (V): Convergence

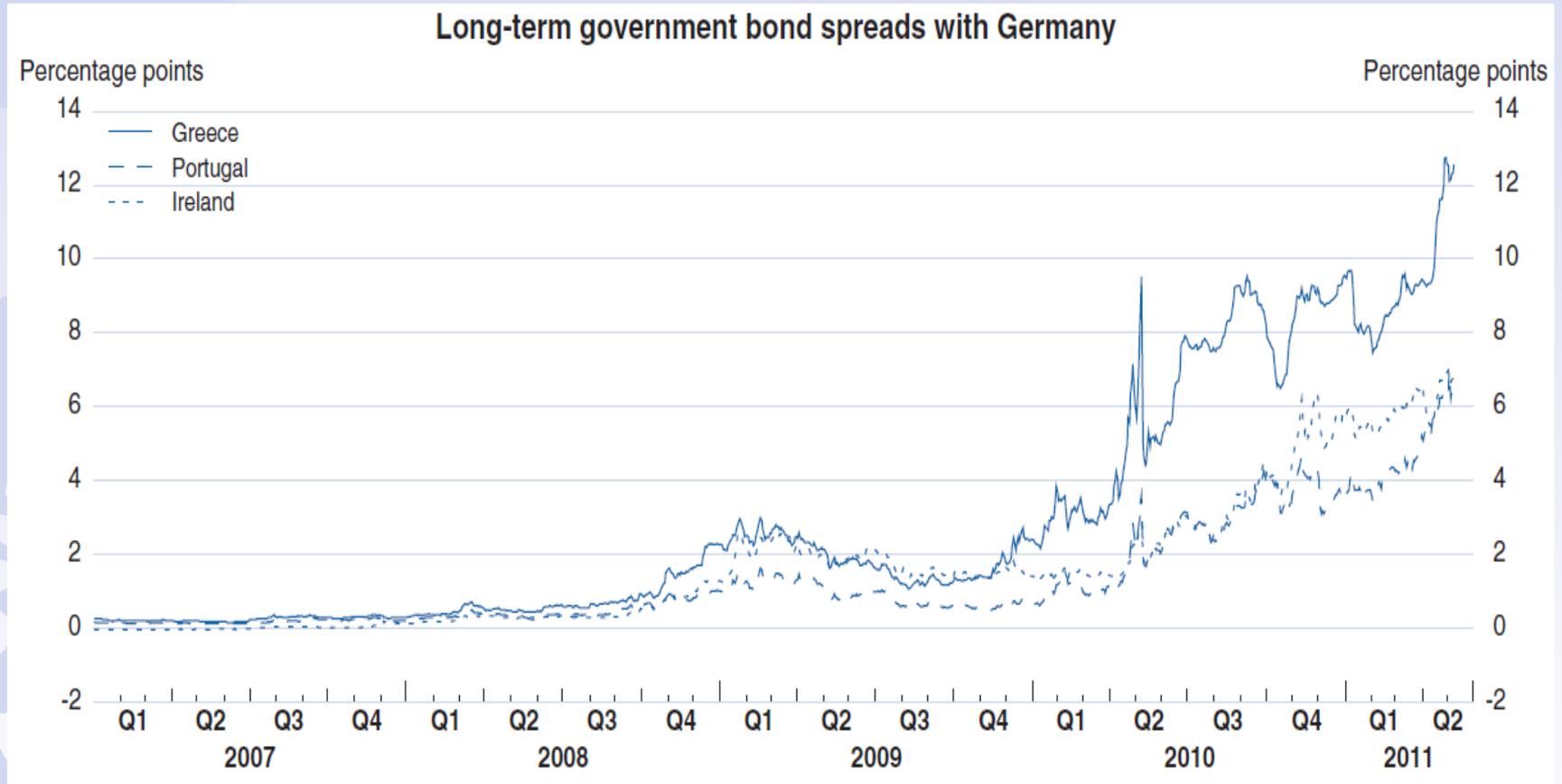
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Long-term returns on sovereign bonds



From the Economic Crisis to the Control of a Currency Area (VI): Divergence

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From the Economic Crisis to the Control of a Currency Area (VII)

- European Stability Mechanism: Overcoming fiscal deficits?
- European Fiscal Union (“Fiscal Compact”): Re-enforcement of the Treaty of Maastricht
- Direct lending to banks
- New role of ECB

From the Economic Crisis to the Control of a Currency Area (VIII)

- **German inconsistency:**

German debt continues to rise despite peace dividend (state as substitute for the family)

- **German hypocrisy:**

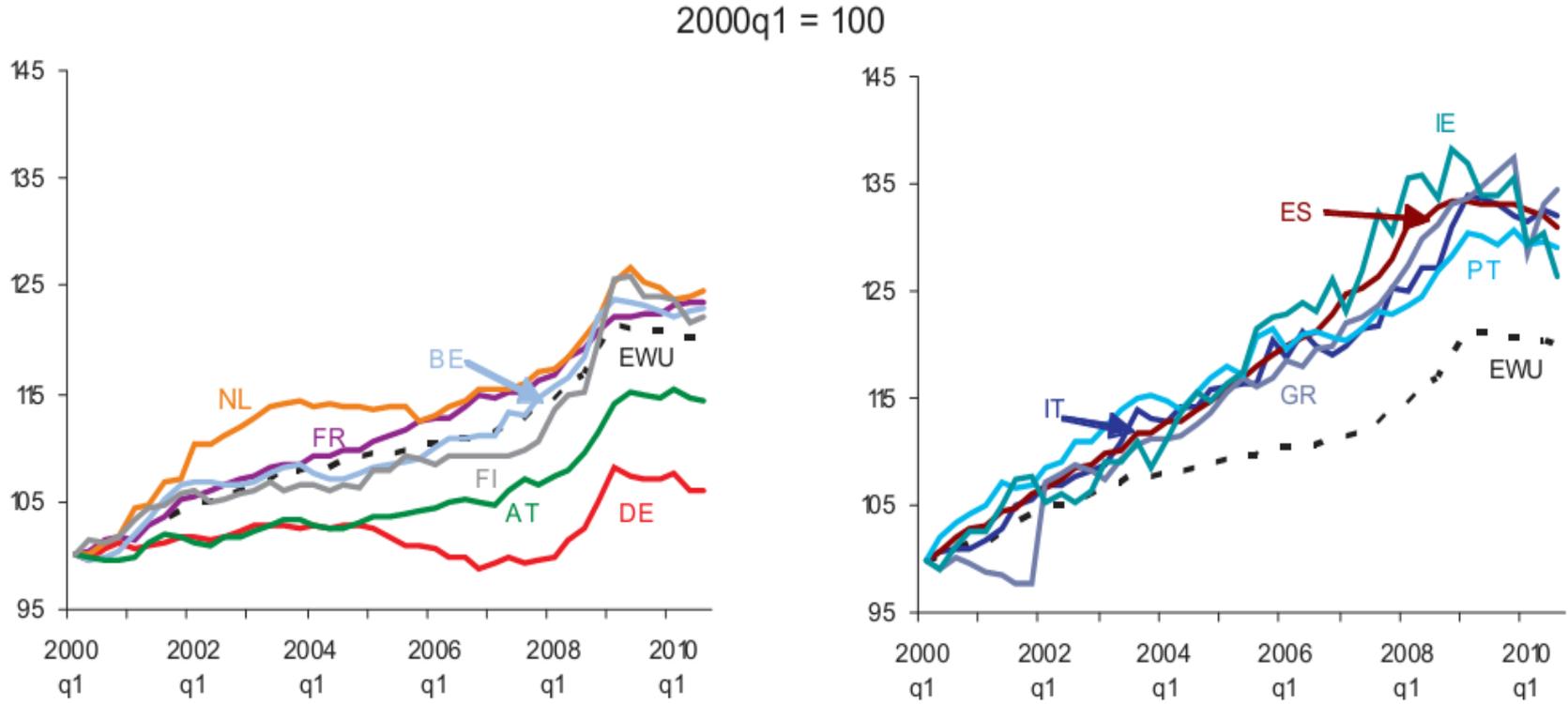
Other states required to reduce their (bigger) deficits, no viable perspective for countries on the periphery, no Germany-led growth process in Europe

- **German efficiency:**

Impact of crisis moderate because of automatic stabilisers, wage restraint allows to keep up in rivalry with emerging market countries

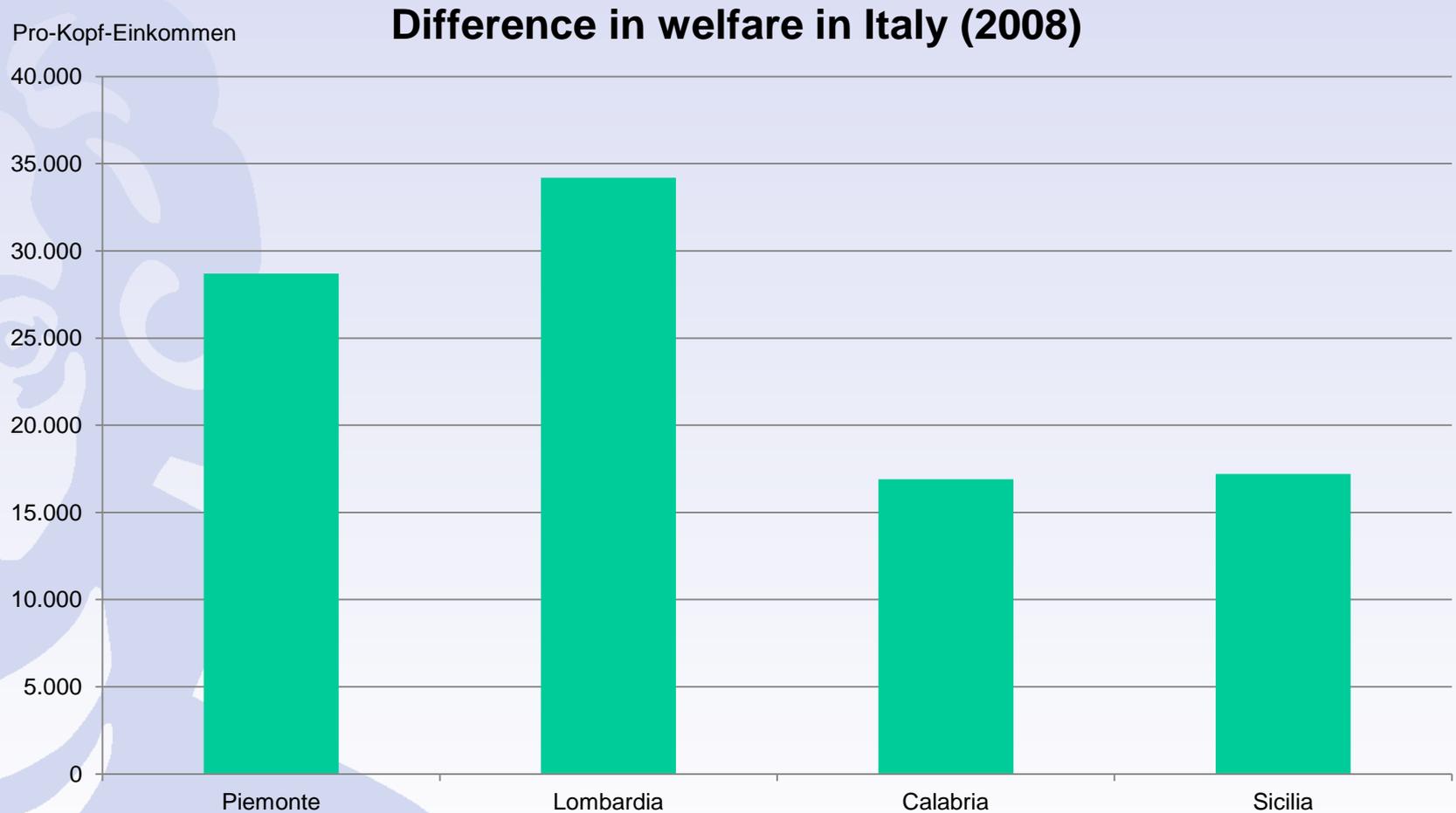
From the Economic Crisis to the Control of a Currency Area (IX)

Unit labour cost growth in the Euro area as well as in selected Euro area countries in quarterly data on per person basis, relative to national productivity



Quelle: Niechoj et. al. (2011): Deutsche Arbeitskosten und Lohnstückkosten im europäischen Vergleich – Auswirkungen der Krise. IMK Report (60), März 2011

From the Economic Crisis to the Control of a Currency Area (X)



Quelle: Eurostat (2012)

From the Economic Crisis to the Control of a Currency Area (XI)

- What are the advantages that states have over a currency union in economic policy?
- National, cultural and linguistic cohesion
- Monopoly of state power
- Uniform legislation, taxation
- State expenditure, transfers
- Public investment in infrastructure, the military, education help to compensate for differences in welfare, beyond equalising transfers

United States of Europe or breakup? (I)

- If EU and Euroland were identical....
- The key role of England – should England have stayed in the EFTA?
Scotland?
- Fiscal Compact: the beginning of a Euroland's government?
- A constitution for Euroland?
- The fate of Europe is decided now.

United States of Europe or breakup? (II)

Problems for the German commitment to Europe

- ESM anticonstitutional?
- ‘Outright Monetary Transactions?’: feared to lead first to fiscal dominance, later to inflation
- The President of the Bundesbank interprets the monetary and fiscal policies of Italy in the 70ies as an example not to be followed

United States of Europe or breakup? (III)

In the eyes of many German experts, Germany, to make the Euro work, has abandoned key ordoliberal principles which are regarded as part of its *raison d'état*. This sacrifice is not recognised by other countries which do not appreciate either that vast Keynesian deficit spending is under way, potentially at the expense of Germany (and of others): the Target Balances. The Keynesian explanation of the relative inefficiency of these expenses is clear: even a sizable multiplier will not increase employment in industries which are not competitive or, in the case of Greece, hardly existent, but it will benefit the producers with the lowest unit costs. Moreover, spending programs, even if they create some employment, will not lead to growth via accelerator effects, if full capacity utilization cannot be reached, let alone to self-sustaining growth based on the development of new technologies.

Conclusion: German policies in the Euro crisis have *contre coeur* been more Keynesian and less ordoliberal than most people think. Convincing strategies for growth would please both sides.