

THE STRUCTURAL CRISIS OF THE EURO AND GERMANY

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Although it might help, the creation of an European IMF will not solve the problem of the euro zone countries.

The euro is facing a structural crisis that does not challenge the European Union, but poses a risk to its own existence. Depending on how the crisis evolves, some countries may go back to their national currencies or, what is more serious, the euro may become nonviable for all of them. The European Union, after some hesitation, signaled the necessary support to Greece so that this latter continues to comply with its financial engagements, but the broader problem of its domestic imbalance is not solved and does not have an easy solution in view.

What is the structural reason of the crisis? Would it be the fiscal irresponsibility of some governments, beginning with the Greek one? Or the fiscal expansion that took place in 2009 to face up to the global financial crisis? These are two good reasons, but if they were sufficient to explain the European crisis, then all the prodigal governments had to do was tighten their belts and the problem would be solved. The true major problem is the current account imbalance between European countries, it is the increasing indebtedness of the private sector of a great number of countries and the credit of others, particularly Germany. It is an imbalance that may result from other countries' excessive expenditure, but it is mostly a consequence of German savings: a consequence of the wage stagnation despite the productivity increase and, therefore, of the decrease in the unit labor cost by about 20% in the last ten years, whereas in other European countries this unit cost remained constant or even increased.

German workers accepted the relative decrease in their wages in order to face the competition of the cheap Asian work and thus save their jobs. The German government,

for its part, implemented a number of reforms that reduced labour rights, contributing to make this relative reduction in wages possible. In the meantime, the other European countries were not able to replicate this policy. Which is, by the way, understandable; you must have an austere and disciplined people such as the German people to accept an economic policy.

If it were not for the euro, this would not be a structural problem. Should each country continue with its domestic currency, the exchange rate devaluation would be a solution for the countries in deficit. This is what happened with the United Kingdom, which is not part of the euro zone. Through a devaluation against the Deutsche mark each country would reduce its real wages, and would thus regain competitiveness overnight. Obviously in this case the decrease in wages would not be relative to the productivity increase as it was the case in Germany, but it would be real. This, however, is a simpler and much faster way of reducing wages and solving the countries' indebtedness than the one based on wage agreements.

Since there is no devaluation alternative, what will happen to the euro? It is difficult to say. Although it might help, the creation of an European IMF will not solve the problem. And it is also useless to blame the partners for a situation for which Germany is also responsible, since it acted unilaterally. Would a policy of real wage increase and incentive to increased consumption in Germany solve the question? I believe so, but this is an issue that depends on the German people's decision of preserving the euro even at the cost of some loss of international competitiveness. Definitely, this is not an easy decision, because it involves more losses than gains.