

**“La fin d’une époque?”:**  
 How will the Global crisis impact Europe as a major actor on the economic and political world stage?

by Dr. Michel-Henry Bouchet

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**Philosophy + Democracy > € 100 billion?**



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 How will the global crisis impact Europe as a major actor on the economic and political world stage?

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**Global crisis 2008-2015 = System crisis**

**This time, it’s different!**

- Structural and globalised crisis
- Spill-over effect: « Echo chamber »
- Global economic slowdown = no decoupling
- No global regulation: Free wheel Hyperfinance
- EMCs competitiveness challenge

➤ **Two and a half centuries of rising per-capita incomes = Unique episode in Western history?**



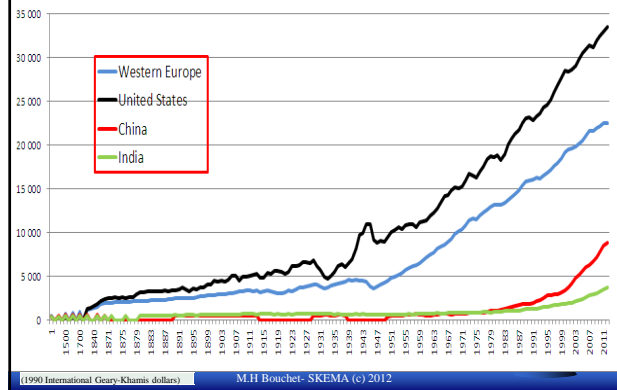
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## Challenge of asymmetric Globalization

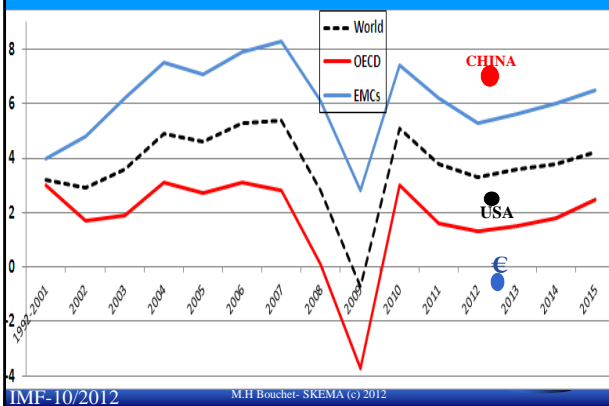
- Globalization enhances the power of the state in EMCs (BRICs, Middle-East, most commodities producers)
- Globalization weakens the power of the state in the developed countries = shrinking margins of maneuver

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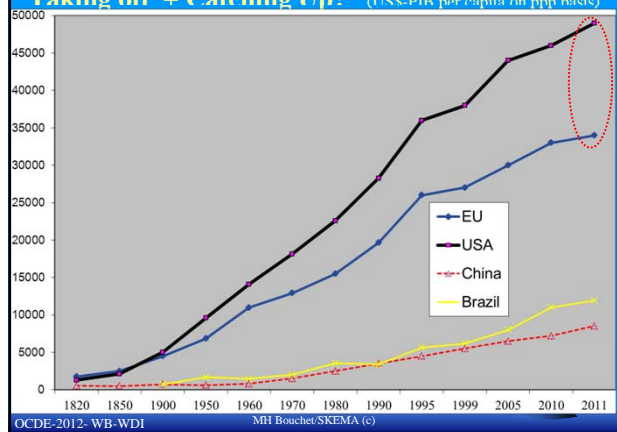
## GDP per capita 1-2012 (Source: A. Maddison-GCER & IBRD)

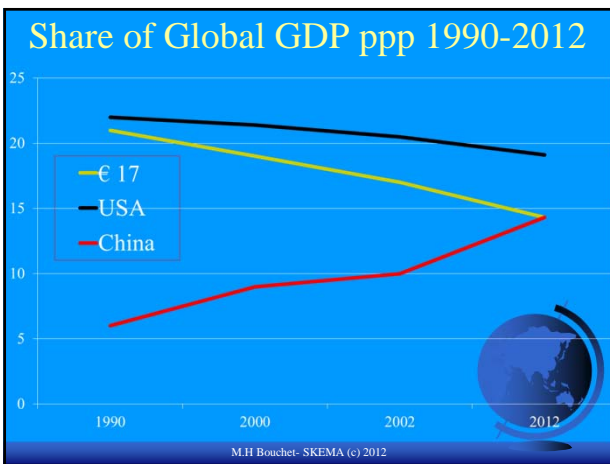
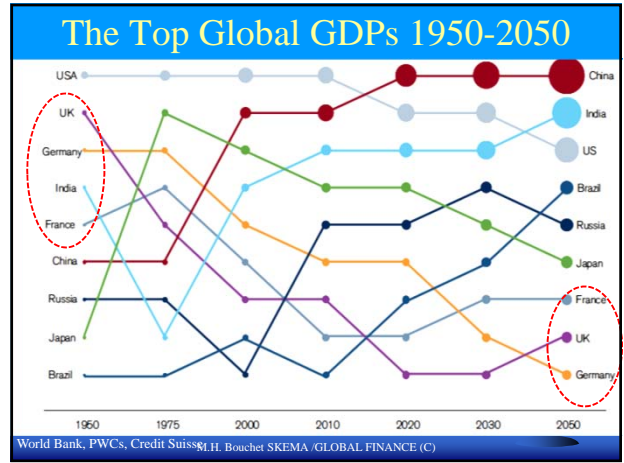
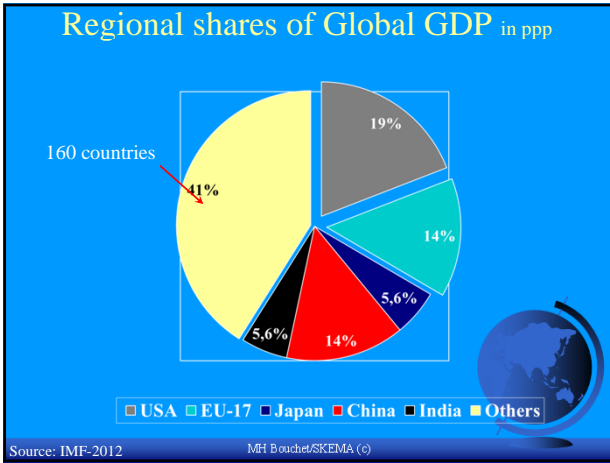


## EU-17 : Coping with high debt and sluggish growth?



## Taking off + Catching Up? (US\$.PIB per capita on ppp basis)





### Twin Risk in EUROPE = Economic + socio-political fragmentation

STRUCTURAL ELEMENTS	POLICY ELEMENTS	CULTURAL ELEMENTS
<ul style="list-style-type: none"> <li>Aging population</li> <li>Shrinking working population</li> <li>Sovereign debt crisis</li> <li>Wealth gap</li> <li>Competitiveness decline</li> </ul>	<ul style="list-style-type: none"> <li>Insufficient economic policy coordination</li> <li>Declining effectiveness of central bank monetary policy</li> </ul>	<ul style="list-style-type: none"> <li>Crisis of welfare state</li> <li>Solidarity deficit</li> <li>Transnational identity crisis</li> </ul>

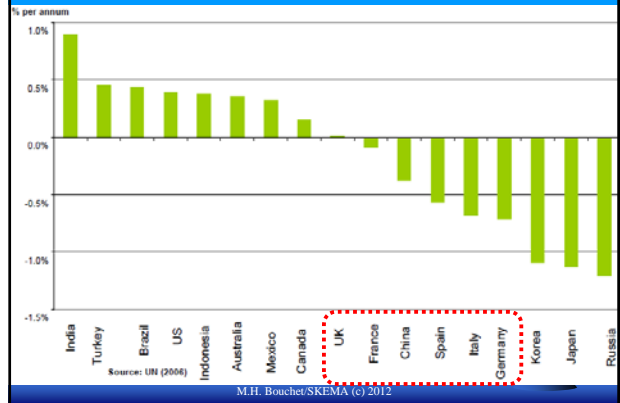
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## The sources of long-term growth

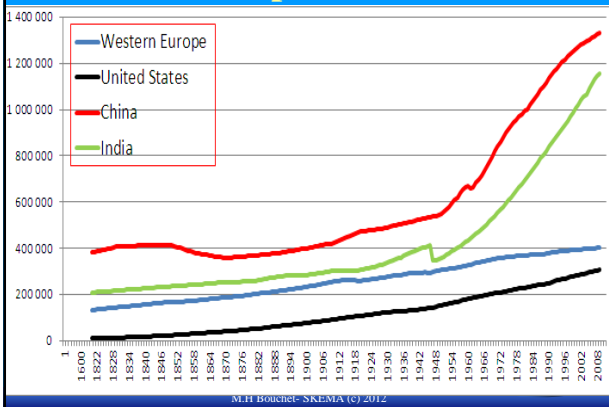
1. **Working population** (but declining in the EU)
  2. **Capital investment** (but lower growth rate in the EU and declining marginal returns)
  3. **Technology and R&D** (but slowing and labor saving)
- ↗ The non-tradable sector (2/3) is subject to domestic-demand constraints (high public deficit and debt, confidence crisis)  
 ↗ The tradable sector (1/3) depends on global growth, terms of trade, and competitiveness

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## Demographic Growth 2006-2050

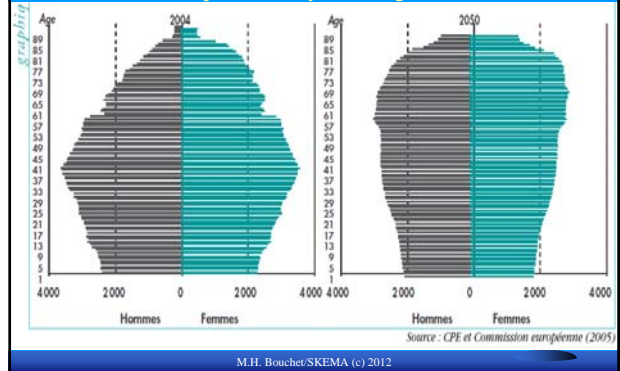


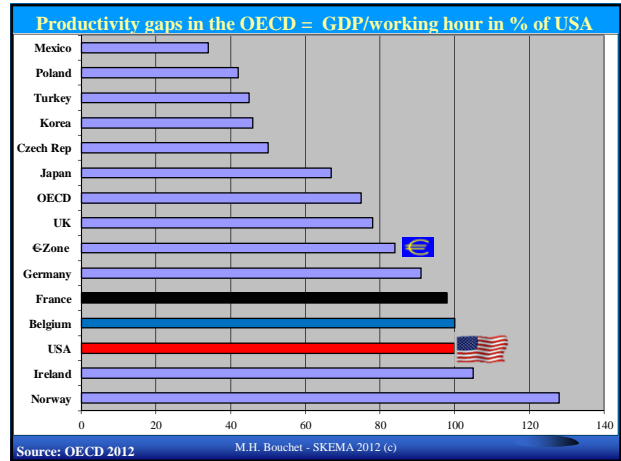
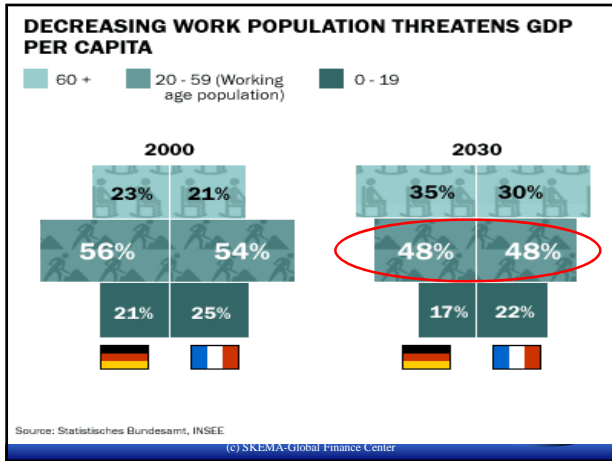
## Overall Population 1-2012



## EU's Age Pyramid 2004-2050

Active population shrinking = dropping growth potential = productivity challenge!

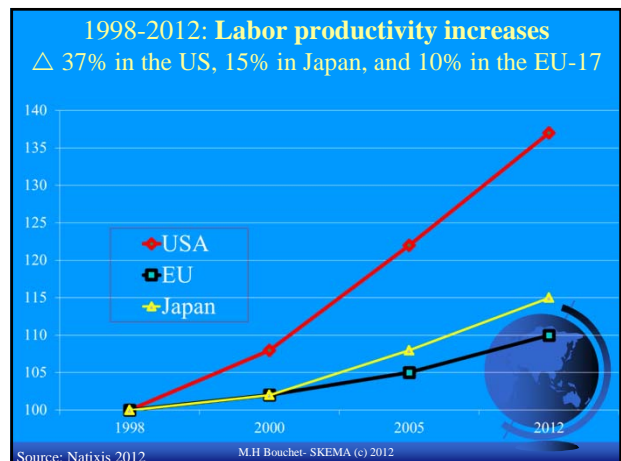


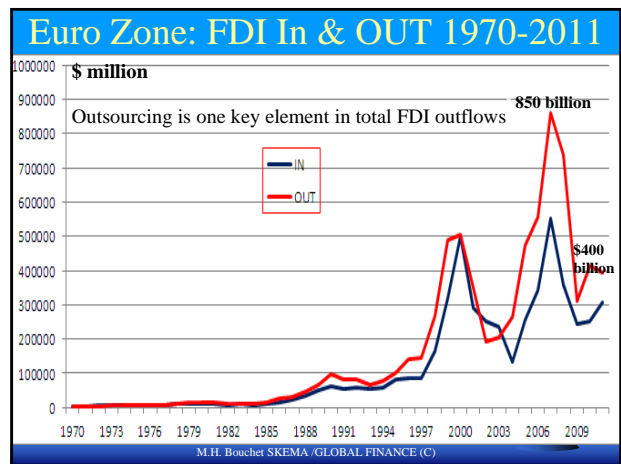
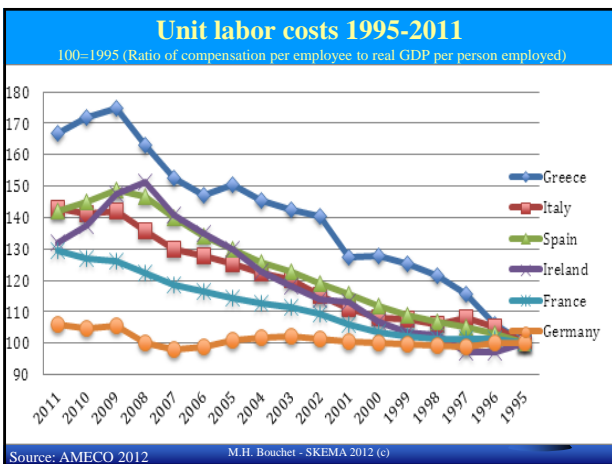
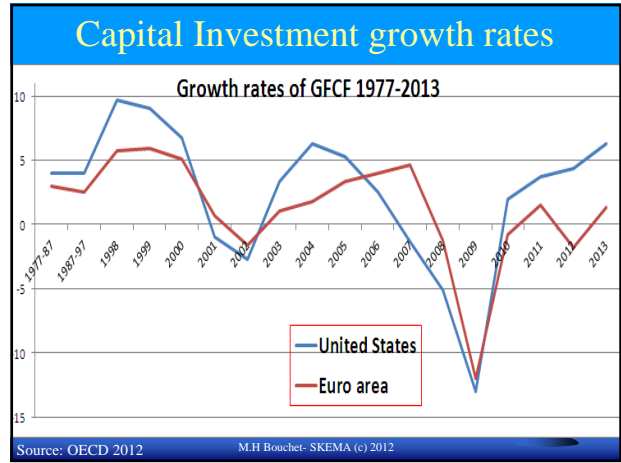
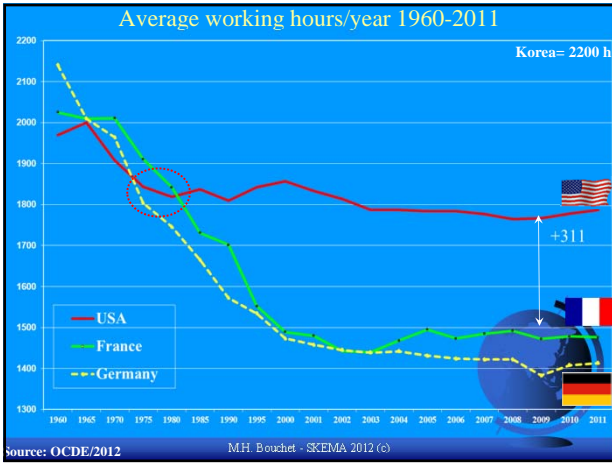


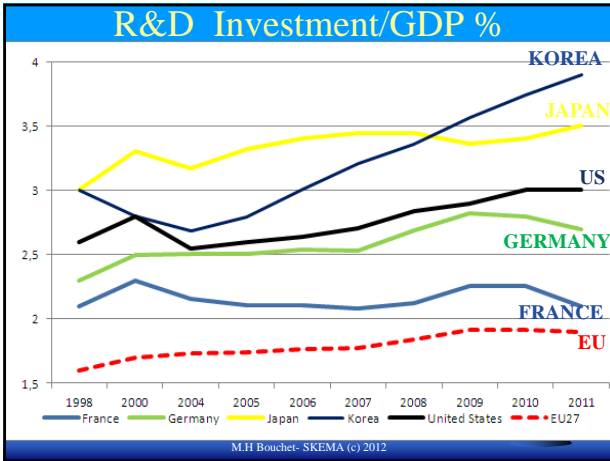
### Productivity gaps US versus EU-17

ROOT CAUSES	CONSEQUENCES
1. >0 correlation working population/labour productivity	⇨ Lower labor productivity in EU-17
2. >0 correlation capital investment/productivity	
3. >0 correlation R&D investment/productivity	⇨ Lower potential GDP in EU-17
4. >0 correlation higher education investment/productivity increases	

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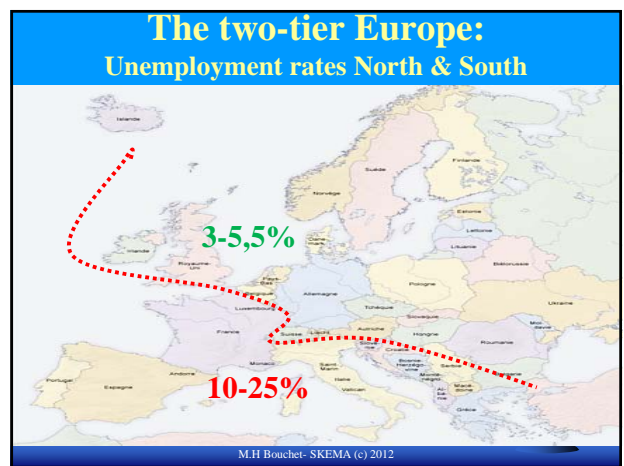
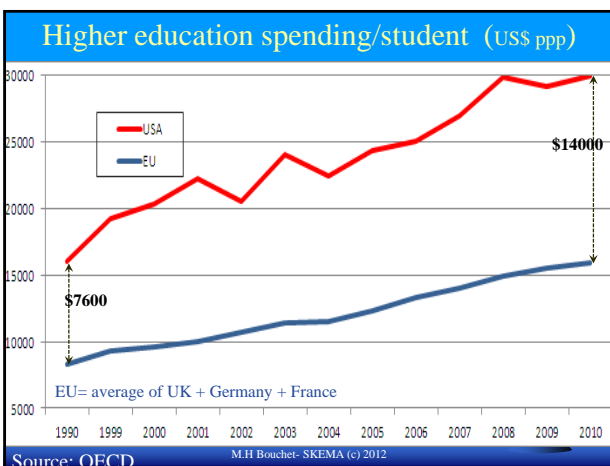




### Policy Crisis: Is the € to blame? €

1. A Euro-zone crisis without a Euro crisis
2. No competitive devaluation
3. The common currency imposed the tight monetary policy of the « anchor country »
4. Common currency, without the supportive political and economic institutions
5. Austerity kills growth and recession triggers social turmoil
6. No concerted fiscal and investment policy

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## Europe pays the price of a two-fold emancipation

- ☞ 1970s-80s: *independence of economic system from political system*
- ☞ 1980s-90s: *independence of financial system from economic system*



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## The debt trap in a nutshell

### « Expansionary austerity »

- ☞ Deficit shrinking with spending cuts + wage reduction + tight fiscal and monetary policy = **GDP fall** =
- ☞ solvency ratios worsening = **Rating downgrading!**
- = Higher borrowing costs

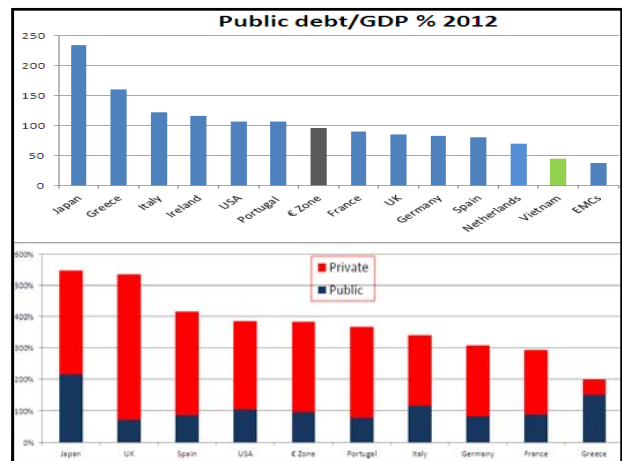
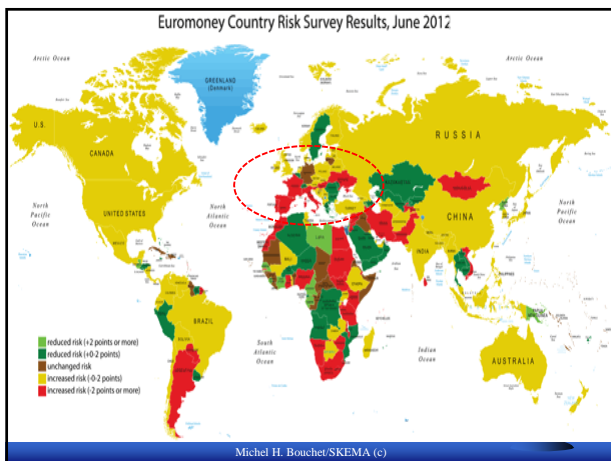


### « Deficit-driven expansion »

- ☞ Large primary fiscal deficit = higher consumption = larger external deficit = larger unfunded financing requirements =
- ☞ **GDP rise** with inflation + twin deficits
- ☞ **Rating downgrading!**
- = Higher borrowing costs

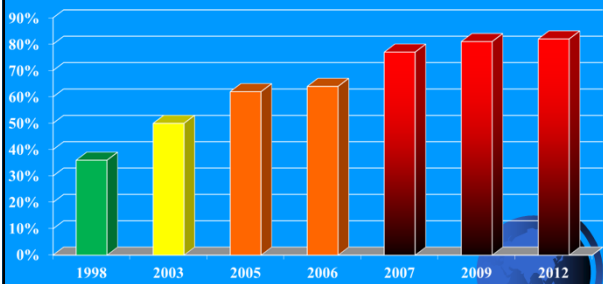


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## Cultural crisis? « Globalization is a *threat* for France, for job creation and for well-being»



Sondages CSA-Challenges 12/2005, Eurobaromètre 2006-2009, IPSOS 2012  
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## Five Solutions?

1. Relaxing the **anti-inflation** focus of the ECB
2. Concerted EU-wide **spending program** focused on competitiveness enhancing investment
3. Refocus of EU's banks toward **real economy financing**
4. Refocus of **regional trade** specialization on dynamic EMCs
5. Political and economic **federalism**, hence sovereignty transfer

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## The major cultural threats to European integration

1. *Lack of an external enemy?*
2. *Decline in transatlantic security cooperation*
3. *Unwieldy nature of EU decision-making: 27 countries and no consensus*
4. *Nationalism and even regionalism*
5. *Wealth gaps and consensus crisis*
6. *Solidarity deficit*

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*“People only accept change when they are faced with necessity, and they only recognize necessity when a crisis is coming”* Jean Monnet



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