

RETHINKING ECONOMICS

BOLOGNA CRITICAL ECONOMICS SUMMIT, MAY 2017

A CRITIQUE OF **EUROPEAN UNION AND POLICIES**

BY MARCO VERONESE PASSARELLA
UNIVERSITY OF LEEDS



PLAN

Focus: Italy and Euro Area rather than Europe and European Union / effects rather than causes

Rationale:

- Euro Area most controversial pillar/step of European integration
- Italy only peripheral country for which leaving the EA might possibly make sense
- Criteria to be met are well known

Questions

- Was 'it' worth?
- What is to be done?

METHOD

Compare my 'no euro' expectations/bias with:

- Descriptive statistics
- Counterfactual, using simplified version of 'synthetic control' method (Manasse et al. 2014). Control countries are used to mimic Italy before the launch of the euro and then to create an alternate scenario for Italy as if it did not join the EA.

Source: OECD 2017 (if not otherwise stated)

Sample: Italy and non-EA OECD countries (adjusted to account for gaps and best fit)

Variables:

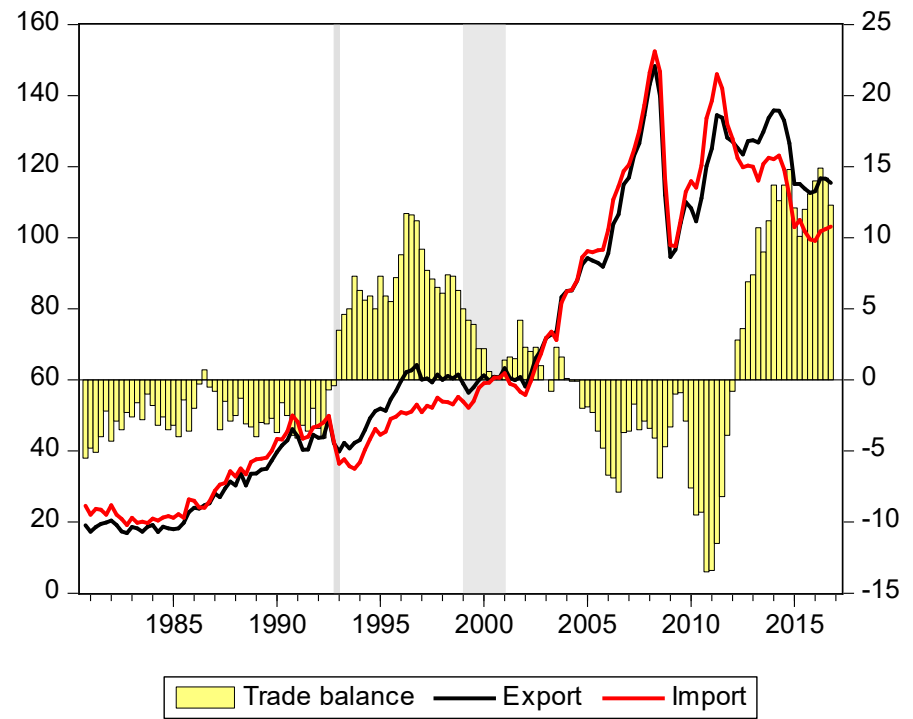
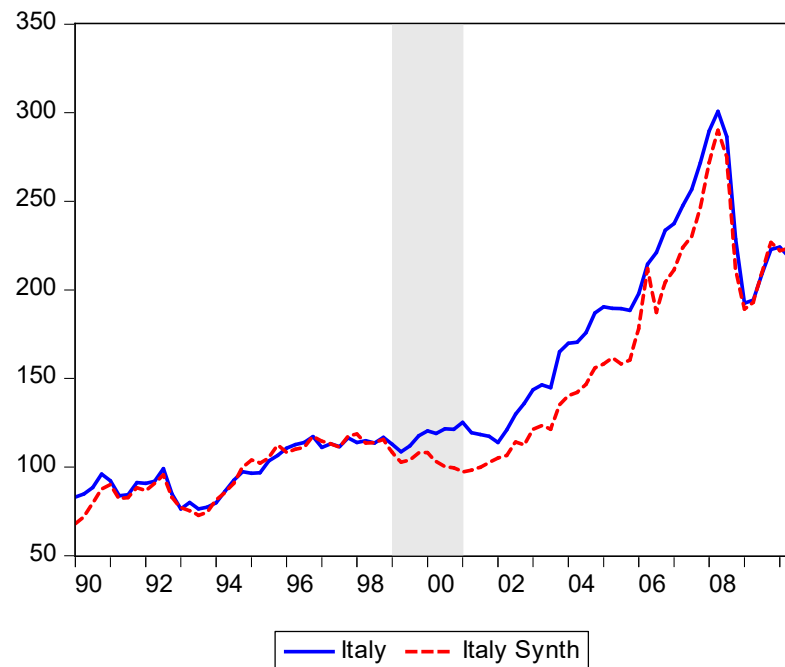
- Trade, inflation, yields, productivity, and GDP (Manasse et al. 2014)
- BoP, unemployment, wage, protection, bad loans

TRADE: WHAT I EXPECTED

- Trade creation (higher than trade diversion)
- Imbalances, i.e. worsening of trade balance and/or current account balance (of peripheral countries)

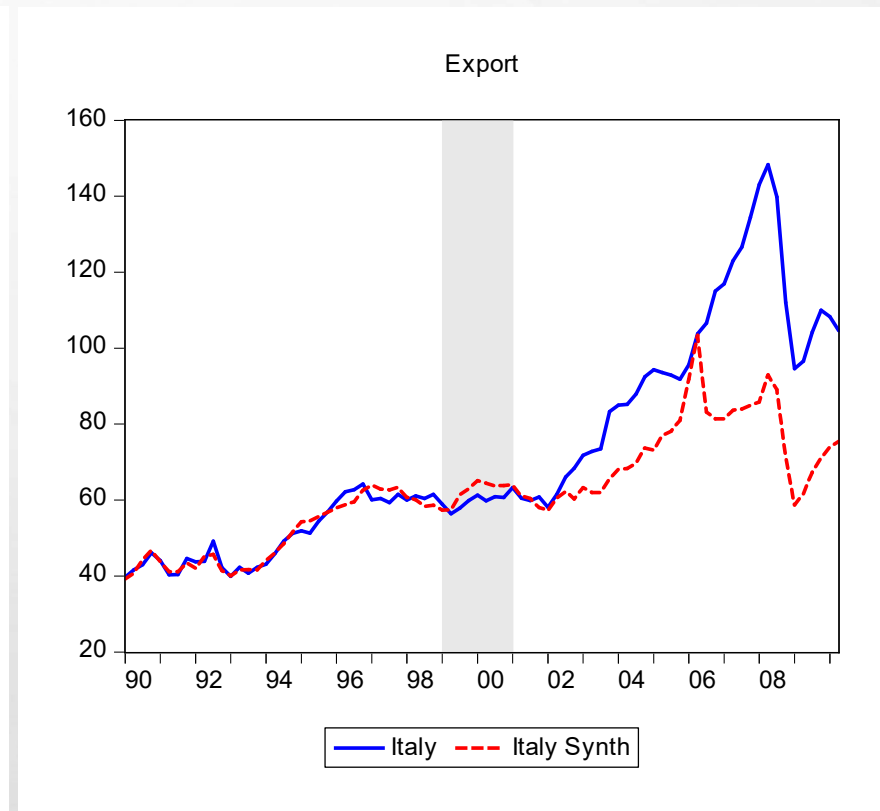
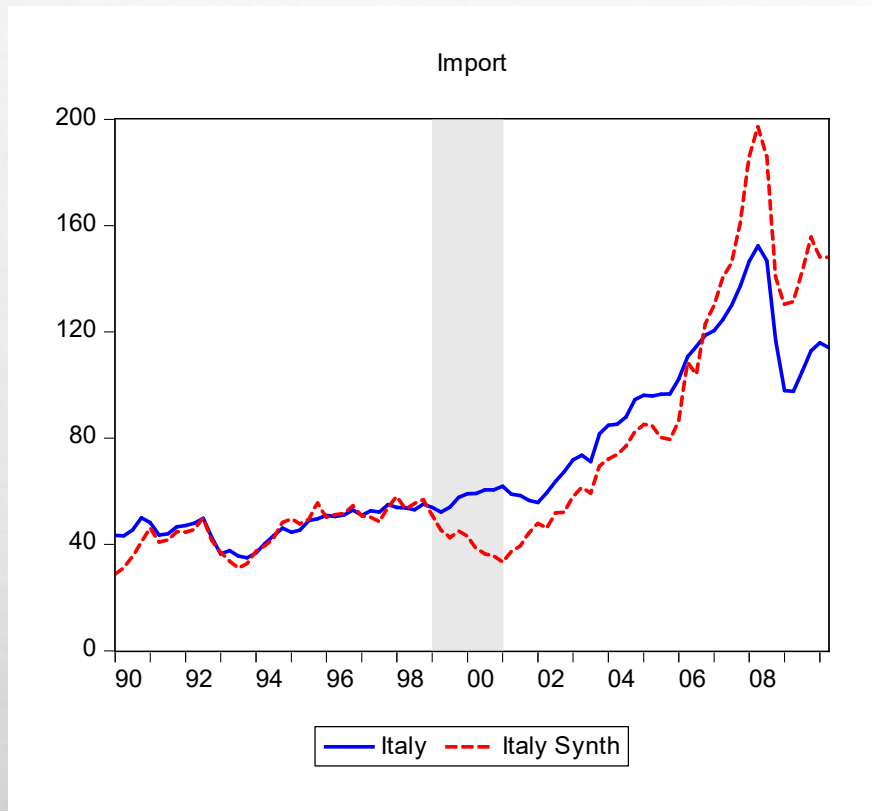
TRADE: WHAT I FOUND

Total trade: export + import



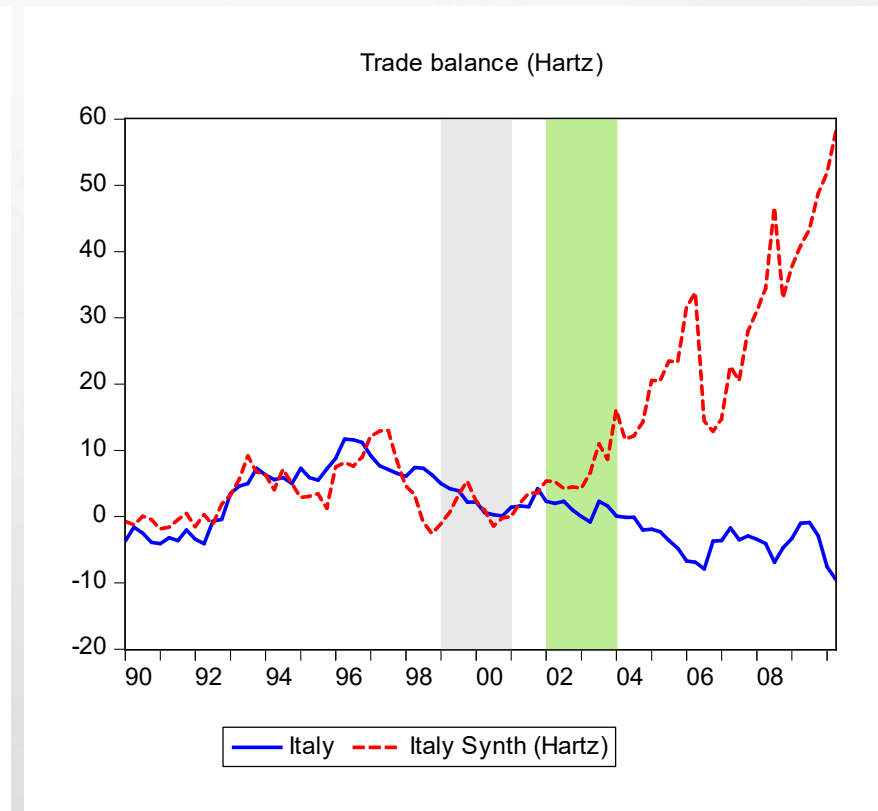
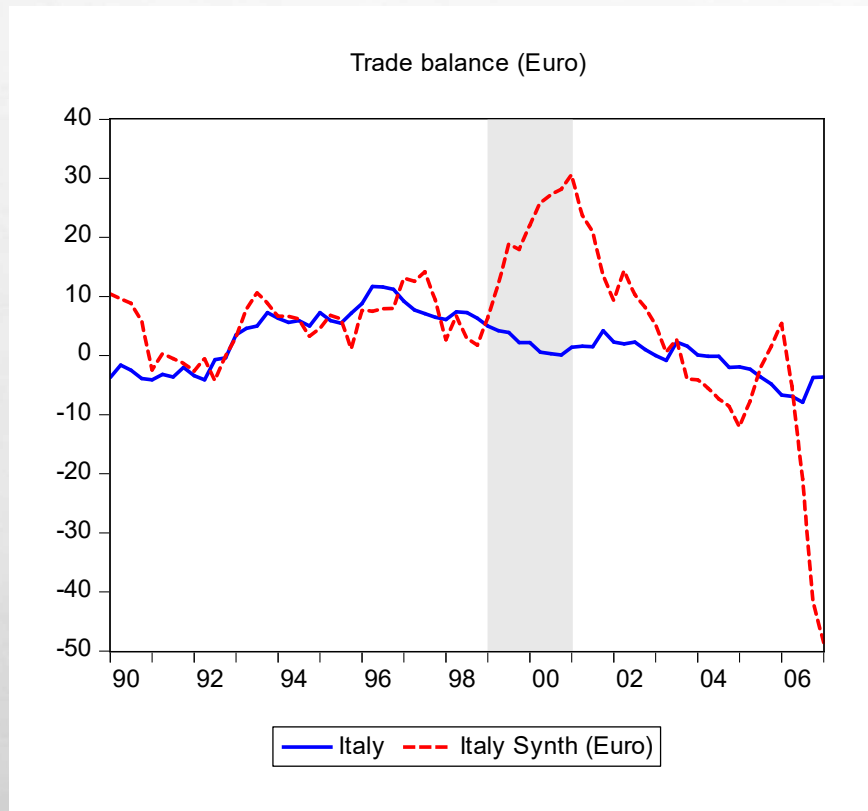
Export and import in goods, s.a., USD, billions

TRADE: WHAT I FOUND (CONT'D)



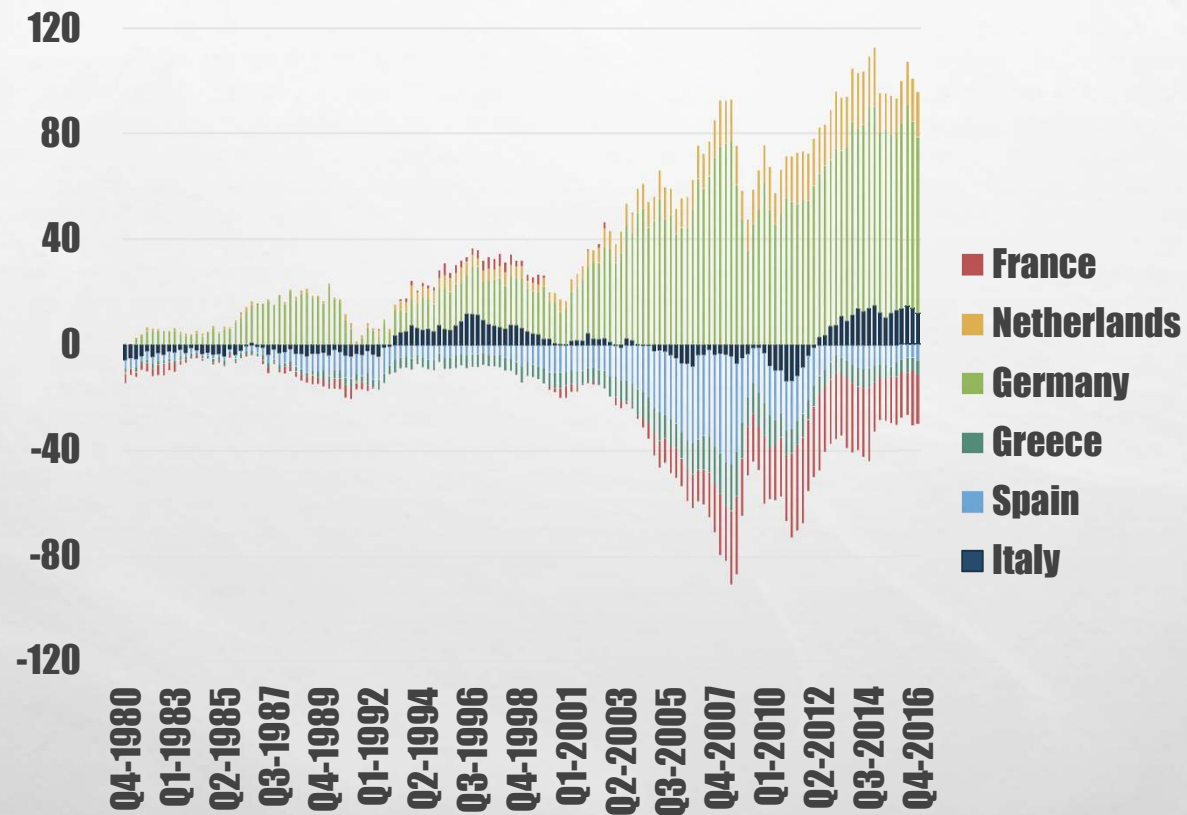
Export and import in goods, s.a., USD, billions

TRADE: WHAT I FOUND (CONT'D)



Export and import in goods, s.a., USD, billions

TRADE: ADDITIONAL FIGURES

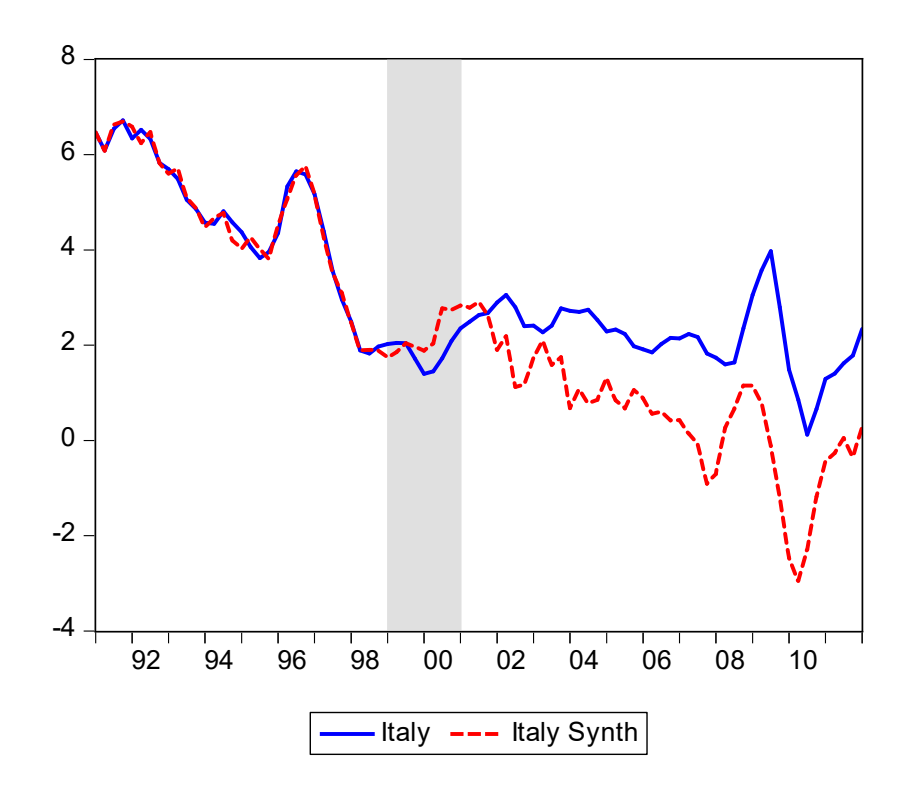
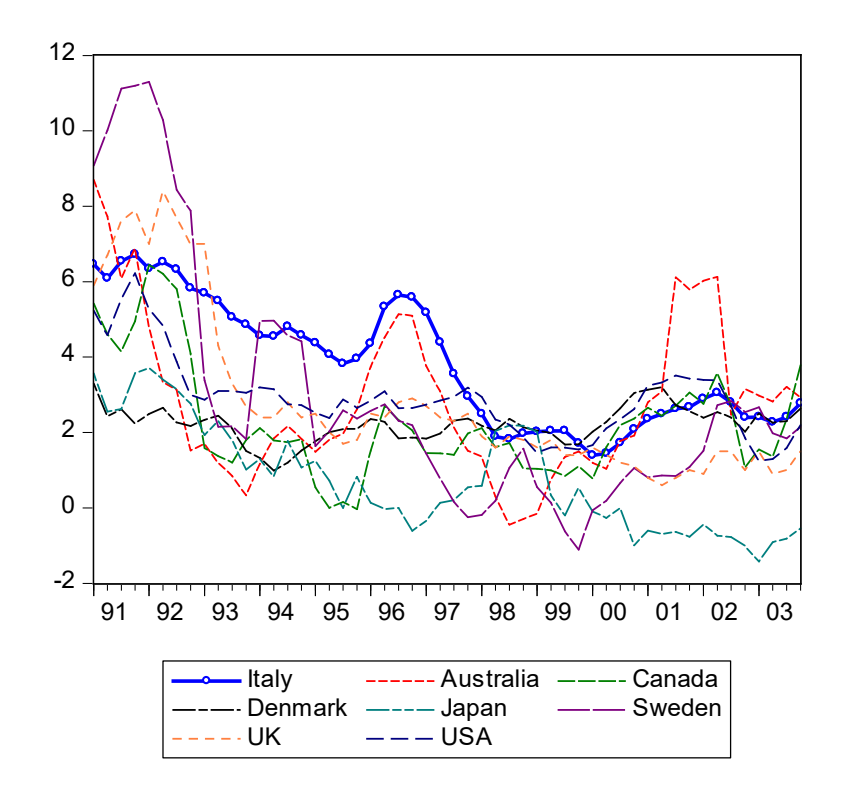


Export and import in goods, s.a., USD, billions

INFLATION: WHAT I EXPECTED

- **Trend:** declining also in alternate scenario (or counterfactual or synthetic Italy)
- **Rationale:** inflation rates have been declining in non-EA countries as well, due to changes in fiscal/monetary policies and 'great moderation' (flat Phillips curve)

INFLATION: WHAT I FOUND

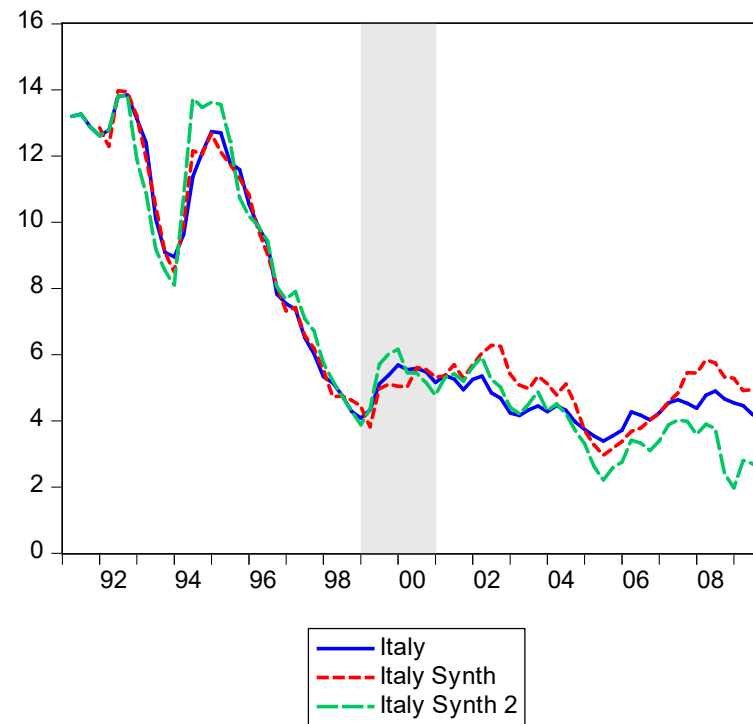
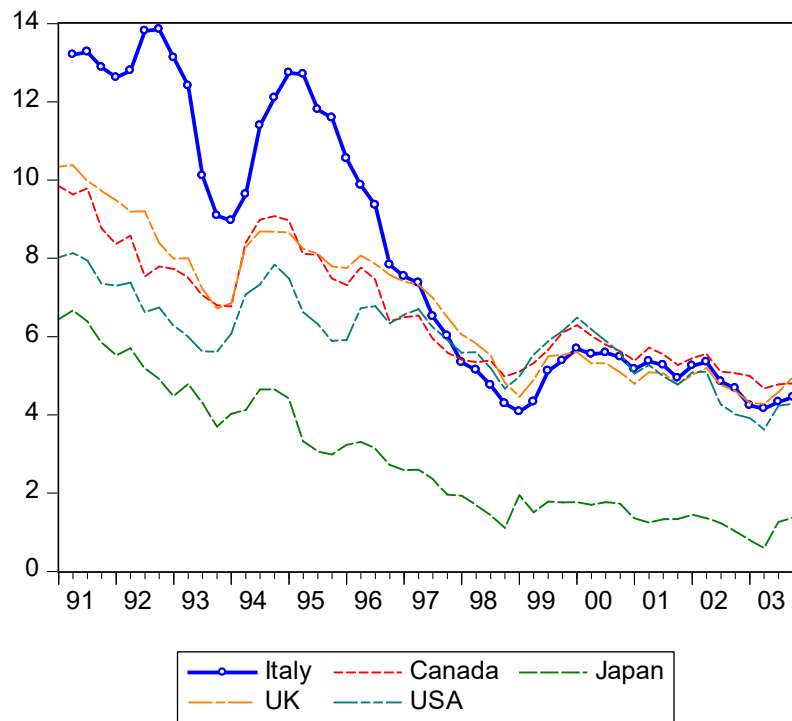


Consumer prices (all items), % change on same period of previous year

GOV. BOND YIELDS: WHAT I EXPECTED

- Trend: nominal rates declining also in alternate scenario
- Rationale: same as above (major political and institutional changes)

GOV. BOND YIELDS: WHAT I FOUND

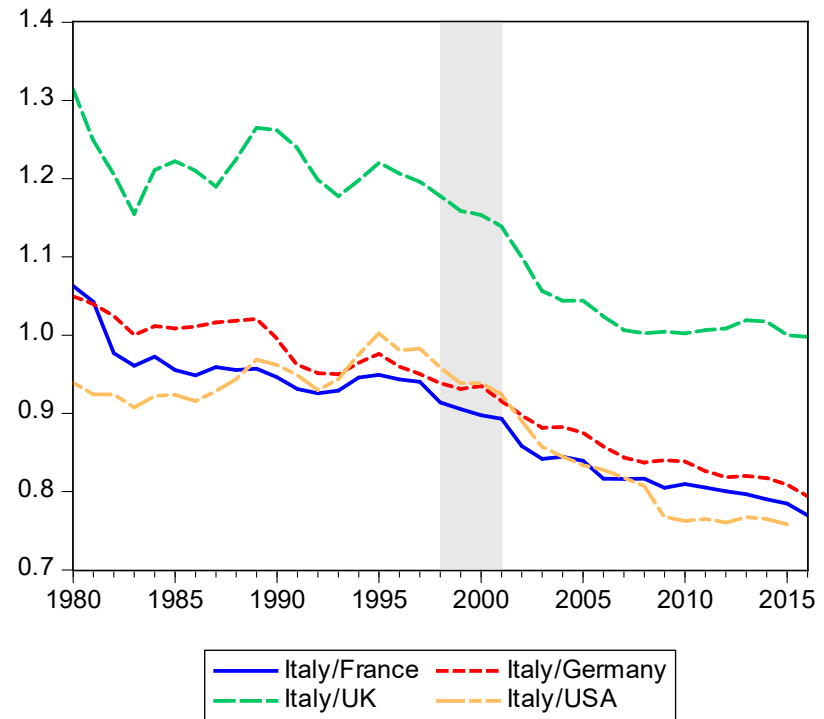
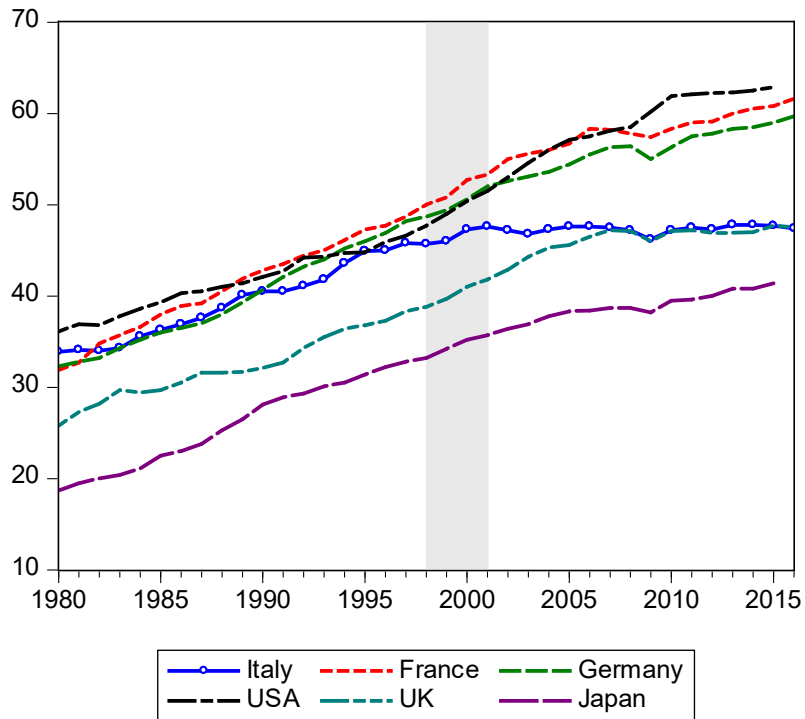


Long term interest rates (Y10)

PRODUCTIVITY: WHAT I EXPECTED

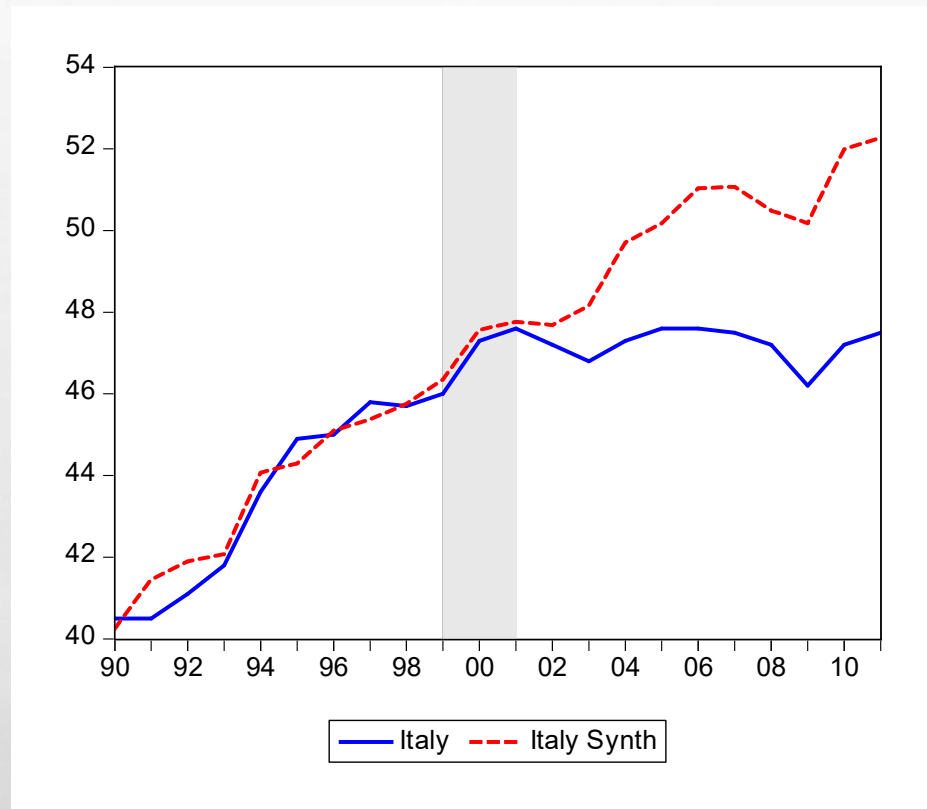
- **Trend:** alternate value higher than actual one
- **Rationale:** productivity is an endogenous variable, depending mainly on demand components. In addition, moving down the international value chain.

PRODUCTIVITY: WHAT I FOUND



GDP per hour worked, USD constant prices, 2010 PPPs

PRODUCTIVITY: WHAT I FOUND (CONT'D)

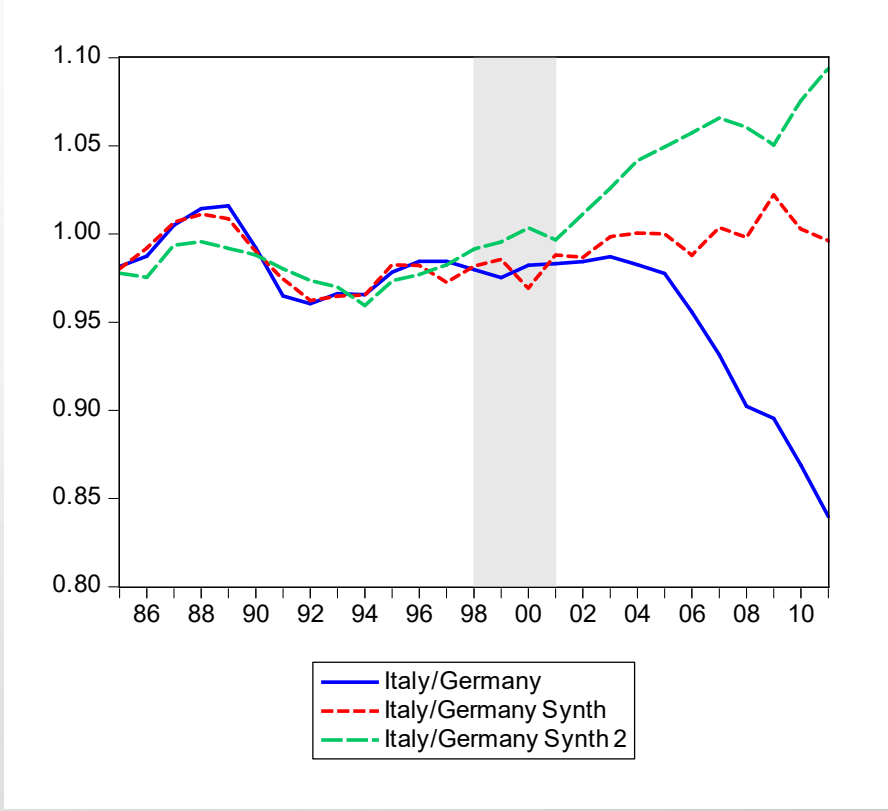
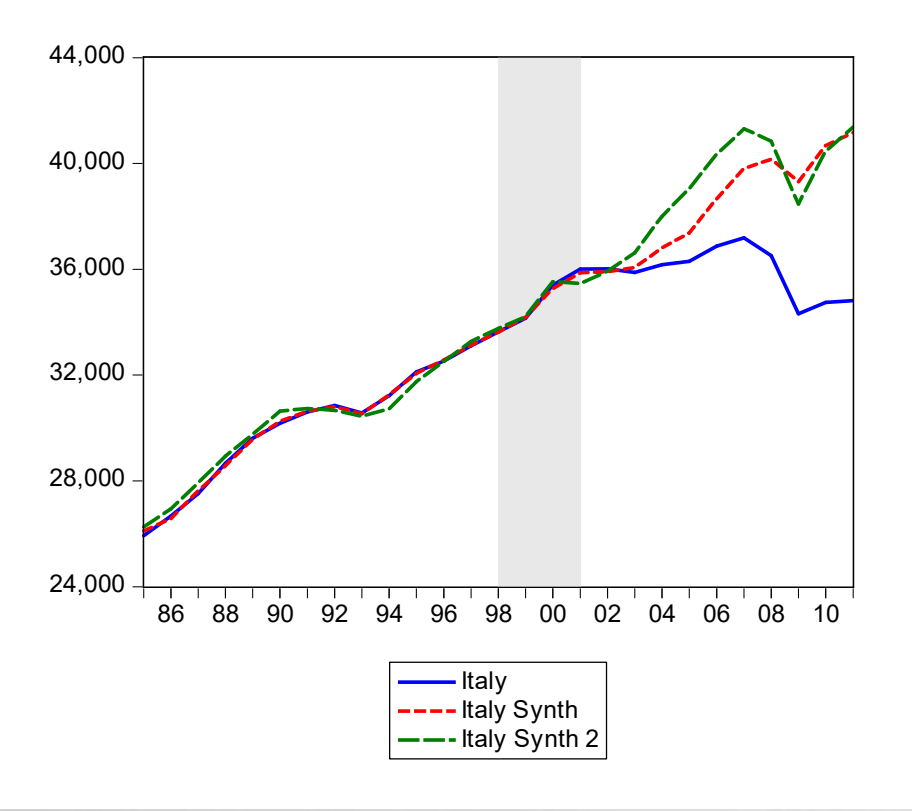


GDP per hour worked, USD constant prices, 2010 PPPs

GDP (PER CAPITA): WHAT I EXPECTED

- Trend: alternate value higher than actual value
- Rationale: austerity measures

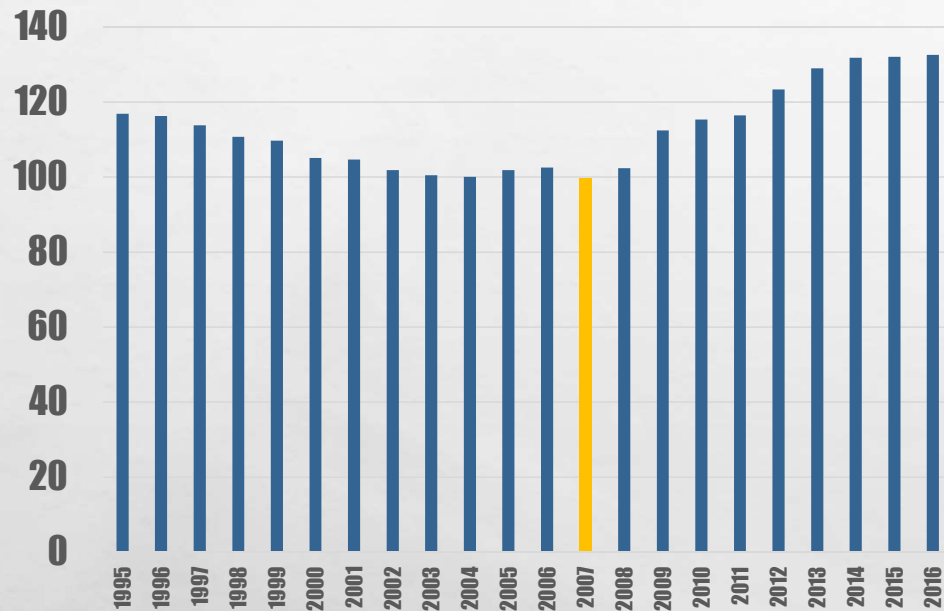
GDP (PER CAPITA): WHAT I FOUND



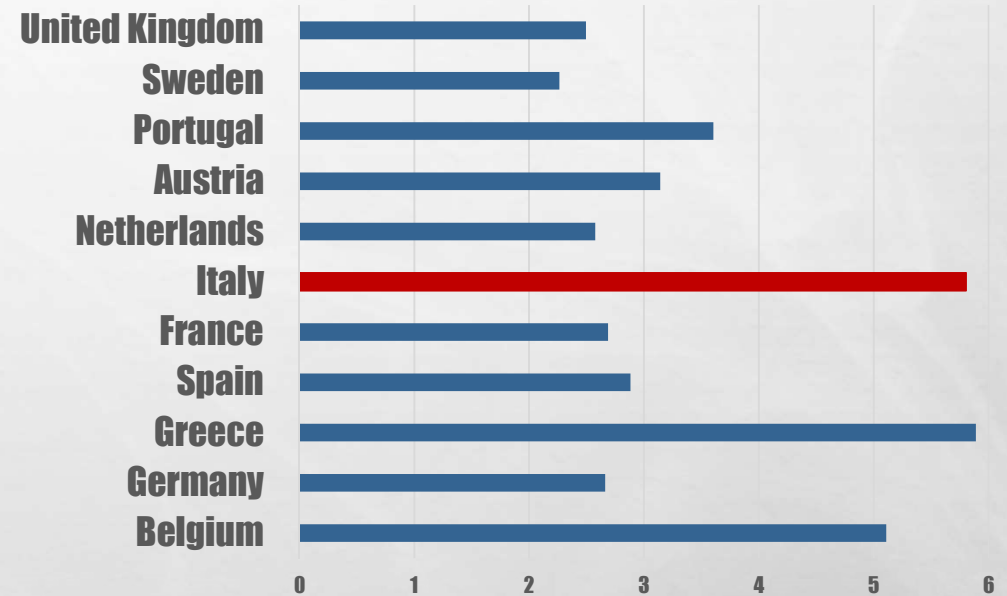
GDP per head of population, USD constant prices, 2010 PPPs

“AUSTERITY”: SOME FIGURES

Italian government debt (% of GDP)



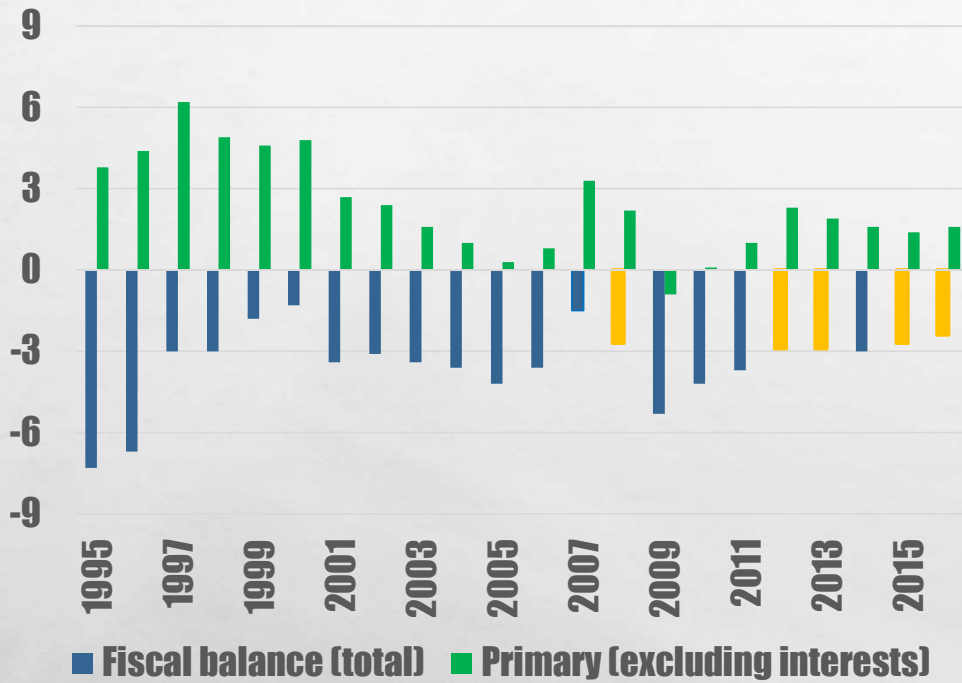
Average interest payment (% of GDP, 1995-2016)



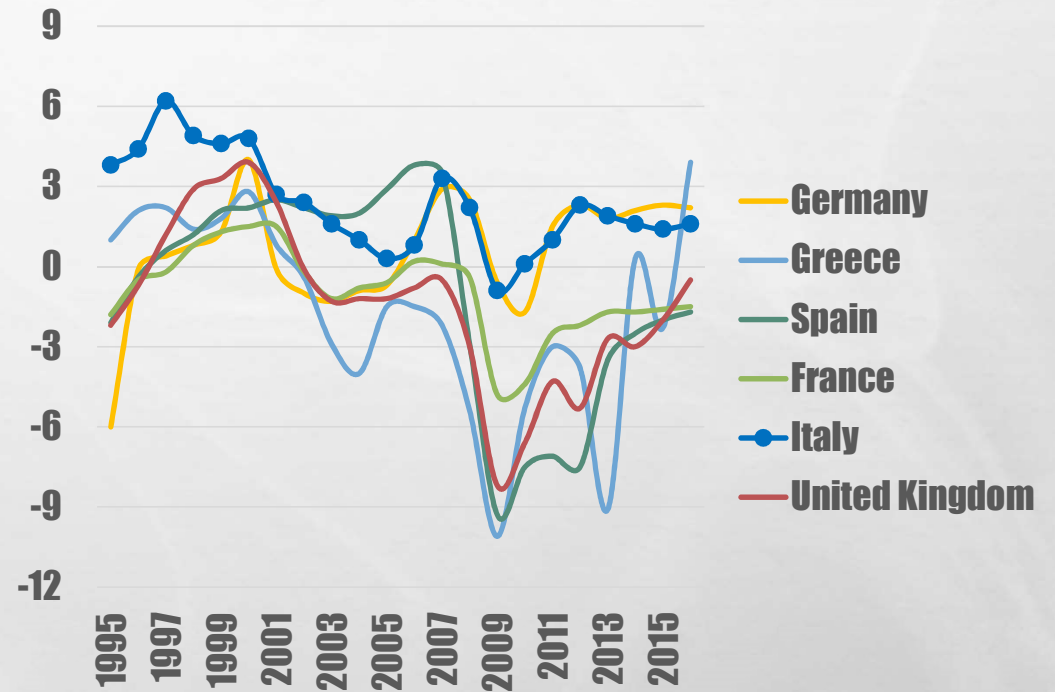
Note: Eurostat data, 2017

“AUSTERITY”: SOME FIGURES (CONT'D)

Fiscal balance (% of GDP)

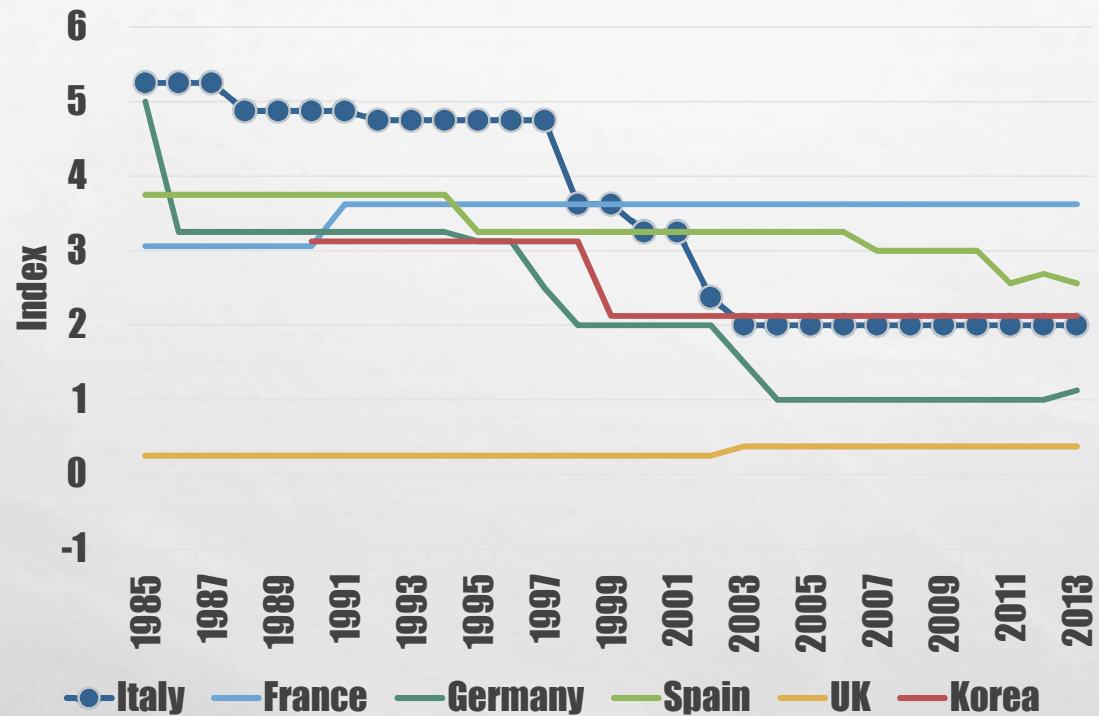


Primary balance (% of GDP)



Note: Eurostat data, 2017

“REFORMS”: SOME FIGURES

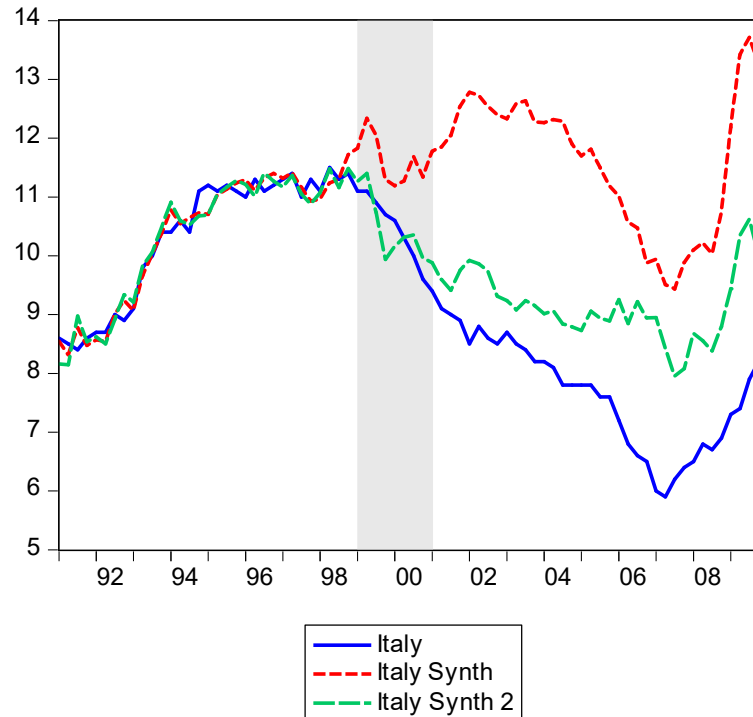
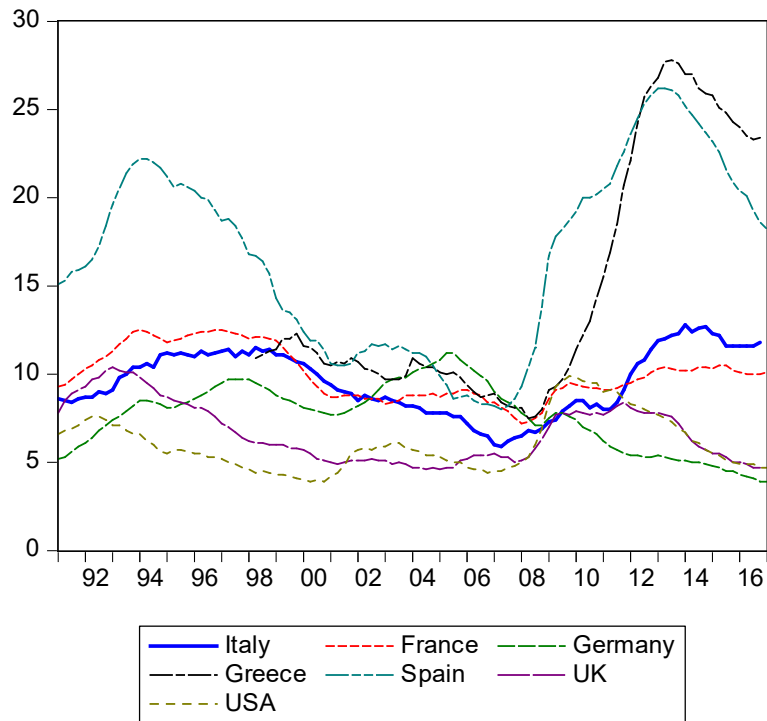


Strictness of employment protection – temporary contracts

UNEMPLOYMENT: WHAT I EXPECTED

- Trend: lower unemployment and less volatility in alternate scenario
- Rationale: austerity measures coupled with labour market 'reforms'

UNEMPLOYMENT: WHAT I FOUND



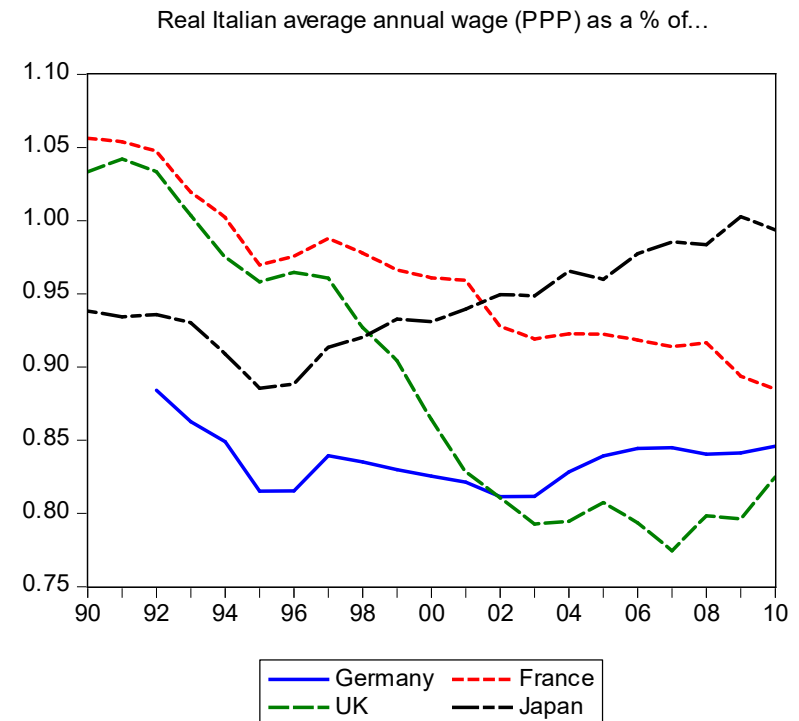
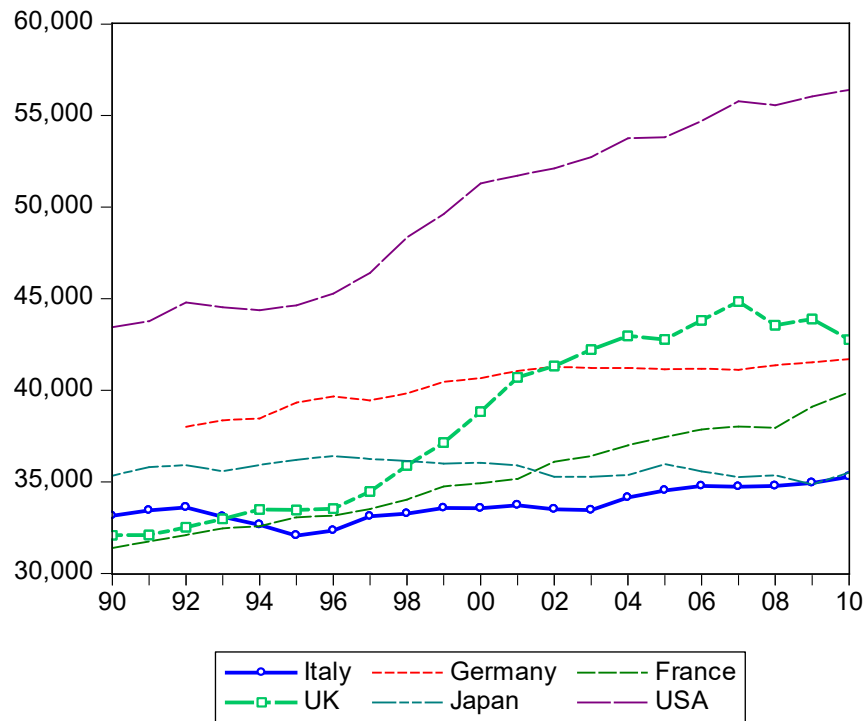
- Long lasting issue
- Crisis (+ EA constraints)

Harmonised unemployment rate (all persons), s.a.

WAGES: WHAT I EXPECTED

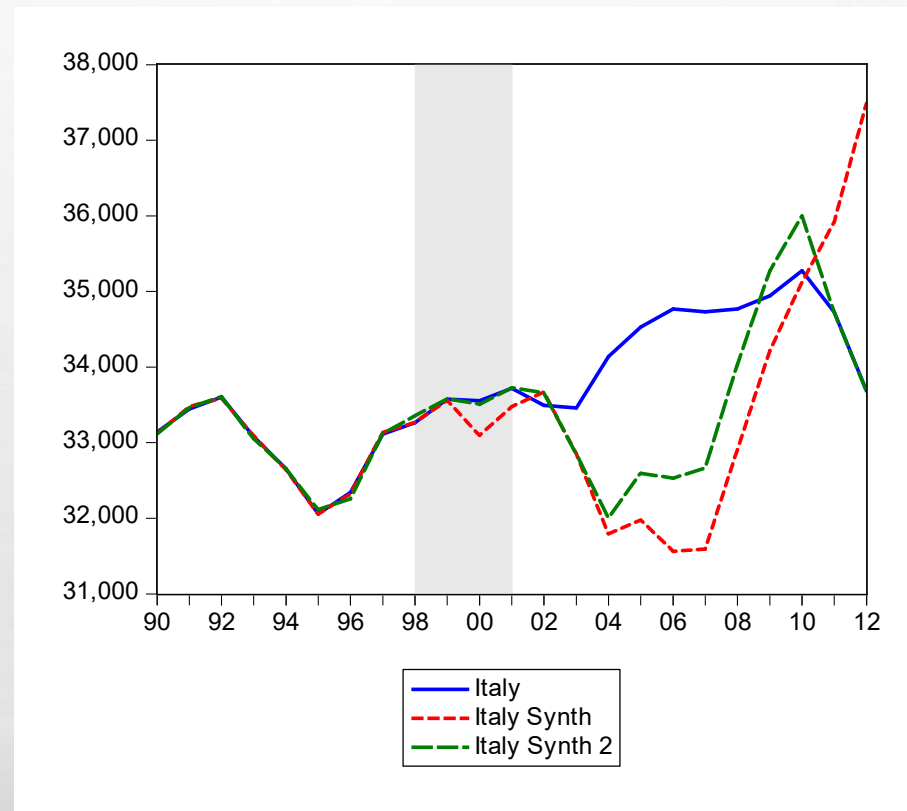
- Trend: flat but higher in alternate scenario
- Rationale: world-wide trend

WAGES: WHAT I FOUND



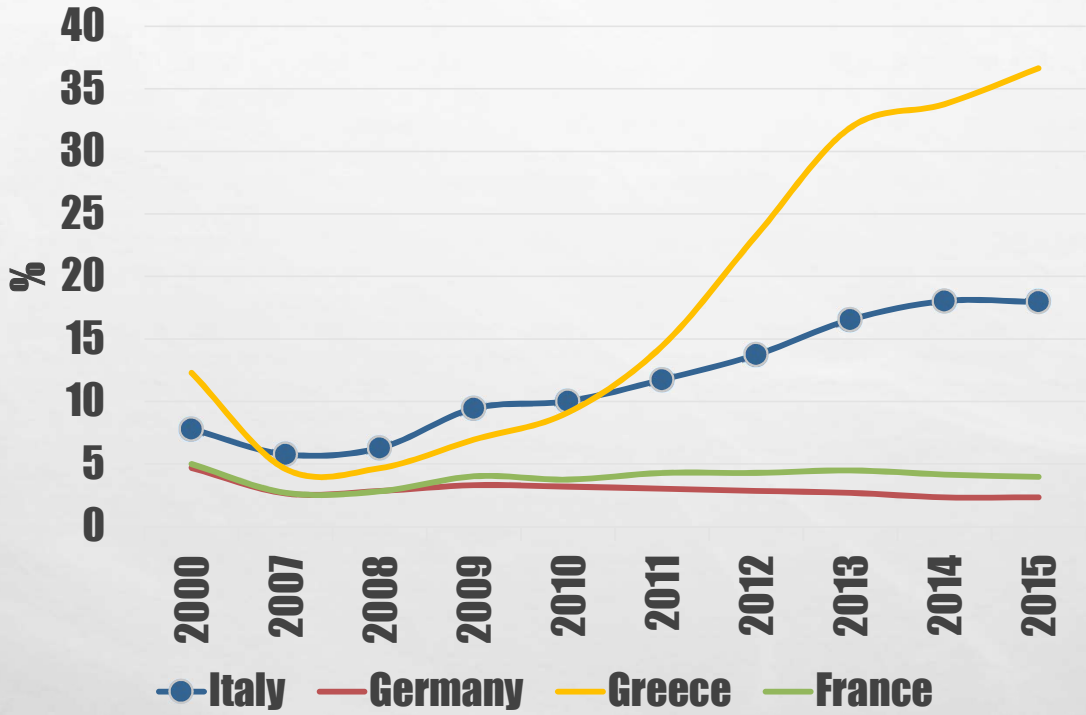
Average annual wages, constant prices, 2005 USD PPPs

WAGES: WHAT I FOUND (CONT'D)



Average annual wages, constant prices, 2005 USD PPPs

BANKS: SOME FIGURES

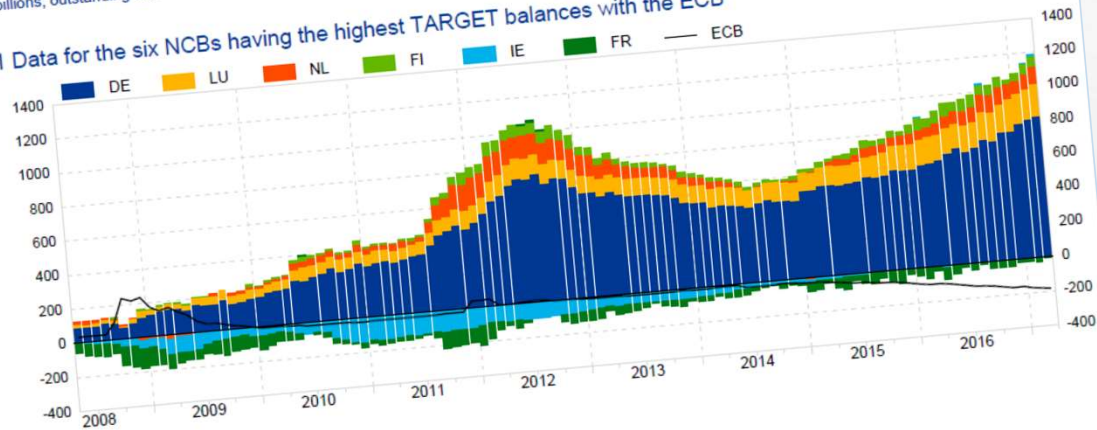


Bank nonperforming loans to total gross loans (%)

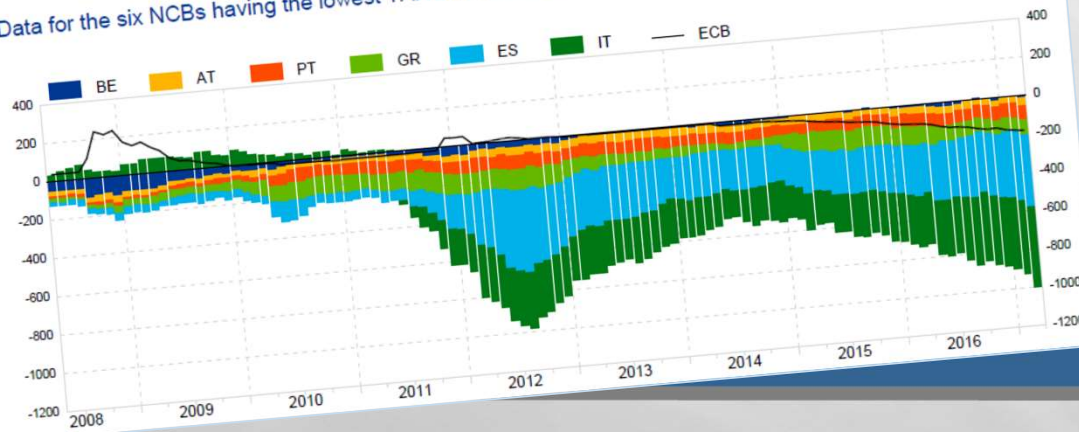
(CENTRAL) BANKS: WHAT *THEY* FOUND

1.3 Balances of the twelve initial Member States of the euro area plus the ECB
(EUR billions; outstanding amounts at end of period)

1.3.1 Data for the six NCBs having the highest TARGET balances with the ECB
Legend: DE (dark blue), LU (yellow), NL (orange), FI (light green), IE (cyan), FR (dark green), ECB (black line)



1.3.2 Data for the six NCBs having the lowest TARGET balances with the ECB
Legend: BE (dark blue), AT (yellow), PT (orange), GR (light green), ES (cyan), IT (dark green), ECB (black line)



Note: last ECB release on TARGET balances

SUMMING UP

What I think / said:

- Overall, it was *not* worth joining the Euro Area
- Main reason: lost degrees of freedom with monetary & fiscal & industrial policy

What I do not think / did not say:

- Leaving entails *per se* monetary sovereignty and end of austerity
- Floating exchange rate as automatic adjustment

What I suggest:

- Disregard EA criteria, outline credible (full employment) plan A, and be ready with plan B

THANK YOU

m.passarella@leeds.ac.uk