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Analyzing the Trinomial "Competitiveness-Growth-Social Justice" in the Eurozone

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Abstract

This paper analyzes the theoretical relationship between the trinomial and the monetary union membership in the context of the Eurozone financial crisis. Since the last four years the sustainability of the Eurozone is intensely discussed in international political economy (IPE) by scholars and non-academic journalists, especially in relation to the effectiveness of austerity to solve the crisis. The author argues that the main cause of the crisis is not the profligacy of some states, but the lack of competitiveness inherent to the necessary implementation of internal devaluation leading to current account (CA) and capital account (KA) imbalances, increasing borrowing from weaker countries, thereby affecting their public budgets, growth and social justice. The conclusion summarizes that the Eurozone sooner or later should collapse due to economic, financial, social and political crises.

Key Words

Competitiveness, growth, internal devaluation, monetary union.

I. INTRODUCTION

A previous paper (Morales-Pita, 2013) analyzed the contradictions between the German Chancellor and the EU, the advantages derived by Germany from the creation of the EU and its role in bail-outs to Greece, Ireland and Portugal. This paper goes deeper into the causes of the crisis. One of them is the profligacy and structural problems of the peripheral countries especially the lending spree during the first five years of the launching of the euro, but this paper argues that there is a more important reason, currently overlooked by Germany's leaders, related to the lack of competitiveness inside the Eurozone. The difference between this paper and previous studies is that this author links competitiveness, internal devaluation, current and capital accounts imbalances, budgetary deficits, contractionary fiscal policy, reduction of growth, its effect on social justice and democracy in one body of knowledge. If these factors are not inter-related, the final consequences of the crisis would be unclear. The paper develops two hypotheses: the first one argues that lack of competitiveness in the majority of the Eurozone members leads to internal devaluation affecting the balance of payments, the budget and ultimately reducing growth; the second one formulates that lack of growth would lead to budgetary cuts to social spending and finally social justice reduction.

The literature review section of this paper discusses studies conducted by other researchers on competitiveness, internal devaluation, CA, KA imbalances, budgetary deficits, growth and social justice, treated in pairs or in trios rather than holistically as this paper does. This is followed by a section on methodology describing the hypotheses in connection with IPE theory and the way to analyze the interrelation of the variables covering the twelve years of the Eurozone's existence. The findings section will prove the two hypotheses on the basis of the analysis of data, as well as of the results of regression and correlation analysis on the variables. The paper ends with the conclusions.

II. Literature Review

On the topic of competitiveness, a seminal book was written by Porter (1990), in which he analyzes the general characteristics of competitiveness, clearly defining the context in the external competition. He also analyzes the internal and external devaluations, the impossibility for monetary union members to implement external devaluation to gain competitiveness, the case against internal competitiveness creating an imbalance in the CA according to their average wages and costs per unit, the relation between the opposite signs of the current and capital accounts, as well as the need for deficit countries to require borrowing and increases in their external debts /GDP.

Porter presents the best scenario in the case of countries in an optimal currency union (good fiscal standing, free movement of trade, capital and labor, low corruption, labor market flexibility, considerable ratio of consumption/GDP, no significant structural problems, acceptable support ratio, economic growth and low unemployment). This author believes that even in these ideal conditions there will be countries with different CA imbalances and degrees of competitiveness, leading to the need to borrow for the less competitive countries and to lend for the most competitive ones. An interesting characteristic of the most competitive country, pointed out by Porter, is that its forward investments will be larger than its inward investments. He mentions on page 19 that, "… successful international competitors often compete with global strategies in which trade and foreign investments are integrated."

The issue of the consequences of internal and external devaluation was also dealt with by Bootle (2012) in the analysis of a country exiting from the Eurozone.

Alessandrini et al (2012), besides emphasizing the role of external imbalances in the Eurozone, also refers to the secondary role played by structural fragility, which has been attacked by the Eurozone's main authorities as the main cause of the financial crisis and the reason for the enforcement of austerity measures. He includes a table based on data from the IMF, the World Economic Outlook Database, September 2011 and the OECD which contains CA balances per year (CAB/Y) 1999-2012, unit labor costs % change (ULC) in the period 1999-2010, and inflation % (1999-2012). The main conclusion is that surpluses in the CAB/Y in the Northern countries are accompanied by decreases or small increases in the ULC and inflation rates $\leq 30\%$, while the deficits in the CAB/Y in the Southern countries are accompanied by increases from 11 to 55% in the ULC, and inflation ranging from 31 to 43%.

This author totally agrees with Allessandrini when he states on page 9, "These data are consistent with the hypothesis that the asymmetry in the external imbalances of euro area countries are driven, among other things, by wage and labor productivity differentials, which have not been compensated by real exchange rate adjustment and that they raise doubts about the validity of the hypothesis that the debt crisis has been driven in the first place by fiscal indiscipline of the South." Further on, he states that the financial crisis has exposed the fragility of the Eurozone construction without a fiscal union that would allow transfers from the strongest to the weakest, and that the North countries have, instead, imposed internal devaluation through the enforcement of contractionary fiscal policies as a condition for the bailouts.

In order to explain the emphasis on the CA imbalances, Alessandrini presents the fundamental identity in any open economy, that is to say, S – I = DEF + CA, where S= private saving, I=investments in loans, DEF= governmental budgetary deficit, and CA= current account balance. This identity links external imbalances and private financing imbalances to the governmental fiscal imbalance.

From the analysis of the equation, as Alessandrini stated, it follows that if CA<0, then either DEF >0 or (S-I) < 0 to restore equilibrium in the economy. Since private saving tends to rise and investments tends to fall in a recession, (S-I) > 0, then DEF will increase.

Panizza and Presbitero (2013) specifically analyze the relationship between public debt and economic growth and arrive at the conclusion that although high public debt reduces GDP through the implementation of contractionary fiscal policy to diminish the budgetary deficit, the quantitative relationship would depend on cross-country heterogeneity. There is no mention of either competitiveness or the Eurozone financial crises.

Stockhammer (2011) refers to the fundamental identity and concludes that the peripheral countries can only solve their public debt problems if there is a change in Germany's CA surpluses, and specifically that German wage suppression rather than fiscal profligacy is at the root of the crisis of the Eurozone.

To the issue of competitiveness in the Eurozone, Stockhammer states on page 7, "The adjustment of the surplus countries is inflationary (to stimulate their demand and imports and to increase their unit costs), whereas the adjustment of the deficit countries is deflationary as they have to dampen demand (to decrease imports) and lower their prices and wages (to restore competitiveness)."

Stockhammer presents an equation relating the wage growth in a country in function of the productivity growth of the country, the European inflation target, and the difference between the ULC of the Eurozone and that of the specific country. If that difference is positive, as is the case for core countries, then the wages should increase; in the opposite case, as is the case of peripheral countries, the wages should diminish.

McGiffen (2005) at the time in which the Eurozone financial crisis had not occurred, emphasizes how much democracy has been affected by the creation of the euro, specifically because the governments and the peoples are not consulted by the main multinational institutions like the European Central Bank (ECB), the European Commission (EC). He rightly concludes that the monetary union compels its members to implement internal devaluation to make their economies competitive through cutting labor costs, introducing flexible labor markets, reducing union's power and, more importantly, the welfare state.

McGiffen (2012) writes more concretely about Germany's running a permanent trade surplus and its effect on the Southern countries, therefore contributing to the current financial crisis, and creating dangerous macroeconomic imbalances. He refers to the relative stagnation of German workers' unit labor costs in comparison with those of the Southern countries in the opposite direction. He emphasizes the lack of democracy, and the fact that monetary union without economic union leaves its members exposed to the unrestrained dictatorship of capital.

Porter established the foundation of competitiveness and its effect on the CA imbalances. Bootle analyzed the possible collapse of the Eurozone as a result of the possible effect of the exit of some of the weaker countries based on the effect of internal devaluation. Alessandrini gets deeper into the application of the fundamental identity of the open economy to the Eurozone crisis, but doesn't conclude that it will sooner or later collapse because the reduction of economic growth and social justice, even if the highly unlikely fiscal union were introduced. Panizza and Presbitero, although recognizing the reduction of growth as a result of high public indebtedness, do not relate the latter as a result of the CA imbalances and internal devaluation. Stockhammer recommends adequate measures to placate the effect of the crisis (simultaneously recognizing the unlikelihood of their acceptance by the core countries) but doesn't conclude that the Eurozone is likely to succumb as a result of the issues he deals with. McGiffen identifies the causes of the financial crisis in the monetary union, its effect on the working class, and the collapse of the system, but recommends the elimination of the capitalist system. There is no mention of successfully regulated capitalist economies which have sustainably combined growth with social justice, like Norway, Sweden, and Denmark. The command economy has painstakingly shown its incapacity to sustain growth without competition and to achieve social justice.

None of the literature referred to above has holistically explained the relationship among the components of the trinomial "competitiveness – growth – social justice" in one body of knowledge proving that the lack of competitiveness is the main cause of the lack of growth, whose significant consequence is the reduction of social justice in the EU in the context of a regulated market economy. The building of this multidisciplinary piece of knowledge is the main purpose of writing this paper, and its author's contribution in this research.

III. METHODOLOGY

This paper will analyze the inter-relationship between competitiveness, CA imbalances, budgetary deficits, growth and social justice through two sequentially inter-related hypotheses.

The first hypothesis argues that lack of competiveness in the majority of the Eurozone members' leads to the implementation of internal devaluation, systematic CA deficits and KA surpluses in the peripheral countries which, as a result, need to increase borrowing and to register large budgetary deficits, with the consequent reduction of growth.

The second hypothesis formulates that the reduction of growth, which would be aggravated if austerity is imposed, would lead to budgetary cuts to social spending, increases in unemployment, reduction of real wages, and consequently the reduction of social justice, mainly but not only in the peripheral countries.

The two hypotheses would be proven, firstly, through the international political economy analysis - in the case of monetary union of different countries without fiscal or political union - of relevant and current academic and non-academic literature in the field of financial crisis in monetary unions; secondly through the application of this knowledge to the economic, social and political data from the main European countries during the years 2000 – 2012, which cover the period previous to the creation of the EU, (2000 – 2002), the period of growth (from the introduction of the euro in 2002 until 2007), and finally the period of financial crisis from 2008 to 2012. The study will be complemented with correlation analyses of the variables CA, budget deficit and growth.

This paper improves previous studies on the three components of the trinomial "competitiveness – growth – social justice" by establishing a holistic cause-consequence inter-relationship among them and deriving a conclusion on the sustainability of the Eurozone.

IV. THE FINDINGS

The first hypothesis argues that the lack of competiveness in the majority of the Eurozone members is a direct consequence of the necessary implementation of internal devaluation ineluctably leading to the supremacy of the core countries over the peripheral countries resulting in the systematic CA deficits of the latter. Since CA deficits necessarily lead to KA surpluses, the weaker countries will need to borrow, and their budgets will register large deficits in relation to their GDP, with the consequent reduction of growth.

Before the creation of the Eurozone Whirlwall (1991) stated that "In a world of many currencies, a country's balance of payments problem is essentially a foreign exchange problem.

For a specified growth of output and unemployment level it cannot earn enough foreign exchange from exports to pay for required imports at a given exchange. There must either be continual borrowing, or something has to give growth, employment or the exchange." This author concurs with this statement and applies it to the reality of the Eurozone in proving the first hypothesis.

After the creation of the Eurozone Wolf (2012b) argues that "…a balance of payments crisis can show itself in a currency union as a credit crisis or as a regional economic slump" and further on he writes that "As the economy adjusts to the inability of previously creditworthy residents to finance earlier purchases of tradeables, one will also see a downward spiral of spending on non-tradeables. The broad conclusion is that if a country runs an unfinanceable balance of payments deficit, it will need to cut spending on tradeables and, in the process, will find itself suffering higher unemployment. The balance of payments constraint bites because budget constraints bite on the aggregate of individuals and businesses operating inside the country." This author agrees with Wolf in the conclusion that the vulnerability of Eurozone members to serious crisis has been increased by membership as will be proven in this paper through the analysis of available data.

Wolf (2012b) stated that, "it is widely accepted that the balance of payments is fundamental to any understanding of the present crisis. Indeed, the balance of payments may matter more in the Eurozone than among economies not bound together in a currency union." He also refers to the fact that in the years prior to the financial crisis, private capital flowed freely to the peripheral countries that ran CA deficits / GDP > 10%, and created economic booms, which generated large losses in external competitiveness. The problem was aggravated by the sudden stops in private inflows and capital flight. When capital ceased to flow to the private sector, activity collapsed and the fiscal position worsened dramatically. The paper also mentions that the solution to the Eurozone crisis would be to make surplus countries such as Germany less competitive, but questions whether the sharing between deficit and surplus countries will ever be possible.

Refuting Germany's finance minister's paper about Germany's success to create positive economic signals in the Eurozone, Wolf (2013) summarizes the deplorable economic and financial situation in the peripheral countries as a result of Germany's CA surpluses. He clearly states that, "a large country with a huge structural current account surplus does not just export products. It also exports bankruptcy and unemployment, particularly if the counterpart capital flow consists of short-term debt."

In complete agreement with Wolf's conclusions, this author takes a step forward and argues that the collapse of the Eurozone is unavoidable for the reasons summarized in the conclusion.

The monetary union of different countries deprives its member countries of their own currencies, and consequently their possibility of external devaluation as a way to gain competitiveness. On top of that, the loss of individual monetary policy exerts a strong pressure on the need of attaining a systematically solid fiscal position regardless of the business cycles of growth or recession.

The Eurozone exports and imports are largely concentrated in the EU countries as can be seen in Table 1, whose data were taken from The Pocket World in Figures 2013 Edition

Since the United States and China comprise approximately 26% of Eurozone exports and 30% of its imports, the appreciations of the euro versus the US dollar and the Chinese yuan do not help trade and CA balances of the Eurozone main countries. They are forced to be competitive inside the Eurozone, and therefore implement internal devaluation.

TABLE 1: EUROZONE EXPORTS TO AND IMPORTS FROM THE EU DURING 2012

Eurozone country	% exports to EU 27	% imports from EU 27
Austria	71	77
Belgium	73	69
Estonia	69	80
Finland	54	64
France	61	68
Germany	60	63
Greece	63	51
Ireland	58	67
Italy	57	55
Netherlands	77	47
Portugal	75	76
Slovakia	84	72
Spain	69	59
Median	69	64

The CA balances of the core and peripheral Eurozone countries since the creation of the euro are shown in Table 2.

TABLE 2: CA OF CORE AND PERIPHERAL EUROZONE COUNTRIES IN THE PERIOD 2002 – 2012.

Country	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Core											
Austria	2.6	1.6	2.1	2.1	2.8	3.5	4.9	2.7	3.4	1.3	1.8
Belgium	4.6	3.5	3.2	2.0	1.9	1.5	-1.4	-1.4	1.8	-1.1	-1.4
Estonia	-10.6	-11.3	-11.4	-10.0	-15.4	-15.9	-9.3	3.6	2.9	2.1	-1.2
Finland	8.9	5.2	6.6	4.0	5.5	5.4	3.3	2.8	2.5	-0.7	-1.5
Germany	2.0	1.9	4.7	5.1	6.3	7.5	6.2	6.0	6.3	6.2	7.0
Holland	2.6	5.5	7.6	7.4	9.3	6.7	4.3	5.2	7.8	10.2	10.
Slovakia	-7.9	-5.9	-7.8	-8.5	-7.8	-5.3	-6.6	-2.6	-2.5	0.1	2.3
Peripheral											
France	1.2	0.7	0.5	-0.5	-0.6	-1.0	-1.8	-1.3	-1.3	-1.8	-2.2
Greece	-6.5	-6.5	-5.8	-7.6	-11.4	-14.6	-14.9	-11.2	-10.1	-9.9	-3.4
Ireland	-1.0	0.0	-0.6	-3.5	-3.5	-5.3	-5.8	-2.2	1.1	1.1	4.9
Italy	-0.8	-1.3	-0.9	-1.7	-2.5	-2.4	-2.8	-1.9	-3.5	-3.1	-0.8
Portugal	-8.2	-6.5	-8.3	-10.3	-10.7	-10.1	-12.6	-10.9	-10.5	-7.0	-1.6
Spain	-3.2	-3.5	-5.2	-7.4	-9.0	-10.0	-9.7	-4.8	-4.5	-3.7	-1.1

Source: Economist Intelligence Unit

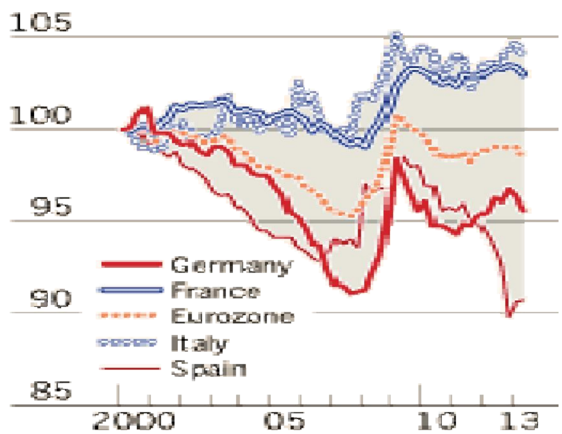
From the data on Table 2, it follows that:

a) Germany, Austria and Holland show CA surpluses in all years, while Belgium and Finland register small deficits since 2008 and 2011 respectively. Estonia and Slovakia entered the Eurozone in 2012 and 2009 respectively and show favorable results after their recent membership. Germany and Holland are the real export engines among the core countries.

b) Greece, Italy, Portugal and Spain show CA deficits in all years, while France registers small surpluses during 2002 to 2004 and small growing deficits thereafter. Ireland shows the best situation in the group because Great Britain comprises 15% of their exports and 37% of their imports[8]. Greece, Portugal and Spain have been reducing their deficits since 2008 due to considerable reductions in imports most likely due to the adoption of austerity measures coming from conditionality for the bailouts.

A a consequence of these imbalances, Germany has become the most competitive country with the lowest unit labor costs an export engine in the Eurozone, as shown by the following Graph 1.

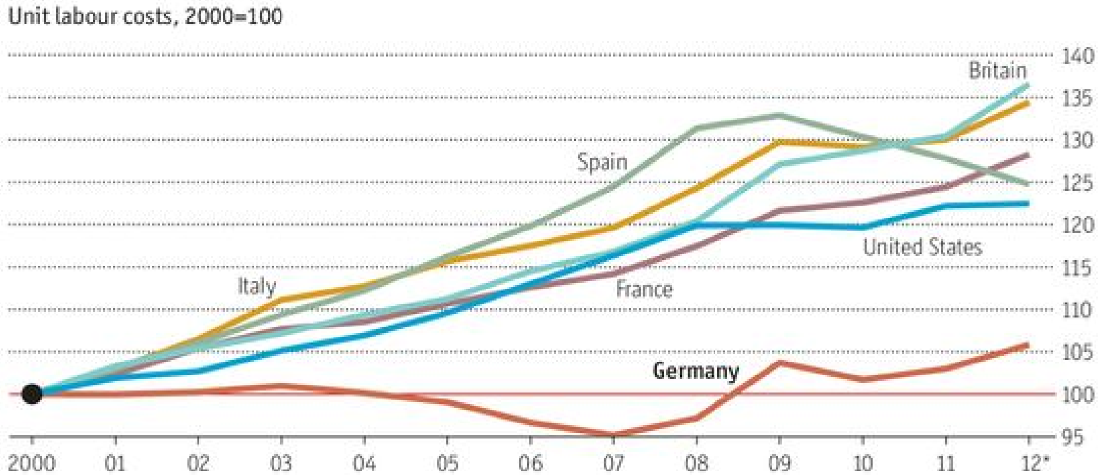
From Graph 1 it can be seen that Germany has been greatly benefited in the relative reduction of costs, implementing the most intense internal devaluation and reduction of real wages. Germany has labor costs lower than not only those of Italy and France, but also those of the Eurozone as a whole.



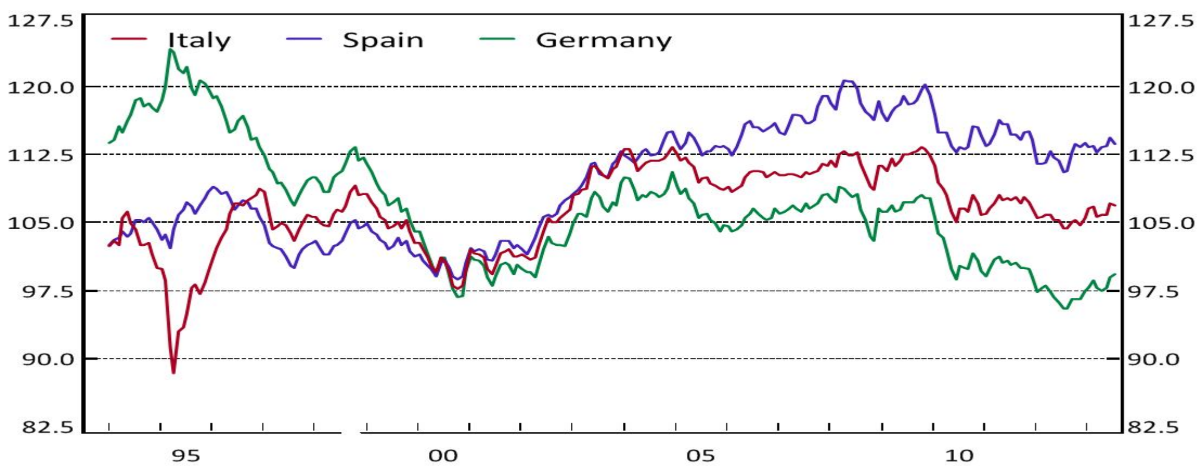
GRAPH 1: EUROPEAN UNIT LABOR COSTS REBASED FROM 2000 TO 2013, SOURCE: M. STEEN (2013)

Graph 2 reiterates the predominance in lower labor costs in Germany, and consequently making it the most competitive country.

An interesting comparison between the effective exchange rate among Germany, Spain and Italy is shown in the following graph.



GRAPH 2: UNIT LABOR COSTS IN GERMANY VERSUS SOME OF THE PERIPHERAL COUNTRIES



GRAPH 3: BIS REAL EFFECTIVE EXCHANGE RATES, SOURCE: DAVIS (2013)

This clearly shows that before the creation of the Eurozone the real effective exchange rate "German mark -Italian lira - Spanish peseta" was unfavorable for Germany, the effectiveness became similar during the creation of the euro and was becoming increasingly favorable to Germany thereafter.

The first part of the first hypothesis has been proven because from 2000 to 2012 there have been CA surpluses in the core countries and CA deficits in the peripheral countries. The implementation of internal devaluation (as was shown in Graphs 1, 2 and 3) led to the lack of competitiveness in the majority of the Eurozone members.

The second part states that, since the CA deficits necessarily lead to KA surpluses, the weaker countries will need to borrow more than they can lend, and their budgets will register large deficits in relation to their GDP, with the consequent reduction of growth. This lack of growth will be reinforced by the fact that their only stabilization tool is fiscal policy whose expansionary implementation is limited due to the need to borrow and to maintain the welfare state in the EU.

In order to prove this hypothesis in appendix 1 this author has created a table interrelating for each country the CA imbalance with the budgetary position and the GDP phase. The appendix has been summarized in Table 3. In this context the term "combination" is defined as a vector with five components (CA imbalance, budgetary position, GDP phase, country, year). Some combinations do not register data, so the number of combinations will be obtained directly from the table.

The data correspond to: a) the period 2000 to 2012, which includes two years before the creation of the euro, the booming period from 2002 to 2007, and the years of the final crisis in the single market; b) the countries in the sample are the seven most important EU non Eurozone members including Norway and Switzerland, the seven core Eurozone members, and six of the largest peripheral Eurozone countries. The inclusion of the non Eurozone members is done for comparison purposes with countries with different currencies. The data between parentheses correspond to the year 2009.

TABLE 3: RATIOS OF BALANCES IN CA AND BUDGET IN THE CONTEXT OF GDP POSITIVE AND NEGATIVE GROWTHS, BROKEN DOWN BY GROUPS OF EUROPEAN COUNTRIES DURING 2000-2012

Combination	Surpluses in CA and budget			Surplus in CA and deficit in budget			Deficits in CA and budget			Deficit in CA and surplus in budget		
	Total	GDP+	GDP-	Total	GDP+	GDP-	Total	GDP+	GDP-	Total	GDP+	GDP-
Non-Euro zone	0.43	0.85	0.15	0.14	0.73	0.27	0.43	0.88	0.12	0	0	0
Core Euro zone	0.19	1.0	0	0.51	0.85	0.15	0.22	0.71	0.29	0.08	1.0	0
Peripheral Euro zone	0.01	1.0	0	0.09	0.83	0.17	0.78	0.64	0.36	0.11	1.0	1.0
Total	0.22			0.26			0.46			0.06		

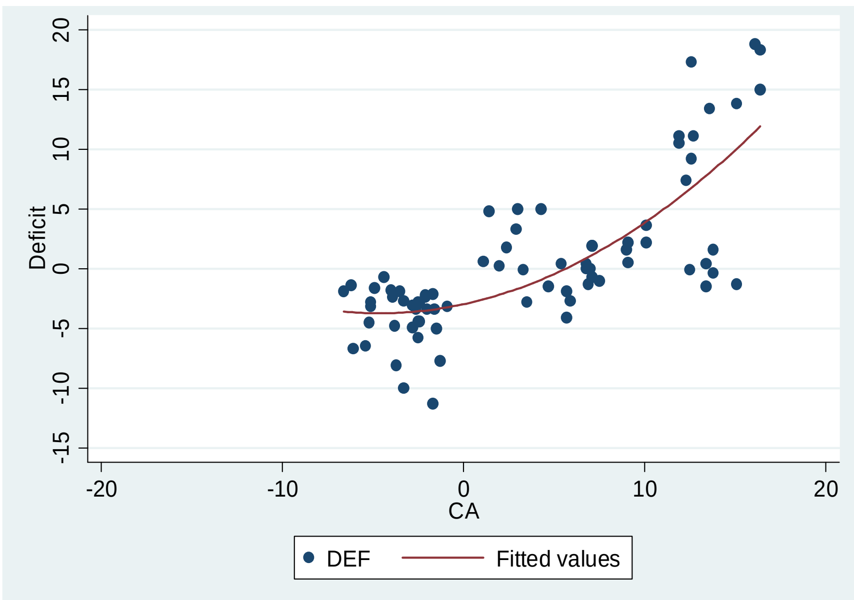
The second part of the hypothesis (that the weaker countries will register larger deficits in their budgets in relation to their GDP, with the consequent reduction of growth) has been proven by the former analysis because, firstly, the peripheral countries registered 79% of the simultaneous combinations of deficits in CA and budget; secondly, they have experienced the lowest ratios of growth and the highest ratios of recession; thirdly, the highest ratios of growth took place on the very few accounts of the combinations "surplus in CA and budget deficits" – 3 years in France before the crisis and 2 years in Ireland because the US and UK make up 36% of their exports and 50% of their imports.

From an econometric standpoint, the author tried to obtain correlations between budget, CA and GDP growth situations. The dependence of budget on the CA showed the best correlation, specifically related to the Non-Eurozone countries in the period 2002 – 2012 with a positive correlation of 0.7348 with a value of 0 at the .05 level, which corroborates that randomness is extremely low in the sample of 77 combinations. The scatter plot is shown in the Graph 4.

As it can be seen from Graph 4, according to the results of this sample, there is a quadratic direct relationship between the CA and the budget; in other words, when there are surpluses in the CA, it is likely to expect surpluses in the budget. An increase in the CA surplus will elicit an increase in the budgetary surplus, while deficits in the former will coincide with deficits in the latter.

The results during this same period for the core and the peripheral Eurozone countries do not show correlation, and the significant values indicate that the results are considerably random.

This author believes that the lack of correlation in the Eurozone countries' data is partially influenced by the monetary union and the measures taken by the EU organizations to cope with the financial crisis.



GRAPH 4: PAIRWISE CORRELATION OF BUDGETARY IN FUNCTION OF CA IMBALANCES FOR THE NON- EUROZONE COUNTRIES IN THE PERIOD 2002 – 2012

From an international economics point of view it is possible to register CA deficits coupled with budgetary deficits or surpluses. At the same time, CA surpluses usually coincide with budgetary surpluses. From the section "Economic and financial indicators" of The Economist, this author studied the data of the 43 most important countries in the world in the months of January 2013, 2012, 2011 and 2010 and found that the number of countries reporting budgetary surpluses ranged from 2 to 16%, out of which the combination "budgetary surplus – negative CA" was registered by only 1 (Chile), which simultaneously reported positive growth beyond 4%. So, it can be concluded that a surplus in the budget usually coincides with a surplus in the CA.

The second hypothesis formulates that the reduction of growth, which would be aggravated if austerity is imposed, would lead to budgetary cuts to social spending, increases in unemployment, reduction of real wages, and consequently reduction of social justice, mainly but not only in the peripheral countries.

Rodrik (2007) refers to the impossibility implicit in the trinomial theorem (democracy, national sovereignty and global economic integration) because they are mutually incompatible. He states that, "we can combine any two of the three, but never have all three simultaneously and in full. Deep economic integration requires that we eliminate all transaction costs in cross-border dealings. They generate sovereign risk, create regulatory discontinuities at the border, prevent global regulation and supervision of financial intermediaries, and render a global lender of last resort a hopeless dream." He mentions two options: global federalism (difficult to achieve as demonstrated by the EU experience) and global integration at the expense of domestic objectives (incompatible with democracy).This author agrees with Rodrik because pretending to have all three simultaneously leaves the economy in an unstable no-man's land, as will be proven in this paper.

Bordo, and James (2013) also refers to the impossible trilemma and refers to the internationalization of EU government debt after the introduction of the euro and especially in the event of the financial crisis in 2008 when a significant proportion, especially in the case of Greece, Portugal and Italy, was held by foreign banks. Emphasis is placed on the lack of democracy when they state that, "Jean Clause Juncker stated that it wasn't that European leaders didn't know what the right policies were; but that they didn't know how to be reelected after they had implemented them. Mario Monti wistfully explained how the Italian electorate was too impatient to bear reforms whose benefits would only become evident over a longer time frame than that of the election cycle. The 2013 Cyprus crisis and its resolution exposed two new dimensions to the clashes over Europe's debt and bank crisis. The discussion of a levy on bank deposits, and whether small customers should be exempted, puts class conflict at center stage. The question of foreign depositors makes the incident into an international relations problem." This author agrees with the previous authors in that democracy has become a central target of complaints in the Eurozone, especially in the peripheral countries. The authors, though, do not explicitly question the survival of the Eurozone.

Pisani-Ferry, Sapir, and Guntram (2013) cite the economic and social setback in countries receiving financial assistance, the substitution of public for private creditors and thereby to the passing-on of losses to taxpayers, the procrastination of EU institutions to address its banking problems, the high level of unemployment jeopardizing the sustainability of the adjustment, the malfunctioning of the labour market in the three countries. Their work did not analyze changes in income distribution and wealth, or the social implications of the large increase in unemployment.

To implement austerity measures at the time of recession will not lead to growth as shown by the world financial crises in Latin America, East Asia, and Russia during the last decades of the

20th century and in the Eurozone peripheral countries after 2007 up to the second quarter of 2013.

Budgetary deficit may be caused by internal measures like reckless spending, inadequate tax policies, corruption or by external measures like demand shocks or excessive borrowing from abroad. The experience in the European financial crisis indicates that massive lending during 2002 to 2007 in the real estate industry elicited by the convergence of bond yields of core and peripheral countries as a result of the market confidence in the creation of the Eurozone, created a bubble that burst, created banking crisis, adversely affected economic growth and led to budgetary deficits. Had the peripheral countries experienced CA surpluses, and consequently KA deficits, their need to borrow would not have been so significant.

Under this budget deficit context, the implementation of austerity measures will forcefully reduce growth, lead to increases in unemployment, poverty rates, Gini coefficient and a decrease in social justice. In order to prove this hypothesis, this author has gathered the data included in Table 4 shown in the next page.

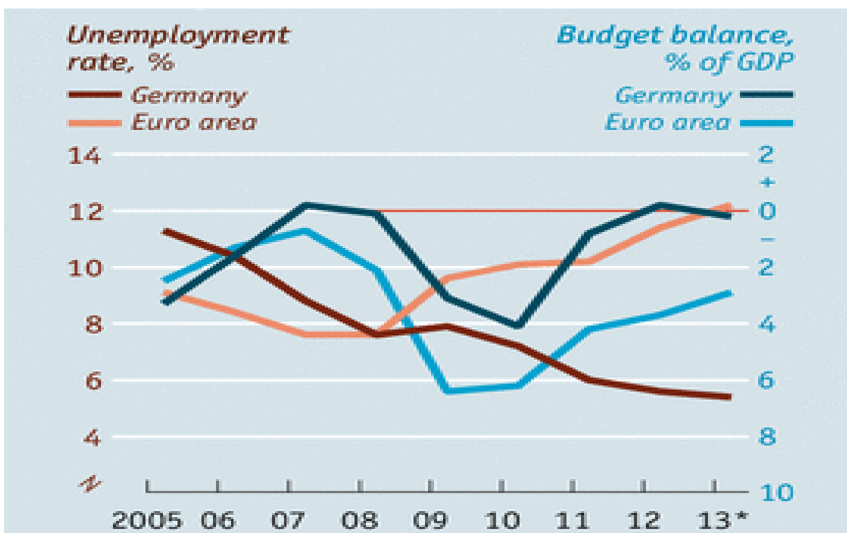
The analysis of the table indicates that the situation in the Eurozone countries shows a striking difference detrimental to the peripheral countries because they report the smallest number of economic growth, 100 % budget deficits exceeding the 3% threshold in the range 4 – 10%, 66% decreasing average real wages especially in Greece and Spain, 100% decreasing or fluctuating unit labor costs and 100% increase in unemployment with a minimum close to 10% in France and a maximum beyond 24 in Greece and Spain.

TABLE 4: TRENDS IN % GDP GROWTH, BUDGETARY POSITION AS % GDP, AVERAGE REAL WAGES % CHANGE, UNIT LABOR COSTS % CHANGE, UNEMPLOYMENT RATE, % OF SELECTED EUROPEAN COUNTRIES IN THE PERIOD 2000 – 2012

Countries	GDP growth	Budget	ARW	ULC	Unemployment
Non-Eurozone					
Norway	Positive ↑ > 3	Surplus > 13	Increase > 2	Fluctuating	Decreasing < 3
Sweden	Positive ↓ < 2	Deficit ↓ < 1	Increase > 2	Fluctuating	Increasing ≈ 8
Denmark	Positive ↓ <½	Deficit ↑ > 4	Decrease < 1	Decreasing	Increasing ≈ 6
Switzerland	Positive ↓ < 2	Surplus ↓ 0.4	Increasing >1	Fluctuating	Decreasing <3
Poland	Positive ↓ < 3	Deficit ↓ < 3	Decrease <1	Fluctuating	Constant ≈ 12
Czech Rep.	Positive ↓ 1.2	Deficit ↑ >4	Decrease <1	Decreasing	Constant ≈ 6
UK	Positive ↓ ½	Deficit ↑ > 8	Decrease >1	Fluctuating	Increasing > 8
Summary	100% positive decrease	71% budget deficit 1- 8 %	57% decrease ≈1	28% decreasing	43% increasing 6-8 %
Core Eurozone					
Austria	Positive ↓ ≈1	Deficit ↑ ≈ 3	Decrease <1	Decreasing	Constant < 5
Belgium	Positive ↓ ≈1	Deficit ↑ ≈ 4	Decrease <1	Decreasing	Constant > 7
Estonia	Positive ≈ 3	Deficit ↓ ≈ 0	Decrease <1	Decreasing	Decreasing <12
Finland	Positive ↓ ≈1	Deficit ↓ < 3	Decrease <1	Decreasing	Decreasing 6
Germany	Positive ↓ ≈1	Deficit ↓ < 1	Fluctuating 1	Decreasing	Decreasing 5.5
Netherlands	Positive ↓ 0	Deficit ↑ > 3	Decrease <1	Decreasing	Increasing ≈ 5
Slovakia	Positive ↓ 2	Deficit ↓ > 5	Fluctuating 1	Decreasing	Increasing > 13
Summary (% of countries	100% positive GDP with	100% deficit in the range	100% decreasing or	100% decreasing unit	28% increasing unemployment

in the group)	decreasing trend in the range 0 – 3.	1-5 (Belgium and Slovakia exceed 3%)	fluctuating average real wages ≈1%	labor costs	in the range 5 -13 %
Peripheral Eurozone					
France	Positive ↓ 0	Deficit ↓ < 5	Increase <½	Fluctuating	Increasing < 10
Greece	Negative ≈7	Deficit ≈ 10	Decrease ≈7	Decreasing	Increasing > 24
Ireland	Positive ↓ 0	Deficit ↓ < 8	Fluctuate ≈1	Fluctuating	Increasing > 14
Italy	Negative ↓ 0	Deficit ↓ < 4	Decrease ≈1	Fluctuating	Increasing >10
Portugal	Negative ↑ > 3	Deficit ↑ > 6	Decrease ≈4	Fluctuating	Increasing >15
Spain	Negative ↑ > 1	Deficit ↑ > 10	Decrease ≈2	Decreasing	Increasing >25
Summary (% of countries in the group)	33% small positive GDP close to zero	100% deficit in the range 4 to 10. All of them exceed 3%	66% decreasing average real wages	100% Decreasing or fluctuating unit labor costs	100% increasing unemployment in the range 10-25

The trend between budget deficits and unemployment in Germany and the Eurozone in general is clearly shown by the following graph.



GRAPH 5: UNEMPLOYMENT AND BUDGET BALANCES IN GERMANY AND THE EUROZONE IN THE PERIOD 2005 TO 2013

The reduction of Germany's unemployment rate has coincided with its increase in the Eurozone, while the budget balance of both follow relatively parallel trends in which Germany reaches a balance in 2012 – 2013 and the Eurozone remains in a deficitary situation by at least three percentage points in 2013 barely matching the threshold established by the Maastricht Treaty.

As far as social justice is concerned, this paper analyzes the Gini coefficient and indicators related to poverty, such as poverty risk, severe material deprivation, and low work intensity.

According to the Gini coefficient data taken from EU Community Statistics on Income and Living Conditions, and eurostats.com the Gini coefficient in the period 2008 to 2012. This indicator has shown small variations in all countries, with the exception of Slovakia in the Non-Eurozone countries and Spain in the peripheral Eurozone countries. The average of the peripheral countries exceeds 0.30 and is the highest in the group. In other words, the creation of the Eurozone has not contributed to significantly reduce the Gini coefficient in the continent.

The indicators of severe material deprivation, at risk poverty and very low work intensity in selected European countries in the period 2004 – 2011 are shown in Table 5.

The analysis of the data in the table indicates that material deprivation is equal to 8.8 %, income poverty is equal to 16.9%, and low work intensity is equal to 10% of the population in the EU-27. Every Eurozone country has increased its severe material deprivation rates, poverty rates and low work intensity from 2004 to 2011.

TABLE 5: INDICATORS OF POVERTY IN THE EU IN THE PERIOD 2004 - 2011

Countries	Severe material deprivation %			At risk poverty, %			Very low work intensity		
	2004-08	2010	2011	2004-08	2010	2011	2004-08	2010	2011
Non-Eurozone									
Czech Republic	5	7	7	9	8	9	6	6	6.5
Denmark	2	2	2	13	13	12	11	10	11
Norway		2	2.5		9	8		7	7
Poland	12	13	12	17	13	12	8	7	6.5
Sweden	2	1	1	13	11	11.5	7	6.5	7
Switzerland		2	1.5		14	13		4.5	5
United Kingdom	5	5	5	17	21	22	15	13	11
Core Eurozone									
Austria	3	4	4	12	11.5	11	8	8	8.5
Belgium	3	6	6	15	13	14	13	12	13
Estonia	4	9	9	20	19	24	6	9	10
Finland	1	3	3.5	14	12	13	9	9	10
Germany	5			16	17	17	12	11	11
Netherlands	1	2	2	11	10	11	10	8	9
Slovakia	9			11	8	8	6	8	7.5
Peripheral Eurozone									
France	3	6.5	6	13	13	14	8	10	9.5
Greece	5	11	15	20	18	26	8	8	11
Ireland	6	8.5		15	23		24	23	
Italy	4	7	11	18	19	21	9	10	10.5
Portugal	7	9.5	9	18	17	19	7	9	8.5
Spain	3	4	4	19	22	26	7	10	12

Source: Lelkes, Gasior (2012)

The Non-Eurozone countries register the lowest severe material deprivation with the exception of Poland and the Czech Republic, percentages below average in poverty with the exception of the United Kingdom, and above average in low work intensity.

The peripheral Eurozone countries show the worst situation in material deprivation, in poverty (with the exception of France) and in low work intensity, with percentages above average in the three indicators.

The core countries register an intermediate situation in material deprivation, percentages below the average poverty rate, and average percentages in the low work intensity.

As far as democracy quantitative results are concerned, the democracy index according to the EIU stayed relatively constant between 2006 and 2008. Between 2008 and 2012 the Non-Eurozone countries' stayed constant at 8.83, the core Eurozone countries reduced their indexes from 8.46 to 8.28, and the peripheral Eurozone countries reduced their indexes from 8.28 to 7.88. The largest reductions were registered in the peripheral countries especially in Greece, Ireland and Spain (around 0.44). The core countries reported smaller reductions, with the exception of Germany, with 0.48. So, democracy has been reduced in the Eurozone after the financial crisis started, most likely as a result of the imposition of austerity measures on the peripheral countries because their peoples were not consulted and opposed the intervention in their sovereignties by EU authorities that had not been elected by them.

The second hypothesis has been proven in the Eurozone by the analysis of economic, social and political indicators. Growth has gone down, budgetary cuts to social spending have taken place along with increases in unemployment, reduction of real wages and unit labor costs and consequently social justice have been affected by increases in material deprivation, poverty and lower work intensity. The world's poster child of democracy and welfare has been negatively affected by the creation of the Eurozone.

V. CONCLUSION

In complete agreement with Wolf's conclusions, this author takes a step forward and argues that the collapse of the Eurozone is unavoidable because of the following reasons: (a) given the need of internal devaluation as the only means to be competitive in the Eurozone. The predominance of core countries with high CA surpluses leading to high CA deficits in the peripheral countries will necessarily need to increase in borrowing worsening their budgetary deficits and governmental debts as percentages of GDP and reducing GDP growth. (b) The trends to reduce GDP and to continue the stagnation of the peripheral countries are reinforced by the austerity measures imposed by the troika, supported by both the German chancellor and the finance minister to decrease their budget deficits and consequently reduce the possibility of growth. (c) These conclusions are also supported by the data contained and analyzed in proving the hypotheses in this paper.

There are additional factors that confirm this author's argument such as d) the impossibility to reach an agreement about the creation of a fiscal union (not even the Eurobonds), or the total debt restructure including debt forgiveness to the peripheral countries so the funds available could be used to foster growth; e) the impossibility to solve the trilemma "fixed exchange rates, free capital flows, autonomous monetary policy"; f) the harm done on the sovereignty of the peripheral countries' governments by having to partially forego fiscal policy as their only possibility to stabilize their economies; g) the demoralizing effect on democracy because the peripheral countries' peoples have not been consulted in relation to the adoption of austerity measures increasing their unemployment rates, their poverty rates, and the exploitation of their labor force with reduced averaged wages, and labor costs as a support for being competitive in a monetary union in favor of the core countries; h) the social disruptions that so far have taken place in Greece, Spain, Ireland, and Italy will be extended to not only peripheral countries, but also core countries whose people do not feel comfortable by financing other Eurozone members.

An additional conclusion that this author does have in relation to monetary unions is that if, even in a welfare continent as Europe, in which the Gini coefficients attain their lowest values in the world, it has proven impossible to create a fiscal union, economic union or political union, then in the foreseeable future this author doesn't foresee the possibility of a successful monetary union whose members are different countries.

This author proposes a European Union without the Eurozone, eliminating the single market, and creating a customs union with free movement of trade, relatively free movement of labor according to the characteristics of European countries, as well as capital controls. The combination of welfare state in the context of the market economy should return prosperity in Europe. The communist system has proven to be ineffective in Europe and should not be confused with social democratic countries like Norway, Sweden, Denmark whose governments' interventions in the economy foster competition, establish regulation of economic and financial activities and solve market imperfections.

Additional research is needed to delve into the details of the transit from the Eurozone to the EU structure, including the possible preservation of a smaller Eurozone including part of the current core countries and the possible consequences on their competitiveness.

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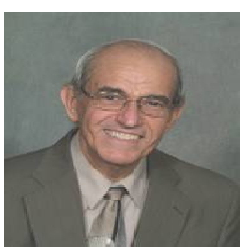

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