

The euro area's secular stagnation and what can be done about it. A post-Keynesian perspective

Leon Podkaminer [The Vienna Institute for International Economic Studies, Austria]

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Abstract

There is no shortage of speculations about the factors responsible for secular stagnation. Such a stagnation is believed to be about to engulf the developed parts of the global economy – or has done so already. The view, commonly shared by the mainstream, is that the current stagnation set in around 2008, as the global financial crisis released forces that have since been preventing the resumption of fast growth allegedly characterising the earlier decades.¹ The mainstream opinions do differ on many counts. But they seem to be sharing the belief that the 'monetary factors' (e.g. pertaining to the 'zero lower band') are at least co-responsible for the present (post-2008) predicament. Moreover, they all tend to emphasise the need for 'difficult but uncontroversial reforms' (i.e. further 'structural reforms of the supply side') as the primary way of ending the stagnation.

This Note, focusing on longer-term trends characterising the euro area, first argues that growth has actually been slowing down for many decades now. The current stagnation represents the newest stage in the longer-term – truly secular – development and not necessarily an outcome of largely accidental bad luck (or an 'exogenous shock' hitting the otherwise smoothly functioning world economy). The second objective of the Note is to provide a possibly simple explanation of the secular – long-term – growth slowdown (including its post-2008 phase). The explanation can be termed post-Keynesian. It points to the long-term weakening of growth of aggregate (domestic) demand. This has been a fairly predictable response to the progressing reorientation of economic policies which started, approximately, in the first half of the 1970s. Progressing policy-directed liberalisation (internal as well as external) was just one aspect of the new post-1975 paradigm. After the end of the full-employment era the wage share has been following a downward trend – not entirely a market-driven development. Policy has been actively supporting a 'secular trend for wage moderation'. Under such conditions growth of private consumption has been slowing down secularly too – at the same time becoming more volatile. Rising profit (non-wage) shares (and also profitability) have failed to transform into higher domestic investment. The latter has been trending downwards very strongly while at the same time exhibiting violent ups and downs. Simultaneously there was also a creeping change in the orientation of fiscal policy – a gradual slowdown of growth of public consumption, a growing burden of indirect taxation and lessening of the burden of corporate taxation. All in all, there is no great mystery about the reasons for continuing secular euro area economic stagnation.

JEL codes E12, F02, F62, E65, E66

Keywords secular stagnation, integration, euro area, income distribution, wage-led growth, fiscal policy

Introduction

The following Sections present – and try to make sense of – the data reflecting the developments in essential indicators for the euro area (comprising the original 12 euro area countries). Of course, the euro area is not a homogenous national economy. It is not even a federal state consisting of structurally differing provinces (as is e.g. Germany). Nonetheless,

¹ See e.g. the recent review of popular views by Canuto et al. (2014), or a more extensive presentation of the opinions held by the prominent representatives of 'economic science', collected in a recent VOX volume edited by Teulings and Baldwin (2014).

Member States are tightly integrated through trade, finances and production networks. Moreover, there is a common monetary policy for the whole area and common sets of fiscal and other regulatory rules that individual Member States are trying to obey. While it would be wrong to claim that in economic terms the area is becoming 'a larger Germany', German internal policies have been increasingly shaping the developments throughout the area – and beyond.²

Secular growth slowdown in the euro area: empirical evidence

First, let us make sure that there has been a long-term tendency for growth slowdown. Indeed, as shown below (Fig. 1) the growth rate of the euro area's per capita GDP has been trending downwards since the early 1970s. The average yearly growth rates for the consecutive decades have been diminishing: from 4.46% for 1961-70 down to 0.65% for 2001-10. Observe that growth has also become more volatile: the coefficient of variation (standard deviation of average growth rates over the average) for the first decade was 0.215; for the last (2001-2010) decade 3.27.

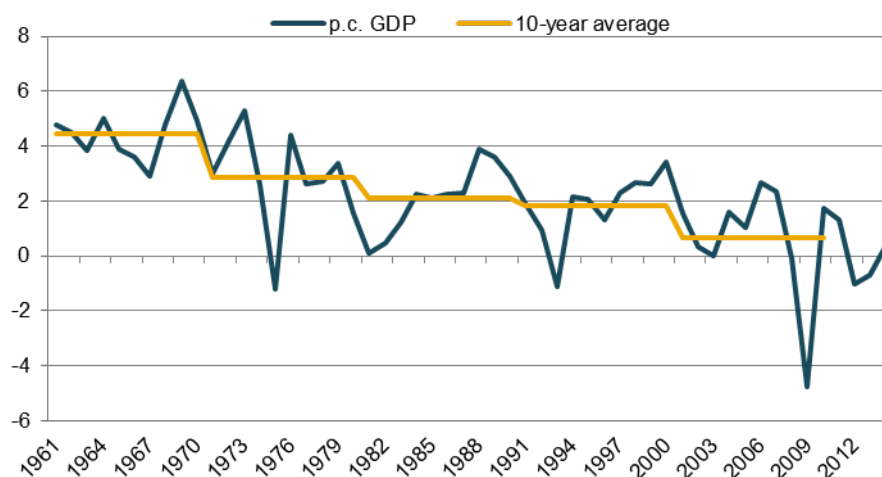
Of course one may bear in mind that the short-lived recessions in 1975 and 1981 could have been the aftermaths of the oil embargoes (1974, 1979) and the associated shortages severely affecting the 'supply side'. Beyond such shortages materially affecting production, the oil shocks had negative consequences for inflation, income distribution and – especially – private investment. (Actions by the OPEC cartel produced fundamental *uncertainty*: would the energy prices/supplies be allowed to return to 'normal' levels, or would they rather stay at 'abnormal' levels more or less indefinitely? Under such uncertainty the best approach to taking (irreversible) investment decisions (involving technology choice: energy-saving, or traditional) could be of a *wait-and-see* sort).

The deep slumps in 1993 and 2009 cannot yet be viewed as 'exogenous shocks'. These slumps were 'endogenous'. They were the consequences of the economic 'architecture' consciously designed by the European economic elites. In 1993 the recession was provoked by the crash of the EU Exchange Rate Mechanism, in 2009 it was the near-collapse of the EU's financial sector operating by the rules enacted (or at least tolerated) by the EU policy-makers. It may be added that the double-dip recession of 2012 was provoked by the 'fiscal consolidation' hysteria gripping the euro area decision-makers. Finally, it is worth observing that the introduction of the euro (since 1998) and the full internal trade liberalisation (Single European Market, since 1993) did nothing to accelerate GDP growth.³

² Whether or not the euro area (in its present form) survives depends on German *internal* policy – and not merely on its willingness to bail out over-indebted fellow Member States. According to many authors (including Laski and Podkaminer, 2011) the German internal policy – which has been co-responsible for the plight of the over-indebted euro area countries – is quite likely to precipitate the eventual demise of the common European currency.

³ At present there is some hope that the Transatlantic Free Trade Agreement could add vigour to EU (and North America's) growth. This is likely to be yet another mirage (Podkaminer, 2014).

Figure 1. Euro area (12 original members) – per capita GDP growth rate (%), 1960-2013



Source: Own calculations based on AMECO database (item RVGDP)⁴

Secular deceleration of consumption growth: evidence of and the reasons behind

The GDP growth deceleration has been associated with a slowdown of growth of private consumption (Fig. 2).

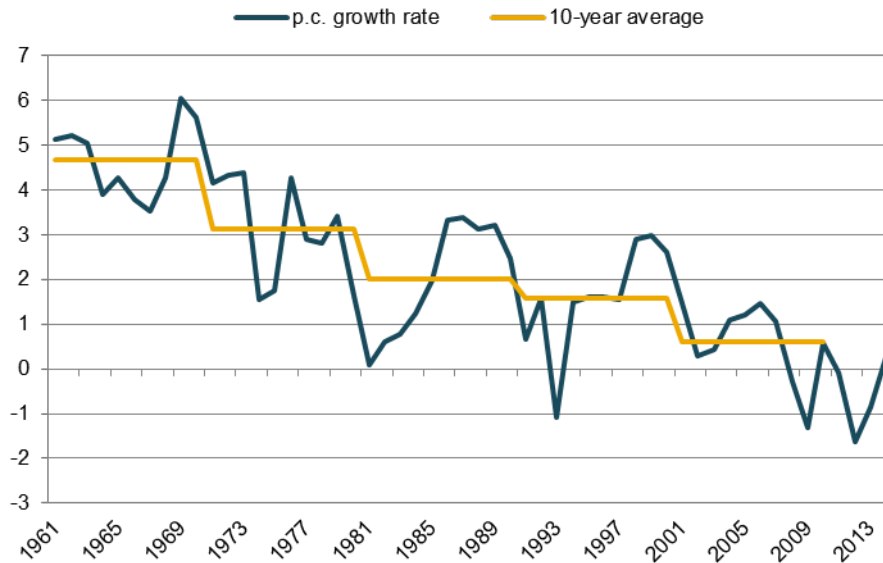
Of course, there is no entirely safe way to establish 'causality' between GDP and private consumption developments. However, a conservative Vector Auto Regression (VAR) analysis working with the two original (but de-trended) series from Figs. 1-2 strongly suggests that the growth rate of private consumption *leads* the growth rate of GDP.⁵ In other words, the slowdown of growth of household consumption demand tends to be *followed* by a slowdown of GDP growth (rather than the other way round). Dynamic consumption is thus essential for the overall output dynamism.

Why has growth in private consumption been decelerating? The developments in interest rates and in monetary policies giving priority (since about the mid-1970s) to combating high inflations (initiated by the oil price shocks) may have played a role. Short-term interest rates were generally quite high in the euro area from the late 1970s through approximately 2005 (but especially throughout the 1980s). But interest rates are unlikely to have had much of a negative effect prior to the late 1970s – and certainly not after 2005.

⁴ The data underlying Figs. 1-15 were drawn (between 15th and 19th Jan. 2015) from AMECO database: http://ec.europa.eu/economy_finance/ameco/user/serie/SelectSerie.cfm

⁵ The VAR-derived 'impulse' response of the GDP growth rate to 'innovations' in the consumption growth rate is strong, long-lasting – and positive. The response of the consumption growth rate to 'innovations' in the GDP growth rate is weak and short-lived – on *average* about zero already by the second year. (The bivariate VAR in question relates growth rates of consumption and output to their lagged values.)

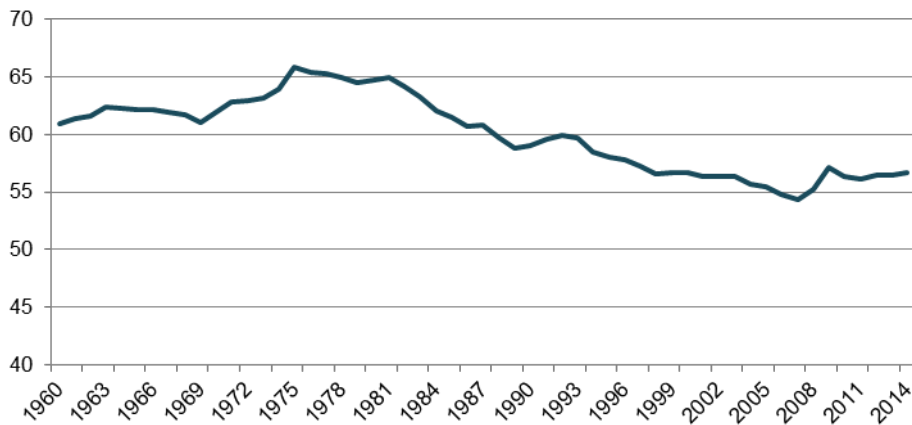
Figure 2. Euro area – growth rate of per capita private consumption (%)



Source: Own calculations based on AMECO database (item OCPH)

The deceleration of growth of private consumption seems to have had more to do with the *new* tendency which set in around 1975: the change in the functional distribution of income. Since 1975 the GDP wage share has been on a downward trend (Fig. 3). Years 1974-75 also mark the end to the post-war full-employment era (Fig. 4).

Figure 3. Euro area (12 original members) – adjusted GDP wage share

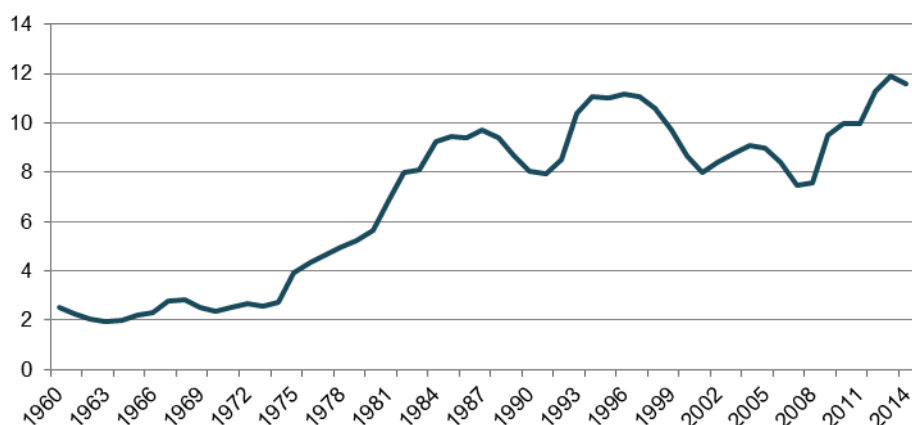


Source: AMECO database (item ALCDO)

Under growing inequality in *disposable* (post-tax and net of public transfers received) household incomes and the fast rise in unemployment, a weakening pace of growth of private consumption is only to be expected.⁶

⁶ Reliable disposable (*post-tax*) income inequality measures for the whole euro area are not available. Also, such measures for the individual euro area countries are quite patchy even for the 1980s. Nonetheless, according to OECD sources, the inequality in major euro area countries has been on the rise for quite some time. The earliest Gini coefficients reported for Finland, Germany, Italy, Luxembourg and the Netherlands (years 1984-86) stood at 0.209, 0.251, 0.387, 0.247 and 0.272 respectively. By 2010 these had *risen* to 0.260, 0.288, 0.319, 0.270 and 0.288 respectively. The Gini for France rose

Figure 4. Euro area (12 original members) – unemployment rate



Source: AMECO database (item ZUTN)

Falling wage share: not quite a ‘natural development’

It is certainly possible to claim that the secular decline in the wage share has been a *natural* development, reflecting the secularly diminishing ‘marginal productivity’ of labour. However, there is an alternative explanation. Labour started to lose out (to ‘capital’) sometime in the mid-1970s – just as the basic paradigms behind the post-war economic systems adopted in the West were suddenly changed. The demise of the Bretton Woods system (1971-73) was only the first sign of the materialising paradigm change. This was soon followed by more ominous changes initiated in the UK and the USA and then ‘borrowed’ in the major continental European countries. These changes included progressing internal and external liberalisations, wholesale privatisations, unleashing of the financial sectors, the ‘taming’ of the trade unions, labour markets’ ‘flexibilisations’, and successive rounds of ‘reforms’ contracting the welfare state institutions. The war against high ‘imported inflation’ was eventually won upon the application of murderously high interest rates. Labour was the primary ‘collateral casualty’ of that war. High and rising unemployment ‘disciplined’ workers, beat them into submission over deteriorating conditions of pay and work.

Despite the eventual ‘victory’ over high inflation (around 1990) the position of labour has not been improving in the euro area. High unemployment (whose effective reduction through active fiscal policy was outlawed by the Maastricht Treaty) has kept wages on a short leash. The European Central Bank, long guided by paranoid fears of inflation (in excess of 2%), has been the second guardian of the policy responsible for the suppression of wages and the permanence of high unemployment. The ECB’s routine insistence on ‘wage moderation’ (especially during Mr Trichet’s Presidency) is well documented.

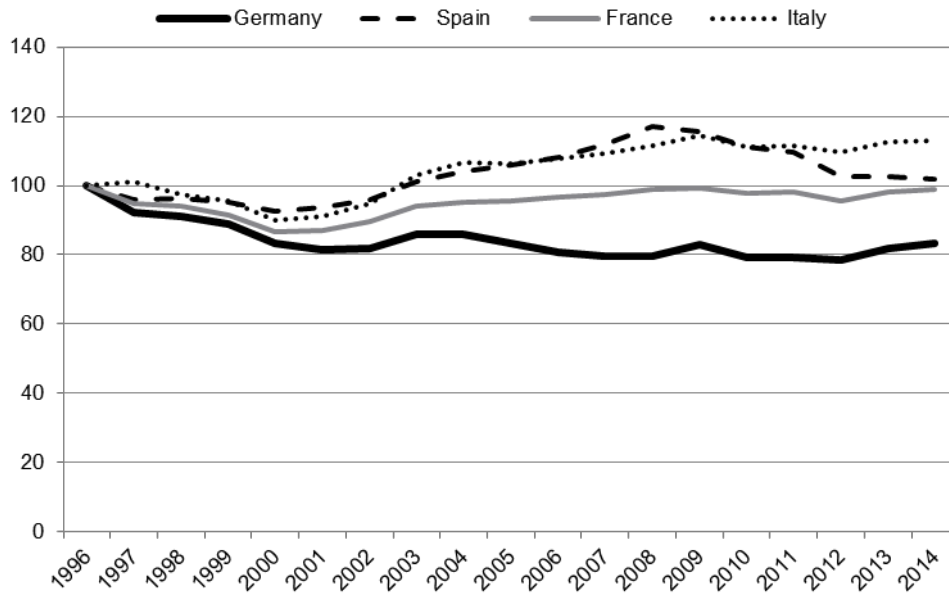
Most importantly, wages in the whole euro area are kept depressed by the fierce internal competition imposed on the whole area by Germany whose permanent policy has been to keep wages trailing far behind productivity (Fig. 5).⁷ There can be little doubt that external liberalisation (globalisation) has also been responsible for the euro area’s falling wage share

from 0.277 (in 1996) to 0.303 by 2010. The Spanish and Irish Ginis rose from 0.330 and 0.314 in 2004 to 0.338 and 0.331 by 2010 respectively. The Ginis for Belgium and Portugal fell from 0.270 and 0.378 in 2004 to 0.262 and 0.344 by 2010 respectively. Finally, also the Greek Gini fell: from 0.345 in 1986 to 0.337 by 2010.

⁷ Germany’s destructive internal economic policies are analysed in e.g. Bibow (2013).

(e.g. through actual outsourcing/offshoring of production activities to low-wage/low-tax destinations, or through credible threats of such actions).

Figure 5. Real effective exchange rates for the four largest euro area countries, based on unit labour costs (total economy), performance relative to the rest of 37 industrial countries: double export weights

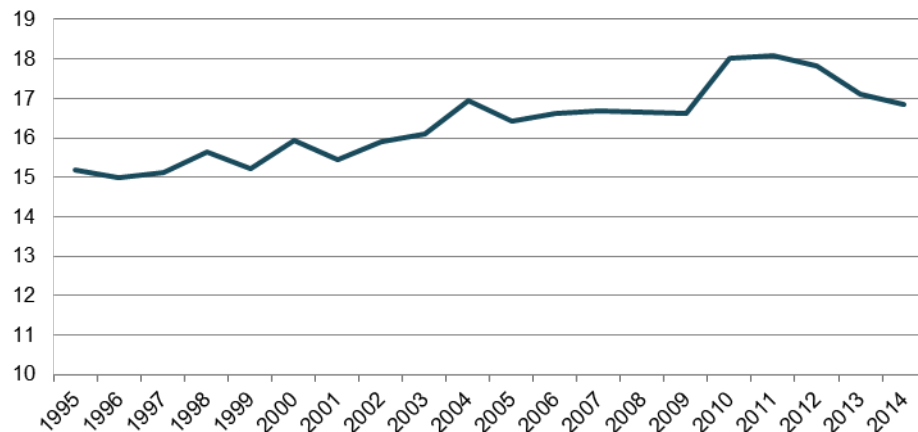


Source: Own calculations based on AMECO database (item XUNRQ)

Unhelpful fiscal policies

It is obvious that fiscal policies played a role in inducing higher inequality in disposable incomes (via the very well documented flattening of the personal income tax schedules that started in the 1980s). Falling rates of effective taxation of (rising) corporate profits (only too well documented) must have played a similar role (see Fig. 6).

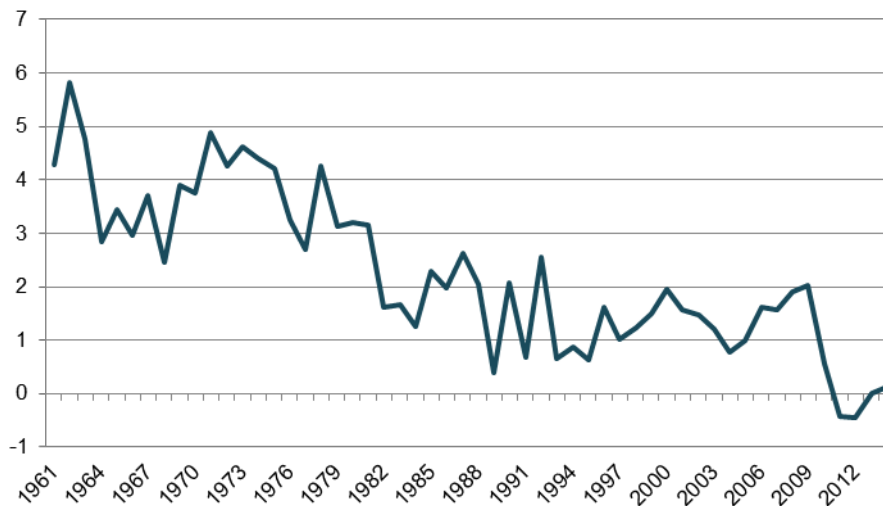
Figure 6. Euro area (12 original members) – share of corporate disposable income in total private disposable income



Source: Own calculations based on AMECO database (items UVGH and UVGC)

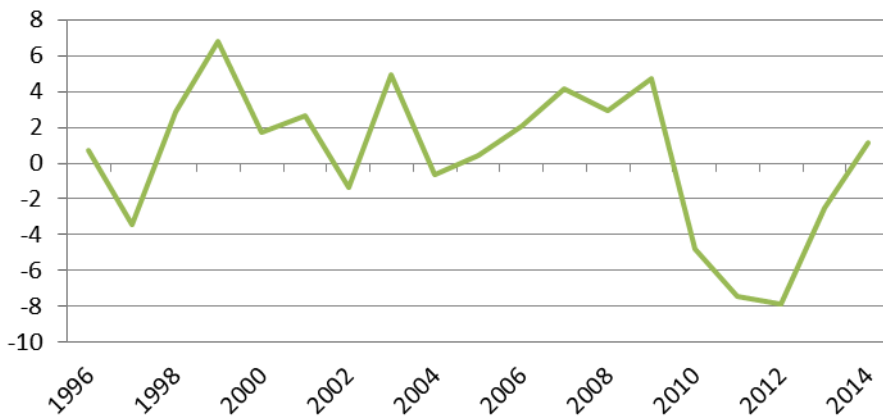
Moreover, there has been a tendency for the rates of indirect (consumption) taxes to creep up.⁸ Fiscal policies have additionally supported the growth slowdown through an increasingly ungenerous approach to public consumption and investment. Since about 1975 the rates of growth of public consumption and investment have been trending downwards (Figs. 7-8). Fiscal policy does not shy away from limiting public consumption even if there is a severe fall in private consumption and investment. The contraction of public consumption and investment after 2010 was a factor behind the recent anaemic overall performance (and the recession of 2012 in particular).

Figure 7. Euro area (12 original members) – growth rate of per capita public consumption (%)



Source: Own calculations based on AMECO database (items OCTG and NPTD)

Figure 8. Euro area (12 original members) – growth rate of per capita public gross fixed capital formation (%)



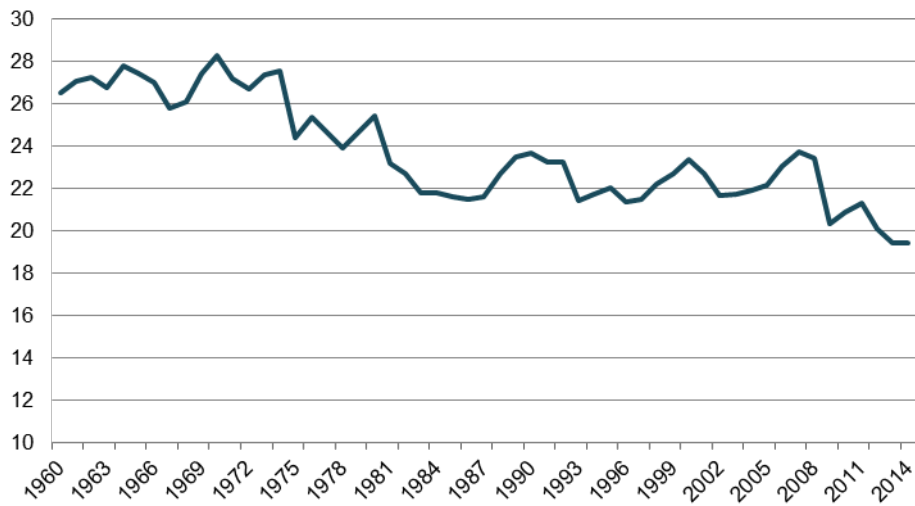
Source: Own calculations based on AMECO database (items UIGG, PIGT, NPTD)

⁸ The history of German VAT rates is quite instructive. The standard (basic) VAT rate stood at 10% until mid-1968. An 11% rate followed and was in force until end-1977. A 12% rate lasted until mid-1979. Then a 13% rate 'ruled' – until mid-1983 when it was raised to 14%, only to be replaced by 15% at the beginning of 1993. 16% came on 1 April 1998. The present rate (19%) came into force at the beginning of 2007.

Increased profit shares (and rates) are conducive to a slower rise in capital formation

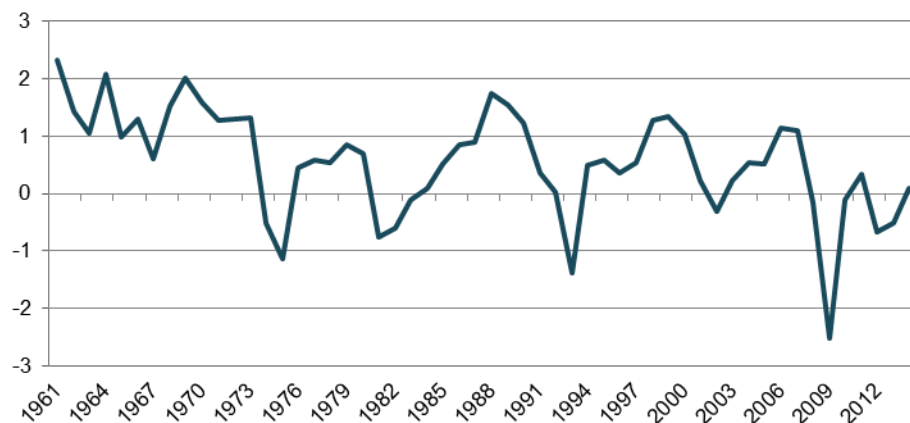
Increased GDP profit shares have not translated into faster growth of productive investment. On the contrary, the growth rate of gross fixed capital formation in the euro area has been on a downward trend and the GDP share of gross capital formation has been falling (Fig. 9). The contribution of gross fixed capital formation to GDP growth – quite high and stable until 1973 – has become very volatile and generally much lower since (Fig. 10). Apparently, the rising profit shares (and rates) are not conducive to rising productive *domestic* investment (though, of course, rising profit shares may have been fuelling higher capital formation in the low-wage/low-tax places outside the euro area, and outside the EU). Clearly, investment growth in the euro area has been wage-led, rather than profit-led. And this suggests that also the overall euro area GDP growth has been wage-led, and not profit-led.⁹

Figure 9. Euro area (12 original members) – GDP share of gross capital formation



Source: Own calculations based on AMECO database (items UITT and UVGD)

Figure 10. Euro area (12 original members) – contribution (percentage points) of gross fixed capital formation to GDP growth rate



Source: AMECO database (item CVGD2)

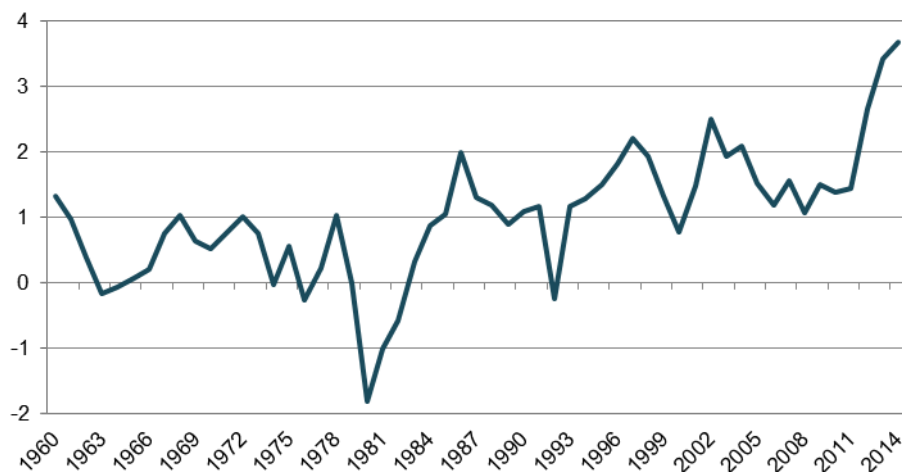
⁹ On wage-led vs. profit-led growth see e.g. Bhaduri and Marglin (1990).

The mirage of export-led growth

The EU officials and politicians seem to firmly believe that the euro area's (and the EU's) continuing stagnation is primarily due to: (1) inadequate attention being paid to 'fiscal discipline'; and (2) individual Member States' unwillingness to emulate Germany's restrictive wage policies.¹⁰ The practical policies which follow (of which the 2013 Fiscal Compact is the recent incarnation) seem to promise 'more of the same' – continuing austerity-induced stagnation rather than any sustained (and sustainable) growth acceleration.

It may be added that the European Commission's idea of the whole euro area (and then the whole EU) becoming – in economic terms – a 'larger Germany' with growth primarily driven by expanding trade surpluses is a mirage. The euro area has *already* become a chronic large-surplus region (Fig. 11), without this helping to speed up growth.

Figure 11. Euro area (12 original members) – GDP share of trade balance (goods and services)



Source: Own calculations based on AMECO database (items UBGS and UVGD)

A further expansion of trade surpluses may require the presence of foreign economies ready to keep indebting themselves vs. the euro area indefinitely. Can the rest of the world become such a *permanent* net importer of the last instance for the euro area? Can the euro area accept the role of the creditor of the rest of the world indefinitely? These are rather rhetorical questions. The answer must be no. Moreover, it ought to be observed that further 'gains' to be made on unit labour costs (necessary, as has been the case with Germany, for rising trade surpluses) imply further contractions in the wage shares, and further deceleration in the domestic investment and consumption growth. The GDP gains due to larger trade surpluses are unlikely to compensate the losses on the domestic demand. In effect, the eventual subordination of growth to rising net exports guarantees *secular stagnation* (to be occasionally punctuated by recessions provoked by the permanent deficit countries defaulting on their accumulated debt to the euro area countries).

¹⁰ Of course there is also much (practically inconsequential) 'action' linked to various 'Agendas' ('Lisbon' etc.) whose declared purpose is to promote 'knowledge-based activities', 'maximum competitiveness', 'innovation', 'clustering', 'harmonisation', 'labour market flexibility', 'smart, sustainable and inclusive growth' and other such lofty ideas.

The euro area's situation is serious (but so are also Japan's and the US), as acknowledged even by representatives of the mainstream (such as e.g. Summers). This has even given rise to some original ideas such as the notion that another financial bubble – and the resultant debt-driven demand boom – could provide a stimulus ending the economy's torpor, at least for some time. This idea contains a grain of truth: inadequate demand is the key problem. However, it is quite obvious now that such debt-fed booms tend to end badly. Observe that 'bad debts' made over the bubble by the private sector must eventually be taken over by the governments. Such debts do not dissolve into thin air. Bubble-driven booms end in higher levels of *public* debts. An alternative approach would stipulate outright 'deficit spending' targeting socially worthy activities (e.g. environmental protection, health and education services etc.). As far as the level of public debt is concerned, the two approaches may be comparable. But on all other counts the outright 'deficit spending' approach is certainly superior to the one playing with the idea of engineering a financial bubble.¹¹

Is then the situation also hopeless? In 'theory' it is not. Attempts at rebalancing the interests of labour and business need not be futile, at least in principle. And it might then be possible to achieve faster/less volatile growth of fixed investment *in* the euro area.

In 'practice', however, reverting the fatal trends in wages, consumption, investment and overall growth would require scrapping one of the most sacred economic dogmas, namely that of unconditional optimality of free international flows in goods, services and capital. As long as this dogma is unchallenged, as long as capital can freely leave the places where it has been generated, and as long as nothing prevents wages and taxation of profits from 'racing to the bottom', the situation of Europe is hopeless indeed.

The public sector will need to run large deficits *secularly*

The last point to make is about the future of fiscal policy. The proponents of 'sound fiscal policy' concede, grudgingly, that the public sector may make some *small* deficits *occasionally* – provided these are (over)compensated by the budgetary surpluses 'over the economic cycle'. This is a false doctrine as it implies that the private sector's savings in excess of the private sector's capital formation tend to zero over 'a cycle'. In actual fact the excess in question tends to be persistent and substantial, even if varying over time. As recently noticed (even by prominent representatives of the mainstream) there has been a secular tendency of private investment to decline. Add to this the secular tendency of private savings to stay roughly constant (or even to rise somewhat). The arithmetic outcome of the two tendencies is that the *public* sector will need to run large (and growing) deficits secularly.

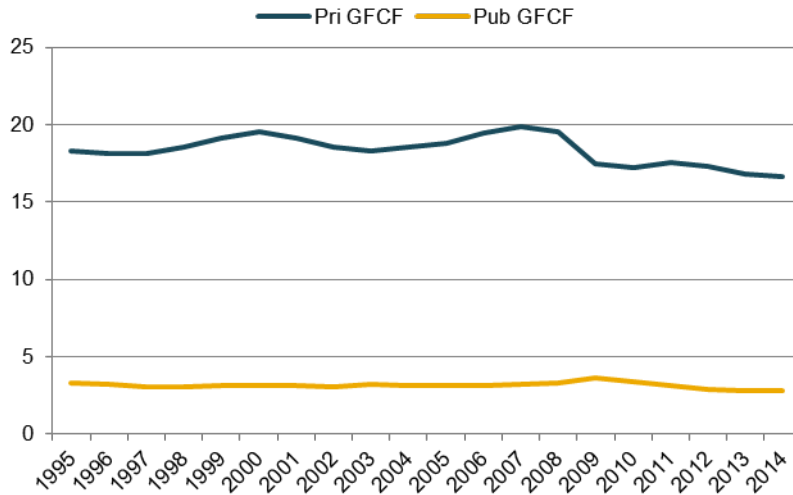
The secular decline in the GDP share of gross capital formation in the euro area¹² may be attributed to many developments – some of them possibly under nobody's *direct* control (as recently suggested e.g. by Buiter et al., 2014, or Summers, 2014).

¹¹ The debt-fed bubble which burst in 2008 had *not* driven any real private consumption boom in the *euro area taken as a whole*. Average per capita private consumption rose by slightly over 1% per annum each year from 2004 through 2007 (to be followed by contractions in 2008-09 and 2011-13, see Fig. 2). The boom was more visible in gross capital formation whose GDP share rose from 22% in 2004 to 23.7% in 2007 (to be followed by contractions in 2008-09 and 2012-14, see Figs. 9-10). The growth of consumption and investment (possibly attributable to the recent debt-fed bubble) not only proved unsustainable. In the first place it is hardly impressive (when compared with the experiences of the pre-Bretton Woods era). The difference is quite obvious. High – and sustained – rates of growth were then based on strong 'economic fundamentals': large and stable wage GDP shares, active fiscal policies and strong regulatory frameworks – all absent now.

¹² And actually worldwide (Podkaminer, 2013).

The available statistical sources provide data on private and public gross *fixed* investment in the euro area from 1991 on (Fig. 12). In all probability the decline in the gross investment shares (both private and public) observed since 1991 must have started much earlier – i.e. around 1975 (see Fig. 9).

Figure 12. Euro area (12 original members) – GDP shares (%) of public and private gross fixed capital formation



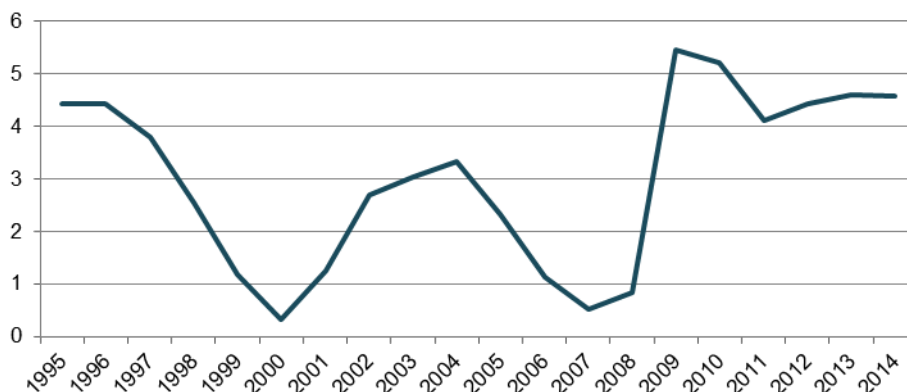
Source: Own calculations based on AMECO database (items UIGP, UIGG and UVGD).

Taking, at face value, the AMECO time series on the euro area's public sector deficit (identified with its 'net borrowing') and the euro area's net lending (to foreign parties) one can assess the size of the euro area's private sector financial balance (or the private sector's excess of gross saving over its gross capital formation):

$$(S-I) = DEF + NLA$$

where S and I are private sector (gross) savings and (gross) capital formation respectively, DEF is the public sector net borrowing (i.e. deficit) and NLA is the area's net lending to foreign parties (approximately the current account balance). The private sector financial balance thus calculated is shown in Fig. 13.

Figure 13. Euro area (12 original members) – GDP share (%) of private sector financial balance



Source: Own calculations based on AMECO database (items UBLA and UBLG).

If one assumes, for the sake of argument, that the NLA had not mattered much quantitatively then the private sector's financial balance from Fig. 13 would have been equal to the public sector's fiscal deficit.¹³

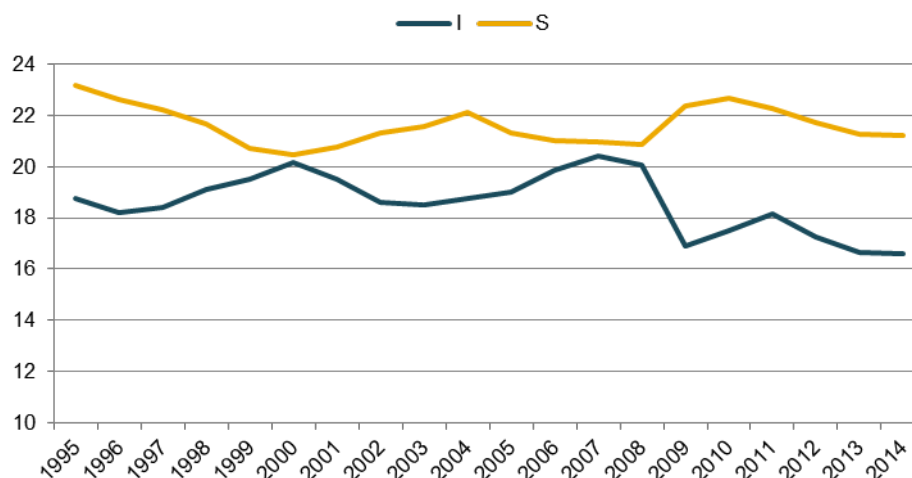
As can be seen, after a steep decline in the private sector's financial balance prior to the switch-over to the euro (2000)¹⁴, there has been a general tendency for that balance to rise. This tendency was interrupted over the period 2004-2007 which is easily identified as the housing-boom years.

Assuming, realistically, that the rest-of-the-world's capacity to absorb the euro area's trade (and current account) surpluses will be limited, the size of public sector deficits will have to be approximately equal to the financial balance of the area's private sector. This, in turn, must be equal the difference between private sector gross saving and gross capital formation. From this it is possible to calculate GDP shares of private gross capital formation (differing, insignificantly, from gross fixed capital formation). Fig. 14 shows GDP shares of gross private savings and gross private investment.

¹³ Observe that at the global level (with the 'globe's current account' equal null by definition), the private and public sectors' financial balances must add up to zero. It turns out that since 1971 the financial balance of the global private sector has been *positive* while the global public sector has been running fiscal deficits (UNCTAD, 2013, p. 16).

¹⁴ One wonders whether the fast decline in the private sector balance prior to 2000 had not been a consequence, at least in part, of 'cooking the books' by the finance authorities/statistical offices of the countries eager to be allowed to join the euro area.

Figure 14. Euro area (12 original members) – GDP shares (%) of gross private savings and gross private investment



Source: Own calculations based on AMECO database (items UBLG, UBLA, USGH and USGC).

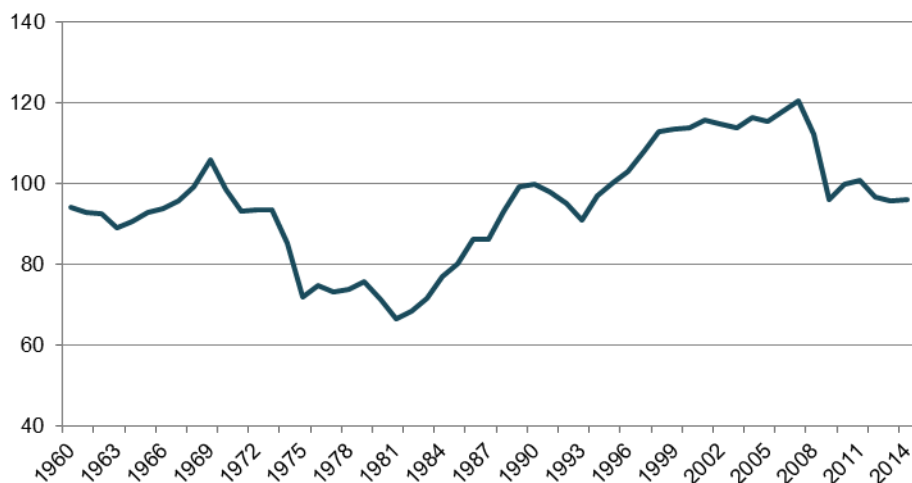
Since 2000 the *general* tendency has been for the private investment share to decline – and for the private saving share to rise. The ‘scissors’ between the two items narrowed somewhat during the housing-boom years from 2004 through 2007 – with quite destructive results, as it is now commonly known. Since 2008 the ‘scissors’ have been widening again. And so have the public sector deficits (whose size has been restricted by the euro area’s private sector’s positive, and strongly rising, net lending to the rest-of-the-world).

Conclusions

There is, probably, little that can be realistically done to suppress the slow rise in the private saving rate (gross private savings as a proportion of GDP). If anything, the private saving rate may even increase faster as economic policies seem to be favouring the rising income inequality (e.g. through less progressive personal income taxation combined with hikes in indirect tax rates etc.). The ‘race to the bottom’ as far as wages are concerned is another reason for rising inequality and higher overall private saving propensities. Add to this the saving-supporting effects of the ongoing ‘financialisation’ of the economy (of which the expansion of the capital-funded, privately-run, pension systems – and the contraction of PAYG ones – is the best exemplification).

Even less can probably be achieved as far as private *productive* investment is concerned. Most probably, private investment will be continuing its downward slide. Interestingly, it is not the somehow depressed *profitability* of capital which makes investment in fixed assets unattractive. Actually, since the early 1980s – until 2008 – the profitability of investment in fixed assets had been rising secularly (see Fig. 15). Recently it is hovering at a level similar to that recorded during the 1960s. But in the 1960s the investment share used to be some 10 percentage points higher than currently.

Figure 15. Euro area (12 original members) – net returns on net capital stock, total economy, 2010=100



Source: AMECO database (series APNDK).

All in all, the euro area may *have* to run rather massive public sector deficits in the foreseeable future. The same applies to the rest of the EU – and especially to the ‘new Member States’¹⁵. As long as the area’s private sector is keen on saving income far in excess of its investment needs the slack will have to end up as public sector (or foreigners’) additional borrowing – i.e. those two sectors’ *deficits*. Despite the best (?) of intentions of the national fiscal authorities (and of the European Commission’s) the public sector will have to be making huge deficits. As long as private savings are much higher than private investments, ‘fighting’ these deficits can at best suppress real growth – but achieve nothing as far as the weight of the public deficits is concerned (Laski and Podkaminer, 2012, 2013). The guardians of the Maastricht Treaty (and of its more recent incarnations) cannot win their war with the laws of arithmetic. But the war they conduct is damaging the euro area economy severely.

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¹⁵ It can be argued that the economic prospects of the former ‘transition countries’ are not enviable. These countries appear to have been ‘trapped in integration’ – i.e. compelled to emulate German mercantilist policies (Podkaminer, 2013a). As such they too have entered a path implying (slow) export-led growth. However, in contrast to Germany, their improving trade balances represent, increasingly, the rising profits of *foreign* – and i.e. not *domestic* – investors.

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Author contact: podkaminer@wiiw.ac.at

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