

# Europe's Sovereign Debt Crisis

The Institute of International and European Affairs, and  
the Law Society, Dublin.

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*real* world  
economic outlook

the legacy of globalization:  
debt and deflation

edited by ann pettifer



“The *real* world economic outlook: the legacy of globalisation – debt and deflation”.

Palgrave  
September,  
2003

# The Coming First World Debt Crisis



**Ann Pettifor**



Palgrave

September, 2006



**Resolving International  
Debt Crises Fairly**  
*Ethics & International  
Affairs, Volume 17.2*  
**(Fall 2003)**

**Ann Pettifor**  
September 15, 2003



Published by the  
new economics  
foundation

July, 2008

## **A Green New Deal**

Joined-up policies to solve the triple crunch of the credit crisis,  
climate change and high oil prices

The first report of the Green New Deal Group

# The Trillion Dollar Failure of EU 'Stabilisation' package



Eurobanks: most problematic holdings are sovereign debt.....

“That makes their being strengthened by capital injections from those same sovereigns a little dicey”

Naked Capitalism

# US banks leverage:



X 12



X 17



X 17

# Europe banks leverage -



21 X



30 X

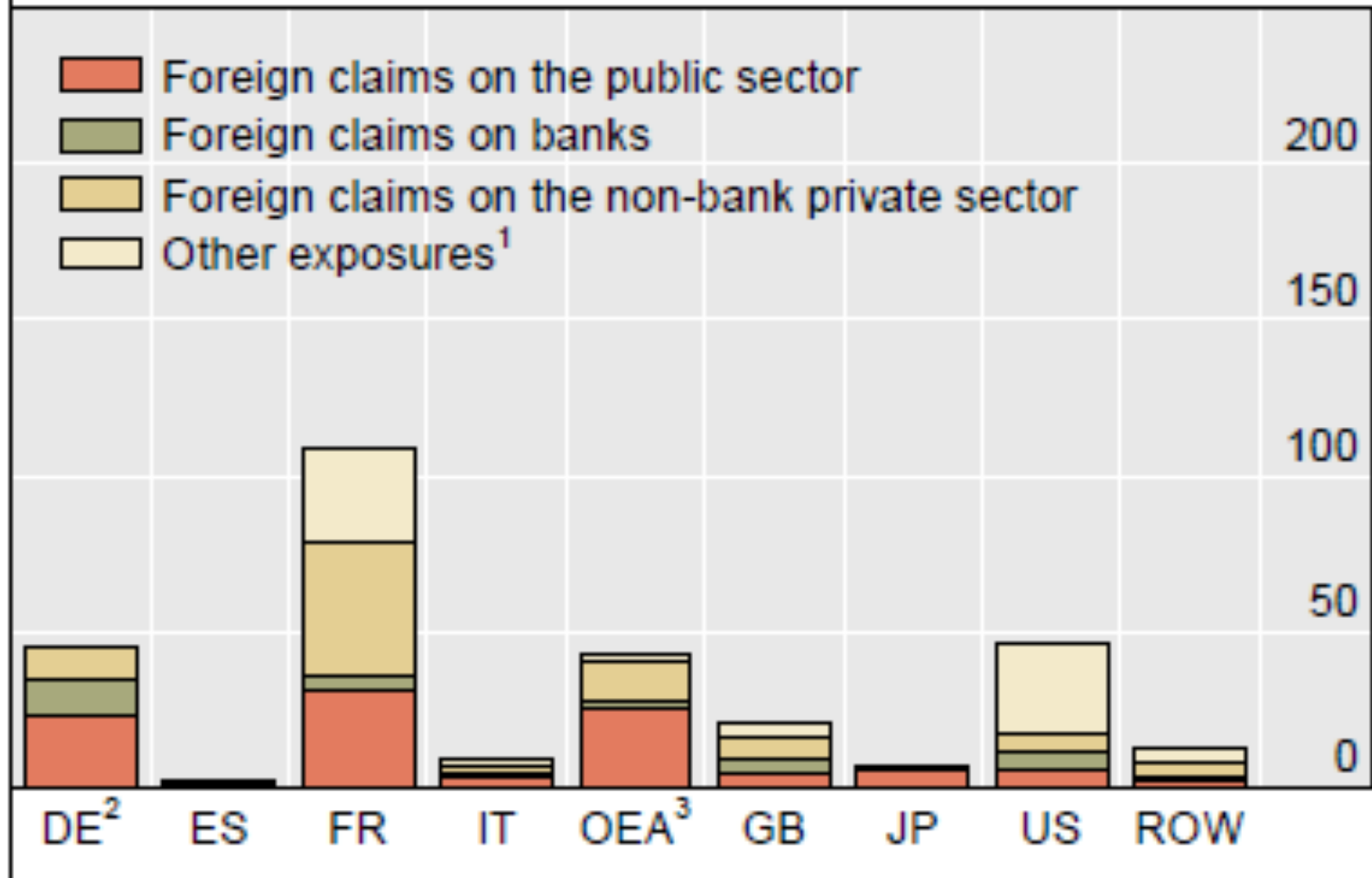


35 X



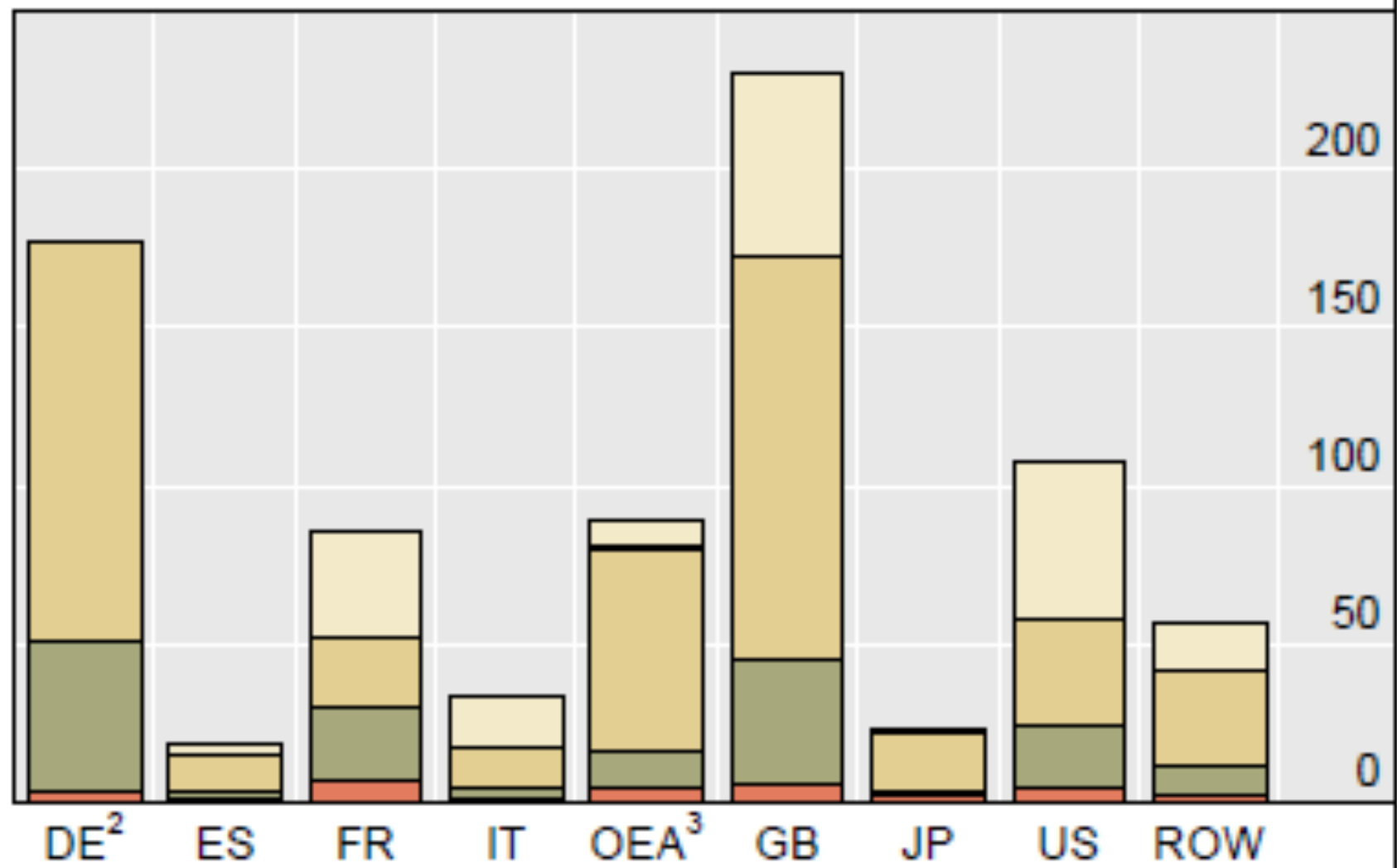
49 X

# Greece

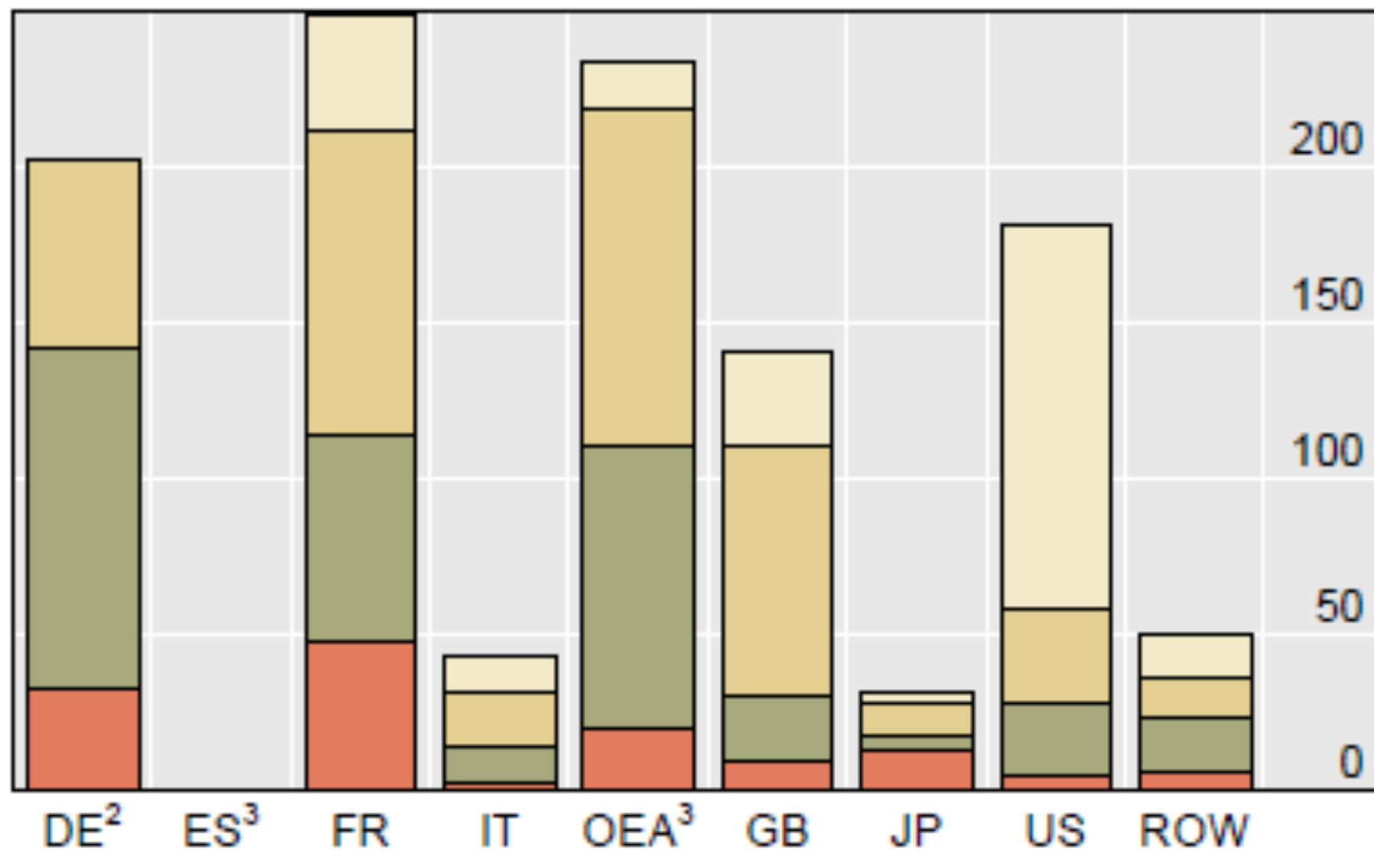


Bank for International Settlements , Quarterly Review, June 2010

# Ireland



# Spain



# An Austerity Package – synchronised across the EU, and with time the US?

Egged on by “ a perverse coalition of neo-liberal public finance ideologues and anti-government conservatives”.

Henry CK Liu, Asia Times Online.

“.....creditors, mostly transnational banks, will be protected from having to accept "haircuts" on their holdings of sovereign debt.”



While 2007-9 meltdown culprits bailed out, crisis blamed on innocent wage earners – in global economy forcing down wages.....



# EU austerity – impact on the US

The eurozone buys around 15% of US exports. In 2009 the EU bought \$221 billion from the US, down from \$244 billion in 2007.

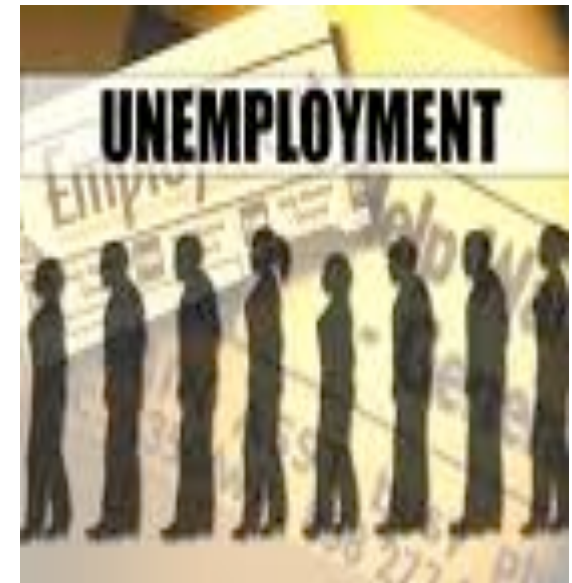
The US trade deficit with the EU fell sharply from \$110 billion in 2007 to \$60.5 billion in 2009.

# Impact on China

1. EU-China trade decreased in 2009 due to the global economic downturn. European imports from China went down, while EU exports to China have remained largely stable.
2. China already hit by severe US recession. Falling euro presents problems to the Chinese central [bank](#) in its efforts to diversify huge foreign reserves away from the dollar.

# Impact on the EU:

“The young, the working poor and the elderly to pay for the careless profligacy and corruption of governments, the propertied rich, and financiers.” Henry Liu





John Maynard Keynes:

In *The Means to Prosperity*  
(1933) he challenged the  
consensus:



“... it is a complete mistake to believe that there is a dilemma between schemes for increasing employment and schemes for balancing the budget. ...



Quite the contrary.

There is no possibility of balancing the budget except by increasing the national income, which is much the same thing as increasing employment.  
(*CW IX*, p. 347)

# The economic consequences of Mr Osborne .....

(or Ms Merkel, Mr Trichet, Mr Mervyn  
King, US Congress, Irish )

“Like a household budget, government budgets must be brought into balance.”

- The result of creditor (‘capital markets’) - dominated micro-economics, with disastrous macro-economic consequences.
- Consequences often the reverse of micro-economic reasoning.

# Fiscal consolidation does not improve government finances

Given spare capacity (unemployment) public expenditures are not only productive but also foster additional activity in the private sector.

Table 1: Annual average change in government finances

|           | expenditure | Debt |
|-----------|-------------|------|
| WWI       | 62.7        | 17.4 |
| 1918-23   | -20.9       | 13.2 |
| 1931-33   | -5.4        | 5.0  |
| 1933-39   | 18.3        | -7.0 |
| WWII      | 38.1        | 10.6 |
| 1944-47   | -24.5       | 17.0 |
| 1947-76   | 10.1        | -6.8 |
| 1976-2009 | 7.6         | 0.4  |

Taken from: 'Fiscal consolidation: A history from a century of UK macroeconomic statistics'. By Emeritus Professor Victoria Chick and Ann Pettifor. 2nd June, 2010. [www.debtonation.org](http://www.debtonation.org)

|      | Public<br>Expenditure<br><br>£ million | Nominal<br>GDP<br><br>£ million | Expenditure<br>as share of<br>GDP<br><br>% | Public<br>debt<br><br>% GDP | Interest<br>rate | Real<br>GDP<br>growth | Unemploy-<br>ment<br>rate | GDP<br>deflator<br>growth |
|------|--|---------------------------------|--|-----------------------------|------------------|-----------------------|---------------------------|---------------------------|
| 1931 | 575                                    | 4359                            | 13.2                                       | 173                         | 4.5              | -5.1                  | 21.3                      | -2.4                      |
| 1932 | 538                                    | 4276                            | 12.6                                       | 177                         | 3.8              | 0.3                   | 22.1                      | -3.6                      |
| 1933 | 514                                    | 4259                            | 12.1                                       | 183                         | 3.4              | 1.1                   | 19.9                      | -1.4                      |

|      | Public Expenditure<br>£ million | Nominal GDP<br>£ million | Expenditure as share of GDP<br>% | Public debt<br>% GDP | Interest rate | Real GDP growth | Unemployment rate | GDP deflator growth |
|------|---------------------------------|--------------------------|----------------------------------|----------------------|---------------|-----------------|-------------------|---------------------|
| 1933 | 514                             | 4259                     | 12.1                             | 183                  | 3.4           | 1.1             | 19.9              | -1.4                |
| 1934 | 535                             | 4513                     | 11.9                             | 177                  | 3.1           | 6.8             | 16.7              | -0.7                |
| 1935 | 591                             | 4721                     | 12.5                             | 168                  | 2.9           | 3.8             | 15.5              | 0.9                 |
| 1936 | 668                             | 4905                     | 13.6                             | 162                  | 2.9           | 3.1             | 13.1              | 0.6                 |
| 1937 | 782                             | 5289                     | 14.8                             | 150                  | 3.3           | 4.3             | 10.8              | 3.7                 |
| 1938 | 937                             | 5572                     | 16.8                             | 147                  | 3.4           | 3.0             | 12.9              | 2.8                 |
| 1939 | 1359                            | 5958                     | 22.8                             | 141                  | 3.7           | 3.9             | 9.3               | 4.4                 |



The economic policies of ‘synchronised austerity’ will not only increase EU unemployment and social dislocation

- they will also increase the public debt.



Sooner or later, governments, financial markets and international authorities will be forced to recognise the validity of Keynes's analysis,

.....just as they were forced to do in the 1930s

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16<sup>th</sup> June, 2010