THE WEEKLY LEAF

THE DESTINATION FOR RELEVANT NEWS, ANALYSIS AND OPINION

The two-track recovery: Europe versus the United States

November 21, 2014 by stevenyoder Leave a Comment

Mario Draghi at World Economic Forum Annual Meeting, 2012 Courtesy of Wikimedia Commons

Irish citizen Brendan Doris may represent the face of the future for many European countries. A self-employed architect, his business slowed after the Great Recession as the Irish economy struggled, and he and his wife ran through their savings just to keep up with bills. In September 2012, he did something radical—he moved to the United Arab Emirates for work, *The Guardian* reported last year.

He's possibly one of a new breed—economic refugees fleeing western Europe. The year Doris left, net out-migration in

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Ireland hit its highest level since 1989. While it's dropped some since then, as of September 2014 the country's unemployment rate stands at 11.2 percent. That's actually better than the rate in the Eurozone as a whole, where it's 11.5 percent.

The behavior of the world's two biggest economies since the recession marks something of a role reversal. The United States, known historically for less government intervention, instead opted for an almost $5-trillion stimulus package and loose monetary policy to keep the economy from continuing its slide. No similar EU-wide stimulus happened. Some economists say those divergent approaches go some way to explaining their disparate economic outcomes since then.

The U.S. economy has rebounded to pre-recession levels–GDP growth stands at 3 percent a year, and the stock market has hit all-time highs. The country continues to add jobs—at least 200,000 a month for 19 of the last 24 months. And the unemployment rate stands at half that in Europe, 5.8 percent, only about 1 percentage point higher than it was immediately before the recession.

Meanwhile, the Eurozone economies are stuck. In addition to high unemployment, the region has remarkably low inflation–only .4 percent—but also low growth. GDP growth for the zone as a whole was only .5 percent in 2013.

Those are signs that Europe could tip toward an economic outcome that economists dread–deflation, in which incomes and prices go down, not up. Deflationary spirals are hard for governments and central banks to stop because consumers have an incentive to delay purchases since goods will be cheaper the more time that passes—which only drags prices down further. And investors don't want to borrow since a loan taken out now will be harder to repay in the future when income is lower.

There's wide agreement that the chief danger to Eurozone economies is weak consumer demand. In France, 47 percent of industry executives responded to a recent survey that lack of demand was their main problem—only 16 percent said supply issues were. As one salesperson in Spain told the *Wall Street Journal*: "We're stuck in

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a rut, and I don't think demand for products is going to increase that much until wages rise."

Perhaps most worrisome is that the zone's biggest economies—Germany, France, and Italy—are flat-lining. Germany has seen GDP growth of only about 1 percent during the last 12 months, France just above zero, and Italy's economy has contracted slightly in that period.

Many economists see those outcomes as a direct result of Europe's fiscal and monetary policies. Mark Weisbrot of the U.S.-based Center for Economic and Policy Research notes that the U.S. Fed lowered short-term interest rates to about zero in 2008 and has kept the foot on the gas ever since, even engaging in three rounds of quantitative easing that increased the money supply by $2 trillion, which lowered long-term interest rates.

Meanwhile, Eurozone governments did stimulate their own economies briefly but then tightened their budgets. Weisbrot points to an International Monetary Fund report last summer showing a nearly straight-line relationship between fiscal budget tightening among Eurozone countries and declines in economic growth. Greece, for example, which improved its budget balance through spending cuts and tax increases by nearly 4 percent in 2013, had GDP growth that year of -4 percent. Meanwhile Ireland, whose budget balance stayed nearly the same as the prior year, saw slight GDP growth–a little over 1 percent.

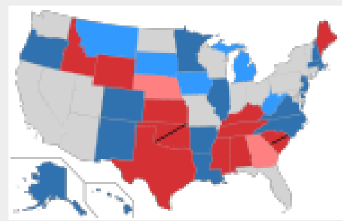
Another report by the IMF's independent evaluation office issued last month appears to confirm those conclusions. The report notes that the IMF's prescription of a "global fiscal stimulus" in 2008–2009 was the right call. But it concludes that the fund was wrong to advocate budget tightening before the time was right: "IMF advocacy of fiscal consolidation proved to be premature for major advanced economies, as growth projections turned out to be optimistic…. a large body of analysis, including from the IMF itself, [pointed]… to the enhanced power relative to the pre-crisis environment of

Commentary: For Hunger Games – Mockingjay, teens are doing the marketing

December 4, 2014

By Joan Oleck – The Hunger Games: Mockingjay—Part 1 is, for its teen fan base, a powerful lesson in marketing manipulation. For anyone not living in a cave, this third film in the series of four is based on the über-successful book series by Suzanne Collins and weaves a compelling tale of teen survival in […]

Commentary: The 2014 US Midterms – The democratic election that wasn't



expansionary fiscal policy to stimulate demand.”

Key Eurozone leaders appear ready to listen to that message, nudging Europe toward the U.S. path, at least on monetary policy. Mario Draghi, head of the European Central Bank, said on November 6 that the bank’s governing council is “unanimous in its commitment to using additional unconventional instruments within its mandate” to stimulate the Eurozone economy. The ECB in an official statement earlier this month said that it would spend $1 trillion euros buying bonds and issuing cheap loans to commercial banks by 2016.

Failing that, Europe likely will continue to hover on the edge of recession or worse. GDP forecasts for 2015 are for most Eurozone countries to have GDP growth under 1.9 percent. Two of the big three—France and Italy—are forecast to grow by less than 1 percent. The result could be even more unemployment. In a report last September, Oxfam International estimated that austerity policies in Europe could put between 15 and 25 million more Europeans out of work by 2025 than would have been the case without those policies.

If so, workers like Brendan Doris will be buying even more one-way tickets out of Europe.

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November 11, 2014

Commentary: The 2014 US Midterms – The democratic election that wasn’t
American democracy is predicated on two critical pillars. The selection of political representatives by the majority via the ballot box, and the availability of timely and accurate information that is vital for voters in their assessment of candidates and policies consistent with their self-interest. […]

Commentary: International community must address Myanmar’s mistreatment of Rohingya minority at East Asian summit

October 31, 2014

As Myanmar, a country with an incipient democracy and alarming human rights record, prepares to host a prestigious regional issues summit in coming weeks, the Southeast Asian nation’s galling treatment of its ethnic minority populations is receiving renewed attention. It’s an inopportune

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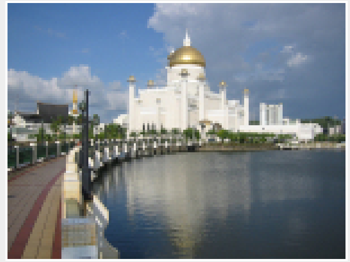
renewed attention. It’s an inopportune time for the country’s president, Thein Sein, for these issues to be resurfacing in […]



Commentary: Bandwagon outrage over Brunei’s strict Islamic criminal code all but gone

October 18, 2014

When Brunei became the first Southeast Asian country to nationally adopt a strict Islamic penal code known as Sharia earlier this year, the world was outraged. News and social media told us so in such headlines as “Brunei adopts sharia law amid international outcry” and “Ellen DeGeneres backs boycott of Brunei-owned hotels over ‘stone the […]

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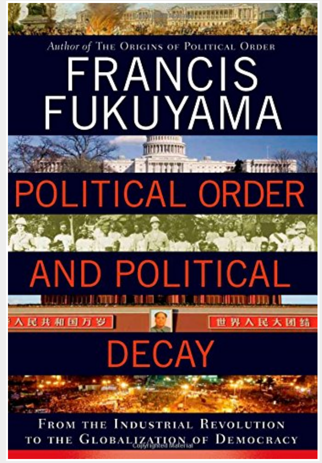

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