The European Union after the Eurozone Crisis, Brexit and Mr Trump
Eurozone QE bond buying passes €1tn mark

From the Financial Times, September 5, 2016

The European Central Bank has passed the €1tn mark for its controversial purchases of government bonds, putting pressure on policymakers to address the scarcity of available assets when they meet in Frankfurt this week.

A global collapse in eurozone bond yields since Britain’s vote to exit the EU has dramatically reduced the stock of eurozone government paper standing above the yield threshold set for the ECB’s €1.7tn bond-buying project — raising concern that the ECB will have to make sweeping changes to avoid running out of bonds to buy.

The bond purchases are part of a quantitative easing programme, like those of Japan and the UK, launched 18 months ago to fight the threat of deflation and boost the flagging eurozone economy by driving down borrowing costs for companies and lifting confidence. …

For the full story go to https://www.ft.com
Leaked ‘Brexit’ Memo Says U.K. Is Unsure How to Proceed

From the *New York Times*, November 15, 2016

LONDON — The government of Britain could need six more months to settle on a plan for negotiating the country’s exit from the European Union and an extra 30,000 civil servants to deal with the complexities of the task, at least according to a memo of uncertain parentage leaked to *The Times* of London on Tuesday.

…

But the memo to a large extent said what is widely understood: The government has not yet finished its internal debate on what kind of relationship it wants with the European Union, nor has it set its priorities for any negotiation; and the cabinet remains divided between those favoring as clean a break with Brussels as possible and those who want to preserve duty-free access to the huge European market.

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For the full story go to

The World Waits and Wonders About Donald Trump

From the New York Times, November 11, 2016

The forces that brought Donald Trump to victory were largely American. The repercussions of his election, however, have rocked Western democracies accustomed to seeing the United States as a beacon for democracy, progress and stability. If the president-elect wants to take seriously his responsibilities as head of the free world, he should waste no time in making clear how much of his campaign bluster was just that.

...

Now the entire structure of convictions and policies that were to underpin the Western world in the 21st century — the international trading regime, the united Western front against Russian revanchism, the security of NATO, the Paris accord on climate change — seems uncertain. In its stead are fears of costly trade wars, of new Russian pressures on countries from Estonia to Ukraine, of a steadily warming planet beset by drought, sea-level rise and human displacement.

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For the full story go to

http://www.nytimes.com
From the European Economic Community to the European Union and the Single Currency

• The European Union has demonstrated impressive progress since the Treaty of Rome of 1957, almost 60 years ago.

• It evolved from a Custom’s Union with a few common policies, to the largest single market in the world.

• Its progress was based on its democratic values, and the four fundamental freedoms of free movement of goods, services, capital and people.

• It was also based on devising common policies in a number of areas, that, with the exception of agriculture, promoted competition in goods markets and discouraged anti-competitive behavior in the form of collusion, crypto-cartels and the exploitation of dominant market positions by firms. This process is known as deepening of the EU.

• Finally, it was based on attracting more and more member countries, the process of so called enlargement.
From the High Points of the Euro and Enlargement, to the Shocks of the Eurozone Crisis, Brexit and Trump

• In retrospect, the high points of this process were achieved more than 12 years ago.

• They were the completion of the single market in the early 1990s, the creation of the euro in the late 1990s and the enlargement of 2004, with 10 new member states.

• Since then, and after a period of slow progress if not complacency, the EU was hit by the eurozone crisis, which proved to be a large and persistent shock that has rocked it, and revealed the many fault lines in the design of the monetary union.

• The EU was recently hit, by the shock of Brexit, which will more than reverse, in economic and political terms, the enlargement of 2004 and more recently. In many ways, Brexit is an indication of the political fault lines of the EU, and a direct challenge to its objective of “ever closer union”, and at least one of its fundamental freedoms, the free movement of people.

• Finally, the EU is likely to be severely affected by the “Trump” shock, which is a shock that has revealed the political fault lines of the USA, but which can nonetheless have potentially significant economic and political effects on Europe and the rest of the world.
The International Financial Crisis and Eurozone Crisis Shock

EU GDP (Constant Prices, PPP Adjusted log scale)
In the ten years before the financial crisis of 2008, the average annual growth rate of the EU was 2.6%.

In the eight years after the financial crisis of 2008, and the Eurozone crisis of 2010, the average annual growth of the EU was equal to 0.7%.

The Eurozone has lost on an annual basis 16.25% of its potential GDP in eight years because of the financial and eurozone crises.
The Brexit Shock

![Graph showing EU GDP (Constant Prices, PPP Adjusted log scale) vs. EU GDP (post 2016 Brexit) from 1995 to 2018. The graph illustrates a decline in GDP following Brexit.]
The Direct Economic Impact of a “Hard” Brexit

❖ According to PPP adjusted data, Britain constitutes 13.8% of the EU economy.
❖ Thus, the direct economic effect on the euro area will be of that size.
❖ There will be indirect negative effects through a lower volume of trade because of the bilateral rise of tariffs and other barriers to trade, and through trade diversion, from Britain-EU trade to trade of Britain with third countries.
The Trump Shock
What is the Likely Direct Economic Impact of the Trump Shock?

“It is difficult (dangerous) to make predictions. Especially about the future”.

(Obscure Danish politician Steincke 1948, repeated by Niels Bohr, Sam Goldwyn, Yogi Berra and others)

❖ Likely negative short term impact from uncertainty about US future policy course.

❖ Likely negative impact from ditching the efforts to negotiate a bilateral Transatlantic trade deal.

❖ Likely negative (?) impact from a trade war with China. (A question mark, because the EU might benefit from a trade war that is confined to the US and China.)

❖ Likely negative (?) impact from asking the EU to contribute more to NATO and increase its defense spending. (A question mark, because this may bring about the much need European fiscal expansion and thus increase output and employment in Europe).

❖ Likely positive impact from US fiscal expansion.

❖ Likely negative impact from encouraging or even helping elect European populists, which might further destabilize the EU.
What is the Root Cause of the Rise of Populism?

“Those who cannot remember the past are condemned to repeat it”,

(George Santayana)

❖ Will concentrate on the economic causes of the rise of populism.
❖ The US political fault lines that helped elect Trump and the European political fault lines that have caused the increase in the electoral chances of European populists have a common economic thread: The unequal distribution of the positive net benefits from trade and capital markets liberalization, migration and globalization in general.
❖ In fact, like any process of structural reform, globalization and European integration, although beneficial in general, have produced both winners and losers.
❖ Our democratic societies, both in Europe and the US have failed to promote the institutions and policies that would redistribute the benefits, especially to the many losers, like unskilled workers, the old and the unemployed.
❖ It would be wrong to think populism is unjustified and does not have real social and economic underpinnings. This would be like repeating the mistakes of the 1930s, which eventually led to the rise of fascism and a devastating world war.
What Can be Done to Stop the Rise of Populism?

“Think of tomorrow. The past cannot be mended”,

(Confucius)

❖ It is not too late to stop populism. To effectively stop it we have to address the root causes of its rise.
❖ But it is also the time for immediate political action too.
❖ Stop elected populists from even attempting to apply their pledges. In all probability they will not be re-elected.
❖ The USA has enough checks and balances to be able to neutralize most of the wild campaign pledges of President elect Trump.
❖ European politicians must try harder to compensate the losers from the Eurozone and the migration crisis.
❖ Brexit negotiations, by all parties, must strive to limit the damage by seeking as soft a Brexit as possible, without allowing Britain to declare victory, because this would encourage other European populists.
❖ Eventually, Europe will have to become more of a transfer (fiscal) union. This is its next big challenge.