

987 Views | 26 CrossRef citations to date | 1 Altmetric

Symposium on the Euro

# Rebalancing the Euro Area: The Costs of Internal Devaluation

Engelbert Stockhammer & Dimitris P. Sotiropoulos

Pages 210-233 | Received 26 Jun 2012, Accepted 25 Jul 2013, Published online: 02 May 2014

Cite this article <https://doi.org/10.1080/09538259.2014.881011>

Check for updates

Sample our  
Economics, Finance,  
Business & Industry Journals  
>> [Sign in here](#) to start your access  
to the latest two volumes for 14 days

- Full Article
- Figures & data
- References
- Citations
- Metrics
- Reprints & Permissions
- [Read this article](#)
- Share

Abstra

This pap  
the Euro  
suppress  
current a  
estimat  
estir  
Greece,  
deficits  
of GDP b  
ways: de  
surplus  
equivale

## We Care About Your Privacy

We and our 880 partners store and access personal data, like browsing data or unique identifiers, on your device. Selecting I Accept enables tracking technologies to support the purposes shown under we and our partners process data to provide. Selecting Reject All or withdrawing your consent will disable them. If trackers are disabled, some content and ads you see may not be as relevant to you. You can resurface this menu to change your choices or withdraw consent at any time by clicking the Show Purposes link on the bottom of the webpage. Your choices will have effect within our Website. For more details, refer to our Privacy Policy. [Here](#)

We and our partners process data to provide:

Use precise geolocation data. Actively scan device

I Accept

Reject All

Show Purpose

positions in  
on wage  
estimate a  
n. All  
the  
t deficits.  
ccount  
a reduction  
d in two  
ment in the  
countries are  
surplus

countries would increase growth and it would come with higher inflation, but it would allow rebalancing without a Great Depression in parts of Europe.

---

## Acknowledgements

Earlier versions of this paper were presented at the PERG Workshop Europe in Crisis, Kingston University, UK, April 2012, and the PKSG Workshop, SOAS, June 2012. We have benefited from the discussions there and from comments by Paul Auerbach two anonymous referees, and the editor. All remaining errors are ours.

---

## Notes

<sup>1</sup>The Euro area overall has in the past decade had close to balanced current account, that is it rarely exceeded  $\pm 1\%$  of GDP. However, individual Euro member states have had substantial deficits or surpluses. In this sense the Euro area has had on aggregate internal imbalances. Of course, member states have had substantial surpluses or deficits with the rest of the world.

<sup>2</sup>This see

<sup>3</sup>The EU

serve a

of (symr

<sup>4</sup>Buiter &

precise

<sup>5</sup>These

criticism

<sup>6</sup>This ass

be relati

in the su



inflexible) to  
is in the face

t clause

Keynesian

however,  
adjustment  
ral.

<sup>7</sup>A theoretical attempt to present in a Marxian fashion all these points as necessary moments within a specific organization of capitalist power can be found in Milios & Sotiropoulos (2010) and Sotiropoulos et al. (2013). They argue that the strategy of the euro corresponds to a mechanism for continuously exerting pressure for the reorganization of labour in the various member countries. In this sense, it is not just an income issue. Working people are being systematically attacked both at the 'centre' and at the 'periphery' of the Euro area in their conditions of production and reproduction. This strategy can be approached as an ideal design for the organization of capitalist power, the practical application of which has proved far from being perfect. The plan for the single currency very obviously generates strategic benefits for the collective capitalists of all the countries that participate in it.

<sup>8</sup>There is a certain economic logic to this. The real interest rates that businesses face are the nominal interest minus the inflation rate. But the inflation in producer prices (at which a firm can sell its output) depends on its sector. A Spanish automobile producer's prices are set by the world market (and not by Spanish inflation), whereas the real estate market has a regional dynamic (the real interest is negative if nominal interests are, say, 3% and house prices rise by 10%). The same nominal interest meant quite different real interest rates for different sectors; given a regime that encouraged capital flows, this meant that finance would be channelled to real estate (or, more broadly, non-tradable) sectors.

<sup>9</sup>The term (German) export surplus term is potential surplus when export surplus banks could invest the surplus (yes) and loan it to banks and lend to Spain's banks to account imbalances.



<sup>10</sup>In equ

<sup>11</sup>AMECC

Director

<sup>12</sup>Cesara

policies and German Neo-Mercantilism are more relevant.

<sup>13</sup>For useful brief presentations of the history of Phillips curve regression models see Galí et al. ([2001](#)), Montoya & Döhring ([2011](#)), Goodhart & Hofmann ([2005](#)).

<sup>14</sup>One could argue that the Phillips curve should be homogeneous of degree one with respect to import prices and past wages. If this condition is imposed the long-run effects are  $-1.42$  and  $-2.19$  for the 1999-2011 and the 1990-2011 samples respectively (available upon request).

<sup>15</sup>Okun ([1962](#)) presents several versions, all estimated with quarterly data. The first version estimates the difference in unemployment as a function of difference in (the logarithm of) GDP and is identical to our specification. The second version first calculates a potential GDP and an output gap. The unemployment rate is then related to the output gap.

<sup>16</sup>These inflationary policies will need a corresponding monetary policy and interventions in the workings of financial sector. The fact that we do not discuss them here does not reflect their importance but merely the scope of this paper.

#### Related Research Data

Wage

Source

The p

coord

Source

Neoli

Euro

Source

E

Soa

Comr

Source

The a

Source

Found

Source

The phillips curve and US macroeconomic performance during the 1990s



a do

untries

AIRU

Source: Informa UK Limited

## ROLLING REGRESSION VERSUS TIME-VARYING COEFFICIENT MODELLING: AN EMPIRICAL INVESTIGATION OF THE OKUN'S LAW IN SOME EURO AREA COUNTRIES

Source: Wiley

Phillips Curves, Expectations of Inflation and Optimal Unemployment over Time: Reply

Source: JSTOR

A Political Economy of Contemporary Capitalism and its Crisis : Demystifying Finance

Source: Routledge

Economic Policy for a Social Europe

Source: Palgrave Macmillan UK

Global Finance and Social Europe

Source: Edward Elgar Publishing

A Cross-Country Comparison of Okun's Coefficient

Source: Elsevier BV

The New Keynesian Phillips Curve in Europe: does it fit or does it fail?

Source: Elsevier BV

Lessons for the European Central Bank

Source: Routledge

Unit labour costs and the dynamics of output and unemployment in the southern European crisis countries

Source: Springer

Testing for convergence of the Okun's law coefficient in Europe

Source: HAL CCSD

Is the ... ion,

trade

Source

The P ... S and

the E

Source

Europ



Sp ... with?

Source

Neoli ... n

persp

Source

Is the ... heory?

Source

Evalu

Source: Elsevier BV

Crisis of Greece or crisis of the euro? A view from the European 'periphery'


Source: Informa UK Limited

Testing the significance and the non-linearity of the Phillips trade-off in the Euro Area

Source: Springer Science and Business Media LLC

Growing Unequal?

Source: OECD

Linking provided by  ScholeSplorer

## Related research

People also read

Recommended articles

Cited by  
26



Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Help and information

- Help and contact
- Newsroom
- All journals
- Books

Keep up to date

Register to receive personalised research and resources by email

 Sign me up



Copyright

Accessib

Registered  
5 Howick Pl

or & Francis Group  
orma business

