Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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The eurozone stagnation is a warning to America

Germany and France used to compete with the United States as leaders in industry and technology. Those days are gone.

The eurozone's problems have nothing to do with external factors. They are completely self-inflicted. Furthermore, rate cuts will not solve the problem.

Between 2008 and 2014, the main message among mainstream economists was that the euro area was not growing and creating jobs like the United States because monetary policy was too restrictive. It was, of course, ridiculous.

Today, the balance sheet of the European Central Bank is equivalent to 44.1 percent of the euro area GDP, after reaching a peak of 68.7 percent. The Federal Reserve's balance sheet is 25.6 percent from a peak of 37 percent.

The European Central Bank's deposit facility rate, the floor for the overnight interest rate at which banks borrow, was negative from June 2014 to July 2022.

The ECB implemented negative nominal rates, a very aggressive quantitative easing program that exceeded the Fed's programs in terms of GDP, as well as significant liquidity injections in TLTROs and the anti-fragmentation tool.

The ECB was late in the battle against inflation

The ECB was also late in the battle against inflation, claiming that rising prices were due to exogenous factors. Of course, the ECB was to blame for inflation after increasing the money supply five times faster than the "Draghi bazooka."

As Claudio Borio at the BEI concludes, "an upsurge in money growth preceded the inflation flare-up, and countries with stronger money growth saw markedly higher inflation.".

The euro area is not stagnant due to the ECB's hawkish stance. It is in stagnation, including a very dovish ECB and three multi-trillion-dollar fiscal stimulus packages: the Jobs and Growth Plan of 2009, the Juncker Plan, and the Next Generation EU Fund.

Furthermore, the euro area is in stagnation due to a completely misguided industrial, energy, agriculture, and farming policy.

> The euro area policies have been hijacked by a group of activists that know nothing of industry, competitiveness, or economic matters

A constant increase in bureaucratic and tax burdens has destroyed the once mighty German industrial fabric. The myopic decision to shut down its nuclear fleet has obliterated the competitiveness of the industry, and the ridiculous so-called green policies have completed the job of crippling the once-leading automotive sector.

The euro area policies have been hijacked by a group of activists that know nothing of industry, competitiveness, or economic matters and have decided to force countries to implement policies that are destroying the economy, driven by a completely ideological impulse.

The bureaucratic elite's authoritarian tendencies remain unchanged due to the sectarian approach to key policies passed on to individual countries as directives, despite the atrocious results.

Even when the results prove to be counterproductive, the European Union's leadership persists in implementing mistaken policies. Politicians have abandoned the principles that dictated the beginning of the European Union to force a science-fiction view of the world where the commissioners believe that they can regulate it to their liking.

A giant museum

The European Union was a space of freedom, support for industry, and defense of the primary sector. Now, if you criticize the policies coming from the European Union parliament, you will be deemed anti-European and far-right. Until one country changes the policy.

Defending a diversified energy mix with nuclear, hydro, and natural gas used to be enough to cancel you out of the political debate.

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The European Union is not losing the global technology race; it has not even shown up. The technology sector, comprised mostly of distributors, not creators, is less than 6 percent of the Stoxx 600, while it is 30 percent of the S&P 500.

Bureaucracy, excessive regulation, high taxes on the productive and elevated subsidies for entitlement spending have converted the euro area into a giant museum.

The bureaucrats at the European Union added a political project to what once was a space of commerce, entrepreneurship, and freedom and enlisted the support of the extreme left parties to impose it.

The European Union and the euro area were always social democratic capitalist economies. However, since 2011, the leadership of the European Union bought the narrative of the extreme left and started to impose an agenda that ignores families, businesses, and competitiveness to focus solely on control and regulation.

The message to America is simple

The EU leadership found in the extreme left the perfect allies to impose restrictions to freedom of speech, burdens on farmers and businesses and excruciating taxation.

Since 2011, it has squandered more than $20 trillion in fiscal and monetary stimulus plans, resulting in stagnation and higher debt.

The message to America is simple. If you follow the example of the euro area, you will get unemployment, lack of growth, high taxes, and discontent in the euro area

The message to America is simple. Do not attempt it with the expectation that you will receive healthcare and pensions. If you follow the example of the euro area, you will get unemployment, lack of growth, high taxes, and discontent in the euro area.

If you adopt the immigration policies of the European Union, you will experience social unrest and the impoverishment of the EU. Furthermore, with higher debt and lower growth, you will also need a private health and education system to deliver any decent service.

If high taxes, big government, and immigration were the recipes for growth and progress, France would not suffer persistent stagnation, high debt, and rising social discontent.

The European Union must abandon its misguided policies and ludicrous social engineering decisions to return to the original project. The euro area needs to stop thinking that the ECB will offset the mistakes of fiscal policy.

The United States needs to understand that copying Europe means getting European taxes, unemployment, and immigration.