

Gechert, Sebastian; Niechoj, Torsten; Priewe, Jan; Watt, Andrew

## Article

# Editorial: The spectre of stagnation? Europe in the world economy

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## Editorial

### The spectre of stagnation? Europe in the world economy

The current issue of the *European Journal of Economics and Economic Policies: Intervention (E/JEEP)* consists of the Papers and Proceedings of the 19th conference of the Research Network Macroeconomics and Macroeconomic Policies (FMM). The conference took place in Berlin, Germany, from 22 to 24 October 2015. Its topic, ‘The spectre of stagnation? Europe in the world economy’, already hints at the dominating discussions during the conference. Is stagnation the new normal for Europe? Are other regions also subject to stagnative tendencies? Why did some parts of the world recover faster after the crisis, while others did not? The proceedings of the conference cover a selection of articles devoted to these questions and based on the keynote presentations of the conference. Further contributions to the conference are available online (at [http://www.boeckler.de/veranstaltung\\_imk\\_61906.htm](http://www.boeckler.de/veranstaltung_imk_61906.htm)). Videos of the keynotes and of the lectures in the introductory workshop can be found online as well (at [http://www.boeckler.de/veranstaltung\\_imk\\_53337.htm](http://www.boeckler.de/veranstaltung_imk_53337.htm)).

In the first article, ‘Theories of stagnation in historical perspective’, Roger Backhouse and Mauro Boianovsky put the ongoing discussion on secular stagnation into historical perspective. Tracing the idea back to the late nineteenth century economist Hobson, who outlined the role of underconsumption, excess saving and inequality in slowing down economic growth, Backhouse revisits the secular stagnation discussions by authors like Hansen, Samuelson and Domar. In different ways these economists emphasised the role of technical progress, low population growth and the resulting lack of aggregate demand.

In the second contribution, ‘Secular stagnation or stagnation policy? A post-Steindlian view’, Eckhard Hein criticises the mainstream’s view of secular stagnation as the result of a negative real equilibrium interest rate. Arguing in a Keynesian spirit with particular reference to Steindl, secular stagnation is considered to be a result of the shift in the functional income distribution, and oligopolistic organisation of industries, leading to excess capacity and reluctance to invest. This acts as a drag on effective demand and results in secular stagnation. Distributional policies and public investment can, however, overcome stagnationist tendencies.

In his article on ‘Aggregate demand, functional finance, and secular stagnation’, Peter Skott discusses the role of fiscal policy and public debt with respect to secular stagnation. In models, where the unrealistic standard assumption of agents optimising up to an infinite horizon is dropped, fiscal policy is an effective tool when aiming at full employment, as it can sustainably generate the required aggregate demand. This rejects the standard claim, that there is a clear causal direction from high public debt to slow growth. Rather, high public debt results from slow growth, austerity and rising inequality.

In ‘Did Japan’s high-growth success foster persistent stagnation?’, W.R. Garside analyses the Japanese experience with secular stagnation. Pointing to the roots of the Japanese stagnation in its institutional settings developed during the high-growth years after the Second World War, he explains the inability of Japanese policy-makers to restore growth after the crisis of the early 1990s. Both monetary and fiscal policy proved inadequate to the task, failing to address the problem of zombie companies and non-performing loans on bank balance sheets and to pursue expansionary policies with sufficient vigour.

Robert Blecker reflects, in his article on ‘The US economy since the crisis: slow recovery and secular stagnation’, on the US developments after the Great Recession. He shows that

recoveries from the last two recessions have been sluggish compared to those of the previous decades. This problem's roots lie in insufficient aggregate demand caused by increasing inequality since the 1980s. Demand effects of stagnant and declining incomes at the bottom of the income distribution were temporarily cushioned by increases in household borrowing, but this gave rise to instability and the resulting crisis. Since then the profit share has been trending up but the investment share down. The underlying structural problems of inequality and austerity will need to be addressed in order to restore growth.

In his contribution, 'Policies to overcome stagnation: the crisis, and the possible futures, of all things euro', Mark Blyth criticises the political inability to solve the persistent economic crisis in Europe against the background of a deflationary environment. Ideological blockades and impotent institutions are the mutually reinforcing causes of European stagnation. The deeper roots lie in the structural change of the economic system since the 1980s, when neoliberalism emerged as hegemonic ideology. This ideology prepared the ground for austerity and resulting deflationary pressures and a strategy of all seeking to export their way out of trouble. Worryingly this is breeding populist and nationalist resentments in Europe.

In 'Secular stagnation and progressive economic policy alternatives', Özlem Onaran analyses the current problems of secular stagnation from a global perspective. At the core of global economic problems is insufficient demand caused by falling wage shares, because most individual countries and the world as a whole are 'wage-led'. Hence a strategy for global growth is to aim at increasing wages and thus the wage share, and the abandonment of policies focusing purely on national competitiveness. Financialisation has broken the link between corporate profitability and investment. Re-regulation of finance and higher public investment is required in order to crowd-in private investment, in this way reversing the declining trend of potential output growth.

Andrew Watt proposes, in his contribution 'Monetary financing of public investment: a viable way forward for the euro area?', the monetary financing of public investment as a growth strategy for Europe. In an environment that is constrained by the exhaustion of monetary policy and legal limitations on expansionary fiscal policy, he sketches a plan for sustainable growth meeting the social needs of European societies. It is argued that monetary financing of public investment – in which the ECB takes newly issued European Investment Bank bonds onto its balance sheet – would be essentially costless in a deflationary environment and can be expected to exhibit high multiplier effects. The independence of the ECB is maintained by making bond purchases subject to an inflation 'trigger'.

Sebastian Gechert  
Macroeconomic Policy Institute, Hans Böckler Foundation, Düsseldorf, Germany

Torsten Niechoj  
Rhine-Waal University of Applied Sciences, Kamp-Lintfort, Germany

Jan Prieue  
HTW Berlin, Germany

Andrew Watt  
Macroeconomic Policy Institute, Hans Böckler Foundation, Düsseldorf, Germany