The Council on Czech Competitiveness

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Making Cents of the World Around Us

Citibank's Chief Economist WIllem Buiters explores the many different ways Europe and the world can work for or against Czech business: excerpts from his presentation at the June 18th Competitiveness event.

Europe is in relative decline, but it is still getting richer. Glorious growth may be in other economies, and Europe's gigantic share of the world's wealth is decreasing as other econmies, particularly Asia and Africa, gain more after underperforming for 500 years. That does not yet mean, however, that Europeans are doing less well.

Europe still have some things it can do to rebound. The key is not austerity, but productivity. A common market would help. So would dropping the stigma that failure in business is final. Chapter 11 in the USA allows a company to emerge from insolvency or be sold in one year on average; in France, the assets of such a company are constricted for 9 years.

Taxing the drive out of business. European tax levels average about 46% of GDP. Some countries have raised the levels above 50%. At some point, the public sector becomes a great parasite on the economy. Greece is a clear example of this, and it is not alone.

Public institutions are trusted less and less. In some European countries, public institutions are no longer seen as protectors, but as exploiters of the general public. Trust is declining, and, in some economies, is close to absolute zero. With such little social capital, government are unable to craft and implement the sort of policies that would lead to growth.

Immigration spurs innovation. Europe has a declining and aging population, which poses economic and social issues. Immigration could solve these problems. The more homogenous a society, the less friction there is. Innovation thrives on friction. And, in reality, the immigrants are going to come anyway: the choice is not whether to accept them, but how to make sure they are able to be integrated well.

Greece could set a dangerous precedent. Greek default is assumed. Greek exit of the euro, however, remains a question mark. No one knows exactly how it could work, and whether an exit of the Euro would mean an exit from the EU. The worry, however, is that a Greek exit from the euro would be the first major retreat from Europe, and could spur other countries to do something similar.

If Germany did it, why can't Greece? In 1948, Germany restructured its sovereign debt. That led to its economic recovery and strong mark. Germany resistance to a similar move for Greece ignores their own historical precedence.

Turning debt to equity. One way to diminish the risk that debt poses is to turn many debt instruments into equity. Home mortgages, for example, could be transformed into an equity contract.

Results of Poll taken of audience during Citibank event

Greatest risk to world economy in next 12 months

27% Hard landing in China
27% Increased confrontation between Putin and West
20% Euro area crisis

Current business model calculates for extreme weather patterns

19% yes
81% no

Is there an asset bubble?

79% yes
21% no

Which monetary policy would have the greatest impact on Czech Republic

53% Depreciated koruna
32% Negative interest rates

Which government economic policy should be the greatest priority

42% Lower corporate tax base and reduce subsidies
27% Education reform
14% Reform the system of public procurement