Balancing Cash-Flows in the Eurozone

What is the situation? Differences in trade balances:

Persistent trade imbalances between countries of the Eurozone for a longer period of time have destabilising effects: in countries which import more than they export, deindustrialisation, unemployment and emigration occur. Countries with persistent export surpluses lose resources which are not replaced.

The current architecture of Europe's financial system penalises countries with deficits and encourages trade surpluses, even though persistent surpluses harm the Eurozone as well.

A simple rule in closed economies is that everything produced should be able to be consumed as well. The ratio between productivity and wages should be balanced: wages should rise with productivity. If wages are too low, products can be exported at an artificially cheap price.

For example, wages in Germany have not risen in line with productivity for the last 20 years. The effect is that Germany produces more cheaply than its neighbouring countries: the reason for Germany's export surplus! This lasting imbalance between the countries of the Eurozone has a destabilising effect. Germany profits from the common currency but at the expense of other member states. Germany's wage dumping makes it difficult for other countries to compete and results in a “race to the bottom”.

If the Eurozone disintegrates, surplus countries would find themselves in a desperate situation: their products would get more expensive abroad immediately, exports would decrease and unemployment would rise.

DiEM25 therefore proposes the following:

A fundamental principle to stabilise the Eurozone is the **symmetric treatment of trade(?) deficits and surpluses**.

A. Rebalancing Europe's payment system (Target2):

1. Imbalances due to naked capital flow are to be restricted to +/- 10% of the volume of trade (imbalances due to trade deficits/surpluses remain unlimited)
2. Both Target2 deficits and surpluses are penalised by charges which accumulate in a separate account.
   [see Infosheet (9/9): *Financing the European New Deal*]

B. European Clearing Union (ECU)

3. The European Clearing Union controls imbalances in trade and regulates a common digital currency (the ECU) which is used to clear deficits and surpluses.
4. A trade imbalance levy is to be paid annually to each central bank’s ECU-account.
5. Private financial institutions to(?) pay a ‘surge’ fee into the same ECU fund in proportion to any surge of capital flowing out of a country.

These rules should motivate surplus countries to increase government spending and investments. On the other side purchasing power in countries with a trade deficit will decrease.