

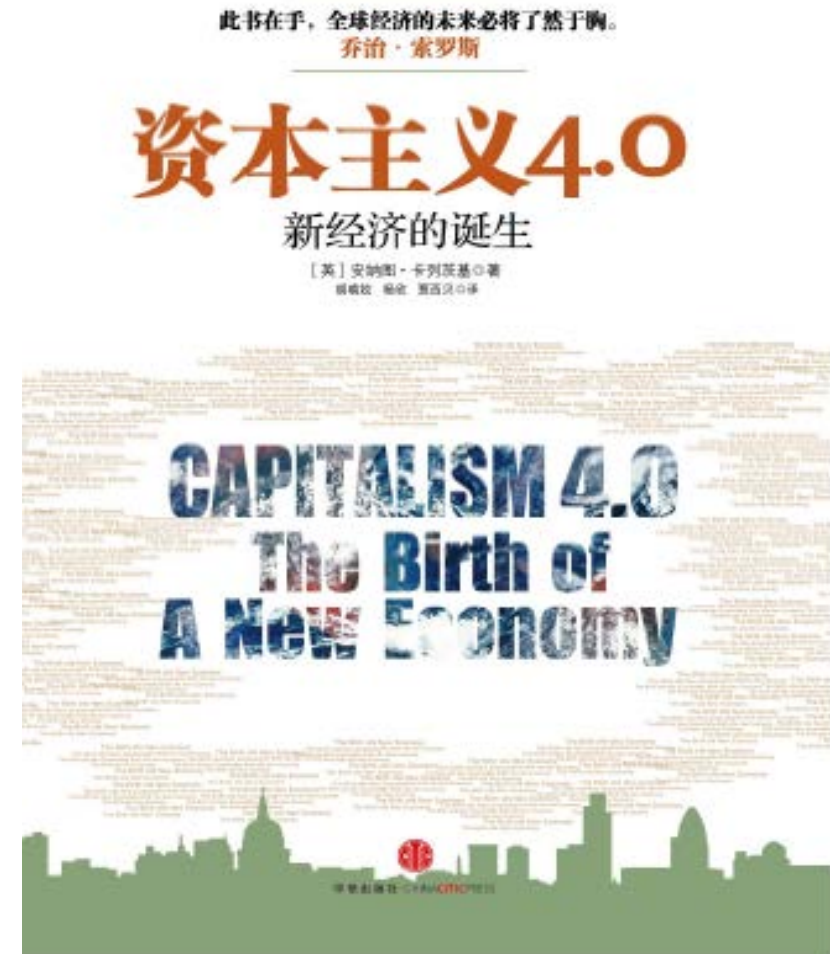
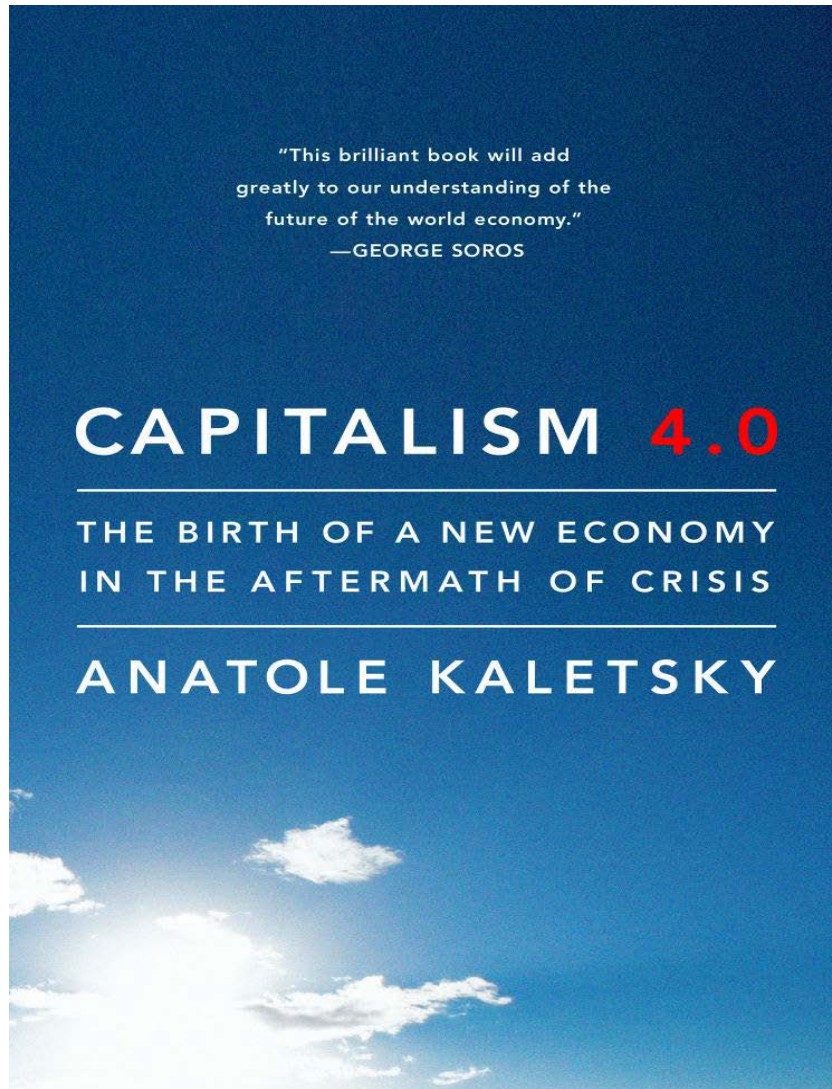
# Time to rewrite EU rules

Anatole Kaletsky

*Co-Chairman and Chief Economist*

*GaveKal Dragonomics*

# A new model of political economy is evolving



# Four eras of capitalism, punctuated by crises

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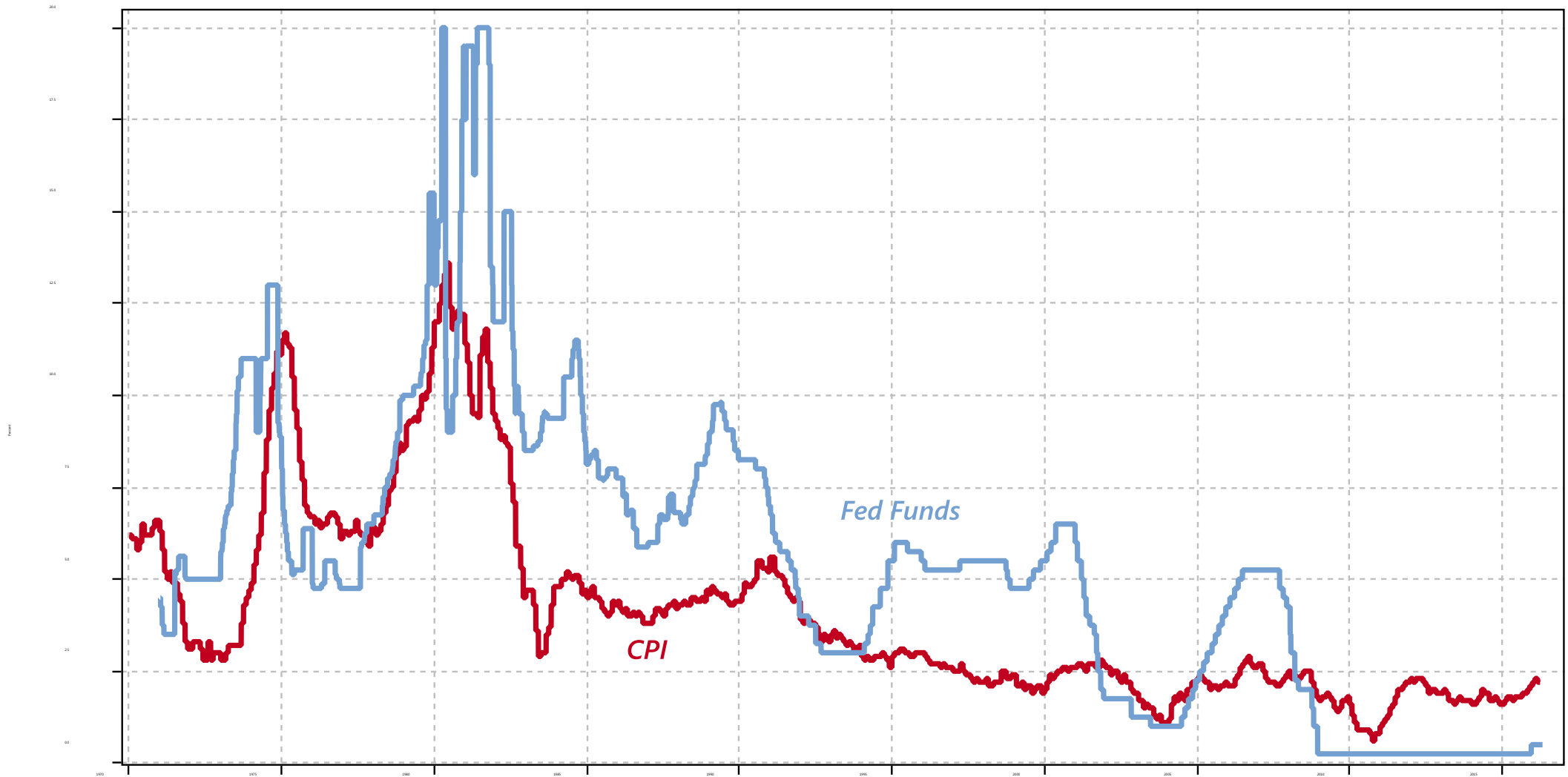
0. 1776-1815 American and French Revolutions, Napoleonic Wars  
1815-1848 Pre-Capitalism vies with Post-Feudalism: Economics *versus* Politics
1. 1848-1865 European Revolutions, US Civil War  
1866-1917 Liberal Imperialism: Mission of Government is to Expand Markets
2. 1917-1932 Great Depression, Communism  
1933-1972 Keynesian Mixed Economy, Fascism: Blind Faith in Government
3. 1968-1980 Great Inflation, Cold War  
1981-2007 Thatcher-Reagan Fundamentalism: Blind Faith in Markets
4. 2007-2014 Global Financial Crisis, Euro Crisis  
2014-???? Experimentation, Evolution: Doubt about Government and Markets

[http://www.oecdobserver.org/news/archivestory.php/aid/3251/Capitalism\\_4.0.html](http://www.oecdobserver.org/news/archivestory.php/aid/3251/Capitalism_4.0.html)

<https://www.project-syndicate.org/commentary/next-phase-for-democratic-capitalism-by-anatole-kaletsky-2016-03>

# Central banks have a new objective: *more* inflation

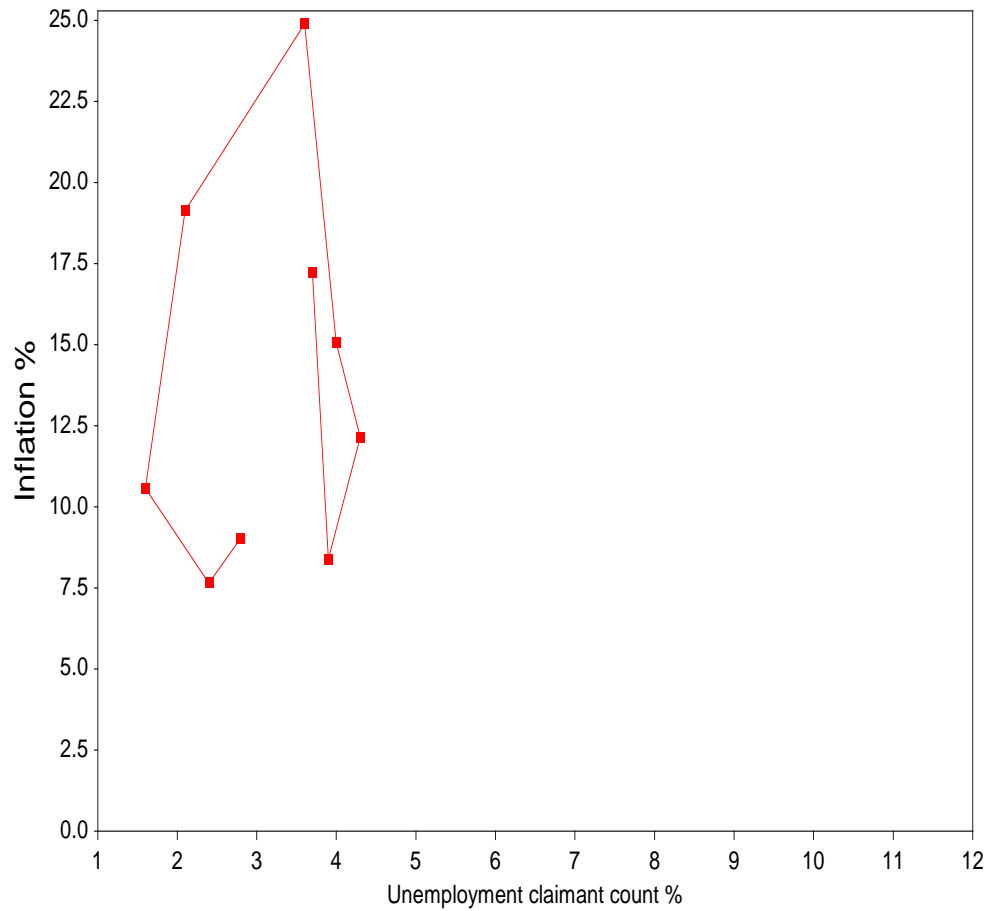
US Inflation and Fed policy



# “When the facts change, I change my mind.

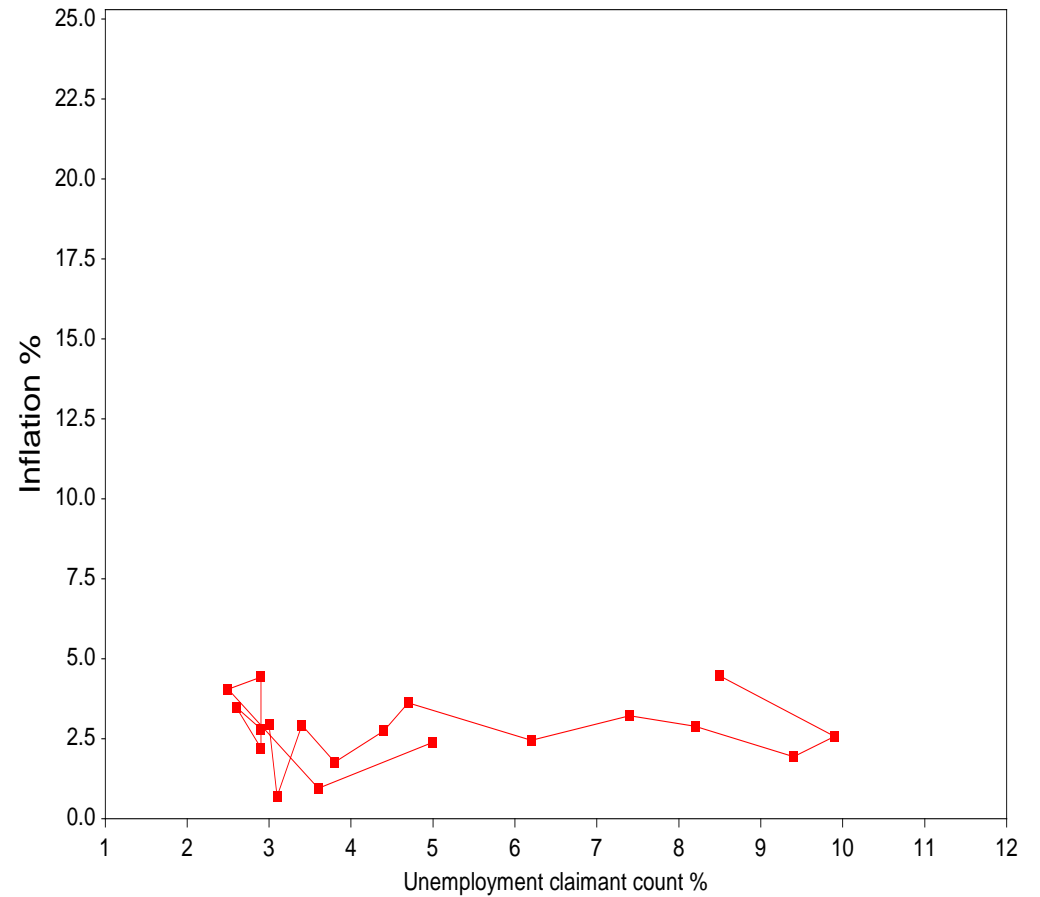
## What do you do, Sir?”

UK Philips Curve 1971-79



Source: Reuters EcoWin

UK Philips Curve 1991-2009



Source: Reuters EcoWin

# Necessary conditions for euro survival

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## 1. Monetary union:

(i) Lender of last resort to banks

(ii) Lender of last resort to governments

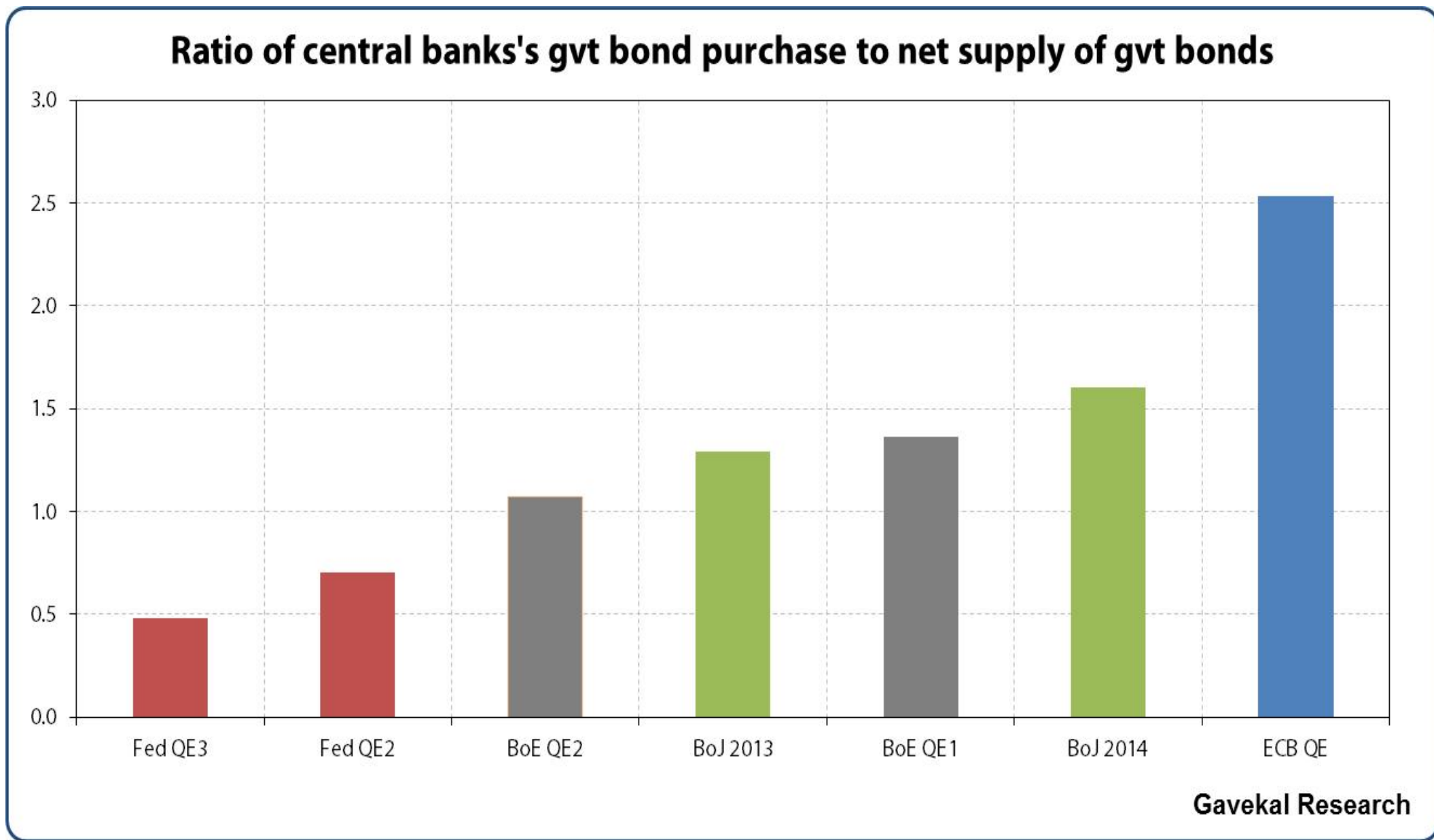
## 2. Fiscal union

(i) Joint oversight over fiscal policies

(ii) Mutual support for debts

## 3. Political union: democratic legitimacy

# QE much bigger in Europe than US or Japan



# EU credit conditions improved immediately...

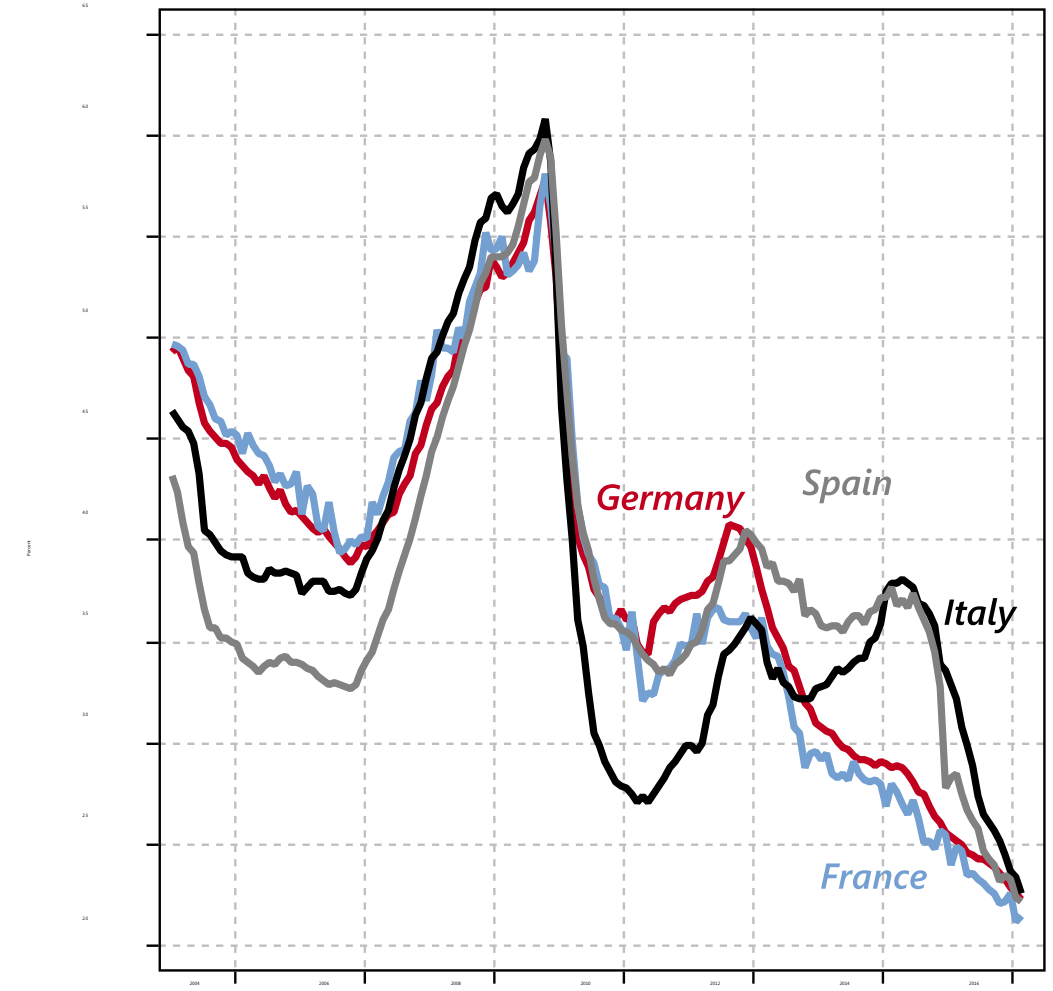
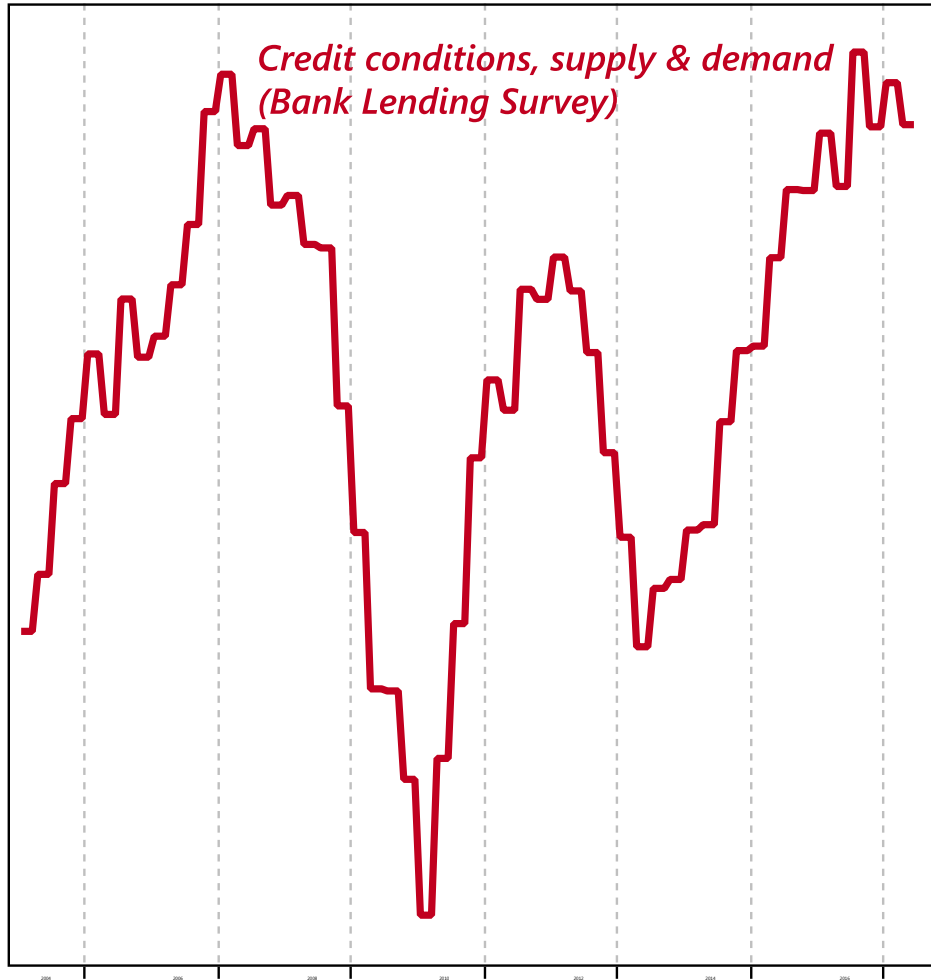
Business conditions have clearly improved in

Bank interest rates to non

financial

the financial industry

corporations (share of over 2.0 up to 5 year)





# ... and economic indicators soon followed

Italian consumer confidence hit decade high



EU Economic Outlook

