

# Theses on Crises and Equilibria: „Sustainable Growth through Re-coordination of Expectations“

- The global financial crisis caused more disruption in Europe than many people realize. The current situation shows that the simple image of a general equilibrium that easily balances itself through the interplay of supply and demand is misleading.
- In the face of strong economic difficulties in large parts of Europe, Germany feels on the right track. Yet long-term economic growth rates tell a different story:

1950–60	1960–70	1970–80	1980–90	1990–2000	2000–2010
8,2 %	4,4 %	2,8 %	2,3 %	1,6 %	0,9 %

- Decreasing growth rates correspond with decreasing investment ratios and insufficient modernization of infrastructure. Along with the population decline, a decade (and more) of stagnation is possible. Regional and social inequality could grow considerably.
- Additionally, global development and growth are likely to weaken compared to the last decades: China has decided to slow down its growth. For the US, this is also – though not an explicit decision – a likely perspective.
- The current situation in the Eurozone is especially challenging. Without higher growth rates, the European Central Bank can only increase the interest rate if it accepts that the euro crisis might return and the Euro might fall apart. At the same time, low interest rates at best suffice to avoid such a catastrophe but they do not solve the problems of unemployment and increasing regional inequalities in Europe.
- Higher growth rates require more investment. The same is true for the transition to a more sustainable economy, especially in the energy sector.
- We see an economic equilibrium as a situation in which supply and demand are balanced in most markets over a longer period of time, without extreme price jumps. Taking this into account, at least two equilibria are possible for the German economy in the years to come (until 2020):
  - With an economic growth of close to 1% the German economy suffers from the Energiewende and from a lack of investment and innovation. Interest rates remain close to zero while hundreds of millions of German capital remain untapped on global financial markets.
  - A green boom with growth rates of 2% and more that creates business opportunities for “green” companies in many different sectors: energy buildings, transport, finance, IT, insurance, public health, mechanical engineering, the chemical industry and others.
  - And there is always the possibility of a second euro crisis that can barely be described as an equilibrium. Since most stakeholders have used up all their financial capacities for bailout, a new crisis would turn out even worse.
- More and more corporations in Germany and Europe test or work with green business models. There is a twofold opportunity here: green investment and innovations are able to spur a new impulse for growth and, at the same time, can improve our and future generations’ quality of life.

- However, no company is able to change the current general state of the economy single-handedly for it is shaped by a self-reinforcing collective dynamic. Looking at the negative case, a lack of investment impedes growth and innovation. This leads to negative expectations of economic stakeholders, low investment quotas and a “bad equilibrium”.
- ECB president Mario Draghi described this situation at a press conference in 2012 where he literally saved the euro with the announcement “We’ll do whatever it takes”. He said: “We are in a situation now where you have large parts of the euro area in what we call a bad equilibrium, namely an equilibrium where you may have self-fulfilling expectations that feed upon themselves and generate very adverse scenarios. So, there is a case for intervening, in a sense, to break these expectations.”
- The ECB can only confine or, at best, avoid catastrophes on financial markets. In order to lead the economy as a whole to another, a better growth path, stakeholders need to come together and cooperate.
- Such cooperation requires a narrative potent enough to guide a growing number of stakeholders. Starting from green business models, step by step, a narrative of green growth can emerge until a tipping point is reached from which the economy moves towards a better equilibrium.
- Political leaders, nationally and on the European level, as well as economic stakeholders can initiate such steps: Through ambitious political goals and cooperation between businesses, politics and civil society we will be able to head towards a positive growth path in Europe.

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