

## GROWTH LIMITS AND EUROPEAN FIDUCIARY MONEY

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**Abstract:** *This paper considers the phenomenon of global growth, emphasizing the slowdown and (limits) of the Western GDP growth. By comparing the United States as the most mature economy in the world, China as the new hegemon, the OECD countries, the BRICS countries, and the rest of the world, we show the growth and unequal development of the five "regional futures" of the global world. In addition to the imminent economic reasons for the backwardness of Western economies and societies, the crisis of the structure and functioning of the democratic capitalist system, and the ecological limits of sustainability, we emphasize two non-economic moments: the end of liberalism as a fundamental ideology of the Western world, and the loss of trust, which is a fundamental moral category. According to futurist forecasts, the West has slowed down, the financial system has been damaged, and the recovery is slow and uncertain. The following subjects are being considered: the growth paradigm, the belief in lasting progress, the end of liberalism and the loss of confidence, the recovery of Western economies, some monetary policy measures, and European fiduciary money and the slowdown of the growth in the Eurozone. The monetary economy of the euro as an agreed single currency has caused strong changes in the Eurozone and has "trapped" the European Union. The euro economy, among other things, is responsible for the sharp division of the Eurozone member states into surplus and deficit countries, and the Eurozone crisis, stagnation, and slowdown in economic (non-economic) growth.*

**Key words:** *growth frontiers, European fiduciary money, liberalism, loss of confidence, financial system, western economies*

### INTRODUCTION

Among number of non-economic factors of Western slowdown, stagnation and backwardness are the two most important, the collapse of liberalism as the political ideology of capitalism and the loss of trust as fundamental human and business ethical categories. When asked why liberalism is failing (as the leading ideology of the Western world), Denin answers briefly, "because it succeeded", it achieved everything contrary to what his values and ideas were proclaimed (Denin, 2019, p. 23). A key category of the modern economic and environmental paradigm is the notion of growth as a mean and (goal) carried by a liberal faith in the unquestionable idea of lasting progress. The financial crisis and recession of 2008 in America testifies that the West has slowed down, the financial system has been damaged, "the inherent rate of economic growth has begun to slow down" (King, 2015, p. 3).

#### 1. Growth Paradigm – belief in lasting progress

Jorgen Randers believes that the United States, as the second regional superpower and the most mature economy in the world, will have slower GDP growth, stagnation in total consumption growth and overall material stagnation, compared to China's growth, whose GDP growth will be 2.5 times higher by 2052) and the growth of the BRICS countries, which will cause considerable frustration with the loss of the first place of the world superpower (Randers, 2014, p. 267). Patrick J. Denin states that 70 percent of Americans believe that their country is going in the wrong direction, at least half believe that its "best days are over", that their children will be less successful and "have fewer opportunities than previous

generations" there is growing doubt in liberalism and the American political system, American democratic values.

Indicators of growth slowdown are: demography, education, inequality, globalization, ecology, excessive private and public debt. The stagnation and economic stagnation of the West in the 21st century, as the world economy strengthens with the rapid growth of emerging markets, requires an understanding of the historical and political context in which, for example, Japan and Argentina in the 20th century as prosperous economies have been caught in the trap of setbacks and slow recovery. Despite expectations, emerging markets have not stimulated the growth of the West, whose nations have failed in the results. Immanent economic growth began to slow even before the US financial crisis (stock markets are collapsing, the technology sector is unable to raise funds). As the response monetary and fiscal policy measures have followed such as a drastic fall in interest rates, rising budget deficits, and the threat of debt deflation. Owners' shares, however, rose in the U.S. housing market, which flourished sharply and then cooled. This was followed by the financial crisis and the well-known banking collapses, a drop in confidence visible to the naked eye, second-class clients "left their homes en masse, and rating agencies were embarrassed" (King, 2015, p. 31). It is evident that ownership rights to securities and political promises, "given in good faith," are based on the premises of "future economic success." However, what if there is no economic growth and future income. That would lead to the end of American society and economy and the end of liberalism. Additional difficulties are whether continuous economic growth on the physically finite planet Earth is possible. The answer is yes, "if the accompanying impact on the environment remains within the limits of the world's carrying capacity, the limits of sustainability." (Randers, 2014 p. 23). Stephen D. King gives a lucid analysis of the problem of "pain caused by stagnation." Namely, it is about the inability of the Western world to answer open questions that cause slow economic growth, (stagnation of productivity growth, falling demand and "madness of consumption")

Malthus' theory of the principles of population gained importance, especially in the light of the ecological problem and the limits of growth determined by the "ecological footprint". The dominant Western paradigm (simplification) contains a belief in the efficiency of a market economy, uninterrupted economic growth on fossil fuels, the democratic capacity of a responsible government, and the positive impact of foreign trade and globalization on overall growth.

According to Adam Smith, economic growth is necessary, without it, society is in danger of disintegrating and fragmenting. In a prosperous state where wealth is acquired, the position of the largest part of the population will be "the best and most comfortable." In a "stationary state" there is no growth, life is miserable. It is numb, because "there is a melancholy of decline" (A. Smith, Wealth of Nations, quoted by Stephen D. King, 2015, p. 40).

On the example of a declining state, it is possible to observe a psychologically rooted "aversion to loss", which leads to further stagnation and loss of cohesion, monopoly, conflict. King sees a psychological phenomenon called "the future of illusion" caused by the fact that despite the growth of wealth, income growth per capita, through financial speculative markets we have spent money "that we have yet to earn." Except Germany, almost all European countries have increased the share of public spending in national income. Creditors, debtors and financial intermediaries have succumbed to the illusion of lasting economic expansion and deception, as evidenced by excessive borrowing at all levels, leading to stagnation, poor performance in capital markets and weakening social rights.

Jorgen Randers in "Global Forecast for the Next Forty Years, 2052" highlights two phenomena:

1. mature economies will have lower growth rates in the future, (the Chinese will be more productive, while Europeans and Americans will lag behind), and
2. environmental problem arising from economic success, "that we have already crossed the limit of the physical capacity of the world" (limits of sustainability, good and bad growth) (Randers, 2014, p. 72).

Herman Dali believes that the economic growth that brings profit has ended, the non-economic growth that is more expensive and that is materially impoverished continues. Namely, we should start from the premise that macroeconomics is part of the "larger economy of the natural ecosystem". Thus, the growth of macroeconomics imposes a growing "opportunity cost" of reduced natural capital, "which will at some point limit further growth" (Randers, 2014, p. 75). Since there is also a bad product, bad goods and services that have no price in the calculation of GDP, asymmetric accounting is needed. We should also keep in mind the growth of voluntary and forced

investments that arose from the environmental problem (elimination of damage).

New costs will also appear:

1. substitutions for scarce resources,
2. solutions for hazardous substances,
3. costs of once free environmental services,
4. damage caused by human activity,
5. damage caused by extreme climate change,
6. for the reconstruction of destroyed infrastructure, and
7. military expenditures to combat immigration, provide resources and manpower in emergencies.

The key problem in defining costs at the global and local levels deals with short-term political decisions, as a number of problems will be addressed once inconceivable damages occur. Namely, both political and economic decisions have a short-term character (Randers, 2014, p. 81).

## **2. The end of liberalism and the loss of trust**

The economic rise and slowdown of American society in its progress toward freedom is based on the ideology of liberalism. Patrick J. Denin believes that the American political system, whose philosophy is liberalism, has collapsed and that American constitutionalism is coming to an end. Liberalism is a political philosophy that proclaims greater equality, pluralism of cultures and beliefs, human dignity and human freedom. As a result, the faithful in itself create pathology as a deformation of "its principles and the realisation of liberal ideology" (Denin, 2019, p. 24). In contrast to the proclaimed principles in practice, liberalism creates enormous inequality, impersonality and homogeneity, encourages material and spiritual decay and "undermines freedom" (Ibidem).

In the politics of a developed liberal democracy, citizens, amused by private matters, rebel against their own government and state, against a government that seems remote and irresponsible. Liberalism has reduced the notion of freedom to the freedom to consume goods and services (consumer) in a globalization that has no alternative. Freedom in the economy has been reduced to economic necessity (four freedoms in the EU). With the climax of liberalism, there is a "steep decline" of free (humanistic) sciences, which testifies to the lack of vision, and alternatives to existing models of growth and development. The deformations of liberalism are

not removed by its realization, which has become morally worn out, but by "liberation" from liberalism itself (Denin, 2019, p. 37).

It is obvious that the main goals and basic aspirations of liberalism, political freedom and human dignity should be preserved, and ideology and false anthropology should be rejected. While the end of liberalism and the end of the ideology of the American political and social system, the loss of trust is understood as the loss of the fundamental moral and economic fact of a capitalist economy based on credit (trust). King argues a loss of confidence is a loss of growth. The financial crisis is destroying trust as the foundation of human interaction and business communication. Lack of trust weakens chances and leads to loss of opportunities, jobs and reduction of transactions.

In the financial markets, there is a loss of confidence in capital effects, in the business model of banks and other financial institutions, in the solvency of banks and loan collateral, and in the security of money invested in financial institutions and markets.

Trust is "externality" that enhances economic efficiency, a value that has practical economic benefit, that is, reliability in the word of another. Distrust within the financial sector is spreading to the public sector, creditors are losing trust in debtors, trust nations in debt nations, citizens in the credibility of the state and public authorities. The democratic deficit shows that the citizens do not have confidence in the government they elected, but also the distrust of the elected in the citizens who elected them.

Distrust in the state and the system, as evidenced by numerous historical arguments, becomes strong when individuals and groups lose already won positions, privileges, incomes. King emphasizes the three relevant consequences of stagnation and loss of trust (growth), namely income inequality, intergenerational conflict and conflict between the debtor and the creditor. Loss of confidence and economic disappointment is the path to political instability.

## **3. Recovery of western economic, growth frontiers and sustainable development**

The Western capitalist world, driven by the liberal idea of freedom and unquestionable progress, is not prepared for the option of constant stagnation and slowdown (economically, politically, ecologically, culturally, spiritually). Capitalism has created global wealth, the corporate form of economic organization, continuously restructures and distributes resources and income, and ensures

economic growth and sustainable development. However, uncontrolled economic growth has paved the way for a dramatically unequal distribution of opportunities and income, power and wealth as well as an increase in the poverty and unemployment rates as well as job losses.

The American crisis and the crisis in the European Union have candidated in the 21st century for discussion issues of greater social, economic, cultural and environmental polarization in mature markets. The democratic deficit in decision-making is evident, delays in decision-making are disastrous, as is short-term decision-making and slow implementation of procedures. The decision-making process requires an appropriate level of decision-making coordination, a strong role for the state and the market in the emerging green economy, a painful transition from "fossil fuels to growth" to sustainable development, (Randers, 2014, p.35).

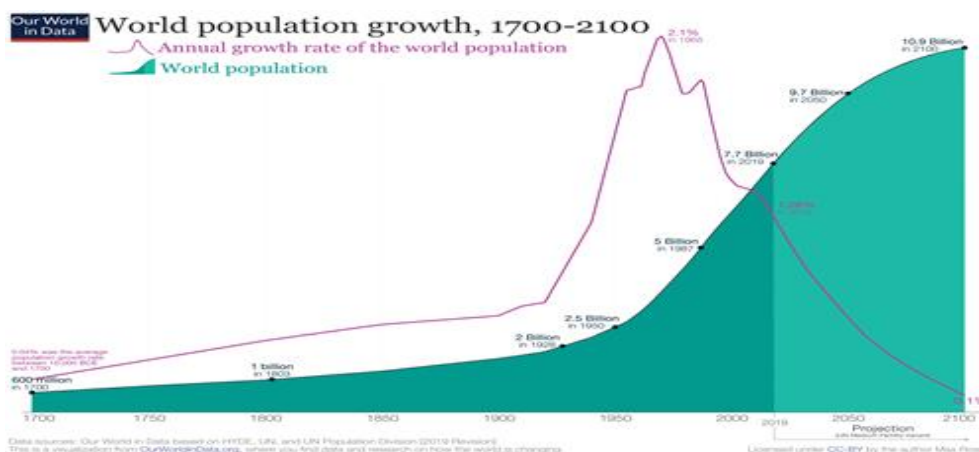
China's undemocratic model of decision-making has proven to be better, faster and more purposeful in making state political and economic decisions than the Western "democratic" system. Western democracy should agree in the economy, politics and ecology to a "stronger state" and faster decision-making "until it is too late". The future is uncertain, the power of prediction based on induction is extremely unreliable. The ability to predict in economics makes sense when it comes to trends and tendencies, but not when it comes to events. Namely, the reduction of the rate of

economic growth, GDP growth, demand, consumption, reduction of standards by 2052 is very certain, but when, where and how difficult it is to predict, as well as rare events (black swan), uncertainties and risks that significantly determine development and drastically change the economic flow.

In considering the recovery of the Western capitalist economy and society, we have included some global forecasts, "about our common future", about the world socio-economic, cultural-natural system, given by J. Randers. These are the issues of borders and growth retardation, economic "light green" and non-economic growth, borders of capitalism, planetary ecosystem, end of generational harmony (intergenerational conflict), population growth, food and biofuel production, "ecological footprint", then, urbanization (escape to cities), climate change, the transition from growth based on fossil fuels to sustainable growth based on "clean" technologies, and conflicts and tensions.

Both globally and locally, the world is a "dangerous place to live", exposed to new risks and growing uncertainty. According to Randers' predictions, restrictions "on the availability of resources" will lead to social unrest, currency degradation, rising illiquidity, uncontrolled debt, long before there is an "environmental collapse". Thus, a crucial issue is access to and management of resources as well as control, both nationally and globally.

**Picture 1:** Growth of world population (1700-2100)



**Source:** <https://ourworldindata.org/future-population-growth>

Mathematical formulation and quantification includes indicators, future global population, potential labor force and its gross productivity, annual production, amount and nature of investment, consumption, energy intensity in

production, per person, energy shares, CO2 emissions, CO2 intensity, CO2 concentration, food production (arable land and yield), net climatic effect on food production, temperature rise, amount of unused biocapacity (Randers,

2014, p.60). These indicators determine not only the recovery of Western economies and societies, but also their future growth and sustainable development.

#### **4. Some monetary policy measures**

Overcoming the financial crisis and economic recovery depends on appropriate programs of economic reforms, measures and policies, monetary and fiscal policy in particular, but also on public authorities and the political will to achieve reform goals. It is evident that monetary policy is not politically neutral, but also that it does not have the "old potential" to solve problems. So money cannot be separated from politics. Western monetary systems create winners and losers, and can lead to social fragmentation. Monetary policy does not lead to a revival of growth, but primarily to the redistribution of property and income as a "disguised form of redistributive taxation" (King, 2015, p. 119).

Some measures such as interest rate cuts, quantitative easing and fiscal stimuli in the function of initiating economic activity did not yield the expected result. These are measures like analgesics that Western nations have become addicted to (King, 2015 p. 71). Low bank borrowing costs did not significantly boost growth, and reflect a lack of capital investment. Central bankers found themselves in a "liquidity trap" (an increase in the money supply does not lead to a change in the prevailing level of interest rates). Quantitative easing is manifested in the injection of money into the economy without the "obligation to pass through the banking system" (King, 2015, p. 72).

In the US case, new money generated (not issued) by the central bank buys bonds held by investors, which usually included a large amount of "consumer debt" and credit. More intensive purchases of bank assets lead to increased demand and higher prices, which implies lower yields. Holders of mortgage-backed securities are looking for a higher return on investment by buying riskier assets. Quantitative easing does not provide individuals with an intuitive message that they are better off, the benefits of quantitative easing in the global economy of financial transactions do not stay "at home". Quantitative easing brings the state closer to the central bank and vice versa, and gives the state the opportunity to be primarily for loans and borrow money cheaply. According to King, quantitative easing leads to a fiscal trap, an exchange trap, a zombie trap, and a regulatory trap. The fiscal trap testifies to the lack of economic risk-taking and low capital spending,

despite higher profits. Companies avoid investing in new ventures and focus on "avoiding losing money", returning cash to their shareholders, and investing their money in safe government bonds. Government debt as a share of national income tends to grow. Quantitative easing should reduce the value of the currency in the foreign exchange market, which proves to be a "hidden tax" on domestic income and ultimately impoverishes the economy.

Quantitative easing leads to the survival of "zombie companies" at the expense of healthy companies that have a harder time accessing bank funds. Quantitative relaxation and regulation can cause unwanted consequences. Basel 3 regulations allow states to more easily raise funds from the banking system than other debtors (King, 2015, p. 83).

Quantitative easing is a mechanism of redistribution of wealth and income. According to King, central bankers make political decisions about winners and losers, because they have become "power in the shadow of the throne". This phenomenon of tension between the political legitimacy and power of the ECB is evident and especially sharpened in the euro area. The question is which way to direct the euro, with the condition of delegating fiscal sovereignty from the national to the community level. It is indisputable that the euro is the most certain fact of the European Union.

#### **5. European fiduciary money and the eurozone growth crisis**

We emphasized earlier that there is no, no matter how much we believe in the idea of progress, a linear and one-way progressive flow of the global world. Globalisation unequivocally refutes this idea of some progress. J. Randers talks about five regional futures, the USA and China (regional civilizations), then the OECD countries within which Europe is included), the BRICS countries and the rest of the world. It is indicative that there is no European Union among the mentioned regional futures (Randers, 2014, p. 265).

The European Union (although not designated as one of the regional futures) is not an empire created by war and conquest, but a contractual community of communities created by peaceful means, by agreement of European nations. The goals of the voluntary emergence of this community political creation are political, (ensuring peace and security, pacification of Europe preceded by the two world wars) and economic, legal, defense and moral reasons.

Eurozone member countries have voluntarily acceded to the single currency, the euro, as

European agreed money, respecting European monetary rules. According to Klaus Ofe, the precariousness of the euro and the crisis it caused and initiated in the countries of the Eurozone and the European Union led Europe to be "trapped" (Ofe, 2016, p. 2). The status quo is unsustainable, a return to the old is impossible, and a step into the new is uncertain. In the European Union, financial market crises, public debt crises, economic crises, employment crises and institutional crises are accumulating cumulatively (Ibidem). Lack of vision and willingness to act on the principle, let's do and discuss, is no longer sufficient and effective.

If the principles that enable the European Union to get out of the trap it is caught in, and which is more devastating than the crisis itself, are not agreed upon, the great political project of peaceful unification and economic integration will suffer, the welfare state will suffer special damage, tectonic disturbances will also be felt by the candidate countries of the Western Balkans.

Therefore, the issue of vision (strategy of real and possible) democratic deficit and legitimacy of institutions and actors, as well as political readiness and will to find the optimum of common European interest in the conditions of strengthening national sovereignty, is on the European agenda.

However, despite all the problems, the fact that a new sui generis political community with three branches of government, community law, a huge regional market with four fundamental freedoms and the euro as a precarious currency was created in a peaceful, non-violent way deserves the greatest attention. During the crisis in the Eurozone and the Union itself, many cracks in the institutional structure and functioning of the Eurozone were shown. The Greek crisis evidently showed European disunity and the rift between the countries of the North as creditors and the countries of the South as debtors, then the countries of "old Europe" and newcomers of former socialist countries, and finally the leaving of the European Union by Great Britain.

The economic decline of the European Union, problems of leadership, poor coordination and slow (consensual) decision-making, as well as the lack of adequate mechanisms for their implementation lead to political extremism and controversy. In the monetary system of the euro, members do not manage national currencies that do not exist, national monetary sovereignty has been transferred to the community level, which they also cannot manage in order to curb the uncontrolled power of the financial sector. However, the problem is not primarily money, but

consensus, the lack of valid solutions in building and reaching consensus. Thus, the European Monetary Union and the euro can be a real threat to the disintegration of the European Union. The fragility of the eurozone and the euro as agreed fiduciary currencies is shown by the crisis in the eurozone, partly imported as the American crisis of non-performing housing loans, and partly as the crisis in the private banking sector, as well as the immanent crisis of the eurozone.

The financial markets themselves, unlike the real sector, are specific, in those markets buyers buy goods, effects, which they think that tomorrow in the future others will be ready to buy (speculative deals, aleatory contracts). Financial institutions are debtors who owe a large number of private and public creditors. Large and systemic banks in debt in the crisis, which were deregulated and liberalized by the government, were saved by the state in both the European Union and the United States, without a serious reform of the banking and financial system. The crisis in the eurozone has been affected by cheap money from central banks, "reckless risk-taking" in lending to large banks, economic growth in the most developed economies and financialization, financing through borrowing (Ofe, 2016, p. 22). The introduction of European money is motivated by the belief that the euro, through competition, will ensure the convergence of countries in terms of production volume and productivity. The problem is that the eurozone is too heterogeneous, as evidenced by economic indicators, so the action of the single currency with inadequate mobility of factors produces winners and losers.

The currency zone of the euro is very heterogeneous in terms of wages and productivity. One thing is indisputable, the euro enables the German economy to keep its export surplus infinitely sustainable, of course, "at the expense of others". Losing countries, deprived of national monetary policy instruments, focus exclusively on fiscal policy measures, although most of these countries are over-indebted. Truth be told, the European Union proclaims fiscal discipline, but has no instruments to "tax and distribute public revenues" (Ofe, 2016, p. 24). The monetary system of the euro, unlike the system of the dollar, yen, pound or yuan, does not include a set of policy measures that enable a consistent economic policy (growth, employment, social benefits and distribution). only discretionary rules are available.

According to Klaus Ofeu, the monetary system of the euro has two important shortcomings:

1. It is built on the wrong, suboptimal currency zone, and

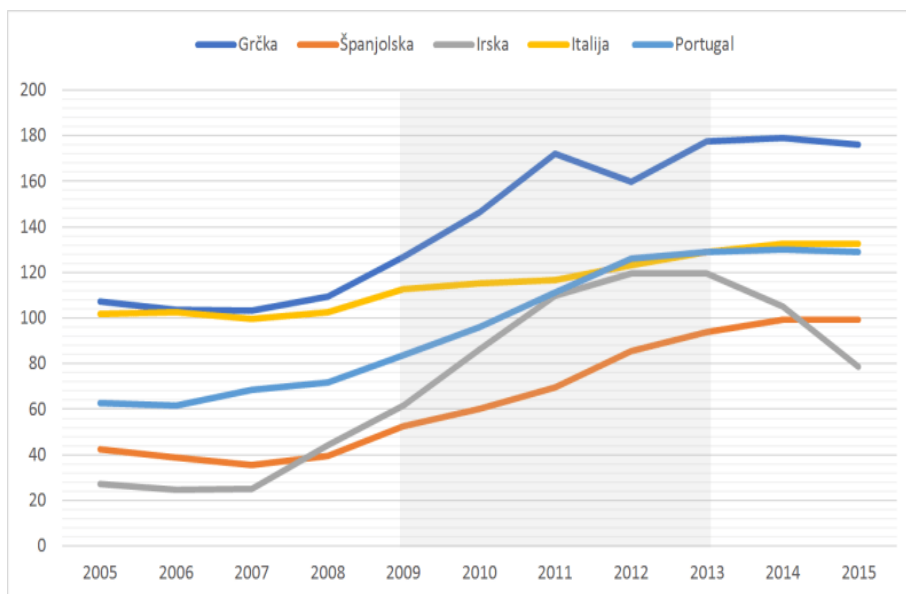
2. It is institutionally flawed, as is the flawed institutional system of the Union and the eurozone.

The euro is not in a position to make it possible to adjust the balances between the regions and make them bearable. Under the ECB regime, the euro generalizes monetary policy to diverse economies, instead of "one size that suits everyone", "one size that does not suit anyone" is at work (Ofe, 2016, p. 27). The monetary economy of the euro does not have the institutional means to absorb bubbles, asymmetric shocks, to suppress inflation and the fiscal expansion of eurozone member states. Instead, the euro divides the European Union into "core" or surplus countries and peripheral countries, "deficit countries". He prefers "core" countries that profit in the euro regime from a "single external exchange rate" and prevents peripheral countries from leaving the euro zone. This is possible only if they go bankrupt and thus lose the credibility of the banks on which they

depend (Ofe, 2016, p. 28). Peripheral countries in the common currency trap provide cheap loans to "core" countries with single interest rates for ECB money (interest rates tend to zero) under the motto to help the growth of peripheral countries. Distrust in the recovery of the over-indebted countries of the south does not allow private creditors to lend them cheap money, which is mostly placed in the economic growth of the countries of the "north".

Due to the lack of democratic legitimacy, community institutions cannot force member state governments to adhere to borrowing norms. Namely, strict adherence to the norms of borrowing and austerity measures leads to enormous difficulties for the countries of the south to solve the accumulated economic and social problems. Therefore, in the existing institutional structure of the European Union, and its monetary system and policy, public debt has been installed as the fuel of the "deficit state".

**Picture 2:** Share of public debt in GDP of selected countries (2005-2015)



*Source: International Monetary Fund*

Institutional and political reasons (short-term decisions and elections) do not allow the alternative to government borrowing to be a "financial option of taxing wealth and corporate capital" (Ofe, 2016, p. 29). In order to obtain credit by issuing government bonds, deficit states in stimulating real sector growth are forced to spend a significant portion of tax revenues on debt servicing. In order for deficit countries to be able to claim the right to financial assistance and debt write-off, according to the strategy of conditioning the "Troika", they must implement structural

reforms and rigorous austerity measures. However, restrictive measures, such as austerity measures, have negative effects on growth and employment. Structural reforms do not have a proactive and progressive effect, but mean a reduction in social benefits, deregulation of the market for goods and services and a reduction in jobs. In a time of stagnation and slow growth, it is difficult to implement economic reforms in the euro economy that are by definition restrictive, reduce demand and discourage development. Applying the same measures to unequal conditions gives unequal

results, it is certain that the monetary economy of the euro does not protect the deprived.

## CONCLUSION

There are four important reasons for the slowdown in Western GDP growth:

1. the immanent logic of slowing GDP growth and lower rates, which correspond to a mature economy and a systemic crisis,
2. ecological reasons for the planetary sustainability of healthy development and the "green economy",
3. the end of liberalism as a fundamental ideology of the capitalist West (disintegration and fragmentation) and
4. loss of confidence.

The analysis of the regional future under the name of the European Union and its currency zone (eurozone) testifies that all four stated reasons for stagnation and slowdown of growth are at work, with the addition of the fifth reason, the introduction of the euro as an agreed currency, "without parents." To summarize, the euro economy is slowing down the growth of the eurozone, especially the growth of peripheral countries, and even some northern countries, with the exception of "European Germany". However, despite its potentially subversive nature, and the fact that it was built in the "wrong" currency zone, it crossed the "no return" point and became a "virtually irreversible arrangement." The countries of the "north" profit in the euro economy due to the inflow of cheap capital, due to the underestimated foreign exchange rate of the euro, they remain net exporters and in trade with partners outside the European Union. Cheap loans affect the budget balance of surplus countries. However, by leaving the euro zone by the surplus country, the peripheral countries would also be affected, because due to the devaluation they would not be able to "import what the core countries export," the paradox is that the euro, for various reasons, supports both winners and losers. So, the abolition of the euro would be enormously expensive today, and the risks that the periphery would face are immeasurable. So, "the euro is a mistake whose correction would be an even bigger mistake."

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## SUMMARY

According to futurist forecasts, the West has slowed down, the financial system has been damaged, and the recovery is slow and uncertain. The following subjects are being considered: the growth paradigm, the belief in lasting progress, the end of liberalism and the loss of confidence, the recovery of Western economies, some monetary policy measures, and European fiduciary money and the slowdown of the growth in the Eurozone. The monetary economy of the euro as an agreed single currency has caused strong changes in the Eurozone and has "trapped" the European Union. The euro economy, among other things, is responsible for the sharp division of the Eurozone member states into surplus and deficit countries, and the Eurozone crisis, stagnation, and slowdown in economic (non-economic) growth.