

ECONOMIC AND INDUSTRIAL ALTERNATIVE POLICIES FOR EUROPE

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THE ANALYTICAL FRAMEWORK

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- ❑ The Global and European crises are part of the crisis of Neoliberalism, which is a peculiar form of capitalism. A very active, non-laissez fair configuration, first . And a privatised Keynesianism, second.
- ❑ It is not just something on which it is enough to say - please, give us less austerity.
- ❑ Nor it is a global imbalances crisis.
- ❑ False or partial analyses, no true solutions.

THE ANALYTICAL FRAMEWORK, CONT'D

- ❑ The European crisis was imported but afterwards it took its own pace and became partly independent.
- ❑ We should focus on
 - industry in the last 15-20 years: how so-called financial imbalances are dealt within the Eurozone as a monetary union and unique system of payment;
 - and how the restructuring of German manufacturing created a transnational value chain in production and a new geography of industrial and trade relations between, roughly, the Centre-North, and the South-West of the European continent.

THE ANALYTICAL FRAMEWORK, CONT'D

- ❑ The issue about trade imbalances is a most evident topic useful to look at this general dynamic.
- ❑ Only all these dimensions together you can give quite an original and different answer to the economic policy "exit" from the crisis, relative to heterodox tradition too.

THE ANALYTICAL FRAMEWORK , CONT'D

- Some defining features of current monetary economies, in general, and some specificities of currency areas:
 - (1) in a monetary union, with a common payments and monetary system, where reserves are endogenously generated by the creation of credit, it is not possible to have a 'normal' Balance of Payments crisis;
 - (2) a distinction must be made between financing and saving, so that, even if it is true that under-consumption in some surplus countries is compensated by current account deficits in others, this does not mean that investment and consumption in deficit countries cannot be financed in different ways, which are independent of their current account positions;

THE ANALYTICAL FRAMEWORK , CONT'D

- 3) the view, according to which trade surpluses are the origin of financial imbalances in deficit countries, implies an underlying causal relationship from the trade balance to the capital balance which seems quite unlikely in a world where trade transactions capture only a small fraction of transactions across jurisdictions, all of which requiring financing;
- 4) current accounts, based on net flows, exclude underlying changes in gross flows and their contribution to the existing stocks of debt, including all transactions involving only trade in financial assets.

IMBALANCES? WHAT IMBALANCES?

- In a open economy, current accounts register the net capital outflow/inflow which is, from the accounting point of view, equivalent to the difference between saving and investment. But this accounting equivalence does not mean that:
 - (i) there is a link between global financial intermediation and current accounts;
 - (ii) or that 'real' saving and consumption decisions determine the type or direction of financial flows.

IMBALANCES? WHAT IMBALANCES?, CONT'D

- In the same way, current accounts don't tell us:
 - (i) the extent of investment that is financed from abroad, or
 - (ii) the contribution of offsetting gross flows to the existing stocks of debt and sectoral imbalances.
- Within this outlook it is important to consider that countries in the Eurozone share the same payment system: *'a cross border payment between banks in two countries in the euro zone automatically generates balancing credit claims between the national central banks (NCB) and the ECB. This is the mechanism that irrevocably unifies the former national currencies, converting a set of currencies whose exchange rates are merely fixed at par into a single currency'*.

IMBALANCES? WHAT IMBALANCES?

- ❑ a payment system does not suffice in order to create a new currency,
- ❑ the existence of a common payment system has important implications, in the case of a monetary union, as long as the liabilities created by individual NCB remain equivalent and valued at par, there is no limit to the amount of reserves the Eurosystem can create.

TRADE AND CAPITAL

- ❑ Current accounts are not an indicator of how much of the domestic investment is financed from abroad.
- ❑ Any country can show a balanced current account and still have its investment financed from abroad.
- ❑ If the financing operation takes the form of a foreign loan, this will be matched by an increase in deposits vis-à-vis the exterior. Only offsetting gross flows will be involved in the transaction, regardless of the final destiny of the deposit.
- ❑ Net balances reflect offsetting pluses and minuses, which represent assets and liabilities with different characteristics. There is no guarantee of a match between the holders of both.

TRADE AND CAPITAL, CONT'D

- ❑ The network/chain-like structure of the European industry and its geographical dispersion implies that the flows of products and services within each network/chain are made of sequential acts of import and export, arranged in series.
- ❑ Who and what it exports to a chain whose final product is the consumption of or the export to another country?
- ❑ Who imports intermediate goods essential to complete its chain of production for both domestic final consumption or for export.

TRADE AND CAPITAL, CONT'D

- It should be analysed
 - the different structural configurations prevailing in each industry the composition of the flows of goods and services going through these chains.
 - the analysis should be complemented by an assessment of the contribution, product/service by product/service, to the final added value of the different steps in the series, which requires the product's teardown and the description of the actual flow of the specific production process.

- Looking at the intra-European trade in this way the current account balance fails to focus on the actual process of power and value re-distribution occurred in the EU and in the Euro area.

INDUSTRIAL STRUCTURE'S LIMITS TO REFLATIONARY POLICIES

- ❑ the new social division of labour in Europe: an integrated industrial system with an uneven territorial distribution of core competencies and corporate headquarters;
- ❑ the companies of the eastern countries of EU-27 are mostly under the control of western corporations.
- ❑ From the point of view of the production process these web of firms are a comprehensively integrated process:

INDUSTRIAL STRUCTURE'S LIMITS TO REFLATIONARY POLICIES, CONT'D

□ Summing up:

1. a centralization without concentration dynamics; on the other hand a Neo-mercantilist competition model based on the endless pursuit of a never-ending expansion of all kind of consumption, engendering the necessity to seek new markets.
2. A competition based on adding new productive :significant unused capacity.

INDUSTRIAL STRUCTURE'S LIMITS TO REFLATIONARY POLICIES, CONT'D

- That is why we can argue that current crisis is also characterised by oversupply in key sectors, that is an excess of investment in key industries: namely automobile and “white goods”.
- Overcapacity and income stagnation, when not outright deflation for the working, class urged countries, to find outlets for their outputs. This, in turn, has led to an enormous space for manoeuvre for financial capital.

PRODUCTIVE MATRIX

□ Simonazzi, Ginzburg and Nocella (2013):

- a. *'Since 1999 the growth of the German economy has been driven not only by exports but also by imports, in particular of parts and components linked to the relocation abroad of supply chains'. Moreover, 'the primary reason for the rise of current account surpluses after 2001 was a sharp fall of domestic private investment as a share of GDP, accompanied by a growth of foreign direct investment driven by offshoring activities'.*

PRODUCTIVE MATRIX, CONT'D

- b. In the outsourcing of manufacturing:
 - *Relocated mainly activities biased in favour of low- and high-skill requirements, while*
 - *activities requiring medium skills have remained in the country.*
- c. *helping to create jobs in the home country by sustaining productivity in manufacturing, while contributing to the sharp fall in Germany's relative unit labour costs.*

PRODUCTIVE MATRIX, CONT'D

- d. It is of paramount importance the impoverishment of the productive matrix of the periphery because as a consequence *'an expansion of the German internal demand, albeit necessary, would not suffice to provide a viable response to the long-term sustainability of the euro area'* : each increase in demand will be transmitted primarily to the German production trans-national value-chain system

PROPOSALS - 1

- a new agenda:
 - I. a 'low-investment, high consumption, full-employment economy' (Minsky, 2008b: 329)
 - II. environmentally sustainable.

MULTIFARIOUS CONSEQUENCES

□ Affording:

- the high level of unemployment, namely youth, through investments in social infrastructures to give an answer to societal needs
- with targeted public programs for job creation, and in programmes for social and environmental activities. Medium-term designed programs in order to facilitated a transition from unemployment to a regular work for unemployed youths. The enrolling scheme should be based, as much as possible, on the individual experiences and instruction levels to favour a personal development.

MULTIFARIOUS CONSEQUENCES, CONT'D

□ Setting up:

- EU-wide minimum and common standards for the quality of work and defining a floor for wages, starting from the specific national situations.
- labour-intensive criterion as priority for all kind of public support to private investments..

PUBLIC SUPPORT AND INVESTMENTS

- ❑ Public support, in the form of subsidizing demand, must be severely restricted to new advanced products/services supporting the decarbonisation process, such as the development of new mobility patterns (services and vehicles)
- ❑ Instead to support, with the availability of “patient capitals” and the long-term initiative of “an entrepreneurial state” (Mazzucato, 2013), innovation in the productive sphere, as qualified before, with the explicit target, and consequent constraints, of the decarbonisation of our economies;
- ❑ Eventually the economic sphere will consist of two sectors and modes of production: labour-intensive, due to specific public investments and policies, and capital-intensive, due to private investments but with specific social and environmental regulations.