The global crisis and the changing European industrial landscape

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Abstract: Capitalism is still in a systemic crisis that started in the Summer of 2007. Financial instability arose from the difficulties inherent in a particular segment of US financial markets, then spread to the rest of the world. The financial crisis mutated into a banking crisis and, in less than a year, it became a full blown crisis of the real economy. Now, the crisis of private debt has turned into a public debt crisis, and the global crisis has heavily affected Europe. The recession is likely to be a prolonged one even if one accepts that the feeble recovery, if there is a recovery at all, will not end in another depression. The trigger of a double dip may be European contradictions. Capitalism could therefore face again, in the medium term, a prolonged period of stagnation with mass unemployment.

In this paper, we will first give a brief outlook of the global and European crisis. Then we will focus on Europe. We will inquire in particular into the contradictions of European neo-mercantilism, considering some 'microeconomic' but crucial dimensions of the nature of competition and industrial restructuring.

Keywords: financial crisis; privatised Keynesianism; neo-mercantilism; Germany; economic crisis; restructuring.

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1 The global crisis of the financial privatised Keynesianism

We are not experiencing the crisis of an unrestrained free market liberalism.[1] It is true that the first phase, after the 1979–1980 neoconservative turn, can be defined as a 'monetarist' one. The concrete manifestations of these policies were the cuts in social public expenditure and the fall in wages either in real terms (USA) or as a proportion of national income, generating initially a tendency towards the fall in consumption demand, and the risk of a new great effective demand crisis. But there were very powerful political counter-tendencies. The most notable among these were President Reagan's twin deficits, (budget and capital account), that kept the USA above water and initiated the flood of net imports, thereby sustaining the rest of the traditional, industrialised world. In those years the USA and, to a lesser extent Britain, Australia and Spain, became the outlet of last resort of both strong neo-mercantilisms, such as Germany and Japan, as well as of the weak ones, such as Italy. But by themselves Reagan's twin deficits, centred on a revamped military expenditure, would have been just counter-tendencies to the stagnation of the 1970s and to the US recession of 1981–1982. The key point to be understood is that the 'monetarist' phase also led, from the late 1980s, to the emergence in the USA of a type of capitalism based on a sort of 'privatised Keynesianism'.[2] The novel elements of this were the real subsumption of labour to finance and debt, on one side, and the casualisation of jobs and working conditions on the other. These two elements rested upon a balance, which turned out not to be sustainable, between three characters: the 'traumatised worker', the 'maniacal saver', and the 'indebted consumer'.

The phase that has been improperly christened as 'the Golden Age of Capitalism', and even more after its crisis in the early 1970s, witnessed the rise of what Minsky (1993) termed 'money manager capitalism' and Aglietta (1998) called 'le capitalisme patrimonial', which can be summed up also as 'pension fund capitalism' (Bellofiore, 2000). A system of savings became formalised with moneys being deposited in and entrusted to private institutional funds. The overarching presence of pension funds created a situation in which financial institutions aided by credit rating agencies (which also are non-bank financial companies), determine the governance criteria for the entire system of firms, with deep repercussions for the coherence of production and on the labour process itself. The rise to dominance of a new financially led governance engendered, in Marxian terminology, a process of *centralisation without concentration*[3]. Key sectors have experienced huge mergers and acquisitions thereby making capital more concentrated. However, the same process did not bring about the formation of new large-scale vertically integrated industrial companies that would have been the mark of enhanced capitalist concentration.

At the same time, the transformation of the economic and political spaces of world capitalism (the integration of East Asia as a crucial part of the electronic chain of production, the emergence of China as a major area of outsourcing, but also of Indonesia), was made easier by new technologies. The multiplication of financial companies following the deregulation policies in Western countries created among the global players in manufacturing and services a 'destructive' competition in their investment strategies (Crotty, 2000). In a number of sectors the phenomenon has given rise to a persistent state of overproduction. The value chain system has been rapidly reorganised becoming truly transnational in nature. The network of firms has been stratified according to their relative power within the branch in which they operate. At the top end we have the companies producing the technological and design blueprints and supplying the key capital goods. These firms are also the decision makers and systematically strive to expand their oligopolistic position. At the bottom end, firms multiply and thereby struggle to survive while ferociously competing against each other to obtain contracts from those at the top of the chain. It follows that the conditions of wage labour also depend upon the position of the respective companies within the value chain system of the specified industrial branch. We will return to these aspects, in the particular case of European capitalism, in the second part of this paper.

The expansion of production was no longer coterminous with the expansion of a working class concentrated in contiguous spaces, in the same factories, subject to the same legal regulations, thereby making it tendentially homogenous labour condition *vis à vis* the capital (Vertova, 2006). Work has been fragmented and rendered ever more insecure. Precariousness and instability may seem absent in one pole, while appearing in their devastating forms in another. Yet the job and working conditions and instability at the lower ends operate as a threat and signal to those employed in factories located at the upper end. Migrant labour eminently fits this scheme (Gambino and Sacchetto, 2009). The weakening of the bargaining power of labour is the product of the collapse of the USSR and the entrance into the circuit of world capitalism of China and, to a much lesser extent, India that led to the doubling of the industrial reserve army (Freeman, 2004). The transformations in working conditions were strictly connected to the subordinate integration of workers' household to capital (and debt), which impacted directly on the process of production – generating longer working hours with a rising effort extracted from employees. As a consequence the extraction of relative and absolute surplus value became inextricably intertwined, whereas the centre-periphery dichotomy lost its older rigid connotation, being reproduced within each economic area and nation.

In the financial markets these processes led to a systemic tendency towards an upward cumulative asset inflation disequilibrium without any short term correcting mechanism (Toporowski, 2000). Markets were becoming more liquid and the supposed quality of collateral assets was thought to regularly improving. It is for these reasons that the growing indebtedness ensued mostly from financial companies and households rather than from the physical investment of non-financial firms. The latter felt a lesser need to use the banking system that, in turn, had to change its frame of reference. From being the institutions selecting and monitoring industrial firms as their main debtors, banks could not but look for returns in the areas of consumer credit and in the fees stemming from securitisation packages. This is nothing but the originate and distribute model of banking. The bubble in asset prices, especially of houses, allowed the expansion of consumption on credit. Savings out of disposable income fell next to zero or even become negative because of the stagnation, viz. decline, in real weekly earnings. For the bulk of the population the dynamics of consumption became autonomous from earned income while being stimulated by perceived wealth effects – a perception validated and swelled by financial companies and the originate and distribute practices. Wage deflation, capital asset inflation, and the increasing leveraged position of households and financial companies, were complementary elements of a perverse mechanism where real growth was doped by the most toxic aspects of finance.[4]

The working of the 'new' flow mechanism which we have outlined would have been impossible without adding in a 'new' economic policy. The capitalism of the 1990s was not of a stagnationist kind, thanks to a new direction of economic policies centred on an eminently political management of effective demand that impacted also on the composition and geographical configurations of production. The creation of a traumatised worker meant that dangers on the inflation front no longer came from wage earners. The public authorities realised that it was possible to have a reduction of unemployment without an upward pressure on wages. In other words, the Phillips curve became essentially flat (Lavoie, 2009). The existence of a flat Phillips curve made it possible to set full employment as an attainable goal. But it was not a full employment in the Keynesian sense of sustainable wages and stable jobs. It rather entailed full under-employment, with unemployment penetrating into the employed labour force through the spreading of part time and casual/informal occupations. Full under-employment can easily tip over to mass unemployment as we are witnessing right now. Monetary policy rather than fiscal policy – except for tax reductions for the wealthy – was the tool used to bring the economy as near as possible to full under-employment. The Central Bank managed the creation of liquidity with the objective of sustaining the continuous rise of share and capital market values. This was done directly but also indirectly by the Central Bank acting as a guarantor of the 'shadow' banking system and of financial intermediaries. Thus at any sign of a financial crisis arising at the centre of the system, the Central Bank acted, as Marcello De Cecco (1998) brilliantly put it, as a lender of *first* resort. The Central Bank objective was to set a lower floor in the event of a fall in asset prices and this policy signal was then incorporated into the expectations of the operators in financial markets. This is what the *Greenspan put* was about, (*put* refers here to a *put option* in the market). The *put* saw the light of day with the Wall Street crash of October 1987 and expanded enormously during his entire mandate. Through Greenspan, quantitative monetarism exited the stage, it being explicitly replaced by an interest rate policy where money is made available in unlimited amounts at any rate of interest established by the Central Bank. Hence the supply curve of money becomes flat just like the Phillips curve. The rationale for the policy is given by the Taylor rule regarding the calibration of the rate of interest, rather than by the acceptance that money is intrinsically an endogenous creation of the credit system. The Federal Reserve policies of the Greenspan period were crucial in the taking off and sustenance of the second phase of neoliberalism as a sort of a financial privatised Keynesianism.

2 The European neo-mercantilism and its crisis

US debt financed growth tied in with the European and Japanese stagnation as much as with China's export led growth. The political economy of the European Union has evolved on the premise that net export balances could be achieved.[5] However, not that every country is in a position to attain that goal. Some countries, like Spain, the UK, Portugal, Greece and most of the Eastern European members do not even have it as an objective. Britain's, Spain's, Greece's external current accounts have been negative for decades. While Poland, Hungary, and the Baltic States, have combined negative current accounts with large financial sector external borrowing, Iceland like, much beyond the need to finance their current account deficits. But the core six countries of the former Common Market with Austria and the three EU's Scandinavian countries do see export growth as being more significant than the expansion of domestic demand.

Within the export oriented countries there is a definite hierarchy among the big three who happen to be also in the Eurozone. The first in the hierarchy is Germany whose export dynamics did not and do not depend on nominal exchange rates with the other main currencies. Rather, German exports are tied to technological innovations and to the widespread array of capital goods sectors. The price competitiveness element comes from what, for all practical purposes, is wage deflation. Indeed Germany extended that policy to the whole of the Eurozone upon the formation of the euro. The second in line is Italy because her export orientation is exactly the opposite of Germany's. It was based on a weak currency, on competitive devaluations. But with the Euro the weak currency approach has vanished and Italy needs wage deflation even more than Germany. Third in line is France. Paradoxically France has a net export objective but only occasionally achieves it. Yet the policy posture of France is to combine financial conservatism with wage deflation and neo-mercantilist goals, though the latter are seldom attained. Thus, as much as the European Central Bank (ECB) organises the monetary framework for price stability, wage deflation is, in a manner connected to the national validation of price stability policies set by the ECB, the unifying element in the respective neo-mercantilist goals.

Neo-mercantilism to where? The extra European Union's trade absorbs a substantial part of total EU exports. But the bulk of the surpluses of net exporters are realised within the EU itself. In relation to China, Japan and Korea the EU countries have a growing deficit, determined by the trade with China. Yet in this case we have significant differences. We may distinguish between active and passive deficits. Germany, the Netherlands, and Scandinavia, belong to the former group. France, Italy and Spain are the most significant representatives of the latter. The UK is a separate case. Active deficits are those which are consistent with the export oriented form of capital accumulation. In this context we see that the sectors netting the bulk of Germany's trade surpluses exhibit also net balances in their trade with China (not with Japan, though). The same observation holds for Sweden and Finland. In the Dutch case the overall external surplus overwhelms the deficits with China and Japan. Passive deficits are those that hamper export oriented accumulation. Italy and France are the leaders of this group since Spain is still far behind in terms of homegrown industrial, not financial, inventiveness. The sectors that are good export performers for France and Italy are not so when it comes to their trade with China and East Asia. Furthermore these sectors increasingly compete with Chinese products in third markets and in Europe. Therefore the contribution to export oriented accumulation by the sectors on which the external projection of those countries depends does not have a solid basis. It periodically undermines their global Neo-mercantilist objectives, and induces a deepening of the hierarchy of capitalist models and job and inequality at the European scale. Especially in the Italian case, we witness a capitalist growth which may be sometimes vital and accelerated. This is especially true for the so-called ‘fourth capitalism’ of small and medium-sized multinationals which have been particularly able to cross-over into high value-added production between the dotcom crisis and the subprime crisis. But the ‘made in Italy’ model is affected by a constitutive fragility, and can survive only at the price of a continuous restructuring.

For whom should Europe (the EU) work? For Germany the European Union is (or rather, was until 2007/8, before the unravelling of the world financial system) the main area of profitable effective demand. It is the area where the Federal Republic’s economy realises most of its external surpluses. These in turn represent the financial means with which German corporations internationalise their activities in the rest of the world. The net balances are mostly obtained in European markets. In this context the present crisis, which at first was hitting German exports hard, was a major challenge for German capitalism as a whole. The intra EU export surplus model of capitalist accumulation is so embedded in the very institutional functioning of intra EU relations, and especially between Germany and France, that Germany and France rejected coordinated demand oriented policies lest spending by one country boost the exports of another, within Europe itself. As far as Germany, Italy, France, Benelux, Austria and Scandinavia are concerned, the transmission mechanism of the crisis was not through the debt deflation affecting households, since the level of personal indebtedness was much lower than in the USA and in the UK. Hence it is not the Landesbanken crisis in Germany that created the fall in German output and employment, nor was it the crisis of the BNP-Pays Bas three hedge funds which sank the French economy. They were ingredients in the cocktail but more as symptoms than triggering factors.

The reasons for the sharp repercussions of the crisis which began in the USA can be identified with the following factors:

1 the state of expectations affecting investment in the pure Keynesian sense
2 within the EU there were three areas in debt deflation crisis (the UK, Spain, and Eastern Europe) which absorbed a significant amount of exports from the surplus and surplus seeking countries
3 the UK and the Iberian Peninsula UK and the Iberian Peninsula were important outlets for Germany, France and Italy, who is also a net exporter to France.

The EU situation was already very brittle. The economies of the Eurozone were mired in a competitive wage deflation and in a ‘stingy’ budgetary environment. Thus effective demand creation was, in aggregate, weak and what mattered was the attainment of export surpluses. It did not take long to realise that, without any intra EU dynamic, the real US crisis would become, sooner rather than later, a real European crisis. Transmission has come through the mortgage and financial crisis in Britain and the explosion of the housing bubble in Spain. As frequently remarked in the financial press, real estate price inflation in Spain was connected to the financial mortgage markets in Britain and also in the USA. Europe received waves of financial shocks from the USA while being stuck in its own neo-mercantilist cage, without any way out (at least as long as China, and also Latin America, were hit by the global crisis).

3 The crisis and 'Main Street' in Europe

The standard narrative of the ongoing economic and social crisis, apart some exceptions (Brackfield and Martins, 2009 amongst them), holds that financial deregulation was solely responsible for it. The real economy, 'main street', should be considered its victim. Is this a realistic picture of the event? As we have already clarified, the actual causes of the crisis are quite different. In the following we will show that they are also rooted in the industrial development model chosen since the mid-1970s.

The first cause to look at is the nature of firm and country competition. Starting from the mid 1970s competition turned global at an accelerated pace. It became more and more aggressive – the 'destructive' competition we referred to above – as the impressive peaks in international mergers and alliances of companies in the 2000–2007 period made evident. The rationale has been the growing necessity of sector consolidation, the concentration needed to control bigger and bigger market shares. The dramatic consequent twist has been the jeopardising of the existing oligopolistic structure in many sectors because of a growing over-production. It has become more and more apparent that some of the existing big players are now at risk. To better understand this trend, a neglected feature must also be reintegrated in the overall picture of the situation: the industrial restructuring of the last 30 years. This process had a common goal - broadening the market share. But it had two conflicting dynamics to attain it: first, consolidation/centralisation and second, after the fall of the Berlin Wall and the entrance in the global market of China and the former East European communist countries, the addition of new plants in these new markets. There were many different reasons for building up these new plants: legal constraints on FDI (China); spoiling the wage and labour conditions gap (all countries); and, for some sectors such as automotive, market proximity (mainly China). The prevailing rationale of these huge investments in merging, alliances and building new facilities definitely were not unfulfilled social needs.

What has happened can be illustrated by the European car industry.[6] The automotive industry is a core sector in Europe as it employs at least 12 million families in Europe with 2.3 million direct jobs and 10.4 million in directly related manufacturing and other sectors. Europe is the world's largest vehicle producer with an output of over 15 million passenger cars, vans, trucks and busses per year or 25% or worldwide vehicle production. The auto industry is the largest private investor in R&D in Europe. The 16 major car, trucks and bus manufacturers in Europe operate 183 vehicle assembly and engine production plants in 19 Member States, often sustaining the economic fabric of complete regions and cities. The automotive industry is a leading European export sector with a trade contribution of € 30 billion. Leading in high quality products, the industry sells and produces vehicles for all major world markets. There has been a shift of volumes to Eastern Europe but there is a gap between the productive capacity in the new member states and their actual consumption. This happens in a situation of an abiding problem of European overcapacity – roughly 30% – that has been compounded by these choices.

The second cause is the way that the value chain has been restructured. The centralisation process did not create concentration in the classical way of a highly integrated company. Productive networks or *filières*, based on the outsourcing of upstream production activities, and made up of many small and medium enterprises (SMEs), have been set up by the *original equipment manufacturers*, (OEMs – in sporting terms the 'seeded players'). Each chain is segmented in tiers, each one with a different value added capacity, depending on the productive power. For instance in all industries, the producers of modules or complex parts are stronger than other companies. The overwhelming majority of these networks/chains are organised both in tiers and poles; the poles are the key players of each tier (Garibaldo and Bardi, 2005). At the bottom of this ladder there are the 'last' players, the companies just supplying an output of a certain amount of simple manufacturing/processing activity or simple services – they are just struggling to survive

Working conditions, with weak unions, obviously largely depend on the relative positioning of each company in these supply and value chains or *filières*. What is new is that these *filières* are more integrated than in the past and the companies engaged in the upstream activities are no more merely on the buy side of the option make-or-buy; they are in some way under the authority of the key players of the *filières*, that is the OEMs, but also the other key players in each tier. To be 'under the authority' means that the key players decide for the other companies on how to plan output quantities in a given period of time, the pace and the speed to deliver the output batches, how to arrange in sequences a mix of different items, etc. By and large they have the classical prerogatives of the managers. Sometimes, for the highly specialised companies, such as the modules suppliers, the degree and the nature of the integration in the *filière* is such that the border lines between companies are blurring and new ways of cooperation start, with original corporate governance schemes. Working conditions in the 'last', are in a very precarious state, very close to the grey and black areas of the economy. In this new industrial organisation the companies in the grey and black areas are no more considered as free-raiders but functionally integrated parts of the system in many industries.

Summing up, two main inter-related and reinforcing processes have deeply changed European and global 'industrial capital': centralisation without concentration, on one side, and a model of competition based on the endless pursuit of a never-ending expansion of all kinds of consumption, and therefore the necessity of new markets, on the other. This struggle has been fought by adding new facilities. The new system has also been built on the functional integration, in a single framework, of many different subsystems of companies with different regimes leading to an overall effect, namely in Western countries, pushing down the situation of the working class in terms of income as well as of social and working conditions. This dire situation has been compounded by the doubling of the global workforce since the end of the 1990s.

This is a classical Marxian overproduction crisis. In a capitalistic regime, the excess of supply over demand (a paradox in itself, because of the unbelievable amount of existing and unfulfilled individual and social demands) is, of course, always relative. It depends on the impossibility of selling commodities, goods and services, at a profit, or to be more precise for an acceptable profit. 'Acceptable' here is a social and not an absolute measure. Overcapacity and income stagnation, when not outright deflation, encourage countries, to find outlets for their outputs. Within the neoliberalism trap, economies were compelled to choose between neo-mercantilism and the paradoxical privatised 'financial' Keynesianism of the Anglo-Saxon type of capitalism which we depicted earlier (with the latter strategy actually being the condition of possibility for the former strategy). This, in turn, has led to an enormous space for manoeuvre for financial capital. The leading role of financial capital pushed up the crossbar of profit acceptability, in some cases to limits totally unrealistic for any sound industrial activity.

4 Germany's strategy and its contradictions

In Europe, Germany, Italy and France, (in this hierarchical order), have chosen a neo-mercantilist approach with seeming success for a long time. We say 'seeming' because for some authors this is a pathological boom (Cf. Sinn, 2006). As we have already stressed, the final outlets for their products and services, apart from EU-27 intra-exchange, have been mainly USA and Asia. When these markets crashed, because of the ongoing crisis, the overall effect has been devastating. What social price has Europe as a whole paid for this neo-mercantilist choice? If Germany is considered the eponymous champion of this strategy then the consequences are well defined and can be considered as a general case in point. According to some authors [Danninger and Joutz, (2007), pp.3–8], the German export boom, has been based, since the 1990s, on big productivity gains. They analyse four hypotheses:

1 improved cost competitiveness through moderate collective wage agreements since the mid 1990s

2 ties to fast growing trading partners as a result of a desirable product mix or long-standing trade relationships

3 increased export demand for capital goods as a response to a global rise in investment activity

4 regionalised production patterns through off-shoring of production to lower cost countries, partly a result of European economic integration.

These authors stress the importance of the second and the fourth factors. The productivity gains were implemented without a spin-off for employees' general conditions (wages, social provisions and working conditions). To the contrary there has been wage moderation and a reduction of social provisions with the shrinking of the domestic market. This situation has been compounded by the off-shoring of production to lower cost countries, also within the EU-27 area, to implement a very aggressive export strategy.

The employers' strategy for overcoming the limits of the traditional relative high wage situation of post-war Germany changed dramatically in the 1990s. There was a huge shift from the automation strategy of the 1970s and the 1970s, to the off-shoring of upstream activities mainly to the Eastern Europe and partly, as it is also the case for Northern Italy, to the old EU-15. There has been a contemporaneous huge shift of investments to Eastern Europe, on such a scale that Sinn (2006, p.6) can write that: 'German firms are currently engaged in an investment strike to use the Marxian term'. According to Sinn this shift has been so huge that the depth of the German industry in terms of share of own value-added in manufacturing output went down from 36% to 33%. The rationale of this strategy is that high tech investments can grant Germany a gap with the new competitors such as India and China, making the medium-high sector of these mass markets available for its exports, ahead of a never-ending catch up attempt by India and China. Today the discussion, in experts' circles, is on a trajectory designated as moving on from the old 'designed, assembled and sold in Germany', to 'made in Germany' in the 1990s, to a future 'enabled in Germany'.[7] These markets have such a dimension that even if only the richest parts of these emerging economies become available they are enough to guarantee adequate returns on investments, as it happened to Volkswagen in China.

But this supposed bright idea is actually very naïve. China, for instance, managed the inflow of FDI in the automobile sector in such a way as to guarantee a technological transfer from the USA and Germany not only in terms of equipment, but also of education and industrial practice for its skilled workers and technicians, as well as managers (Garibaldo et al., 2008). The Chinese authorities invested at the same time in all levels of education and research in massive way, so that China is now able to start to compete according to the highest international standards of many industries. China is therefore more and more able to supply its domestic markets with productive processes whose upstream and downstream activities are self-contained in China. They are becoming net exporters not only at the lowest level of goods and services supply. The overall effect has been, and still is, to add more over-capacity in many industries at a global level, with new financial risks and, in the long run, new deflationary impulses.

Coming back to Germany, the neo-mercantilist agenda looks more and more an example of wishful thinking. The idea that the high-export model generates and delivers more wealth to the exporting country because of the substitution of low or un-skilled with medium high-skilled jobs. But according to Sinn (2006, p.14) 'total German employment calculated in full-time equivalents fell by 1.36 million people during the past ten years.' Besides, the neo-mercantilist approach has made Germany more exposed to the effects of the crisis. It is not by chance that Germany registered the highest peak of production downturn among the EU-15 countries. Angela Merkel, the German prime minister, rejected all kind of criticisms against this pattern of development and expressed her view on the need for Germany to have strong exports to guarantee its social standards. This has been one factor, among many others, contributing to the political implosion of the European Union, which is unable to find common industrial and labour policies to overcome this crisis thus allowing room for nationalistic attempts at defending each country's status quo. The GM/Opel quarrel is a clear example of this.

The mix of an overproduction crisis and of a high level of concentration of capital gives a very dangerous twist to inter-capitalistic competition in terms of international and social equilibriums, as well as of democratic standards in civil society activities. As a matter of fact social struggles are depicted as pathological, and not as the social physiology of a democratic society. When competition is between big centralisations of capitals in an over-capacity situation, the probability is that one amongst them will disappear. As Europe shows, on a smaller scale, when this situation has also some geo-political connotation – for instance, mass lay-offs concentrated in one region or in a specific country – that company and/or that region/country feels itself in a war of survival. On a world scale this is the so-called global imbalance problem. One of the likely outcomes of such a situation is protectionism on a national scale or between economic blocs, or even the resurgence of a more aggressive stance such as war.

Apart from the neo-mercantilist approach of some European countries, the European pattern of development in itself was, and still is, intrinsically unstable. This model comes back to the Maastricht treaty in 1992 and Delors' development plan in 1993. From these milestones comes the new intra- European and external competitive pattern. At that time the total free movement of capital within Europe moved into full swing. At the beginning there was the process of industrial restructuring accompanied by the deconstruction and recombination of industrial processes, as already described. The restructuring processes have been roughly designed, at the beginning, to shift as many costs as possible to the lower levels of the value chain. Later, and until now, there has been a fine tuning of the process so that it has become possible, also because of the information and communication technologies, to analyse each part (not only the manufacturing parts of it) of an economic process, and then to decide if, when, how long, and where to allocate it, in order to save both processing costs and capital costs. This change has made competition tougher for the reasons already explained. In Europe the imbalance between productive capacity and effective demand led to the financialisation of the economy in an unprecedented occurrence. As we highlighted in the first part of the paper, financialisation fed back on corporate governance and managerial styles imposing capital returns unrealistic for many economic processes. This has shaped the innovation process in a direction totally unrelated to effective social demands such as full, good and stable employment and the reduction of social inequalities.

The Delors' plan was at the root of this new competitive scenario. It was, indeed, based on this logic:

1 investments vs. consumption
2 technological deepening to improve competitiveness
3 structural gap between wages' and productivity's dynamic (one point of difference on average) to adequately remunerate investments
4 huge expansion and improvement of European infrastructures, to obtain an integrated and Europe-wide productive system, so that it has the adequate dimension to participate to the global competition
5 macroeconomic stability through euro as the single currency, avoiding competitive devaluations within the area
6 macroeconomic stability requires small and shrinking public budget deficits to avoid inflationary risks due to a robust economic expansion.

5 The 'new normal': industrial restructuring after the crisis

In the midst of the crisis the buzzword, among the financial and industrial elites, was to become aware of the dawning of a 'new normality'. This was hype, but we are indeed in a new phase of the capitalistic development in Europe. First of all European neo-mercantilism is still alive and kicking and Germany is the absolute leader of it. But the price that Europe is paying and will pay for it is becoming disproportionately high. Secondly, the new phase of the German style of neo-mercantilism, today so successful, must deal in a foreseeable future with new problems. In the following we give a (non-exhaustive) list.

1 The persistence of a European financial instability due to the still unsettled situation of the banks and the unprecedented commitment of public money to private interest.
2 A more aggressive stance by the Asian economies, first of all China, which are starting to change the balance between the export and the domestic driven parts of their economy. They are thus allowing, to some extent, forms of untamed trade unions activities, to avoid social unrests. Besides, China, through its sovereign funds, is cherry picking European companies as part of a strategy to scale up the

composition of their export in added value terms as well as in technology. India is starting to consider Europe as a possible mass market for its products as the Tata move to lunch a European model at the 2011 Geneva exposition suggests. More generally there is the emergence of credible suppliers from these countries.

3 A new phase of global mergers and acquisitions with the strategic target of controlling broad productive networks. 'Broad' here means that services, instrumental to the realisation of the profit (R&D, financial, market services, design, logistics), are included in the networks (Bryson, 2009).

4 A volatility of exchange rates of the main currencies, as part of a new trade war, with the consequence, among others, of the diffusion of capital controls (e.g., Brazil).

5 A new business complexity due to turbulent trade dynamics and unforeseeable capital flows. Look for instance at the customer demand for a very great variety of goods. If the stock-keeping units (SKUs: the number or code used to identify different things for sale in a store or other business) are taken into consideration, the figures have grown very sharply in the last years according to McKinsey (Malik et al., 2011) and also in mature product categories, with relevant consequences, as another McKinsey article [Glatzel et al., (2011), p.75] states: "products and variants tend to proliferate, creating portfolios with long tails of niche offerings". The two spaces at the intersection of the percentage of the SKUs and the revenues, and at the intersection of the percentage of the SKUs and the geographic locations, are often both spaces representing very small niches. This means that the configuration of the supply chain and the logistics are more and more the drivers of key business decisions.

6 A super-cycle for commodities, due to a race, lead by China and USA, to control them. Commodities become strategic because of being naturally rare (for example, rare earths critical to electric engines) or because of the new growing demand from the BRIC's economies (for example, steel).

7 A new spike in the oil price, as a consequence of the Maghreb instability.

8 Negative demographic trends in some countries, for instance Germany. This is a key factor also for the industrial system for at least two reasons. The first is described by an article on the *Exberliner Magazine*:

> "In fact, until just 20 years ago, the Federal Republic found itself in the middle of what demographers call a 'window of opportunity.' This is when a country has a fairly low birth rate – meaning there are relatively few children to pay for and look after – and there is a large adult population still young enough to generate an income. These demographic conditions are considered to be conducive to economic growth, and they come 30 to 40 years after a baby boom. China, for example, is currently considered to be in this phase. But in Germany, this demographic window is closing."[8]

The second refers to one of the main concerns in the governmental circles in Germany – growing difficulties in recruiting a new work force with the required skills. This is the reason why in Germany there is still, in the technical disciplines, a good return, for the youngsters, on the educational investment.

These different facts and trends are producing a new phase. The strategic goals look more different from the past in scale rather than in implementation. In their implementation there is also a less evident part that makes the difference: their internal dynamic and composition. The race to control broad networks is not new but there are new features in it. There is a shift of relevance, within manufacturing, in favour of the supply chain. It is the supply chain that makes the difference in the ability to successfully control final markets and market share. This is also the message from a recent special report of the *Financial Times* (*The Connected Business*, January, 26, 2011). At the same time product diversification proliferation, in some sectors, for instance the automotive, is not only a matter of taste or fashion, but more and more a matter of product innovation. In the automotive case the direction of the product innovation to be achieved is quite clear: a zero emission vehicle. There are however many different paths to reach this goal: battery driven, hybrid technologies, fuel-cell driven. Technical room for improvement of the classical internal combustion engine still exists, with different fuels (oil, natural gases, biofuels), allowing for strongly reduced emissions. Besides, this any new direction must be matched with the process of urbanisation leading to new urban environments, still not clearly defined (megacities based on urban sprawling, vertical megacities, brand new medium-size cities especially designed to create a new urban system of mobility). The matching can be based on a new concept of special purpose vehicles, designed for urban environments.

Uncertainty is the rule. Each of these scenarios implies huge investments, Not only in designing the new products, but also for new plants, new skills, and even the total redesigning of the supply chain. To afford this uncertainty the main OEMs are choosing a product portfolio strategy which tries to accommodate these different perspectives. This strategy is very expensive and based on a strong and structural segmentation of the market. To be affordable it should reach the maximum geographical expansion to make each niche profitable.

The main European OEMs, are trying to reduce these costs and the uncertainty of the outcomes via the creation of Franco-German alliances (this is not a European strategy, nor a state driven alliance, but a competition among different alliances between some German and France OEMs, as well as between strategic suppliers). The shared belief is that brand new innovation in the automotive sector will shield, in the medium term, European producers from the competition of the BRICs, namely China. Actually it seems that China will try a ‘leapfrog strategy’, based on the vast reservoir of potential demand for new vehicles, instead of a substitution demand as in Europe, and on the necessity to create by scratch new urban environments to accommodate the huge process of urbanisation.

The effects of the crisis, of the strategy of fiscal orthodoxy, and of the anti-inflation hysteria, are reducing the global ‘engines of growth’ for the car sector to the BRICs countries, with a prominent role of China and India. There are, therefore, divergent qualitative trends. In Europe, the market share for the bottom and middle segments of vehicles is growing. The demand from China for European cars is in the highest and luxury segments. Germany is satisfying most of this demand, France is targeting the other part of the market; both are trying to somehow combine their forces to enter in the new zero-emission market on a global scale.

This means that Germany as the supposed European internal engine of growth is more and more dependent on a strong neo-mercantilist option, based on luxury consumption of the wealthiest part of developing countries, and first of all China, as well as on its technological equipment demand. Germany, in Europe, is reproducing on a smaller scale the same neo-mercantilist option about the European internal trade.

Therefore its growth is not producing redistributive effects in most of the other countries in Europe, nor does it seem that it can act as a locomotive in a substantial way. This is confirmed by the growing relevance, for German industries, of the location of manufacturing plants in the new Eastern member states which is reducing its role of driving force, in other parts of Europe, for instance North Italy.

The automotive sector can be considered typical of the new phase of European industrial restructuring. The overall effect on European industries, with the connected services activities, can be summed up in few points:

a The growing relevance of the fine tuning of which corporate functions should be shifted to the supply chain and/or transferred within or outside Europe. This also means that some parts of the higher skill-based part of jobs can become the target of delocalisation processes. This fine tuning should become a continuous process, more dependent on a global assessment of the overall performance of one of these new networks than on the productivity and efficiency regime of each local plant.

b A new race to mergers and acquisitions as well as to new alliances. The overall effect will be a higher degree of centralisation without concentration. The main consequences will be, in some industrial sectors, a transfer of the strategic centres of operational planning and innovation from some countries, also within EU-15, to other countries.

c A growing relevance of tougher controls for just-in-time flexibility performance in the core sections of European Industries, such as engineering, (first of all in Germany), and the institutionalisation of a dual regime of social regulation of labour, not only with to the new member states but within EU-15. This will lead, more evidently in some parts of Europe, as the case in Italy and Greece, to an authoritarian attitude towards social conflicts and labour conflicts. These latter are more and more considered as unacceptable attacks to the social cohesion of those countries, and to the overall competition strength of Europe as a whole, in the life-or-death struggle in the new industrial landscape.

d More trade unbalances within Europe, with negative effects on the overall social and economic performances of large parts of Europe, and also within EU-15. The main consequence will be, in some countries, the stabilisation of a vicious circle of industrial decline, higher levels of unemployment, a fiscal crisis of the state.

6 Conclusions

In this framework the employment level is an indirect outcome of economic growth and not its specific target, even less its social constraint. The self-defeating capitalist strategies we depicted in this paper were oriented towards achieving high profits and high investments. It has been proclaimed more and more as a mantra that the rising tide of economic growth 'will lift all boats', at some future date. The dire actual European situation has made clear that this strategy was basically flawed. Minsky (1986, p.325) wrote:

> "The emphasis on investment and 'economic growth' rather than on employment as a policy objective is a mistake. A full-employment economy is bound to expand, whereas an economy that aims at accelerating growth through devices that induce capital-intensive private investment not only may not grow, but may be increasingly inequitable in its income distribution, inefficient in its choices of techniques, and unstable in its overall performance."

As Wray (2009, p.5) made clear, Keynes rejected general 'pump priming' (that is, general policies to raise aggregate demand through a combination of tax cuts, government spending increases, or lower interest rates) in favour of 'targeted' spending programs. Unfortunately, many of his followers neglected this warning, believing that Keynesian policy relies solely on 'pump priming.' Minsky suggested measures to 'stabilise an unstable economy' which are alternatives to a strategy based on high investments-high profits and the substitution of public with private debt to support consumption beyond the purchasing power of wages. The key point is a 'socialisation of investment', backed by a 'socialisation of banking and finance' and a 'socialisation of employment'. We think that in fact a leftist (and Marxian) strategy can be embodied in the same triad, but with a more ambitious and larger scope. What is needed is indeed to connect again the issue of 'planning' – 'what' and 'for whom' to produce – with the quality and quantity of labour – 'how' to produce. The deep crisis of European industry is another confirmation of the need to change in this direction.

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Notes

1 The analysis undertaken here goes back to some articles co-written by one of us with Bellofiore and Halevi (2011c, 2011a, 2011d).

2 The concept 'privatized Keynesianism', as depicting a new phase of capitalism, has been independently developed by Colin Crouch (2009). He refers to Bellofiore and Halevi (2011c), which is the English (updated) version of a 2005 Italian paper, which already included the concept.

3 This same phenomen is christened by Bennet Harrison (1994, p.8) as 'concentration without centralisation', inverting Marx's terminology we are adopting here.

4 On the the nexus between increases in the income advantage enjoyed by high income households, higher debt leverage among poor and middle income households, and vulnerability to financial crises cfr. Kumhof and Rancière 2010.

5 This section of the paper summarises an analyses which was more fully developed in Bellofiore et al. (2010) and Bellofiore and Halevi (2006, 2007, 2011b, 2011e).

6 As to the figures the source is: http://www.acea.be/index.php/collection/the_automobile_industry_in_europe/ (accessed on 07 April 2011).

7 Cfr. the project: http://www.internationalmonitoring.com/ (accessed on 07 April 2011).

8 27 March 2010 – http://www.exberliner.com/articles/the-death-of-germany (accessed on 07 April 2011).