

THE GLOBAL CRISIS AND THE CRISIS OF EUROPEAN NEOMERCANTILISM

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The global financial crisis that erupted in, and spread out from, the United States in 2007-8 has highlighted long-standing structural faults within European capitalism, especially its neomercantilist dimension. By neomercantilism we mean the pursuit of economic policies and institutional arrangements which see net external surpluses as a crucial source of profits.¹ The solution to the problem of effective demand is seen as lying above all in a positive trade balance. Moreover, the current account surplus is seen as increasing the private sector's ability to operate on international capital markets. This outlook on the part of capitalist institutions and firms – and in Germany, Holland and Scandinavia, also on the part of unions – relegates the domestic level of employment and of wages to a subordinate role compared with external expansion. Profits accruing from net exports reduce firms' dependence on a relatively small or slow-growing domestic market, and Europe's surplus countries are well aware that were it not for their export strategy domestic investment, profits and employment would be lower. Persistent export surpluses, especially from large economies, are tantamount to exporting unemployment.

Since the Second World War European neomercantilism has been institutionalized in the phases that, from the founding of the Common Market in 1957, led to the creation of the European Union (EU). The largest neomercantilist countries of the EU operate from within the European Monetary Union (EMU), formed in 1999 and known also as the Eurozone. Throughout the wrongly termed 'Golden Age of capitalism' (1950-1973), the countries with the highest growth of exports were, in rank order, Japan, Italy and Germany. The latter two, together with France, define the essence of European neomercantilism. Holland and Belgium have had to adjust their trade strategies to the German and – to some extent, in the case of

Belgium – French trade patterns. Austria's strategy gravitates mostly towards Germany's, as does the greater part of the extra-Scandinavian trade of the Northern countries. Spain, Portugal and Greece could not, and cannot, join the neomercantilist club; they have always and systematically had negative external balances, a position also reached permanently in the 1970s by the United Kingdom.

This is where the specifically European problems begin. In a context where intra-European trade accounts for the greatest part of each country's trade, the absence of an intra-European mechanism for redistributing surpluses requires the deficit countries to undertake the adjustment by going into recession. The surplus countries will therefore suffer negative repercussions on their exports and on the related level of employment. They may still maintain their net position with a trade surplus, but at a reduced overall level of activity, with, thus, higher levels of unemployment, as Germany has today. In the last three decades the severity of the intra-European adjustment has been mitigated by net European exports to the United States. Yet the role of the US market has been declining because of the shift in US trade towards Asia.

The European deficit countries could in principle correct their imbalances by devaluing their currencies. When such a step is barred, either because all currencies are linked by a fixed exchange rate mechanism allowing only occasional changes, as under Bretton Woods and the moderately adjustable exchange rate mechanism of the European Monetary System from 1979 to 1992, or because of a single currency as in the EMU, the only non-disruptive adjustment must be a fiscal redistribution from the surplus to the deficit countries. Insofar as this is blocked by political or institutional factors, the deficit countries have no other alternative but to go through a recession, which then drags down the whole regional economy. Indeed, after the end of the Bretton Woods system in 1971, each phase of intra-European economic relations ended with solutions that worsened the internal contradictions of the system, as they systematically avoided the cooperative route, precisely for neomercantilist reasons.

Crucially, the United States functions as the market where the net neomercantilist position of Europe is consolidated. From 1958 onwards the US external surplus was whittled away by Europe and Japan. Germany had already emerged as the main European surplus country, obtaining its net exports essentially from intra-European trade. For the European countries, the deficits with Germany weigh heavily on their overall external account balance. Thus attaining a surplus with the United States has become a necessity, to compensate for those persistent deficits as well as for the deficits with dollar-based raw materials and energy-exporting countries. The US

has remained the largest, richest, and most durable market for the realization of net surpluses for the EU, and for the Eurozone in particular. As we shall see, this was directly related to the transformation of the US into a globally importing economy when the new, debt-driven phase of US capitalism gathered momentum in the Reagan era. This emerged at a time when Europe was mired in internal stagnation, straitjacketed by the European Monetary System, and when, as a result, net exports beyond the Eurozone became a vital factor in the leading firms' search for profits. The drive for external surpluses has ever since been the main policy and institutional stance of EU bodies and individual countries alike, except those with unbridgeable external deficits: namely, the United Kingdom, Spain, Portugal, and Greece. This policy stance helps to explain the notable passivity exhibited in the Eurozone towards the US during the dotcom bubble of the 1990s, as well as during the much more lethal real estate bubble of the 2000s.

At the same time, because of the long-term tendency to stagnation in the EU produced by the internal contradiction described above, European financial surpluses were being invested in toxic securities issued in the United States. By deliberately nurturing stagnation through wage deflation the European institutional and economic system gave financial firms an incentive to place the proceeds of the export surpluses in 'structured vehicles' and derivatives connected to the US subprime market. Even European banking institutions that were legally mandated to lend to the network of medium and small industrial enterprises took the toxic securitized path, without knowing what they were buying, simply because real investment demand was not forthcoming. This was the case with the German *Landesbanken*: born as facilitators of productive activities, they could borrow from the capital markets at subsidized rates – a facility annulled by Brussels' reregulation policies. Hence instead of easing the financing of investment to small and medium sized firms, the *Landesbanken* invested in securitized papers, thereby becoming an important conduit of the contagion which spread from the USA to Europe with the eruption of the US financial crisis in 2007. After a few months the crisis spread beyond the financial sector and soon engulfed the whole economy, especially as the collapse of US demand towards the so-called BRIC countries (Brazil, Russia, India and China) impacted on Germany through a decline in its exports of capital goods, and then spread to the whole of Europe. The *impossibility of de-linking* from the US as the 'provider of last resort' of effective demand became transparent, while at the same time exposing the extent to which the practice of neomercantilism within the EU constitutes the most important factor in generating the EU's internal crisis.

THE 'NEW' US CAPITALISM:
THE LINCHPIN OF EUROPEAN NEOMERCANTILISM

With the turn to neoliberalism in the US at the beginning of the 1980s, the widely-expected great Keynesian crisis of effective demand did not eventuate, for two reasons. One was the rise of what Hyman Minsky defined as 'money manager capitalism',² which had already spawned a pension-fund-driven form of capital accumulation in the 1970s, when the crisis of the improperly-termed Golden Age started to be tackled by curtailing the social role of the public sector and by so-called financial deregulation.³ The management of pension funds is based on getting the maximum returns within a short time horizon, especially in the light of a weakening stream of contributions due to sagging wages and the need to cover growing claims in the near future of aging populations. The placement ('investment') of these funds in securities, shares and titles of various types creates a link between the interests of the managers of financial institutions and those of the productive firms, with the former having a large say in determining the governance criteria for the entire system of firms.

The other reason was that the officially-stated monetarist goals that inaugurated the neoliberal era in the US were quickly jettisoned.⁴ Reagan's military-driven budget deficit, even when still combined with tight monetary policies, reignited the US economy, revalued the US dollar and led to a growing external deficit which became embedded in the economy. The unsuccessful attempt to rebalance the US economy led to the Wall Street crash of 1987. At this point the 'Greenspan put' came into being: the Federal Reserve supported the rise of stock and capital asset values with large amounts of liquidity and lower interest rates. This policy signal was then incorporated into the expectations of financial market operators. From this time onward, the Fed intervened so actively as the guarantor of the banks and other financial intermediaries at any sign of a financial crisis that it effectively became, as Marcello De Cecco brilliantly put it, a lender of *first resort*⁵ – and eventually, in 2007, the only lender.

Consequently, markets were becoming more liquid and the supposed quality of collateral assets was thought to be regularly improving, though this was simply a mirage caused by asset price inflation, and in turn led to a perceived increase in the margin of safety.⁶ It is for these reasons that the increase in indebtedness was chiefly due to borrowing by financial companies and households, rather than to borrowing by non-financial firms for physical investment. The latter felt a lesser need to use the banking system which, in turn, had to change its frame of reference. From being institutions which selected and monitored industrial firms as their main debtors, banks looked

increasingly for returns from consumers' credit and the fees they could earn from arranging securitization packages – the 'originate and distribute' model of banking.

Capital asset inflation⁷ goes a long way towards explaining the 'irrational exuberance' that gripped, first, the stock market and, later, the real estate market. Here we may introduce the leading characters in the drama of the 'new' capitalism: traumatized workers, manic-depressive savers and indebted consumers – all performed by the same actor. The traumatized worker, beset by the continuous attack on labour on the shopfloor amidst the deregulation of the labour market, and persistent policies designed to curtail wage demands, was expected to follow a script that involved living under increased insecurity, accepting the intensification of work to keep a job, and chasing after rising health insurance and education costs by working longer hours. The manic-depressive saver and the increasingly indebted consumer represent the other side of the coin. 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 became negative because of the stagnation in real weekly earnings. For the bulk of the population the dynamics of consumption and the growth of effective demand became autonomous from earned income, while the 'originate and distribute' practices of the banks and mortgage lenders produced the perceived wealth effects associated with home ownership and pensions.

Wage deflation, capital asset inflation and the increasingly leveraged position of households and financial companies were complementary elements in a perverse mechanism whereby real growth was crippled by the most toxic aspects of finance. The traditional view of a conflict between industrial and financial capital no longer held. Any easy demarcation between rents and profits, or between productive and unproductive activities, was no longer convincing. At the same time the pressure on the workers came from the same factors that led to the expansion of 'bad jobs' amidst the transformation of the United States into a globally importing economy, while production and retail services were increasingly organized in line with global value chains and outsourcing activities (Walmart is a glaring example). The multiplication of financial companies that accompanied deregulation facilitated the process, as new financial intermediaries sought returns by enhancing peoples' expectations of rising stock and asset values. The more successful corporate cost-cutting and outsourcing measures were, the more stock values rose. Corporate managers – their remunerations linked to stock values – wholeheartedly embraced these policies, with an eye to the short-term, indeed quarterly, maximization of 'shareholder value'. The United

States became the trailblazer of a new form of expanded accumulation entailing *centralization without concentration*.⁸ Big mergers and acquisitions occurred in key sectors without leading to a wave of large-scale vertically integrated industrial companies. This model would soon be followed by the European countries, albeit in the context of neomercantilist export objectives.

The integration of East Asia and most recently, and especially, China, as much earlier with Mexico, into the financial and import circuits of North American capitalism enabled a dynamic synergy which was – for a while – unhampered by the US's ballooning deficit. The multiplication of financial companies coincided with China's policy of facilitating the creation of as many new enterprises as possible. To be sure, endemic overproduction ensued in many sectors, engendering a persistent downward pressure on export prices, thus reducing imported inflation not connected to raw material prices. Rising US stock and asset values went hand in hand with rising imports which, by competing against the products of US industrial companies providing well-paid jobs, helped wage deflation. But the process could not have been sustained for such a long time without engineering new sources of effective demand. The interaction between monetary policy and the stock market contributed to the rise in consumption demand through the rise in the value of assets.

The whole two-decade long Greenspan period at the head of the Federal Reserve thus defined a new post-monetarist phase of neoliberalism which can be described as a sort of a 'privatized financial Keynesianism'.⁹ Aggregate demand was pulled up because households borrowed against their assets, and the Federal Reserve validated the process by expanding credit at interest rates that helped further rises in asset values. Under these conditions the Federal Reserve could aim at a non-Keynesian type of full employment, in which the increase in the number of jobs sustained consumption and import demand, but where employment was organized on an increasingly precarious basis, resembling full underemployment.¹⁰ From the mid 1990s the argument was advanced that this model was unsustainable since it was predicated on rising personal debt, begetting an expanding external deficit.¹¹ Yet the 'new' US capitalism – based on the Trinity of the financialization of capital, the fragmentation of labour via value chains and outsourcing, and the increasing focus of economic policy on the monetary dimension – proved longer-lasting than was expected. Indeed, although the 'new' capitalism collapsed with the dotcom crisis in 2000, it was revived by ultra-Keynesian economic and military policies and by the asset bubble driven financial Keynesianism led by the housing and subprime markets. Consequently we witnessed, over

a number of years, a rather dynamic capitalist development, highly unequal in terms of income and wealth distribution, centred on consumer credit. If the indebted consumer was the locomotive of US growth, the United States was, in turn, the final buyer of the exports of the neomercantilist economies of Japan, Germany and other significant countries of Europe – and, most of all, of China.

It all finally started to come apart because of the inherent instability of US growth feeding upon the wealth effect that, under a permanent cost cutting regime, favoured China's exports and overall accumulation, thereby increasing the demand for raw materials, the prices of which began to rise again in 2004 outside of the Federal Reserve's target range for inflation. The 'new' capitalism had been based on preventing price inflation except in the case of asset values. Now the Federal Reserve could only generate another round of domestic wage deflation, via an increase in interest rates, in order to offset the domestic impact of a rise in commodity prices. Yet raising interest rates would hurt the main policy objective of sustaining a rise in capital asset values. The hope of financial companies was that the higher cost of borrowing could be offset by a further hike in asset values, thereby expanding the value of the collateral for loan applications. The rapid proliferation of subprime mortgages, enticing poor households to step into the financial swamp, was an attempt to keep the real estate bubble going by all possible means. Meanwhile the US authorities put their faith in two miracles, neither of which occurred: that more complex and obscure securitization packages would distribute risk and thereby reduce the potentially dangerous effects of defaults; and that the same magical financial instruments would draw in the surpluses and savings of the emerging economies to fill the deficits of the United States, Britain, Australia and Spain (the countries which generated the greater part of the world's deficits). To understand why this was in fact no longer possible we need to turn to the growing contradictions of European neomercantilism.

EUROPEAN NEOMERCANTILISM: FROM SUCCESS TO THE PRESENT CRISIS

The root causes of stagnation are to be found in the evolution of neomercantilism within Europe as it unfolded after 1945. In order to put it into perspective we must note that in the inter-war years France's answer to the likelihood of renewed German economic dominance was a financial and economic *entente* based on a cartelized vision of Europe, similar to the then ruling International Steel Cartel. It essentially entailed an institutionalised arrangement between the central banks, aimed at sustaining the respective

currencies in a joint effort to accumulate gold bullion.¹² In the postwar period, under US hegemony, the cartelized conception of Europe mutated into the creation of a common economic space for European oligopolies. The Common Market (1957), heralded by the Economic Community of Coal and Steel (1952), was the first substantial step in that direction. Objectively, the push towards a renewed intra-European neomercantilism came from the constraint represented by the persistent German surpluses. Initially, the working of the European Payments Union (1949-1959), set up with Washington's financial contributions, and the counterpart funds of the Marshall Plan, allowed intra-European deficits to be smoothed out. But with the return to convertibility and the end of EPU in 1959, balance of trade constraints became the chief factor governing European economic policy.¹³ The policy of prioritizing exports over domestic demand in order to secure a positive trade balance characterized the whole of the 1960s, during which France (in 1963-4), Italy (in 1963-5), and Germany (in 1965) all adopted stop-go policies in order to attain export surpluses.¹⁴

The undoing of the fixed exchange rate regime in the 1971-72 biennium and the oil- and wage-induced inflationary processes that followed, caused heavy currency fluctuations within Europe which threatened Germany's net trade surplus. In the 1970s the main danger to Germany and France came from Italy, which, by riding inflation, implemented a policy of differentiated exchange rates adjustments. The Lira was made to devalue relative to the D-Mark, boosting exports, and to revalue relatively to the US dollar, thereby reducing the cost of energy imports. The dynamic of Italy's exports was the strongest in Europe, including in its bilateral trade with Germany. The relatively important role of the French financial sector prevented Paris from gambling on inflation. But given the similarities between France and Italy in the consumption goods industries, the more the latter succeeded at its game, the more France was being hurt on its own turf, and in other European markets. A French surrender to Italy, by following the same policy, would have put an end to German surpluses and to the Bundesbank's objective of obtaining them through a strong nominal exchange rate for the D-Mark, counting on controlling wages and on the technological prowess of German industry to secure large productivity gains. The German response to the dangers arising from competitive devaluations was the formation of the European Monetary System (EMS) in 1979. It consisted of an exchange rate mechanism (ERM) which, ultimately, would make European currencies arrive at a fixed parity. Throughout the convergence phase the most inflation-prone countries (Italy, and, upon joining the European Community, Spain and Portugal too) would actually revalue their currencies in real terms.

The ERM established a 'band' setting limits to both upward and downward currency fluctuations. Italy, having in 1979 a much higher rate of inflation than the other would-be member states, negotiated a wider band. The purpose of the ERM was to eliminate inflation-induced currency fluctuations, so that the band acted in a disinflationary manner. This meant that although Italy continued with devaluations in the first half of the 1980s (in the second half the ERM achieved fixed parities), they were less than the rate of inflation, causing a real revaluation of the Lira; and sure enough, the export dynamics of the country began to deteriorate. The EMS was a German preoccupation strongly favoured by Holland and Belgium, which always searched for a niche within German neomercantilism. But the EMS could not, however, be established in 1979 without France, whose government and financial sector preferred to gain export shares through reducing imports via a drastic recession in domestic demand and employment, as had already been demonstrated in the years preceding the launching of the EMS by the government of Raymond Barre.

Under the EMS regime, at least until the absorption of East Germany in 1990, Germany piled up unprecedented surpluses as a proportion of GDP, surpluses surpassed only in 2007-8. The EMS made Europe a rock-solid area of profitable demand for German exports, whereas the deficit with Japan was growing and US imports from Europe were very sensitive to the gyrations of the dollar. Except for the period 1988-1991, the German economy was in a neomercantilist stagnation mode, being one of the slowest-growing countries in Europe, so that its demand for imports was anaemic compared with the rest of Europe's. Given the distribution of income between profits and wages, Germany's rapidly expanding trade surpluses meant sharply rising external profits for its firms. But whereas Germany's intra-European net trade surpluses grew across the board, Italy's declining surpluses did not help French capital accumulation through trade: throughout the 1980s France's deficit grew in both its trade and its current accounts, and as a share of GDP, and the rate of unemployment was 10 per cent. The German-centred ERM pushed Italy into a negative current account position and put the country's budget deficit in the hands of the capital markets. In order to maintain the ERM parities with a deteriorating current account, Italy resorted to financing its external deficit by attracting capital through paying higher interest rates on its bonds, thereby swelling the level of public debt with non-productive financial commitments. It was a deliberate policy by the Bank of Italy aimed at putting pressure on firms so as to force them to restructure and break labour's back. Spain and Portugal were in an even worse state, since in no way could their economies be made into net exporters. They couldn't

therefore generate a flow of exports to prevent a credibility crisis arising from financial companies engaged in short-term trading in government bonds and foreign exchange.

The whole EMS phase, including the way it ended in 1992-3, brings us to a clear conclusion. Profit accumulation through net exports was the main objective of the German government and of big business. Large corporations wanted European price stability in order to plan their mark-ups and retain as much as possible of their productivity gains relative to wage costs. The financial sector, which is fully integrated within industrial firms, shared the same objectives, with the additional bonus that price stability and cost-cutting increased the value of financial assets. Between 1988 and 1991 Germany experienced strong growth rates. In 1992, however, when growth was resulting from a Keynesian expansion connected with the costs of German reunification, the Bundesbank scuttled the EMS. The very buoyancy of domestic demand was deemed to be a threat to net exports. A high level of domestic demand was seen as likely to result in higher wages, which would reduce international competitiveness. With the end of the EMS – directly caused by Germany increasing its interest rates for fear of inflation – the Deutschmark was revalued and the Italian Lira sharply devalued, while the French and the German government joined forces to defend parity between their own respective currencies. The high value of the D-Mark hurt German exports for an unexpectedly long time. From 1992 to 2000 export surpluses were not sufficient to finance the international expansion of German capital. In the same decade the low value of the Lira brought Italian net exports to the highest absolute level in the OECD.

The EMS/ERM had crystallized the split of the European neomercantilist trading system into two spheres. On the positive-balance side, with consistent trade surpluses, stood Germany and its neomercantilist satellites, most notably Holland; and with them stood Italy which experienced trade deficits but whose trade surplus could skyrocket at any time if the Lira were allowed to ‘dance’ (as happened after 1992), and if wage contracts were decoupled from inflation (as happened earlier in 1991). On the other side stood Spain and Portugal, with consistent trade deficits. French political and business leaders saw their country as standing next to Germany as a surplus country, but for most of the years preceding the 1992 crisis of the EMS, the economic reality was just the opposite. Thus to stave off the risk of sliding to the negative-balance side of the neomercantilist trading system – and having no economic means to prevent it – France’s leaders shifted their focus to *la construction européenne*. Already in 1988 the formation of the Delors Commission for a single European market started President Mitterrand’s push for a single

currency in order to prevent France from becoming de facto part of the D-Mark area, and hopefully to allow France to join Germany's control over European monetary policy and prevent further competitive devaluations. The post-1992 crisis in the German current account had convinced France's leaders that German neomercantilism was in a long-term crisis. They thought France would become the new European pivot, in a hegemonic alliance with Germany, provided that a new order could be brought about between the European currencies and the Bundesbank policy of high interest rates could be reversed. The French view stemmed from the fact that, despite having kept parity with the D-Mark, the French economy accumulated large trade surpluses and, unlike Italy, large current account surpluses as well. It appeared as if there was a synergy between France's net merchandise balances and the net financial balances. The high interest policy pursued by the Bundesbank was tackled by delegating to Valéry Giscard d'Estaing the task of threatening to decouple the French Franc from the D-Mark. Under Chancellor Kohl's pressure the Bundesbank relented and in 1996 Germany's interest rates were lowered. The Lira immediately revalued, and so did the Peseta and the Escudo. These were the values on which the lock-in exchange rates for the Euro currency in 1999 were based.

A closer inspection of the period 1992-2001 reveals that the German current account crisis only partly opened up space for the Italian *contropiede*-style neomercantilism, and France's arrogant version. Given Europe's unbridgeable deficits with East Asia – first with Japan, South Korea and Taiwan, and then, overwhelmingly, with China – Europe's net exports benefited in the 1990s from the asset-stripping-induced consumption bubble in Russia, and from the consumption bubbles in Brazil and Argentina whose currencies were pegged to the US dollar. But the Russian and Latin American 'miracles' soon went under when, after 1998, these bubbles were pricked. By the turn of the century the peg to the dollar had gone and the countries concerned were in deep recession, returning to their role as net exporters of raw materials and of energy products, and thereby having a trade surplus with Europe. Thus the overall European external accounts were ever-more dependent on the continuation of the 'new' capitalism in the United States.

But by 2001 the US dotcom bubble was over. The ensuing downturn affected European exports more than could be counteracted by the initial decline of the Euro against the Dollar. However, and very importantly, in 2001 Germany regained its overall net surplus position, and this would expand at an increasing rate, reaching almost 8 percent of GDP in 2007 (it still stood at 6.6 per cent in 2008 when the world crisis had already

begun). Net surpluses within Europe were the crucial factor in Germany's performance, in the context of stagnation in Europe as a whole. But before we turn to examining the implications of this for the current crisis of European neomercantilism, we must first address the crucial question of how German capitalism managed to sustain its unchallenged oligopolistic dominance in the European Union.

THE CHANGING STRUCTURAL BASIS OF GERMAN HEGEMONY

The structural basis of Germany's hegemony is well known: the dominance of its capital goods and technology sectors. Historically, at least since 1945, Germany's capacity to orient European policies towards its neomercantilist objectives always depended upon the capital goods sector's ability to generate new machines and new technological complexes, in combination with the oligopolistic position of Germany's corporations in Europe and the wider world. These twin factors also allowed Germany to outsource and relocate production to Eastern Europe, cutting jobs in the process while further expanding its net export position. The Maastricht Treaty of 1992, and the French-inspired Delors Plan launched in 1993, provided the formal ideological and legal framework for the new competitive neomercantilist European playing-field. This was based on the following logic: (a) investment versus consumption, the latter being associated with higher wages; (b) new technologies for greater competitiveness aided by a planned one per cent gap between the growth of productivity rates and the growth of wages; (c) a single tightly-managed Euro-currency to avoid inflation and competitive devaluations. Macroeconomic stability would also require small and diminishing public sector deficits, lest economic expansion rekindle inflation. Both the Maastricht Treaty and the Delors Plan made employment levels a very indirect outcome of economic growth, rather than an explicit policy objective. Hey presto: the whole apparatus of the European Union in Brussels pushed the member countries to strive for a high-tech investment strategy linked to high profits and to cost-cutting financialization under free intra-European capital mobility.

All this encouraged a process of heightened 'destructive' competition in Europe, which culminated in record levels of mergers and acquisitions in the two years immediately before the start of the current crisis in 2007. Greater centralization was dictated by the oligopolistic strategy of controlling larger market shares. Yet the merger movement jeopardized the existing oligopolistic structure in many industrial branches, so that some of the big players increasingly were themselves at risk. The opening up of Eastern

Europe to Western European capital after the fall of the Berlin Wall in 1989 accelerated the industrial restructuring which had begun in the late 1970s, while an additional powerful stimulus came from China's entrance into the global manufactures market. To widen market shares new plants were built in Eastern Europe, prompted by the wish to exploit the wage gap between Eastern and Western Europe. However, the productive capacity of the new plants competed with that of the same firms in the Euro-15 countries, leading to a state of endemic overproduction.¹⁵

Consider the cases of household appliances and the automotive sectors. In 2007 the appliances industry employed some 200,000 people, mostly in Germany and in Italy. The largest four producers controlled 53 per cent of the European market, and the first seven 71 per cent. This high level of centralization is the result of mergers and acquisitions. From 2002 to 2007 the sector's employment in the EU-15 countries fell by 23 per cent. The decline in employment in this sector for the whole of the 27 countries of the EU has been smaller, because the share of Eastern European production rose to 30 per cent of the total. But the increased volumes of output in Eastern Europe were largely unconnected with East European demand. Hence the new plants competed with the productive capacity of plants in Western Europe. A drastic restructuring process followed, with the end result of curtailing the sector's overall level of employment within Europe.

In 2007, the European automotive industry employed 2 million people, half of them by the major auto assemblers, and half in the direct supply chain. By including other activities connected with the automotive sector (including services) the total goes up to 12 million people; i.e., at that time, 7 per cent of total European employment.¹⁶ If only automobile producers are taken into consideration, the biggest five controlled 65 per cent of the European market and the biggest three 41 per cent. In this case, too, there has been a shift of volumes to Eastern Europe. For the automobile industry the gap between the productive capacity of the new member states and their consumption of automobiles has been estimated in 2007 to be up to a million cars per year. The strategy of shifting production to Eastern Europe has thus compounded the pre-existing problem of European overcapacity in the sector, which is now hovering at around 30 per cent of potential output.

The centralization process through acquisitions and mergers did not lead to concentration in the classical manner of vertically-integrated firms. Instead, productive networks or *filières*, based on the outsourcing of upstream production activities, and made up of many small and medium enterprises, have been set up by the main automotive producers (OEM). Each chain

is segmented in tiers, each one with a different value-adding capacity, depending on productivity. For instance, in all industries the producers of modules or complex components are stronger than companies producing simple parts. The overwhelming majority of these networks/chains are organised in both tiers and poles; the poles are the key players of each tier.¹⁷ At the bottom of this ladder we find the 'last', the companies just supplying an output of a certain amount of simple manufacturing/processing activity or simple services; these units just struggle to survive.

Given the present weakness of unions, working conditions largely depend on the relative positioning of each company in the supply and value chains/*filières*. These *filières* are now more integrated than in the past. The companies engaged in the upstream activities are not only on the buying side of the option make-or-buy; they are under the authority both of the key players of the *filières*, that is the OEMs, and of the other key players in each tier. The key players decide for the other companies how to plan output quantities in a given period of time, the speed at which to complete and deliver each batch, how to arrange a mix of different items in sequences, etc. They have the classical prerogatives of managers. For highly specialised companies, such as module suppliers, the degree and the nature of the integration in the *filière* is such that the borderlines between companies are blurred and new ways of co-operation begin with new corporate governance schemes. As for working conditions, conditions at the bottom of the chain are very precarious, 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 longer considered free agents, but, in many industries, are rather seen as functionally dependent parts of the system.

Thus two main closely interrelated and reinforcing processes have profoundly changed European and global 'industrial capital': centralization without concentration, and a model of competition based on the pursuit of a never-ending expansion of all kind of consumption, engendering therefore the necessity to seek new markets. This struggle has been fought by adding new productive facilities when the existing ones already carried significant unused capacity. The new system has also been built on the functional integration into a single framework of many subsystems of companies with different regimes, the overall effect of which has been the squeezing of wages and working conditions in Western Europe. This dire situation has been worsened by the doubling of the global workforce since the end of 1990s.¹⁸

THE GERMAN STRATEGY'S CONTRADICTIONS

In France in the mid 1990s, especially under the Socialist Government of Lionel Jospin, whose Finance Minister was Dominique Strauss Kahn, Paris thought that the German crisis would enable France to implement the cartelized plan for Europe from a hegemonic position. Yet it was Germany, essentially because of the structural features of its expanded reproduction, and Holland as a service and financial area supplying it, which were able to make the most of the new framework established by the Maastricht Treaty and the Delors Plan. It took nine years, but the German surplus came back with a vengeance, all the more so since the countries in structural deficit could no longer devalue, nor could they develop their own independent fiscal policies.

Let us analyze how the process worked in Germany. The export boom has been based on big productivity gains, without providing a spin-off for employees' general conditions (wages, working conditions and social provision). Instead, with the shrinking of the domestic market, there has been wage moderation and a reduction of social provision.¹⁹ This situation has been compounded by the off-shoring of production to lower-cost countries, including European ones, in order to implement a very aggressive export strategy. Employers' policies on how to overcome the perceived barrier of the traditionally relatively high wages of post-war Germany changed dramatically in the nineties. There was a large shift from the automation strategy of the seventies and the eighties, to the off-shoring of upstream activities, mainly to Eastern Europe and partly to areas in the old EU-15, such as northern Italy. There has been a simultaneous large shift of investments towards East Europe, on a scale that led Sinn to state: 'Current net investment abroad is 50 per cent higher than domestic net investment. German firms are currently engaged in an investment strike [at home]'.²⁰

The rationale of this strategy is that high-tech investments can give Germany an advantage over new competitors such as India and China, making the medium-high layers of their mass markets available for German exports. In Germany nowadays the discussion centres on mapping out a trajectory from 'made in Germany' to 'enabled in Germany'.²¹ These markets are so big that even if only the richest parts of them become accessible they will suffice to guarantee an adequate return on investment, as is the case with Volkswagen in China. But even if this benefits certain German capitalists operating in China, it may not benefit the German economy. China licences FDI requiring technology transfers. It has also undertaken massive educational and research programmes in industrial know-how.²² China is therefore increasingly able to supply its home markets with productive

processes whose upstream and downstream activities are domestically-based. The overall effect has been, and still is, to add more over-capacity in many industries at the global level, creating new financial risks and, on the long run, new deflationary pressures.

It should have been clear for some time that the German European algorithm is untenable for Europe, and would eventually mercilessly tear the Union apart. The idea that substituting low skilled labour for highly-skilled jobs will generate more jobs for the exporting country is pure wishful thinking. Indeed, during the past ten years German employment has fallen by 1.36 million people.²³ The German growth in the stock of capital in the last 20 years is among the lowest in the EU. It is only the main German export-oriented corporations and financial companies that benefit from the country's macroeconomic stagnation, thanks to wage deflation and the profits they derive from their exports.

With the formation of the EMU in 1999 Germany's neomercantilism hardened. From 2000 to 2008 national income grew more slowly than the Eurozone average, but German labour productivity outpaced the average by more than 35 per cent, while the rise in compensation per employee was half of the Eurozone average.²⁴ These outcomes emanate from a deliberate deflationary policy aimed at keeping wages in check while extracting productivity increases. These were made possible by the technological transformation of Germany's capital stock which, unlike that of Italy and even France, never lost its structural, intersectoral coherence. It is precisely the coherence of the country's productive apparatus which enabled firms located in the *Bundesrepublik* to farm out production to Eastern Europe while retaining the productivity gains which, combined with domestic stagnation, boosted export performance. Germany's business leaders explicitly stated that the country can remain a low growth area provided it keeps all the capital goods sectors needed to feed exports, FDI projects in Asia and outsourcing to Eastern Europe. Previous attempts to engineer an iron-clad area of protection for this model of accumulation failed because of their ad hoc nature. With the Maastricht Treaty and Stability and Growth Pact, however, now taken up by the EMU, Germany does not have to carry fiscal-institutional responsibility for the deficits that emerge elsewhere in Europe, while its export sectors benefit from the single currency, thereby exacerbating the intra-European divide.

THE CURRENT CRISIS:
THE WORSENING EUROPEAN DIVIDE

The present state of affairs in the Eurozone and in the EU reflects the partition of the European Union into three groups. The first is a group of neomercantilist countries centred on Germany and including Holland, Belgium, Austria and Scandinavia. Their neomercantilism can be defined as strong, because of their persistent export surpluses – realized mostly within Europe, since the trend of rising deficits with Asia is not being offset by their fluctuating surplus with the USA. The group's external net balances rests on the combined effect of maintaining a powerful capital goods industry, linked to global oligopolistic corporations, while having a very low long-run domestic growth rate. Germany is not the locomotive of Europe. From the 1970s onwards the rest of Western Europe systematically had much higher rates of growth, thereby stimulating imports from Germany and its economic satellites. Hence the neomercantilist group epitomizes a classical monopoly capital situation, turned into an institutionalized macroeconomic regime by the very process of *la construction européenne* that was wanted by France.

In the past Germany aimed at stable exchange rates to avoid competitive devaluations. In the context of a single currency, competitive devaluations mutate into a competitive widening of the productivity-wage gap. Domestic stagnation ensures that German wages grow less fast than productivity. The country's industrial relations system, based on a neomercantilist entente between capital and the trade unions, allows the gap between productivity and wages to be more favourable to capital than in the rest of Europe. All this leads to low growth in Germany, reinforcing its export competitiveness by means of wage deflation. The end result is that while Europe cannot do without German machinery and technology inputs, Germany is not a fast-expanding importer and so does not contribute to net European demand. It thereby accumulates very large external surpluses that are partly used to finance FDI and joint ventures as far afield as China, as we have seen, as well as elsewhere in Europe, including in its deficit countries. But the 2007–8 crisis of the *Landesbanken* also revealed the more toxic financial consequences of Germany's search for external surpluses.²⁵

The second group of countries is the European inner periphery, headed by Italy with France being a case on its own. Firms in Portugal, Spain and Greece would like to generate net exports but they can't because, their export growth notwithstanding, they have weak domestic capital goods sectors, so that any sustained expansion in national income has a rising import content. The import dependency of their technology and durable goods sectors is

such that previous, pre-Euro, devaluations did not improve the external balances of these countries. Both Spain and Greece, though not Portugal, experienced higher than the EU's average growth rates. Spain's growth was due to the insertion of the country into the international real estate market via London. In the case of Greece the fiscal deficit enabled it to sustain an import-oriented growth. In both instances the growth of domestic demand led to higher activity, entailing yet more imports per capita. Spain, Portugal and Greece are permanent deficit countries and represent net profitable export areas for Germany, France and Italy, by absorbing 7, 10 and 9 per cent respectively of their total exports. Given the productivity-driven dominance of German export production, the current account deficits of Greece, Spain and Portugal could not be reined in and had to be financed by capital inflows obtained by issuing government bonds (in the case of Greece) and/or by capital transfers, such as those resulting from sales of Spanish real estate in London.

Italy symbolizes a weak form of neomercantilism, which in the past depended upon real currency devaluations, especially towards the Deutsche Mark. However, after the dotcom crisis of 2000, the country witnessed a significant capitalist transformation stemming from the so-called 'fourth' capitalism of small and medium-sized multinationals which have successfully crossed over into high value-added productions. With the adoption of the Euro, Italy's net external position deteriorated sharply, turning negative in 2005. On balance the Euro has restricted the European space of Italian capitalism. Since the mid-1990s, under the centre-left government, Italy has implemented a savage wage deflation, while outsourcing apparel and footwear production to Romania and Albania. But whereas for Germany the same outsourcing policy in the automotive and household appliances sectors has been consistent with a juggernaut advance of net exports, Italy has seen its external accounts deteriorate sharply. The 'made in Italy' model is affected by an inherent fragility, and can survive only at the price of a continuous restructuring. Worse still, Asian imports into European markets compete neck and neck with Italy's.

This leaves the major economies of the UK and France. As for the former, were it not for its world financial sector, it would belong to the persistent deficit countries of the inner periphery. France, above all, stands in a peculiar position as a very special case between the surplus and deficit groups: as we have seen, it has a pronounced neomercantilist posture but it seldom achieves the goal of running a net surplus, not least because it is the largest net export market for Germany and increasingly so for Italy; but it tried to avoid the route of competitive devaluation, because of the weight of

its financial sector. And just as upon the Euro's establishment, Italy began to lose its surpluses, so did France. The new more favourable currency position that the Euro provided did not help France, and by 2005 it joined Italy in hitting negative territory in both their trade and their current accounts.

Meanwhile Spain, Portugal and Greece saw their deficits double and then treble within a few years. From the mid 1990s until 2008 the growth rates of Spain and Greece were significantly higher than the EU average. Yet the weak capital goods sectors of their economies implied that growth involved net imports and financial inflows. For quite a while EU structural funds for less-developed regions contributed significantly to the expansion of Spain and Greece, as well as of Portugal and Ireland. Brussels' money is estimated to have sustained 1/3 of Spain's growth, and Madrid's budgetary position was not characterized by large deficits or debt: down to 2008 its public debt-to-GDP ratio was well below the 60 per cent established by Maastricht, and the budget deficit was 2 per cent, well below the Maastricht limit of 3 per cent. But the strong integration of Spain into the international real estate financial circuit, while attracting money, caused an immediate contagion when the subprime bubble collapsed in 2007-8. In just a few months unemployment jumped from 11 per cent to 19 per cent, the largest rise in Western Europe. Obviously, the formerly negligible budget deficit also shot up, reaching 12 per cent of GDP by 2010. On top of this the 'new capitalism' put the financing of the budget deficits of weak countries in the hands of capital markets and the (officially despised) rating agencies. Perceptions about the unsustainable nature of Spain's deficit were catapulted into the spread between the interest rate on German bonds and the supposedly riskier ones of Spain.

A similar fate befell Greece, where the capital goods sector's power to generate capital accumulation is even weaker than in Spain. Its high growth rate was entirely Keynesian – but this would eventually prove disastrous in a non-Keynesian world. The country's economy grew on account of its effectively high deficit public spending, plus the usual EU structural funding. The thin productive basis of Greece's economy meant that such a high rate of growth also caused an ever-widening current account deficit. With the onset of the global crisis the European Central Bank ceased to be willing to accept Greek bonds as collateral for lending to Athens, following German pressure and France's surrender to it. Rating agencies made the spread on Greek bonds shoot up to the point where the financing of current government operations was jeopardised. At this point the Socialist Pasok government also surrendered to Berlin, whose sole objective was to save the value of Greek bonds held by German banks.

The predicament of Southern Europe highlights how the crisis is

aggravating the divisions within Europe, and especially within the Eurozone. When it comes to its own situation Germany does not always take the same dogmatic view that it holds in relation to the deficits of other Eurozone countries. Shortly after the start of the Euro in 2001 Germany, together with France, let its budget deficit go well beyond the 3 per cent limits set by Maastricht and the Stability Pact. A significant part of this budget deficit helped German companies to undergo the restructuring needed to mount the new export offensive. With the success of the latter and the resulting increase in tax revenues, Berlin advocated once more the need to return to fiscal conservatism, and the Bundestag even passed a law requiring the domestic budget to be balanced. Suffering a fall of 5 per cent of GDP in the current crisis, Germany could not but violate the Maastricht criteria again, while making it clear, however, that not a single German Euro should be transferred to the weaker areas of the Eurozone. Convinced that its industry will successfully fight the crisis through export-oriented restructuring at home and relocation in Eastern Europe, Berlin is adamant that its own public moneys should go to facilitate these tasks, and not be 'squandered' on Greece, which is an example to be noticed by – whom? Portugal and Spain?

Yes; but their situation is self evident. It is France that must take notice, since Paris's budget deficit is rising fast, beyond 8 per cent of GDP, far above Germany's. Paris has taken notice by capitulating on the Greek issue and by itself reverting to a German-style fiscal Protestantism. Hence the most relevant intercapitalist outcome of the crisis so far is the extreme weakening of France's position, burying the idea of a cartelized entente acting as the joint power hub of Europe – the idea so long, and so much, cherished by the French ruling class. Chancellor Merkel is enforcing the legal features of the EMU, the key weakness of which was explained, early in 2010, by one of its German founders, Otmar Issing, as follows:

The monetary union is based on two pillars. One is the stability of the euro, guaranteed by an independent central bank with a clear mandate to maintain price stability. The other is fiscal solidity, which has to be delivered by individual member states. Member countries are still sovereign. Emu does not represent a state; it is an institutional arrangement unique in history. In the 1990s, *many economists – I was among them – warned that starting monetary union without having established a political union was putting the cart before the horse.*²⁶

By May 2010, in the wake of the so-called Greek crisis, the conflict between Germany and France was being narrowed to two competing, yet similar, budgetary rules for the European Union. But both the German plan, based on its own terrifying balanced budget law, and the brand new French proposal of a trajectory towards balanced budgets, are both bound to crash on the rocks of intra-Eurozone asymmetries and a worsening social crisis produced by further state responses to large losses of tax revenue. Each country is taking austerity measures that will make recovery problematic at best.

The race to the bottom generated by this crisis misleadingly bears Greece's name, even though it was a German creation. In a crisis situation such as exists today the inconsistency of the European construct multiplies its structural faults. Europe finds itself in a classical Marxian overproduction crisis whose foundations lie in the stagnation of the last three decades. Overcapacity and the stagnation of working-class incomes compelled countries to find other markets for their outputs, to choose between neomercantilism and an economy based on debt. This, in turn, has created enormous room for manoeuvre for financial capital. In reality the neomercantilist approach has made Germany even more exposed to the crisis; it is not by chance that in 2009 it has registered the highest percentage fall in production among the EU-15 countries. Chancellor Merkel rejected all criticism of this pattern of development, and expressed her conviction of the need for Germany to have a strong export performance in order to maintain its social standards, although up to the summer of 2009 the government took measures defying its own rhetoric. On the whole, the objective of net export has been a factor, among many others, contributing to the political implosion of the European Union, unable to find common industrial and labour policies to face up to the crisis and giving way, instead, to nationalistic attempts to defend each country's status quo, as seen in the Opel-General Motors quarrel.

The mercantilist approach chosen by Germany, Italy and France, in this hierarchical order, which for a long time appeared to be successful, has brought Euroland to a dead end. Since the 1970s Germany has had a deliberate and successful policy to keep its own growth rate well below that of the rest of Europe with the precise objective of piling up financial surpluses. France, too, has not been very keen on sustained growth because successive governments (including Mitterrand's) feared wage demands. And, once public sector spending ceased to support Italy's growth already in the late 1970s, its economy could only grow if favourable exchange rate conditions prevailed. Under these circumstances it is hardly surprising that growth rates in Western Europe declined during every single one of the last four decades.

Europe has fallen more and more into the grip of German surpluses, the only bright spot being net exports to the United States which, however, hardly compensated for the growing deficits with Asia. The formation of the Euro completely crystallized the situation, enabling Germany to reach unprecedented surpluses amidst deepening European stagnation. When the US outlet ceased to function in the wake of the subprime crisis – which cascaded onto the derivative papers held by the Landesbanken – Germany hardened its neomercantilist stance and unilaterally decided to rewrite the rules of the game.

The Greek crisis is just the route chosen by Berlin to modify the EU's code of conduct, to the detriment of France. There is no genuine problem of an excessive Greek deficit. It can easily be handled at the European level by devising common policies to revamp European, and specifically Greece's, growth, which is also the only cure that will not kill the patient. Drastic cuts in public expenditure, while disarticulating the whole system of services and infrastructure on which a modern society rests, reduce the debt ratio only marginally, if at all. But from Berlin's neomercantilist perspective a cooperative growth option is not even remotely contemplated, for the following reasons.

Germany continues to see the Eurozone as a fixed exchange rate system whose function is only to prevent competitive devaluations (which in the past were chiefly indulged in by Italy). For Germany the essential role of Western Europe is to provide net effective demand for Germany's exports. As Wolfgang Münchau recently reported in the *Financial Times*: 'Rainer Brüderle, economics minister, said last week there was nothing the government could do about demand because consumption was a decision by private individuals. A senior Bundesbank official even compared the Eurozone to a football league, in which Germany proudly held the number one slot'.²⁷ The comparison is patently false: to compete with Germany, Eurozone countries would have to reduce their own growth rates well below Germany's, which means that they would have to be zero or even negative.

The hardening of the German stance towards Greece and the Iberian countries was also due to Berlin's focus on its own outer periphery in Eastern Europe, involving the Baltic countries, which are in a total depression, and the deeply recession-hit Slovakia and Hungary. It is an open secret that, although refusing to confirm it, the ECB has been buying their bonds as collateral for loans, thus rescuing Austrian and Swedish banks from the consequences of their reckless lending to these countries. This was done with the full support of Berlin. Germany's opposition to helping out Greece

was the counterpart of its policy of allocating funds to areas that are Berlin's satellites zones, and to the areas where German companies have been pursuing their restructuring strategies, as is the case with Eastern Europe.

It is this 'gestalt' that pushed Sarkozy to confront Merkel (though he did it much too late), compelling Berlin to accept a 750 billion euro fund. Some prominent figures, like Romano Prodi in the *Financial Times*, mistakenly hailed the decision as a step towards European fiscal federalism.²⁸ It is nothing of the sort. At best it is an emergency fund for German and French banks, structured in a special investment vehicle the content of which is unknown. This explains why the new fund, however massive, did not have a great deal of effect in placating the markets. It underscored the inadequacy of existing European institutions since the new fund is placed outside their framework.

Moreover, the whole 'Greek' episode has underscored the fatal weakness in the role of the European Central Bank. When, in the fall of 2009, on Berlin's insistence, the ECB ruled that Greek government bonds were no longer acceptable as collateral for loans, it pushed the Greek crisis to the point of no return. The decision enhanced the power of the credit rating agencies, whose influence Germany and France both officially wished to curb, allowing the public debt of the inner European periphery to be evaluated by what are themselves the most opaque of all financial companies. A game of Russian roulette began, with the downgrading in quick succession of the Spanish and Portuguese debt, which in turn dragged down the derivatives related to this debt. In this respect the ECB initiated a process similar to the market-driven subprime crisis in the United States. The contagion spread through the derivative products and by mid-May, in tandem with the creation by the EU of the special fund, the ECB made an about-face by starting to purchase Greek, Portuguese and Spanish bonds hand over fist.

The nature of the institutional failure represented by the behaviour of the ECB becomes clear when the events of the November 2009-May 2010 in Europe are compared with those of 2008 in the United States. There, the Federal Reserve inundated the banking system with liquidity and was supported by the US Treasury which, in turn, launched expenditure programmes, no matter how limited and inadequate. Nothing of the kind can happen in Euroland where, instead, the ECB strongly supports the imposition of balanced budgets throughout the zone. The ECB's policies do not stem from a 'wrong' perspective. They are the outcome of *la construction européenne*, in which there is no place for a European Treasury, while the national treasuries are reduced to the role of mere tax collectors, even in times of falling demand and employment. At the same time the ECB is

compelled by necessity to contradict itself by purchasing government's debt while opposing active fiscal policies.

PROSPECTS

Meanwhile the prospects for Europe can be sketched out as follows. The EU lacks the internal social and institutional bodies to counteract the current crisis and the stagnationist forces at work. Hence hope is placed in the unlikely possibility of a wave of Schumpeterian, epoch-making innovations, or in new external markets. Yet the latter are few and far between. The US, where households are in debt-deflation mode while the government is trying to stimulate exports, can no longer consume imports from the EU as it did before. The EU is running a deficit with China and Japan, and with Latin America, whose imports are, in any case, now coming more from China. In this context some European countries have deficits with China and Asia that are not hampering their overall surplus position: they are Germany, Holland and Scandinavia. Indeed their surpluses, obtained mostly within Europe, are a necessary means of financing their FDI in China and Asia, and their joint ventures with Chinese and other Asian companies. Against these countries we have France, Italy, Spain, Portugal and Greece. They are a crucial source of surpluses for Germany and the other Northern countries while at the same time their own exports and domestic markets are being penetrated by China's exports. Barring a Euro-centred Schumpeterian miracle, the intra-European structural faults are bound to worsen.

In relation to today's crisis, too, US monetary policy based on the unlimited creation of liquidity at rock-bottom interest rates is highly inadequate. First, because under conditions of acute crisis the money can just stay within the banking system, as indeed has been happening – a sort of liquidity trap, in economists' jargon. Second, because flooding the system with liquidity is sustainable only if the institutions receiving the money at zero cost will employ it somewhere. But with real effective demand falling, or remaining flat, with collateral of a dubious and largely unknown value, unwillingness to lend is a given. It follows that the only way to use the money received gratis is by chasing after risk in order to generate returns. And not just chasing, but actually engineering new forms of structured investment vehicles, creating risk out of thin air. Under these circumstances the restructuring of labour processes which is occurring in companies plagued with excess capacity is leading to unemployment, both directly and also indirectly, through productivity increases. Given that the collapse in labour's bargaining power brought about by the now defunct 'new' capitalism has been made worse by the present crisis, it is unlikely that wages will rise with productivity.

Hence both existing unemployment and productivity growth will reinforce wage deflation which, in the absence of other forces, will worsen the Great Recession, turning it into a Great Stagnation. Expansionary fiscal policies cannot be fully relied upon to lift the system up. The Japanese case is there to teach us a lesson regarding a blind faith in deficit spending.

The challenge is to devise targeted interventions by integrating stimuli to demand with structural reforms aimed at the *socialization of investment*, as a permanent and not a temporary solution, and in such a way that the socialization of investment turns into the *socialization of employment*, with no separation between the two policies. Both presuppose a *socialization of banking*, which turns banks into public utilities.²⁹ Considering also that with the financialization of capitalism and its new forms, the infrastructural network has been allowed to decay in favour of capital asset values (the state of US infrastructure is there for all to see, but the same can be said about the United Kingdom, Italy and Australia), the socialization of finance is also a crucial instrument for undertaking public spending programmes to rebuild public infrastructure. A structural economic policy is needed, which does not separate intervention in relation to demand from that in relation to supply. Not to be idealist, all this presupposes a renewed strength of labour struggles in production.

The necessity of this kind of intervention is paramount because continental European leaders, both political and business, see the way out of the crisis in a mythical extra-European export boom. Therefore their focus is on productivity increases without any accompanying increase in wages. For the same reason they are refraining from any positive measures. The existing budget deficits are essentially a passive outcome of the crisis. Active policies have been few and uncoordinated, adopted only to prevent the collapse of the system, and have been rapidly removed when the most dramatic phase of the downturn slowed down. Indeed there is now strong pressure from Germany to enforce budgetary deflation on the Iberian countries and Greece, although their impoverishment will hurt the absolute volume of exports from Germany, France and Italy. Most ominously, in France the present government is pushing for a renewed wave of financially-driven privatization in the public services, and is planning the relaxation of minimum wage legislation.

With the end of the neoliberal cycle we can hardly bask in the illusion – typical of left-wing Keynesians – that it all boils down to ‘better’ economic policies, and not to the evolution of some of the deepest features of the very *modus operandi* of capitalism. It is impossible to address possible ways out of the crisis without facing the issue of the changes that have occurred in

the capitalist labour process, together with the changes in finance affecting demand and inequality. No policy or imagined project for beneficial change can flourish without an organic relation with the social movements that challenge the present state of things.

NOTES

- 1 This aspect of modern capitalism was already pointed out by Rosa Luxemburg. See her *The Accumulation of Capital*, London: New York: Routledge, 2003, originally published in 1913; and Riccardo Bellofiore, ed., *Rosa Luxemburg and the Critique of Political Economy*, London: Routledge, 2009.
- 2 Hyman Minsky, 'Finance and Stability: the Limits of Capitalism', Working Paper No. 93, Levy Economics Institute of Bard College, New York, 1993.
- 3 The rhetoric about 'deregulation' is mostly superficial, as convincingly argued in Leo Panitch and Martijn Konings, *American Empire and the Political Economy of Global Finance*, Basingstoke: Palgrave Macmillan, 2009.
- 4 Riccardo Bellofiore and Joseph Halevi, 'Deconstructing Labor. What is "new" in contemporary capitalism and economic policies: a Marxian-Kaleckian perspective', in C. Gnos and L.P. Rochon, eds., *Employment, Growth and Development. A Post-Keynesian Approach*, Cheltenham: Elgar, 2010 (forthcoming).
- 5 Marcello De Cecco, 'The Lender of Last Resort', CIDEI Working Paper 49, Università di Roma La Sapienza, Rome, 1998.
- 6 Jan Kregel, 'Minsky's cushions of safety. Systemic risk and the crisis in the U.S. Subprime mortgage market', Public Policy Brief Highlights No. 93A, Levy Economics Institute of Bard College, New York, 2008.
- 7 Jan Toporowski, *The End of Finance: The Theory of Capital Market Inflation, Financial Derivatives, and Pension Fund Capitalism*, London: Routledge, 2000.
- 8 This same phenomenon is christened by Bennett Harrison a concentration without centralization, thus inverting Marx's terminology. Harrison, *Lean and Mean*, New York: Basic Books, 1994, p. 8.
- 9 Riccardo Bellofiore and Joseph Halevi, 'A Minsky moment? The subprime crisis and the new capitalism', in Gnos and Rochon, eds., *Credit, Money and Macroeconomic Policy*.
- 10 Joan Robinson, *Essays in the Theory of Employment*, London: Macmillan, 1937.
- 11 The most perceptive of these arguments were advanced by Wynne Godley in 'U.S. Foreign Trade, the Budget Deficit and Strategic Policy Problems: A Background Brief', Working Paper No. 138, Levy Economics Institute of Bard College, New York, 1995; and 'Seven Unsustainable Processes', Special Report, Levy Economics Institute of Bard College, New York, 1999.
- 12 Alain Parguez, 'The Tragic and Hidden History of the European Monetary Union', unpublished paper, Université Franche Comptée, Besançon, November, 2009.
- 13 Riccardo Bellofiore and Joseph Halevi, 'Is the European Union keynesian-able? A sceptical view', in E. Hein, A. Heise and A. Truger, eds., *European Economic*

- Policies. Alternatives to Orthodox Analysis and Policy*, Marburg: Metropolis Verlag, 2006, p. 329–45.
- 14 Stop-go policies meant slowing down domestic demand and relying on export growth.
 - 15 James R. Crotty, ‘Structural Contradictions of the Global Neoliberal Regime’, *Review of Radical Political Economics*, 32(3), 2000, 361–68. The Euro-15 needs to be distinguished from the EU-15 since the latter includes Britain which is not of the Eurozone group.
 - 16 Francesco Garibaldo, Philippe Morvannou and Jochen Tholen, eds., *Is China a Risk or an Opportunity for Europe? An assessment of the Automobile, Steel and Shipbuilding Sectors*, Frankfurt am Main: Peter Lang, 2008.
 - 17 Francesco Garibaldo and Andrea Bardi, eds., *Company Strategies and Organisational Evolution in the Automotive sector: A Worldwide Perspective*, Frankfurt am Main: Peter Lang, 2005
 - 18 Richard Freeman, ‘The Great Doubling: The Challenge of the New Global Labor Market’, 2006, available via <http://www.econ.berkeley.edu/econ/>.
 - 19 Stephan Danninger and Fred Joutz, ‘What Explains Germany’s Rebounding Export Market Share’, IMF Working Paper WP/07/ 24, International Monetary Fund, Washington, 2007.
 - 20 Hans-Werner Sinn, ‘The Pathological Export Boom and The Bazaar Effect. How to Solve the German Puzzle’, CESifo Working Paper No. 1708, CESifo Group, Munich, April, 2006.
 - 21 See the project: <http://www.internationalmonitoring.com>.
 - 22 Francesco Garibaldo, Oscar Marchisio and Volker Telljohann, ‘The automotive industry’, in Garibaldo, Morvannou and Tholen, eds., *Is China a Risk*, pp. 27–51.
 - 23 Sinn, p. 14.
 - 24 *OECD Economic Outlook*, 86, November, 2009.
 - 25 The *Landesbanken* are owned by the German states with the specific task of lending to small and medium industrial firms. For their operations they could also borrow at officially subsidized rates. This facility was annulled by an EU directive which branded it uncompetitive.
 - 26 Otmar Issing, ‘A Greek bail-out would be Disaster for Europe’, *Financial Times*, 16 February 2010 (emphasis added).
 - 27 Wolfgang Münchau, ‘Gaps in the Eurozone “Football League”’, *Financial Times*, 21 March 2010.
 - 28 Romano Prodi, ‘A big step towards Fiscal Federalism in Europe’, *Financial Times*, 21 May 2010.
 - 29 Leo Panitch, ‘Rebuilding Banking’, *Red Pepper*, 3 January 2009, available at www.redpepper.org.uk.