

# Le Dernier Metro. Europe on the Edge of the Abyss

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**Abstract:** The article develops a Marxian perspective, stressing class relations, especially within production, and a Financial-Keynesian one, stressing the crucial role of finance. Analysing the financial flows and understanding how they are originated, financing production, and the different components of effective demand is more and more necessary. The critical point is to reverse the causal chain of the dominant approaches. In our analysis, the two critical facts are the 'making' of a transnational European integrated industrial system, due to the freeing of the movements of capital within the European Common Market, and the North-Atlantic integration of the financial markets. The idea that the crisis in Europe originated from an account imbalances crisis mainly due to the existence of the Euro is wrong. The crisis was triggered from the contradictions of the export-led model of European growth, which made the area dependent from foreign commodity demand, and the financial circulatory system between Europe and the United States, which, as Tooze affirms, is quite independent of the trade connections between the two. The crisis was due to the collapse of the funding of the circulatory system, while the production system was in a situation of structural overcapacity because of the export-led model. The artificial and unnecessary restrictions on monetary fiscal policies asked by Germany aggravated the crisis. In this perspective, what is needed is not exiting the Euro or just pushing for expansionary policies. The problem is a general reform of the macroeconomic governance. What is needed is a European-wide structural reform based on a targeted program of expenditure, what Minsky called the "socialization of investment", managed by an entrepreneurial State planning active deficits.

**Key words:** financial and industrial integration, real subsumption of labour to finance, common currency vs a single currency, active deficits, socialization of investment

Earlier this year we have published, expanding on a paper co-written with Mariana Mortágua on the crisis in the eurozone and published in 2014, a book on Europe: *Euro al capolinea? La vera natura della crisi europea*. [Euro at the end of the line? The true nature of the European crisis]. Here we want to stress a few key arguments of our discourse.<sup>1</sup>

Our starting points are two. On the one side, we witness the victory of capitalism in the late 1980s, culminating with the fall of the Berlin Wall and the crisis of the so-called "actually existing socialism" in Eastern Europe and Russia. People however don't realise very often that the Berlin Wall collapse also announces the exhaustion of the *raison d'être* of European Social Democracy to represent an alternative "reformist"

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<sup>1</sup> Bellofiore, Garibaldo, Mortagua 2015 and 2016; Bellofiore and Garibaldo 2019.

version of capitalism. Starting from the 1980s in Europe, a critique of capitalism and proposals for its overcoming have no significant political representation.

On the other side, we recognise the contemporary new successful capitalist phase which started at the beginning of the 1980s with the rise of so-called Neoliberalism. In our conceptual framework, Neoliberalism is a misnomer. Neoliberalism has not much to do with Monetarism or the return to free markets: quite the opposite. Analogously, the view in terms of a renewed “financialisation” is reductive. What materialised along the 1980s was what Minsky labelled as a money manager capitalism<sup>2</sup>, which may be more precisely defined a real subsumption of labour to financial capital<sup>3</sup>. More and more, the most secure way to push effective demand up was boosting the expenditure coming from indebted consumers, thanks to the inflation of capital assets (including housing). The value of savings escalated, the share of current saving in income went down. Household debt was related to the dominance of (pension, investment, hedge) funds, which were on the rise since mid 1960s, and which exploded after 1980. The capital market inflation allowing the growing household indebtedness was driven by a very activist economic policy, especially a new kind of monetary policy. It is a privatised financial Keynesianism.

### **The transnationalisation of production: European value-chains**

It is in this historical context that the ‘making’ of what will become the European Union and then the single currency must be understood. We have also to consider the fact that in Neoliberalism the global players in manufacturing and services run a destructive competition against each other, boosting an excess of supply through worldwide investment. The production value chains are neither purely global or just inter-national, they are trans-national, blurring boundaries across nations. In the industrial networks there may be a stratification of power according to the relative powers of the single components of the chain.

The first move on the path to the transnationalisation of the European industrial landscape was the freeing of the movements of capital within the European Common Market<sup>4</sup>. It was established as one of the fundamental rights. Full freedom of capital movements allowing industrial and financial investments within the union without constraints (except for the limits posited to monopolistic practices) had originally to be sanctioned by the Maastricht Treaty in 1992, but it was in fact anticipated to 1990, July 1st.

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<sup>2</sup> Minsky, 2008 a and b

<sup>3</sup> Bellofiore 2013a, Crouch 2011

<sup>4</sup> Bellofiore, Garibaldi 2011, also for what follows.

We can discern here the opportunity, which was fully exploited, to build an integrated European industrial system, mainly through acquisitions and company mergers, but also through greenfield investments. The most dynamic and competitive companies in a specific sector – called Original Equipment Manufacturers (OEMs) – occupy the new European space by erecting around them integrated systems of suppliers. The OEMs’ network of suppliers is organised on many levels, depending on the complexity of their product. These integrated manufacturing systems evolve progressively incorporating an area of services and giving rise to mixed systems, now known as “industrial ecosystems”. The new configuration is not only structured hierarchically but entrenches important horizontal relationships.

This can be recognised as a process of strong ‘centralisation without concentration’ of the industrial structure<sup>5</sup>. As a consequence, in every industrial sector and also in the services sector, a limited number of transnational companies control the market. The integrated industrial structure allows the OEMs to determine dimensions, structures and regulatory framework for each of the companies that are hierarchically ordered. The horizontal relationships are complex and cannot be captured in a too simple hierarchical logic. The integrated industrial structure is rooted in the differences in pay levels, in the legislative and trade union protections within the workplace, in the different taxation systems and infrastructures in Europe.

On some of these differences – infrastructures being one of the most relevant examples – the thrust dominating the EU is a tendency towards homogenization at the most advanced level possible. If we look instead at the work dimension, the variables affecting it on the labour market and in the production process are considered all elements which is decisive to attack so that production costs are compressed and profitability is raised. The EU territory is itself a strategic resource: OEM can, indeed, organise their networks taking advantage of all kind of non-uniformity of the legal, fiscal, social obligations, as well as of the accessibility of skills and competences, as a way to fine-tune their own internal division of labour.

The result of the fact that the industrial structure is not evenly distributed in the various territories of the European Union is a fragmentation of the world of work along geographical lines as well as a stratification of the competitive positioning of companies. There are areas in which the presence of leading companies and specialised suppliers with high levels of innovation is substantial, but there are also regions in which the industrial structure is trapped in activities characterised by low added value production, with little or no technological innovation. Over time these uneven realities tend to

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<sup>5</sup> Bellofiore 2013a, among the many possible references.

polarise, giving origin to processes of industrial degradation in less specialised or marginal areas<sup>6</sup>. The key role here is that of Germany, which acts as the centre for entire significant value-chain manufacturing processes disseminated in European Union space.

It is easy therefore to understand how in the area new transnational powers emerged. If their “core” is in the industrial structure, they also have gained significant social influence matched with heavy political weight: a reality which could not but distort democratic life, in the absence of a central political government of the Union. The parallel “deconstruction” of the working class and the rise of the new transnational powers led to a weakening of the Trade Unions, since they are less and less effective in bargaining working conditions within national boundaries and in companies whose decisions are taken at an upper level<sup>7</sup>.

The growth model of the European industrial system has been defined since the elaboration of the White Paper of Delors on growth, competitiveness and unemployment, which was instrumental in the path to the Maastricht Treaty. In short, the main idea is that the only true competitive chance for the EU economy was moving ‘upstream’ in the value chain, and at the same time achieving a high factor mobility and a high flexibility in combining factors of production, according to the specific necessities of each industry and, more and more, of the individual firm<sup>8</sup>.

This kind of industrial structure is constructed around a primary foundation given by an advanced sector that, both technologically and organisationally, is positioned at the top of the value chain and achieves a strong competitive position allowing to conquer world markets according to an export-led scheme. To strengthen the potential to export, and thereby to support the model, the European OEMs started to expand their industrial capacity on a global scale, mainly in Asia. Around this core we find traditional sectors less exposed to international competition or entirely sheltered from it. The efficiency and profitability of the advanced sector give support to the lower productivity and profitability of the sector more focused on the domestic market. The first sector has a lower occupational intensity offset by the higher intensity of the second.

In this scheme, domestic consumption must always be disconnected from the growth of efficiency and productivity to feed the growth path. During negative conjunctural phases, a policy which

6 Simonazzi, Ginzburg, Nocella, 2013.

7 Garibaldi, Baglioni, et al. (eds.), 2012

8 Garibaldi, 2014

could be used is what in the Anglo-Saxon world is called *pump priming*, that is stimulate the economy through an expansive fiscal policy or a monetary policy aiming to interest rate reduction. The development of this structure, so this approach says, generates the resources needed to feed domestic consumption and all kind of welfare costs.

Let us add, against too simplistic arguments on the left, that it is not true that the competitive advantage within the Eurozone depends mainly from the change in relative prices, in its turn dominated by the rise of labour unit costs at the periphery.<sup>9</sup> It is also only a partial truth that Germany owes its dominance to wage deflation: and may be that is not the most important part of the truth. German competitiveness is due to the quality of the output in which it is specialised (machines, high quality manufacturing, and so on). It is a “monopoly capital” dynamics which makes Germany partially independent from the dynamics of relative prices and exchange ratios. The point is rather, as we have shown, that in the last 20 years or more Germany has been revolutionised by a profound restructuring of production and a reorganisation of the labour process, such that what was once its compact internal matrix of production has been extended in a transnational value change going East. Germany imports more from Eastern countries and less from Southern Europe, though Italy still maintains a rich part of the supply chain<sup>10</sup>.

The process of industrial integration we have described would not have been possible to be constructed without the financial integration which has been pursued since the early 1990s through the creation of a “single market” also for capital and financial services. The financial flows have direct effects on the various sectors, following the structure of the various value chains. Here we see also why the active monetary policies favouring a capital market inflation constitute in fact a real subsumption of labour to finance. The subaltern inclusion of households within financial capital through financial markets and banking debt determines both an increase in the labour supplied, potentially pushing production up, and an increase in effective demand, actualising that rise in production. The “subsumption” is real, and not just formal, because it affects both circulation and production.

This line of industrial development, in a framework of unleashed competition, has led in the first place to the growth of large pockets of installed industrial capacity whose utilisation rate is below the minimum

9 As Ginzburg, Simonazzi, Nocella, argue in their 2013 *Cambridge Journal of Economics* article, the aggregate measures about labour unit costs are very ambiguous, and they depend on the price index (and hence on the commodity basket) which is chosen as a reference. In particular, the results about the Italian case may change in a substantial manner.

10 In Italy the ‘district’ model went into crisis, though there was a rising ‘fourth capitalism’ of pocket multinationals. What is sure is that both are thriving at the margins, without being able to become a self-propelled’ system (this was Minsky’s criticism of Piore and Sabel already in the 1980s). Low productivity in Italy substantially depends from 1990s policies of privatisation and casualization of labour, whatever the government. Italy was the vanguard of this process in Europe.

profitability standards. The most macroscopic case is that of the automotive sector. From a macroeconomic point of view, this translated into recurring risks of overproduction crises. Secondly, the system is exposed to international market cycles for extremely significant segments: something which in unfavourable economic times usually had negative repercussions, but that of course could not but produce dramatic magnified destructive outcomes in a global crisis such as that started in 2007 and exploded in 2008.

Thirdly, from an analytical point of view, a transnational structure that is so densely intertwined cannot be understood with old interpretative schemes, such as the balance of payments and current account imbalances analysis. First of all, the new value chains are characterised by a continuous “coming and going” of product and service flows that cross national borders. On the other hand, the same industrial structure originates and changes according to financial investments that originate in a country but come about in one or more other countries.

### **The Economic Consequences of Brexit**

A good case in point as to the necessity of a European horizon to reach the right dimension for alternative policies is the UK decision to leave the European Union. The government document<sup>11</sup>, released on the 2nd of August, in case of no-deal – the so-called operation Yellowhammer – describes a worst-case scenario that is the plan leaked to the *Sunday Times*, qualified at that time as the base case scenario. According to the document, there will be serious problems for months because of the EU mandatory controls on UK goods starting from Day 1 of the no deal leave, and this will affect all kind of supply from food to medicine. However, it seems to us that the key points are not the transitory problems due to the custom barriers, but the reliance of essential parts of the UK and Irish industrial and agri-food on the EU supply chains of products, parts and services. These are not transitory problems but structural ones.

To understand the rigidity that the United Kingdom must face, and which renders an adjustment problematic, consider that the UK has real 'holes' in its national supply chain. This happens in very different sectors, such as agri-food and the automotive industry.

The *Guardian* refers to the situation of the bread supply to the Republic of Ireland. One of the consequences of the no-deal Brexit is to push up the price of bread in Ireland. Probably, the investment to build some bulk commercial mills is affordable. It is not easy to imagine a similar thing in the case of the automobile industry. A large automotive company materialises in a chain organized hierarchically

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<sup>11</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/831199/20190802\\_Latest\\_Yellowhammer\\_Planning\\_assumptions\\_CDL.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/831199/20190802_Latest_Yellowhammer_Planning_assumptions_CDL.pdf)

in hundreds of first-level plants, which supply the final assemblers with the fundamental components, and thousands of second-level production plants, which feed the first-level production. To get an idea of the complexity of such a production system, think of the fact that in a car, beyond the structural components, there are 20,000 detail parts with about 1000 key components and several thousand product combinations to manage.

Take the weight of imported parts that are needed to assemble the vehicles being produced in the UK ultimately. In 2017, compared to an output of 1.175 million vehicles, of which 1.67 million were real cars, 14.1 million parts and components were imported. The United Kingdom exported 80% of its production, contributing to its overall economic result for 0.8%, and even more substantial to that of manufacturing, for 8.1%. The value of imports, however, exceeded that of exports. Almost half of these cars are produced in factories owned by Toyota, Nissan and Honda.

The logic that presided over these incoming Foreign Direct Investments was precisely the possibility of being able to export to the countries of the European Union. According to the rules in force in the EU, the cars that can be sold in the area must be authorized by an agency in one of the countries belonging to it. The English authority will cease to be recognized as soon as Brexit is completed. For new models, companies have to turn to agencies in other countries that remain in the Union. According to the 2016 Atlas of Economic Complexity, Germany plays a prominent role for all the imports (almost 30%) of parts and components into the United Kingdom, followed by the other countries of the Centre and East Europe (with almost 19%), and then the South (with 23%).

It should be remembered that the division of labour within the automotive industry does not derive exclusively from cost reasons, but finds its reason also in economies of scale. It is not always feasible to replace European productions with national productions. This explains the recent cancellation of numerous planned investments.

### **A macro-financial perspective**

To understand the reality of Europe within the world economy, under Neo-liberalism and its crash, requires new analytical and interpretative tools than those to which critical left thinking of any kind is accustomed. In our perspective we are combining a Marxian and a Financial-Keynesian perspective: as Marxians, we stress class relations, especially within production; as Financial Keynesians, we stress the crucial role of finance, which is like production more and more transnational. We have now to shift attention to this other side of the discourse.

One of our key arguments is to stress the role that financial flows play in the growing imbalances. Instead of being just amplifiers



of trade disequilibria, financial flows are the crucial factor in building the current-account imbalances. One reason is that they can have an impact on the way production is structured and on the direction of investment. Moreover, in a world of highly integrated financial markets, where trade transactions capture only a small fraction of transactions across jurisdictions, net flows and current accounts might not be the best accounting device to understand the way production and demand are financed. Current-account imbalances, rather than being the causal factor, could, instead, be the way financial capital has autonomously circulated in Europe.

Nowadays, developing an authentic ‘monetary analysis’ – in Schumpeter’s meaning of the expression: namely, an analysis where money and credit are included in the essential foundation of the theorising about the capitalist economy – involves looking far beyond a supposedly prior transfer of real resources, recorded in the current accounts in the net capital flows. To investigate the structural dynamics of capitalist economies, it is rather more and more necessary to reason reversing the causal chain of the dominant approaches: dominant not only in the mainstream but also in the alternative economic approaches. The point is to understand how financial flows are originated, financing production and the different components of effective demand: and this may well be disconnected from the export/import situation. “Taking financing seriously”, and looking at it as the primary factor, may help understand how apparently stable conditions are not only fragile, but unsustainable in the long run.<sup>12</sup> And this was exactly what happened world-wide, and in Europe.

We need to go back to the essential point put forward by Minsky<sup>13</sup>, where the economic system is looked through the interconnection of balance sheets and consequent portfolio flows: a system of “flow of funds” that can confirm, but also disconfirm, the story apparently told by current accounts. Taking this financial point of view it is possible to observe that the current international system witnesses a high level of integration between the European and US banking (and shadow-banking) systems, also conveyed by the investments of the European actors in the highly profitable sub-prime mortgage market in the US already before the crisis, and leading to it.

Indeed, the 2007-2008 crisis was North-Atlantic and financial in nature, and spread through the integration of financial markets in the area, with the paradox of a supposed crisis born-in-the-USA affecting first of all, and with particular violence, European banks and financial

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12 For this section and what follows the analyses of Borio and the BIS are very important. See Borio 2011, 2015. The family resemblance with Graziani’s monetary circuit approach should be evident.

13 Minsky, 2014

intermediaries. This aspect is convincingly presented and documented by Adam Tooze<sup>14</sup>. The financial circulatory system between Europe and USA was deep and quite independent of their trade connections. This is true also within the European Union. The collapse of the international goods market activated by the subprime crisis, and made even more dramatic by the Lehman Brothers bankruptcy, put the European export-led growth model under stress. The weakest part of the production system was liquidated with a deadly loss of industrial capacity. In this way the same financial explosion, which was involved in the acceleration of the upswing, in the downswing further polarised the uneven development of the different territorial areas, both within each nation and among nations. The polarisation is not mainly due to intra-European trade imbalances, but to the concrete functioning of the specific value-chains and the financial connections.

Adam Tooze underlines with particular perspicuity what is at issue here, and it is useful to quote him here at length:

If we are to grasp the dynamics of this unforecasted storm, we have to move beyond the familiar cognitive frame of macroeconomics that we inherited from the early twentieth century. Forged in the wake of World War I and World War II, the macroeconomic perspective on international economics is organized around nation-states, national productive systems and the trade imbalances they generate. It is a view of the economy that will forever be identified with John Maynard Keynes. Predictably, the onset of the crisis in 2008 evoked memories of the 1930s and triggered calls for a return to “the master.” And Keynesian economics is, indeed, indispensable for grasping the dynamics of collapsing consumption and investment, the surge in unemployment and the options for monetary and fiscal policy after 2009. But when it comes to analyzing the onset of financial crises in an age of deep globalization, the standard macroeconomic approach has its limits.

The limits have to do exactly with the increasingly trans-national nature of the economy, in production and finance:

What drives global trade are not the relationships between national economies but multinational corporations coordinating far-flung “value chains.” The same is true for the global business of money. To understand the tensions within the global financial system that exploded in 2008 we have to move beyond Keynesian macroeconomics and its familiar apparatus of national economic statistics. As Hyun Song Shin, chief economist at the Bank for International Settlements and one of the foremost thinkers of the new breed of “macrofinance,” has put it, we need to analyze the global economy not in terms of an “island model” of international economic interaction—national economy to national economy—but through the “interlocking matrix” of

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14 Tooze 2018, p. 16.

corporate balance sheets—bank to bank. As both the global financial crisis of 2007–2009 and the crisis in the eurozone after 2010 would demonstrate, government deficits and current account imbalances are poor predictors of the force and speed with which modern financial crises can strike.

Exactly the Minsky point we raised above.

### **Not a current account imbalances crisis**

Most of what we have described so far had its origins before the introduction of the Euro, and was accelerated by the partial extension to the Eastern countries of the single currency and the larger inclusion of many of them in the European Union. It is however implausible to see in the euro or the trade imbalances the cause of the crisis.

The introduction of the single currency, as it is well known, has a political origin. At the time of the working of the Delors Commission, the project looked dominated by a French view, according to which Germany (with France) would provide the manufacturing core, France the military *force de frappe* and the political leadership, and the United Kingdom was hoped to provide the financial leg. Germany however resisted the project, and to renounce to the D-mark asked for a strong German-style set of fiscal rules limiting public deficits and setting public debt ceilings: the (in)famous Maastricht parameters. When the Maastricht Treaty was signed that world was gone. France was still able to enforce the euro as if to balance the German reunification. This was possible – and actually even succeeded in revitalising the project – only because Europe had lost in the 1990s any self-propelling impulse.

In fact, European growth was in that decade driven by the US, and partially Russia and Latin America: strange as this may seem looking backwards, Germany was then deemed to be the “sick man of Europe”. The previous game was played once more in the second half of the 1990s. On this occasion Germany’s recalcitrance materialised in the Amsterdam-Dublin so-called Stability and Growth Pact, which asked for tendentially balanced public budgets. As we know the Pact was broken in the early 2000s by Germany and France, which were not sanctioned. There has been a third round of the game: and there is always one round more. Each time there is a push forward towards an economic-political stronger union, Germany asks for stricter budgetary rules. The third time the prize was the so-called Fiscal Compact and the attempted constitutionalisation of the rule of balancing the public budget. Once more, nothing was concretised as planned, and there is talk of revising the Fiscal Compact, as should have been expected. All this notwithstanding, the stagnationary and disciplinary force of the austerity policies were and are in full vigour. The target of cutting the government deficit and public debt is a political and not a technical necessity: foolish, or at least irrelevant, to fight it on merely economical “technical” grounds.

In fact, in Europe, and well before the 1990s, profits were already earned thanks to the operativeness of a Kalecki-Luxemburg Neomercantilist model, that is *via* net exports. This export-led way to profitability made European growth increasingly dependent from foreign commodity demand, in particular from the US and Anglo-Saxon capitalism. Demand collapsed in 2007-2008, and the suggestion made at the time (between the subprime crash and the Lehman Brothers collapse) that a delinking was going on was a mirage<sup>15</sup>. That is, the European crisis of the real economy in 2008 was not due to the single currency (euro) but rather resulted from the diffusion of the global financial crisis. What should be explained is therefore how and why the originary deep contradictions of the single currency were concealed in the years before.

The single currency was created to strengthen and consolidate the construction of an integrated European capitalist system. Its weakest point is the absence, alongside the European Central Bank, of a political government at the ‘centre’. The introduction of artificial and unnecessary restrictions on monetary and fiscal policies, as asked by Germany, have certainly deepened the dynamics of the crisis that began in 2007 in the world, and in 2008 in Europe. The absence of a substantial federal government alongside the ECB has aggravated and prolonged the crisis also because of the “mission” of the ECB, with its bias against price and wage inflation.

Trichet was mostly faithful to the original policy setting of the ECB, and managed the dubious success of raising the base rate of interest even in August 2008, when the European crisis was well under way, globally but also (it soon turned out) in the same Europe. A similar thing happened again in 2011. But it must be recognised that since 2009 the ECB engaged in new forms of monetary policies. The most substantial and effective was the policy announced, and never actually practiced since today: the extraordinary manoeuvre of the ECB labelled Outright Monetary Transactions (OMT). Later on there was the adoption of Quantitative Easing also in Europe. OMT was constructed by Mario Draghi in the course of 2012, with his famous London speech when he declared to be ready to do ‘whatever it takes’ to save the political investment in the single currency, and confidently assuring that ‘it would be enough’. The effect on the expectations was forceful and it truly marked an inversion, but it came at the zenith of the crisis, and – as the same Draghi repeatedly often evoked – monetary policy can never be decisive if left alone.

The crisis of the Eurozone is not a current account crisis, as in the ‘global imbalances’ narrative. In a single currency area, internal imbalances cannot but be the norm. One of the main reasons the EMU

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15 See the articles by Bellofiore and Halevi in the references.

had been built has been to permit countries to pile up current account imbalances towards other members of EMU without having to deflate their national economies<sup>16</sup>. Eurozone countries share a single clearing and settlement system: a cross border payment between banks in two countries in the euro zone automatically generates balancing credit claims between the national central banks (NCB) and the ECB. The mechanism irrevocably unifies former national currencies, converting a set of currencies with fixed exchange rates into a single currency. ‘Target 2 was well conceived’, has been correctly pointed out by Marc Lavoie: ‘northern banks are declining to provide loans to the southern banks through the overnight market or other more long-term wholesale markets, still, the clearing and settlement system continues to function.’<sup>17</sup>The point is the same well understood by Randall L. Wray<sup>18</sup>: imbalances balances. The serious issues to be looked at are those “behind” the financial imbalances, in the power relations, and behind the power relations the class relationship (as a trans-national reality).

Summing up: it is an illusion that through current account imbalances we ‘see’ and measure the significant flows of finance between the countries of the centre and those of the periphery. A nation can have a balanced account and still finance completely outside the country his transactions and expenditures. That finance may be pretty precarious, and may evaporate overnight. Not only finance cannot be identified with saving, as actually many heterodox analysts still do: the substantial point is that the focus should go to the gross flows, instead of the net flows.

In a system more and more akin to pure credit, and where money (and shadow money) is debt, these imbalances may be postponed at will. It depends on the central bank: if it stops the refinancing of the economy, what follows is simply the collapse of the economy. Reserves are endogenous: rather than a multiplier of base money, there is a *diviseur* of bank credit.

### The single currency and its contradictions

It is a fact that the architecture of the euro was faulty: the Italian choice to enter the single currency at the end of the 1990s can be considered a mistake. It is worth considering if there were alternatives to the euro – alternatives, we mean, relative to the mere prolongation of the status quo of separate national currencies.

An alternative proposal was set forth in the mid-1990s: the so-called *monnaie commune* (the “common currency”), not to be confused

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16 As it has been argued by De Cecco 2012.

17 Lavoie 2013, p. 20.

18 Wray 2012.

with *la monnaie unique* (the single currency). It was suggested by Suzanne De Brunhoff and Jacques Mazier in the second half of that decade.<sup>19</sup> After the Great Recession it was again put forward by *Le Monde Diplomatique*, and a very vocal proponent was Frédéric Lordon. The design behind the original proposal of the common currency was an actualisation for Europe of a 1944 idea by Keynes: like *bancor*, *la monnaie commune* had to be a non-circulating reserve currency for national central banks, within a fixed but adjustable exchange rate system among national currencies, inserted in an expansionary architecture meant to avoid the accumulation of trade surpluses. An essential requirement to the viability of the project were, of course, capital controls. The common currency had to be integrated within a coordinated management of target zones among the exchange rates of the main currencies, to downplay instability<sup>20</sup>.

*La monnaie commune* was not discussed, as it should have been, in those years, before the euro was actually adopted. No force on the political or trade-union left seriously endorsed it. Unfortunately, what was a good idea in the 1990s is not by itself a good idea in the 2000s. It is not easy to imagine some agreed harmonic transition from the single currency to the common currency, but it is instead perfectly easy to anticipate the chaotic *bellum omnium contra omnes* of a dissolution of the euro: how to build a common currency from there is a mystery. Nowadays, like it or not, the transition from the single currency to the common currency is blocked. It is not enough to look at the viability of a project on paper. Consider also that, if the coordination among nations needed to make that transition possible would be there, also a reform of the architecture of the euro from within would be viable.

After the 2008 crisis hit Europe, many changes have been introduced in European monetary policy: already at the end of Trichet's mandate, and more significant under Draghi's authority. The ECB has found a way to act, whatever the form, as lender of last resort, of banks and of the states; the ECB can now indirectly finance governments through the commercial banks or through shadow banking. We think that Draghi's project, in fact very often with the support of Angela Merkel, was to build up a definite (though variegated) capitalist subject, on a continental scale, with a European unitary governance (if not a government), changing the material constitution of the European social model. A design like this may only proceed through a slow, contradictory, violent process. We have to remember, however, that

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19 See de Brunhoff 1997, but also de Brunhoff 1999.

20 Something like this is in fact quite coherent with one of the very few forays of Minsky in international monetary economics: cf. Minsky 1986, an article which does not fit very well with the positions currently put forward by the Modern Monetary Theory.

'monetary unions' like the dollar, the mark, the lira etc were themselves constructed in a long lapse of time, through war, repression, crisis.

That is why, even considering the dramatic limits of the single currency, when we wrote the article in 2014 together with Mariana Mortágua, our opinion was that the euro was here to stay – even though this may not be true in the long run (when we are all dead). We also argued against exiting the euro in that article and in the book. One thing is not to enter in a monetary union, a completely different thing is to pursue an individual exit strategy: and it is a phantasy to juxtapose an exit 'from the right' and an exit 'from the left' in the current economic and political environment, characterised by the resurgence of protectionism and xenophobic authoritarian populism. Unfortunately, protectionism and populism created the condition of the last few years when, though the euro seemed to survive 'economically', was (and is) about to explode for 'political' tensions. Brexit and Italy's difficulties are two examples.

From the economic point of view, devaluation is not a solution to problems like those experienced by an economy like Italy: in the past, weakening the lira favoured small firms and industrial districts, and fostered some exports, but was disjointed from medium-term industrial and structural policies making for a better productive configuration, and it favoured some regions against others (a point underlined by Graziani)<sup>21</sup>. The difficulties are even more if we consider, not only the trans-nationalisation of production (to which we referred in the first part of this article), but also the import and raw material contents of our production, or our dependence from Germany's monopoly capital dominance.

A reasoning predicated just in national terms, and looking mainly at the current account and the international trade position says relatively little. For example: what is a good exchange rate? Weaker, to encourage exports? Maybe - but if, for example, you are a country importing raw materials, and technologically dependent for sophisticated means of production, it is not necessarily the case that the positive consequences are winning over the negative effects. A better situation could be the one with a stable, or even stronger, exchange rate, such to favour the position in the capital account, maintain its own financial agents in a healthy condition, be able to be safe in the management of its own public debt<sup>22</sup>. Going "out" from the single currency is not an analogue to abandoning a fixed exchange agreement: exiting the euro is not exiting the European Monetary System. And those who imagine that a move like this would conquer margins of sovereignty, which can be exploited from a left perspective, should remind that in 1992-1993 exiting the EMS was preceded and followed by huge anti-labour policies.

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21 Graziani 1994. The Italian title given to the transcript is misleading.

22 This latter is a point repeatedly submitted by Jan Toporowski, as in Toporowski 2013.

A single currency is a completely different animal than a fixed exchange rate agreement. If in Italy the 1992-93 turning point was simultaneous with the destruction of the last remnants of trade unions' power, and was not followed by inflation because it was accompanied by more and not less austerity, this time it could be much worse. The Ital-exit longed by some would happen in the middle of a long structural capitalist crisis. A great crisis is not a conjunctural crisis: it demarcates two different stages of capitalism, one dying and one on the verge (but not yet) emerging. The only similarity, we fear, would be the opening of a phase of a stricter austerity. Of course, this time the break-up would be accompanied by the heightening of the crypto-fascist tendencies, anti-migrant sentiments, aggressive nationalisms, and so on.

Also, the argument about a euro at two (or more) velocities does not seem promising, since it meets the same difficulty of the transition we discussed before. It is very often recommended on the wrong idea that the European periphery is a homogeneous area, since Southern Europe and Ireland all share a trade deficit within the area: but the 2001-2007 interlude showed that almost each country in the periphery had a different economic model.<sup>23</sup> A similar suggestion has been to create an alternative single currency for Southern Europe: but it would obviously reproduce the same contradictions of the euro as we have it now, with some country holding the position presently occupied by Germany in the new arrangement.

In the first part of this article we highlighted how the European industrial landscape has gone through a deep change, where peripheral Southern Europe and Ireland are characterised by non-homogeneous economic models, but all are exporting consumer goods to the Central-Northern Europe, and subject to increasing competition from emerging countries and especially China. On the production side, a German manufacturing production chain has been built since the early 2000s, looking Eastward: it includes the manufacturing core of Northern Italy. The various countries of the periphery are distinguished by unequal and asymmetrical structural conditions (such as dissimilar corporate monopoly power, different degrees of energy dependence, and so on).

All this confirms that neither the dilemma about exiting the Euro or not, nor the dilemma about pursuing austerity policies or expansionary policies, are exhaustive. Exiting the Euro is not only not a sufficient condition, but neither it is a necessary condition for the emergence of the eurozone countries from the crisis. Expansionary policies of aggregate demand are undoubtedly needed, but certainly they are not adequate to escape European difficulties. In particular, an increase in demand in Germany is important, but it is not enough to induce a recovery in Europe, especially in Southern Europe, since most of the

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23 For an expansion about this see our papers with Mortágua in 2015 and 2016, or our book.



impulse will not go to them for the structural reason that there is no horizontal integration within the Southern European countries: those countries rather separately depend from Germany, which is the core.

In the meantime, it must be recognised – with some horror – that contrary to the expectations of the critics of eurozone policies, the export led model plus budgetary austerity actually seemed to work after 2013-2014 and at least until 2018. It is enough to look at the fact that – from the point of view of the whole eurozone towards the rest of the world – the ratio of the net exports over GDP, which were quite limited before (the eurozone used to stay still in a situation of substantial external balance) became rather positive, reaching the 4%. All the countries in the area were in surplus towards the rest of the world: of course, this happened in a very uneven way, still it was generalised also to the “periphery”. We recognised that novelty in the second part of our book, but anticipated it was not good news, quite the contrary.

### The European crisis and the public debt

If the economics narrative about the crisis based on the current account imbalances, ubiquitous both within the mainstream and among alternative economic thinkers, does not seem to get the central factors of the current capitalist conjuncture, also the political narrative about the crisis going on in the European institutions (which is the rationale for the austerity policies) does not seem convincing, as long as it pretends that the focal issues were government deficits and public debt. In fact, the ultimate factor behind the ascent and crash of neoliberalism has rather been the banking “funding” supporting private indebtedness<sup>24</sup>.

The seriousness of the crisis has brought to light the weakness of the political strategy, and consequent practice, of the trade union movement, in fact absent at the ‘continental’ European dimension, and its increasing corporatist tendencies.

In Europe policies to expand internal demand have been quite limited, with a few exceptions: paradoxically, the most Keynesian policy has been Germany's in 2008-2009 – and it may well be Germany again the next European Keynesian episode, for the need to answer the recessionary phase hitting that country. The stimulus to demand, and in particular in favour of consumption, is of course necessary. About raising consumption, however, the dominant rhetoric insists on tax reductions (that of course depends if on capital or on labour, and on how the decrease in taxes is designed) rather than on wage struggles (objectively difficult), or on a possible role of the governments in raising their own labour remuneration (definitely easier). We think, on our part, that an expansion in private consumption would be inadequate to

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<sup>24</sup>This is again a key theme for Tooze: and rightly so.

solve the employment problem in the European Union, since it is strictly intertwined with the structural dimension of the European crisis.

The general point to be made is the following. There are limits to indebted consumption driven by collateral, as vividly shown by the crash of Neoliberalism. There is a strict impossibility of imagining world net exports. We don't think that a private investment push could anymore been thought to be sufficient to propel the capitalist monetary circuit, because of the tendential declining prices for capital goods. If these aforementioned considerations are sensible, the only possible driver of capitalist developments is government expenditure, embodied in some (at least temporary, but sensible) deficit spending. As long as this policy would be able to originate a “big push”, giving way to development, it would be positive from the point of view of the same debt dynamics. Indeed, it is well known that the way out of the debt is through remission, or default, or inflation, or growth/development (or some combination). In US after a while the mortgage debt expire, one way or another. Instead in Europe we witness the eternity of it, *perinde ac cadaver*, with the blockage of any attempt towards the reduction of its weight or its cancellation.

A permanent austerity leading to permanent stagnation is an unsustainable situation: a way out has to be devised, and it cannot but include a new role for higher public expenditure. This was the main concern since the crisis exploded. It is not granted, however, that a more active government spending will be set in motion from the left. The signs of the last few years show the course is towards the other extreme.

In our logic, what is needed is to turn upside down the logic of Delors' *White Paper*, which was absorbed by the matter about “how to produce”, but in a vision where labour had to be totally passive, alternatively shifting attention to organisation (Lean Production) or technology (Industry 4.0). Rather than leaving the definition of the (level and) composition of output to the market and finance, a European political impulse should drive a radical change of how to produce tying it with the associated dimensions of “how much”, “what” and “for whom” to produce. Changing the priority over what and for whom to produce implies the selection, through the State, of the communal and private consumption that must be developed and satisfied.

The alternative agenda to be developed is articulated. Overcoming the imbalances would require a genuine banking union and a real fiscal union; a substantial increase in public investment, not only in large infrastructures, financed with Eurobonds. Reflation is not enough. We should go beyond the simple realignment of wages and productivity, anchoring the former to the latter, as somebody suggest. The point is to conquer the realignment while raising productivity. This means that we have to go beyond the delusions of the Keynesians, which tends to reduce economic policy to a boost to demand. An active intervention on the supply side and in the production structure is an integral part of an

alternative economic policy: in fact, as Mariana Mazzucato has shown the entrepreneurial State has been an essential ingredient of growth even in the last decades, under Neoliberalism.<sup>25</sup> The point is how to qualify an active intervention of the State from a left perspective.

The inspiration could be a renewed New Deal, as a structural basis for a qualitative development in which the State intervenes on the composition of output (what and how to produce), and acts as the employer of first resort. This vision was at the heart of the Italian *Piano del Lavoro*, to which Ernesto Rossi and Paolo Sylos Labini contributed<sup>26</sup>. But it is in a sense nothing else than Minsky's socialisation of investment and employment<sup>27</sup>. An intervention which is at the same time on demand as well as on supply, like this, could be put forward only through the promotion of what Alain Parguez has aptly described "active" deficits in the public budget. These deficits are active because they are planned in advance, and they will stimulate an economic development which will reabsorb them: the policy in the short-term pushes up the deficit/GDP ratio because of the rise of the numerator, but it lowers it in the long term because of the rise of the denominator. From this point of view they are the opposite of the "passive" deficits typical of Neoliberal policies: the paradoxical outcome of these latter, aimed at cutting government deficits, is that they determine recessionary tendencies which end up in an ever-increasing unplanned deficit loop, with a ballooning public debt<sup>28</sup>.

From a Marxian point of view the crucial point here is that Minsky's socialization of investment and employment plus Parguez's good deficits creates "social use values". Investment long term horizon, innovative capabilities, productivity increases in the economy, all depends here from a government targeted big push. It is on this structural nature of state activism, and on its content in terms of social use values and social allocation of employment, that the issue of gender and the issue of nature comes out as key intersectional transversal issues.

A perspective like the one we have sketched cannot be "packed" and rejected as a "return to Keynes" perspective, and anyhow it is much more radical than what Marxists dare to propose when they just stop invoking revolution. We have rather to go back to the New Deal, with a class twist. Consider that Roosevelt was not a Keynesian (he was against

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25 As Giovanna Vertova has shown, the position by Mazzucato on the State as innovator could be radicalized in the same way that Minsky radicalized Keynes on the socialization of investment. At the very least in a period of crisis the state should direct innovative activities toward more basic and social needs, thus becoming an "innovator of first resort." Cf. Vertova 2014.

26 Rossi 2008 introduced by Sylos Labini.

27 Minsky, 2014a, 2014b..

28 Parguez, 2014

the government deficits), while Keynes insisted first of all on a policy management of the effective demand. We need a structural "reform", the perspective of Roosevelt, but very different than the one advocated by the mainstream, that is affecting the conformation of output and the allocation of employment. And we need a "recovery", the perspective of Keynes, which today cannot but pass through a rise in effective demand. The left policy should not be framed in two steps: reform and recovery must be simultaneous. The stress must be on a targeted program of expenditure, instead of just priming the pump.

The idea of a basic income, which is positively seen by some on the left, could be accepted, but only within a policy horizon of full and good employment, and of a political command over the structure of production, not as an alternative which accepts the inevitability of unemployment. Moreover, a basic income must be conditioned, to some "social work" spent for the community in the lifetime horizon (as in the *esercito del lavoro* proposed by Ernesto Rossi). Otherwise basic income will repeat the negative experience of Spenghamland, chastised by both Polanyi and Marx.<sup>29</sup> Anyhow, the role of basic income must be quite limited. The welfare system must not be built around a principal dimension of money subsidies (like the traditional basic income), but be designed around an "in kind" provision to population of goods like education, health, and so on. According to us, this is not far from what Minsky meant as "communal consumption"<sup>30</sup>.

In sum, the left way out does exist. It is a radicalisation of Minsky's views about the socialisation of investment, which were originally articulated by this economist as a critique of Keynes's perspective.

The only framework in which a class New Deal proposal like this becomes thinkable is the European horizon, not the national horizon. As Andrea Ginzburg and Annamaria Simonazzi have pointed out, a common tax authority that issues debt in a currency under its control would be able to prevent destabilising capital movements within the Eurozone and to protect member states against the threat of bankruptcy coming from financial markets. The recovery of the real economy itself would be the guarantee of repaying loans and settling debts. As these authors observe, "there is still too little hope that a radical change of policies will occur along these lines, which would require changing the rules of the Eurozone. The desire to move in the direction of a budgetary and political union is non-existent today"<sup>31</sup>. Moreover, in this sense, there is no doubt that, in its current form, it is the Euro that is hindering the European project, and that this logic should be broken at the root

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29 As Giovanna Vertova argued in 2006 in a debate in *il manifesto*.

30 Cf Minsky 2008b.

31 Ginzburg, Simonazzi, 2017

since corrections "on the margin" are not possible.

What precedes amounts to no less than a new "constituent" phase. In the *Manifesto for an egalitarian Europe*, by Karl Heinz Roth and Zissis Papadimitriou<sup>32</sup>, outlines the proposal of a construction of a European Federal Republic. In their outlook, which we share, a federal Europe must be built through a "bottom-up" social mobilisation that crosses borders. But we also think that a redefinition of the structure of demand, of production and of distribution of the scale required can only come from a concentrated and powerful political intervention "from above".

### Conclusion

A perspective like this is not part of the program of any political force today, and the European trade union movement does not leave much hope at the moment to take on a similar vision. The left arrived unprepared at the 2007-2008 crash. The collapse of Neoliberalism has been governed by Neoliberals, and the "new normal" is considered by some, like Larry Summers, as nothing but a "secular stagnation". The prospect of turning the Great Recession in a new Great Depression is far from wiped out.

As for Europe, it must be considered that the chances for falling again in an acute crisis like that of 2010-2012, if not even more serious, are mounting. We already referred to Brexit, which may be a detonator. The same is true for Italy, which may fall prey again of right-wing populism, if there is not a drastic turn-around in European policies as well as internal ones. At the same time, we observe that the changes in the eurozone have always been forced on the main protagonists, from ECB to Bruxelles, against their will. And it looks as the conditions of a perfect storm are gathering together.

We argued before that in the last few years the way out of the eurozone crisis has been the marrying of internal austerity with an exported towards the rest of the world: Germany written large. It was a situation about which we contended that it made the area more fragile, exactly when the appearance was that the danger of the dissolution of the EU and the single currency was not anymore economic but it was mainly coming from the political menace of populism and protectionism.

For European as well as for international factors – from Trump aggressive policies, to the wings of war against China: not to name Putin and Middle East – world growth is at risk, and as a consequence Europe is imploding. The same Germany faces the prospect of recession. This is the worst of times. This is the best of times. It is possible that at least part of the changes to the architecture of the euro may, willy-nilly, be born here: including an at least partial retreat from austerity. It may be time borrowed for the left: in case, let us hope it does not waste it again. But nothing is granted, and a positive outcome is still unlikely.

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32 Cf. Roth, Papadimitriou 2014

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Le Dernier Metro. Europe on the Edge of the Abyss, Riccardo Bellfiore & Francesco Garibaldo. Europe at Weimar, Franco Bifo Berardi. Europe After Eurocentrism?, Chiara Bottici & Benoit Challand. Empire of Graveyards, Joshua Clover. Arriving on the Continent that Needs to be Named Again, Oliver Feltham. Is a European People Possible?, Frédéric Lordon. The Achronic Function of Philosophy and Europe, Vittorio Morfino. Brexit Britain and Europe, Michael Roberts. Europe Endless: Crisis, Spirit and the End of Europe, Benjamin Noys. Is it Possible to Think Europe Beyond Capitalism?, Alessan Semantic Scholar profile for Riccardo Bellofiore, with 29 highly influential citations and 218 scientific research papers. The Grundrisse are a founding text, the first that really gives evidence in a written form of the genesis of Capital ; they are, at the same time, a text of transition, in the long journey that continues. 1. View via Publisher. Cite. Save. A credit-money and structural perspective on the European crisis: why exiting the euro is the answer to the wrong question.

Riccardo Bellofiore: The problems plaguing Europe and Italy are not home-grown. They are part of a global attack on labour. To understand the true nature of the Italian crisis we need to look at it in a wider European context. The limits of the eurozone are well known: it has a "single currency" that isn't backed by political sovereignty, a central bank that doesn't act as lender of last resort or finance government borrowing, and no significant European public budget. The flaws of the ECB's obsessive anti-inflationary stand, and its propensity to raise the interest rate whatever the cause of price rises, are also plain to see. And Germany's tendency to profit from southern Europe's Riccardo BELLOFIORE of University of Bergamo, Bergamo (UNIBG) | Read 93 publications | Contact Riccardo BELLOFIORE. Nevertheless, if Minsky had still been alive at the time of the Great Financial Crisis, there would have been little likelihood that his new-found reputation would have resulted in View. 3. Cambiare la natura umana. Chapter. Jan 2020. Riccardo Bellofiore. View.