Telos PRIMO PIANO SCALA c

APRIL 2014 YEAR VI NUMBER 4

This issue of Primo Piano Scala *c* comes out on the eve of an extremely important election, perhaps carrying not just a political significance, but also a symbolic one. And yet at such a crucial crossroads in the history of Italy and Europe, public debate is often full of dogmatic statements, which risk turning concepts such as crisis, reform and European integration into mere tools to be used in a rhetorical exercise. On the contrary, Prof. Brancaccio's answers encourage us to adopt a more multifaceted and problematic approach when asking ourselves how the crisis came about, and what sort of solutions are on offer. While the official narrative conveys familiar images, such as "crises of confidence" in the financial markets, the ups and downs of the spread, "rescue" operations based on fiscal austerity and reassuring announcements by the ECB, what is actually going on below the surface is a radical shift in the balance of economic and political power in the Eurozone. Economic policy choices, which were presented as (more or less successful) emergency interventions, are actually having the effect of speeding up this process, leading to a structural change not only in the relative power of the German industry compared to that of peripheral countries, but also in the relative power of workers *vis-à-vis* capital. By providing a comprehensive explanation of the asymmetric nature of the crisis, this interpretation may also shed light on how the clash between conflicting interests has so far paralysed the political response of the EU institutions and made it largely ineffective. Shocking numbers testify to the gap in economic performance between core and peripheral areas of the Eurozone: but it is rarely acknowledged in the political debate that wage compression in Germany, and its consequent accumulation of trade surpluses *vis-à-vis* the rest of the Eurozone are behind both this gap and the speculative attacks against weaker Eurozone countries. To try and close the gap by using austerity and wage compression in countries in difficulty means that the burden of adjustment sits squarely on the shoulders of the debtor countries and their weaker social classes. The result might not be the rebalance between core and peripheral areas, but a widened gap, because a drastic drop in income may make public and private debt untenable. In this framework, the so-called structural reforms cannot be seen as politically neutral measures: on the contrary, they are the cornerstone of a programme having a clear political bias. From his side, Brancaccio advances a radically alternative option: addressing the imbalances between Eurozone countries by encouraging convergence towards a European wage standard, which means, using the "external constraint" to prompt countries with external surpluses to generate higher growth in wages and wage shares, instead of prompting countries with external deficits to compress them. He reminds us that political decision-makers have to bite the bullet and take a radically different track if they want to make the single currency sustainable: should this prove politically unfeasible, pro-Europe rhetoric will hardly be enough to save the Euro.

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Telos is a member of the FIPRA network

BRANCACCIO TOUT VA TRÈS BIEN (MADAME LA MARQUISE)?

"*Integration is not necessarily good in itself. It depends on what you mean by it. For example, the way it has been designed, a Banking Union would provide the ECB with a centralised power to decide on whether to take a bank into liquidation, but does not include even a partial European deposit guarantee scheme. (…) This is yet another example of a way of pursuing integration which would assist stronger EU countries to the detriment of weaker ones. I do not think that the situation can stabilise with this kind of solutions.*"

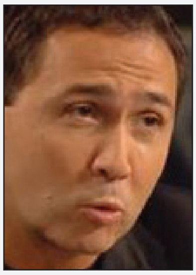
Telos: "*We've lived beyond our means*" was the mantra used in public debate to first legitimise fiscal austerity, and now, perhaps, yet more flexibility in the labour market. The same diagnosis and the same recipe as during the 1992 financial crisis in Italy. Do you think this is a fair description of what actually happened? To what extent would you say that the crisis is having a "disciplining" effect on weaker social categories?

Emiliano Brancaccio: As long as the "mantra" applies to the national budget, then this is certainly a mistake. The idea that too much public expenditure *vis-à-vis* fiscal revenue indicates waste, profligacy and financial irresponsibility is based on the notion that the national budget can be managed like a family's budget. This is misleading. A family that tightens its belt will certainly reduce its overdraft, but a State that cuts expenditure will depress production and the income of businesses and families; as a result, it risks making reimbursement of debts, be they public or private, much more difficult. Just think of the strict austerity policies implemented in Italy in recent years. In 2012 and 2013, reduction in expenditure and the subsequent reduction in production and national income was more severe than the Government had forecasted by three points and one and a half points respectively. This drop, far greater than expected, is one of the factors that contributed to increasing the public debt/national income ratio, which in 2013 was thirteen points higher than the Government had forecasted. So austerity policies may worsen rather than improve the state of public finance, and this disproves the idea that we have "*lived beyond our means*". Therefore, from a purely macroeconomic point of view, current European policies contain some blatant contradictions. However, it is true that the crisis favours some social groups, to the detriment of others: the owners of capital, to the detriment of workers, and the biggest and strongest capitals of Europe's core area as against the smaller and weaker capitals of peripheral regions. In this sense, the crisis may have a political *raison d'être*, and may indeed have a "disciplining" impact on society, in the sense that in the long run, it makes those who are suffering from it too weak to react.

You have become increasingly sceptical about the possibility for the Eurozone to correct the imbalances between core and peripheral countries. At this point, do you think that the Euro has finally run its course?

Current European policies are widening the gap between EU countries rather than closing it. In the last five years, employment rose by 1.5 million units in Germany, while Italy, Spain, Portugal, Ireland and Greece lost over 6 million jobs. In peacetime this is an unprecedented divide and clearly untenable in the future. In the "Economists' Warning", we argue that if the political decision-makers blindly carry on like this, then sooner or later they will be left with nothing other than a crucial choice of alternative ways out of the euro.

Emiliano Brancaccio (Naples, 1971) is a research fellow and lecturer in Political Economy and Labour Economics at Sannio University in Benevento. He is the author of papers on comparative theories of growth and distribution, monetary theory and European economic policies. He has published studies in some of the most important international academic magazines including the Cambridge Journal of Economics. He has also written papers, curatorial essays and monographs published by numerous Italian and international publishing houses including Palgrave Macmillan and Feltrinelli. Together with Marco Passarella he wrote the pamphlet "*L'austerità è di destra. E sta distruggendo l'Europa*" (Il Saggiatore 2012).
He has collaborated with several Italian magazines and newspapers, including *Limes* and Il *Sole 24 Ore*. He drafted the proposal for a "standard wage" and promoted the "Economists' Warning", a critique of European austerity policies signed by some of the most important representatives of the global academic community and published in the Financial Times (www.theeconomistswarning.com). From 2006 to 2009 he was a member of the Board of Directors of the Banca Toscana (Montepaschi group) and expressed severe criticism of the acquisition of Antonveneta by Mps. In 2007 he was a member of the *Comitato Industria 2015* created by the Ministry of Economic Development. As a political and economic commentator, he is regularly hosted in several television and radio programmes.



It is our view that reverting to national currencies, only to let their value be determined in the foreign exchange market would be a mistake. We have learnt that the foreign exchange market is unstable, inefficient and dominated by the incursions of international speculation. Leaving the euro and trading a new national currency on this kind of market is an option I have called "*gattopardesque*", in the sense that it is intended to change everything, perhaps even the single currency, only so that everything remains the same, in other words without challenging the free-market doctrine that inspires the European Union in its current shape, and has de *facto* contributed to triggering the crisis. In my view, if we want to call into question the single currency then we must also question the European single market, or at least some of it. In other words, we need to reinstate some of the constraints that existed in the past, for example constraints over the international flow of capitals and foreign takeovers, especially in the banking sector. Without these interventions, I do not think that Southern European countries can regain any significant margin of autonomy in the pursuit of economic policies.

Many people currently advocate for increased financial integration in Europe, for example by introducing a Banking Union. What is your position on this issue?

Integration is not necessarily good in itself. It depends what you mean by it. For example, the way it has been designed, a Banking Union would provide the ECB with a centralised power to decide on whether to take a bank into liquidation, but does not include even a partial European deposit guarantee scheme. This would set the stage for the closure of many banks located in peripheral areas of the Eurozone. This is yet another example of a way of pursuing integration which would assist stronger EU countries to the detriment of weaker ones. I do not think that the situation can stabilise with this kind of solutions. On the contrary, tensions between countries will rise and the chances of deflagration of the Union could increase rather than decrease.

In the last twenty years left-wing parties in Italy were staunch supporters of the need for economic and monetary integration in Europe. Today the Left still supports that position even when faced by the evidence that that "external constraint" has undermined the welfare state and the condition of workers. What, in your opinion, are the reasons behind this paradox, and how will this affect political order in the future?

In my opinion one of the many reasons was the idea that the internationalisation of capital and free global exchange would have gradually led to the advent of worker internationalism, in other words, a single global class uniting exploited workers from all over the world. We know now that the situation is more complex than this. In fact, internationalised capital can inhibit rather than assist workers' internationalism. In this scenario, "left-wing free trade" is an oxymoron, a contradiction in terms. It's true, though, that a left wing party cannot blindly sign up to boorish forms of economic nationalism, but it could propose that the exchange of capital and goods between countries take place only if certain conditions are respected, for example salary and employment "standards". These "standards" could be applied not only to developing countries like China, but also to developed countries such as Germany: a strong nation with a tendency to accumulate foreign trade surpluses, but one which has also implemented a competitive reduction in salaries. For example, between 1999 and 2013 wage inflation in Germany was sixteen points lower than the Eurozone average. If countries in southern Europe adopted a "standard" they could build a better defence against this very aggressive form of race to the bottom competition which is at the root of the crisis in Europe.

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Telos Primo Piano Scala *c* - Editor-in-chief: Maria Palazzolo. Publisher: Telos A&S srl Via del Plebiscito 107, 00186 Rome - Reg.: Court of Rome 295/209 of 18 September 2009.
Diffusion: Internet - Protocols - Isp: Eurologon srl. www.telosaes.it - telos@telosaes.it