A Mercantile Europe

Intensive fiscal consolidation implemented in peripheral Europe and France actually acts as a scorched earth in the sense that it literally smothers the tiny growth prospects still alive. Knowing that, in addition, the economic recovery will be more painful than the downturn will have lasted a long time... It will only do so thanks to a re-balancing from within even the Union and will necessarily be substantial. The nations which must now undergo austerity will indeed have to intensify their exports to the EU countries whose growth is (more or less) intact. In fact, this re-balancing is already underway, but remains largely inadequate. If German imports certainly increased by 2% between July 2011 and July 2012, the trade surplus of the country has also increased, making sure to neutralize this stronger domestic demand... Moreover, why do Greece, Portugal and Spain continue to suffer huge trade deficits despite rising exports combined with a deceleration in imports? The answer is to be sought in the German labor costs which have experienced a nominal drop of 18% between 2000 and 2009 compared to the European average income. It is actually to a real killing game that Germany was delivered and particularly toward the peripheral European countries which, themselves, saw their wages rise significantly over the same period. Eurostat statistics show us that income gaps have widened by more than 40% in less than ten years between Germany and countries like Greece and Spain. Obviously totally to the detriment of Greek and Spanish companies which have suffered a de facto forfeiture of their competitiveness vis-à-vis a competitor who also has qualitatively superior products. Today, the situation is gradually changing in favor of the improvement of Greek competitiveness (for example) because the employees in this country have seen their income reduced by 19% since 2009. However, the slowness of this intra-European re-balancing – and the continued suffering of the Greek people – are entirely attributable to the timidity of Germans who have raised their wages by 2% between 2009 and 2012. The Euro zone would love to address these acute problems in differences in competitiveness within Europe by exporting more to the United States, to China and to emerging markets. It knows, however, that it cannot build on this hope of salvation in a context where the U.S. is struggling to recover their own business by dint of cash injections, and while China – which seems to be slowing – tries to satisfy
their consumers with products manufactured domestically to limit the bill of its imports. Therefore, the solution will necessarily come from within the EU, and it is unique because it is summed up in higher German (and Nordic) consumption. In other words, it is vital for the entire Union that this intra-European competitiveness “gap” be quickly filled by peripheral European nations increasing their exports. Therefore, Germany will have to stimulate its growth, probably (but not only) by reducing taxation, to actively participate in this intra-European re-balancing. The entire Euro zone desperately needs to revive its domestic consumption. And this will necessarily entail a rebound in German consumption. If the Germans assume that no country can live beyond its means, the same logic should also dictate that no country should live below its means! The radical change in German wage policy is an integral part of the solution to European woes.

The advent of the single European currency has exacerbated the dependence of EU economies on exports while denying them any means to protect themselves against default in payment. The introduction of the euro in its current form operated indeed a clear distinction between the monetary sovereignty and the fiscal policy of each member nation. The dichotomy to restrict the public deficits of each member and to curb near-natural inclinations of politicians to spend. Moreover, everyone was perfectly aware that fiscal indiscipline and the lack of fiscal rigor would be sanctioned by the markets, which would question – until their solvency – any potential “short-sightedness”… Thus, this congenital defect – the lack of monetary sovereignty – undermined the entire European construction by propelling to the issue the forefront, yet relatively, benign public deficits. It is as if the entire immune system of the Union was suddenly switched off. In the absence of a central bank free to inject cash into the public finances of needy members and in the absence of a federal budget on the back of the firepower of the European Central Bank. The European debt crisis and fiscal woes of peripheral countries must therefore be put into context… that shows us that the narrative according to which it is the spendthrift and lax nations which are allegedly responsible is clearly wrong. This sophistication with financial tools is being knowingly developed by a financial sector concerned with evading the law. Let us well understand that, in the globalized financial world, fraud is not an anomaly: it is an integral part of the system, it is one of its undisputable components. Suffice it to say that we need only look at the jargon being used in the mid-2000s to understand – thanks to vocabulary! – that the financial stakeholders knew perfectly well that they were distributing suspect and unsavory financial products. They were “neutron credits” intended to crumble without causing their downfall in the housing market. They were “ninja credits” whose poor beneficiaries had no income, no job or assets (No
Income, No Job or Assets). Moreover, the currency sovereignty of members of the EU would have allowed them to deal with the crisis as an emerging economy would have. However, short of having the advantages granted by a fund transfer institution or a central bank worthy of this name, the affected European peripheral nations were subjected to attacks on their sovereign bonds whose yields soared. The markets made them pay dearly that they found themselves boxed in – even bastardly – where their solvency was suddenly called into question. A textbook example, Ireland saw its consumption and growth record lightning levels and growth as a result of the sentiment of wealth induced by the expansion of its real estate market through the transmission belt of credit. Powered by the euphoria of the real estate loans, did the Irish banking system not swell – like the frog of La Fontaine – to reach a volume five times the country’s economy, and the Irish foreign debt 400% of the GDP in 2010? Did not the crisis imported as a result of the United States and Great Britain end in a panic on the Irish banking system whose rescue cost 20 points of GDP to little Ireland, whose budget deficit would widen to 32% of GDP in 2010? Untenable pressure exerted on a country which since then suffered capital flight, due to a lack of a intra-European compensation mechanism. Another case in point, namely Spain, whose banking system was overrun by a storm and not being able to devalue its currency on the foreign exchange market… due to there being no market to quote the Spanish currency that no longer existed. Thus, unlike the Asian financial crisis, the European financial crisis could not benefit from the currency valve supposed to offset (at least partially) the terrible internal devaluations.

In short, the EU founders certainly imposed very specific safeguards to reduce the extreme risk of default of a member nation. The fundamental objective of the Stability and Growth Agreement is certainly to confine the excessive accumulation of public debt. Yet – and very probably obsessed by the German obsession with deficits – the founding fathers of Maastricht also neglected the existential threat of an overflow of private debt. This explains why and how the total lack of monetary sovereignty of the member countries of the Euro zone is the very foundations of the crisis. And also that is why austerity which weighs on public budgets is ineffective. Because unlike the forecasts of orthodox economists (i.e., almost all of the profession!), reductions in public spending in Spain, Greece and elsewhere have certainly not been offset by an increase in investment by the private sector. In fact, the private sector – still heavily indebted – began instead to save through fear (justified) of a further decline in economic activity, which would be naturally induced by fiscal discipline. An IMF study (dating from the very beginning of 2013) shows that a dollar reduction in public spending does not remove 50 cents from an economy, as the current dominant
thought and economic research imagined it would, but rather...$1.70! This crisis would have no place in the European Union if it was a genuine monetary union like the United States, operating fiscal transfers between their states if needed when it comes to offsetting the adverse cyclical effects on the budget of one of their 50 stars. The European episode is therefore not a history of public indebtedness, or balance of payments deficit, and therefore requires no solution using fiscal austerity or sobriety on its members. It is this statutory schizophrenia established between fiscal policy and currency on the one hand and the absence of other intra-EU transfer mechanisms to reduce the imbalances that have shaped an unnecessary and completely avoidable crisis.

The European Union still has an arsenal of stopgap measures at its disposal to easily out the fire which ravages its weakest members. As they have accounts with the ECB, why would the ECB not provide Greece with enough credit so that it can, not embark on a spending spree, but only borrow three quarters of the sums due after its forthcoming bond deadline? European authorities would naturally implement adequate monitoring measures so as to protect their collective interest, and this country would continue its measures of financial restructuring and rationalization. It should be simple enough to borrow an amount progressively lower than 25% vis-à-vis its needs by the grace of the European printing press. Suddenly, the markets would demand lower interest rates on residual financing agreed to by Greece, bolstered firstly because its debt would have been reduced by 25% and reassured secondly because this intervention would attest to European cohesion. The benefits of this injection – purely technical – of liquidities would gradually be felt on the Greek economy since tension would drop significantly because a state would be less dependent on market severity. As such, and as growth is restored in Greece which would be mechanically reflected in its tax revenues, the ECB would slowly recoup its loans, either by debiting Greece’s account or by another more inventive means crafted by our sound central bankers.

Since this is only this condition – namely, solidarity – capable of returning Europe to prosperity. Indeed it is against nature that such shocking differences in the compensation of their respective Treasury bills prevail among married couples, having vowed to remain together for better or worse. How can the wealthier European nations themselves and, a fortiori, this supranational pseudo-institution that is the ECB, accept that Greece, Portugal or a country like Spain pay 3, 4 or 10 times more for their debt than Germany or Luxembourg? Is it acceptable, as pointed out on August 1, 2012 by the German daily Bild, that “Germany earns money thanks to the Euro crisis?” According to Bild, the country would have saved EUR60 billion in the last thirty months in refinancing
its debt. It is that simple, and Bild trumpets it: “Germany even earns money while being in debt”!

Forgiveness would have been possible if the pitfalls had been insurmountable. As it happens, the cure for this great evil which ravages Europe is childlike simplicity since it suffices that the ECB credit certain accounts, of course subject to safeguards. Does the actual European strategy – imposed by Germany and its central bank – not remind us of the U.S. bombardment of Vietnam which destroyed a rebel village while claiming to save it? Did Germany, the Bundesbank (the German central bank) and the ECB not destroy the European Union which believing it was saving it? A possible decision of total and unlimited support by the ECB would obviously be highly political, but politics in Europe is, as we know all too well, is slow and complex. The European construction was however carried out since the beginning thanks to a prominently political objective which was to make Europe forget the war and to erase dictators, communism and therefore rifts from Europe. It is regrettable that it is this radical shift, toward a Europe entirely based on trade and finance, which made it lose its political horizon, and which is now on the verge of damnation. In the same vein of ideas, how do we accept that the necessary fiscal and social harmonization in the EU brings unanimity? For intra-European fiscal and social competition – i.e. within the same Europe – is even harsher than vis-à-vis the outside, and under the pressure of Anglo-Saxon neoliberalism in its purest version it has been introduced into the EU! Today, the sole issue remains the economic government of the EU with the qualified majority, at the risk of seeing Great Britain depart. The tendency should be toward solid federal governance (with fiscal and social coordination) rather than punitive governance currently in place. Europe will therefore turn into a vacuum, coming to a complete stop – totally exhausted – if it does not take the bull by the horns for a total sharing of resources. The ultimate instrument for sharing its wealth is its central bank. It is obviously not the only one and there are several other ways of showing solidarity, but the quickest way to appease the present woes of the European population is to outdo the markets and restore growth. Moreover, is there anything to question when our jobs, our standard of living, our social peace and our comfort are threatened? Is this only because of their bad management and speculative bubbles that certain European nations are living through an existential crisis? For the construction of the EU deprived them of their financial sovereignty by placing them in a position of absolute dependence vis-à-vis the ECB, while making them singularly and solely responsible for their growth. Greece, Portugal and even Germany are thus comparable to the U.S. states without even the benefit of a federal government which spends (and borrows) to stimulate their economy. For, we are under no illusions, only public spending
reestablishes growth when everything else has been lost or suspended. The only honorable solution for Europe is a formal federation which would suddenly provide each of its member countries with its currency sovereignty and replace the EU as a club of countries benefiting from the privilege of printing money at will, if need be, so as to lend assistance to its states in need. Beyond that, we are actually witnessing a pitiful tragedy where the ECB and the rich countries wallow in their autism while other members of the family are slowly dying. Only raising the problem and resolving it at a federal level are likely to save the European Union. Such a happy event would see creditors “line up” to lend Greece which would no longer, in the absolute, need them since it benefits from the ultimate assistance of the ECB (which would therefore deserve its name of “lender of last resort”) or other European mechanisms. The risk of a European country defaulting in payment would immediately evaporate.

Beyond that, Germany and the other countries in its bosom are constantly bemoaning the lack of competitiveness among the peripheral European nations where labor costs would be too high in comparison to the frugal Northern “ants”, disciplined and controlling as though it is owed the costs associated with their payroll. This permanent stigmatization passes, however, under the silence of a phenomenon that specifically allowed the salaries of the PIIGS to gradually increase since the 1980s to join the current salary levels of industrialized nations, well integrated in the North. It is therefore due to this “convergence” that the labor cost increased in Spain, Portugal and in the countries to the South, and not following the bad habits of their employees presented as lazy and yet demanding… It is now difficult to deny that the salaries of workers in the South do not differ markedly from those in the North per unit of goods produced. German, French, Spanish, Portuguese and Irish workers indeed earn their living equivalently to similar product or equal service. In reality, the workers in the South are even generally less well paid than their Northern counterparts since they produce goods and ensure services either in lesser quantities or of inferior quality. In this regard, competitiveness, labor cost and even the mentality are definitely not the central problems of the PIIGS. There are several and daily examples of workers from the South who migrated to the North revealing their talents, skills, discipline and diligence. The deficiencies of the nations to the South are instead to be found in the level of public and private investment in key sectors as their infrastructure, equipment and governance.

Therefore, it is not only the level of wages in these countries that must be questioned but also the paltry allocation of their assets which clearly makes them incapable of being competitive – in quantity and
quality of the goods produced— with their neighbors to the North. Indeed, the wages perceived by the workers to the South vis-à-vis their production only makes them lower. In other words, the sharp increase in the prices of their goods does not reflect only their revenues, which are little appreciated, but also the harmonization of the tariffs of their goods and commodities vis-à-vis those of the North. For the PIIGS, the European convergence is transformed into a sizable increase in prices in the face of relatively stagnant wages. These accusations according to which the Mediterranean worker would have abused the influx of capital in his country by always demanding a higher salary, obliterating the competitiveness of its economy, are therefore only stuff of urban legend. Indeed, labor costs per unit or service produced has hardly increased proportionally with the selling price of that same product that the Southern worker received less pay per unit in 2007 than in 1980! Labor costs therefore converged between the Centre, the North and the periphery of the European Union due only to the convergence of prices between these regions, and through no fault of employees to the South who would have won a larger share. The real reasons for the lack of competitiveness of the PIIGs may therefore be found elsewhere, namely in the high compensation of huge masses of capital which were invested there at that time. The investors actually demanded always increasing returns on capital as the price for their cash investments. So much money which was therefore cruelly lacking that was needed for the vital structural improvements to bring them in line with that of the North. These southern nations were therefore more victims than beneficiaries of these capital flows.