BPE BULLETIN OF POLITICAL ECONOMY
14:2 (2020): 233-237

Book Reviews

CRISIS IN THE EUROPEAN MONETARY UNION. A CORE-PERIPHERY PERSPECTIVE, LONDON: ROUTLEDGE 2019, 312 PAGES. ISBN: 9780367878627 BY GIUSEPPE CELI, ANDREA GINZBURG, DARIO GUARASCIO, ANNAMARIA SIMONAZZI

Like the 2008 crisis, the Covid-19 pandemic crisis has highlighted faults in the institutional setting of the European monetary union. This book by Celi, Ginzburg, Guarascio and Simonazzi provides interesting insights in this regard as well as into the changing relationships between core and peripheral European countries. The book aims to show «how we got where we are now» in order to understand how to solve the crisis of the European monetary union and face the de-industrialisation process in Southern European countries.

The main theses of the book are summarised below. The European monetary union was seen as a first step towards political integration, in turn judged as a condition for defending the European social model which has been eroded by the globalisation and financialisation that has prevailed in all the main industrialised countries since the 1970s. However, unlike what was suggested in the first European integration plans put forward by Werner, the monetary union materialised as a separation between the Central Bank and fiscal authorities and followed ideas that were typical of New Classical Macroeconomics including the fact that markets self-regulate, their liberalisation ensures efficiency gains and that disinflation policies do not have negative effects on the level of employment. Some of these elements – such as the independence of the European Central Bank, the liberalisation of capital movements and stringent fiscal rules - favour overcoming the initial German scepticism towards the monetary union in the absence of a federal decisional centre of economic policy. The result has been the prevailing of a "neo-functionalist approach" to the monetary union according to which the fulfilment of the conditions required by an optimal currency area would have been satisfied by adapting markets and institutions of the different countries to those conditions over time. Its implication has been an underestimation of the difficulties in ensuring convergence of the growth rates among European countries when losing their monetary sovereignty and the exchange rate instrument. Moreover, the European elites used the European integration process in order to fix market deregulation.

The negative effects of this process on the pace of economic growth and the standard of living of the European population became more apparent after the 2007-2008 crisis. Unlike the United States, the European Central Bank initially adopted a non-accommodative monetary policy and expansionary fiscal policies were not implemented. Moreover, the call for "structural reforms" after the 2011 sovereignty debt crisis deepened deflationary pressures. According to Celi et al., both the 2008 and 2011 crises were financial crises fuelled by the incompleteness of European institutions, making the need for their reform clear. The 2010-11 crisis cannot in fact be ascribed to excessive fiscal deficits because in the previous years, the debt-income ratio had fallen in most of the peripheral countries. The crisis was mainly the result of the need of the French and German bank sector to reduce the long-term loans granted to European peripheral countries. Since in turn these loans had fuelled income growth in the periphery and had financed German exports towards it, the capital outflow from the periphery determined a decrease in income and a bank crisis whose effects passed on to public bonds markets due to the constraints posed by the eurozone institutional setting to interventions of the monetary authorities in the bond markets, as well as the absence of a federal State able to transfer resources to the member States facing a fall in aggregate demand. Moreover, the fall in the pace of growth and the financial crisis were exacerbated by restrictive fiscal policies adopted to block the increase in the interest rate spreads and the prevailing of expectations about unsustainable public debts. Finally, even the liquidity provision through the MRO and LTRO programmes, as well as recourse to Emergency Liquidity Assistance, required the acceptance of market deregulation measures.

If Draghi's "whatever it takes" has put interest rate spreads under control, it has not, however, solved European macroeconomic imbalances. The German commercial surplus has remained higher than the values permitted by the European Treaties, and the Eurozone has reached the highest commercial surplus among advanced countries, thus confirming its deflationary nature, especially for peripheral countries whose trade balance adjustments were achieved by a strong fall in their domestic income. Moreover, with the crisis, a structural change in the intra-Europe and international trade has occurred. Exploiting domestic wage restraints, outsourcing and its dominant position in the monetary union, Germany has reorganized its economy by creating a commercial triangle based on China and other emerging countries on one side and Eastern Europe on the other. More specifically, it has imported low-cost wage goods from emerging

countries, reduced the import of intermediate goods from Southern European countries in favour of East European countries, and increased the export of final and highly technological goods towards China. The consequence has been that expansionary policies in Germany have proved unable to ensure sufficiently high growth rates in Southern peripheral countries due to their lack of a large and diversified industrial productive capacity.

The final message of the book that I share is that the relaunch of the European project cannot pass only as a reform of European monetary and fiscal rules. It also needs industrial policies and public investments programmes aimed at diversifying, innovating and reinforcing the productive structure of European peripheral countries. These policies, however, need in turn a sufficient amount of resources whose availability for each member of the eurozone will depend on the kind of reform of European Union that will be implemented and the effects that a further capital market integration will have on national public debt management. So, for instance, it will depend on to what extent national public debts will be shared and managed at the federal level, the size of the federal balance, the possible amount of transfers to the single member States and the kind of monetary policy that will be adopted.

Here, however, the reader may feel disappointed by the book's silence on the more recent debates concerning how to face the crisis of the European Union, including the possibility of an exit from the eurozone. If the absence of any reference to this latter option can be justified by the belief that, with the exception of Germany, it would imply high economic costs compared with the alternative policy,[1]it is less clear why, having stressed the limits of Juncker and Industry 4.0 plans, no outline is put forward by Celi at al. regarding the reforms needed to make space for policies that overcome the industrial decline of Southern countries.[2] Needless to say, these reforms should ensure strong public intervention and protection of domestic markets as has occurred, historically, in any process of industrialisation in backward countries.

There are several other interesting issues analysed in the book which range from the differences between the French and German cases to the errors in the interpretation of stagflation by the mainstream economic theory. At the end of my review, I would like to focus only on one of these issues relating to the causes and effects of financialisation. We find in the book the suggestive thesis that the financialisation of the economy starting in the 1970s – which was accompanied by an increase in the overall profits of non-financial companies in terms of dividends, interests and capital gains -

may at least in part reflect a transformation in the methods of firm competition. This transformation required in fact to expand the variety of products and offer credit and assistance services to customers, thus resulting in a less clear-cut distinction between finance and industry. Moreover, it is argued in the book 1) that financialisation originated from facing a fall in the profit rate (determined, it would seem, by an increase in the capital-output ratio) and the stagnation of production due to a situation of under-consumption; and 2) that the new business model based on information technologies has prompted companies to maximize the value of shares and prefer short-term investments, creating job insecurity and economic instability. This has had a negative effect on both the distribution of income and the accumulation of capital. More specifically, the growing weight in the remuneration of stock option managers would have shifted resources from long-term productive investments to short-term financial transactions to support the value of the shares (with the typical forms of share repurchases and mergers and acquisitions for purely speculative purposes). Furthermore, the share of profits distributed to the market in the form of dividends would have increased which again would have favoured a fall in the accumulation rate making financial investments attractive.

However, if the financialisation of the economy seems to me to have had significant effects on the distribution of income by modifying normal corporate profits in various ways and weakening workers in wage bargaining, it seems less clear that it has a *direct* effect on capital accumulation - unless we assume there are limits on the financing of companies with share issues or through recourse to bank credit that that same financialisation process should actually have favoured, and unless we assume a mechanical investment of undistributed profits by the companies. In actual fact, the fall in capital accumulation in the most advanced countries would seem to me to be found more in the stagnation of aggregate demand referred to by the authors themselves, caused by restrictive fiscal policies, competition from emerging countries, and stagnant wages, which partly explain the same rising household debt before the outbreak of the crisis in 2007-2008.

Notes

1. They stem from the prospect of a devaluation of the new currency and the decreasing share of public debt in recent years that could be automatically redenominated in it according to the “lex monetae.” Of course, these costs should be compared with those deriving from permanence in the eurozone if this implies adoption of restrictive fiscal policies for several years in order to fulfil Maastricht parameters and the fiscal compact.

2. In this regard, a distinction should in any case be made between Italy and other peripheral countries because Italy still maintains a substantial industrial base that would benefit, even after the loss of Germany as an export market for part of its production, from reflationary measures at European level.

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