The Trajectory of the Periphery
By Matthew Drecun, November 10, 2013

Chair: Heiner Flassbeck

Panel:
Jorge Braga de Macedo
Stuart Holland
Marco Ricceri
Jan Toporowski

Jorge Braga de Macedo

Jorge Braga de Macedo began the panel with a presentation titled, "Portugal's assisted adjustment: death on the beach?" This title is drawn from a common Portuguese saying about the survivor of a shipwreck who manages to swim to shore, only to die from exhaustion on the beach. Macedo stressed that the crisis facing the Eurozone is fundamentally a balance of payments crisis. Previous crises of this type (e.g. Mexico in the 1980s with its subsequent Lost Decade, the East Asian crisis in the late-90's that spread to Russia) are therefore the relevant precedents, though the stakes of the current crisis are more global.

Macedo explained that Portugal had missed out on the growth enjoyed by the rest of Europe throughout the EU's early years, because it could not achieve the necessary competitiveness. Now, it has to make tough choices under duress that could or should have been made in better times. Macedo hoped that all of Portugal – its people, its government, its courts – would be kept in mind during the adjustment process to come. His concern is with the Memorandum of Understanding signed by Portugal, which some view as subverting the country's Constitution.

Macedo did not make concrete recommendations to fix the balance of payments crisis, but rather speculated about the use of a outright monetary transfers. He also speculated about the feasibility of undoing the Eurozone in an orderly fashion. He was not clear on the effects of this, though he suspected the exchange rate volatility issues would not be especially bad. He concluded by expressing his doubts about the survival of the Eurozone.

Stuart Holland

Holland began by emphasizing the internal dynamics of capitalist market systems that yield regional differences, both within and across countries. As an example, he cited the unequal development of Italy's northern and southern halves since its unification in the 1860s. The free working of the market would, in Holland's view, exacerbate these regional disparities, absent some intervention.

Holland then mentioned Wolfgang Schäuble's comments on the desirability of competitiveness in the Eurozone to make the point that genuine competition is not possible under current conditions. He also wanted to restore cohesion as a goal and value for Europe's policymakers. It had been the goal in the early steps towards economic integration, but it was forgotten. He argued that Europe will "risk competing ourselves to death," explaining that reducing wages and benefits in an effort to become competitive would only serve to undermine cohesion. He worried that Europe would regress from being the "cradle of democracy" to being "its grave."

Holland then discussed the "modest proposal" of the EU issuing bonds that would not count as debt for any member nation, noting that US Treasuries do not count as debt for California, Texas, or any other state. He cited the expansion in bond-financed social investment from the late-90s until the crisis, when the dependence on member-nation contributions caused a sharp fall in this investment. He proposed the European Investment Bank combine with the European Investment Fund (heretofore the facilitator of a paltry level of investment), anticipating that a joint effort would have a potential scale that could be "very considerable in terms of recycling global surpluses."

Holland clarified that he was calling for "investment supply push," not "Keynesian demand pull," to drive the recovery. He pointed to the Marshall Plan and FDR's New Deal as precedents. A large effort, spanning Europe, would address the continent's dearth of equity capital, and it would compensate for regional disparities, generating a recovery that would benefit the entire continent.

Marco Ricceri

Ricceri said that in Italy, there was "great disorientation about the future of Europe" and a sense of real difficulty about whether positive solutions could be found. He noted the complexity of solving "structural crises," because they spread throughout society, affecting the political system, the financial sector, the economy, and social norms. He urged the audience to remember the political dimension of decision-making by Europe's leaders, offering a political interpretation of Greece's inclusion in European integration (it had just come out of a dictatorship) and of the effort to create a common currency (Europe feared a united Germany).

Ricceri called for a less mythological, more realistic debate about the future of Europe, dismissing the idea of a politically integrated "United States of Europe" as nonsense. Any political integration would encounter a serious obstacle – member states' unwillingness to give up national sovereignty.

Ricceri also expressed concern about the increasing role of technocrats in European governance, arguing that it had contributed to a loss of cohesion. He concluded by wondering about the fate of Europe's people, who acutely feel the difference between the lofty rhetoric of EU leaders and the harsh realities of life as they actually experience it.

Jan Toporowski

Toporowski began with the suggestion that debt dynamics offer a useful way to understand economic conditions. If government tries to reduce debt and private-sector indebtedness increases, then nothing happens with GDP. If government tries to reduce debt without the private-sector expanding its debt accordingly, then a "catastrophic fall in GDP" is the result. This perspective enables us to distinguish the UK and US from Europe. In the UK and US, economies with large property-owning middle classes, the loose monetary policies of the Bank of England and the Federal Reserve have stimulated household indebtedness, leading to a "revival of asset inflation." In Europe, it has not worked this way.

Toporowski said that he agreed with Flassbeck that a reduction in wages is not a way out of the crisis. Any export competitiveness would be gained at the expense of the domestic market, yielding a negligible net effect on output and employment. At the global level, the result is deflation. The export benefit does not aggregate; the crisis remains intractable. He noted that China, to the extent it continues to increase investment and consumption, could serve as a *deus ex machina*.

Toporowski then turned to issues with the periphery. He argued that European leaders' "propaganda of success" masked the terrible unemployment that persists in the periphery, which he expected would feed "a most welcome revolt of the young." He explained that peripheral countries' inability to sustain their banking sectors was the consequence of financial integration in Europe in the absence of an effective centralized regulatory authority. He then suggested the following steps to recovery: "higher wages… in order to reflate the domestic market"; much more active operations by the European Central Bank to keep debt stocks stable; and private-sector investment. He finished by floating the idea of a tax on financial assets held on corporate balance sheets, to reduce government debt while encouraging private investment.

Panelists' Commentary
Macedo asked Holland and Toporowski to discuss the UK's "special status" in the EU, explaining his belief that the problems of the Eurozone are made worse by the absence of the UK's financial sector. Holland reiterated his long-held view that it was a wise choice for the UK to not join the Eurozone. Toporowski said that the UK is special because it is "a massive international financial intermediary," and its industrial failure is a factor in this. He would not want Europe to become the industrial failure that Britain is, though he did not clarify what he thought would bring this about.

Ricceri then argued for fiscal policy to be used to drive consumption, though balance should be maintained between private and public consumption. Toporowski pointed to the French example, with a capital budget distinct from its current budget. Fiscal policy in emergency situations could be exercised through the current budget.

Q&A
This portion of the panel began with Monica Frassoni critiquing the concept of "periphery." While Flassbeck concurred, Toporowski thought it was a useful concept, as did Ricceri.

Jamie Galbraith asked how the panelists would advise a major government if it decided that the policies of Europe had to be changed and it wanted to take a first step in this new direction. Only Flassbeck answered. He said that the countries of the periphery did not have a strong bargaining position. Their only option was to sit down with Germany and threaten exit and devaluation.

Norman Birnbaum asked the panel about the history of the complex relationship between the UK and the EU. This prompted an interesting story from Holland, about an episode in the 1960s where Charles De Gaulle demanded that the UK abandon the Special Relationship if it desired closer integration with Europe. Though Holland had reasons for the UK to seek integration, this demand was "unthinkable."