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Transform! Economists Working Group – Workshop in Paris (11 & 12 April 2013)

<u>List of Participants</u>

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State of the European Crisis: What Causes? What Alternatives?

Report by Maxime Benatouil

1. "A Decade of Depression"

The PowerPoint presentation developed by Joachim Bischoff and Richard Detje intends to tackle the economic crisis as a whole. Their analysis goes from the root causes of the last decade's depression to implementable solutions leading out of the crisis. The authors built their presentation around five key points. The first three points will be summed up below, while the two last ones will be discussed later in the report together with the alternatives (see 2.1 and 2.2).

1.1 Key Elements of the PowerPoint Presentation

Competitiveness

The very idea of competitiveness applied to States was introduced by the so-called Lisbon Strategy, whose aim was to make the EU "the most competitive and dynamic knowledge-based economy in the world[1]." This strategy leaned on two components: competitiveness and social cohesion. The latter was very quickly left behind for the benefit of the former.

As Angela Merkel put it at the World Economic Forum in Davos this year, the current situation must be seen as a window of opportunity to implement economic and social measures through austerity policies. In other words, the crisis –with the pressure on labor it implies- is the right occasion to go on with structural reforms in Europe. This "competitiveness shock" within the framework of the Monetary Union has played a major role in the emergence of imbalances, as well as in foreign trade.

From Effects to Causes

Initiated especially by Margaret Thatcher and Ronald Reagan, measures fostering the deindustrialization, the privatizations and the deregulation of financial markets, led to an extreme financialization of the economy. Neoliberalism's core idea is that State's expenditures must drop, which implies cuts in wages and social

1 Lisbon European Council 23 and 24 March 2000 Presidency Conclusions.

benefits. This shortfall in revenue has driven constantly more households into debts. To put it differently, economic growth depends more and more on private indebtedness. It is of high importance to highlight the link that bonds neoliberalism and debts.

The proactive policy of Germany on wage and internal demand compression to support exports and restrict imports led to a large trade surplus. This trade surplus has given rise to growing imbalances within the Euro Zone, causing partly the debt crisis that faces the peripheral countries of the European Union. It is worth mentioning that this neo-mercantilist strategy made the unit labor costs much lower in Germany than anywhere else in Europe.

Compared with what had been invested into the real economy, the safeguarding of the financial institutions was made at a very high cost –to say the least. Namely, the overall level of the approved aid for the financial sector between 2008 and 2012 amounted to 5,06 tri. Euros (40% of the EU-GDP), while the total sum allocated in 2011 to the EU aid for the real economy amounted to 64,3 bn. EUR (0,5% of the EU-GDP).

From Causes to Politics

As the Troika's policies use the Maastricht criteria as guideline, it is still decisive to tackle the issue of their relevance. According to the Maastricht Treaty, the ratio of the annual government deficit to GDP must not exceed 3% and the ration of gross government debt must not exceed 60%. Even very optimistic assessments indicate that their fully implementation increases the level of debt. That shows how impossible it is to reduce sovereign debt with austerity measures.

Likewise, the Fiscal Pact's objectives can only fail: it would cost far too many GDP's points to meet their conditions. Since a depreciation of the exchange rate to boost competitiveness is not possible in the Monetary Union, the countries facing the crisis have no choice but to lead "an internal devaluation" –meaning structural reforms and therefore a rise of the sovereign debt.

1.2 Discussion on the Presentation

During the panel discussion following the opening presentation of the workshop, two brief interventions related to the content of the PowerPoint itself. These remarks were meant to be included in the presentation and will therefore be approached below, so that the Transform Economists Working Group can collectively decide whether to include them or not.

Remark on Employment

Ronan O'Brien mentioned that the issue of employment was missing in PowerPoint and should be included. Immediate measures are needed to take us out of the stagnation in which we are stuck. The State needs to intervene by providing direct employments.

Remark on the Causes

According to Josef Baum, some extra points should be added in the part dealing with the causes of the crisis. Immediate causes need to be distinguished from fundamental causes. He pointed out that some of them have to be linked to the collapse of the Eastern bloc: the West entered a phase of hubris. Without any kind of pressure anymore, it went even further in the implementation of the neoliberal project that led us to the crisis.

2. Alternative Scenarios – Existing Proposals to drive the EU out of the Crisis

Two existing alternative scenarios occupied a special place in the PowerPoint presentation and in the following discussion: an analysis carried out by the Friedrich Ebert Foundation on the possible futures of the Eurozone and a position paper developed by the German Confederation of Trade Unions (DGB) calling for a European Marshall Plan[2]. Before restoring the key elements of the fruitful debate these alternative scenarios caused, let us shortly present them.

2.1 "Future Scenarios for the Eurozone" – Results of the Friedrich Ebert Stiftung Study

Muddling-Through the Crisis

First scenario to be developed by the scenario team of the FES, it shows how the EU should look like in 2020 if the current crisis management based on the "muddling-through approach" was to remain identical. The chosen

[2] Both these documents are available on Akademia: http://www.akademia-left.org/?q=group/economists

case-by-case method adopted whenever the crisis seems to peak, coupled with a lack of long-term vision, has deeply weakened the EU. Despite minor changes, the Fiscal Pact is still the cornerstone of the EU political economy, exerting continuing pressure towards reduction of the public debt and the structural public deficit. The pursuit of this strategy has left little room for supporting public and private investment, with the predictable consequences on many Member States' growth rate it implies. Welfare systems across Europe suffered harshly from cuts in public expenditures, while the unemployment remained especially high in the Southern European countries – leading to more and more social unrest.

Core Europe

The possibility of a division of the Eurozone has been seen as a realistic but not desirable scenario by many participants in the set of conferences that the FES organized across Europe. This option resulted from the continuity of a crisis management based on a muddling-through approach. The worsening of the situation led to the establishment of a strong but exclusionary "core Europe". The core group of Member States has implemented fiscal union and is moving towards a real political union, leaving most of the peripheral states behind. In this scenario, Germany has become the hegemon of the core Europe, stoking up the already existing tensions with the excluded Member States.

Fiscal Union Completed (Completion)

What if the fiscal union was mostly completed in the year 2020? The Eurozone would be much more homogeneous than it used to be in 2013, making the EMU a much more consistent union. Non-Members of the Eurozone would be encouraged to meet the preconditions for integration, which go much further than the Maastricht criteria. The "completion scenario" results from the observation that a case-by-case method to solve the crisis was counterproductive. It could be strongly supported by a new French-German alliance, arising in the aftermath of a change in German government with the participation of the Social Democratic Party. The pressure on the reduction of public debt and structural public deficit - that hitherto guided every step of the way in the crisis management- would be reduced. There would finally be a little room for a smart public investment policy.

Break-Up of the Eurozone

This scenario could also result from the continuation of the "muddling through" approach. The social, economic and political costs of such a crisis management were too high and led to the disintegration of the Eurozone. Would this break-up occur in a violent and uncontrolled manner ("Yugoslav syndrome", evoked by a participant of a FES workshop in the Western Balkans) or rather in a peaceful one, like the dissolution of the Soviet Union? If the worst of the worst is avoided, such dissolution should lead to the establishment of a core Europe. Another sub-scenario jeopardizing the national frames should also be taken into account: namely, the "Mezzogiorno syndrome". The regional differentiation would increase until eventually giving birth to a core Europe gathering the wealthiest regions of the continent.

2.2 "A Marshall Plan for Europe" – DGB Proposal

The German Confederation of Trade Unions (DGB) designed a Marshall plan for Europe aimed at providing a decisive stimulus for qualitative and sustainable growth as well as new jobs in all 27 EU Member States for a 10-year period (2013-2022). This plan should achieve what the DGB called the Europe's Turnaround in energy policy, based on the three following pillars: minimizing the use of available resources, ensuring our autonomy vis-à-vis energy imports in the long run and reducing massively CO2 emissions in Europe.

The proposed investments and investment subsidies of 260 billion EUR annually comprise direct investment and investment grants of 160 billon EUR and ten-year low-interest loans of 100 billion EUR to private investors. The DGB expects that it will lead to further private investment and annual additional growth impetus totaling 400 billion EUR. This would correspond to additional growth impetus of more than 3% of the EU's GDP in 2011.

3. "German Hegemony", a Relevant Explanation? A "Southern Counterblock", a Possible Answer? – Panel Discussion

The discussion that followed the PowerPoint presentation was very fruitful and focused mainly on the alternative scenarios drafted by the FES. Despite slight differences of opinion on what the most likely scenario would be, the WG members reached a consensus concerning the danger of the "muddling through" approach if it was to be pursued. The issue of the German hegemony became very quickly an important part of the debate. If the very essence of the "German hegemony" was in greater depth discussed, the participants couldn't agree on how relevant it was to speak of a German domination over Europe rather than European elites domination. But beyond the discussion on the nature of the domination, analyses regarding alliances in the South of Europe and solidarity between North and South were brought onto the table.

3.1 Discussion on the Alternatives and the German Hegemony

To tackle the further consequences of the "muddling through" approach, Richard Detje presented the results of an analysis drafted by three European institutes[3] that he considered being rather optimistic. In the case of smaller interest rates and risk surcharges, a world trade expending by 5,7% and a stretching of the austerity programs on a longer period, the unemployment would be of 12% in the EU. Deflationary trends would make the objective of debt reduction impossible to reach and even cause more debt in GDP ratios. In other words, the pursuit of such a crisis management would lead Portugal and Greece to a deeper recession, while the other economies would keep stagnating. To him, the "muddling through" isn't a broad strategy, rather a way to get from one crisis to another without spending much money.

Elisabeth Gauthier added that the costs of the "muddling through" option are too high to be sustainable. Its continuation would result in a greater political instability and give birth to unprecedented migration flows within the EU. According to her, the "completion" scenario isn't realistic, given that more and more voices in Germany speak up against it. Similarly, the establishment of a core Europe would intensify the North/South divide and the undemocratic management of Europe.

Walter Baier spoke up in the same direction and said that both the "muddling through" and "completion" scenarios were less and less seen as a sustainable option due to its too high political cost. Setting out from this premise, he wondered what could then be the answer of the ruling elites. He considered that if these scenarios of crisis management were to be left behind, the "core Europe" option (around Germany) would be given preference. The European Left must hence tackle the implications of this scenario and make alternative proposals. However, Sigfrido Ramirez and Michael Krätke declared that the "completion" scenario was so far the most likely to occur. To Gabriel Sakellaridis, this scenario will be the one chosen by Germany as long as it means reaching a political and fiscal union under its own conditions. To put differently, Germany would be muddling through and push for each crisis a different crisis management to impose its terms for the completion.

Jacques Rigaudiat focused his intervention on the DGB's proposal pushing for a Marshall plan in Europe. He expressed reservations on the feasibility of the project in the EU: it seems difficult to implement it without the precondition of a social and fiscal convergence. Moreover, would the Northern countries and Germany accept to pay for the Southern countries? After the social democrats took office in France, only very little was done to challenge the ruling German elites and set a new power relation in favor of more growth in Europe. In other words, they did not challenge the hegemonic model. The "muddling through" approach as practiced by Germany since the beginning of the crisis is part of a wider and well-thought strategy. Armando Steinko shared this standpoint. To him, it is necessary to start thinking about how to take a policy shift in Europe. Time has come to create a new axe of power capable of attracting other countries and reversing the German *Alleingang.* Lining up against the German hegemony would be the only way to exert pressure on Angela Merkel and force her to change her European strategy. This short-term strategy (muddling through) isn't sustainable anymore for the peripheral countries. He mentioned that a political desynchronization has already occurred between the North and the South of the EU.

The idea according to which Germany was assuming the leadership and being the only hegemon of the EU caused a lively debate. If nobody disagreed with the fact that Germany was indeed playing a key role in the EU crisis management, the questions regarding its whole European strategy couldn't be unanimously resolved.

In this regard, Steffen Lehndorff reminded that supremacy without alliances is a no-go for the German political elites. It doesn't mean that they don't want to assume any leading role. They just wouldn't do it

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[3] « Die Krise schwelt weiter » (IMK, OFCE & WIFO). Available in German on Akademia.

without partners such as Austria, Finland and the Netherlands (closest allies in economical terms) and France. Moreover, the Euro was conceived by Europhiles German elites as an enlarged Deutschemark and was a true success until 2008. They wouldn't jeopardize that for a "Northern Euro" and a core Europe as long as it remains unclear in which zone France would belong. He also believes that peripheral countries should unite. How to establish an ideological counterweight between mostly conservative-ruled countries? Could France play a bigger role in the matter? Hence the importance of discussing the DGB's initiative across Europe: first at a national level only in order to meet the specific priorities of each Member State and then collectively at the European level.

Herbert Schui asserted that one couldn't speak of a real German hegemony. As he put it, Merkel is running on sight and muddling through from one crisis to another. This isn't a strategy, not even a plan. A German supremacy is therefore not feasible: even though its exports to China are growing, they wouldn't make up for the losses in Exports within Europe. Germany needs partners in the EU. For merely economic reasons, its complete supremacy would be impossible. He would rather speak of a supremacy serving the interests of a European bourgeoisie. Indeed, he mentioned how positively the Greek and Portuguese elites welcomed the implementation of the Troika's measures. In addition, as Mariana Mortagua recalled, the breaking up of the Eurozone (and the Euro) would mean massive financial losses for major European banks (especially German and French ones). In this way, the Southern countries should unite to create a new balance of power within the EU.

3.2 Discussion on Alliances and Counter-Hegemony

According to Gabriel Sakellaridis, when the troika deals with each Member State separately, it is building fences to avoid the countries affected by the crisis to unite and propose alternatives to the austerity measures. In the case of an electoral victory of Syriza, Greece will refuse to implement structural reforms further and try to negotiate policies in favor of growth with the Eurogroup. He wondered what would the reaction of the German government in that situation. But above all Europe needs a social alliance to connect the people of the South with the people of the North. That is exactly what Valia Aranitou meant when she claimed that the issues of nation-states and nationalism must be overcome. It is necessary to build transnational alliances between working classes of the North and working classes of the South.

Elena Papadopoulou also wondered how far would the EU be willing to go if Syriza wins and starts negotiating a new rescue plan. She doesn't believe that Germany would move towards a break up of the Eurozone. Not only because the consequences would be expensive but mainly because it would contradict its long-term strategy (based on exportations and reliable partners). What if Germany was being forced to make a step back? It wouldn't be that big of a surprise: all the way from the very beginning of the crisis, Germany took step back very carefully. She agreed on what Steffen Lehndorff proposed in terms of creating alliances. The first step should be to think of national alternatives country by country and then confront these ideas and make a single European proposal out of all of them. In this regard, Detje spoke of a European mosaic composed by several national alternative proposals. In face of the European multipolar power, Gauthier insisted on the fact that the alternative forces must conceive a multi-level strategy articulating EU and national level. Lehndorff made of this bottom-up process a precondition of a true Left alternative. Academics, political oppositions and trade unions of each EU country should come up with an alternative proposal developed at a national level.

4. Recommendations of the Transform! Economists Working Group

This final section aims to gather specific remarks and to list clearly and concisely recommendations that have been issued during the workshop. Some of them focus on issues that the working group should study further, while others concern the European Left and the strategies it should develop in view of the next European elections.

- Need to tackle the specific features of the European crisis.

- Need to study in depth the cornerstones of the Lisbon Strategy and the present offensive on "competitiveness shock" (e.g. Gallois Report in France, etc.) in order to grasp better the issue of competitiveness at the European level.

- How to make a better use of the European Investment Bank to foster useful investment / growth in Europe?

- Need to stress the responsibility of large European banks in both the origin of the financial crisis in Europe (US shadow banking sector) and the financing of bubbles in the peripheral Member States that led them to the crisis.

- Develop a more systematic critic of the German model, with a greater emphasis on its underlying macroeconomic ideology and the culture of ordo-liberalism.

- The EU never implemented a true development policy within its own borders: the crisis has mad it even more urgent to prepare one for the periphery that the European Left should then push forward.

- The issue of political ecology must be taken into consideration in the analysis of the crisis, as well as in the alternative proposals.

- In face of the generalization of competitiveness and dumping, need to re-formulate social demands and alternatives; need to build an ideological counter-offensive.

- Need to think of the basis of another economic model, beyond neoliberalism and Keynesianism.

- The European Left must think about the political implications of the "Core Europe around Germany" scenario and develop a counterproposal.

- Define possible strategies in order to overcome the dissymmetry between regions within the Monetary Union, and simultaneously how to modify the balance of forces between labor and capital

- Transform! Members should discuss separately - in regard of their own national situation- what could be done to overcome the crisis. Afterwards, theses strategies should be discussed in order to develop a common European alternative proposal to exit from the crisis. The Left should use this common European alternative proposal for the 2014 campaign.

- Examine the consequences of projects for transatlantic free trade agreement.

12 April 2013

State of the European Crisis: Alternatives to Competitiveness Shock

Report by Sigfrido Ramirez

This text aims to summarize the conclusions of the workshop organized by Transform!Europe (TE) about the alternatives to the current dominant discourse for exiting the European Union from the economic crises. It takes as starting point the question of competitiveness, which is at the heart of the discussion in various European countries governed by the Right (Spain-Portugal-Greece) and the Left (France, Belgium). In this line, the European Union is explicitly or implicitly proposing to adopt the German model of economic development - and in particular through recent labor reforms - as an universal recipe for growth, which would eliminate the economic unbalances between the center of the European Union (Northern Europe) and its periphery (Eastern and Southern Europe)). The discussion departed from the debate carried out in the French context about competitiveness as put forward by the Gallois Report. This report was requested by the President of France François Hollande to Louis Gallois, former CEO of French companies participated by the French State (SNCF-railways and Airbus-Aeronautical), and currently General Commissioner for public long-term investments. Such report has received a long and detailed counterpoint from the Copernic Foundation (represented in the meeting by Jacques Rigaudiat) and a public criticism of major French trade unions, in particular the CGT (represented in the workshop by Jean-Christophe Le Digou). Considering that the central question is whether the solution for France, and for Southern European countries, would be following the German model of competitiveness strategy, the meeting counted with a presentation (Steffen Lehndorff) about the German model before starting a general discussion about which left wing European alternatives in the field of ideas and policies to be explored and pursuit by the TE group of economists in cooperation with European left parties and trade unions.

THE QUESTION OF COMPETITIVENESS AT THE CENTER OF THE FRENCH AND EUROPEAN DEBATE: A FALSE DEBATE

The on-going French debate about competitiveness has important consequences for all European countries. Among left-wing circles there is some expectation, in particular trade unions, that social democratic-led governments and the next European elections should bring a turn of the political wheel to the Left, and find an alternative European exit to the "austeritarian" policy directed by the Troika in accordance with the Conservative Chancellor, Angela Merkel. The French case vividly illustrates the limits of such hopes as President Hollande's policy has demonstrated that little can be expected when the same neo-liberal ideas and concepts of the economy dominate the discourse and practice of European social-democracy. Hollande, and his political allies have ratified the Budgetary Treaty inherited from the Merkozy consensus obtaining as compensation a weak Pact of Growth which cannot be considered as a Keynesian investment plan for economic development due to its political conception and lack of financial instruments. Furthermore, he has given way to a "competitiveness shock" as recommended by the Gallois report in order to find a way out to the economic decline of the country. Such shock includes on its right-hand a Competitiveness Pact whose major thrust is to follow the (in)famous Hartz Laws in Germany by which there is a further flexibilization of employment contracts (flexi-security discourse) and a tax rebate (20 billion Euros), in the form of a public reimbursement of social expenses to companies without requiring any commitment in the form of investments or employment. On the left-hand, the French Socialist Party strategy includes a public investment fund directed by Gallois and financed by a public loan (Grand Loan) to inject 35 billion Euros to consolidate the competitiveness of French industrial sectors in relationship to a supposedly competitive German industry.

The major problem with this neo-mercantilist strategy is that it departs from a wrong reading of data and interpretation of the roots of the problem. The major error is considering that the reason for the French commercial deficit and the des-industrialization of the country in the last thirty years has been the high cost of labor which is directly related to the reduction of working time (35 hours) decided by the left-wing government led by Lionel Jospin, when its major competitor, Germany, has been using labor deflation through the implementation of the 2010 agenda decided by the Social-democratic Chancellor Gerhard Schroder.

Leaving aside that a very large part of French commercial deficit actually comes from the import of energy, a fine-grained analysis of Eurostat statistics confirms that this is an erroneous analysis because if the average hourly wage is higher in France (33.6 Euros) that in Germany (29.6 Euros), such important difference does not apply to industrial wages (36.6 versus 35.4 Euros) but to wages in services (34.7 vs. 28.4 Euros). Furthermore if we consider the higher labor productivity of French industrial sector measured in labor cost per unit produced, nothing remains of the supposedly lower productivity of French industry and illustrates, on the contrary, the pauperization of German working classes. The percentage of low wages in Germany is nearly fourfold higher than in France (22.2% vs. 6.1%) and there is no doubt that the existence in France of a minimum wage has blocked to a certain extent (illegal workers and contracts aside) such a downward trend on social sustainability. Moreover, in France the successive reforms of the labor contracts have created a partial duality of the labor market. Interim workforce in some industries like in the automobile sector reaches 20% and in other sectors it has become nearly compulsory the use of part-time job.

But if it is not the cost of labor, which are the major handicaps of the French industry and how to deal with them?

A first reason is directly related to the exchange rate of the Euro as an international currency and in particular towards that global currency which is the dollar. Germany has circumvented such a handicap by using industrial outsourcing to Eastern European countries outside the Eurozone and with extremely low wages. Such strategy denotes the problems of having a single market with various currencies and wage differentials between of 1 to

10 which could only be tackled through a quick and piloted catch-up process of economic development that has not yet arrived

Additionally, France's specialization remains increasingly in low value-added products which are competing in international markets with emerging manufacturing countries like China. A fundamental way to upgrade in product innovation and quality is directly related to the qualification of the workforce. According to an OCDE report the percentage of low-qualified workforce is nearly two times higher in France than in Germany (30% vs. 16%). This is an important element of competitiveness that should be underlined, instead of trying to exit from the trap of international competition by a simple price-competition which is actually eroding the turnover and margins of French companies. Taking the "low-cost" ladder like the US or the UK has been doing will produce similar results to those already existing in those countries.

Thirdly, and this is a difference with Germany, France is lacking of a solid internationalized network of small and middle companies due to the lack of financial support. Without this support, the pressure of large companies in undersized suppliers to reduce costs may bring a similar problem to that of Japan. This means the creation of a vicious circle, where the reduction of wages will bring a raise of profits that will be invested abroad, putting the whole economy in stagnation and in further pressure to reduce wages, killing the capacity of small and middle-companies to upgrade and internationalize.

A fourth problem is the low levels of investments in research and development and which are directly related to the major handicap of the French economy, namely, the high cost of capital. It is this, and not the cost of labor, the main responsible for falling French competitiveness. The principle of shareholder value has dominated non-financial companies which preferred to use its increasing added value to distribute higher profits than to invest them in long-term projects. Such trend has not only produced an increase in household inequality in the distribution of added value, but more importantly it has shifted the benefits generated in the industrial sector towards the financial and casino economy and not the other way around. This is the reason by which the public financial sector is called to take the relay of private investments, but this does not solve the problem in the long-run and cannot be replicated in other economies which have a lower saving capacity due to lower wages.

Therefore, for the Left the question of the role of the State becomes more salient than ever as we see that the competition is not just between companies, but more directly between industrial territories in Europe which are struggling to retain factories by maximizing their value chain, like is happening with the French automobile industry despite the role that the State is currently playing in both national producers (in Renault as shareholder and in PSA as banker). As a consequence, the question of industrial policy should be put on the table but acknowledging the need to find European solidarities outside of German domination and a France which is adopting the Anglo-Saxon model of low-cost competitiveness recommended by French employers with the complicity of the new French government. Which are the main elements of a reorientation of industrial strategy?

1- Betting on the development of human qualification through the increase of industrial training of work-force as a priority to confront the question of competitiveness.
2- Reorienting the credit through a public financial pole which would give preferential loans to manufacturing industry but also to workers for the reduction of their housing expenses which are 5 % higher than in Germany (16% vs. 21% of household budget) and which constitute an obstacle for mobility .
3- Privileging the integration through employment in new industries of young people as the current trend is putting into risk the social security systems, in particular pensions and health for future pensioners.
4- Reducing the excessive return on investments for shareholders which has gone from an average of 8% to 12% in the last 15 years. Such a reduction is important to permit long-term industrial investments. This should particularly be applied at the European level as this competition for shareholder value is the reason behind the specializations of the European economies (North on industry and South on services) which are behind the existing economic unbalances.
5- Therefore, the reindustrialization of these countries are of central importance as the German model cannot and should not be replicated in other countries because of its intrinsic weaknesses which are to be highly-dependent of external demand (export-oriented) and of wage moderation (stagnation of domestic market). This is proved by the falling performance of German industry reflected in its current

account surplus once the European periphery was put under austerity conditions. The reorientation of an active German pressure towards the creation of Free Trade Areas with the US and with Japan aims to compensate this fall of European demand but this only will serve to increase further world economic unbalances.

6- An important element in this re-industrialization implies the development of a product-based competitiveness which is the central element of competitiveness of German industry through innovation based on the vocational training system which has always been skill-based and bet on internal mobility of the workforce within companies.
7- At the end of the day if there is something to learn from the German model is to find out the institutional advantages like co-determination which have been the heart of a historical model which has been seriously damaged by the 2010 Agenda which was nothing else than the same neo-liberal/New Labor agenda (workfare, privatization of employment services, increase of employment age, weakening of collective bargaining systems, etc.).

In conclusion, from the German capitalist trajectory the only institutions which are the basis of economic performance are those who have survived from its post-war economic model and not those transformed by the Agenda 2010. In countries which do not have these institutions the result of applying the same recipes of this agenda will only result on higher inequalities without growth. Moreover its vulnerabilities will be counter-productive for a country like France where the growing wage gap is bringing to a halt internal consumption and eroding the tax basis of the Welfare State. The attempt to reduce taxes for companies will imply , like now in Germany, in spending cuts in local councils and regional governments creating a competition between them and a fall of social investments. No, Germany is definitively not a model for France or for other European countries.

WHICH EUROPEAN ALTERNATIVES TO COMPETITIVENESS FOR THE PERIPHERY?

The central debate beyond the French case is whether there are alternatives within the existing European Union to this push for competitiveness which is actually in the top of the Franco-German agenda as illustrated by the recent meeting in Berlin of Hollande and Merkel with the European Roundtable of Industrialists. This clearly shows that the competitiveness shock is not just an invention of Merkel, but they are shared, requested or tolerated by national bourgeoisies and transnational capital.

For Portugal the question is that being part of the Euro has created a strong pressure on the industrial sector of the country which became marginal as the European Union requested Portugal to abandon its industry through European subsidies for going into a different specialization of the economy based on the rental estate and the privatization of public services. The current debate in Portugal is how to develop and industrial strategy which maybe also environmentally sustainable. This may request the suspension of the internal market rules for some sectors or for some time in order to regenerate new productive sectors.

In Greece the policy for competitiveness has been used even before the crisis with the creation of a Council of Competitiveness, but they do not include industrial policies but rather horizontal measures addressed to improve the competitive conditions of companies. The debate today is not so much of re-industrialization but rather of “productive reconstruction” which includes the respect of workers’ rights and environmental concerns. In this line industrial policy will amount to pick up sectors to favor in the economy combined with European strategies for development of the whole Union.

In Spain, like in Italy, the case is different from the other countries as there is within both countries a plurality of regional productive configurations, some closer to the north and others more similar to those of Greece and Portugal. Furthermore in both countries there are important industrial sectors, in particular in the mechanical industry, and are the home-country of important multinationals linked to the energy sector (electricity, oil and renewable), infrastructures, banking and agro-industry. In Spain the national political debate turned even before the crisis around the question of changing of productive model, which was the official policy of the Zapatero government but which ultimately never materialized as the real historical model based on speculation around the rental estate and services (mass-tourism) deepened and dominated the economy and the policy. Industrial policy exist at the regional level with territories integrated and supporting with finances and all socio-economic institutions the (re-de)localization of industrial companies. A recent important example is the automobile industry which has received a wave of investments in exchange of competitiveness pact signed by trade unions. If social dumping is present in this strategy it cannot be considered as the single reason for their competitiveness because the country has geographical advantages for transportation nodes and bet strongly in infrastructures as a way of reducing costs. In Italy the situation is more difficult as there is a process of industrial decline, particularly in the South which the State had traditionally supported, with a destruction of its social and political institutions and a trend towards secessionism in the North of the country linked to the question of taxation and an industrial development based on small and middle enterprises.

The question of intra-regional disparities creating political tensions is not an exclusive European phenomenon, but it is also at work in continentally integrated markets like China. The debate in this context is similar, namely, which regions will be in the high-level and low-level of the value chain? In this concern the question is not just of (des)industrialization but the durable removal by neo-liberalism of a productive culture of industry among workers. Austria, for example, like Germany and even before it, started a process of creation its periphery of outsourced industry in Eastern Europe (ex. Ukraine and Bulgaria). It is important that in this reflection of alternatives we find out which will be the position of Eastern European countries, which has been industrialized in the low-level of the value chain. At the end of the day, this is the real debate: whether the industrialization path aims to go to the high, mid or low-road for manufacturing. This is independently from temporal differences of competitiveness which may correspond just to the level of utilization of factories which in the German case are quite high, and in this way it results on high productivity. An alternative example is that of Sweden which targeted a strategy of specialization in social services and not in traditional industrial sectors.

ALTERNATIVES CONCEPTS, ALTERNATIVE THINKING: OPEN QUESTIONS AND FOCUS

In the search for alternative concepts there has been a preliminary reflection: Should we depart at all from the concept of competitiveness or this is a concept which is inherently neo-liberal as it implies competition between territories and not cooperation? Is not necessary to criticize the ideological tenets and contents of such a concept from which it is impossible to conceive an alternative for cooperation? Will such attempt for modernization be based on complementariness and specialization of regions which are idealistic and create new artificial dependencies?

Another important element in the same line is to avoid entering into the bourgeois economic debate which turns around the artificial application of the notions of free competition and free trade to the microeconomic debate between companies. The reality is that the global economy is dominated by multinational corporations and groups of industries organized in industrial complexes in symbiosis with public sectors and various nation-states, more than by national industries. In this global economy, multinationals are those deciding in which level they place a country in their global value-chain, making difficult for a state to force on them an investment. Therefore, historical analyses of political economy configurations are more adequate than theoretical economic analysis in order to understand how the institutions of innovation work. Even more critical for us is adopting a regional analysis of the EU economy instead of a mere juxtaposition of national economies, nonetheless because the basis of development is often regional (at the subnational level) and the question to tackle for the Left is which type of European integration we wish and not just criticizing the Lisbon Strategy of 2000 (and its successor Europe 2020). The question is precisely institution-building at the EU level and we should focus on the possible intra-EU impact of the external policies of the EU and its countries, which are aiming to find an exit to this situation.

Such a rejection of standard economic analysis should also consider using the criticism that exists in the field of history of economic thought. Thus, the most obvious anti-Gallois argument is the so-called Kaldor paradox developed in the 1970s by which the countries with the highest wages had proportionally the highest market shares in international markets. We must also keep an eye to the existing theoretical debate in order to supply with arguments already tested and discussed in university research . For example, the debate on capital cost unit as a measure to introduce for comparisons as importantly as the labor cost unit. It is obvious that for mainstream economists labor is only a cost and all the rest derives from that assumption among policy-makers.