The European Crisis: Causes and Ways forwards

by Beniamino Santoro

In a global scenario characterized by a constant technological revolution, where people can easily move from one part of the globe to another, where goods travel effortlessly with a simple click of the mouse, the entire economic system seems to have ineluctably changed, and so has the job market.

The American economist Richard Freeman wonders whether our salaries are not being determined in Beijing today. The question, which is deliberately provocative, suggests that in today's global economy, any analysis of the labor market can no longer neglect the international dimension. Lower transportation costs, new communication technologies, the progressive fall of barriers to trade, novel emerging factors and markets in the global economy, have sharply accelerated international integration process of economies.

In Europe these processes add up to the definitive removal of the barriers set on goods', services', factors' and people's mobility, i.e. the Schengen area, and monetary unification. With the removal of trade barriers, capital and labor will tend to reconsider their choices in terms of geographical location based on the new opportunities provided by the integrated economy (Manasse P., Turrini A., *Il Mercato del Lavoro*, in *Economia Aperta*, in *Economia del Lavoro*, Brucchi Luchino, Il Mulino, Bologna, 2001 p.343). Businesses' direct foreign investment activity is an example of this. In order to make profit by cost advantages and proximity to markets, companies tend to globalize by opening plants and branches abroad, delegating to subsidiaries several production stages and establishing joint ventures.

On the one hand, the commercial integration process will exacerbate inequalities between geographical areas, producing an economic "center" (read "Germany") and a de-industrialized "suburb" (spelt: Greece, Spain and Italy). On the other hand, economic integration and the smaller constraints on international mobility will allow workers to move wherever work conditions prove to be more favorable. Moreover, it is exactly here that one of the major contradictions in the European system appears. The mobility of the job factor between European countries is incomparable to that experienced by other countries such as the United States. What discourages a Greek worker from searching for a job in Finland is certainly not the need to adapt to a different currency. Clearly, it is

the language and cultural barriers, the major differences in the educational and social security systems as well as the job market segmentation that set hardly surmountable limits.
In Europe the situation is made particularly complicated by the monetary unification.
In Economics, the acronym OCA (Optimum Currency Area) refers to a number of countries that can adopt a single currency without incurring in problems. Economic science states that the rigidity introduced by relinquishing the flexibility of currency exchange must find some sort of compensation, more specifically by:

- better mobility of production factors which would allow workers, particularly the ones in deficit countries who have become unemployed because of stagflation – a combination of stagnation and deflation - to rapidly find employment in surplus countries. Nobel Laureate Mundell insists particularly on this point, the basis of the theory behind the OCA as a branch of studies within international economy.
- A better production diversification, that may help the country to get over specific difficulties in a certain industrial sector, as Peter Kenen highlighted in "The Theory of Optimum Currency Areas: An Eclectic View". He also highlighted the importance of fiscal policies aiming to make "pockets of unemployment" sustainable, which would inevitably happen after fluctuations in exportations, combined with an imperfect labor mobility, meaning essentially regional transfers (i.e. across EU countries) from wealthier to poorer areas.
- A convergence of inflation rates towards a common value: otherwise, even without external shocks, the countries with lower inflation, which are able to supply goods at more and more competitive prices, will go surplus, becoming exporters of goods and thus of capitals towards the countries with higher inflation, which, in turn, will become financially fragile.
- A greater flexibility of salaries, which would favor a fast recovery of competitiveness, as highlighted by Milton Friedman in "The Case for Flexible Change Rates" (Bagnai A., *Il tramonto dell'euro*, Imprimatur Editore, Reggio Emilia, 2013, p. 118 e ss.).

That being said, another important aspect is the role of the multinational companies. Unlike manufacturing companies, these have the chance to move their plants abroad. One therefore feels that the opportunity of opening plants in places with low labor costs or easier industrial relations increases the companies' bargaining power with regard to national workers' organizations. Consider, for instance, a case in which the national government would introduce a minimum hourly wage. Obviously, such regulation would not be imposed to other sovereign countries as well. Consequently, national enterprises could bypass this law by moving their production abroad.

Thus, foreign countries would receive direct investments as a consequence of national laws introducing minimum wage. Then every country would benefit from lowering the minimum wage in order to attract foreign investments. The result could thus be a worsening in social standards for every country, without any country being able to attract investments from abroad.

Based on the above, it is evident that to analyze a single nation's economy would be reductive. With no rhetorical purpose, policy makers must realize that unemployment can kill entire generations; the exaggerate focus on the long term combined with a shortsighted austerity policy can lead to an irreparable stagnation.

The first EU Commission president Walter Hallstein had already explained that Europe is essentially a "community of law" which has received the hard task of bringing about a reconciliation between European countries to replace, through community standardization, a warlike past with a peace order based on the domestication of economic selfishness. In spite of this necessary condition, today's law is not sufficient for a full European integration. It would be necessary to unify educational systems first, and then to bring down cultural barriers, promoting and financing students' international mobility starting at least from secondary school. At the same time it would be necessary to even welfare systems in order to reach a recognized standard of European citizenship. This way, we would reach the much-needed integration, which would compensate imbalances between countries, but would only be realizable in a framework provided with all the requirements recommended by economic theory (Bagnai A., *Il tramonto dell'euro*, Imprimatur Editore, Reggio Emilia, 2013, p.130).

That being said, considering the international and structural nature of the crisis, there is no potential solution in sterile maneuvers or in strongly protectionist policies that would substantially impoverish the market. Therefore, an autarchic policy is not desirable, for it would cause the dissolution of the Euro as the single currency. Such maneuver, along with the consequent currency depreciation, would favor foreign investments, increasing employment, but would be devastating in terms of imports. With this in mind, it is mainly the energy issue that creates enormous growth problems, because of the fact that without valid autonomy plans, costs would record an exponential growth. Instead, the need is for a new economic policy based on strong ethics, protecting rights and created by a democratic body with legitimate supranational authority. Contrary to that, we are witnessing a European Union which resembles more and more an elephantine machine slowed down by its own weight, helpless before the new challenges and new players of the globalized market. This being said, for many political scientists the European Union should be ready to launch a takeover bid on Greece. The true challenge of a "Union of Peoples" would be to substitute, gradually, Brussels bureaucrats with people's representatives. Partly, this has already happened

thanks to the strengthening of the European Parliament's functions introduced by the Lisbon Treaty: the European Parliament is a unique case, since it is a Parliament with no legislative initiative. To be sharper, or less mainstream and more heterodox, a parliament deprived of the legislative initiative is like a milkless cow, its use is debatable. The narrow self-referentiality of the debate, promoted by the totality of traditional media, certainly does not help in understanding the weak and strong points of the EU, which is too often presented as a mere civilized choice to protect peace in the Eurozone. It is desirable, and for the author reasonably predictable, that from now onwards the citizens' democratic control exercised on community bodies will become more incisive, yet on condition that the integration process is completed as highlighted by the OCA theory, and is supported by a renewed "community law" and by the unavoidable removal of cultural and language barriers. This way, the step that will lead the European Union towards the Unites States of Europe will only be the last piece of the mosaic the Founding Fathers imagined at the end of the Second World War.

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