

Europe in stagnation

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A general view

The issues pertaining to the EU express themselves directly as questions of international politics and economics. This is because the European Union is not a federal entity, nor is it an economically unified space. Each country has a bloc of trade flows locked up in the proximity areas and with Germany, while the residual is dispersed over the rest of the European Union and the rest of the world. But all this is completely normal. Except for raw materials and food staples which are traded on a global basis - hence countries like Argentina and Australia are ipso-facto global traders in, mostly, missing future markets - specialized industrial production follows the patterns of history, in which proximity looms very large¹. The same can be said about financial flows and capital movements. Research in France has shown the distinctive regional and proximity patterns of financial flows. Normally we do not get the importance of local and proximity flows because in the press the issues of international economics are framed in relation to some core centers such as Frankfurt, London, New York and Tokyo. But in Western Europe quantitatively and qualitatively regional proximities dominate.

The fact that the European Union is not a federal entity is the crucial factor making the EU an international one so that what happens in it is not a domestic or an internal affair. Any difference between Germany and France, for instance, becomes a matter of international relations requiring the manoeuvring of the other countries' governments. In this manoeuvring extra EU factors come into play, whether the relations of the individual countries with the United States or with Russia or with other areas such as the Balkans.

The major change in the profile of the European Union, then called the European Community, occurred without the participation, contribution, and advises of the member countries, and without the formal participation of the institutions of the European Union. In 1990 Germany absorbed the

¹ Proximity would have prevailed also in the case of Japan after 1945 had the USA allowed Tokyo to trade with the People's Republic of China. But it did not thus Washington had to open its own markets to Japan as well enable Japan to sell globally without reciprocity (Forsberg, 2000; Borden 1984).

former German Democratic Republic in the East. The EU institutions of today were already in place, namely: the European Parliament in Strasbourg - elected since 1979 every 5 years by all the eligible voters of the member countries - as well as the European Commission and its Council, in existence since the early days of the EEC. These institutions had no part in shaping what turned out to be the most important event in post 1945 Europe. The whole process was led by consultations and agreements between the Government of the Federal Republic of Germany in Bonn, and the Governments of the USSR and of the USA. Brussels, as the seat of the European Union's Commission and Strasbourg, as the seat of the much marginalized European Parliament, had nothing to do with it, and played no formal role consistent with their institutional functions. Yet Bonn's decision to bring East Germany into the Federal Republic had momentous economic and political significance for Europe and the world.

Economically, the absorption of the former GDR into the Federal Republic of Germany led to the end of the German mechanism of accumulation and changed the profile of German industrial capitalism. It therefore modified the pattern of capital accumulation in Europe and made it increasingly dependent on exports to areas outside Europe. Thus, rather paradoxically for anyone not blinded by the economic jargon of flexibility and competitiveness, the more the European Union grew in size, by adding new countries to it, the more it pinned its faith on an export led growth process. Even the policies of financial deregulation are conceived in relation to international competitiveness to achieve further rises in export surpluses with rest of the world. The paradox lies in that logic dictates that the bigger an area becomes the less significant are its international trade and capital flows. For Belgium exports and imports are everything: its total trade being much bigger than its GDP. But an area as the EU which is, by itself, a big chunk of the world economy, cannot depend upon net exports to generate growth in incomes and employment. The crucial variable is Europe's effective demand. The latter has been increasingly stagnant over the last decades and a major factor in the worsening stagnation is the German economic stalemate.

Institutionally, the events of 1989-90 led in 1992 and 1993 to the end of the EMS, the European monetary system. This event unleashed indeed an economic conflict of interests between three countries, Germany, France and Italy which threatened the very existence of the EU and the very existence of a common ground for the many different European capitalist interests. Stagnation and intra EU economic conflict thus became intertwined largely as a result of Germany's unilateral handling of its relations with the USSR

concerning the GDR. It is in this context that the French authorities, from Mitterrand to Chirac became determined to reign or box in Germany by imposing an accelerated transition to the Euro, something that in the Jacques Delors Single Market program of the second half of the 1980s was mentioned in more tentative terms. The Euro, and especially the convergence towards it, blocked the collision course simply by trapping each country of the Eurozone into a frozen ocean thereby enshrining stagnation and making external growth even more important than before. But as we have argued, given the present size of the European union and also of the Eurozone, external growth can do very little to take the largest economic area in the world out of stagnation, and of the ensuing social decline.

Oligopolistic dynamics

Politically and historically the formation of the Common Market, which later became the EEC and transformed itself into the European Union is explained as a policy aimed at avoiding conflicts and wars in Europe. In plain language this means avoiding a new war between Germany and France. There is a strong element of truth in this if we think that the wars between Germany and France were determined by the conflicting imperialisms of the respective capitalisms. In the age of industry and empire the prowess of each of the two capitalisms and the capacity to expand internationally depended on the hegemony on the European continent and, more specifically, on the control over the coal and steel making areas. So it is not at all surprising that prodded by the United States, whose main objective immediately after 1947 was to reconstitute the legitimacy of European, and especially German, capitalism at the expense of the British, French leaders such as Jean Monnet and Robert Schumann and West Germany's Konrad Adenauer moved in 1952 towards the creation of a common market for steel and coal known as CECA.

In truth the CECA reflected the pattern of the steel cartel officially set up among European countries in the 1930s to shield their respective steel companies from the danger of price wars in the wake of the Great Depression. The novelty of the CECA consisted that its objective was not just the coordinated protection of monopolistic interests. It was a strategy of dynamic oligopolistic growth. The formation of a common market in coal and steel, with its corollary of CECA based support systems, and in the context of the Marshall Plan and Nato (US) funded expenditure programs, meant that the steel companies of every single country of the CECA, which happened to be exactly the same six countries giving rise in 1957 to the

Common Market, could buy coal from any the CECA countries and could sell steel to any of them. This arrangement eliminated one of the main sources of economic conflict which marked the history of industrial Europe.

Recall now that the Bretton Woods system of fixed exchanged rates prevailed, that CECA programs of public subsidies were available for the restructuring and what have you of the respective coal and steel sectors, and that Marshall and Nato plans were in place²; remember also that steel has always been one of the most concentrated, hence oligopolistic, sectors in the world. Thus the CECA program implied the creation of a regular and non conflicting oligopolistic structure in the main industrial sector feeding both reconstruction and expansion, for the 6 European countries participating in it. Prices were set by mark-ups, and these were not altered by exchange rates risks since parities were fixed. Restructuring towards an Euro6 market was aided by subsidies, and the growth of the market was guaranteed by the expansion engendered by the Marshall + Nato plans and national policies. No need to fight, no need to occupy militarily steel in coal areas. It took a lot of American prodding to bring about all this and still the formation of CECA was not a full guarantee. France withdrew its forces from the Saar, a major German steel and coal area, only in 1957, in the same year the Common Market was formed.

The Steel and Coal Economic Community case is a good blueprint for the understanding of the dynamics of the Common Market till 1971. Essentially the said dynamics can be characterized as the formation of a European wide system of oligopolistic capitalism in which firms upgraded their productive capacities to service the expanding level of demand stemming from the Euro6. Interestingly, US multinationals played a pivotal role in this since in their expansion and location decisions they tended to treat the European market as a single whole. US multinationals, especially in the automotive sector, set up intra-firm networks that stretched across national borders and also across the boundaries of the EEC itself. Throughout the 1960s for instance, the Ford plant in Dagenham near London, when the UK was not yet a member of the ECC, supplied parts to the Ford plants in Cologne (Germany) and in Charleroi (Belgium). European companies by contrast tended to remain relatively more nationally focused even in the case of major exporters such as the German ones.

The regime of fixed exchange rates was crucial in allowing for the smooth unfolding of the oligopolistic dynamics since with fluctuating

² It was the merit of Charles Kindleberger to have pointed out that the Marshall Plan never ended as it became the Nato plan (Kindleberger , 1970).

exchange rates neither mark-ups nor oligopolistic market shares can be stabilized because of the risk of competitive devaluations, something that, as we shall see, happened in the 1970s and, unwittingly, in the 1990s. But the fixed exchange rates regime was not a product of European policy making as it arose from the US role at Bretton Woods in 1944. Indeed when in 1971 President Nixon ditched the Bretton Woods system, intra EEC economic and monetary relations became very tense and tended to worsen. Hence the question arises of whether the oligopolistic dynamics of the EEC was, until 1971, the product of the ECC or rather of mostly external circumstances.

During the 1950s, before the formation of the Common Market, European integration, stimulated by reconstruction programs which then turned into a long boom (Milward, 1992), proceeded at a high pace with Germany acting as the major exporter and as the factor revamping the whole interindustry matrix of the Continent (Halevi, 1995). In that decade there was an institution which operated as close as one could imagine to Keynes' idea of an international clearing union that the US Government rejected at Bretton Woods. That institution was the European Payments Union, formed in Europe in 1949 by the USA in order to receive the counterpart funds of the Marshall Plan. The latter was based on aid in kind which the recipient countries paid, but only to themselves, by issuing counterpart funds in national currencies which were deposited at the EPU. As reconstruction and economic activity picked up and as European currencies were not directly convertible, nor were capital accounts open to international transactions, the countries in surplus – usually Germany – would deposit their surpluses in the EPU which would then quickly recycle them into commercial credits. Fixed exchange rates, closed capital accounts, non convertibility and the fact that national money interest rates were not much above the rate of inflation, meant that the sure way to make profits was to lend and invest for productive purposes.

All this was occurring before the creation of the Common Market and the process involved the whole of Europe. The EPU allowed the smoothing out of the balance of payments constraint of the European countries. Just imagine what would have happened without EPU in the light of the mounting German surpluses with the rest of Europe. Other countries, such as Italy, would have had to forgo part of the expansion programs. Yet even the mechanics of EPU would not have been sustainable without the crucial support from the US Congress. Thus when the outbreak of the Korean War, by causing a steep rise in raw materials prices, threatened Germany's balance of payments, the US Government quickly injected half a billion dollars into EPU. The Korean War expenditure then became an important

factor in the revitalization of Germany's capital goods industry which sustained the process of Europe's industrial renewal. In other words, without the US injecting money into the EPU Germany would not have been able to surmount the balance of payments difficulties caused by the rise in raw materials prices and the Korean War would not have become such a strong stimulus for German production of capital goods.

In 1957 the Common Market came into being and on January 1st 1959 EPU ceased to function because currencies became convertible again. From that year onward there was no cushioning mechanism against balance of payments shortfalls. Surely and systematically the balance of payments constraint began to manifest itself in this or that country. With fixed exchange rates the way to deal with a balance of payments deficit is to reduce domestic demand which will reduce employment and imports. Meanwhile the lower rate of job creation will mitigate wage increases relatively to productivity. Firms could then both strengthen profit margins and reduce export prices. This was Keynesian economics in reverse based on the deliberate periodic creation of some kind of unemployment. British economists even invented a term for it: stop-go. Invariably, countries adopting stop-go policies would be pulled out of a recession by an export expansion increasingly directed towards Europe itself. However if every country were to adopt this policy the risk of converging all of them towards the same wait and see position would be high. When West Germany decided in 1965-66 to prevent a feared balance of payments crisis, simply because its surpluses were somehow dwindling, by creating a domestic recession and generating an export drive, the era of mutually compatible full employment growth for Europe and the Common Market countries was, in practice, over quite independently from the 1971 events.

Thus we see that that in the 1950s prior to the formation of the Common Market there were elements that sustained the European wide process of accumulation and growth in a way that ceased to exist in the 1960s. By the second half of the 1960s the major European economies were willing to ditch full employment objectives in favour of stop-go policies. Four main factors prevented this stance from turning into a systemic pro-recessionary orientation. Firstly, the existence of built in countercyclical programs due to the determination of the Common Market countries to expand their infrastructure, secondly the parametric role of development and income support policies for lagging regions and rural areas, thirdly, the world impact of US military spending mostly connected to the Vietnam War and Nato programs, fourthly, and very importantly, the general wage rise

which swept throughout Europe in the second half of the 1960s till the early years of the 1970s.

Contrary to ad hoc theories of the profit squeeze the general wage rise propelled the growth of the whole EEC economy³. Such a big burst in demand created investment which, as we know from Kaleckian theory, expanded profits. The general wage rise was the single most significant factor which prevented the EEC economies from implementing the stop side of the stop-go policies and it compelled them to adjust to a go-go stance.

The breakdown of growth and the onset of eternal stagnation

It is the crisis in the global world economy that bought about the end of the growth boom in Europe, not some alleged profit squeeze. What made Europe vulnerable was that it did not have an institutional mechanism to deal with balance of payments issues, as – *please take note* – it does not have it today under the Euro-Maastricht regime. The absence of an institutional agreement about balance of payments adjustments is not due to policy failures. Europe is made of several different capitalisms with similar but also highly specific and nationally shaped interests. The common institution known as the EPU worked in the 1949-59 decade because it was imposed upon the Europeans by the USA and it alleviated the European economies from the dollar shortage syndrome while enabling them to trade without being conditioned by external deficits. But these arrangements, essentially based on preventing international moneys from becoming a source of gains from purely financial transactions and hedging activities, rational as they may be, work under emergency conditions only. With the dollar shortage over by the end of the 1950s and with capitalist profits back onto a high growth path, Europe's capitalists wanted their money in the appropriate form of, as Keynes put it, abstract wealth. In a legally unified federal system this is possible, but Europe is not a federal system. There are no forces working toward it at the economic level. European capitalists were definitely willing to operate at the Continental level and wished to have

³ From 1960 to 1968 the annual average GDP growth rate of the EEC was 4.5% but in the 1968-73 period it was 4.9%. France's post 1967 strong growth, the highest among the big economies of Europe, created a minor deficit in the balance of payments - but only for the years 1968 and 1969 since afterwards till the oil crisis of 1973-4 the current account returned to a surplus. In Italy which experienced the greater wage rise, the current account remained in a hefty surplus till 1972 included while the growth rate stayed high but with cyclical fluctuations due to both the end of Bretton Woods and the social struggles without which wage increases would have been conquered. West Germany showed the most significant increase in the growth rate as well as a sustained surplus. If the EEC were a single country the outcome of the wage rise would have been unambiguously positive as the balance of payments constraint would have been less significant (*OECD Historical Statistics 1960-1981*, Paris 1982).

equal access to the whole of the European market, but no firm would have given up the priorities it obtained or could try to obtain through national institutions.

Thus after the US made EPU system was closed down, no movement towards a common EEC management of the balance of payments occurred. By the same token, today, despite the creation of the Euro, there is no movement towards a common management of fiscal transfers. The European Union's budget, being minimal in proportion to the GDP of the Eurozone, cannot replace the role of national budgets. But these are now increasingly divorced from the requirements of providing the fiscal transfers needed to avoid negative real adjustments when intra EU payment deficits occur. Hence the European Union is, from the economic point of view, in the same, albeit modified, institutional limbo as it was when the Bretton Woods agreements were jettisoned by President Nixon in 1971.

The fact that European politicians and business leaders - let us not forget that the process leading to the creation of the Euro has been shaped by the European Business Roundtable which is an informal but very real decision making body comprising of the major monopolistic corporations - can agree to a single market and to a common currency but cannot find a firm agreement on fiscal and balance of payments matters shows where the line in the sand is. In other words, it shows the European Union is a desired area for accumulation, but it is not seen as a space requiring mutually non-negative coordinated adjustments. The essentially neomercantilist nature of the old intra EEC relations, in place since the closure of the EPU and rendered more acute after the end of Bretton Woods, has not been removed by the creation of the Eurozone. Thus the trajectory from 1971 to 1999, the year of the Euro, is also the trajectory of the failure to establish a consistent system for Europe's oligopolistic capitalism. It is not by chance that although in 1971 the EEC was already not much smaller than the USA, the unravelling of the coherence of the common oligopolistic framework, for the construction of which US dictated fixed exchange rates were paramount, began with Nixon's decision.

The European predicament can be gathered by looking at the relation between the growth rate of GDP and the data on the share of fixed gross capital formation over GDP. More or less compatible data are provided by the *OECD Historical Statistics* updated every two years. That publication gives data for real growth rates as well as for the annual share of gross fixed capital formation over GDP which can be taken as a proxy of the share of investment over GDP, i. Consider now two periods with dramatically different growth rates but with similar values for the share of investment i.

Are we allowed to conclude that all that happened is a fall in the technical efficiency of investment, because of a rise in the capital intensity of production? In part may be, but not systematically because capitalists, being rational, will realize that the rise in the capital output ratio is not producing the required growth rate, thereby reducing the rate of profit. Hence they will try to modify the situation and lower the capital intensity of production again. Thus the fall in the growth rate despite the stable value of the share of the gross fixed capital formation over GDP is ascribable to the accumulation of unused capacity.

We can thereby define a trajectory of how successful are economies in adjusting capacity to demand under varying growth rates. Taking the golden age growth as a reference and using OECD data it is possible to split the 1960-2000 period into a golden age one spanning from 1960 to 1973 (no OECD data are available before 1960) and the post 1973 period when the break in the growth rates occurred. Over the 1973-2000 period, the least successful has been Japan who experienced the greatest fall in the growth rate and the smallest fall in the share of gross fixed capital formation. But Japan is followed closely by the EU as a whole, although much less by Great Britain. The same picture is obtained if we deduct from the share of gross capital formation the part going to residential construction. Private homes are not means of production. We are left therefore with the data for non residential construction and a big unspecified residual⁴. Thus on the basis of the data provided by the OECD, the European Union has been accumulating excess capacity much more than the United States and less than Japan. However if we exclude Great Britain and treat only the Eurozone the difference with Japan is not that big.

On this basis we can identify the set of conflicting forces which emerged after 1971 and after the oil price increase at the end of 1973, which for Europe, but not for the USA, was a true external shock.

The first element to point out is the difference in the behaviour between Britain the rest of the EEC . The Common Market was constructed as an industrialized and industrializing area with neomercantilist features

⁴ The residual is recent since until the mid 1990s the OECD divided the share of gross fixed capital formation into total, residential construction, non residential construction, machinery and equipment. Having stopped providing data for machinery and equipment the residual can be treated as a rough proxy but, given the problems of calculating hedonic prices, it is better to lump together as productive investment all what is left after deducting residential construction. We are taking the OECD data at their face value but in all honesty we should reject them and elaborate our own data instead. This is because OECD growth data are vitiated by estimating false production functions (see Thomas Rymes, 1971, *On concepts of capital and technical change*, Cambridge: Cambridge University Press).

towards itself. Until the formation of the Common Market for instance, Germany's exports towards the rest of the world grew more than towards Europe. After 1957 intra European trade, including the gravitation of Scandinavia, Austria and Switzerland towards Germany, grew more than trade with the rest of the world. In the following decades Europe increased its role as the main area of German surpluses with which German corporations financed their international investments.

In this context Britain joined the EEC in 1970 with the Kaldorian objective of embarking on an export led growth in manufacturing⁵. But no sooner the UK became part of the area with the fastest growing internal exports, the fixed exchange rate regime collapsed. If guessed properly variable interest and exchange rates allow for speculative gains to be made on international transactions. The private banking and financial sector becomes more interested in moving capital around to grab these casino-like gains rather than providing finance for real investment. The UK had the misfortune of harbouring one of the world's most powerful set of rentier interests centred on the City of London. The end of Bretton Woods in 1971 opened the way for a big come back of those interests rather, but not altogether, dormant during the long boom. Furthermore with the increase in oil prices and the beginning of the exploitation of the oil fields in the North Sea trading on futures expanded bringing many gains to the City while North Sea oil became the main area of new investment and the rest of the industrial production and investment stagnated. Thus as far as industry was concerned the causes of the slow growth rate became more acute, external markets could not be gotten and the whole game was centered on who would beat inflation first: firms by raising prices, or workers by raising wages?

Thus throughout the 1970s the UK showed the worse relation between GDP growth and the share of fixed capital formation (excluding residential construction) over GDP, a fact that suggests a dramatic accumulation of mostly unwanted unused capacity. The only effective benefit from being part of the EEC was not in a Kaldorian sense but in a financial one, since the planned liberalization of intra EEC relations, as outlined in the Treaty of Rome, increased, under conditions of forex and interest rates variability and petrodollar creation, the significance of the City of London for Europe's financial processes.

⁵ Nicholas Kaldor, the well known Cambridge University economist and founder of the Post-Keynesian theory of growth and distribution was a leading economic advisor to the Labour Prime Minister Harold Wilson. In his 1966 inaugural lecture he argued that Britain's low growth rate was due to a low share of investment and to a low rate of export growth in manufacturing. Britain could join the EEC because France lifted the veto over it.

While Britain battled its two and a half class struggle (on one hand the capitalists versus workers via the inflation struggle, on the other hand the City against productive capitalist investment and workers but eventually joined by the capitalists themselves thanks to Margaret Thatcher), two other main European countries were selecting the most congenial neomercantilist path vis à vis the EEC. Germany and Italy expressed two polar strategies reflecting the industrial strength of the former and the oil induced balance of payments weakness of the latter. Even before the end of the dollar convertibility into gold Germany opted in 1969 for a revaluation of the D-Mark to boost exports. This strategy was reinforced by the end of Bretton Woods and by the subsequent oil price increase leading to further revaluations of the West German currency. A stronger nominal D-Mark, it was officially argued, would compel overall restructuring which, given the capacity of the German capital goods industries to supply all the newer inputs and technologies, would result in significant productivity gains. Tight monetary policies would result in a level of unemployment which would then discipline wages. The rise in productivity unmatched by an increase in wages would reduce the costs of production. Furthermore revaluation would mitigate the rise in the cost of imported inputs such as oil, and would lower the price of the intermediate products imported from the rest of Europe.

Hence, given the mark ups, prices would decline and exports would expand. The German strategy was therefore oriented towards using nominal revaluation to attain real devaluation. But this result could be achieved only if a thick interindustry network of capital goods industries was in place without any other European country or group of countries having the structural capacity to outdo German equipment. This condition was easily met since there are very few firms in Europe that can do without German machinery, whereas many German firms do not need as much machinery from the rest of Europe. However the success of the policy of exporting via real devaluation required also that other countries would devalue their currency less than in proportion to the rate of inflation. In other words the German strategy was predicated on a real structural hegemony towards the rest of Europe and on the condition that the other currencies would undergo real revaluation.

Italy's own neomercantilist path torpedoed the German strategy. After the oil price increase the Bank of Italy devalued the Lira in tandem with inflation which was fuelled by both the increase in energy prices and in wage costs. The central bank made however sure that the currency would fall relatively to the D-Mark but rise relatively to the US\$, thereby reducing the impact of energy prices. Since the bulk of Italy's exports were directed

towards Europe, the devaluation of the Lira relatively to the D-Mark unambiguously helped Italian exports at the expense of Germany's. By the end of the 1970s Italy attained a strong overall export surplus in merchandise, also in the balance of trade with Germany, and the highest growth rate in Europe. The implications of Italy's strategy were bad for Germany but potentially disastrous for France with ominous implications for Germany's export oriented pattern of accumulation.

In France the wage increases obtained through the strikes of May 1968 sustained not just a boom in demand, but pushed the Gaullist government of President Georges Pompidou, elected in 1969 after de Gaulle's decision to retire in the wake of the strikes of 1968, to embark on an intense infrastructural development. This was consistent with de Gaulle's idea of a strong France, both economically and militarily, as a prerequisite for a special axis between Paris and Bonn. It is on this basis that Charles de Gaulle succeeded in recomposing the consensus and interests of France's bourgeoisie towards Europe and away from the colonial interests which mired the country in the wars of Vietnam and Algeria. In other words, for France the construction of a European space with West Germany – but also by staring at Germany straight in the eyes with nuclear armaments, while developing warm relations with the USSR – and the possession of a strong industry, were the only ways to expand the dominance **within** France of French capitalism and to overcome all the socialistic – by then mostly represented by the Communist Party which polled above 20% – and Jacobin elements present in France's polity since 1789. Thus de Gaulle strategy towards Germany and Europe entailed a profound restructuring of France's capitalist groups and of the social orientations of the rather fascistic French bourgeoisie. Western Europe was to be the terrain for engendering the political victory of the bourgeoisie, this time once and for all, in the class struggle **within** France.

The events of May 1968 weakened the all embracing confidence in the hegemonic power of the Gaullist project, but they did not derail it. Unsure of their absolute control over the domestic scene and witnessing Germany's growing economic prowess and Bonn's new openings to the USSR, the Gaullists dropped their opposition to Britain's entry into the EEC. At the same time, sustained by the wage induced boom, they expanded the infrastructural modernization of France. As a result, after the collapse of Bretton Woods in 1971 and even after the oil shock in 1974 France's share of investment over GDP rose. Yet, the growth rate fell although till the end of the 1970s it remained above the EEC average and above Germany's but lower than Italy's. This means that from a structural perspective France

struggled to keep its rate of investment and modernization up succeeding also in achieving a surplus in the current account. However France's policies were also profoundly deflationary spreading its effects throughout Europe.

The policies of the Gaullist governments of the 1970s can be seen as a Maastricht-Euro process *avant la lettre*. In addition to being rooted in the ideology of France's financial conservatism, France's policies reflected the view that along with a strong industry and a strong nuclear military industrial complex, French capitalism would have to have a currency not inferior in terms of its value and of its acceptance to the D-Mark. The French Franc and the D-Mark should converge towards a stable parity. These ideas were already expressed in one of the first blueprints for a European common currency known as the Barre report of 1970 after the name of France's Prime Minister Raymond Barre. But the revaluation of the D-Mark in 1969, the further revaluations following the collapse of Bretton Woods and the oil shock, were pushing the objective of stability in the parities into the high seas. Thus France was caught between the need to defend the parity and the necessity to let it fluctuate. The instruments used were just those practiced two decades later during the convergence process towards the Euro. France implemented a budget austerity program which kept the deficit in proportion to GDP, inevitable given the impact of the falling growth rate on the rate of unemployment, at almost one fourth the level of Germany's⁶. On the whole France's contribution to Eurostagnation was not smaller than that of Germany and perhaps even higher. Germany had a bigger external surplus but a much bigger domestic deficit as a percentage of GDP.

With Italy undermining the German strategy of nominal revaluation to achieve real devaluation, France's ruling classes could not possibly stabilize the value of the Franc relatively to the D-Mark. This is because Italy's devaluations were affecting French exports as well; especially since there were then many sectors where the two countries overlapped and competed directly on the European markets. It therefore follows that the more the Italian strategy of devaluation was successful the more difficult would have been for France to avoid similar devaluations. And had France embarked on the systemic devaluation path, Germany would have found itself facing two monetary fronts: the depreciation of the US dollar after 1971 and the competitive devaluations of its two major trading partners. Thus, couched in the grand rhetoric of *la construction européenne*, Chancellor Helmut

⁶ From 1974 to 1979 the average annual government deficit to GDP ratio was a paltry -0.8% in France as opposed to a -3% in West Germany

Schmidt and President Valéry Giscard d'Estaing decided in 1979 to launch the European Monetary System.

Institutionalizing oligopolistic financial capitalism in Europe

The EMS

The EMS was set up to avoid a currency war between France and Germany and, in the process, to protect Germany's main space of profitable realization. The story of the EMS is known. It collapsed in 1992 and 1993 in the wake of the effects of unification upon Germany's interest rates policies. The demise of the EMS reopened the situation frozen upon its formation in 1980 but in a context in which the German process of capitalist accumulation stalled without being superseded by the rest of Europe.

The expansion of the EEC/European Union to Spain Greece and Portugal in the early 1980s and, during the first half of the 1990s to Austria, Finland, and Sweden did not change the basic axis of the evolution of Western Europe's political economy. The three Southern European economies have a weak autonomous basis of accumulation, being mostly characterized by a weak balance of payments and by sectors which are not central to accumulation on the world scale⁷. In general therefore these three countries benefited significantly from their membership of the European Union by going into overdrive and undertaking profound progressive transformations.

Austria entered the European Union after the end of the Soviet Union and the consequent end of the special neutral status it had since 1955 when the USSR and the other allied powers withdrew from its territory thereby restoring its sovereignty. The terms of the agreement between the USSR and the Western powers over Austria contemplated strict neutrality preventing it from participating in political, military and economic blocs. However, by mid 1960s, if not earlier, Austria's industrial and financial system was fully integrated with that of Germany. Furthermore, still in the 1960s a series of agreements with Italy concerning the normalization of the status of Süd Tirol/Alto-Adige, institutionally anchored Austria to both Italy and Germany (the State of Bavaria was involved in the normalization process). One could therefore argue that by joining the EU Austria

⁷ Excluding the European multinationals owning the Spanish automotive industry and excluding also Spain's participation in the Airbus Industries consortium.

formalized a *fait accompli* while accepting unnecessary additional constraints.

Deep economic integration among themselves and with Germany and Britain characterized the Scandinavian countries well before they joined the EU in the 1990s. Norway stayed out but the country is also fully integrated with the rest of Europe⁸. Moreover Sweden's position in the world economy was already well established both macroeconomically as an export oriented industrial economy, and in terms of its brand names: from Saab planes to Volvo cars, to electronics. For Sweden joining the EU had more a political than an economic significance. Perhaps the EU mattered for Finland because the end of the USSR, which used to mop up a great deal Finland's otherwise unsold output, produced a big recession. But the high-tech path to recovery and growth taken by that country would have been achieved even without membership in the EU. Thus the dynamics of European capitalism still depends on the same three old guys plus Britain playing the *libero* through the City of London.

In this context it is important to recapitulate the main significance of the EMS and why its collapse reopened the situation of the 1970s but with Germany in a profound crisis of direction.

The EMS did exactly what Italy was trying to avoid. The high inflation countries experienced real revaluation. Since budget expenditures were high, demand expanded but imports increased even more. For a while this process was concealed by US high interest rates and high military budget deficits which generated a growing deficit in the US balance of payments. The EMS countries had their currencies tied to the value of a common accounting unit called Ecu which meant that their currencies were tied to the D-Mark. After 1985 following the Plaza accords in New York, the US dollar began a decade long decline induced by interest cuts from the Federal Reserve. The decline in international interest rates did stimulate expansion in Europe but it also highlighted the sensitivity of European exports to the value of the dollar. The degree of that sensitivity differed however from country to country. It was less for Germany than for France. But the currencies of the EMS were tied to each other by virtually fixed parities. By 1989 Germany accumulated the largest current account surplus in its post war history being above 4% of GDP, 60% of which stemmed from trade with the rest of the European Community. But unlike the 1950s when surpluses were quickly recycled through the EPU and the German economy

⁸ As shown by the general strike of few years ago (??) which blocked the production of BMW cars in Germany because of the high technology car components produced in Norway.

was growing more than the rest of Europe, the accumulation of German surpluses occurred with Germany's growth being among the slowest in Europe.

In the 1960s, with the EPU shut down, balance of payments deficits were adjusted by betting on the success of stop-go policies. But in those years institutionally fixed exchange rates prevailed. The EMS was not a system of institutionally fixed parities. The agreement to set it up was political but its maintenance required economic measures. Hence the way in which the deficit countries could sustain their external deficits was to attract capital by means of higher interest rates. Furthermore the higher the inflation differential, the higher was the real revaluation of the country's currency, the higher the external deficit and the higher would have had to be the interest rate needed to attract the required capital. The reappearance of the German surpluses in a context of slow growth in Germany, and with capital mobility, induced by high interest rates, adjusting the external deficit made the EMS into a disaster waiting to happen. And happened it did.

Romano Prodi, today known to the wide public as the head of the European Commission until the end of 2004 but originally a professor of industrial economics at the University of Bologna, published in 1990 a very good essay on German surpluses as blocking the whole macrodynamic process in Europe. He also pointed out that the hefty balances strengthened the integration between banks and industrial concerns reinforcing the oligopolistic power in the German economy. Clearly written before the fall of the Berlin Wall, Prodi's essay worked on the assumption that Germany's slow growth and its balances would eventually drive Europe to a complete halt, unless external markets were found. But China was not yet around, not for Europe at least.

To be sure something of a boom was occurring in the German economy which may have helped the rest of Europe. The German growth rate picked up substantially rising from 1.7% in 1987 to an annual average of 3.5% for 1988-90. An even stronger increase took place in France although limited to the 1988-89 biennium. We will never know whether it could have continued because the whole process was broken down by the drastic deflationary policies implemented by Germany after the unification leading to the collapse of the EMS. It is likely that the German and European miniboom of 1988-1990 had some of the main features of the Japanese stronger boom also occurring in the same years. To sustain the US financial and stock market system which was being deflated by the post Plaza fall in US interest rates and in the US dollar, both Europe and Japan created a great deal of liquidity which found its way into real estate speculation. By 1991

the bubble was being pricked by the Bank of Japan, starting the endless Japanese stagnation. The same might have happened in Europe, who knows, suggesting that the boom of the last years of the 1980s did not have lasting features.

At any rate the German unification put an end to all this. Why? Official explanations center on the rising inflation rate. They are not wrong but not for their stated monetarist reasons. The EMS allowed Germany to protect its exchange rate against the European competitors. Countries with higher inflation rates, all of them except the Benelux, saw their currencies subjected to real revaluation vis à vis the D-Mark. In real revaluation there is a kind of Argentinian effect, a sort of exhilarationist boom. People buy more, travel more, spend more. In Argentina this process, albeit circumscribed to a limited section of the population, initially generated domestic growth. Countries like Italy and Spain experienced the same phenomenon on a much larger basis. Real revaluation caused imports to rise and at first it also sustained growth. By the end of the day German exports soared and the deficit countries had to finance their shortfalls through capital movements offering lucrative interest rates. With German inflation rising under the miniboom, the real devaluation of the D-Mark was reversed. The unification made things worse, not so much via inflation, but because it involved a shift from exports to more domestic demand. By the end of 1990s Germany's current account surpluses, for the expansion of which German authorities and German corporations labored indefatigably for 4 decades, were dwindling and by 1991 they were in the red. They were to rise back to a surplus position only in 2003. Thus from the end of 1990 the Bundesbank stepped in by increasing interest rates blocking expansion and destroying the EMS.

We come here to a crucial point. The German pattern of capitalist accumulation pitted – from the big export counteroffensive of 1966 and the D-Mark revaluation of 1969 – the internationalization of German capital against domestic demand. That was and still is the German model of accumulation. The reason why domestic demand is seen to be clashing with exports and the reason why export growth is privileged is to be seen in the political economy of German foreign investment and of German money. Foreign investment obviously expands the world oligopolistic power of Germany's big corporations and, unlike the American case, it is also viewed as a way to fuel German exports. The financing of this process is considered to depend upon the accumulation of German surpluses and not upon the issuing of liabilities. The German banking system de facto operates on the

basis of credit rationing favoring the international investment of those companies which can pay for it via their export surpluses.

Hence the picture of German capitalism can be evinced quite straightforwardly. A nominally strong currency based on price stability is the best condition to obtain a real devaluation of the currency through the mobilization of Germany's prowess in the capital goods and technology sectors. German policies of implicit, but very visible, credit rationing constitute also a pistol pointed at the head of the unions inducing them to come to productivity enhancing agreements. Germany then minimizes the issuing of liabilities against itself while the banking sector finances international investment via the surpluses. Thus even if domestic demand generates stronger growth it may be viewed as a bad thing compared to guaranteeing exports and foreign investment outflows into the wider world. The miniboom of the late 1980s and the absorption of the GDR threatened to kill this strategy and indeed they killed it. Since then German policy makers and managers are at a loss but they absolutely do not want to give greater room to domestic demand expansion as they still believe in the old model of accumulation which gave so much power to their AGs.

The Interregnum: 1993-1998 convergence to a common currency via Eastern Europe.

Having lost the surpluses Germany began to behave like the deficit countries by increasing interest rates, thereby raising abruptly the value of the D-Mark, but with the specific objective of smothering domestic growth. So, high interest rates yes, exhilarationist growth no! The end of the Eastern bloc generated a new set of objectives which required a lot of money. Thus the world had to consolidate its faith in the strong D-Mark and had to throw money onto Germany. The authorities, government and businesses alike would invest and open up Eastern Europe, the Balkans and even the Ukraine. The surpluses would not have sufficed anyway but now that there weren't any, money had to be attracted by appealing to both lucrative and confidence instincts. The first were served by high interest rates, the second by deflationary policies. Meanwhile the powerful German industry would do its job: it would turn out newer machinery and technologies and with the pistol of unemployment directly at the head of the workers, wage bargaining would be subdued. Productivity will rise and price stability will ensure real devaluation once more. The export surplus will be back with Germany having now acquired a whole new area of economic and political influence stretching from the Baltic states to Turkey. Clearly the surpluses had to

come from Western Europe while the East was being conquered. It did not happen that way.

The collapse of the EMS - in two steps in 1992 and 1993 - opened up a process which nailed down Germany even more than the competitive devaluations of the 1970s. The following factors determined the worsening of the German crisis. The first was the burden of East Germany, the impact of the absorption resulted in a very rapid deindustrialization of the East and the transformation of that area into a destination of transfer payments estimated at around 3% of German GDP. The second factor was the repetition within the European Union of the 1970s as far as Italy was concerned. Until 1992-3 under the EMS Italy experienced a worsening balance of payments because of the real revaluation of the Lira, but after 1993 with the collapse of the Lira exports soared, as did also those from Spain. But the major beneficiary was Italy. The third factor consisted in that other countries, and especially France, undertook systematic restructuring so that Germany's effort to regain ground became more costly. The fourth factor was Germany's inability to mitigate the deficit with Asia.

By contrast, the elements which helped the general European performance were located in the growth of the United States as well as in the revaluation of the US dollar in 1995, undertaken to save Japan from the collapse of its US dollar denominated asset structure as well from the squeeze on the profit margins on its exports. Finally the exhilarationist growth in Brazil and Argentina, which pegged, albeit differently, their currencies to the US dollar resulted in current accounts deficits primarily oriented towards the European Union. However all these elements did not help restore European growth which remained, for self evident reasons, tied to the state of demand in each country. Furthermore, the positive international factors did not help Germany's balance of payments as much as one would have thought given the immediate responsiveness of German export production to the expansion of international demand.

The country's current account balance remained in deficit until 2002 mostly because of the insufficient export expansion towards the European Union and because the economic situation in Eastern Europe turned out to be very different from what had been dreamed about. With the end of the USSR, German corporations and the German government looked at Eastern Europe as an area to restructure in order to expand the domain of German exports and increase the export capacity of those countries in sectors deemed redundant in Germany. In this way a low wage German controlled Eastern Europe could have become a source of net exports to the rest of the world, including to the rest of the European Union, while being in deficit with

Germany. For what they are worth, the international accounts of the Eastern European countries do show a deficit with Germany, but that's about it. The desired synergies did not happen except with smaller countries, and in very specific sectors, such as Hungary, the Czech Republic and Slovakia. On the whole the impoverishment of Eastern Europe and the consequent fall in local demand rendered the German surpluses with that area very secondary, incommensurably smaller than the importance assigned to the area by German policy makers and corporations.

It must be observed that in the same way as Germany engineered a change in the whole posture of Western Europe without involving the institutions of the EU, Germany also developed the economic strategy all by itself, although the monetary policies attached to it affected the whole of Europe. This aspect was not lost on the country which had most at stake: France.

Here it must be recalled that on the equipollence between France and Germany rests the cohesion of French capitalism and of the French bourgeoisie with the French State. This cohesion was restructured and reshaped by the Mitterrand presidency which moved France from the state to the market, as it were. From the nationalizations, which reorganized France's big business into the private corporations and banks of today, to the tight integration of the elite schools (Grandes Ecoles) with the high ranking functionaries of the State, and the latter's transformation into CEOs of the major public as well as private companies, Mitterrand's two presidencies played a role which was by far more in continuity with de Gaulle's strategy than were his followers Pompidou and Giscard d'Estaing. The parity or, rather, the equipollence with Germany was at the basis of all that and marked France's position in Europe including the military one. And on this last aspect it should be noticed that France has the most complete military industrial complex in Europe which operates as a meso-system being the operational junction between the State, the civilian economy and the major industrial groups⁹.

We can now appreciate how Germany's unilateral decision to absorb the GDR, and the almost concomitant and fateful decision to support, in 1990 and 1991, the unilateral session of Slovenia and Croatia from Yugoslavia, move opposed but not resisted by both Britain and France, cut deeply into the view of the world of France's ruling groups and classes and dented the way in which they perceived their own position in the world and,

⁹ *L'armement en France : genèse, ampleur et coût d'une industrie* / François Chesnais, Claude Serfati. - Paris: Nathan, 1992.

above all, in Europe. Germany was therefore not to be allowed to go alone. That is the crux of the acceleration in the tempo and the doggedness regarding the formation of the Euro.

The Bundesbank believed that by enforcing a policy of high interest rates, entailing a high D-Mark, German industries, would forthwith undertake the needed restructuring which will eventually restore the conditions for a persistent external surplus. Although after 1993 merchandise exports did move back to net surplus this was due more to a fall in German demand than in the success of restructuring. Just the same the outflow of money from Germany increased more than improvements in the merchandise balance so that the deficit kept worsening.

To defend the parity of the French Franc with the D-Mark France followed the policy of the Bundesbank raising interest rates from 1990 throughout 1992-3. But this situation was exposing France to two intertwined pressures. The first was that interest rates had to be higher than in Germany because France has a big financial sector much less tied to industry than the German counterpart. This sector always whipped up the fairy-tale that France is more inflation prone and less reliable than its neighbour. But this very characterization of France, engineered by the financial sector itself, was a factor reducing the credibility of the policies. Hence France began to experience a net outflow of investment income, contrary to the earlier steady build up of inflows from investment undertaken abroad. The second source of pressure was that maintaining the parity with the D-Mark was exposing many French companies, especially the small and medium ones, to the competition arising from the countries whose currencies devalued, these were mostly Italy and Spain.

For the above reasons the situation after 1993 was perceived in France as becoming increasingly unbearable. But also in Germany, precisely because merchandise net exports were not growing fast enough to make up for the outflows, the high value of the D-Mark was attracting growing criticism, in particular from the small companies hard hit by the Italian competition based on a low Lira. As detailed by Marcello De Cecco in a number of articles in the Italian daily *La Repubblica*, a de facto coalition emerged between the disgruntled German industrialists and a wide array of economic forces in France led by the quintessential synthesis of French capitalist interests, the former president Valéry Giscard d'Estaing. The most significant pressure came from the French side, although the government remained silent just wedded to the policies of the Banque de France, which argued that unless Bonn reversed the Bundesbank's stance, France would have to abandon the parity with the D-Mark.

That old fox of French politics and, more recently, the head of the EU committee drafting the European Constitution, won the gamble with Chancellor Kohl and the Bundesbank's policies were abruptly reversed starting a devaluation of the D-Mark which was then channelled into the convergence towards the lock-in Euro parities. Coming from a coalition headed by Giscard d'Estaing the threat was more than credible and sent a frisson down the spine of Germany's establishment. The truth is that without the equipollence between France and Germany Europe ceases to be the safest area of effective demand and surplus accumulation for German capitalism. Germany could cope with a dancing Lira, as they used to say in Italy, but it could not cope with a serious devaluation of the French Franc because of the much wider industrial structure of France.

Eurostagnation

If a proof is needed that lowering interest rates does not necessarily call forth investment, it comes from the European events following the 1996 decline in the D-Mark and the formation of the Euro in 1999. After 1995 the surplus of Germany's external balance in goods and services grew steadily as a percentage of GDP, never however reaching the pre 1990 level. But by 2000 it collapsed again and recovered massively from 2002 to 2004. What was the role of the currency realignment towards the Euro lock-in exchange rates in all that? Not so clear because German exports started to boom after the end of the US expansion and with Europe in greater stagnation. Thus the rise of German exports after 1995 was due only in part to the intra-European realignment. US growth, the dollar revaluation to save Japan, and the exhilarationist growth in East Asia, as well as in Argentina and Brazil played a role too. But Europe remained in stagnation with growth picking up a bit from 1997 to 2000. In other words the realignment towards the Euro and the decline in interest rates did not stimulate much activity within Europe which tends to become increasingly dependent upon external markets, a rather bleak prospect given the combined size of the economies concerned.

Europe seems to confirm Rosa Luxemburg's point that capital accumulation cannot hang from its own bootstraps. The Maastricht criteria, enforceable only in the Eurozone, have got a lot to do with it, but they are not the whole story and not even half of it. The crux of the matter is that Europe is not a single entity and the process of economic integration was based on oligopolistic neomercantilist criteria of a de facto beggar thy neighbour attitude. Only during the EPU period neomercantilism receded into the background.

The currency realignment towards the Euro changed however the composition of the balance of payments of the other two major economies, France and Italy. As the Lira rose towards the lock-in exchange rate Italy quickly saw its current account surplus dwindle and becoming negative in 2000. Since the deficit kept increasing as a share of GDP. The same phenomenon happened with Spain only in a more marked way, considering that Spain never had significant surpluses. This brings us to suggest that the currency realignment and the decline in interest rates did very little for the European macroeconomy, but they did change the intra-European picture.

Initially it was thought that France was the big winner. The Socialist government of Lionel Jospin even boosted that France was the new economic anchor of Europe, and they also issued a report about nearing permanent full employment when unemployment was still at 9%. Indeed France reached a large surplus in the current account, while in the 1980s it tended to be in deficit. The self assured attitude of French authorities was due to the fact that all the main branches of the French economy were gaining from their international transactions. The goods and services sectors were in surplus as well as the inflows of incomes from investments undertaken by French companies abroad. Germany by contrast, while struggling to reach a positive trade account, could not stem the negative flow of investment income. In France this situation, regardless of stagnation and persistent unemployment, was viewed as positive. The attainment of external surpluses on industrial and financial fronts strengthened the institutional cohesion of France's capitalist classes measured in relation to the German stalemate. It strengthened their confidence in the technocratic capacity of the French state and its ability to exercise greater influence in European matters. The issues of unemployment and of what was then called 'social exclusion' did not count except in periods of elections.

But most of the feeble dynamics of the 1997-2000 period was due to external factors located in the USA, South America and East Asia, with China becoming a growing pole of attraction. Yet by 2001 the European Union was mired in an unprecedented state of stagnation with growth below the insignificant 1% of GDP. It is in this context that German surpluses made their reappearance in full. With a growth rate not much above zero Germany is reaching a surplus in the current account of similar proportions to the share attained 1980s. But clearly with a much lower growth rate a bigger external surplus is an even stronger factor of stagnation and demand deflation for Europe as a whole. To the resurgence of German surpluses corresponded a loss up to negative levels for France and Italy, while Spain and Britain saw their deficits widening further still.

Thus Romano Prodi's views expressed in 1990 are valid again only that now in the Eurozone there is no transfer mechanism to deal with the issues. Furthermore the cumulative stagnation in which Europe finds itself prevents the reappearance of the surpluses from acting as a force of cohesion for German capitalism. Prodi's argument was that while the German surpluses of the 1980s were a problem for Europe they were also the expression of the strong integration and cohesion between banks and industry in Germany. German surpluses were therefore a weakness for Europe but a manifestation of the prowess of German capital. This dichotomy is no longer applicable. Germany is unable to restart its process of accumulation via exports. This is the main reason why despite the net surplus investment income remains negative. Why should German companies investing abroad bring back their money when Germany is stuck in stagnation?

At present there is no way out from the European stagnation not even the mythical view about trade with China since its impact will be uneven. Although for China the European Union has become the first trading partner, for Europe China is still an economy with a size smaller than France's. Moreover China tends to privilege imports from East Asia and Japan. It is with this area that China shows a trade deficit. Hence Europe and the US must be a source of surpluses. Within Europe China privileges imports, often undertaken by the respective multinationals, from countries with high technology sectors such as Germany, Scandinavia, Austria and Switzerland. Countries like Italy and Spain do not have multinational companies using their home base to supply equipment and technologies to their affiliates in China. Hence those countries, like Britain, tend to be more exposed to deindustrialization and to a growing deficit with China. China's growth cannot be the panacea for Europe's stagnation. European companies have always been dynamic and innovative and still are now. It is the European macroeconomy, hence Europe's capitalism, which is stuck and cannot get out of the morass by itself.

By the same token there is no Keynesian alternative to European stagnation because the issue is not that of propping up blindly any type of effective demand. This is due two reasons: one structural and one class based. The structural reason is linked to a Keynes-Kalecki-Sweezy point that in economic system rich in physical capital the fruits of industrialization cannot be systematically channelled back to the capital goods industries but must go elsewhere towards non capital accumulating activities, which, of course, is not in the interest either the corporations or the financial sector.

The second reason is purely Kaleckian, I mean the Kalecki of the celebrated 1943 essay “Political Aspects of Full Employment”. The growth of effective demand must not be labor/wage earners empowering, since such a tendency will call into question the power of capital over labor especially in periods of crisis and of capital restructuring. The notion of the power of labor over capital developed by Karl Marx in one of his best set of writings, *The Economic and Philosophical Manuscripts of 1844*, is particularly relevant for the European experience from the beginning of the long boom to 1979 if we wish to select the year of Thatcher’s election as a watershed date.

Contrary to the view propagated by soft-minded left liberals in the UK, the European, including France’s Mitterrand, political and economic leaders looked with envy at the class war launched by Thatcher’s government. However the European leaders thought that they would not be able to emulate her and that such a class war in countries like France, Germany and Italy would quickly move out of the formal constitutional parameters in an unpredictable direction when the geopolitical context was still that of the Cold War. Thus the European leaders of the three large core countries opted for a long march towards neoliberalism. It is not by chance, *par hazard*, that the main architect of the European Constitution - which might as well have been written directly by Mr Blair - was former president Valéry Giscard d’Estaing flanked by Giuliano Amato of Italy. They both represent the continuity of the etatist policies of the *trentes glorieuses* with the transition to institutionalized neoliberalism. Profits obtained as a result of the growth of effective demand but with a declining power of capital over labor are much much less valuable than less profits obtained with a growing power of capital over labor. That is the crux of the matter in Europe.

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