A credit-money and structural perspective on the European crisis: why exiting the euro is the answer to the wrong question.*

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Man mag noch so eingezogen leben, so wird man, ehe man sichs versieht, ein Schuldner oder ein Gläubiger
(J.W. Goethe, *Die Wahlverwandtschaften*, Zweiter Teil, Viertes Kapitel)[1]

1. Introduction

This paper presents an analysis of the crisis combining a Marxian and a Financial Keynesian perspective. Both are framed in a long-run, structural perspective of the capitalist dynamics. Each crisis erupts because of the contradictions in the idiosyncratic factors explaining the ascent. We are experiencing the crisis not of a generic Neoliberalism or a void financialisation, but of a money manager capitalism, which was built upon a concentration without centralisation of capital, new forms of corporate governance, aggressive competition, a capital market inflation, indebted consumption. A world able to gain in new forms the same good (or rather, bad) old exploitation, to provide internally demand, and to present itself as a stable Great Moderation. It can be characterised as a financially privatised Keynesianism, based on a new monetary policy and a new autonomous demand driving the process, a configuration which was necessarily unsustainable. Its crisis is evolving from a Great Recession to a Lesser Depression.

After a couple of Sections summarising a few specific features of Neoliberalism and giving a general scenario of the global and European crisis since 2007-2008, in later Sections we shall discuss some specificities of the euro crisis which is not due mainly to the current account imbalances, nor to government public deficits, even not the euro in itself. Our focus will be the changes in finance and industry in the last 15-20 years: how so-called financial imbalances are dealt within the Eurozone as a monetary union and unique system of payment; and how the restructuring of German manufacturing created a transnational value chain in production and a new geography of industrial and trade relations between, roughly, the Centre-North, and the South-West of the European continent. We shall draw some preliminary conclusions about the controversial topic of exiting or not the single currency.

"Is an exit from the euro possible? Is it desirable?" This is one of the questions the Grenoble workshop wants to address. We think that to deal with this question what is needed is a preliminary but thorough

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* This first draft is based on the papers by Bellofiore listed in the bibliography, on Garibaldo (2014), and Mortagua. There are, as Neil Young would say, some "borrowed tunes" (from Lavoie, and Simonazzi et al, Toporowski, Wray, and many others) which we think very much fit, and enrich, the story we want to tell. We benefited from the continuous dialogue with Joseph Halevi. This paper was presented at the international workshop on **Full Employment in Europe: With or Without the Euro? In Grenoble, May 15 -16, 2014**

[1] Let us live in as small a circle as we will, we are either debtors or creditors before we have had time to look round. (Goethe, *Elective Affinities,* Book II, Ch. 4

critique of the views on the European crisis which are most widespread in Postkeynesian circles. The heterodox approaches more and more underline the role of EMU's design faults which have allowed Germany and its satellites to pursue a Neo-mercantilist strategy, accumulating huge current account surpluses, recycled as capital flows to the periphery to debt-finance their deficits. On this outlook the Euro crisis is mainly a Balance of Payments problem, caused by cumulative differences in relative prices which have led to distinct growth strategies: export-led in the core, and debt-led in the periphery, focused on consumption and real-estate investment.

As with most heterodox approaches we accept, as a baseline scenario, that i) public debts are the consequence and not the cause of the European problems; and that ii) the process of asymmetric integration interacted with the growing financialisation to create different national economic structures and subsequent modes of existing in the EMU. We also agree that the strategy of real deflation through austerity and labour market reforms is a disastrous option which, in the end, might become the ultimate cause of the problem this strategy is trying to avoid in the first place - the collapse of the EMU. This is not to say, however, that everything has been said, not only on the mainstream side but also on the heterodox side, about the euro-crisis. If Neoclassicals are far from understanding and, even more important, far from incorporating everything that went wrong with the existing models, on the other side, usually (and wrongly) labelled the Postkeynesian one, there are aspects worth discussing and some other which deserve more attention.

Both interpretations overlook some defining features of current monetary economies, in general, and some specificities of currency areas: (1) in a monetary union, with a common payments and monetary system, where reserves are endogenously generated by the creation of credit, it is not possible to have a 'normal' Balance of Payments crisis; (2a) a distinction must be made between *financing* and *saving,* so that, even if it is true that under-consumption in some surplus countries is compensated by current account deficits in others, this does not mean that investment and consumption in deficit countries cannot be financed in different ways, which are independent of their current account positions; (2b) the view, according to which trade surpluses are the origin of financial imbalances in deficit countries, implies an underlying causal relationship *from* the trade balance *to* the capital balance which seems quite unlikely in a world where trade transactions capture only a small fraction of transactions across jurisdictions, all of which requiring financing; (3) current accounts, based on *net flows,* exclude underlying changes in gross flows and their contribution to the existing stocks of debt, including all transactions involving only trade in financial assets.

If we wish to really deal with the European/Euro crisis we have also to deal with the *structural* divergences in the European economy. Too macro-aggregated approaches not only lose sight of a credit-money perspective on so-called current-account imbalances in the Euro-area; they also miss the structural hidden divergences related to industrial processes, and the way policies influenced the later, under the cover of Southern versus Northern countries (or GIIPS versus Germany and its satellites). The process of industrial restructuring in Europe going on between the Maastricht treaty and the explosion of the global crisis is crucial, and Germany has played a key-role. Most of the increase in Germany trade relations is towards Eastern and Central Europe, not the 'South'. The nature of this European-wide process, in the broad framework of the financial deregulation policies and the new institutional features of the global trade, is one of the roots of the European-crisis specific features.

The changed European landscape must be rooted in the different industrial policies in the various 'internal' areas originating a varied composition of industry with a geographical dispersion of transnational value chains, with divergent technological policies, with a hierarchical redefinition of the dynamics of industrial sectors and related outsourcing. To make sense of the Europe today and its crisis we have to take into account the geographical and technological composition of intra-European trade.

2. Neoliberalism out of the myths

The issue to be faced first, and usually sidestepped by economists (including very often the heterodox ones), is: which kind of capitalism went in crisis in 2007-2008? A more sensible answer than the one widespread among the economists' tribes is most easily found in the discourse of political scientists or sociologists. We here review, in a very succinct way, three readings of what truly was the so-called Neoliberal capitalism. Without exiting the current *vulgata* about Neoliberalism as *laisser faire* or the incarnation of Neoclassical mainstream theory what follows in this paper cannot be understood in its true import.

The first reading we recall is the one recently proposed by Wolfgang Streeck in his *Gekaufte Zeit. Die vertagte Krise des demokratischen Kapitalismus* (Streeck 2013). The book was published in the original German at the beginnings of 2013, and translated in Italian a few months ago, unfortunately with the rather deceiving title *Tempo guadagnato*: it has just been printed in English as *Buying time. The delayed crisis of democratic capitalism*, by Verso, and in Portugal as *Tempo Comprado*. As some reviewers have remarked, it may seem rather odd that such a radical book comes out from some who was advisor for the "Bündnis für Arbeit" of Chancellor Gerhard Schröder, leading to devastating labour market and social security reforms. Streeck was in the forefront of the pressures for institutional reforms to forge a more competitive and flexible low-wage service sector in Germany modelled on the USA. Whatever are the reasons for the U-turn, Streeck's Adorno upbringing eventually resurfaced in an analysis that goes back to the great theoretical debate about crisis in capitalism: not only as an economic crisis, but also as a legitimation crisis.

It is important that Streeck begins his narrative about the divorce between capitalism and democracy not since the 1979-1980 Volcker-Reagan-Thatcher's counter-revolution, but before, the late 1960s and the 1970s. It is a Kalecki-inspired view, where the re-emerging capital-labour antagonism (in distribution and within the labour processes of valorisation) and the consequent tendency to a crisis were contrasted "buying time" through money. The capitalist class mounted, in the Great Stagflation decade, a successful resistance against the conditions it had to accept after 1945 in order to remain politically acceptable when challenged by an alternative economic and social system. This authentic "capital strike" was a symptom of a legitimation crisis leading to a long goodbye of capitalism from democracy, under the new capitalist configuration of Neoliberalism. It is what Streeck calls a pattern of de-democratising capitalism by de-economising democracy, which after 1980 went through a succession of phases. The beginning of the Neoliberal revolution was marked by a rise in public debt and a curtailment of social and democratic demands. The tax cuts to "starve the beast" paradoxically turned the beast itself, the State, into a permanent debtor, forcing it to restrain social expenditures and obey the dictates of the financial markets (first dominated by government bonds, afterwards by stocks, and later on by housing). Against citizens (what Streeck calls the first constituency), the (second but) true constituency became the creditor class, demanding higher and higher value-appreciation of their savings, i.e. of their other assets. This led at first at a succession of crisis at the periphery, but more and more the financial crises spread to the centre.

In fact, crisis itself became the main instrument for the international financial elite to conquer political power through their "delegates". It followed a consolidation phase, where the State and the public plus social sphere were transformed so to meet the financial markets' expectations: governments have to pay the creditor class before protecting citizens. In what are the weakest (though intriguing) pages of his book, Streeck sees in the euro the paradigmatic example of this dynamics, turning his sad but true picture of the social and political hollowing out of democracy in the euro-zone into a too careless jettisoning of the single currency, seen as the culprit of everything, and into a too easy appeal to popular insurgence.

The second perspective on Neoliberalism which we see as fundamental to understand its true nature is the one put forward in his inquiries on this socio-economic new capitalist project by Philip Mirowski. Here it will suffice to remind some of his 13 commandments of the Neoliberal doctrines as he list them in his last 2013 book, *Never let a serious crisis go to waste* (Mirowski 2013). Here they are:

(i) Neoliberalism, contrary to classical liberal doctrine, knows well that the conditions for the existence of the 'good society' must be constructed and that they will not come about naturally (even though exactly this, Neoliberalism as *laisser faire*, must be marketed ideologically as a slogan);

(ii) within this approach, which is of course quite constructivist, German "ordoliberalism" argues that competition needs to be directly organised by the State, by embedding the "free" market into other social institutions;

(iii) "biopower" is deployed to make bodies more responsive to market signals; the reference here is to Foucault's notion of governmentality, of political interventions "making" subjects as long as they are able to be ruled;

(iv) this Neoliberal project thereby is not all willing to destroy the State, rather it powerfully redefines its shape and functions, what has been called by Jamie Peck a kind of "regulation-in-denial", where marketization of government functions is sold as a shrinking of the State;

(v) in Neoliberalism the citizen is nothing but a customer of State services, so that the rule of law turns into the ideal market;

(vi) *homo economicus* is nothing but an entrepreneur of himself; the subject is once again constructed as somebody who has somehow to manage how to be simultaneously subject, object, and spectator – 'the neoliberal self dissolves the distinction between producer and consumer';

(vii) there is no meaning about a self-realisation in society, freedom is the use of knowledge in society but not about society;

(viii) capital (not labour) has a natural right to flow across national boundaries, so that capital controls are thoroughly resisted by Neoliberals even after the 2007-2008;

(ix) inequality of economic resources and political rights is a necessary (permanent) feature of the ideal market system;

(x) corporations can do no wrong, and monopoly was due to the misguided activities of the State or political pressures;

(xi) the market is the solution to the problem the market itself creates;

(xii) Neoliberalism expands the repressive powers of the State since the poors have so little to lose;

(xiii) Neoliberals are more than willing to accommodate their views with the religious right and theocons.

In a nutshell, Neoliberalism has nothing to do with classical liberalism nor *laisser faire.* As once again Foucault said even before Volcker, Reagan and Thatcher, Neoliberalism is not Adam Smith; Neoliberalism is not market society It is rather a constructivist, political and State-driven project creating rather than registering an allegedly "natural" equilibrium respecting individual preferences. It is

the opposite, "biopolitically" it builds the same individuals corresponding to the presumed human nature they actually impose from above.

On the background provided by Streeck and Mirowski, it cannot come as a surprise the third reading of Neoliberalism which we suggest, and which was put forward by Colin Crouch after the crisis, for example in his book *The Strange Non-Death of Neoliberalism* (Crouch 2011) - many of its elements, as Crouch recognised, were actually anticipated even before him (and before the crisis) by Bellofiore and Halevi. The provocative label Crouch employs since 2008 for the Neoliberal configuration of capitalism, "privatised Keynesianism", was employed in 2007 at a London Marxist conference, and at a Dijon Circuitits and Postkeynesian conference; moreover it exactly correspond to Bellofiore and Halevi's "financial Keynesianism" of their writings since 2005, or even before.

Let us recall Crouch's main points as he himself summarised them in a 2009 article. New practices in financial markets had the result of separating individuals' consumption behaviour from their labour market income. These financial innovations, very often originated with different purposes, facilitated consumer debt, either backed by collateral or completely unsecured. In the Anglo-Saxon countries (in particular, USA, UK and Ireland) three conditions were met. 'The first was a general rise in home ownership funded by mortgages, giving individuals on moderate and even low incomes forms of collateral partly independent of labour market position. The second was the growth of secondary financial markets that enabled the risks associated with housing and other forms of debt (such as credit cards, which were growing during the same period) to be shared among an increasing number of players in the financial markets. The third was a gradual deregulation of financial markets on a global scale, which enabled more and more players and holders of different kinds of funds to enter these markets. Eventually risks were being shared so widely that collateral requirements on mortgages, credit cards and other forms of debt became nugatory' (Crouch 2009). Borrowing was thus detached from labour market and income.

'The system – Crouch continues - can be seen as a market-generated functional equivalent of government demand management – a form of "house price Keynesianism" (Hay et al 2008), or "privatized Keynesianism" (Bellofiore and Halevi 2009[2]; Crouch 2013). However, whereas under straight Keynesianism (to be considered below) government used its own borrowing to smooth fluctuations in labour income over time by sustaining the level of employment, under privatized Keynesianism consumption is sustained by separating purchasing power from labour income among individuals, and with no time horizon. Borrowing is undertaken by individuals themselves on the basis of property mortgages or credit card ratings largely divorced from labour market situation. The collective goods element in this practice – the maintenance of consumer confidence – has meant that public policy eventually became involved in sustaining it. The model depends on continued housing market buoyancy, and governments may intervene to ensure this situation. This regime is vulnerable to eventual questioning of the value of the risks being traded, as was demonstrated in 2007-09 in a financial crisis of global scale.'

3. A quick reminder of the global and European crises

Neoliberal capitalism during the so-called Great Moderation decades was a paradoxical kind of "financial and privatized Keynesianism" (Bellofiore 2013; Bellofiore and Halevi 2012, Bellofiore, Garibaldo and Halevi 2011). To understand why and how it led to the Great Recession we have to look deeper into the features of what Minsky labelled "money manager capitalism". With governments trying to reduce their deficits everywhere, in the US the household sector became a net borrower, and the non-financial business sector a net lender, during the 1990s and early 2000s. Though household'

[2] Bellofiore-Halevi 2009, as quoted by Crouch, was actually published in 2012, in the proceedings of the 2007 Grenoble conference, and corresponds to a 2005 Italian paper, published in 2006.

saving behaviour in most Anglo-Saxon countries was helping to counter stagnation, banks lost their best customers. Financial innovations won the day: they reduced risk individually, but increased it globally (the paradigmatic example being, of course, "subprime" lending). In terms of social class relations, these dynamics had devastating consequences. Workers were "traumatized" in labour markets and within capitalist labour process, so that the Phillips curve was flattened. Wage-push inflation was not anymore a problem. Price inflation in the goods market rather came from "commodities": raw materials, oil, and so on. Pension and institutional funds fostered a "capital asset inflation" which - at least for a while - was hedging ex post corporations' balance sheets. Instability was hidden under the carpet, the appearance being of a seemingly stabilized economy: the unsustainability of the process was however growing more and more. Savers entered into a "manic" phase, deceived by assets' appreciation, while the propensity to save out of income dramatically fell. "Indebted" consumers internally boosted effective demand, thereby providing outlets to Asian and European Neo-mercantilisms.

This phase is often labelled a renewed "financialisation" age. It should be better understood as a real subsumption of labour to finance. The reason is that workers' and lower income households' reliance on stock exchange and banks, and more generally the fictitious capital bubbles, had quite non-fictitious effects: not only on effective demand, but also on firms' corporate governance and on real production. The traumatization of workers' in the exploitation arena and the worsening distribution for wage-earners were sterilized in their effects on aggregated demand, but the subordinated incorporation of households' within capital's financial dimension retroacted on working conditions, with a lengthening of the social working day and the intensification of labour. This "subsumption" of labour to finance was "real" not only because it affected production and valorisation within the labour processes; it also transformed the relationship between banks and firms, and endogenously boosted effective demand. The resulting full employment was not characterised by "decent" wages and stable jobs. It was, instead, a "full under-employment", with unemployment penetrating into the employed labour force through the spreading of part-time and casual/informal occupations.

Wage deflation, capital asset inflation and the increasingly leveraged position of households and financial companies were complementary elements of a perverse mechanism where real growth was doped by toxic finance. It was not a stagnationist, feeble capitalism, as often argued by Postkeynesians and Marxists. It was instead a rather dynamic configuration, capable of manufacturing consent and yielding hegemony. The US 'overspending' consumer matched the US 'overworking' job-earner. Growing debt had its ultimate raison d'être in the insufficiency of income to support consumption of non-manufacturing goods and services. This caused an escalation in expenditures generating rents for the financial sector. Being based on a burgeoning private debt, the process was unsustainable and collapsed a first time with the dotcom crisis. The risk was already there that savers turned from the "manic" to the "depressive" phase, with households reducing consumption to reduce their debt exposure. But this risk was avoided with a return to military Keynesianism (after September 11th) and then to a revised form of the asset bubble-driven privatized Keynesianism. This second bubble phase ended rather quickly.

The new monetary policy was unable to make ends meet in inflation, considering oil and raw material prices. Although capital asset prices were not considered a problem – and wage inflation was not on the agenda – commodities price inflation worried the Federal Reserve and other Central Banks; and from 2004, the Fed began to increase interest rates such that by 2005 US house prices softened. The proliferation of subprime mortgages, with the enticement of poor households to enter the financial swamp, was an attempt to keep the real estate bubble inflating by any means. The hope that the increase in borrowing costs could be offset by a further rise in asset values, thereby expanding the value of the collateral used in loan applications, faded away. The widespread view that opaque securitization packages would efficiently distribute risk and that the emerging countries' savings would cover the deficits of the United States, Britain, Australia and Spain, were revealed to be a double deception. This

time the 'depressive' phase was irresistible, and the economy fell into the biggest crisis since the Great Crash.

It was precisely the indebted consumer, that had served as the engine of growth in US-centred money manager capitalism, that at the same time provided the final consumers for the exports of the Neo-mercantilist economies of Japan, Germany and other parts of Europe, and more recently China. When the subprime crisis broke out in July 2007, toxic finance spread throughout the world. The collapse of inter-bank relations augmented the negative impact of a. European finance was the first to crumble; and with a lag, the large exporting countries were severely hit by the plummeting demand of indebted US consumers. The consequent sharp reduction in China's growth impacted hugely on Europe's main manufacturing nations, with Germany and Italy at the forefront, dissolving any illusion of a 'de-linking'.

For Europe the neo-mercantilist approach, together with a process of industrial restructuring, was the way to manage the effective demand constraint trough a current account surplus of the balance-of-payments. The surplus was not evenly distributed within the EU and the Eurozone, with a clear advantage for Germany and its satellites. The profits resulting from this position of advantage were invested abroad along two different paths: directly, from each country into USA "toxic" finance; but also in Europe, fostering the existing financial and real imbalances. For European (especially French and German) banks and finance the Treasury bonds of the European periphery played a role similar to subprime loans in the USA between 1999 and 2008.

The European neo-mercantilist model was put under severe stress soon as the USA and Southern European export markets collapsed, between mid 2007 and mid 2008. After a brief Keynesian interlude between the late 2008 and early 2009, the turning of private debt into public debt originated pressures to cut public expenditures. The spread of austerity and the domino effects after the Greek crisis beginning in 2010 put into the open the fallacies in the institutional design of the euro. Not only the arbitrary ceilings to Government deficits and the debt to GDP ratio, but also the rules denying the European central bank the possibility to buy government bonds. As Bellofiore and Toporowski (2011) write the Eurozone has a central bank without a government, governments without central banks and banks without an effective lender of last of resort. With a regime of low inflation, now turning into deflation, and without the possibility of expanding government balance sheets, the system had no mechanism for eliminating excessive debt in the economy.

In this paper we want to extend and go deeper into this perspective, taking into account some characters of the current global capitalism and of the changing European reality which are somehow underestimated in the present debate, too much focused on trade imbalances. We therefore have to take under scrutiny the deep modifications in the structural productive configurations of different European areas, and the transformation in finance and balance sheets. As we will see, these considerations put the challenging question of the destiny of the single currency under an entirely new perspective.

4. Trade imbalances: the mainstream consensus (old and new)

The bulk of the intellectual production within the EMU institutions and scholars has been devoted to the conditions necessary to assure stability within the monetary area. Among them, special attention was given to the role of: (i) fiscal surveillance and discipline; (ii) price stability-oriented monetary policy; (iii) financial markets integration and development. It must be remarked that until the development of the "sovereign debt crisis", the build up of external trade and financial imbalances within the Eurozone went unnoticed.

Such blindness is the result of the prevailing Neoliberal consensus supported, first by the theory of Optimum Currency Areas Theory, according to which the complete financial integration and capital

mobility would absorb any future external shocks within EMU[3], and more recently by the Neoclassical growth theories, in particular the inter-temporal approach to current account. According to the latter view, current account imbalances in low income countries are the necessary outcome of the convergence process. One way or the other, an attitude of "benign disregard" towards the external accounts of Eurozone countries seemed justified. According to the above neoclassic models, based on optimising and forward-looking households and firms, current accounts balances are always consistent with efficient resource allocation, as long as excessive public deficits or other (nominal) distortions don't prevail.[4] According to this "consenting adults" view, imbalances are self correcting as long as they reflect the result of private free market decisions: an outlook which has been prevalent in the analysis of cases, such as the imbalances in the Eurozone (until the recent crisis), the USA or the Australian economy. The consensus prevailed, and until the onset of the crises, Eurozone external imbalances were interpreted as a sign of the correct functioning of the integration process and not as an indicator of inappropriate macroeconomic management.

When, towards the end of 2009, became increasingly difficult to ignore Europe's own and internally-generated difficulties, national and fiscal policies were seen as the main root of the external imbalances within the EMU. A new consensus has emerged around the idea that is necessary to "reassess the sustainability of government finances (...) but that the exclusive focus on fiscal sustainability is unwarranted and insufficient to understand the issues facing the euro area" (Holinski et al, 2012, p. 2). Trade imbalances have gained a renewed attention, as they have started to be seen not as a reflection of a successful convergence process, but the result of nominal rigidities and market distortions which led to the accumulation of large stocks of foreign debt (Giavazzi and Spaventa, 2010)[5]. This new consensus represents a *revisionist* approach to the role of current accounts in a monetary area (Collignon, 2012).

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[3] In the European Commission's Report on the Union's first decade, current account imbalances were mentioned only in passing. The former president of the European Central Bank, Jean-Claude Trichet asserted that financial integration was a very important shock absorber. Economic agents can invest more easily in any part of the euro area and thereby spread the risk of potential local shocks having an impact on income and consumption. As the euro area investors assign more weight on portfolio investment in euro area countries - and banking integration grows as well - risk sharing in the euro area increases.

[4] 'To the extent that they are countries with higher expected rates of return, poor countries should see and increase in investment. And to the extent that they are the countries with better growth prospects, they also should see a decrease in saving. Thus, on both counts, poorer countries should run large current account deficits, and, symmetrically, richer countries should run larger current account surpluses.' (Blanchard and Giavazzi, 2002, p.148). In this rather famous paper, Blanchard and Giavazzi concluded that economic and financial integration facilitate the inter-temporal adjustments in saving and investment decisions that lead to the benign current account deficits as countries go through the convergence process. If the marginal product of capital is higher in countries where the stock of capital is smaller, investment will depend on the cost of borrowing and the evolution of the terms of trade. Financial and economic integration will improve both these conditions, by lowering the cost of borrowing and increasing the elasticity of demand. Additionally, greater integration was expected to increase competition and, therefore, total factor production (TFP), generating better growth prospects which, together with a greater offer of financial products, would lead to a decrease in saving. In conclusion, 'both financial and goods market integration are likely to lead, in poorer countries, to both a decrease in saving and an increase in investment, and so to a deterioration of the current account balance' (p.12). Finally, the authors note that for the inter-temporal mechanism to work without major consequences in terms of output, prices must be flexible: under flexible prices the increase in the account deficits comes with real appreciation, followed by a depreciation in the second period, when trade surpluses will be necessary repay the debt. If prices don't adjust, the attempt of consumers and firms to repay their debt will lead to a decrease in the output bellow its natural levels, generating the needed trade surplus.

[5] In 2010, Giavazzi and Spaventa published a paper claiming that the external payments situation of member states was disregarded and balance of payments problems not considered in the monetary union. They criticise the view put forward by traditional convergence models, such as Blanchard and Giavazzi (2002). The authors make a reference to the point made by Ingram (1973) that the external account will be irrelevant as long as the "proceeds of external borrowing are used for (...) productive purposes" and add that to use deficits to finance "unemployment compensations or other income maintenance programs by external borrowing would be asking for trouble" (Giavazzi and Spaventa, 2010, p. 6). These important differences between productive and unproductive purposes of foreign borrowing have been lost in the EMU. As a consequence, the inter-temporal solvency constraint was not respected: today's (past) liabilities were not matched by future (today) (discounted) current surpluses.

The peripheral countries in the Eurozone (Ireland, Greece, Portugal, Spain and Italy) are charged with having allowed for excessive nominal wage growth (that exceeded productivity), relatively to the core countries. Higher nominal unit labour costs caused higher inflation in those economies, deteriorating its competitive power and introducing disruptions in the way the monetary policy operates at the European level (Mongelli and Wyplosz, 2008, p.15). These distortions led to a real exchange rate appreciation where should have been a depreciation, reduced exports and redirect demand from domestic to foreign goods. At the same time, the behaviour of real exchange rate also had an affect o the structure of production, favouring non-tradable sectors. The existing consensus is now that "the imbalances that matter for the stability of monetary union are the result of either fiscal profligacy - as in Greece and to some extent Portugal - or of an unchecked expansion fuelled by capital flows feeding unsustainable growth of the non traded sector - as in Ireland or Spain" (Giavazzi and Spaventa, 2010, p. 14). When markets became aware of such unsustainable patterns, these countries started facing problems with their balance of payments (Giavazzi and Spaventa, 2010; Sinn, 2012; Carney, 2012).

This is somehow the argument made by Merler and Pisani-Ferry (2012) who portrait the Eurocrisis as a classic sudden stop, known in the context of emerging markets. Due to reasons other than productivity differentials, foreigners refuse to provide capital or residents are unable to generate enough liquidity by selling domestic assets. They argue (rightly) that the current account developments are insufficient to understand this period, since peripheral countries have received substantial official - financial - support to compensate for the massive outflows of capital after 2007. 'Troika' loans in Ireland, Portugal and Greece, and TARGET2 loans in all the peripheral countries have covered the internal balance of payments crisis in Europe. This was only possible because the financing structure of these economies suffered from a bias towards portfolio debt securities and banks loans, which are, by definition, more sensitive to market conditions than foreign direct investment. According to Sinn, TARGET has been the mechanism through which the Eurosystem and the Bundesbank in particular have been 'lending money to the crisis-stricken Eurozone members (...)'(Sinn, 2011a, 2011b, 2012).

The crisis has thus changed the official narrative and, after public debt, trade imbalances gained a central stage in the process, as they have started to be seen not as a reflection of a successful convergence process but the result of price rigidities and unsound fiscal policies. Current Account imbalances led to accumulation of large stocks of foreign debt and, when sovereign markets collapsed, risk aversion among private investors left large funding gaps unfilled. The sovereign and external debt led to a balance of payments crisis, which proportion would have been catastrophic if it was not for Target flows and Troika loans, which have replaced private capital flows in the peripheral countries of EMU.

More recently, a second trend has developed, based on the idea that the focus on current accounts misses 'the spectacular evolution and integration of international financial markets over the past quarter century. Global imbalances are financed by complex multilateral patterns of gross financial flows, flows that are typically much larger than the current account gaps themselves' and 'entail potential stability risks that may be only distantly related, if related at all, to the global configuration of saving-investment discrepancies' (Obstfeld, 2012, p.3, 5). The main thesis behind this growing literature is that current accounts exclude changes in the Net International Investment Position (NIIP) resulting from an increase in the volatility of non-flow factors, such as the effect of price shocks on large stocks of foreign assets. The focus is on the economic significance of NIIP, which is still mostly determined by current accounts, but suffers an increasing influence of factors connected with the growth in gross flows (and corresponding stocks).

5. Trade imbalances: the heterodox approach

Heterodox alternatives to the dominant analysis have always argued that monetary integration and capital market liberalization are unlikely to bring convergence. The heterodox approaches to the eurocrisis can be divided into two main groups. The first focuses mostly on the design faults of the EMU and its theoretical foundations. The very institutional setting of the EMU contributed to aggravate existing structural divergences among member countries and was responsible for a process of overvaluation of these currencies in relation to core countries. These design faults led to an asymmetric process of integration, fostered by financial flows, which undermined peripherals countries capacity to compete in the international markets creating current account imbalances. Probably the most important line of criticism concerns the role of the ECB in the defective structure of the Eurozone: 'the Eurozone has a central bank without a government, governments without central banks, and banks without an effective lender of last resort' (Toporowski, 2013, p. 572). Arestis and Sawyer pay special attention to the differences in terms of national unemployment levels, and to the deflationary bias imposed by the Stability and Growth Pact.

The second group of heterodox critics includes all those analyses that, albeit in different ways, discuss the European crisis in the context of a finance dominated capitalist regime. These alternative views see the European crisis mostly as a balance of payments problem originating in the precarious integration of peripheral countries into the Eurozone and exacerbated by the financial and banking crises. The sovereign debt problems are not the cause but the consequence of such dynamics.

Perhaps one of the most stringent criticisms to the mainstream approach included in these analyses arises from the Post-Keynesian view of financial balances. According to Godley's three balances approach, or the financial balances approach, the sum of the difference between income and expenditures of each of the sectors of the economy must be zero: as long as a country can preserve a trade surplus and a balanced (or deficit) fiscal account, its private sector will be accumulating financial assets (or claims on the external and public sectors). Two main implications can be derived from this financial balances analysis. The first is that the explosion in public deficits in the Eurozone did not happen because of governments' chronic mismanagement and profligate behaviour but as a consequence of the shift in the balance of the private sectors towards a surplus, as a consequence of the deleveraging process forced by the financial crisis. Secondly, for the accounting identity to hold, external financial balances surpluses in one country must be matched by external financial balances deficits in other countries. This is the main reason why it is almost impossible for all the countries in the Eurozone to run current account surpluses in the same way that Germany does it.

It is consensual among the heterodox that one of the main causes of the European crisis relies in the German Neo-mercantilist strategy: "the pursuit of economic policies and institutional arrangements which see net external surpluses as a crucial source of profits" (Bellofiore et al., 2011). It is a Luxemburg-Kalecki model, or, according to Lucarelli (2011), a Kaleckian foreign trade model, in which Germany relies on the deficits of peripheral countries to generate demand for its own exports.
It is also undisputed that, in face of a process of wage compression and decreasing labour share of income fostered by the process of European asymmetric integration different regimes of "capitalism under financialisation" (Hein, 2012) emerged in the Eurozone. First, the export-led type, or what was called above, the Neo-mercantilist type, in the core countries: Finland, Germany, Austria, Netherlands, and Belgium. These countries have showed positive private surpluses, matched by deficits in the external sector (corresponding to an outflow of capital and positive current accounts), and generally balanced public budgets. The peripheral countries, on the other hand, engaged in domestic-led and debt-led regimes. In general, both regimes are associated to current account, private sector and public deficits, but only in the first case these deficits are related with high levels of debt-financed consumption. Ireland, Greece and Spain are usually seen as part of the first group; Italy and Portugal as part of the second. Moreover, these "growth strategies" were based on the expansion of consumption and/or household debt, in the case of countries like Portugal and Greece, or of corporate investment, mostly in real estate sector, in the case of Spain or Ireland.

Although orthodox and heterodox are, of course, completely different approaches, based on alternative theoretical backgrounds, in both, trade imbalances assume a centre stage. However, the specificities of a monetary union, in which reserves are endogenously generated by the creation of credit, question the validity of the argument that the euro crisis it's just one more balance of payments crisis. Moreover, the stress on current accounts fails to capture the relevance of financial flows in the EMU, and its relation with saving and investment decisions, which we have argued is a crucial dimension.

Even authors within the mainstream realise that the focus on current account balances misses 'the spectacular evolution and integration of international financial markets over the past quarter century. Global imbalances are financed by complex multilateral patterns of gross financial flows, flows that are typically much larger than the current account gaps themselves" and "entail potential stability risks that may be only distantly related, if related at all, to the global configuration of saving-investment discrepancies' (Obstfeld, 2012, p.3, 5). In this way of looking at imbalances there is a disregard of the changes in the net international investment position (NIIP) resulting from an increase in the volatility of non-flow factors, such as the effect of price shocks on large stocks of foreign assets.

6. Towards a truly credit-theory of money perspective on external imbalances

We argue that these views that put trade imbalances in the centre miss to fully integrate the role of money and finance into their analysis. From the mainstream point of view, those theories based on the NIIP represent a major_evolution when compared with the traditional approaches, but don't break with its main assumptions. NIIP works as a national constraint, meaning simply that the net present value of the future excess of imports over exports has to be equal to net holdings of foreign assets. As for the determination of (still) the most important component of NIIP: "at any point in time, the size of current account imbalances is limited by output sizes and the size of predetermined international assets and liabilities – but there is no limit to the number of times funds can be recycled in different forms between Home and Foreign". As put by Bonizzi, the main idea is that "there is a preset stock of 'funds' that can be exchanged internationally several times, thus making gross flows several times higher than their net difference" (Bonizzi, 2012, p.7). In the end what we have is an upgrade of the well known 'loanable fund theory': gross capital flows might trigger or amplify specific phases of the cycle, but they have a "real basis", determined by "real" economic decisions of saving and investment. This analysis seems to fail to understand that the focus on saving/investment relations is not suited to a credit economy, where credit takes place and has 'free will', well beyond real consumption decisions. Underlying this real analysis rests the idea of money neutrality, so embedded in the neoclassical theory.

This view resembles what the mainstream considers the 'normal' case of bank deposits creation, in which credit is based on existing resources. In fact, this is a 'soft' version of a *commodity theory of money*, what has named a *monetary theory of credit* (Toporowski 2013). It is an instance of a *real analysis*, the essence of the neoclassical growth models, which have also inspired the OCA theory, both crucial to the process of monetary integration in Europe. As argued by Schumpeter (1954), such analytical framework applies to a world "in which real investment can only be carried out of transferring real resources from saving units to investment units". We are rather in favour of what Schumpeter called *monetary analysis*, where money is not secondary, but introduced on the very ground floor of the analytic structure. It cannot be reduced to a veil or distortion of the quantities of commodities, because it has a life of its own, and affects all the essential features of the capitalist process: even the same constitution and quantitative determination of real magnitudes. Schumpeter was right in thinking that it is not sensible to start from the metal or the coin (or even, nowadays, from fiat money as legal tender and proceed to credit (a monetary theory of credit), and it is better to start from debt/credit relationship – that is, from capital *finance* as a clearing system that cancels debts and credits and carries forward the

difference – with money payments as a residual consequence (this is what Schumpeter called a *credit theory of money*[6]). These are not historical statements, they are logical ones[7].

In reality, capital flows cannot be addressed as a stock of pre-existing endowments, necessary to carry on production and investment, in high productivity countries. The loanable funds theory doesn't hold in a world where, as demonstrated by the modern heterodox monetary theories, the circuit of production is a monetary phenomenon: the starting point is the endogenous creation of credit, *ex-nihilo,* which will be validated by future production/expenditure. It seems obvious, therefore, that we must look at current account determination and imbalances from a monetary perspective.

There is no intention here to go deeply into the heterodox thinking of money. Suffice to say that there are two main lines of thought: one focusing on the role of money as store of wealth, linked to the liquidity preference theory in Keynes' *General Theory*; and a second one based on the endogenous nature of money and circular flow of money in the economy, stressed by old and new circuit theory of money. Despite the (very relevant) differences between modern theories of money, these have in common the fact that they put forward a *monetary analysis*, in which money matters: either because liquidity can affect those credit-debt relations that determine the stability conditions in the economy; or because it is a key factor in starting and shaping the circular process of capitalist production. This means that, into the analysis of money, one should take in consideration two very distinctive functions: money as (bank) credit, the result of decisions relative to production and investment; and money as wealth, the result of savers choices among different assets according to their liquidity preference. These two are not the same, as assumed by the mainstream theory, and the source of the confusion relies exactly on the difference between *saving* and *financing.*

The distinction between saving - income not consumed - and financing - access to purchasing power - is crucial to assess the centrality of current accounts in the explanation of today's imbalances. Current accounts 'capture changes in net claims on a country arising from trade in real goods and services and hence net resource flows. But they exclude the underlying changes in gross flows and their contributions to existing stocks, including all transactions involving only trade in financial assets, which make up the bulk of cross-border financial activity. As such, current accounts tell us little about the role a country plays in international borrowing, lending and financial intermediation, about the degree to which its real investments are financed from abroad, and about the impact of cross-border capital flows on domestic financial conditions' (Borio and Dysiatat, 2011, p.1). According to Borio and Dysiatat the common association between (global) current account imbalances and the financing of credit booms implicit in the majority of the analysis is misleading. In a closed economy, saving simply captures all the income not consumed, therefore, the only way to increase saving is to produce something that is not consumed (i.e. to invest). And to do so, one needs financing. This means that 'in ex post terms, being simply the outcome of various forms of expenditure, saving does not represent the constraint on how much agents are able to spend ex ante' (*ibid.*, p.7). This constraint is determined by financing conditions, which are not necessarily related to the levels of saving or the direction and dimension of current accounts. As noted by Toporowski (2012, p.8), 'most economists today have forgotten, if they ever learned, the conclusion of Withers, that loans create deposits or, in the version of Kalecki and partially that of Minsky, that loan-financed investment expenditure creates its own profits and equivalent income deposits in the banking system' (Toporowski 2010). It is only when money is spent that investment and income are created. And it is only then, at the end of the circuit, that saving appears.

[6] In a monetary analysis/credit theory of money perspective 'money prices, money incomes, and saving and investment decisions bearing upon these money incomes acquire a life and importance of their own, and it has to be recognised that essential features of the capitalist process may depend upon the 'veil' and that the 'face behind it' is incomplete without it' (Schumpeter, 1954, p. 278).

[7] Cf. Bellofiore 1985 on Schumpeter's views on money.

In a open economy, current accounts register the net capital outflow/inflow which is, from the accounting point of view, equivalent to the difference between saving and investment. But this accounting equivalence does not mean that: (i) there is a link between global financial intermediation and current accounts; or that (ii) 'real' saving and consumption decisions determine the type or direction of financial flows. In the same way, current accounts don't tell us: (i) the extent of investment that is financed from abroad, or (ii) the contribution of offsetting gross flows to the existing stocks of debt and sectoral imbalances. Within this outlook it is important to consider that countries in the Eurozone share the same payment system: 'a cross border payment between banks in two countries in the euro zone automatically generates balancing credit claims between the national central banks (NCB) and the ECB. This is the mechanism that irrevocably unifies the former national currencies, converting a set of currencies whose exchange rates are merely fixed at par into a single currency' (Garber, 2012, p.2). Even though a technical feature such as a payment system does not suffice in order to create a new currency, the existence of a common payment system has important implications in terms of the macro monetary structure of the EMU. In the case of a monetary union, as long as the liabilities created by individual NCB remain equivalent and valued at par, there is no limit to the amount of reserves the Eurosystem can create.

A similar point has been raised by Marc Lavoie (2013: 19-20): 'In general, the European central bank and its national central banks would provide central bank money on demand. The problem in the eurozone is not that money is exogenous. Money there is clearly endogenous. The problem is entirely linked to the rules and conventions that forbid or strongly discourage the ECB and the national central banks of the eurozone to purchase government securities on primary or secondary markets … the ECB has to act as a residual buyer or seller of eurozone government securities. Otherwise, the eurozone governments would be at the mercy of the financial markets' whim. Granting banks unlimited amounts of (three-year) loans, as the case was during the two long-term refinancing operations of late 2011 and early 2012 so that banks would buy sovereign debt, cannot act as a substitute for central banks' purchases of government securities. … The problem with the eurozone does not arise from the operations of the clearing and settlement system, the TARGET2 system. TARGET2 was, in fact, well-conceived.'[8]

The first point is, therefore, that in a monetary union such as the EMU, with a common payments and monetary system, where reserves are endogenously generated by the creation of credit which needs not to be backed by any commodity, a balance of payments problem looses some of its meaning. This is not to say that individual countries might not face payment difficulties, however, and until the Central Bank has exhausted all the means at its disposal to prevent a collapse in payments, these difficulties will mainly be a matter of liquidity rather than solvency – though, admittedly, in a big crisis and in a debt deflation/balance sheet recession, becomes harder and harder to delineate a liquidity crisis from a solvency crisis.

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[8] The point is confirmed, rather than disconfirmed 'by the analysis of capital flight out of the southern towards the northern countries of the eurozone, which has occurred with the advent of the global financial crisis. Deposit holders have been moving their balances from southern to northern banks of the eurozone, fearing default on the sovereign debt of south-European countries, and worrying that the commercial banks in these states would endure heavy capital losses, defaulting as a consequence. It also turns out that several of the south-European countries, currently under pressure from speculators, experience a negative current account balance within the eurozone. Normally, such imbalances would be absorbed by northern banks granting loans to southern banks of the eurozone, which process would continue unhindered as long as the borrowing banks remain creditworthy. Indeed, the short-term net external position of banks acted as the main offsetting factor in the balance of payments within the eurozone. What is now happening is that northern banks are declining to provide loans to the southern banks through the overnight market or other more long-term wholesale markets. Still, the clearing and settlement system continues to function' (Lavoie 2013: 20). Lavoie, quoting Garber, adds that 'there is no limit to the debit position that a national central bank can incur on the books of the ECB; that is, its liabilities with respect to the rest of the Eurosystem are not limited. […] Thus, these imbalances could go on forever' (Lavoie 2013: 22).

Two other factors seem crucial to access individual macroeconomic situations within a monetary union. The first refers to liquidity conditions in the markets, which are related, on the one hand, to the institutional design of every monetary area and, on the other, to the circulation of gross flows. The accumulation of foreign reserves through trade surpluses is no precondition for the stability of the system, as long as there is a central bank willing to act as a lender of last resort, replacing the market in case of a liquidity crisis; moreover, imports from other Euro countries don't require any holding of foreign currency by local citizens, since they can be financed by credit generated internally. The second has to do with patterns of investment and balance sheet management, which is to say, internal capacity to generate cash flows to meet debt obligations. Investment and (gross) financing flows are crucial in determining the adjustment dynamics inside the Eurozone. They are connected in multiple ways, most of them bearing no relation with trade and current accounts.

The association of current account imbalances with the financing of credit booms in deficit countries is present also in most of the heterodox approaches. This confusion ignores that current accounts are not an indicator of how much of the domestic investment is financed from abroad. Indeed, any country can show a balanced current account and still have its investment financed from abroad. If the financing operation takes the form of a foreign loan, this will be matched by an increase in deposits vis-à-vis the exterior. Only offsetting gross flows will be involved in the transaction, regardless of the final destiny of the deposit. Net balances reflect offsetting pluses and minuses, which represent assets and liabilities with different characteristics. There is no guarantee of a match between the holders of both. As pointed out by Johnson (2009), 'small surpluses or deficits do not signal that a country is refraining from engaging in large cross border asset transactions that may be risky, and large surpluses or deficits do not necessarily indicate that a country is not managing its portfolio well' (p.13). Gross flows, on the other hand, 'can indicate where rapid expansion of particular forms of credit is occurring, where leverage may be becoming excessive, where regulatory inconsistencies are being exploited, and where heightened system linkages can be found' (p.13). As a consequence, the excessive focus on current accounts does not prevent future crisis or the emergence of financial fragility.

The mainstream sees the problem as a lack of saving in the periphery, the heterodoxy as excess saving in the core. Behind the view underlying both heterodox and mainstream approaches that trade deficits are the origin of their financial imbalances, however, looms a causal relationship between the trade and capital accounts which seems unlikely in a world where trade transactions capture only a small fraction of transactions across jurisdictions, all of which requiring financing. Also the view about profit determination should be enriched, and articulated with this new financial perspective. The usual three balances approaches should be rewritten as in the Kalecki-Steindl equation:

$$Sf = (I - Sh) + (G - T) + (X - M)$$

As usual, I stands for private investment, (G-T) is the government deficit, (X-M) net export, and S as saving is decomposed in household voluntary saving (Sh) and firms' retained savings (Sf). At the aggregate level, profits will depend on investment. Assuming a decreasing budget deficits, and a balance with the external sector, in order for firm profits to exceed the investment level and repay their outstanding bank debts, the level of household savings must decrease. As we have seen before in this paper, this outcome has been politically assured in the Anglo-Saxon "new" capitalism thanks to a financialised and privatised Keynesianism, which eventually infected also Europe. The Kalecki-Steindl approach may be used to show how 'different paths of the financing of investment in real assets and speculative financial positions result in differing levels of financial fragility for the firms sector' (Toporowski and Michell 2012, p. 193). This argument points towards the necessity of incorporating greater detail in terms of balance sheets and sectors under analysis and directly contradicts the main argument put forward by the revisionist approach, based on the idea that one of the main problems of peripheral countries lies in their lack of saving, especially in the household sector.

Capital is not a friction, which exacerbates the existing real conditions based on saving and investment decisions supported by complete accurate predictions of future prices. A *monetary analysis* implies looking beyond the transfers of real resources and net capital flows, as registered in current accounts. In order to understand the structure and dynamics of capitalist economies is necessary to understand the impact of financial flows on the various sectors, and how these condition economic decisions and increase the fragility of the economy. The best way to do so is probably to look at the economy as a complex system of balance sheets, with stocks of assets and liabilities, and flows associated with both. The best way to do so is, therefore, to go back to Minsky, and his system based on income, balance sheet and portfolio flows. A system of flow-of-funds which may or may not confirm the story being told by current accounts, but there is only so much we can leave for coincidences, both in life and in economic theory.

7. The changing landscape of the European and German industry

Sectoral balances tell us which sectors are in deficit in if a country, as a whole, is a net creditor or debtor, but are not enough to understand the internal dynamics of monetary capitalist economies. In particular, the net accumulation usually shown in the private balance does not provide a clear picture of how investment is financed and where the assets end up. In order to refine this analysis it is useful to look at the five sectors represented in a country's flow of funds: households, firms, government, foreign sector and financial sector. We will show later in the paper how this is relevant for an assessment of the diverging models in the GIIPS. For the moment we have to take a closer look at the changes in the industrial landscape (Bellofiore and Garibaldo 2011), which are an equally important determinant of the so-called "imbalances".

As we anticipated, a key root of the process of change in Europe, before the current crisis, is the capital-labour relation. The European situation represents the actual implementation of the Kalecki prophecy of a capital strike when an actual reduction of the mass and share of profits result from the success of labour struggles, as it happened in the late Sixties and the first half of the Seventies. The rollback strategy - initiated in the mid Seventies, largely achieved in the Eighties, accelerated and sharpened after the fall of the Wall in 1989 - led to the weakening of the working class: an outcome achieved also through new productive networks, and to the progressive enfeebling of the national trade unions in the EU countries. This was very instrumental to setting up a highly fragmented labour market. The progressive freedom of circulation of capitals and not of workers in the Eastern countries was also the way to realise what Sinn (2006) nicknamed as the German Bazaar economy.

The current industrial vision in the European Union is that the only competitive possibility for the EU economy is moving upstream in the value chain. This way a high factor mobility and a high flexibility in combining these factors (according to the specific necessities of each industry and, more and more, of the single firm) can be obtained. Since the Delors' White Paper the problem of unemployment was defined as "structural", implying that it could not be reduced by raising the level of internal demand. For the Report economic policy should foster a higher rate of growth and encourage investment, paying the price of a slower real expansion of consumption to gain full employment. In this view higher investment accelerate the incorporation of new technologies into the production process thus leading to more efficient and more environmentally sustainable production. Critics have pointed out that in a perspective like this unemployment is primarily a problem of labour costs and that the way to a more labour-intensive European economy pass through a higher proportion of low-paid service jobs in the private sector.

Innovation is here considered the way to rejuvenate the old and boring manufacturing, to make a leap in the upper part of the global value chain, through a manufacturing model. In this framework innovation was at first considered as a synonymous of high-tech; but later on both corporate

governance and industrial organisation were upgraded to the status of key innovations; more recently the possibility of radical rethinking of traditional business models are also considered a source of successful competition. The inherited features of the previous conceptual scheme, employment and social dimensions, were redrafted as "employability" and "flex-security", to fit into the new competitive agenda.

As Soete 2011 points out 'Innovation does not always represent a Schumpeterian process of "creative destruction [...] but rather represents now and then the exact opposite pattern: a process of what I will call here "destructive creation". Innovation benefitting a few at the expense of many with as a result an opposite pattern of a long term reduction in overall welfare or productivity growth. [...] in many areas, and in particular networks services, the emergence of such service differentiation has also led to opportunities for cherry picking: for selecting those most profitable segments of demand which were essential though for the "full" service delivery. As a result, many features of "universal service" delivery associated with the previous network service delivery have come under pressure. Their quality of delivery has become of lower quality or in the worst case has even become discontinued. In network services it has increasingly become expensive to be poor.'

The Lisbon strategy didn't deliver what promised but the process of industrial restructuring started with the implementation of the Maastricht Treaty. It should be considered that upon launching the European Union a transformation has occurred with regard to the preceding approach. A 'French-derived top-down approach in which a central authority, with the capacity to coerce and command the lower hierarchical levels defines an action in the common name, with which individuals then bring themselves into line' (Bianchi 1995) was abandoned. A new one took its place: a German-inspired bottom-up kind, in which individuals may outline their own actions within a framework of common rules and opportunities. The instrument for developing this new policy is *networking* - that is, the creation of an opportunity for a restricted group of people to co-operate on a precisely identified problem. This new policy emphasising the capacity to grasp the opportunities from the bottom, built at Union level, leads to the very fact that the most successful ones will be 'those who, already advantaged, find themselves with the best initial set of conditions, such that over time (this being a cumulative process) the disparities tend to increase and the leading role of the most active players is consolidated, leaving the weakest facing the alternative of either not participating in the game or of taking on a follower role.' (Bianchi 1995) It is not difficult to see that "bottom-up", in this context, is for "market-driven".

The networking activities were very active, indeed. The building of a European industrial structure was based on a process of "centralisation", but there was no "concentration" process in the classical way, leading to a highly integrated company. This "centralisation without concentration" (Bellofiore and Halevi 2012) consists of a double move. On the one side, the strategic functions of a corporation become more and more centralised; on the other side, however, production operations there is instead a strong disarticulation via a new concept of the supply chain. Unlike what it seems to be, decomposition and/or deconstruction, it conceals a very high level of concentration of capitalistic power; as a matter of fact the firms at the top of each network have the classical prerogatives of the managers: decide for the other companies on how to plan the output's quantities in a given period of time, the pace and the speed to deliver the output's batches, how to arrange in sequences a mix of different items, etc.

The network/chain-like structure of the European industry and its geographical dispersion implies that the flows of products and services within each network/chain are made of sequential acts of import and export, arranged in series. It is therefore extremely useful both to understand who and what it exports to a chain whose final product is the consumption of or the export to another country, and who imports intermediate goods essential to complete its chain of production for both domestic final consumption or for export. This is essential to understand where the added value is created. This

understanding can be achieved only analysing the different structural configurations prevailing in each industry and the composition of the flows of goods and services going through these chains. In some cases the analysis should be complemented by an assessment of the contribution, product/service by product/service, to the final added value of the different steps in the series, which requires the product's teardown and the description of the actual flow of the specific production process. Looking at the intra-European trade in this way the current account balance fails to focus on the actual process of power and value re-distribution occurred in the EU and in the Euro area.

After the Maastricht Treaty and the Delors' Plan, in Europe can be highlighted a process of heightened "destructive" competition, which culminated in record levels of mergers and acquisitions in the two years immediately before the start of the current crisis, 2006 – 2007, as well as of offshoring, through IDE and of outsourcing**.** Greater centralization was dictated by the oligopolistic strategy of controlling larger market shares. Yet the merger movement jeopardized the existing oligopolistic structure in many industrial branches, so that some of the big players increasingly were themselves at risk. The opening up of Eastern Europe to Western European capital after the fall of the Berlin Wall in 1989 accelerated the industrial restructuring which had begun in the late 1970s, while an additional powerful stimulus came from China's entrance into the global manufactures market.

This is what brought about the new social division of labour in Europe: an integrated industrial system with an uneven territorial distribution of core competencies and corporate headquarters; the companies of the eastern countries of EU-27 are mostly under the control of western corporations. From the point of view of the production process these web of firms are a comprehensively integrated process: a congruity between the internal organisation and the nature of the relationship between the firms involved should be posited. These new extended or virtual companies are the new key industrial players in Europe and they consider the EU territory as a strategic resource. They can, indeed, organise their networks utilising all kind of diversity of legal, fiscal, social obligations, as well as of skills and competencies availability, as a way to fine-tuning their internal division of labour.

Summing up, two main closely interrelated and reinforcing processes have profoundly changed European as well as global 'industrial capital': on the one hand, a centralization without concentration dynamics; on the other hand a Neo-mercantilist competition model based on the endless pursuit of a never-ending expansion of all kind of consumption, engendering the necessity to seek new markets. This struggle among capitals has been fought adding new productive facilities, though the existing ones already carried significant unused capacity. That is why we can argue that current crisis is also characterised by oversupply in key sectors. The productive capacity of the new plants competed with that of the same firms in the Euro-15 countries, leading to a state of endemic overproduction driven by an excess of investment in key industries, such as automobile and "white goods". Overcapacity and income stagnation, when not outright deflation for the working, class urged countries, to find outlets for their outputs. This, in turn, has led to an enormous space for manoeuvre for financial capital. The leading role of financial capital pushed up the crossbar of profit acceptability, in some cases to levels which were totally unrealistic for any sound industrial activity, in a vicious circle. This situation was compounded by huge investment in "green prairies" to create industrial bridgeheads: a run made easier thanks to the liberalisation of capital movements, and which targeted new potential markets such as the Chinese ones, thereby building up even more excess capacity.

It is in this context that we have to locate the German export boom. According to some authors (Danninger-Joutz 2007), it has been based on big productivity gains in the last few decades. They analyse four hypotheses: (i) improved cost competitiveness through moderate collective wage agreements since the mid 1990s; (ii) ties to fast growing trading partners as a result of a desirable product mix or long-standing trade relationships; (iii) increased export demand for capital goods as a response to a global rise in investment activity; (iv) regionalised production patterns through off-

shoring of production to lower cost countries, partly as a result of European economic integration. These authors stress the importance of factors (ii) and (iv). The productivity gains were implemented without a spin-off for employees' conditions (wages, social provisions and working conditions). To the contrary, there has been wage moderation and a reduction of social provisions with the shrinking of the domestic market. The offshoring of production to lower cost countries, also within the EU-27 area, to implement a very aggressive export strategy, has compounded this situation. Indeed, in the 1990s employers' strategy changed dramatically in order to overcome the high wage situation typical of post-war Germany. There was a huge shift from the automation strategy of the 1970s and the 1980s, to the offshoring of upstream activities mainly to the Eastern Europe and partly, as it is also the case for Northern Italy, to the old EU-15. Investment in Eastern Europe was so huge that Sinn wrote that German firms were then engaged in an investment strike, to use the Marxian term. The rationale of this strategy is that high tech investment can grant Germany a gap with the new competitors such as India and China, making the medium-high sector of these mass markets available for its exports, ahead of a never-ending catch up attempt by India and China. These markets have such a dimension that even if only the richest parts of these emerging economies become available they are enough to guarantee adequate returns on investment, as it happened to Volkswagen in China.

The current account imbalances among the Eurozone countries are the symptoms of an underlying cause: the nature of the economic model shortly sketched before, intertwined with the underlying power relations among nations both in terms of market and political power. We find extremely useful the considerations put forward by Simonazzi, Ginzburg and Nocella (2013) which once again lead to dispute the (orthodox, but also heterodox) views according to which in Europe we witness a standard balance-of-payments crisis. Their general criticism is convergent with points we also insisted upon: the uncertainty stemming from the global capitalist crisis since 2007, the loss of credibility because of the faulty architecture of the single currency and more generally of European institutions (the main problem was this, not the excessive budget deficits nor the excessive private debt in the area), the absence of international reserves as binding constraints for the periphery. When the crisis erupted, the key factor triggering the "external" crisis for deficit economies in the Eurozone were not the "fundamentals" but instead mounting (speculative) self-fulfilling prophecies.

We will not go into the details of the intriguing criticisms these authors advance against the usual argument depicting a gain of competitiveness by Germany versus the peripheral countries because of a deterioration of the real exchange rate as the main indicator of competitiveness in the GIIPS. These authors' perspective fit well with our picture about industrial changes in Europe and Germany. They too focus on the reorganisation of the German economic matrix through capitalist restructuring since the mid 1990s, with an Eastward enlargement and outsourcing, and insist on the quantitative narrowing and qualitative degradation of the productive base in Southern Europe. The German supply-side, labour market reforms introduced casualization and mini-jobs; moreover, the wage compression and internal demand containment are definitely not an invention of the critics. But these factors were not isolated, nor are they the crucial ones to explain the accumulation of German current account surpluses after the introduction of the euro. 'Since 1999 the growth of the German economy has been driven not only by exports but also by imports, in particular of parts and components linked to the relocation abroad of supply chains'. Moreover, 'the primary reason for the rise of current account surpluses after 2001 was a sharp fall of domestic private investment as a share of GDP, accompanied by a growth of foreign direct investment driven by offshoring activities'. (Simonazzi, Ginzburg, Nocella 2013: 659)

The geography of German trade was consequently altered, with China and the neighbouring Eastern countries (more and more integrated into the productive value chain) becoming crucial partners: 'intermediate goods have been the most dynamic element of trade, with imports and exports of intermediate goods exceeding the equally dynamic expansion of trade in final goods'. In the outsourcing of manufacturing, 'it has been mainly activities biased in favour of low- and high-skill requirements that have been relocated, while activities requiring medium skills have remained in the

country. The delocalisation of manufacturing to emerging Europe has actually helped to create jobs in the home country by sustaining productivity in manufacturing, while contributing to the sharp fall in Germany's relative unit labour costs'. This integration is far less advanced with Southern European countries (may be with the partial exception of some areas of Italian industry), which are mainly exporters of consumption goods to Germany. In 1999-2008 the export share to Germany of Southern Europe in total trade has fallen, whereas import share has risen; in the meantime, the diversification and specialisation of the South has been weakened. As Simonazzi et al says, 'net trade flows among Italy, Spain, Greece and Portugal were less intense in 2008 than in 1999, while a larger part of net balances are now absorbed by bilateral relationships between Germany and France, Italy and Spain.'

We may add, in sintony with De Cecco (2014), that Germany appear to have profited both from the relative undervaluation of the euro (relative to what would have been the nominal exchange rate of a currency confined to Germany and its satellites) benefiting their position on external markets, and from the devaluation of the currencies of the Eastern countries which were part of their productive value chain, reducing their costs. Wage deflation and rising inequality (courtesy of the Hartz reforms) has been made tolerable by the cheaper prices and inferior quality of the goods consumed by an increasing section of the internal population: a dynamic which sounds bad for the exports of superior quality consumption goods from advanced Southern countries displaced by emerging areas. And we may also add that the "monopolistic" nature of German capital, their innovative leadership, the upgrade of their value output (so that less units sold of less common products embody higher value added), are all elements leading to the possibility to charge higher unit prices meeting a relatively inelastic demand relative to price (and hence, partially independent from the vagaries of the exchange rate).

The competitive advantage of Germany within the Eurozone is only partially related to the differences in price competition, and rests mainly on the quality of the products and the coherence of the productive matrix with the external trade demand, namely from China and other countries, with a new emerging middle class. On this outlook it is evident the strategic relevance, for the German model, of the industrial reorganisation, we have described before, namely of a European networks of suppliers and of the relocation abroad of parts production, namely in Eastern countries of the EU. It is of paramount importance the impoverishment of the productive matrix of the periphery Simonazzi, Ginzburg, Nocella describe, because as a consequence 'an expansion of the German internal demand, albeit necessary, would not suffice to provide a viable response to the long-term sustainability of the euro area' (p. 671): each increase in demand will be transmitted primarily to the German production trans-national value-chain system.

8. Wrapping up about financial and industrial integration in the Eurozone

The task now is to understand in which way the critique outlined above can be extended to the existing analysis of the crisis of the Eurozone. Both the approaches summarized in sections 6 and 7 focus on the impacts of the monetary integration on trade tendencies and, therefore, on current account imbalances. Financial flows play an important role in this story, but mainly as reflex of trade accounts, or as an indistinctive mass of capital flowing from the centre to the periphery, the result of the apparent price harmonization (exchange and interest rates). Mainstream economists point their finger at nominal rigidities and fiscal profligacy, which have disrupted the otherwise automatic convergence mechanism between the Euro countries. Heterodox studies maintain that convergence is not the automatic outcome of free capital, flying after higher returns. The euro mechanism reinforced existing fragilities, by allowing for a Neo-mercantilist strategy from the centre towards the periphery. The later couldn't compete with relatively lower exchange and inflation rates, combined with wage compression in the centre. The result was the erosion of their exporting capacity and the widening of trade imbalances, financed with the savings from surplus countries.

The main difference between these views is that, while the first is based on unrealistic assumptions and theoretical anachronisms, such as money neutrality; the second points to (what we think are the) real tendencies: it is undeniable that financialisation and monetary integration worked together to increase the fragility of the already weaker economies in the EMU, and that this has had an impact on trade, which has little to do with downward wage rigidities or excessive public deficits. Similarly, there is no doubt that, as argued by the heterodox authors, the strategy of real deflation through austerity and labour market reforms is a disastrous option which, in the end, might become the ultimate cause of the problem this strategy is trying to avoid in the first place - the collapse of the EMU. However, current account imbalances assume a centre stage in both approaches. They diverge largely when it comes to explain the causes of trade imbalances, and probably even more in the strategy to reduce them, but in both the Euro crisis is seen as mainly a balance of payments problem in which trade imbalances play a major role (Merler and Pisani-Ferry, 2012; Bibow, 2012; Holinski et al., 2012; Sinn and Wollmershauser, 2011). Wray (2012) and Collignon (2012) are some of the rare exceptions. Likewise, it is not uncommon, when addressing the causes of the crisis, that the EMU is envisaged as a system of fixed exchange rates, comparable to that of Argentina in the 90's (Merler and Pisani-Ferry, 2012; Sinn and Wollmershauser, 2011).

The fact is that these are very distinctive monetary configurations. First and foremost because, as we wrote before, countries in the Eurozone share the same payment system: 'a cross border payment between banks in two countries in the euro zone automatically generates balancing credit claims between the national central banks (NCB) and the ECB. This is the mechanism that *irrevocably unifies the former national currencies, converting a set of currencies whose exchange rates are merely fixed at par into a single currency*' [emphasis added] (Garber, 2010, p.2). From a theoretical point of view we question the possibility of having a normal balance of payments crisis in a monetary union. It doesn't make in fact much sense to think to think so. Not because, as argued by the Neoclassical growth models, equilibrium is the natural outcome of free moving capital markets, but because current account imbalances have a different meaning in the context of a monetary union. These economies are subject to liquidity and financial disturbances which are not necessarily related with current account deficits, and must not turn into a balance of payments crisis, as long as the monetary union works as a monetary union. One should then dare to question if trade imbalances are not a necessary (and inevitable) part of the functioning of credit economies[9].

As Toporowski (2013) remarks, in current international monetary system with floating exchange rates, exchange rates are driven by capital flows and expectations, rather than trade balance: money is nowadays bank credit, whose value derives from convertibility into other forms of bank credit (in other currency units) or into financial assets, with convertibility into other fiat currencies playing a minor role. Consequently, international reserves are less and less made by gold (although this commodity remains a minor part of central bank reserves), or central bank fiat money, but claims on or deposits in international commercial banks. On the contrary, the Euro is built upon a Ricardian theory of money perspective, where fiat money issued by a central bank pretends not to be (as it is) a liability, growing out from debt/credit relations, and must be held scarce by the issuer, setting price and quantity. In this fictional world, employment arises out of competitiveness, and exchange rate flexibility (aiming a

[9] In the current world monetary arrangement, most international credit-debt relations are denominated in US dollars: the viability of the system has long required trade deficits in the countries in whose currencies international debt is denominated. Minsky (1986) clarified that, far from requiring the cancellation of imbalances, the international credit system requires those same imbalances to let the international debt-credit interconnection on which today's international money is built run smooth. Following this line of thought, Toporowski (2013) denominates the failure to provide trade deficit to accommodate foreign debt payments a kind of credit neomercantilism. This author refers to "a supply of bank credit from a trade deficit in the USA that is inadequate for the needs of servicing international debt in US dollars, rather than trade in goods and services'; but he adds that 'large part of the problems in the European Monetary Union may be said to arise from credit neomercantilism occurring in the more complex circumstances of a monetary union, where financial integration has inflated bank balance sheets with cross-border assets and liabilities.'

competitive devaluation) is a substitute for wage flexibility (aiming at competitive deflation). The single currency leaves only the second option as viable. The desired devaluation, however, internally reduces real incomes because of rising import prices; and it achieves decreasing export competitive advantage the higher their import content (think of Greece and Portugal, but also Italy). And of course devaluation cuts the real consumption of the working class.

The single currency area must be seen as a credit matter, not just a purely monetary matter. Credit money is built on a loan-debt relationship, and in a truly credit theory of money perspective wage and price reductions gives way to a balance-sheet deflation and a rise of the real value of debt. What Toporowki defines as a flaw in a floating exchange rates international monetary system (whereas the value of international credit, assets and liabilities cannot but be many times the value of international trade), is that, even if in aggregate assets equals liabilities, they are unequally distributed in term of the different currencies. Exchange rate movement, even when managed by sovereign central banks, touch not only the trade balance but also the cost of managing their foreign debt. From this other perspective a strong, overvalued currency is to be preferred to a weak devalued exchange rate. An overvalued currency, which negatively affects the trade in goods and services, 'reduces the domestic money value into which foreign obligations may be converted. Specifically, it makes it cheaper to convert a government's foreign debt obligations into domestic debt obligations that are then easier to service from tax revenue.'

Another reason to be wary about the conclusions drawn from a too simple analysis of the Eurozone crisis as a balance of payments problem due to trade imbalances is the aggregation of Grece, Ireland, Italy, Portugal and Spain into a distinctive group, the "periphery". It is here very useful to look at the five sectors represented in a country's flow of funds (households, firms, government, foreign sector and financial sector). If we consider the sectoral balances of these "peripheral" countries of the Eurozone (see the tables in the Appendix), the only characteristic shared by all of them is indeed their current account deficits. While Portugal and Spain ran private sector deficits for the past decade, the same doesn't apply to Ireland or Italy. Both these countries showed small current account deficits, but Italy had persistent public deficits, whereas Ireland and Spain didn't. Furthermore, France is usually left out of the analysis due to its lack of current account imbalances. We strongly doubt that that could be interpreted as a sign that France is not subject to the accumulation of financial imbalances and future instability. If we break these sectoral balances in more detailed aggregates we see that Greece and Portugal, though showing very similar net aggregate accounts (private and public sector deficits, matched by external sector surpluses corresponding to current account deficits, and very similar net foreign asset positions), produced similar outcomes through different paths. In Greece, high investment and productivity growth in the tradable sector led to a current account deficit very similar to that of Portugal, where investment was practically nihil but, surprisingly, the debt position was accumulating in the firm sector. Moreover, if we look at Ireland, it didn't even had a current account problem before 2007. All these countries faced a liquidity problem, and a subsequent difficulty to obtain cash flows to finance their liabilities in the short and medium term, but the existing analysis stops there, not asking the specificities of the hidden structural dynamics in each country.

9. Preliminary conclusions

Both mainstream and heterodox analysis assume that the euro was crucial for the growing trade imbalances. Whether you blame it on the well paid laziness in the periphery, as the mainstream, or the Neo-mercantilist strategies from the centre, as the heterodoxy, the euro has messed up the price system and led to decreasing exporting capacity in the periphery, compensated by imports from the centre. Actually, there is a prevailing view among the heterodoxy, inspired in the post war centre-periphery theories, which sees the euro as product of a deliberate exploitation strategy of the periphery by the centre. Our point is that the common "periphery-core" dichotomy, based on current account positions,

hides too important aspects of national economies. We rather think that the euro is part of a broader strategy - coincident among national economic and financial elites - to reorganise individual capitals and compress the rights of the working class, through financial liberalisation and exposure of national economies to international competition. The monetary union was one more step towards this strategy, but its fundamental pillars are to be found in the previous process of financial (and even trade) liberalization. It has nothing to do with *laisser faire*, or a retreat of the State. It is rather a Neoliberal policy variant within the world economy as contested terrain. The most lucid interpreter of the European variant is probably Mario Draghi, but the same Angela Merkel has actually supported his line, even with internal casualties.

The widespread view of the European imbalances as Euro imbalances, as the result of a German strategy of "beggar thy neighbor", is partial and inaccurate. The magnitude of changes in trade patterns happened before the euro and not after its introduction. In fact, in countries like Portugal or Spain, if anything, exports grew more than imports after the European currency was created. A key argument in our paper is the role financial flows play in the growing imbalances. They are usually seen as amplifiers of existing problems in terms of trade competitiveness. We believe instead that financial flows are a crucial factor in building the current account imbalances, either because they can have an impact on the way investment and production are structured in every economy; or because of the growing importance of other sources of change in current accounts, other than trade dynamics. In a world of highly integrated financial markets, where trade transactions capture only a small fraction of transactions across jurisdictions, net flows and current accounts might not be the best accounting device to understand contemporary capitalist economies. Current account imbalances could rather be a consequence of the way capital has circulated in Europe. Inflation differentials and relative exchange rates are more likely to be symptoms of financial dynamics (motivated of course by growth and returns expectations in specific sectors) than the drivers of such flows. Euro is an important part of this story, but the process started way before.

The mainstream recipe based on more economic and financial liberalization, combined with labour market reforms and wage cuts to increase competitiveness and force a shifts towards the production of tradables, might even cause some shift in the trade balance (as it is happening), but won't solve the underlying causes of such imbalances or prevent future financial disturbances and fragility. On the other hand, asking for more inflation in the core countries (through higher prices and wages) might be a very reasonable demand from the point of view of the working rights of German workers, but definitely is not the answer for the Euro problems: at best, it converts the current account imbalances into social divergences in the area: not exactly a progressive way out.

From an empirical point of view, we question the true responsibilities of the common currency in the existing crisis. No doubts that the artificial limitations imposed by the euro institutional framework have made things much worse, but it is equally important to analyse what happened before and beyond the euro. The exposure to liberalised financial markets started before the introduction of the common currency and had major impacts in the way these economies are structured. Financial integration was pursued at least since early 1990s leading to a common capital market and a common market in financial services. On the other hand, the analysis of the industrial and trade relations in Europe cannot ignore the growing importance of Central and Eastern European countries (some of them out of the monetary union).

This leads us to question also the current discourse by the heterodoxy about exiting the euro. Exit strategies are problematic since their gains are uncertain, and it is even more unlikely that they will be followed by an anti-austerity stance (we actually believe the opposite). And they are uncertain and likely very destructive because of the scale of financial and industrial integration, and because of the innovative and productive hierarchical/geographical stratification of the European area. As Toporowski's argues, cross-border mergers and acquisitions 'have effectively integrated the balance

sheets of the respective national banking systems in the European Union. As a result, banks in all countries of the European Union are exposed to risks in other countries, in the sense that they have assets or subsidiaries in other countries or, at the very least, that they have liabilities to the European Central Bank […] the financing operations of the European Central Bank (over one trillion euros in the long-term refinancing operations) would effectively bring down the banks in the countries exiting from the Eurozone: the transfer of collateral to the European Central Bank would deprive those banks of the euro assets they would need to balance their euro liabilities' (Toporowski 2013: 581)[10].

If we look at the trade imbalances through the spectacles of the industrial restructuring and the geography of European trade flows, as Simonazzi et al does, we reach the same conclusion: exiting the euro, and the same reflationary policies, do not seem to go at the heart of the matter. The former option may likely turn out sour not only because the exchange rate that would help the needs of trade may lead to a worsening and balance sheets, but because the most important factors in nurturing disequilibria in the deficit countries are structural. They have to do with the way Germany has constructed a transnational value-chain of firms' network and articulated beyond national borders its matrix of production, how the geography of trade has been changed, the output composition and import content of different countries, of the impoverishment of the ties among peripheral nations, and so on.

In a book which had some success in the 1970s and 1980s, *Zen and the Art of Motorcycle Maintenance*, Rober Pirsig writes: 'Yes and no … this or that… one or zero. On the basis of this elementary two-term discrimination, all human knowledge is built up. The demonstration of this is the computer memory which stores all its knowledge in the form of binary information. It contains ones and zeros, that's all. Because we're unaccustomed to it, we don't usually see that there's a third possible logical term equal to yes and no which is capable of expanding our understanding in an unrecognized direction. We don't even have a term for it, so I'll have to use the Japanese *mu*. *Mu* means "no thing." Like "Quality" it points outside the process of dualistic discrimination. *Mu* simply says, "No class; not one, not zero, not yes, not no." It states that the context of the question is such that a yes or no answer is in error and should not be given. "Unask the question" is what it says. *Mu* becomes appropriate when the context of the question becomes too small for the truth of the answer.'

As the title of another paper at this conference says, "Euro or not Euro: That is *not* the question". Unask the question means to understand that, here and now, the issue is not to resurrect a generic Keynesianism of anti-austerity policies and of boosting effective demand: as necessary as these moves are. The problems are also structural, they pertain to industrial, trade and financial policies on the scale of the continent (within and outside the Eurozone). And they involve the issue about the "how, how much, what, and for whom" to produce. Hence they ask for a policy of socialisation of the economy and for active, planned, targeted governemnent "good" deficits (Bellofiore 2013). This requires a fresh look at the class and political dimensions of Neoliberalism, and its Euro variant, as it is: a terrain which is very different, and historically much beyond, what the heterodoxy is accustomed to discuss. It requires a revolution in our ideas and practices.

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[10] In a country choosing exit and default 'banks holding government securities would become insolvent due to the reduction in the value of their assets and the increase, with the devaluation of the new currency, in the value of any euro liabilities that they may retain. Those banks would also be subject to mass withdrawals of deposits as citizens in the countries exiting from the monetary union try to obtain cash in order to keep their savings in appreciating euros. Paradoxically, therefore, far from entering a comfort zone of increased international competitiveness, the introduction of a successor currency would establish the euro as an effective parallel currency or the 'euro-isation' of an exiting country.' (Toporowski 2013, p. ???)

For sure, the rejection of too simplistic explanations brings all the difficulties of building a holistic, but still coherent, narrative of the world we live in. But it might be worth trying.

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