HOW SHOULD EUROPE RESPOND TO THE NEW CRISIS IN GLOBAL CAPITALISM?

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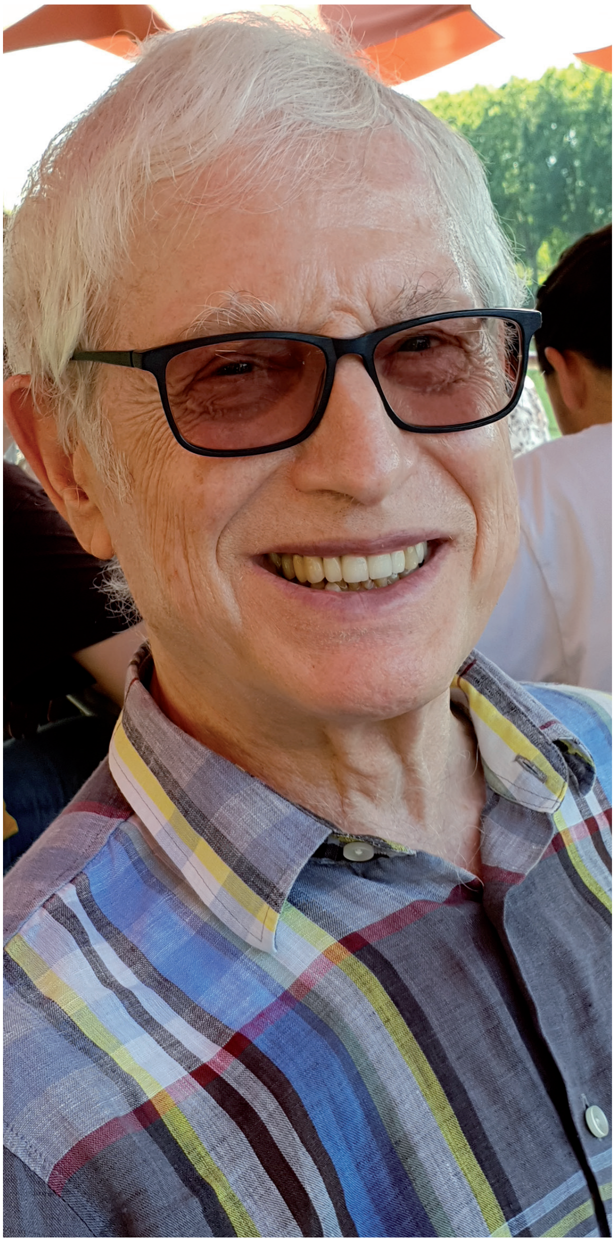

This is a working document resulting from long thought over the summer. It advocates for a systemic understanding of the now inevitable recession. And it presents a set of questions and principles with a view to finding viable, common solutions.

We must face the facts: recession is inevitable[i]. It will be the second major global economic crisis, following that of 2008. Market professionals are forecasting it, politicians have not yet alerted public opinion but anxiety is festering beneath the surface. There are ways of preventing a catastrophe, but it is feared that the recession will be a long one.

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In 2008, central banks acted effectively to stabilise the banking and financial system, and the United States and China wasted no time in implementing large-scale recovery plans. Today, their response capabilities are far more constrained, and the culture and principles that enabled institutions to manage the 2008 crisis have not substantially changed. However, the context is entirely different. Geopolitical conflicts are disrupting international production and trade chains that were previously regarded as stable, and some ways of deglobalisation are casting uncertainty over productive investment. The ecological imperative and the digital revolution are affecting all the old business models and, fortunately, the need for a new growth regime is becoming clear. But it will require massive public-interest investment in public goods infrastructure, which is incompatible with the demands of profitability, and which states will struggle to put in place. Europe is particularly vulnerable because it is very open to global market forces, and because of its divisions and the risk of internal disintegration; if this situation continues, the Union will not be able to be the force for international cooperation that it aspires to be. Everyone says that structural reforms are essential, but most seek to preserve the current system. A major overhaul of European capitalism must be planned and prepared, to challenge the prevailing neoliberal doctrine and behaviours.

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The Union must urgently develop a public capacity for macroeconomic and financial action to ensure stability and recovery, engage in an industrial integration process that will benefit all its members, and achieve geopolitical autonomy. Such changes are inconceivable without the people's participation.

THE ALARM BELLS ARE RINGING, THE SOLUTIONS ARE FAR FROM READY

The over-accumulation of financial capital that triggered the crisis ten years ago has continued ever since, and is the main contributing factor to the new global crisis. American shares are overvalued to an extent not seen in 150 years[II]. Profits, dividends and share buybacks by multinational companies have reached record-breaking highs, while wages are depressed and long-term investment has been scares. Bank debt caused the crisis in 2008; now, bonded debt is rising even more markedly than public debt.

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Anticipating a global recession, investors are snapping up safe-haven assets and putting their money into secure investments. The supply of negative interest rate bonds has doubled in value since the start of the year to €16 trillion, and now accounts for one third of the global bond market[III]. At the same time, investors are getting rid of assets that could fall significantly in value going forward. There is widespread financial instability. Central banks have flattened interest rates on both long-term and short-term investments. We hear every day that this is creating investment opportunities but, while some house buyers may benefit from the low interest rates, the impoverishment of the middle classes is preventing them from doing so and, generally speaking, precautionary savings are high. Furthermore, when interest rates are low, banks' profit margins are crushed; at the same time, they are facing stiff new competition from major digital operators and, as a result, are laying off staff and closing branches. In addition, the insurance companies and pension funds that could have invested long term in consideration of the commitments they have made to the public, are now under pressure and vulnerable.

Western capitalism has spread across the globe and, for a long time, investors were able to diversify their portfolios relatively easily. Those days are gone. In ten years, China has become a superpower in all areas and is a threat to American supremacy, and many formerly emerged countries are in serious difficulty again. Global trade had begun to slow even before Donald Trump began the tariff war and established the goal of bringing American manufacturing back to the United States.

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As a result, global production chains are fracturing, and companies – particularly those that operate in traditional industrial sectors – are being hit by fierce competition from the digital giants. Country-specific risks are combining with technology-related risks to complicate investment decisions even further[IV]; this is blatantly obvious in the automotive sector for example. Redundancies are being announced and countries like Argentina are facing visible "sovereign" risks. With a recession looming, will states be able to socialise the losses? We must not forget the lessons learned from the 2008 crisis. There will be major social reactions, which it will not always be easy to ascribe to "populism". Many will blame the United States, and not without reason. But is it not also true that most European countries have turned a blind eye to the harsh realities of the capitalist system? Their economic policies have lagged behind the financial markets, and the majority of them have cut taxes for large corporations. Analyst Rana Forrohar[V] is very clear on these matters, reflecting a revival of critical thinking on capitalism in the United States.

CAPITALISM AND ITS TRANSFORMATION ARE INEXTRICABLY LINKED WITH SOCIAL CHOICES

Many political leaders and intellectuals are rightfully driven by a desire to save liberalism and democracy, but few challenge global financial capitalism, which has perverted the ideals and undermined the vitality of democracy. However, in fairness to its leaders, capitalism addresses vital needs and is therefore inextricably linked with social choices. It is an economic system in which some are able to make money from money with ease. However, it is first and foremost a system for creating and producing goods, which is specific to industrial societies. We all rely upon, participate in and are addicted to this system, regardless of the conflicts and rebellions.

Capitalism has a history. Invented in Europe, it is based on science and technological innovation, which it has significantly boosted. Of course, it causes one crisis after another, and the interests of capital and labour have never really been aligned (the gap between them has never been as wide as it is today), but it has always been corrected by public intervention. The state has secured the capitalist system and safeguarded the market order, but has also pacified conflicts by providing social welfare services. Up until the 1980s, we compared the different capitalist systems in Europe – Anglo-Saxon, Rhenish and French – and tried to determine which was the most effective. But globalisation has upset all the existing models, we are all interdependent in a global, largely Anglo-Saxon style capitalist system; the supremacy of large multinational companies has been forged with and through state support. Moreover, states continue to defend their national champions despite the fact that they channel current managerial ideologies and practices, to the extent that the latter are often implemented by public services and governments, as Pierre Musso has pointed out. Finance, management and marketing have stifled the world of work, with the collusion of the elites.

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Jacques Delors, in his day, was aware of the impact of globalisation and tried to mitigate it by building the Union on a social market economy model and endowing it with a macroeconomic policy capacity. But these efforts proved a failure and, despite the introduction of the euro (which has created genuine solidarity), social and industrial integration between the different Member States has in effect come to a halt. Transforming the capitalist system and reviving the integration process should go hand in hand, and should result from explicit choices made by European societies.

Nothing will be achieved without the people. Social struggles and civil society renewal should be more creative, and must take on a European dimension. Several fundamental issues are emerging, starting with inequality and the environment.

The impoverishment of the middle classes in traditional manufacturing and service industries, and in the corresponding regions and population centres, is causing large-scale and sometimes violent reactions. People have realised that speculative capital accumulation has been facilitated by public policies. Imagine what will happen in a crisis situation where such policies are used to shore up capital while the working population takes a hit. Imagine the consequences of investment choices that entrench inequalities, particularly for the ecological progress and technological innovation enabled by the digital revolution. Any stimulus policy should aim to improve employment for the population, reduce the unproductive accumulation of capital and boost public-interest investment, rather than relying on the objectives chosen by multinational companies.

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Is there any hope of forging a social consensus along these lines? In Europe, we have compartmentalised the issues that need to be resolved and, for a long time, have separated the respective roles and responsibilities of social and economic actors. As a result, we have created even greater division and the necessary social reforms have become increasingly difficult to carry out. A rejection of mobility is therefore in view, due to excessive labour flexibility that has led to insecurity while lifelong learning and vocational upgrading have been sorely neglected.

Debates are beginning to take place on the social role of companies and the nature of capitalism but, while they are welcome, they are far from producing new collective choices. Some believe that companies should remain focused on capital accumulation and profitable investments, as required by the fiercely competitive environment; others argue that they should use their resources for social purposes, fearing that "a small number of unrepresentative business leaders will end up with immense power to set goals for society that range far beyond the immediate interests of their company"[VI](there is nothing simple about CSR).

This underlies the debate as to whether we should opt for partnership-based capitalism (which would not reproduce a version of post-war corporate capitalism), rather than shareholder capitalism which requires that value be created in direct accordance with shareholders' interests. Are we focusing on the right issue? If, as is the case, political priority should be given to investment in social, ecological and productive infrastructure in basic public goods sectors such as energy, transport, education and health, then extensive cooperation must be developed between the public and private sectors, and civil society in general.

Whether we should opt for partnership-based capitalism rather than shareholder capitalism, which requires that value be created in direct accordance with shareholders' interests, must be thoroughly debated in society.

Large-scale initiatives such as those conducted in Scandinavia, in Malmo for example, could provide valuable insights. We should create a European public institution to observe and promote these decentralised initiatives, and gather input. A sort of *European economic, social and ecological contract* is needed, which would fundamentally change the regulatory and control systems currently in force under neoliberal capitalism, and bring completely different responsibilities and resources for civil society.

A MACROECONOMIC POLICY: RETHINKING STABILITY AND RECOVERY

We need to urgently develop and implement new means of macroeconomic intervention. In my view, relying on the technostructure to find solutions would be a dereliction of civic and political duty. Creating a dynamic climate of long-term investment to revive the economy requires a much more comprehensive approach than that which inspired public incentives in the past. Moreover, budgetary policy is now a European matter but civic leaders have been wrangling over it for at least 25 years, without achieving any significant results at EU level.

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There have been reports in the press that the rules governing state debt are likely to be relaxed, which, while it is a positive gesture, does not go nearly far enough. A real European budget is needed to ensure both economic stability and recovery. Discussing EU budget programming is a top priority for the newly elected institutions, and an opportunity not to be missed, especially since the monetary policy offers very few new options. Those in charge of it will do their best to stabilise the economy, but have themselves been warning for years that the Union lacks a budgetary pillar. The very nature of the monetary policy must be reviewed, which creates even more potential for disagreement. Thus, the directors of the world's biggest financial asset manager, BlackRock, have suggested straight out that central banks buy shares in large private companies. Long live the bailout! On the contrary, it would be advisable to endow the European Union with a public borrowing capacity. This would provide institutional investors with a secure asset, and would incite them to contribute to public investment.

The proposal to create a bank for the environment is progressing, but is it well founded? We should start by considering the huge problem of building and selecting high quality investment projects. Sustainable growth should be based on choices in which the rehabilitation of the environment is intertwined with that of human and productive resources. The European Union has already experienced the Juncker plan which, unfortunately, has not yet been opened up to proper public scrutiny despite its well-known flaws. The plan consists in providing budgetary guarantees for investment projects selected by nation states and the European Investment Bank. However, the selection process largely ignores the financing of social infrastructure, particularly that needed to train workers and implement projects likely to increase cross-border integration. It clearly lacks the insight that a European strategy for social and productive innovation would bring. One piece of good news has been announced: the European Commission is reportedly proposing to set up a "European sovereign wealth fund" of €100 billion, which would imply a renewal of the concepts at work in the Juncker plan. The comparison with Chinese and Norwegian sovereign funds is striking[VII]. We need to consider a specific approach for the Union. It is disturbing to learn that this European fund could focus on purchasing long-term shares in large companies based in Europe. Of course, these companies would operate in strategically important sectors, but must we continue to pursue an approach in which political leaders confuse industrial strategy with support for "European champions"?

WHAT ARE THE OBSTACLES TO A EUROPEAN INDUSTRIAL STRATEGY?

Fortunately, plans to establish an integrated industrial strategy for the European Union are starting to take shape. In the past, Confrontations Europe has done a lot of work and made many proposals in this respect[VIII]; its efforts were appreciated but, even so, the Union has not established an industrial policy. For a long time, Germany rejected the idea, while France's support varied according to its national interests. Today, it is the German Minister for Economic Affairs, Peter Altmaier, who is urging the creation of European data processing structures for manufacturers, intended in particular to implement artificial intelligence-based solutions. Germany is clearly concerned that its industrial power is dwindling, and now needs cooperation. We must engage in dialogue. Our political leaders, along with numerous economists, have for many years been asking Germany to jump-start its economy by channelling its substantial budgetary resources into its national infrastructure. But not only is this solution far from sufficient, it also fails to consider that all European countries need to develop their infrastructure. Therefore, a Europe-wide cooperation policy is needed; all Member States, companies and local authorities – large and small alike – must set out their interests and goals, which will then have to be reconciled. This strategy should be based on decentralised and inclusive action in all key sectors and across all territories.

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In today's hyper-industrial societies (to borrow a term from Pierre Veltz), instead of accumulating capital in large monopolies, we need to revive public goods sectors, which means creating adequate infrastructure and service networks. Socio-industrial relations must be developed within these networks and within local and regional territories, instead of relying exclusively on market transactions; and human communities must be developed, rather than simply providing services centred on individual consumption.

This will involve the difficult task of revising the competition policy, which will clearly have an even more important role to play. Europe should be regarded as the relevant territory, where competition rules should encourage industrial solidarity with the aim of generating European added value. The Commission's competition policy has focused on protecting personal data and freedoms; equal effort should be put into increasing our autonomy, which we are undermining by handing over our data to large American and Chinese corporations. The policy's aim of levying tax on digital giants does not go far enough; their ability to develop their own applications in all areas must be controlled and curtailed.

The competition policy, which will clearly have an even more important role to play, must be revised. Europe should be regarded as the relevant territory, where competition rules should encourage industrial solidarity with the aim of generating European added value.

A forecasting and planning unit should be set up by and aside the Commission to coordinate projects of European interest. A European network of public agencies at sector and territorial levels should be brought in to assist with the selection of relevant infrastructure development projects. At the same time, the creation of a financing union means going further than merely completing the banking union and the capital markets union: a new approach is needed to organise the European finance industry, which allows for cooperation between public investment banks and the multiplication of decentralised investment funds supported by the European sovereign wealth fund.

We also need to create a political environment that is much more conducive to solidarity between European countries. Southern and Eastern Europe have been treated badly, and we must now look beyond the simplistic approach of delivering aid (in the form of Structural Fund payments) through one-stop shops. Coordination and convergence of Member States' interests requires an *intracommunity division of labour and creation.*

SEEKING EUROPEAN AUTONOMY FOR GEOPOLITICAL ACTION

Geopolitical and geoeconomic issues are now inextricably linked, since the battle to reconstruct power relations is underway. The United States' "America First" policy, and its focus on going after China before it becomes the world's biggest power, seems set to continue for a long time to come. Many analysts believe that the policy will affect international relations for several decades, even if the Democrats return to power. For the time being, it is a good thing that France has helped maintain stability within the G7 and that the EU still prefers a multilateral approach to problems. However, this stability can only last for a very short time. In fact, to become a global player, the European Union will have to develop its own geostrategic vision and capability. The way Brexit is being handled is complicating matters but, in any case, the future relationship with the United Kingdom will have to be discussed and incorporated into this geostrategic vision.

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In 2008, the overriding aim of European policy was to adopt multilateral rules to ensure banking and financial stability (within the G20 at the time); today, this policy is no longer sufficient, since the collective choices made by the Member States must be asserted to deal with the impacts of great power conflicts. Furthermore, the Union's wish to establish a real European budget and use it to promote its own industrial strategy in the public interest will inevitably impact on its fiscal, financial and commercial diplomacy. For example, the complete lack of public intervention in the development of trade and competition rules is no longer tenable. It must be given a more prominent role by promoting mutually beneficial cooperation without, however, fuelling the ambitions of major powers. Easier said than done!

Likewise, a general rethink of monetary policy cooperation is needed. We must, for example, work together to curb the rise of cryptocurrencies managed by exclusive groups of private executives with exorbitant powers, such as Facebook, when currencies should be kept public goods. Given the current volatility and the clear risk of a currency war, the international role of the euro should be promoted (in addition to serving as a reserve asset, it should be used as a means of payment and financing). Monetary shocks due to the dollar's dominance are no longer acceptable. But a polycentric world would not be stable, and proposals for new global solutions are not yet in favour. Michel Aglietta and Jacques de Larosière have contributed greatly to this subject, and governor Mark Carney has recently called for a global digital currency.

On the other hand, as regards trade rules, it has been claimed that *free trade* and *fair trade* now go hand in hand. But, as David Pilling explains[IX], international trade is deeply unequal and is dominated by near monopolies. He suggests that all goods should carry a mandatory label: "Unfairly Traded". Furthermore, ecological choices are already clashing with commercial choices, as shown by the rejection of the Mercosur agreement.

Under these circumstances, the European Union can no longer just sit on the fence, striving to disseminate Western rules worldwide. It is no longer enough to defend multilateralism and criticise American unilateralism. The WTO and all global financial institutions must be reformed. However, this should not be done simply through inter-state negotiations, since establishing global and regional public goods is now a priority. In this context, multilateralism should be accompanied by sustainable multinational partnerships in key sectors. Thus, the Union will have to rethink its modes of cooperation, considering the realities of the world today. Whether it likes it or not, it will have to try and establish cooperation agreements with democratic regimes regarded as illiberal or autocratic.

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It has a lot of ground to make up in terms of forging ties with Africa, where it is lagging far behind China and trailing Turkey, India, Brazil, Russia, the Gulf states and Japan. It must also build long-term cooperative relationships with Russia and establish itself as an active player in the Arctic area, if only to address the ecological imperative. Europe has been complicit in the all-too-familiar failures and upheavals, and that merits recognition too. It must rethink its alliances and align its actions with its stated goals.

WITHOUT THE PARTICIPATION OF THE PEOPLE, THERE CAN BE NO VIABLE SOLUTIONS

People are not sufficiently well informed or prepared to make such difficult collective choices, but they are aware that new challenges are emerging. Many young people are anxious about the dire ecological outlook, coupled with the potential deterioration in personal well-being conditions. Incidentally, and in contrast to this, "millennials" are ready to risk more than previous generations to obtain high financial rewards. The younger generation is clearly divided too. Social and civic reactions to the recession will reproduce and accentuate past cultures and divisions. It is vital that we contain this risk and create positive outlooks so that the world of work and creativity can unite and engage. This puts a lot of responsibility on the media, families and public authorities.

Along with education, the collective imagination is extremely important. American power is inextricably linked with the close relationship that has developed between Hollywood, Silicon Valley and the Pentagon. And the European consciousness is highly Americanised. Are we capable of reviving the European dream by focusing on human development rather than star wars?

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Creative and cultural resources should be used to fuel a revival of ethics. Today, we ask digital giants themselves to incorporate criteria of truth and justice into their algorithms, instead of forcing them to comply with criteria defined by public authorities. Isn't this a sign of capitulation? It is incumbent on all of us to restore in auto-ethics, socio-ethics and cosmo-ethics, as highlighted by Edgard Morin[X]. It is time to revive politics along the lines recommended by Hannah Arendt; in other words, to develop joint ideas, projects and actions. Civil society must take matters in hand instead of complaining about the failures of political representation bodies and governments.

Notes pending

[I] *Jean-Claude Trichet is among those who have said this, in an interview with the JDD in August.*

[II] *Source: Ulf Lindahl, AG Bisset Associates currency research.*

[III] *Source: David Riley, Blue Bay Asset Management.*

[IV] *See the work done by La Fabrique de l'Industrie.*

[V] *Associate Editor of the Financial Times.*

[VI] *Editorial in The Economist, August 2019.*

[VII] *Norway's sovereign wealth fund is worth almost one trillion euros. Source: Norges Bank Investment Management, 3 September 2019.*

[VIII] *A European industrial strategy based on cooperation: six pillars and twenty-five proposals, Philippe Herzog, 2012.*

[IX] *Consumers want fair trade, but not its price, FT, August 2019.*

[X] *Ethique, La Méthode, Volume 5.*