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CRISIS, DIVERGENCE AND MONETARY UNION IN THE ITALIAN DEBATE: A REVIEW ESSAY

Carmen Vita *

ABSTRACT

In the past decade, several studies have been conducted on the international crisis and its impact on European economies as well as EMU sustainability issues. Based on a selective review of this literature and recent books on *The crisis in the European Monetary Union. A core-periphery perspective* by Giuseppe Celi, Andrea Ginzburg, Dario Guarascio and Annamaria Simonazzi, and on *Europe's Political Spring: Fixing the Eurozone and Beyond* by Agnes Bérnassy-Quéré and Francesco Giavazzi, this essay explores some interpretations of the crisis and the suggested solutions, as well as some hypotheses concerning the EMU's future.

1. Introduction

The international crisis and its repercussions on European economies have revealed, as well known, substantial sustainability problems in the European Monetary Union. These problems were especially accentuated between 2010 and 2012 when the risks were envisaged of an exit by Greece, Ireland, Spain, Portugal and Italy from the Euro Area. Fears of a return to national currencies and a devaluation of the respective exchange rates fueled an exceptional growth in interest rates on securities issued by those countries.[1] Some international institutions thus explicitly referred to the possibility of a "Euro break" induced by a banking crisis (IMF 2012). The European institutions intervened in several ways to reduce this possibility and, in general, to resolve the crisis. Firstly, the ECB adopted various pro-

* Università del Sannio. Address for correspondence: carmen.vita@unisannio.it.

[1] For a review of the debate on exchange rate regimes motivated by the great recession, see Corsetti *et al.* (2017).

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grams to purchase securities on the market with the aim of reducing interest rates (see also Celi *et al.* 2018: 39ff). At the same time, the beneficiary countries had to adopt a series of fiscal policies and structural reforms[2] aimed at reducing public deficits and liberalizing markets, especially the labor market.[3] These interventions should have had other effects: through the containment of wages and domestic demand they would improve the balance of imports and exports and, in perspective, would promote the economic growth and reduce the debts of the countries in difficulty (Padoan *et al.* 2012).

Based on a selective review of recent literature on these themes, the aim of this essay is to explore some interpretations of the crisis and the solutions suggested, as well as some hypotheses concerning the EMU's future, mostly in the Italian debate. Section 2 examines the relevant literature on crisis and European context. Section 3 outlines some evidence of divergence process in EMU's countries. Section 4 presents some effects as the centralization of capital. Section 5 puts forward some hypotheses concerning the EMU's future. Section 6 draws conclusions.

2. Crisis and European Context

The long phase of economic stagnation is the result of the successive occurrence of two crises of a different nature. The bursting of the real estate mortgage bubble was the trigger, and the deregulation of financial markets was the explosive. Moreover, in some Eurozone countries, the public debt crisis would contribute to the persistence of financial fragility (D'Ippoliti and Roncaglia 2011).

The first is an "American" crisis because its main outbreaks (sub-prime credit crisis and the bankruptcy of Lehman Brothers) were located in the

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[2] Other measures are the mutualization of debts, the establishment of a real banking union with European deposit insurance, the establishment of a federal budget and a system of transfers between countries as well as measures to stimulate inflation in the countries with foreign trade surpluses. Last but not least, is the urgency to increase the degree of democratic legitimacy of the Union's institutions (Stiglitz 2014). "There is, almost, a general consensus that the one piece missing for a complete Banking Union is deposit insurance […]. However, a common deposit insurance is not compatible with the current practice of banks holding very large amounts of the government debt of their own government. An insolvency of the sovereign would bankrupt the banks, with the costs to be borne by the entire Eurozone. The problem is entirely political" (Gros 2017: 47).

[3] The problem is that the "reforms" required by the ECB all fall on the debtor countries. For this reason, they will not contribute to any re-equilibrium, rather they accentuate competitive deflation, thus increasing the distrust of the markets in the future value of the securities of the peripheral countries of the Union (Brancaccio and Passarella 2012: 81).

United States, even though it has had worldwide repercussions. The relative financial excesses would find their origin in the necessity of capitalism to sustain aggregate demand after the remarkable changes in the distribution of income that have occurred in the past thirty years (Barba and Pivetti 2009; but also Fitoussi and Saraceno 2010). The bankruptcy of Lehman Brothers would be an emblematic example of erroneous economic policy: banks are considered responsible for determining the crisis and, in an attempt to match a penalty to guilt, a systemic shock has been introduced whose consequences have spread with a domino effect on the entire international financial and economic system (Baglioni 2018).

The second is a "European" crisis. It is located within the Euro Area and highlights its institutional fragility, especially, according to many observers (Alessandrini *et al.* 2013), in relation to an incomplete institutional integration process. In this sense, the crisis is not due to a problem of public debt-balance of payments, nor to the lack of national competitiveness, labor mobility or fiscal restrictions; rather, it is the result of the interaction between the financial crisis and the incomplete nature of European institutions (Celi *et al.* 2018: 274). Moreover, "the process of financialization in the Southern periphery played a crucial role in the emergence of imbalances between the center and the periphery and in the outbreak of the recent crisis. However, it had also long-term effects, hampering, retarding or diverting the process of development" (Celi *et al.* 2018: 234). A significant role is also played by high private debt, the fragility of the banking system and the increase in differentials on sovereign bond yields (Sarcinelli 2012). Specifically, these causes are linked to two excesses: one in finance, believing that growth would reabsorb debt financing; one in the freedom of market forces and international competition, considered the drivers of more growth and employment. Finally, there is a "geo-economic" cause that comprises three imbalances: one from the USA, which consume too much and save little; one from China, which consumes little and saves too much; one from the EMU, which does not have a unitary decision-making power, despite having a single currency and a good economic structure (Quadrio Curzio 2010: 101-102). The recession of recent years would not simply be the result of a temporary and unexpected shock caused by the financial sector; rather it is the inevitable consequence of an unbalanced growth path that the United States has followed in recent decades (Zezza 2010). Then, the structural problem of the European Union generated panic in the markets due to the absence of central banks able to support national governments, forcing the same governments to undertake excessively restrictive austerity measures (Daniele 2015). The consequence was a sharp fall in the overall demand for goods and services at a time when the economy needed to recover. In this way, on the one hand, governments could not control

deficits and, on the other, the debt/GDP ratio increased due to the collapse of GDP. In this regard, also Alesina and Giavazzi stressed that the deficit is not always a problem for the country; in some cases "budget deficits (and surplus) have a positive role in mitigating the temporary fluctuations in tax revenues and public spending" (Alesina and Giavazzi 2006: 192, *our translation*).

There is a prevailing opinion that policies aimed at containing domestic demand and wages are able to guarantee an improvement in the foreign trade balance. This supports the idea that rigid labor protection must be replaced by a temporary income protection system and active policies to assist workers involved in restructuring to access new jobs, allowing greater freedom of movement towards more innovative sectors and activities, and also strengthening economic efficiency and potential growth (Micossi and Gros 2006). This should also allow the reduction of debts of countries in difficulty. However, in Europe, it is apparent that countries with trade deficits register, on the one hand, marked growth in production and price costs and, on the other hand, a relatively modest growth in productivity, with a consequent increase in the foreign debt. It thus seems that the reduction of wages does not necessarily entail the reduction of imbalances; indeed, it may accentuate them (Krugman 1991). Moreover, the divergence between the trade balances of "strong" and "weak" countries may be further fueled. Following a reduction in the monetary cost of labor per unit of product, firms, rather than reducing prices, could increase the profit margin or, at least, leave it unchanged, determining, in any case, a change in the income distribution: while the wage share decreases, the profit share increases. In addition to the traditional effect linked to prices and competitiveness, there is a second unbalancing effect linked to the distribution of income on the Kaldorian idea of the role and power of "capital" in determining the structure of the economic system. In other words, a further channel is added through which openness to free trade and monetary and financial integration generate divergence: the process of "delocalization" or "centralization" of the "periphery" capitals towards the "core" areas (Celi *et al.* 2018, ch. 2; Brancaccio and Vita 2018). This second effect generally assumes scant relevance to the mainstream literature, while it could have a more substantial impact than the traditional one. The rules governing the Eurozone add asymmetry and rigidity to a system that is in itself unduly sclerotized by the abandonment of exchange rate flexibility (Bagnai 2011). Thus, some observers believe that this rigidity can be compensated in other ways, including greater mobility of productive factors, wage flexibility, productive diversification. In their absence, at least the convergence of inflation rates among member countries should be encouraged in order to prevent countries with low inflation from offering goods at competitive prices, becom-

ing exporters of goods and capital to countries with higher inflation so that they would become capital importers and therefore more financially fragile. Otherwise, it would be necessary for the institutions to work to remedy the consequent regional imbalances, providing for a system of fiscal integration (Eichengreen and Wyplosz 2017) able to make transfers from expanding areas to those in recession in the hypothesis of a crisis.

In a monetary union, after the loss of the monetary instrument, fiscal policy becomes responsible for stabilizing the economy against asymmetric shocks, resorting more to automatic fiscal stabilizers than to active policies. However, as long as a substantial level of political integration does not materialize, national governments have to conduct fiscal policies; this requires mechanisms able to safeguard the coordination and regulation of fiscal policy through the introduction of rules and institutions (Brunila *et al.* 2002).

3. Divergence: Some Evidence

After 2012, ECB interventions on the markets contributed to the reduction of interest rates in the peripheral countries, but overall the macroeconomic divergences between these same countries and the rest of the monetary union widened. In Southern European economies, production decreased, unemployment increased, corporate insolvencies increased, relations between public debt and GDP became very pronounced and persistent. Therefore, the hoped-for economic and financial recovery, especially in the peripheral countries of the Euro Area, seems not to have achieved adequate results, in spite of a significant contraction in state deficits and a deflation of wages which in some cases was considerable. Empirical evidence shows, on the one hand, a progressive loss of competitiveness of the higher inflation areas with the consequent growth of trade deficits towards foreign countries; on the other, an improvement in competitiveness for those areas better able to contain price dynamics, with the effect of accumulating trade surplus (Graziani 2002; 2003). In other words, the trade gap between the core countries (Germany in particular) and peripheral countries widened, accentuating the imbalance of credits and debts within the European Monetary Union. This evidence should be emphasized in an environment of countries in which there are substantial structural differences in terms of capitalist development, industrial structure, regulation of labor markets (Celi *et al.* 2018; Bénassy-Quéré 2017). And because of these differences, wages, labor productivity, and therefore prices change in different ways and at different rates. Therefore, the internal dynamics may be regarded as factors in support of the view that

integration produces divergence (Thirlwall 2000). "The crisis has thus led to a sharp economic divergence between core and peripheral countries. Contrary to the situation in the (export-driven) Germanic core of Europe, the crisis is escalating in the (debt-driven) southern countries of Europe" (Stockhammer 2014: 1).

The differences in the productive structures of the countries of the "core" and "periphery" of Southern Europe have existed since the beginning of the unification process and have led to an asymmetric capacity of countries to adapt to external shocks. This outcome, however, does not disturb observers of traditional approaches. According to this interpretation, these imbalances, and especially commercial ones, are a "natural" consequence, a virtuous process that is accomplished when it makes for more economic and financial integration between countries (Blanchard and Giavazzi 2002). The mechanism is based on the fact that greater financial integration should enable LDCs to attract capital from other countries, thanks to greater remuneration, which in this way would ensure even greater production, higher income, higher labor productivity. This condition is in line with the optimistic vision that accompanied the process of European economic integration: the removal of all barriers to the free movement of factors of production – capital and labor – would lead to the location of production activities to regions where labor has a lower cost. It should operate in an automatic rebalancing between rich areas and poor areas if the market is left to perform its function fully. In other words, there are spontaneous convergence mechanisms among the countries with the highest income and lowest income: those countries with a lower level of per capita production are those in which capital is scarcer and therefore better paid. These countries will therefore attract and accumulate capital and will have: i) faster growth in labor productivity and competitiveness; ii) greater income growth; iii) better ability to obtain and repay loans. But, as underlined in Celi *et al.* (2018), "the belief that the single currency would be a preliminary step of a process that would eventually lead automatically to political unification was based on the idea, which found support in economic theory, that the European integration process had a self-sustaining dynamic: integration in one 'functional' area would tend to spill over into other areas. Proponents of this theory, called 'neo-functionalism' (Haas 1958), pointed to the experience of the early years of the European integration. […] the belief in a smooth process leading to political unification was based on two presuppositions. The first related to the expectations of income convergence among the countries joining the Monetary Union […] The second assumption was that the costs of transition towards the political union, entailed by the common monetary policy, would not be too high. This corresponds to assuming that the structures of the various coun-

tries were not too dissimilar, and responded equally to external shocks" (Celi *et al.* 2018: 54).

4. Where Is Capital Going?

In theory, the European Economic and Monetary Union belies the conventional idea that trade liberalization processes and financial and monetary unification would favor convergence among the macroeconomic performances of the countries involved. Yet the internal dynamics may be instead regarded as supporting the view that integration produces divergence, according to the interpretations of Myrdal and Kaldor. In contexts such as this, an anti-inflationary policy based on control of money produces a twofold negative effect which impacts on the real economy, in terms of income and employment, and on the financial structure. With regard to this latter point, if the monetary authorities decide not to intervene as "lenders of last resort", they may undermine the banking system as a result of a process of disintermediation: the debt and credit positions may find solutions outside the institutional system or through new kinds of intermediaries. This would accelerate the velocity of circulation of the monetary base and increase the interest rate, so that the credit system would risk collapse because of a lack of liquidity (Kaldor 1986; Alessandrini *et al.* 2013). Linked to this is an additional effect of deflationary policies. Contrary to traditional arguments, on the one hand, deflation reduces the value of capital, so that firms, in order to remain solvent, are forced to sell large amounts of physical capital; on the other hand, the austerity policies reduce the guarantee of solvency of domestic firms by the government. Moreover, countries in crisis end up by finding the only funding instrument in the capital market (Graziani 2001), thereby increasing their public debt and transforming the liquidity crisis into a solvency crisis. Consequently, the risk of transferring the ownership of capital from some countries to others is amplified. This situation is probably exacerbated by the behavior of the central monetary authorities, which can influence the transfer of capital ownership from "peripheral" to "core" countries through transnational mergers and acquisitions, contributing to the centralization of capital. The pressure of financial capital heightens differences among European countries. Ultimately, the implemented policies after the crisis seem suggesting an increasingly unbalanced and divergent relationship between the Union "strong" and "weak" countries but also an increase of the centralization of European capital into the stronger countries.

Recent crisis also suggest that the Eurozone could favour a negative interaction between financial markets and fiscal policy (Canale *et al.* 2018).

Financial markets "appreciate" fiscal discipline, and this suggests that the same financial markets may limit the fiscal policy choices. This influence may be amplified when monetary union does not have a "lender of last resort", a centralized budget, but high mobility of capital, especially in periods of high indebtedness (Ardagna 2009; Foresti and Napolitano 2017). During the sovereign debt crisis in the Eurozone, fiscal austerity was the result of fear and panic in the financial market; as a result, fiscal policy decisions in Europe were constrained by the financial market's dynamics (De Grauwe and Ji 2013). These interactions between financial markets and fiscal policy make it difficult to reconcile the simultaneous existence of free capital flows, financial stability and flexibility of fiscal policy (Canale *et al.* 2018). The existence of this political trilemma seems to be of primary importance because it can become an additional factor supporting ongoing reforms of EMU governance in order to safeguard economic stability: the reforms of the banking union (Montanaro 2016; Gros 2017), the role of the ECB prudential supervision and "lender of last resort" are intended to weaken the influence of the financial markets on fiscal policy, reduce financial instability, and minimize the risk of self-fulfilling crisis (Obsfeld 2013; Pisani-Ferry 2012; De Grauwe 2011). In addition, with regard to capital movements and the strength of speculation it has been observed that greater chances to defend against speculative attacks derive precisely from the adoption of a single currency (De Cecco 1998). Considering the institutional rules of the European Monetary Union, speculation has benefited not only from the national public debt but also from the absence of unified management of financial policy (D'Ippoliti and Roncaglia 2011: 208). Therefore, "one of the main lessons of the financial crisis is that, to preserve full financial integration and financial stability, the Eurozone needs to build elements of a common fiscal policy. […] A major lesson of the financial crisis is that, when this happens, monetary policy should be coordinated with fiscal policy to sustain aggregate demand" (Tabellini 2017: 33-34). In spite of this, the role of the EU should be limited to two areas: mandating the adoption of state-of-the-art fiscal institutions and, through the European Banking Authority eliminating the loop between sovereign debt markets and banking systems. "Fiscal policy is a valued national prerogative. Nothing is more delicate than the national decision of who to tax, how to tax, and on what to spend the revenues. The idea that these decisions, or even significant influence over these decisions, could be turned over to technocrats in Brussels was always illusory, short of political union which, recent events remind us, is not in the cards". But, "the principal obstacle to repatriating fiscal policy to national governments is that fiscal problems could infect and destabilize the banking systems of not just the home country but also its neighbors, whether because banks are heavily invested in gov-

ernment bonds or because they lend to one another through the interbank market. Contagion from the bond market to the banking system and from one banking system to another remains a serious risk" (Eichngreen and Wyplosz 2017: 62-64).

5. Crisis, "Genetic Defects" of the Single Currency and Exit

There is a large part of literature on analysis of the advantages and disadvantages of the single European currency; [4] here we describe how the so-called "genetic defects" of the Euro Area can create instability. The Euro is a rigid currency, on the one hand, and a defenseless currency on the other, which gives rise to a system similar to an ultra-rigid fixed exchange rate system consisting of very different countries. According to the theory of optimum currency areas propounded by Mundell (1961), there are four conditions that make the adoption of a single currency sustainable and efficient: price and wage flexibility, mobility of production factors, integration of fiscal policies and convergence of inflation rates.[5] The Eurozone is largely deficient in these factors; a deficiency that systematically and structurally generates growing dominance of the strongest and more competitive countries over the weak ones, which cannot devalue to realign their prices with those of the competition: the former have commercial surpluses and therefore financial reserves to lend to countries that buy their goods; the latter accumulate trade deficits and debts to cover them: "the OCA approach focuses on the individual countries' characteristics, it misses the systemic perspective: by ignoring the interdependence among countries, it can neglect the effects of each country's policies on the rest of the area" (Celi *et al.* 2018: 35). The growing trade surplus of strong countries and the corresponding gaps of other European countries have contributed to the Eurozone crisis: "It has never happened that a nation with the largest current account balance to GDP ratio drains liquidity financed through deficit with the increase in the public debt of its products importing countries" (Di Taranto 2017: 44 *our translation*), where the function of the core countries of a monetary system is to create liquidity and not to drain it (De Cecco and Maronta 2013).

Several observers look favorably on a possible Eurozone break-up. In Europe, there are different positions favorable to a coordinated exit from the Euro and a return to national sovereignty by allowing individual coun-

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[4] Among others, see Jossa (1999).

[5] See also De Cecco (1971).

tries to devalue. Although the exit strategy appears to be a very high risk operation that, by itself, does not solve all the problems, according to some observers it remains a possible option and, to some extent, a desirable one (Bagnai 2012): monetary unification could be necessary if the renunciation of an element of flexibility (that of exchange) is useful for absorbing shocks or compensating for structural divergences. Perhaps the most honest and least destructive thing to do, rather than invoking ideological rules, is to recognize the mistake, pay for it, and endure the exit from the Euro costs (Bagnai 2011). Some other proposals emphasize that, only at national level, countries can defend themselves from the rigid liberal policies imposed in recent decades and can adopt an industrial policy and public investment substantially precluded by the prohibition of so-called state aid (Grazzini 2017). Moreover, it is argued that the limitation of national sovereignty is the means to attack social rights: in the UK and the USA the attack on workers' rights and their material conditions of life took place openly and frontally between the late 1970s and the first half of 1980s; in continental Europe it developed more gradually and indirectly, by the progressive depletion of national sovereignty (Pivetti 2011). However, we cannot neglect the risks related to the disintegration of European Monetary Union (Zingales 2014), mostly the destabilizing effects on bank balance sheets, the competitive devaluations and the possibility of nationalist tensions that today appear dormant (see also Brancaccio, De Cristofaro, Vita 2019). It would be better to remain in the Eurozone, reviewing and redefining the structure rather than exit and rebuild the infrastructure of the national currency (Marelli and Signorelli 2017). Moreover, "the urgency to rethink EU policy lies behind the resurgence of industrial policy. Industrial policy should steer investment towards those activities that are desirable in both economic and social terms, fostering structural change, reallocation of resources, diversification and upgrading. We argued that this process of development is not automatic, and it is especially hard for the latecomer countries, which operate far from the frontier. It calls for the active intervention of the state, which must be tailored to the various areas' levels of capabilities, while aiming at the same time to promote their extension and upgrading. The need for a 'new' industrial policy has at last been accepted also at the EU level" (Celi *et al.* 2018: 252-253).

However, "The risk of Euro exit and of sudden stops remains a significant concern. To be viable in the long run, the monetary union needs an effective system of risk-sharing in exceptional circumstances, such as sudden stops and systemic financial crisis" (Tabellini 2017: 35). The Euro has a future only if we enact risk-sharing among all Euro Area countries, by implementing some strategies as public debt mutualisation (Di Taranto 2017) but also the European insurance of bank deposits and the ECB's

monetary policy aimed to reduce the spreads between countries (Minenna *et al.* 2016).

6. Conclusions

The intervention of the ECB as a "lender of last resort" has reduced, according to some, the risk of a possible exit from the Euro Area due to the explosion of interest rates. The austerity measures would have led to an improvement in the economic cycle of the Eurozone through an "injection" of confidence such as to favor the recovery of consumption and investments.[6] In reality, this trust effect finds modest empirical evidence (De Grauwe 2013). Moreover, the deflationary spiral into which the austerity policies forced the peripheral countries raised another risk: that of an increase in social tensions (Vercelli 2017) and a reduction of political consensus on the overall project of European unification (De Grauwe 2013) because the European structure is made up of countries that are competing with each other while under common rules. "Since 2008, tight fiscal policies, belated monetary stimulus and perverse adjustment policies have led to profound crisis in the European periphery. Many areas have suffered destruction of productive capacity and permanent loss of output […]. The severity and extent of the crisis and its unequal effects have increased the risk of fragmentation of the EU and threatened the very survival of the Monetary Union" (Celi *et al.* 2018: 251). However, the increase widespread hostility to the EU could become a limit for the possible revision of the institutional structure in the next future (Tonveronachi 2016). The future of European integration needs: a political space in which leaders are not distracted by emergency of a crisis; and a consistent integration strategy to prevent new crises and to take technical decisions for a more resilient Eurozone (Bénassy-Quéré and Giavazzi 2017).

On the other hand, the exit option does not guarantee the maintenance of a solvency condition and, therefore, the end of the capital centralization process. The resulting devaluation of domestic currency could lead to a reduction in the relative wealth of domestic firms with further foreign acquisitions of capital goods on the domestic market (Brancaccio and Fontana 2016). "Global imbalances in the balance of payments are a problem for

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[6] Among the scholars, which supported the idea of expansive austerity, we can find a kind of "revisionism": some of them noted that cases of successful fiscal consolidation based rather on increasing taxes than on the reduced expenditure (Perotti 2013). For a review of the thesis of expansive austerity, see also Petraglia and Purificato (2013). On fiscal consolidation, see Foresti and Marani (2014).

the world economy. They produce large, volatile speculative capital flows; [...] and produce arbitrary reallocation of resources between countries in deficit and surplus countries, often from poorer to richer ones" (Thirlwall 2011: 357, *our translation*).

The single currency does not allow those typical rebalancing mechanisms of a competitive system that proves, once again, to be a mere statement of principle when there are unstable conditions in the external accounts, as happens today between Germany and the Union peripheral countries. Compared to the single currency, the economically weaker Eurozone nations have only one instrument of economic policy: deflation, whose negative effects on employment rates are masked by new forms of flexible working (Di Taranto 2017). Proponents of a deflationary policy envisage three goals: (i) reducing the deficit in the foreign accounts through a fall in demand for imported goods and an acceleration in exports due to the worsening of the internal outlets; (ii) a reduction of the public deficit; (iii) a brake on price increases (Sylos Labini 2014). The cost of a policy of rebalancing the balance of payments based on *laissez-faire* in relations with foreign countries and deflation is part of the de-industrialization of a country (Kaldor 1979; Celi *et al.* 2018: ch. 3).

Alternatively, the problem is in terms of preferences difference: "The inevitable starting point is that EU countries have different preferences in terms of the efficiency-equity trade-off. The question, then, is whether making progress in parallel along the two sides of this trade-off may be acceptable politically, given that progressing along only one dimension is unlikely to be on offer" (Bénassy-Quéré and Giavazzi 2017: 1).

However, the world economy does not necessarily have to be in this situation of serious global imbalances; it can establish some institutional mechanisms to penalize the surplus countries that are reluctant to, or unable to, spend more or reduce their surplus in some way (Thirlwall 2011).

It therefore seems that to remedy the effects of the propagation of cyclical movements caused by imbalances in the balance of payments, instead of trusting in self-regulating capacity of the market, it is necessary to exercise greater control over private spending and undertake more planning of international development[7] with a different distribution of costs between the "strong" and "weak" countries. "The Eurozone crisis has been interpreted as a balance of payments crisis. Given the impossibility to depreciate, the deficit countries' lack of competitiveness called for domestic deval-

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[7] See Kaldor (1952). These conclusions appear less anachronistic when you consider that since 2008 have been implemented worldwide, numerous protectionist measures. See, for example, European Commission (2013).

uation. Fiscal austerity was deemed able to solve the sovereign debt crisis and restore price competitiveness. While contesting this interpretation (in Chapters 2 and 7), we have argued that the Southern European countries' crisis can be interpreted in terms of a core-periphery model. Adopting a long-term view, we have claimed that the problems of the periphery are of a structural nature, and have been exacerbated by the policies implemented before and during the current crisis. Keynesian policies stimulating demand are indispensable for the broadening of the production structure and the increase in production and income that are required to ensure full employment" (Celi *et al.* 2018: 268). The differences in the productive structures of the countries of central and peripheral Europe have existed since the beginning of the unification process and have resulted in an asymmetric capacity of countries to adapt to external shocks.

The forces that protect and freeze the status quo of institutions and of productive specialization will be dominant without a public policy that: promotes, through investment, the renewal of the production structure (Celi *et al.* 2018; De Grauwe 2017); safeguards European workers (Brancaccio, Garbellini 2015) through an union job (Bénassy-Quéré 2017); looks at a policy of control of capital exchanges and goods more favorably (Kaldor 1978).

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