EUROPE
and the
GLOBALIZATION

- **Marshall Plan &US technical assistance programme**
- **Diffusion of Us techniques & practices**

Americanizing Europe?

- US managerial techniques, but also neo-liberalism: eliminating restrictive business practices and trade barriers:
- economic & social
- development
- GDP growth
- European integration
- process (EEC)

- → **increase of FDI**

  » new technologies

  » new products

  » new organizational forms

  » new marketing techniques

  » new actors: McKinsey

Rhine model or Sozialmarktwirtschaft or Alpine Capitalism (M. Albert)

- Social constraints – Gemeinschaft (community)
- Mitbestimmung (1976) in firms with more than 2000 employees
- Banking system (housebank) – banking capitalism? – Swiss banking system
- Cross shareholdings -
- Equal opportunities vs. the jungle law
- (Ordoliberalism – Bundeskartellamt)

Introducing financial, social and labour market aspects

- Market capitalism
- Socialdemocratic capitalism
- European continental capitalism
- Mediterannean capitalism

Market capitalism

- The preeminent role of the market
- Limited state intervention, but R&D
- Financialization

Social democratic capitalism

- Flexibility of work force via a mixture of moderate employment policy and an high level of social protection

- Labor policies: easy access to education and professional skills

European continental model

- Similar to the social democratic model
- BUT
- More employments protection and lower level of social protection
- Centralized financial system permitting firms to elaborate long term strategies
- Coordination of salary bargaining and salary policy based on solidarity at a lower level than in the social democratic model
- Skill and professional education not too much pushed

Mediterranean Model

- Much higher level of employment protection together with a lower level of social protection compared with the European Continental model

Lower level of competition – centralization of financial system

+

Lower level of skill of the work force

Do not permit to develop long term strategies based also on high salaries

Europe's slowing down or Europe's Disappearance ?

The slowing down of the European economic growth before the crisis

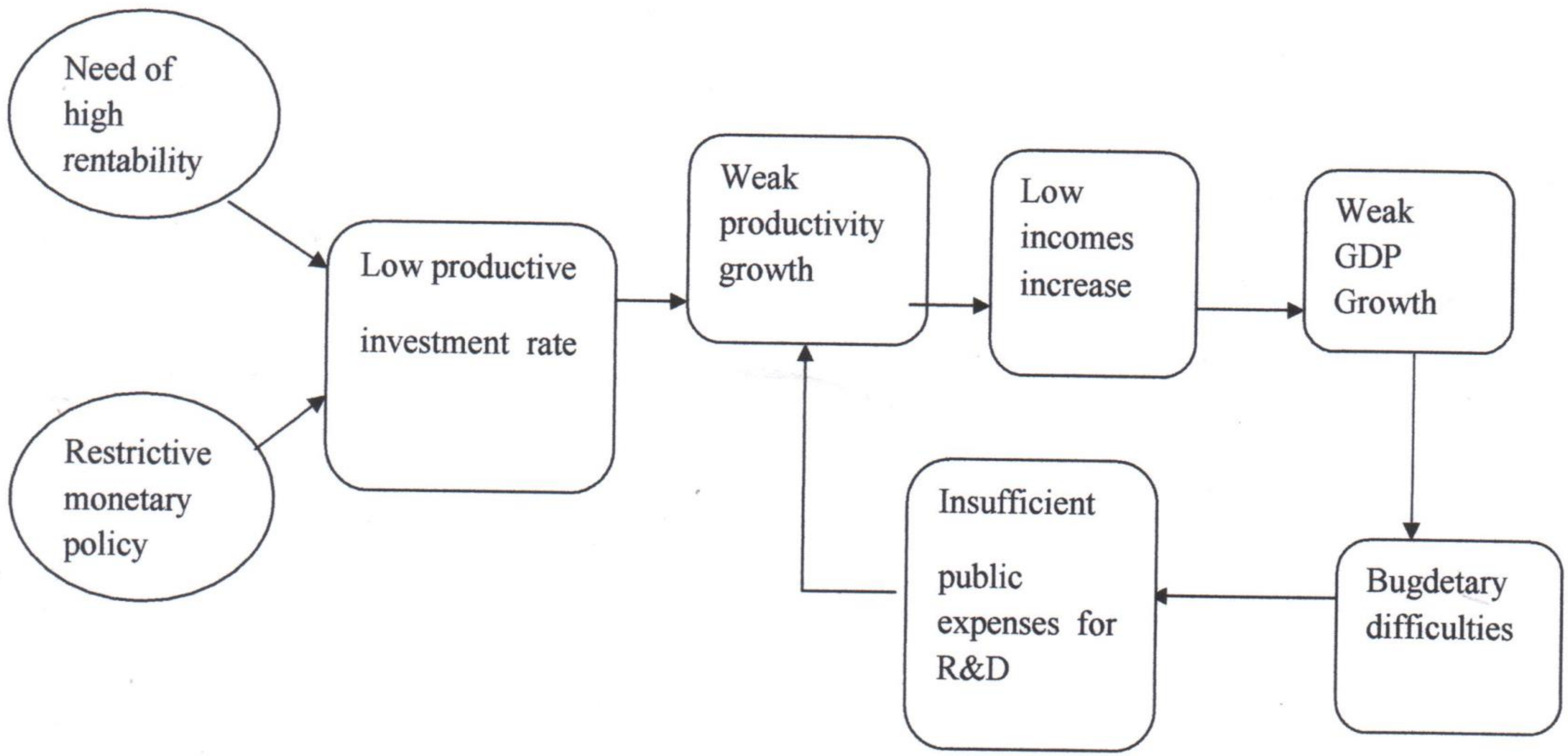
country	1965-1974	1975-1984	1985-1994	1995-2004
Germany	3,7	2,2	2,5	1,4
France	4,7	2,6	2,1	2,0
Italy	4,6	2,9	2,0	1,4
Spain	5,7	2,3	2,8	2,9
Euro Zone	4,5	2,5	2,3	1,9

Losing ground with the USA

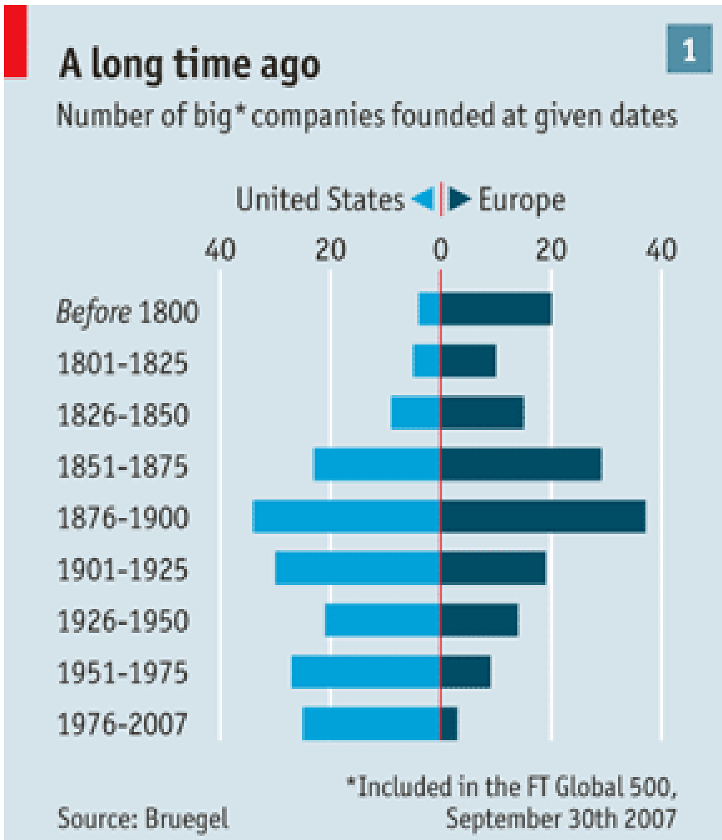
(per capita income USA=100)

	1950	1960	1970	1980	1990	2006
France	58	70	82	86	82	76
Germany	32	53	56	59	79	71
Italy	41	58	72	79	79	70
Spain	27	32	49	58	61	70
Euro area	42	56	67	71	75	73

The vicious “circle”



Old vs. new firms



- Europe gave birth to just 12 new big companies between 1950 and 2007. America produced 52 in the same period (see chart 1). Europe has only three big new listed firms founded between 1975 and 2007. Of those, two were started in Britain or Ireland, which are closer to America in their attitude to enterprise than continental Europe. Europe’s big privately held firms, too, mostly date from before 1950, often a very long time before

Europe vs. USA: how difficult is to create new business

- In 2003, analyzing Europe's entrepreneurial gap, the European Commission cited a study which showed that during the 1990s, 19% of mid-sized firms in America were classified as fast-growers, compared with an average of just 4% in six European Union countries
- Data show that continental Europe has a problem with creating new businesses destined for growth. According to the Global Entrepreneurship Monitor, which compiles comparable data across countries, in 2010 "early-stage" entrepreneurs made up just 2.3% of Italy's adult population, 4.2% of Germany's, and 5.8% of France's. European countries are below—in many cases well below—America's 7.6%, let alone China's 14% and Brazil's 17%.

Still too many differences

- Europeans work less than Americans:

	USA	1787 hours per year
	UK	1625 hours per year
	Germany	1413 hours per year
but	Greece	2034 hours per year

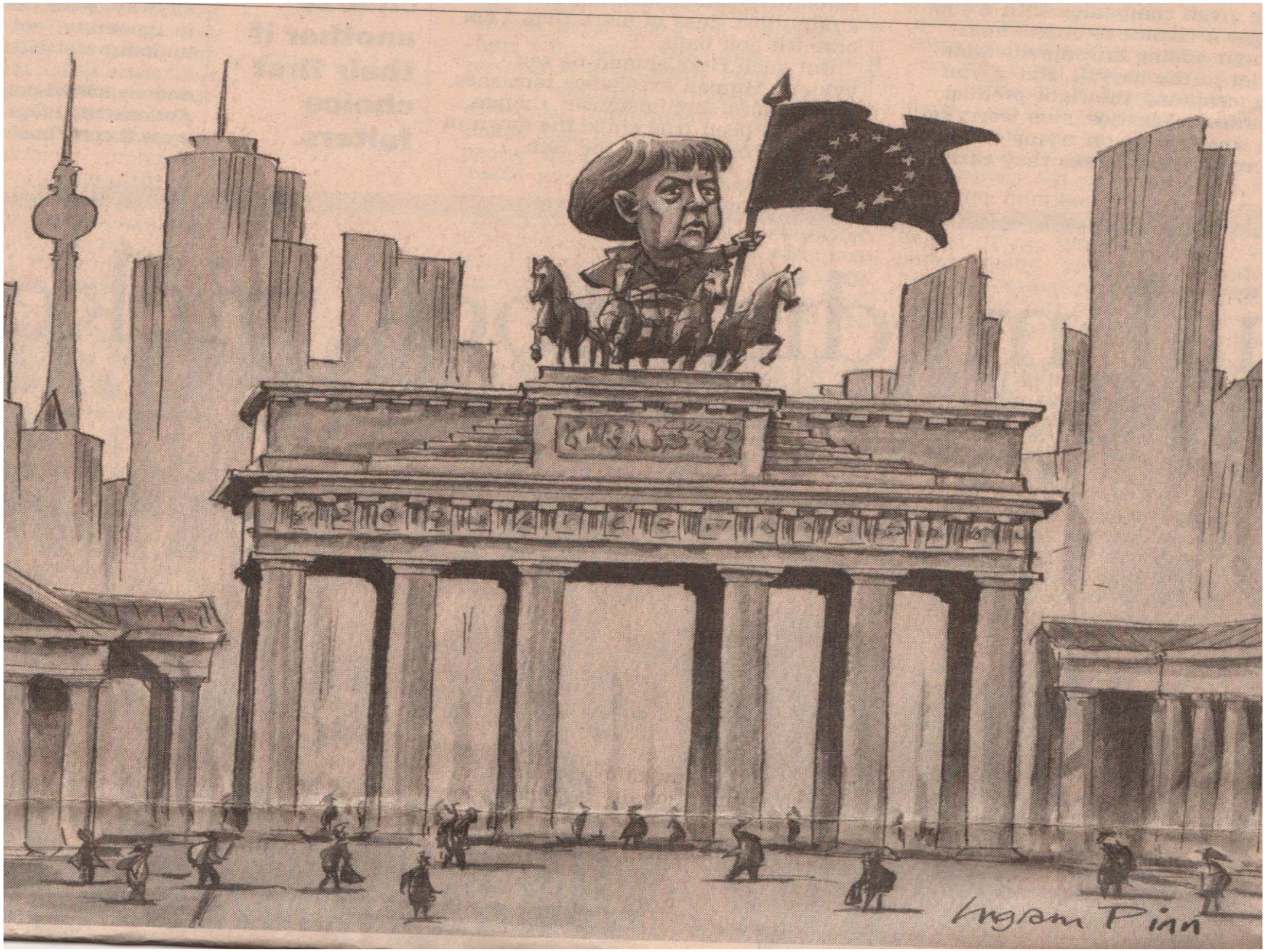
- Expensive welfare system: “being poor in US is seen as a personal fault; in Europe as a disgrace the community must eliminate”
- Competition still non-perfect; anti-trust policy still too timid
- The industrial policy based on European champions: inadequate in a global economy

Successful stories

- Europe does have entrepreneurial success stories. The richest is Spain's **Amancio Ortega**, who started work for a clothes store at the age of 13 before going on to found Inditex, a fast-fashion empire. Austria has **Dietrich Mateschitz**, who started Red Bull, an energy-drink maker. France has **Xavier Niel**, who this year started a mobile-phone revolution by offering consumers extremely low prices (Iliad); Britain has Sir **Richard Branson** (Virgin). But the list is short.
- And many European entrepreneurs—Sir Richard not included—hide their success. Mr Ortega has never given a media interview; there appear to be just two published photographs of him. **Ingvar Kamprad**, the billionaire founder of IKEA, a Swedish furniture retailer, assiduously avoids any hint of plutocratic airs.

A GERMAN EUROPE (Germanising the periphery) OR AN EUROPEAN GERMANY ?

Welcome to Berlin, the new capital of Europe



Financial Times, 23.10.2012

Who’s the sick man of Euro(pe) ?

- **“The sick man of the Euro**

  The biggest economy in the euro area, Germany’s, is in a bad way. And its ills are a main cause of the euro’s own weakness “
- (“The Economist”, Jun 3rd 1999)

- For much of the 1990s, the Bundesbank kept interest rates high in response to pressures from German unification and from an expansion in the budget deficit. In the run-up to the euro's launch, German monetary policy was constrained by the need for most European countries to converge on a single euro-wide interest rate; and fiscal policy has been kept in check by the need to comply with the single-currency countries “growth and stability pact”.

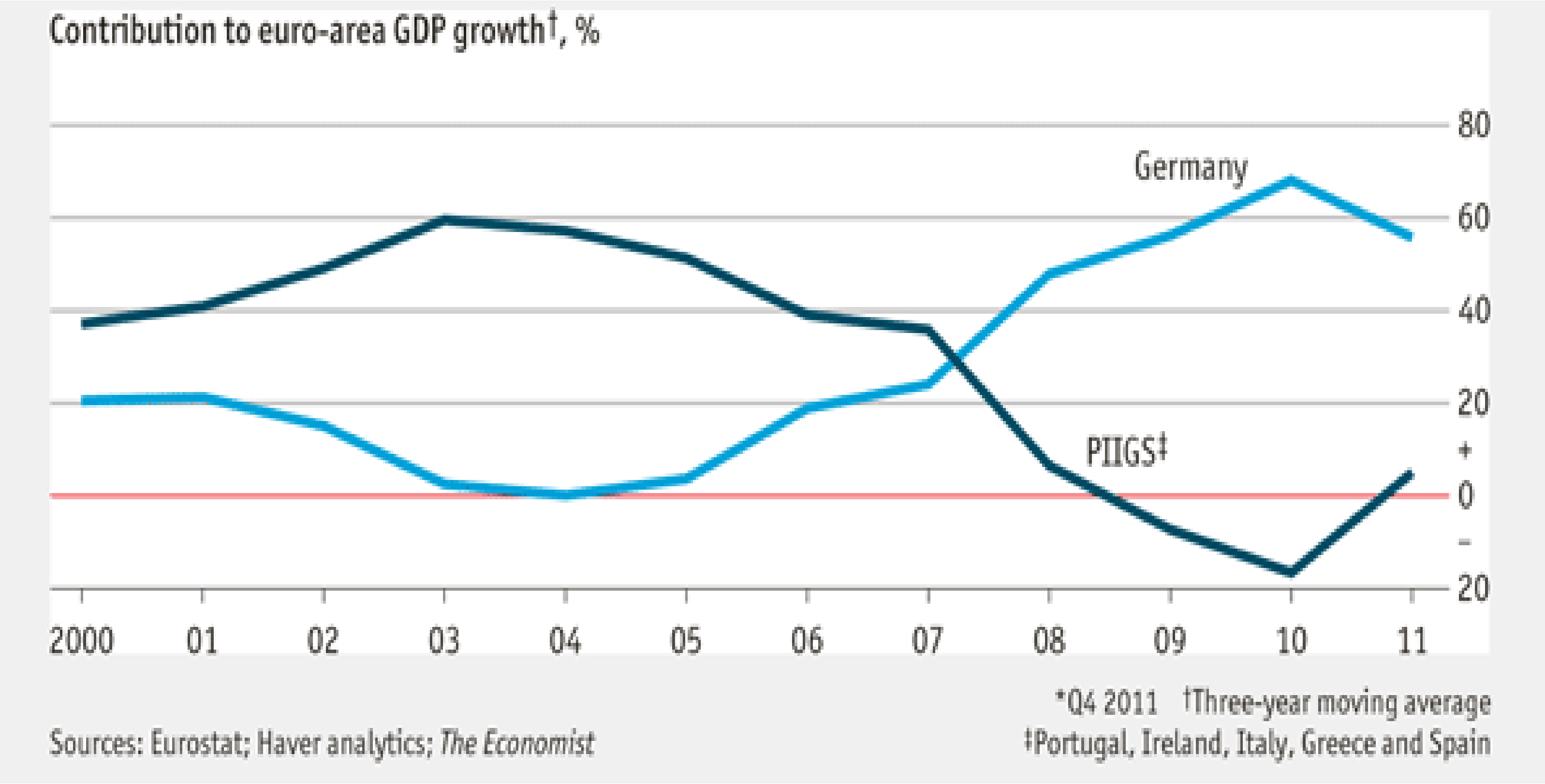
The other face of the moon

- Costs of German reunification higher than expected
- Current account deficit 1991-2001
- Euro solves the crisis: current accunt surplus 7% in 2007
- The new low wages jobs (lower than national median income in Western Europe) and part-time jobs after 2003
- R&D down from 24% to 18% of GDP from 1991 until 2012and persistenly less than the G-7 economies since 2001

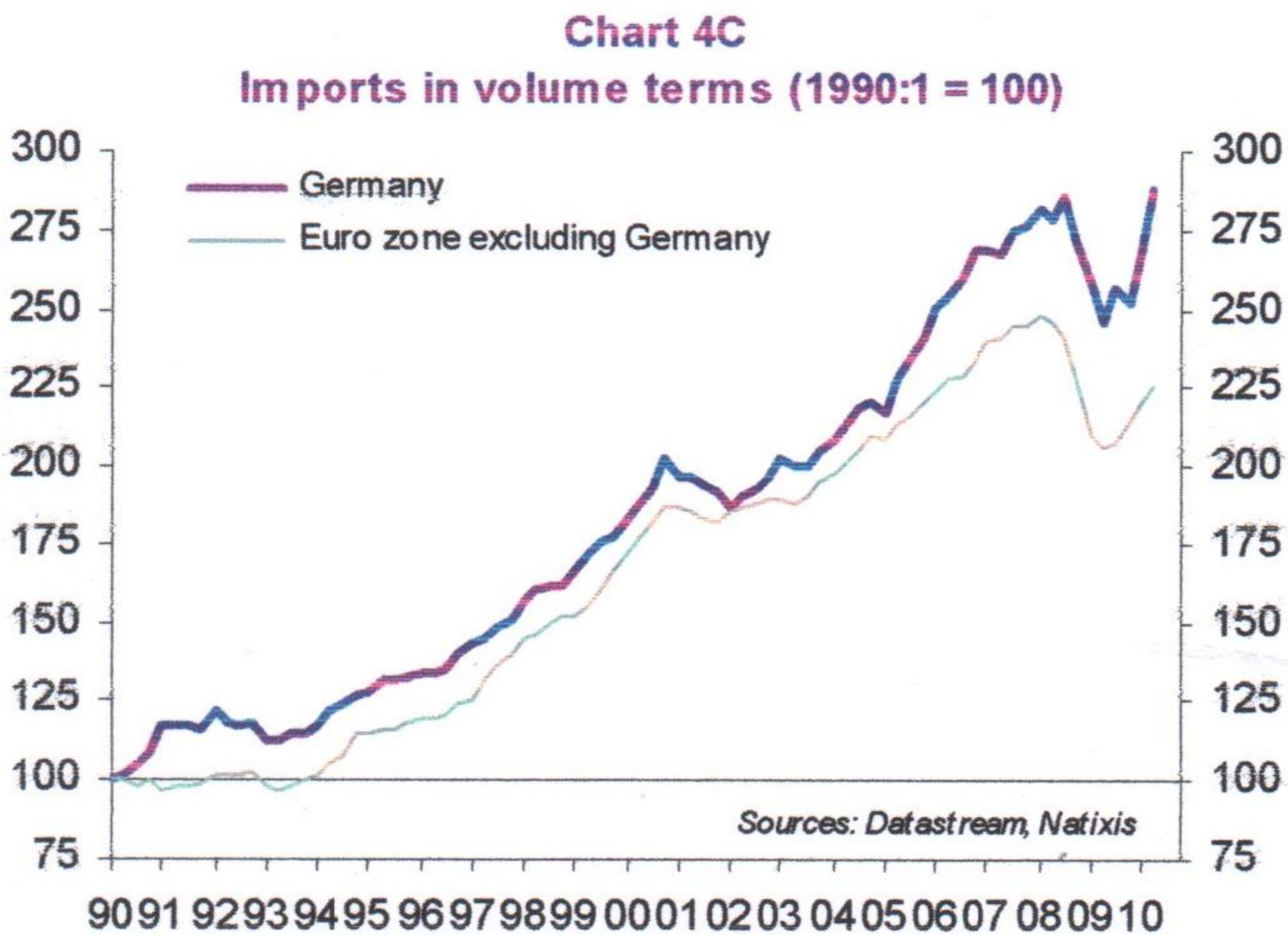
Good and bad news between 1990's and early XXI century

- 1991-99 investment rate very high (21%GDP; 18% in the rest of EU; 15% in USA)
- Firms failures crisis in 2002-03: Mittelstand and big business (Philpp Holzmann, costructions; Kirch, media and entertainement; Fairchild Dornier aircraft industry)
- Mannessman took over by Vodafone

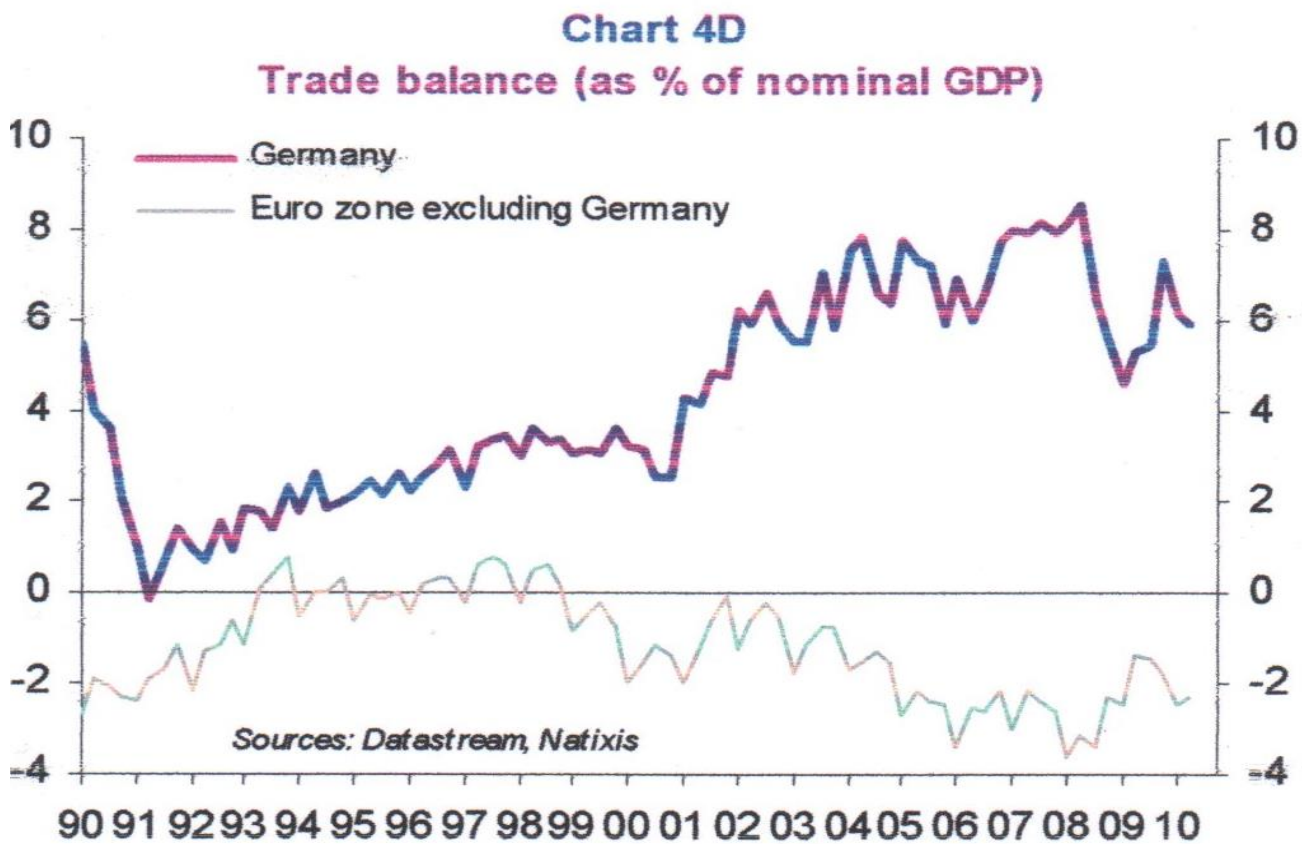
When Germany was not so good, and the PIIGS not so bad



Stronger growth in imports as an effect of outsourcing to the emerging countries

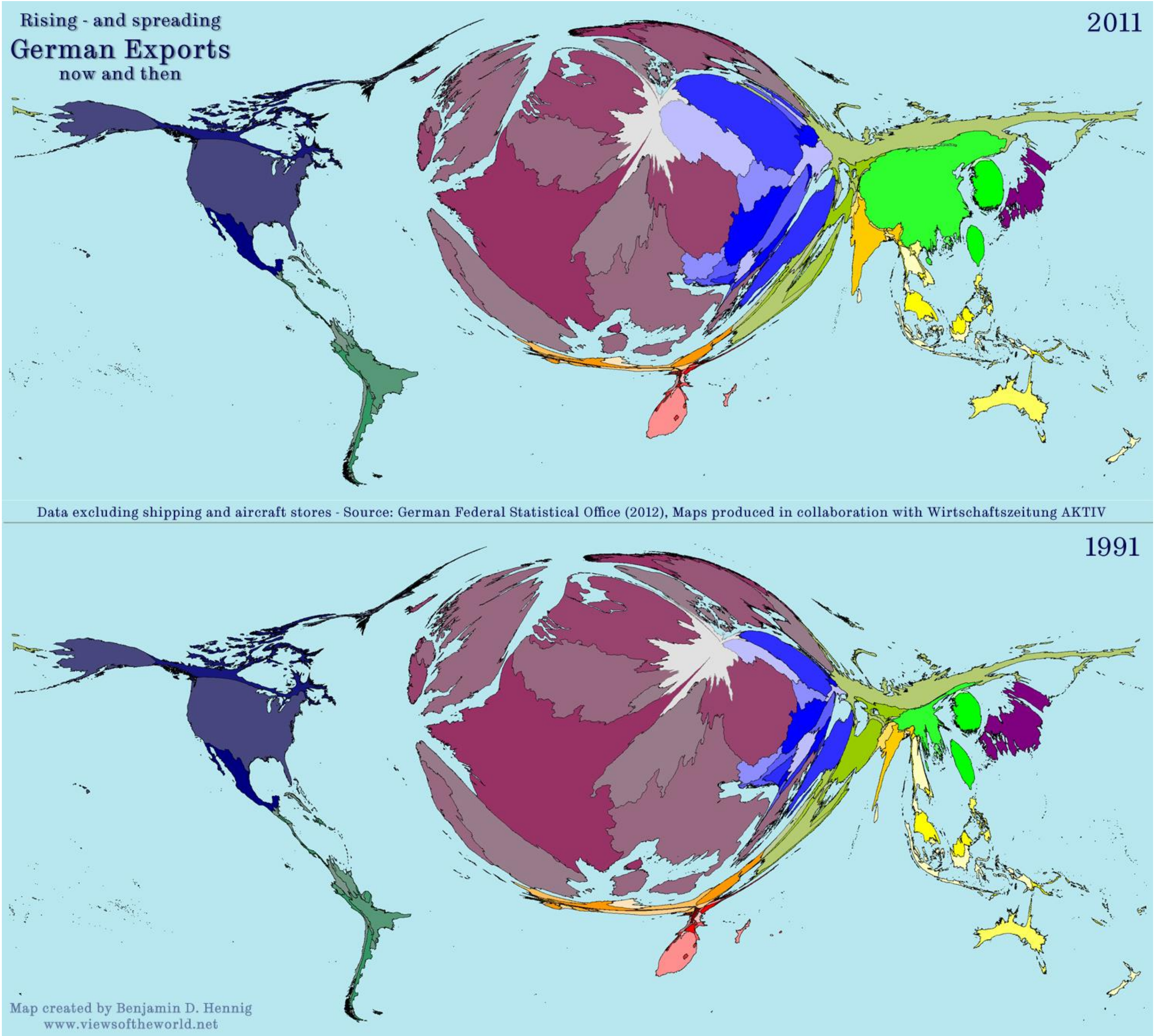


The German export obsession
Persistence of balance-of-trade surplus

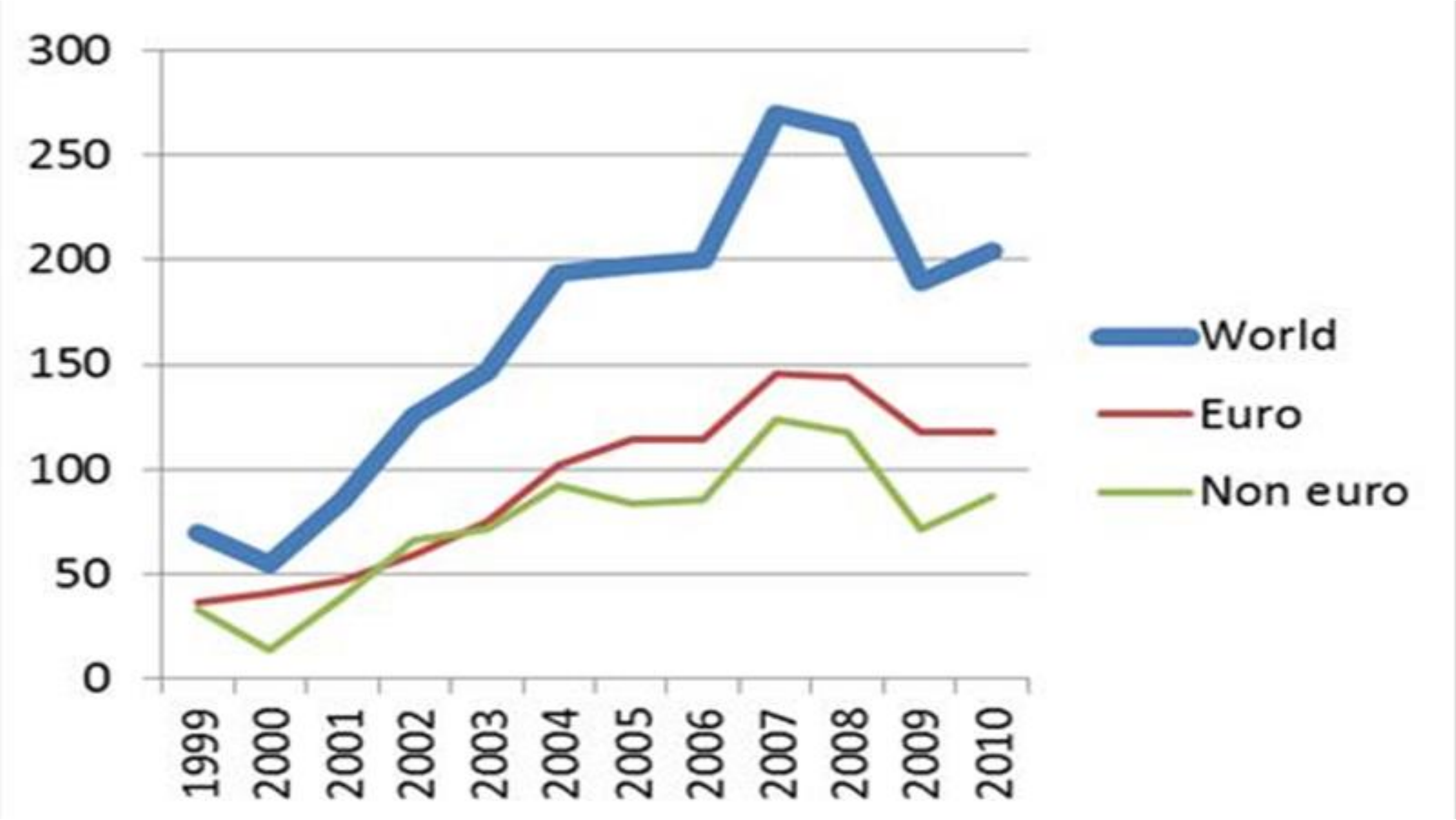


Where does Germany export ?

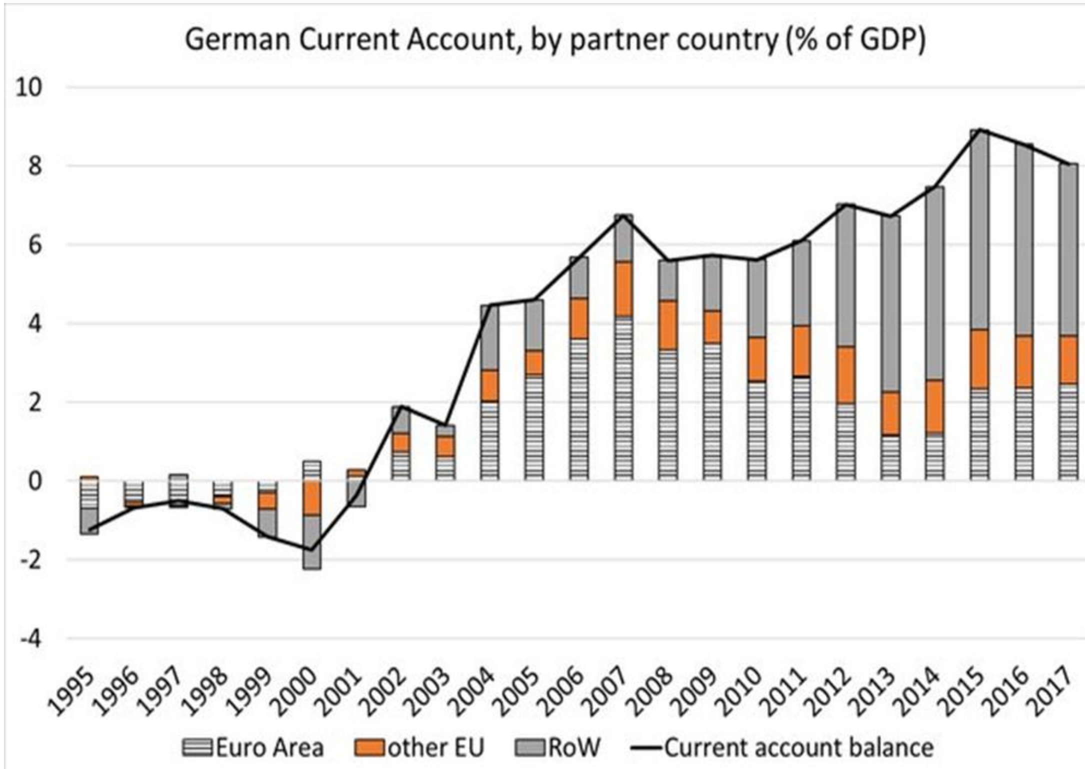
	World			Euro Area			Non euro area		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1999	543	473	69	239	202	37	304	271	33
2000	550	495	55	238	197	41	313	299	14
2001	572	486	86	241	194	47	331	292	39
2002	616	490	126	255	195	59	361	295	66
2003	749	602	147	316	241	75	432	361	72
2004	912	718	194	387	285	102	525	433	92
2005	977	780	197	412	298	114	565	482	83
2006	1122	922	200	468	354	114	654	568	86
2007	1329	1059	270	548	403	145	780	656	124
2008	1466	1204	262	592	448	144	874	756	118
2009	1127	938	189	468	350	118	660	588	72
2010	1271	1067	204	498	380	118	773	687	87
2010-1999	728	593	135	259	178	81	469	415	54
%	134	125	195	108	88	221	154	153	165


Rising - and spreading
German Exports
now and then
2011
Data excluding shipping and aircraft stores - Source: German Federal Statistical Office (2012), Maps produced in collaboration with Wirtschaftszeitung AKTIV
1991
Map created by Benjamin D. Hennig
www.viewsoftheworld.net

German trade balance



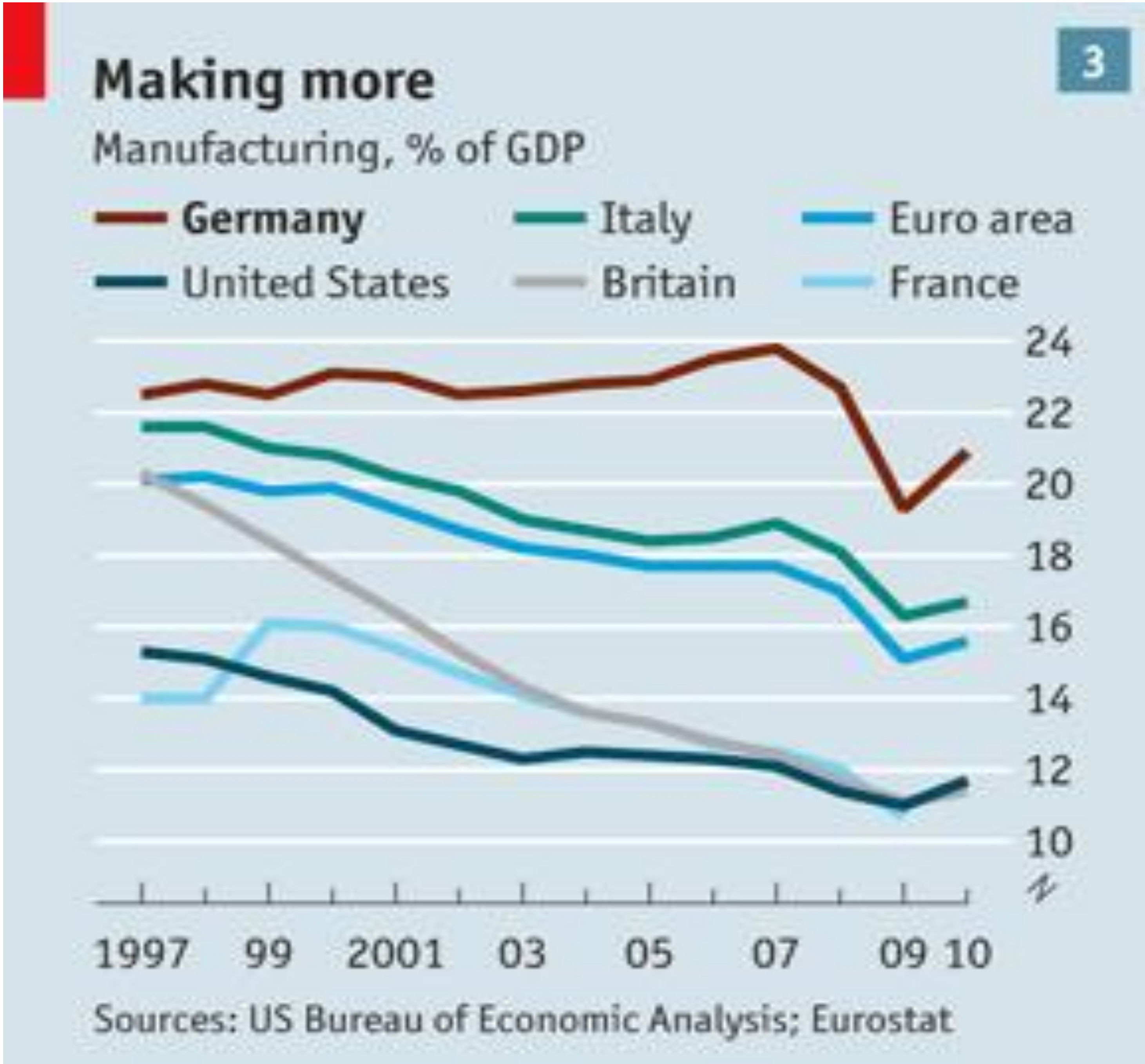
The current account surplus



- Germans have exercised wage restraint, particularly since the early 2000s (although in practice also before this) as a way of limiting job losses in the tradeable goods sector to cheaper markets in central and eastern Europe. Effectively, workers have sacrificed income growth in order to keep their jobs.
- The result has been that Germany has managed to keep a much bigger manufacturing sector than almost all other west European countries (relative to GDP), but also that wages in this sector are lower than they otherwise would have been, thereby limiting domestic demand and imports

- Germany is a member of the euro zone, and that the strength of the currency reflects the fundamentals of the bloc as a whole. As the euro zone as a whole is less productive than Germany, this means that Germany has an artificially weak currency.
- The IMF believes that Germany's real effective exchange rate is 10-20% undervalued; this is disputed by the Bundesbank (Germany's central bank), which argues that the undervaluation is around only 6%.
- Although a stronger currency would not automatically mean a collapse in the German trade surplus (Switzerland is an instructive example in this sense), it is hard to imagine that if Germany had its own (much stronger) currency this would not lead to a smaller trade surplus

- The high level of savings across the household, corporate and government sectors in Germany. High household savings are not an especially new factor in Germany: demographic trends—Germany has a rapidly ageing population, even by European standards—and cultural factors have meant that this has been the case for some time. What is more noteworthy, and newer, is the high rate of savings among corporates and the government.
- In the case of corporates, this reflects in part a perceived lack of domestic investment opportunities in the post-crisis period, linked to unspectacular domestic demand. For the government, the primary factor is ideological: the former finance minister, Wolfgang Schäuble, has staked much of his reputation on maintaining a budget surplus. Partly because of Germany's negative demographic trends, which create a sense among the population that debt needs to be paid down so as not to overburden a smaller working-age population in the future


3
Making more
Manufacturing, % of GDP
Germany
Italy
Euro area
United States
Britain
France
24
22
20
18
16
14
12
10
1997
99
2001
03
05
07
09
10
Sources: US Bureau of Economic Analysis; Eurostat

The social pact to reform Germany

- Schröder reforms in 2003
- unemployment subsidy 80% for two years in case but with the obligation to accept a new job or social assistance
- Mini jobs - 400 Euro , sort of black market :the employer pays the social security and the employee does not pay the taxes today 7.5 million workers (partly it's a second job)
- Real implementation from 2006: the state saves 20 Billion Euro diverted to economic recovery
- Today:
- total unemployed 2.8 million (never so few)
- total employed 42 million (never so much)

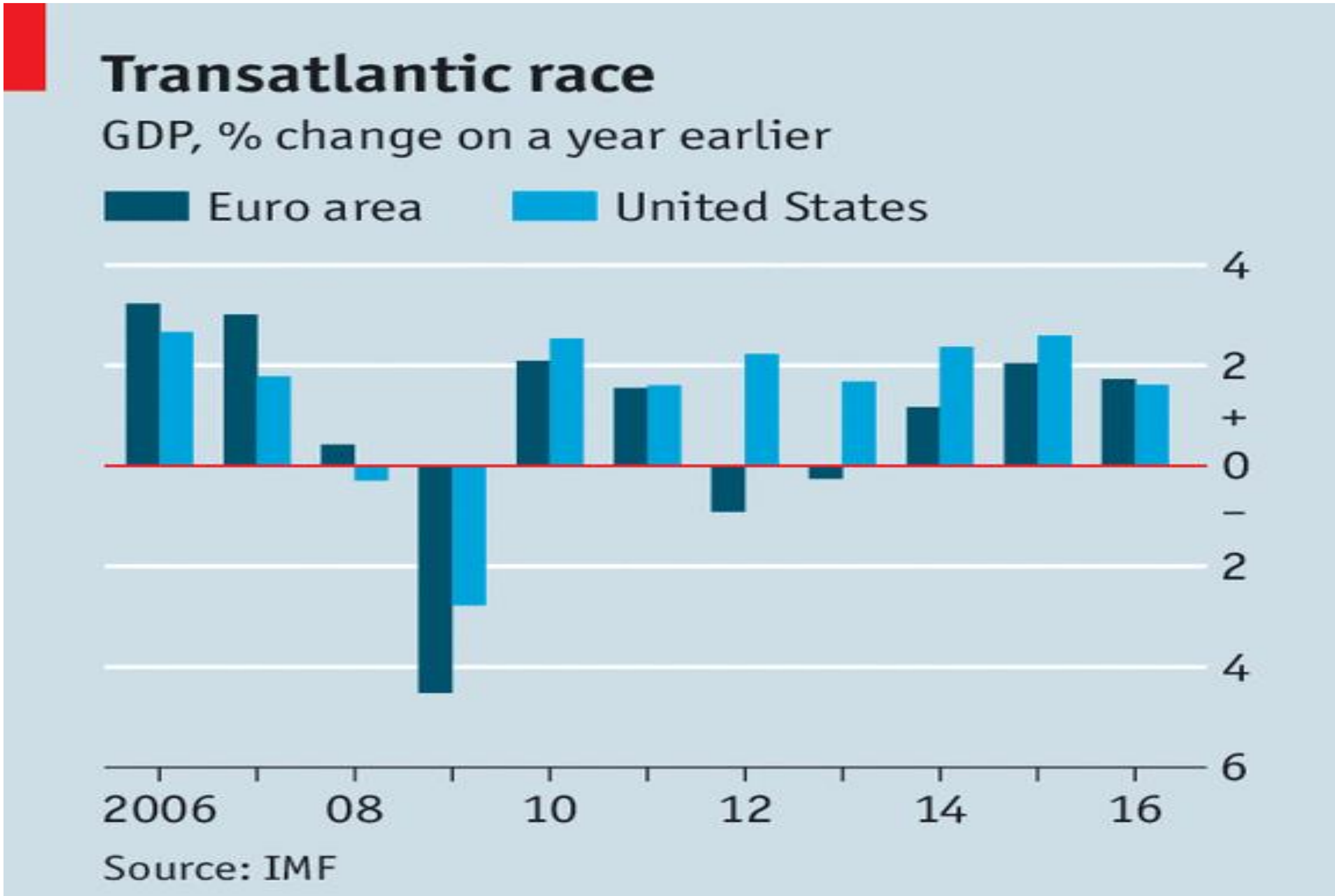
Some (hidden) weaknesses

- Financial weakness of Small & Medium size firms despite the role of the *Hausbanks* (low intermediation rates)
- Banking sector difficulties because of decrease of all incomes sources (less stock values, reduction of the commissions, interest rates taxed
- A weak banking sector, despite the appearances – Germany is strongly against the European Banking Union

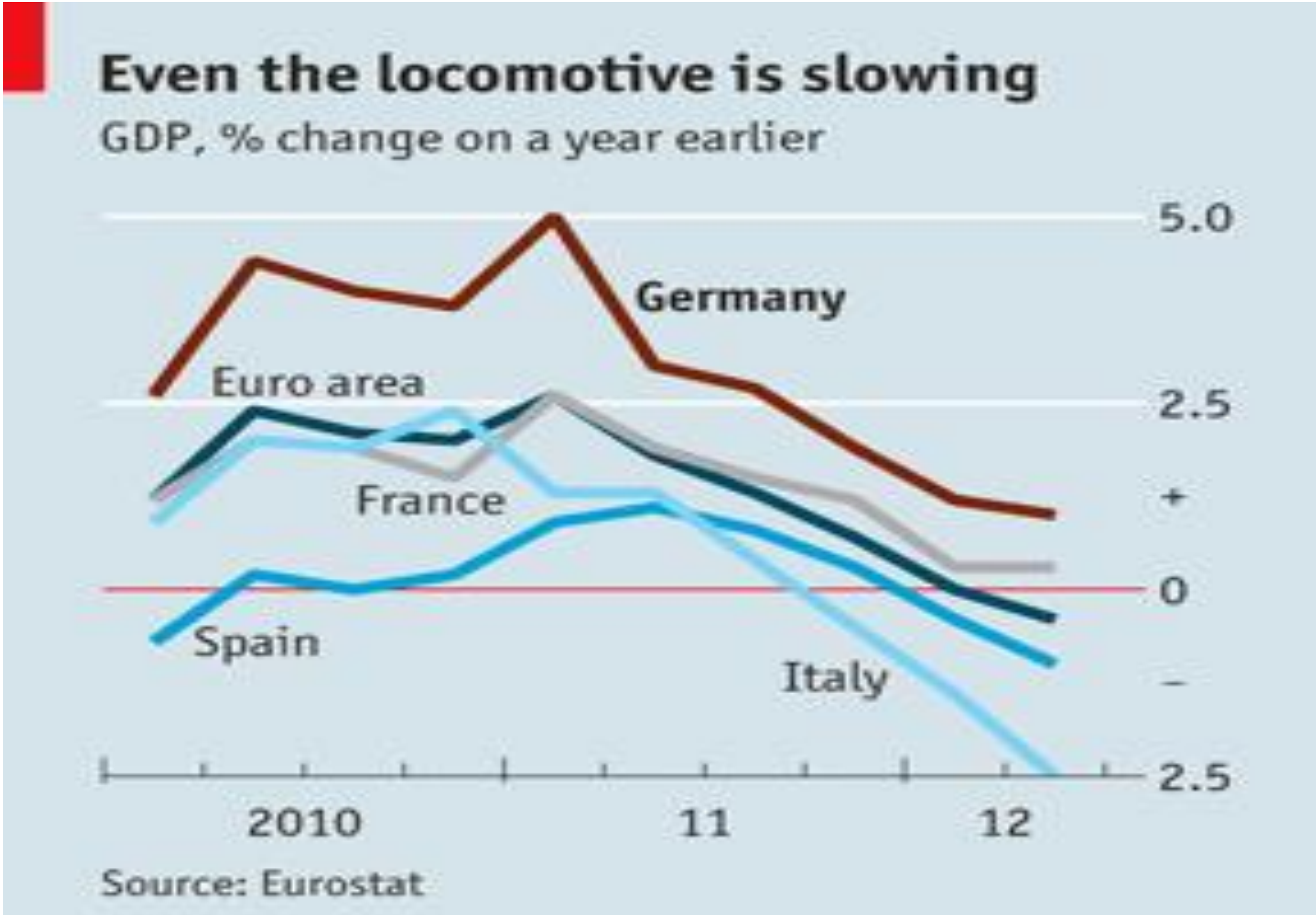
Not to talk about German high (still high?) industrial reputation

Goodbye, Old Germany ?

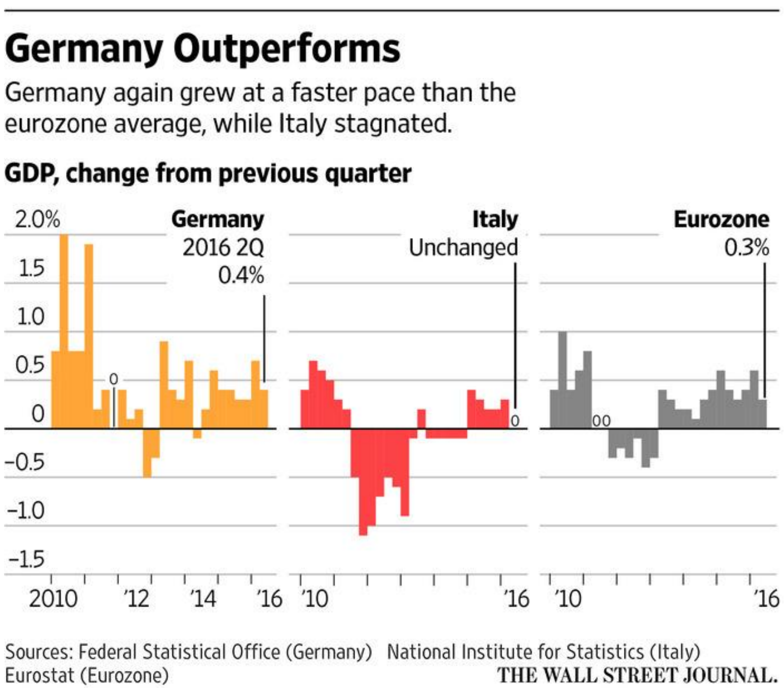
- Reduced importance of German banks in corporate governance, and increasing role of Hedge funds, asking for more dividends
- Changing a business model ?
- Deutsche Bank: very aggressive, ROE very high, job cuts before the world financial crisis
- The failed attempt to merge DB and Commerz Bank

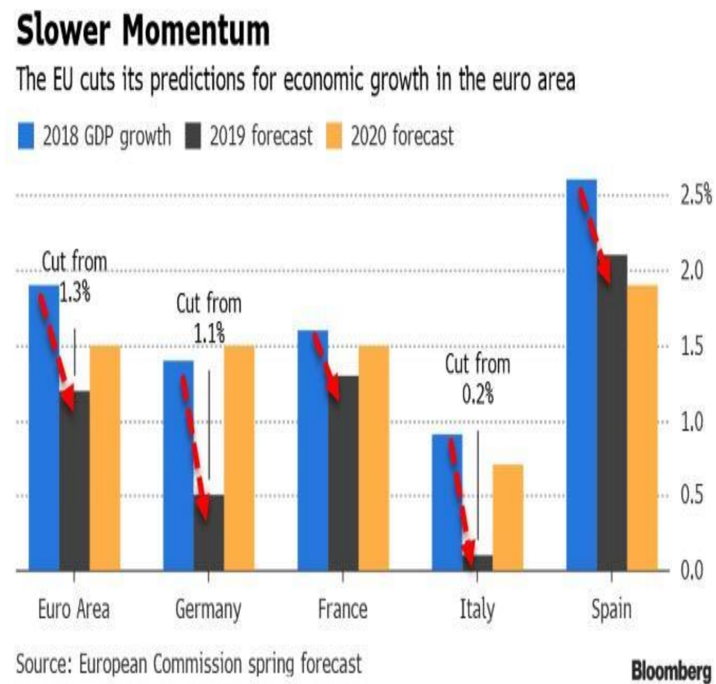


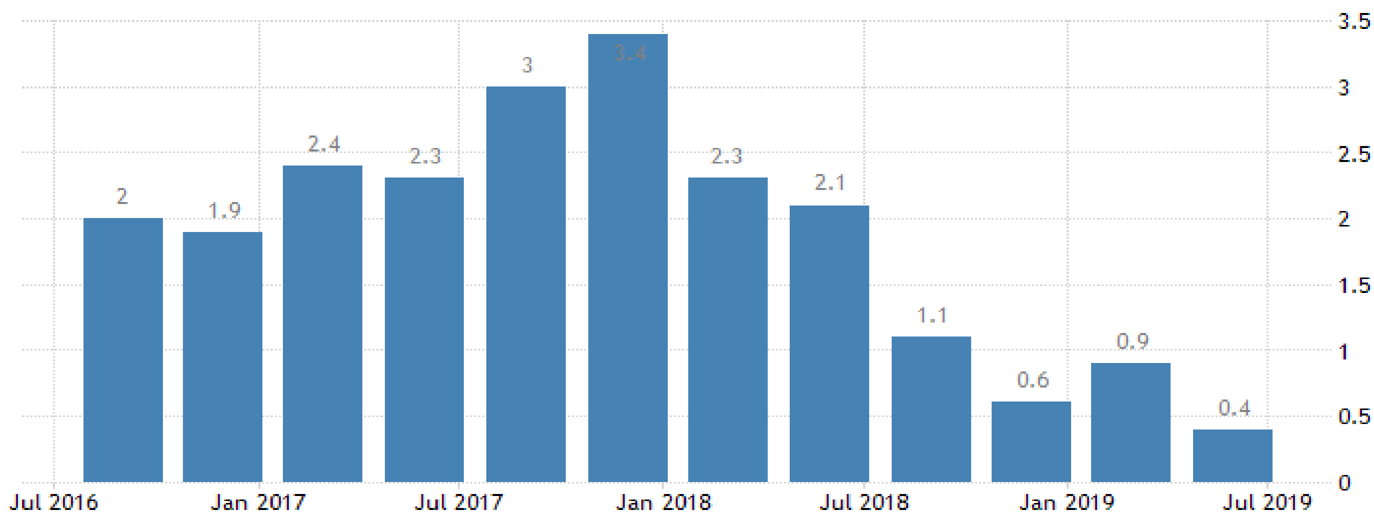
Economist.com


Even the locomotive is slowing
GDP, % change on a year earlier
5.0
Germany
Euro area
2.5
France
+
0
Spain
Italy
-
2.5
2010
11
12
Source: Eurostat

Leading also the slow down?





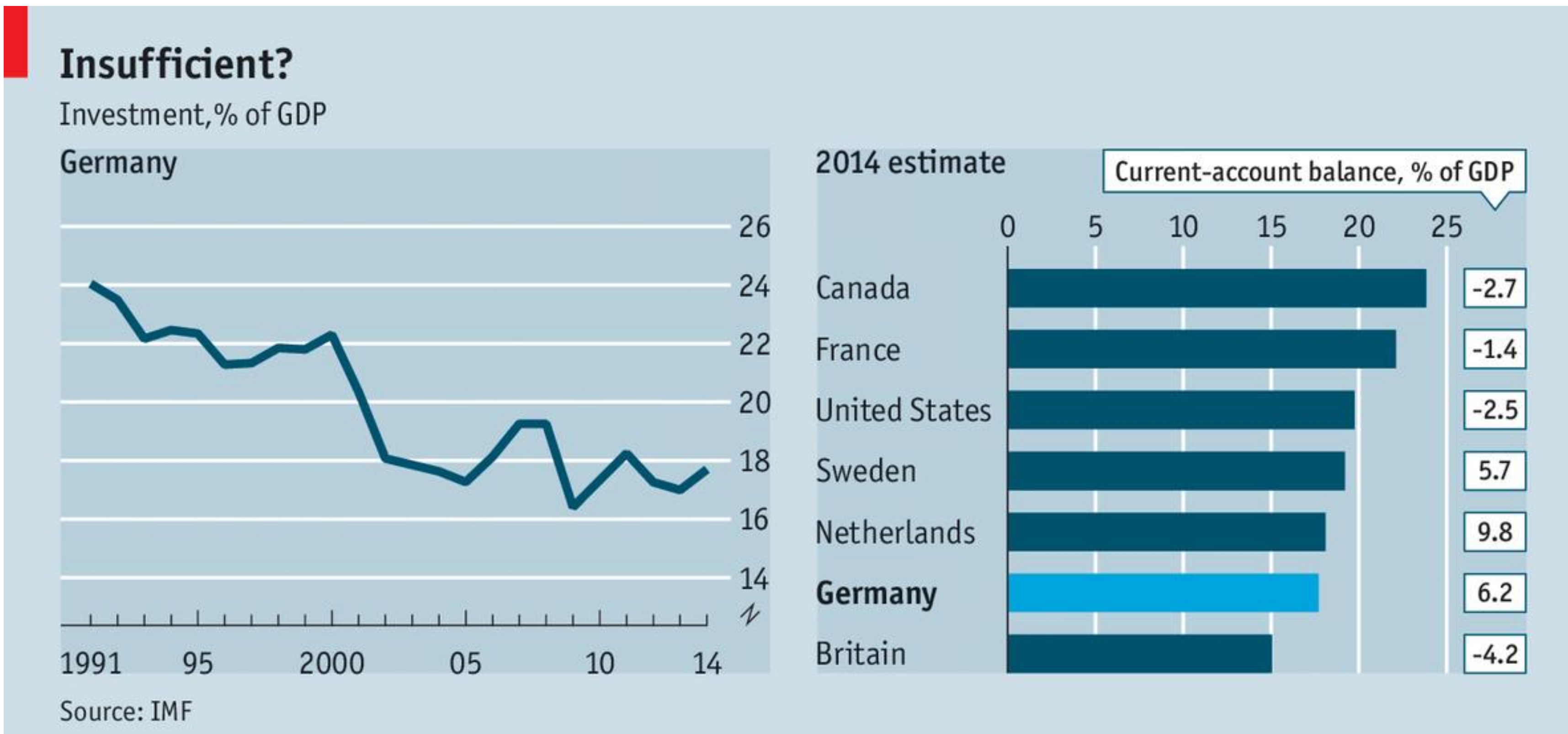


Bad long-term forecasts for Germany

- *Looking to 2060* (OECD)

- Germany's growth 1.1 % 2011-60
- (for IMF 1.25 %)

- Schrumpfnation Deutschland: from 81m people to 71M (1,36 births per woman)



Economist.com

Policy for young generations?

- Advanced education in young workers is between 10 and 20 % lower than in Canada France, Japan, Poland and Spain

  Germany is the only country (with USA) where those aged 25-34 with higher education is smaller than the previous generations

Productivity and exports. Success or not ?

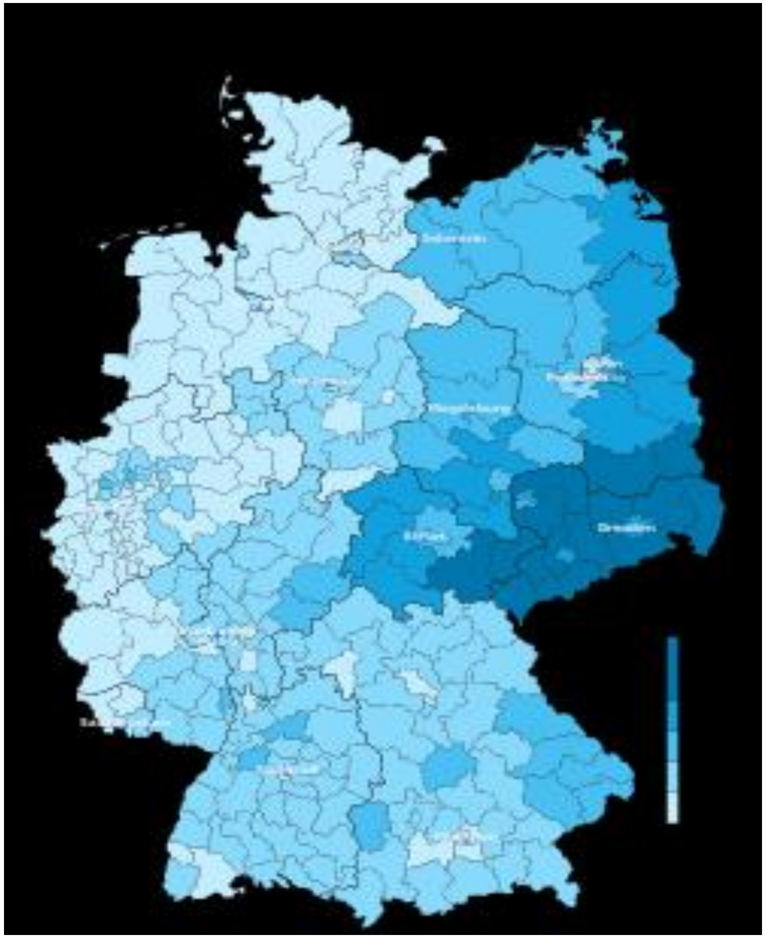
- Productivity growth (GDP per hour worked) is lower than the OECD average – competitive only with low wages
- No evidence of special manufacturing success in Germany

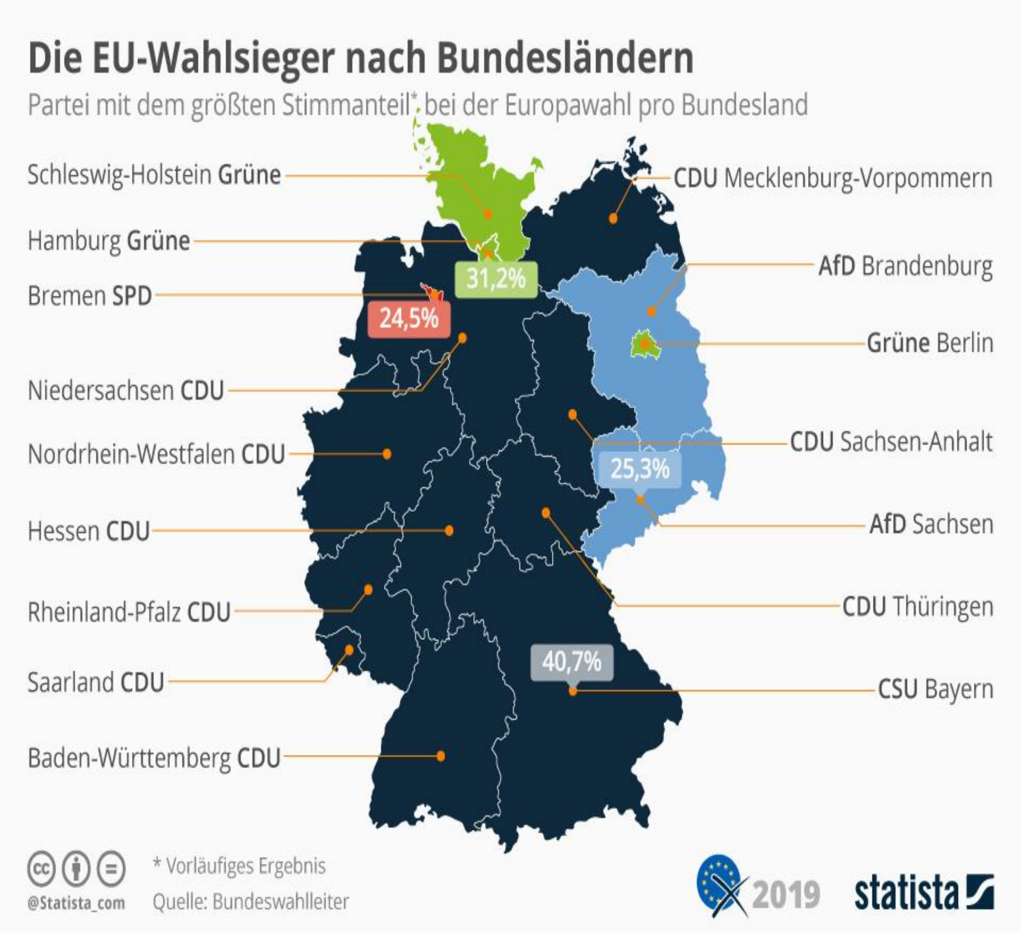
- **Export obsession**
- 1) has distracted from recapitalizing banks, deregulating the system, and reallocating capital away from old sectors;
- 2) deprived German workers of what they have earned and should be able to save and spend

30 years later: the difficult economic reunification

- GDP in former DDR 2/3 of that in Western Germany
- Unemployment among under-25s: 9.2 % in the former DDR; 7.9 the German average
- Thanks to emigration to Western Germany compensated by students emigration to East Berlin
- Ageing: 23% of the population is over 65 in former DDR compared to 20% in the West; forecasts for 2030: 33 %against 28% (thanks for foreign immigrants)

The political threat





Europe and Globalization: winner or loser?

- Europe in the world economy and in the world politics: a long-term relative decline
- The end of the "European" world and the retrenchment – the birth of European domestic market
- Consolidation of European perspective

Some aspects to consider

1) *contractual cooperation*

• mergers and mega-mergers as a response to globalization process – European firms go shopping abroad vs. European firms as a target for non European big groups (US, Chinese, South American and Asian countries)

• the sharp diminution of European firms among the "Fortune" top 500: 171 in 1992 – 98 in 2018

• consequences and constraints: - global antitrust policies (US and EU, even China) - contamination of business cultures (not any more only "Americanization")

- *2) size of the firm and family business*
- delocalization as a strategy to enlarge production and resisting competition with negative impact on social and economic structures, putting at risk the cohesive social role of this business model
- contamination with new financial actors (investment funds, mutual funds, etc.) and the consequences for corporate governance
- new strategies based on marketing, branding, R&D

3) the role of the State

- privatization, liberalization (process that started before and accompanied the process of globalization – but with a lot of exceptions – “reluctant privatizers”)
- reshaping the quantity and quality of welfare state because of budgetary constraints
- reorganization of labor market with new laws and institutions as an attempt to relaunch the competitiveness of European firms and economies
- increasing differences in economic and social models in Europe (Nordic, Continental, Southern, and Central-Eastern Europe)
- after 2007: a new wave of State intervention

4) the workers’ movement

- the crisis of the traditional political families, the difficulties in understanding and analyzing the secular changes connected with globalization process
- the decline of political support of left-wing parties • the crisis of political representation
- the birth of populist movements and parties
- the decline in unionization process connected with the transformation of the work and de-industrialization process
- the dramatic transformation of the employees’ composition (skilled, unskilled, and the ICT)
- the role of immigrants
- the development of new jobs based on flexibility and self employment
- new supranational industrial relations for big European groups

Is there a space for a different Europe?