

Inequality in Europe

By [Guillaume Allègre](#)

In the preamble to the Treaty establishing the European Economic Community, the Heads of State and Government declare that they are “[r]esolved to ensure the economic and social progress of their countries by common action to eliminate the barriers which divide Europe”. Article 117 adds that “Member States agree upon the need to promote improved working conditions and an improved standard of living for workers, so as to make possible their harmonisation while the improvement is being maintained”. Sixty years after the Treaty of Rome, what is the state of economic and social inequality in Europe? How did this change during the crisis?

Every year Eurostat measures inequality in the different EU Member States. The Great Recession has led to widening inequality within the countries of Europe. The Gini index of equivalent disposable income rose from 30.6 in 2007 to 31 in 2015 on average in the 28 EU Member States. However, part of the increase is due to large breaks in the series in France and Spain in 2008. Inequality is thus clearly lower in Europe than in the United States: for 2014, the Gini index of disposable income is estimated at 39.4 in the United States, while in the European Union it ranges from 25 (Czech Republic) to 37 (Bulgaria). The United States is therefore more unequal than any country in the EU and much more unequal than most countries.

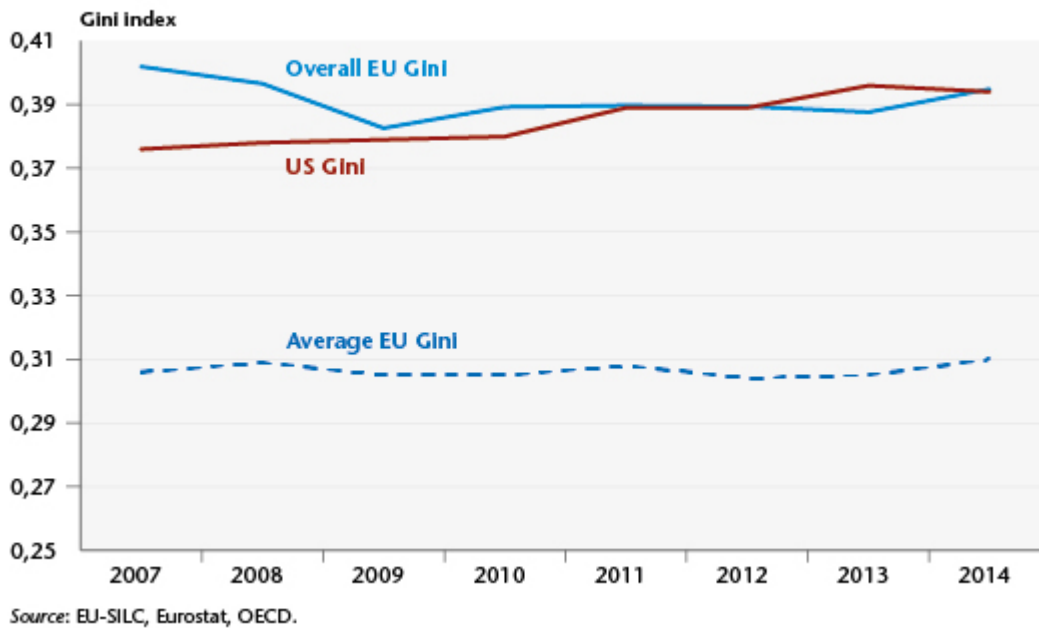
However, the presentation of an average Gini index in the European Union may be misleading. Indeed, it takes into account only inequalities within the European countries and not inequalities between countries. However, there are significant inequalities between European countries. In the national accounts, household income based on EU consumer purchasing power in 2013 ranged from 37% of the European

average (Bulgaria) to 138% (Germany), i.e. a ratio of 1 to 4.

At the European level, Eurostat calculates an average of national inequalities, as well as the international inequalities. On the other hand, Eurostat does not calculate inequalities between European citizens: what would inequality be if national barriers were eliminated and European inequality was calculated at the European level in the same way that one calculates inequality within each nation? It might seem legitimate to calculate inequality between European citizens like this insofar as the European Union constitutes a political community with its own institutions (Parliament, executive, etc.).

The EU-SILC database, which provides the equivalent disposable income (in purchasing power parity) of a representative sample of households in each European country makes such a calculation possible. The result is that the overall level of inequality in 2014 in the European Union is the same as that in the United States (graph). What conclusion should be drawn? If we look at the glass as half-empty, we could emphasize that European inequality is at the same level as in the world's most unequal developed country. If we look at the glass as half-full, we could emphasize that the European Union does not constitute a nation with social and fiscal transfers, that it has recently expanded to include much poorer countries and that, nevertheless, inequality is no greater than in the United States.

Figure: Inequality in disposable income in Europe and the United States, 2007-2014



Overall inequality in the European Union can be seen to decline slightly between 2007 and 2014. The Theil index, another indicator of inequality, can be used to break down the change in European inequalities between what comes from changes in inequality between countries and what comes from changes within countries. Between 2007 and 2014, the Theil index fell from 0.228 to 0.214 (-0.014). Inequality within countries was generally stable (+0.001) whereas inequality between countries declined (-0.015). These developments are similar to what has been observed by Lakner and Milanovic at the global level ([“Global Income Distribution: From the Fall of the Wall to the Great Recession”](#)): rising national inequalities and declining inequalities between countries (in particular due to China and India catching up).

So far, the main instrument used by the European Union to reduce inequality in Europe has been the opening of borders. But while opening up borders can help the EU's less affluent countries (notably Bulgaria and Poland) to catch up, it can also have an impact on inequality within countries. However, Europe does not as yet have a social policy. This sphere falls above all within the competence of the States. But opening up

the borders is exacerbating social and fiscal competition. For instance, the higher marginal rates of personal income tax (IRPP) and corporate income tax (IS) have dropped significantly since the mid-1990s, while the VAT rate has increased (A.Bénassy-Quéré et al., “[Reinforcing tax harmonization in Europe](#)” [in French]).

In France, the government has committed to lower the corporate income tax rate from 33.3% to 28% by 2020. This follows a trend towards [lowering taxation on business but raising it on households](#). The impact on inequality has so far been counterbalanced by the fact that [the rise in taxation has focused on the wealthiest households](#). However, the French Presidential candidates Fillon and Macron advocate a substantial reduction in the taxation of capital income (withholding tax and the reduction of the ISF wealth tax on real estate for Macron; elimination of the wealth tax for Fillon) in the name of competitiveness. The [dangers of fiscal and social competition](#) are thus beginning to make themselves felt.

The Treaty of Rome and equality

By [Hélène Périvier](#)

The Treaty of Rome: Article 119, Title VIII, “Social Policy, Education, Vocational Training, and Youth”, Chapter 1: Social Provisions: *Each Member State shall during the first stage ensure and subsequently maintain the application of the principle that men and women should receive equal pay for*

equal work.



Europe's institutions take pride in the fact that one of their founding values is the principle of equality between women and men^[1]. Indeed, as early as the Treaty of Rome, the question of equal pay was the subject of negotiations that resulted in the adoption of Article 119, guaranteeing "the application of the principle that men and women should receive equal pay for equal work".

On closer inspection, the motives that led the signatory countries to adopt this article are not linked, at least not directly, to considerations of justice or to egalitarian values that the Member States might have upheld right at the outset, thereby making equality a founding "value" of Europe's institutions. No, the motives are above all economic in nature.

The Treaty of Rome is aimed at economic integration and not at a political or social union. Re-examining the genealogy of Article 119 sheds light on the tension between economic issues related to the organization of trade and production and social issues, particularly those related to justice and equality.

Guaranteeing fair competition

Article 119 seeks to organize fair competition within the new space for the free movement of goods, services and people. Of the six countries signing the Treaty, it was France that demanded an article on equal pay. Indeed, unlike some of its partners, including Germany, France had already adopted

legislation on women's wages and equal pay. In the framework of restructuring industrial relations after the Second World War, the French State had developed occupational classifications and a wage hierarchy that led in some branches to affirming the principle of equal pay, even if there was still substantial potential for discrimination (Saglio, 2007). In July 1946, the Croizat decision abolished the 10% reduction on women's wages. Finally, the Law of 11 February 1950 generalized collective bargaining agreements and introduced the principle of "equal pay for equal work" (Silvera, 2014).

France therefore feared that an opening up to competition in the market for goods and services would disadvantage productive sectors in which the proportion of women was high, especially in textiles (Rossilli, 1997). In 1956, the International Labour Organization (ILO), conscious of these issues, commissioned a report by a committee chaired by the economist Ohlin on the social consequences of European economic integration. The question of equal pay was raised explicitly (point 162, p. 64), and data at hand, the report denounced the risk of unfair competition in highly feminized industries (Ohlin, 1956) [2]. The differences in social rights between Member States called for labour market regulation in order to avoid distorting competition within the common market. The discussions, which led to Article 119, did not include discussion of women's rights or fair pay for women's work (Hoskyns, 1996).

Principles of supranational justice and economic pragmatism

The inclusion in the Treaty of Rome of the principle of equal pay was thus motivated by economic and not ethical considerations, and it is for economic reasons that, even though the principle was announced, it was not applied immediately, as it would have led to a massive increase in wage costs (unless men's wages were cut). Despite all this, principles of justice were not completely alien to this process. Indeed, they were part of the international approach

to the affirmation of human rights in the post-war years: the United Nations Universal Declaration of Human Rights of 1946 [3] affirms equal rights in its preamble, and the 1944 Declaration of Philadelphia, which underpinned the mandate of the ILO, states that, “all human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity” [4]. The ILO Equal Remuneration Convention (No. 100), adopted in 1951, states that, “Each Member shall, by means appropriate to the methods in operation for determining rates of remuneration, promote and, in so far as is consistent with such methods, ensure the application to all workers of the principle of equal remuneration for men and women workers for work of equal value” [5]. Some European countries adhered to the stated principles faster than others, including Belgium and France, which ratified Convention 100 respectively in 1952 and 1953. These countries pulled along their partner signatories to the Treaty of Rome in their path, in order to limit the distortion of competition that would result from a lack of uniform adherence to this principle of justice in an integrated economic area.

In looking further back at the genesis of texts pertaining to equal pay, economic motivations can also be found: the founding text of the ILO in 1919 does include the principle of equal pay, regardless of gender, for work of equal value (Section II., Article 427, 7) [6]. This particular attention to equality is explained partly by the trade unions’ fear that men’s wages might fall. Indeed, during the war, women had worked for lower wages doing jobs reserved for men in peacetime. Demanding equal pay made it possible to contain this unfair competition represented by women (Ellina, 2003; Hoskyns 1996).

The metamorphosis of Article 119

It is fruitless to seek the historical roots of the

affirmation of the principle of equal pay, as the economic argument is articulated around considerations of justice. This dialectic led the actors of the moment to draw on one or to reaffirm the other. During the Treaty of Rome negotiations, differences between countries concerning entitlement to paid leave, the regulation of working time and the payment of overtime were also identified as sources of the distortion of competition. It is thus not so much the place of gender equality in the negotiations between the signatory countries that is to be questioned as the very nature of a Treaty that aims at economic integration and not the harmonization of the social policies of the signatory countries. At the time, economic integration was probably the least confrontational perspective from which to negotiate and bring about a rapprochement between European countries.

Article 119 of the Treaty of Rome, although intended to regulate competition, has become a pillar of the construction of European law on equality and the fight against discrimination. In the late 1970s, under the impetus of feminist movements, this principle was used more and more and became a founding principle of Europe's institutions (Booth and Bennett, 2002). In 1971, the Court of Justice of the European Communities referred to it in declaring that the elimination of discrimination on the grounds of sex is one of the general principles of Community law (see the Defrenne judgment^[71]). In 1976, the scope of equal pay was extended by the 1976 Directive (76/207) to cover all the terms of hiring and training as well as working conditions (Milewski and Sénac, 2014). As a tool for regulating the common market, it has become a principle of law.

Finding the spirit of Philadelphia once again

The principle of equality as set out in the Declaration of Philadelphia does not rely on the economic interest of promoting gender equality but affirms this principle as a value in itself. During the negotiations preceding the signing

of the Treaty of Rome, the harmonization of social provisions was achieved by generalizing the principle of equal pay to countries that had not yet taken it on board, not by asking countries that had already adopted it to abandon it. In this approach, the principle of justice takes precedence over the economic perspective: the evaluation of the economic consequences of having a principle of equal pay that had not been generalized in an integrated economic space led to its adoption by all the member countries in this space, and ultimately to strengthening it.

Since the 2000s, there has been a shift in the promotion of policy on equality: it is no longer a question of analyzing the economic consequences of the principles of justice or conversely of denouncing the infringement of the principles of justice of certain economic policies, but rather of overturning the hierarchy between the two perspectives. Equality is promoted in the name of the real or phantom economic benefits that it would produce. Supranational organizations, European institutions and national forces all tout the virtues of equality in terms of economic prosperity. The assertion of the principle of justice in itself is no longer sufficient to establish the merits of equality policies, which are a priori considered costly. Equality, which is often reduced to increasing women's participation in the labour market and their access to positions of responsibility, is a source of growth and wealth. It is no longer a question of a complex articulation between economic forces and founding principles, but rather the justification of these principles based on the profitability or efficiency of the market economy (Périvier and Sénac, 2017, Sénac, 2015). This approach, far from anecdotal, is endangering equality as a principle of justice, and distances us from the humanist approach of the supranational institutions during the first half of the 20th century. Have we lost the spirit of Philadelphia (Supiot, 2010)?

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Notes:

[1] http://europa.eu/rapid/press-release_MEM0-07-426_en.htm

[2] http://staging.ilo.org/public/libdoc/ilo/ILO-SR/ILO-SR_NS46_engl.pdf

[3] www.un.org/en/universal-declaration-human-rights/

[4] http://blue.lim.ilo.org/cariblex/pdfs/ILO_dec_philadelphia.pdf

[5] http://www.ilo.org/wcmsp5/groups/public/-ed_norm/-declaration/documents/publication/wcms_decl_fs_84_en.pdf

[6] http://www.ilo.org/public/libdoc/ilo/1920/20B09_18_fren.pdf

[7]

<http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:61975CJ0043&from=EN>

European banking regulation: When there's strength in union

By [Céline Antonin](#), [Sandrine Levasseur](#) and [Vincent Touzé](#)

At a time when America, under the impulse of its new president Donald Trump, is preparing to put an end to the banking regulation adopted in 2010 by the Obama administration [\[1\]](#), Europe is entering a third year of the Banking Union (Antonin et al., 2017) and is readying to introduce new prudential regulations.

What is the Banking Union?

Since November 2014, the Banking Union has established a unified framework that generally aims to strengthen the financial stability of the euro zone [\[2\]](#). It has three specific objectives:

- To guarantee the robustness and resilience of the banks;
- To avoid the need to use public funds to bail out failing banks;
- To harmonize regulations and ensure better regulation and public supervision.

This Union is the culmination of lengthy efforts at regulatory coordination following the establishment of the free movement of capital in Article 67 of the Treaty of Rome (1957): “During the transitional period and to the extent necessary to ensure the proper functioning of the common market, Member States shall progressively abolish between themselves all restrictions on the movement of capital belonging to persons resident in Member States and any discrimination based on the nationality or the place of residence of the parties or on the place where such capital is invested.”

The Banking Union was born out of the crisis. While the Single European Act of 1986 and the 1988 EU Directive allowed the free movement of capital to take effect in 1990, the financial crisis of 2008 revealed a weakness in Europe's lack of coordination in the banking sphere.

Indeed, the lessons of the financial crisis are threefold:

- A poorly regulated banking and financial system (the American case) can be dangerous for the proper functioning of the real economy, in the country but also beyond;
- Regulation and supervision that is limited to a national perspective (the case of European countries) is not effective in a context where capital movements are globalized and numerous financial transactions are conducted outside a country's borders;
- The banking and sovereign debt crises are linked (Antonin and Touzé, 2013b): on the one hand, bailing out banks by using public funds increases the public deficit, which weakens the State, while the problematic sustainability of the public debt weakens the banks that hold these debt securities in their own funds.

The Banking Union provides a legal and institutional framework for the European banking sector, based on three pillars:

(1) The European Central Bank (ECB) is the sole supervisor of the major banking groups;

(2) A centralized system for the regulation of bank failures includes a common bailout fund (the Single Resolution Fund) and prohibits the use of national public funding;

(3) By 2024, and subject to the definitive agreement of all the members of the Banking Union, a common fund must ensure that bank deposits held by European households are guaranteed for up to 100,000 euros, with deposits guaranteed by each State from 2010.

The Banking Union is not fully completed. The adoption of the third pillar is lagging behind due to the difficulties being experienced by the banks in Greece and Italy, which have not been entirely resolved due to the continuing risk of default on existing loans. The European deposit guarantee “will have to wait until sufficient progress has been made to reduce and harmonize banking risks” (Antonin et al., 2017).

Towards stronger regulation and greater financial stability

The Banking Union has come into existence alongside the new Basel III prudential regulations that have been adopted by all Europe’s banks since 2014 following a European directive and regulation. The Basel III regulations require banks to maintain a higher level of capital and liquidity by 2019.

The establishment of the Banking Union coupled with the ECB’s highly accommodative monetary policy has helped to put an end to the crises in sovereign debt and the European banking sector. The ECB’s massive asset purchase programme is helping to improve the balance sheet structure of indebted sectors, which is reducing the risk of a bank default. Today, the Member States, business and households are borrowing at historically low interest rates.

The establishment of a stable, efficient European banking and financial space requires further steps to regulate both a unified European capital market and the banks’ financial activities (Antonin et al., 2014).

The main objective of a union of the capital markets is to provide a common regulatory framework to facilitate the financing of European companies by the markets and to channel the abundant savings in the euro area towards long-term investments. This would allow for a more coherent and potentially more demanding level of regulation of the issue of financial securities (equities, bonds, securitization operations).

The Banking Union could also be strengthened by drawing on the 2014 Barnier proposal for a high level of separation of deposit and speculative activities. The ECB's unique supervisory role (pillar 1) enables it to ensure that speculative activities don't disrupt normal business. This supervisory role could be extended to embrace all financial activities, including the infamous credit system of "shadow banking" that parallels conventional lending. The separation of activities also strengthens the credibility of the common bail-out funds (pillar 2) and guarantee funds (pillar 3). Indeed, it is becoming more difficult for banks to be too big, which reduces the risk of bankruptcies that are costly for savers (internal bailout and limits on common funds).

Defending a European model of banking and financial stability

At a time when the United States is currently abandoning the more stringent regulation of its banks in an effort to boost their short-term profitability, Europe's Banking Union is a remarkable defensive tool for preserving and strengthening the development of its banks while demanding that they maintain a high level of financial security.

While the US courts are not hesitating to impose heavy fines on European banks [\[3\]](#), and China's major banks now occupy four out of the top five positions in global finance (Leplâtre and Grandin de l'Eprevier, 2016), a coordinated approach has become crucial for defending and maintaining a stable and efficient European banking model. In this field, a disunited Europe could seem weak even while its surplus savings make it a global financial power. The crisis has of course hurt many European economies, but we must guard against the short-term temptations of an autarkic withdrawal: a European country that isolates itself becomes easy prey in the face of a changing global banking system.

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[1] The Dodd-Frank Wall Street Reform and Consumer Protection Act adopts the Volcker rule “which prohibits banks from ‘playing’ with depositors’ money, which led to a virtual ban on the proprietary speculative activities of banking entities as well as on investments in hedge funds and private equity funds” (Antonin and Touzé, 2013a).

[2] The Banking Union is compulsory for euro area countries and optional for the other countries.

[3] Recent events have shown that US justice can prove to be extremely severe as large fines are imposed on European banks: 8.9 billion dollars for BNP Paribas in 2014, and 5.3 billion for Credit Suisse and 7.2 billion for Deutsche Bank in 2016.

Europe’s competition policy – or extending the domain of integration

By [Sarah Guillou](#)

The principle of “fair competition” was set out in the general principles of the Preamble to the Treaty of the European Communities (TEC) in 1957, as was the commitment that the Member States will enact policies to ensure this fairness. Competition policy – overseen by the Competition Directorate – is the benchmark policy for market regulation, but also for industrial strategy and, more recently, for fiscal regulation.

The need for a competition policy flows directly out of Europe’s project to establish a common market, and numerous

attempts at industrial policy have come to grief on the altar of Articles 81 to 89 of the TEC (and now Articles 101 to 109 of the Treaty on the Functioning of the European Union), which establish the framework for competition. In practice, the two policies are clearly complementary in the European Union, and the space granted to the former develops thanks to the set of exceptions to the latter.

Competition as a general framework in the European Union

As a foundation of the common market, respect for and controls on market competition is a general principle underlying all European policy. More fundamentally, competition can be considered a *constitutional* principle of the European Union. It makes it possible to define the European space, the common space whose existence depends on controls on competition between States. Europe's competition law is therefore developed first of all to control economic competition between the States. The aim is to prevent the States from adopting policies that create benefits for companies in their own territory and discriminate against companies from other States.

Within the European Commission, the Competition Directorate therefore has a significant role and responsibility. Supervision of competition is exercised through the control of mergers and cartels on the one hand, and the control of State aid on the other. To monitor cartels or any other abuse of a dominant position, competition law is exercised *ex post* to protect consumers and competitors from predatory behavior and abusive pricing. Control over concentration developed generally from the second half of the 1980s, in synch with the increase in the size of mergers and the opportunities for European rapprochements, which resulted from the success of the single market. Moreover, mergers and acquisitions are increasingly the subject of negotiations between the companies involved and the European Commission and conclude with a transfer of activity. For example, the acquisition of Alstom's

energy division by General Electric in 2015 was accompanied by the sale of part of the gas turbine business to the Italian company Ansaldo Energia. This control has given the Commission an active role in the structuring of the market, which amounts to a super power, but since the 1990s, fewer than 1% of notifications concerning concentrations have led to a veto by the Commission.

European supervision of aid has been relatively continuous since it presupposes a permanent exercise of supervision of “undistorted competition” in the European area. It is a tool both to control any distortions of competition created by a Member State granting advantages to its companies and to fight against a race to “who grants most” in terms of subsidies. Thus, Article 87 (1) of the Treaty establishing the European Community states that State aid is considered to be incompatible with the common market, and Article 88 gives the Commission a mandate to monitor such aid. But Article 87 also specifies the criteria the Commission uses to investigate aid.

Business subsidies are subject to the Commission’s authorization if they exceed 200,000 euros over three years and they are not included in the set of exemptions decided by the EU. The majority of aid investigated is authorized (almost 95%). As for France, the percentage of aid disallowed out of the amount granted is in line with the European average. There have of course been some noteworthy decisions, such as when EDF was required to repay 1.4 billion euros in 2015 following tax assistance dating back to 1997. But the Commission also recently allowed the French State to acquire an interest in the capital of PSA Peugeot Citroën (2015). Similarly, the Commission authorized the public-private partnership underpinning the construction of the Hinkley Point nuclear power plant in Great Britain.

Some recent developments in the exercise of this control should be noted. The regulation of State aid has been used to examine the provisions of tax agreements negotiated by

companies with certain governments such as Ireland, Luxembourg and the Netherlands. By favouring some companies to the detriment of their competitors, these tax agreements create not only distortions in competition but also competition between States to attract the profits and jobs of the large multinationals. For example, in October 2016, the Commissioner for Competition, Margarethe Vestager, described the tax agreement that Apple had received in Ireland as unauthorized State aid, and accordingly required the Irish government to recover 13 billion euros from Apple. This use of the regulatory power over State aid constitutes a turning point in competition policy, in that it recalls that the object of competition policy is to ensure that competition between States does not go against the notion of "a common market."

Industrial policy is expressed in the exceptions to competition policy

Note that while competition policy is well defined at European level, there are many meanings of industrial policy in Europe, almost as many as there are members. This makes it more difficult to find policy compromises prior to the definition of such a policy. Moreover, the institutional logic and the economic logic are not the same. As already noted, competition policy has a strong institutional anchorage, which is not the case with industrial policy. Even though the European Coal and Steel Community was at the origin of the European Community, industrial policy is not at the heart of the European project. Moreover, the economic logic is different: competition policy is defined with reference to space (the relevant market), whereas industrial policy can be understood only by integrating the life cycle of companies and industries, and therefore in reference to each country's industrial history. In a shared sense, industrial policy can be defined as policy that is aimed at orienting an economy's sectoral and / or technological specialization. It is therefore easy to grasp the dependence of industrial policy on national preferences.

The tool favoured by the States to express this policy is aid to companies, whether directly or indirectly.

State aid is classified according to 15 objectives, ranging from “preservation of the heritage” to aid for “research and development and innovation”. For the EU as a whole, the three categories that are largest as a percentage of total aid are: environmental protection (including aid for energy savings), regional aid, and aid for R&D and innovation. The amounts involved are far from negligible: in 2014, for example, 15 billion euros for France and 39 billion for Germany. A higher amount of aid in 2014 was due largely to an increase in aid for renewable energy as a result of the adoption in 2014 of revisions on the rules on this type of aid. Germany is the country that contributed the most to this increase. Support for renewable energies is indeed at the heart of its industrial policy.

European industrial policy develops as exemptions to the application of control on aid and hence to competition policy. These exemptions are set out in the general regulations on exemptions by category. There are many Block Exemptions, which revolve around the following five themes: innovation and R&D, sustainable development, the competitiveness of EU industry, job creation, and social and regional cohesion. It can be seen in this set of exemptions that supervision is also the expression of Europe’s policy choices on orienting public aid, and thence directing public resources towards uses that are in line with these choices. These choices are the result of a relative consensus on the future of the European economy which shapes industrial policy. The largest categories of aid are research and development and environmental protection. In a word, the European economy will be technological and sustainable. This is a policy of orientation and not a policy of resources, and it takes shape within the overarching framework of the policy on competition.

What future for Europe’s competition policy?

It seems that, given the primacy of competition policy and its foundational role for Europe's union, competition policy is the conductor of microeconomic policy. It has, up to now, proved capable of adapting. Thus, in compliance with the European project, economic constraints and societal orientations have led to changes in the definition of exemptions on the control of aid, which have allowed for the expression of industrial policy. Similarly, it has seized upon the fiscal hyper-differentiation between certain States, which sharply contravened European integration and the common market.

Competition policy must not be weakened in authority or scale, but it must retain its capacity to adapt both to industrial orientations and to the deployments of Member States' strategies on competition with each other. It is also an essential counter-power to the growing strength of the multinationals, and governments must support it in this sense rather than becoming the mouthpieces of their national champions.

The Preamble of the Treaty of Rome: 60 years later, what conclusions can be drawn?

By [Éloi Laurent](#)

The Treaty establishing the European Economic Community (the more emblematic of the two Treaties of Rome) gave life and body to the ideal of European integration that had been sketched in particular by Victor Hugo. Sixty years after its signature, here is a brief commentary, necessarily subjective,

on the Preamble of this founding text (the past and present participles that open each paragraph of the text refer to the six heads of state and government who were signatories to the Treaty on 25 March 1957).

Determined to lay the foundations of an ever closer union among the peoples of Europe,

There are at least two possible readings of the objective referred to in the first paragraph of the EEC Treaty. The first sees in the “union” of “peoples” the union of their governments, and from this perspective it seems very difficult to dispute that since 1957 the European executive authorities have come together and now collaborate closely, with new elements of their sovereignty pooled. But the injunction of Jean Monnet, one of the principal architects of the Treaty, should not be forgotten: “our mission is not to unite states, but to unite people”. What, then, is to be said of the union of nations? A number of more or less anecdotal surveys seem to indicate that [stereotypes die hard in Europe](#) and that Europeans still do not know each other very well.

More fundamentally, it is the confidence placed by Europeans in their union that seems to be a relevant indicator of how solid it is [\[1\]](#). The Eurobarometer of autumn 2016 (published in December 2016) indicates that confidence in the EU has fallen to 36%, almost fifteen points below its 2004 level (according to Eurostat data, confidence in European institutions fell from 53% in 2000 to 42% in 2014). It is from 2011 that a majority of citizens began to turn away from the European Union, at a time, one might think, when the EU Member States were proving resolutely incapable of proposing a coordinated and effective strategy to get out of the crisis and when the bloc was once again plunging into recession. Confidence in the EU is lower in the euro area than in the non-euro countries, and it is particularly low in the major signatories of the EEC Treaty – Germany, France and Italy – where it fails to rise above 30%.

Resolved to ensure the economic and social progress of their countries by common action to eliminate the barriers which divide Europe,

The central tenet of Europe's strategy over the post-World War 2 years is set out here: by creating and consolidating the "four freedoms" of circulation (of goods, services, capital and persons) and steadily forming a European internal market, called a single market in the 1990s), the drafters intended to promote the prosperity of nations and to break down the mental barriers that have so deeply divided Europeans. The result, sixty years later, is an asymmetric integration: mobility, while high for goods and especially capital, remains low for people and services. Article 117 of the Treaty, which aims at "equalization in the progress" of living conditions, envisages that this will be achieved by the "functioning of the common market, which will promote the harmonization of social systems". Europe's asymmetric integration has instead generated fierce tax and social competition. However, Europeans are strongly attached to their respective social models: according to the Eurobarometer, 82% of them believe that "the market economy should go hand in hand with a high level of social protection". Sixty years after the signing of the Treaty of Rome, if a European identity does indeed exist, it is centred on this belief.

But while for decades the free movement of people, structurally weak in the EU, has had only a marginal presence in European debates, it played a central role in the decision of the United Kingdom to leave the EU: whereas the British intended to propose a trade-off between the free movement of goods, capital and services, which they intended to keep, and the free movement of people, which they no longer want, the EU's institutions and Member States reaffirmed that the four freedoms form a bloc, to be taken or left together.

Affirming as the essential objective of their efforts the constant improvement of the living and working conditions of

their peoples,

There is little doubt that Europeans' living conditions have improved since 1957, but their "constant improvement", affirmed as an "essential goal" by the Treaty of Rome, has come into question empirically in the recent period. According to the United Nations Human Development Index (HDI) [2], an imperfect measure that partly reflects people's living conditions, the situation in European countries, which can be assessed only since 1990 (the date when homogeneous data became available for the EU-28), indicates almost constant progress in the member countries up to 2000, the turning point after which the rate of HDI growth slows, falling to almost zero in 2014. "Employment conditions", which are approximated by the unemployment rate, have also deteriorated since 2000, with the unemployment rate recovering to its 2000 level only in 2016.

But the essential point is undoubtedly the way that Europeans today perceive the possibility of their living conditions improving. The Eurobarometer says that 56% of Europeans now believe that their children will lead harder lives than they did. According to data from the Pew Research Center, [Europeans are now the most pessimistic in the world in terms of their economic future.](#)

Recognising that the removal of existing obstacles calls for concerted action in order to guarantee steady expansion, balanced trade and fair competition,

Anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions,

These two paragraphs are aimed at averting two imbalances in Europe, which have in fact been reinforced in recent times: current account imbalances (going against "balanced trade")

and geographical imbalances (undermining the “harmonious development” of the territories of the European Union). On the first point, trade imbalances between EU Member States and in the euro area in particular are now well known and documented, as is the major destabilizing role being played by Germany. On the second point, the success of the single market inherited from the Treaty of Rome has been paradoxical: it brought countries closer together but led to divergence between the regions (and more generally the territories). It can for instance be shown that in the European Union [the gap in economic development between regions is stronger than the gap between countries \[3\]](#). This spatial fracture within Europe’s countries, which is found in other countries outside Europe but which the single market has undoubtedly accentuated by the powerful agglomeration effects it generates, is not without consequence for the geographical polarization observed in recent polls, in the United Kingdom, [Austria](#) and France.

Desiring to contribute, by means of a common commercial policy, to the progressive abolition of restrictions on international trade,

The drafters of the Treaty of Rome were right: the EEC and then the EU have contributed greatly to the liberalization of trade around the planet and therefore to contemporary globalization. While in 1960 the six EEC Treaty countries represented about a quarter of world trade, by 2015 the 28 EU countries accounted for about 34% of world trade. One-third of globalization has involved Europeanization.

Intending to confirm the solidarity which binds Europe and the overseas countries and desiring to ensure the development of their prosperity, in accordance with the principles of the Charter of the United Nations,

Resolved by thus pooling their resources to preserve and strengthen peace and liberty, and calling upon the other peoples of Europe who share their ideal to join in their

efforts,

Have decided to create a European Economic Community...

This last section sets out the heart of the European promise: peace based on a market that relies on the law and calls forth enlargement. There is no denying that civil liberties and political rights have progressed on the continent, guaranteeing the Member States the longest period unbroken by war since the sixteenth century. In 1957, only 12 of the current 28 Member States were democracies – all are today. And democracies are far less prone to war than other political regimes. It is no exaggeration to say that Europe is today the most democratic continent in the world, with almost 90% of its countries considered free, compared with only 70% in the Americas, 40% in Asia, 20% in sub-Saharan Africa and only 1% in the Middle East and North Africa (according to data from Freedom House). But the threat has changed in nature: it is no longer primarily international conflict that endangers Europe (although the new Russian imperialism cannot be taken lightly), but internal conflict.

Political instability, already evident in Greece, is rising in many countries, in Austria, the Netherlands, Finland, Italy and of course France. The European Union has contributed to the deep social resentment that is feeding the very secessionist parties that intend to dismantle it. The response to this risk of disintegration must be on a par with the Treaty of Rome, whose preamble affirms values and sets out horizons. In this respect, the European Commission's tribute is contradictory: the [White Paper on the future of Europe](#), released on 1 March, considers the question of what Europeans want to do together and how they could do it, together or separately. But for the first time in sixty years, the Union is not expanding but shrinking. For the first time in sixty years, Europeans believe their children will have harder lives than they did. For the first time in sixty years, democracy is being threatened on the continent and, aggravating this

situation, from within. The greatest danger for European construction is not the crisis: it is complacency about the crisis.

[1] The Eurobarometer, created in the spring of 1974, measures confidence in European institutions and the European Union, and is intended to reveal Europeans to one another through the expression of their respective public opinions.

[2] The HDI aggregates indicators on health, education and income on a parity basis.

[3] If the special case of Luxembourg is left out.

Do we need a universal basic income? The state of the debate

By [Guillaume Allègre](#) and [Henri Sterdyniak](#)

In a situation of continuing high levels of unemployment and poverty, heightening job insecurity, and fear about job losses due to automation, the proposal for a universal basic income has become a part of the economic and social debate in France and in other developed countries. Such a programme would pay a monthly allowance to any person resident in a country with no conditions on means or activity. On 13 October 2016, the OFCE, as part of its mission to stimulate informed economic debate, held a study day, which was attended by researchers who had worked on this project, to develop, support and criticize it. An [e-book](#) brings together most of the contributions that were

presented and discussed during the day, some of which were revised to take into account the discussion.

The discussion focused on a number of points:

- What kind of social project do universal income proposals form part of? How would such a programme work in terms of increasing the levels of an allowance and how would it fit in with current social protection schemes?
- Is it possible to finance a universal basic income?
- What would be the financial consequences for different categories of households, especially those in a financially precarious situation?
- What would be the impact on activity, employment, unemployment, wages, working conditions, and in particular on menial labour, part-time work, precarious work, and low-wage jobs?
- Is universal income a response to the “end of work”? Is this latter a credible hypothesis?
- What are other possible ways to fight poverty and precarious work?

The article by **Henri Sterdyniak**, “From social minima to a universal basic income?”, describes the current state of the social assistance system in France, including the social minima and in-work benefits. These programmes are targeted and relatively generous, but the system is complicated, with intrusive controls, and social assistance is often perceived as stigmatizing. The article argues for maintaining the family-oriented character of income tax and social benefits. The author discusses the various arguments for universal basic income proposals and how they would work. If one wants to maintain social insurance benefits (unemployment, pensions) and universal benefits (health), a universal basic income should be financed mainly by an increase in direct taxes on households, which tends to render it unrealistic. On the other hand, it is not socially desirable to abandon the goal of full

employment and to permanently exclude a large part of the population from work, even if it is guaranteed an income just above the poverty level. The article argues for a guaranteed minimum income (means-tested) on a short-term basis to promote economic recovery, for the creation of public jobs, and for “last resort” jobs, and in the longer-term for work-sharing by reducing working hours and work rates.

The article by **Guillaume Allègre**, “Universal income: Utopian or pragmatic?” emphasizes that a universal basic income is often assigned two objectives: on the one hand, to manage the end of work and, on the other hand, to simplify the tax-benefit system and eliminate the lack of take-up. For some, the income should be sufficient to live, while for others it should be relatively weak so as not to upset the tax-benefit system. Doubts remain about the reality of the scarcity of work. Moreover, a generalized reduction of working time seems to be a more sustainable strategy than a universal income, because it deals with all employees instead of cutting society into two. Perhaps a universal basic income should be considered to be a tax-benefit reform that would help mainly to combat the lack of take-up of social benefits. We would go from assistance that must be personally requested to an automatic universal benefit. This raises the corollary question of the individualization of the tax-benefit system. The public authorities are faced with a trade-off between a simplified automatic system on the one hand and a system that offers fine-tuned responses to needs on the other.

The article by **Gaspard Koenig**, “A living income,” denounces the current in-work income support system (“RSA”), deeming it paternalistic, unfair and stigmatizing. He argues for a liberal conception of a basic income that allows each individual to be responsible and autonomous and to define his or her own needs. The universal basic income would be 500 euros (250 euros for children) in the form of a tax credit, while a 25% tax would be the only income tax. The reform would

not fundamentally change the distribution of wealth but would free the poorest from being haunted by poverty through providing stability and security.

The article by **Guillaume Mathelier**, "A step towards the equality of initial endowments: Towards a well-lived life", assigns society the philosophical and political objective of guaranteeing each individual "a well-lived life". The moral requirement of ensuring the "equality of initial endowments" involves three measures. The first measure concerns the establishment of a living income to cover basic needs from age 18, and comprises on the one hand an egalitarian, universal income, without imposing any requirements, together with a supplemental amount to meet any special or local needs of recipients. The second measure envisages that a living income could be capitalized during childhood and paid at age 18 in the form of an "emancipation capital", which would have a counterpart consisting of compulsory civic service. Finally, non-monetary rights (public services, preservation of natural vital resources, common goods) must be added to guarantee the philosophical and political objective of a "well-lived life".

Jean-Marie Monnier and **Carlo Vercellone**, after having challenged the thesis of the end of work in their article "Basic income as primary income", propose a re-examination of the notion of productive labour in cognitive capitalism where cognitive labour, intangible and collective, tends to spread over all social time and life. The increasingly social and collective nature of work makes it impossible to measure the contribution that each individual makes to production. Thus, basic income would constitute a primary income that is directly related to production, that is, the counterpart of activities that create value and wealth, which are currently unrecognized and unpaid.

The article by **Jean-Eric Hyafil**, "Implementing a basic income: Difficulties and solutions", offers an example of a simple reform that introduces a universal basic income at the level

of France's current income support (RSA) for a single person (475 euros), which is financed through a restructuring of income tax. The purpose of the exercise is to use this example to highlight the stakes and difficulties involved in a tax reform that introduces a universal basic income and some solutions for rendering it possible. The budgetary accounting involved in a reform like this is considered, along with its redistributive effects, the question of the future of "income tax niches", the issue of the individualisation or couple-based character of income tax, the mobilization of financial resources other than income tax to finance a universal basic income, etc.

The article by **Anne Eydoux**, "Conditionality and unconditionality: Discussion of two myths about employment and solidarity", denounces two myths: first, that income support (RSA) and unemployment benefits discourage work, and second, that waged employment is coming to an end and could be replaced by a universal basic income. The article shows that it is the weakness of the jobs offer and the employment reforms that are behind the persistence of unemployment and the development of precarious employment. The proposal for a universal basic income amounts to distributing resources without organizing the production needed to generate them. It neglects the centrality of work and renounces the goal of full employment. The article suggests avenues other than a universal basic income, in particular reducing the conditionality of social benefits, but also increasing the wages of jobs deemed unskilled and reducing working hours.

In "A basic income: A remedy or a trap?", **Jean-Marie Harribey** denounces the inconsistencies of the basic income project. He rejects the thesis of the end of work and the abandonment of the objective of full employment. He argues that work that is socially validated by the market or by a political decision is the only source of value, unlike domestic work, voluntary work or leisure activities, meaning that a basic income would of

necessity constitute an income transfer. But distributing more income necessarily requires producing more, which is in contradiction with the thesis that a universal basic income would make it possible to escape the necessity of work. The article denounces the project's risks: the divide between those who would have a job and those who would be excluded, and the calling into question of social rights. It proposes the collective reduction of working time and a guaranteed allowance for adults.

The article by **Denis Clerc**, "A basic income: Much ado about not much?", presents an analysis of universal income proposals, which he criticizes for requiring a lot of gross transfers to produce only weak redistributive effects. The same result could be achieved much more simply by boosting the incomes of the poorest strata (through benefits or the creation of socially useful jobs partially financed by the community) and taxing the richest strata. He worries that raising taxes on the wealthiest would encounter political and economic obstacles. He hopes that experiments might be put in place and that decisions would not be taken until the results were known.

Paul Ariès in "For a demonetarized universal basic income: Defending and extending the sphere of the free" proposes an individual autonomy allocation, which to the maximum possible would be given in a demonetarized form: one part in the national currency, one part in a regional currency if possible so as to facilitate the relocation of activities towards those with high social and ecological value added, and the essential part in the form of rights of access to common goods. The aim is to extend the sphere of what's free. This free component would be used to democratize the functioning of the public services, to rethink existing products and services ecologically and socially, to decide what should be free and therefore produced as a priority, and to establish the commons, i.e. relationships based on reciprocal giving.

The text by **Bernard Friot**, “Continuing to affirm a non-capitalist production of value thanks to the political status of the producer”, rejects both the basic income project (which would allow capital to no longer assume the responsibilities of employers and to organize a fall in wages and job insecurity) as well as the Keynesian response of full employment, shorter working hours and redistributive taxation. Workers must fight not for a better distribution of value, but for the production of an alternative value. They must replace capitalist institutions (profit-seeking ownership, credit, labour market) by institutions inspired by social welfare and the civil service: non-capitalist production, personal skills, lifetime wages, and the financing of investment through an economic contribution.

The article by **Mathieu Grégoire**, “The part-timers regime: A wage model for all discontinuous employment?”, starts with the experience of setting up and maintaining France’s regime governing entertainment professionals (*intermittents du spectacle*). The latter organizes the socialization of wages through a framework of mechanisms ensuring interprofessional solidarity and not through a public subsidy financed by the taxpayer. Furthermore, the struggle for an unconditional income must develop through the extension of the wage relationship and the requirement of a wage for all and not through redistributive mechanisms. Based on the system for entertainment professionals, all employees in discontinuous employment should be provided with a right to an indirect socialized salary.

In any event, the debate on a universal basic income will not have been in vain if it allows for progress on two important points: the level and conditions of access to minimum social benefits, and the evolution of work.

For more, see the e-book: [Guillaume Allègre and Henri Sterdyniak \(coord.\), 2017 : « Faut-il un revenu universel ? L'état du débat », OFCE ebook](#)

The European economy in 2017 – or, the post-Brexit EU

By [Jérôme Creel](#)

The just released [L'économie européenne 2017](#) provides a broad overview of the issues being posed today by the European Union project. Brexit, migration, imbalances, inequality, economic rules that are at once rigid and flexible... the EU remains an enigma. Today it gives the impression of having lost the thread of its own history or to even to be going against History, such as the recent international financial crisis or in earlier times the Great Depression.

A few months after the bankruptcy of Lehman Brothers, the G-20 Summit of the heads of State and Government held in London in April 2009 drew up a list of recommendations to revive the global economy. These included implementing active fiscal and monetary policies, supporting the banks and improving banking regulation, rejecting the temptation of protectionism, fighting against inequality and poverty, and promoting sustainable development.

These recommendations were in contrast to the policies implemented shortly after the Great Depression back in the 1930s. At that time, economic policies started with restrictive measures, thereby fueling the crisis and rising inequality. Protectionism in that epoch became not just a temptation but a reality: tariff and non-tariff barriers were erected in an effort to protect local business from international competition. We know what happened later: the

rise of populism and extremism that plunged Europe, and then the world, into a terrible war. The economic lessons learned from the catastrophic management of the 1930s crisis thus contributed to the recommendations of the London G-20 Summit.

What now remains of these lessons in Europe? Little, ultimately, other than a resolutely expansionary monetary policy and the establishment of a banking union. The first is meant to alleviate the current crisis, while the second is intended to prevent a banking crisis in Europe. While this is of course not nothing, it is based on a single institution, the European Central Bank, and is far from sufficient to answer all the difficulties hitting Europe.

Brexit is one of these: as the first case of European disintegration, the departure of the United Kingdom poses the issue of the terms of its future partnership with the European Union (EU) and re-raises the question of protectionism between European states. The temptation to turn inwards is also evident in the way that the refugee crisis has been managed, which calls for the values of solidarity that have long characterized the EU. Differences between EU Member States in terms of inequality, competitiveness and the functioning of labour markets require differentiated and coordinated policies between the Member States rather than the all-too homogeneous policies adopted up to now, which fail to take an overall view.

This is particularly true of the policies aimed at reducing trade imbalances and those aimed at cutting public debts. By applying fiscal rules to manage the managing public finances, even if these are not perfectly respected, and by imposing quantitative criteria to deal with economic and social imbalances, we lose sight of the interdependencies between the Member States: fiscal austerity is also affecting our partners, as is the search for better price competitiveness. Is this useful and reasonable in a European Union that is soon to be the EU-27, which is seeing rising inequalities and

struggling to find a way to promote long-term growth?

L'économie européenne 2017 takes stock of the European Union in a period of severe tensions and great uncertainty, following a year of average growth and before the process of separation between the EU and the UK really begins. During this period, several key elections in Europe will also serve as stress tests for the EU: less, more or better Europe – it will be necessary to choose.

Could Trump really re-industrialize the United States?

By [Sarah Guillou](#)

Callicles to Socrates: "What you say is of no interest to me, and I will continue to act as I have previously, without worrying about the lessons you claim to give." Gorgias, Chapter 3

Only 8% of the jobs in the United States are now in industry. Donald Trump, the new President of the United States, wants to reindustrialize America and is speaking out against the opening of factories abroad and the closing of local factories. Is there any economic rationale for the indiscriminate communications of the new US President?

Trump's statements about manufacturing abroad by major American corporations are disturbing to an economist. It is as if threatening the multinationals, raising tariffs on their

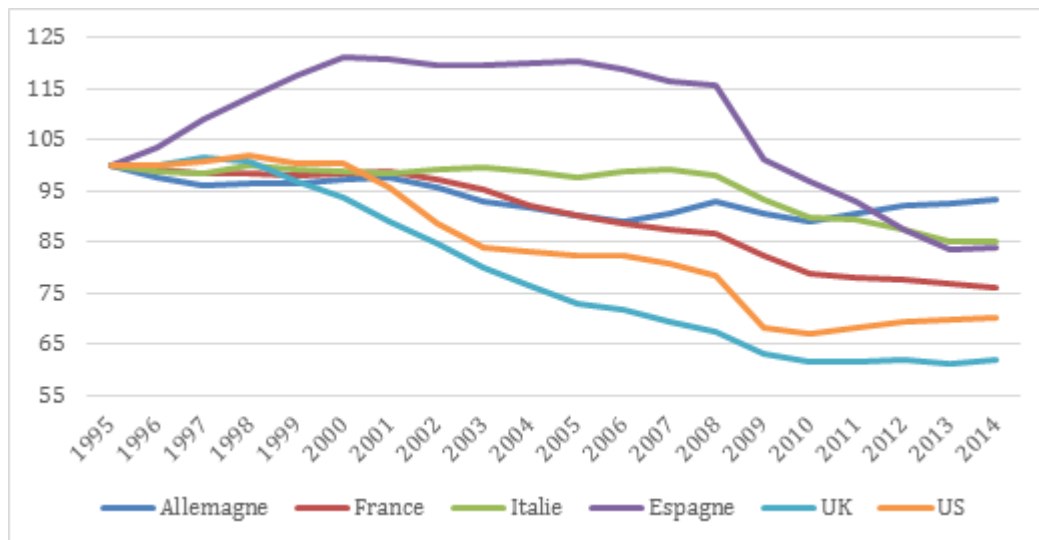
imports, and menacing them with punitive taxes will suffice to get them to reconsider their decisions to outsource. Beyond the fact that Trump's method is the antithesis of the rule of law, what is surprising to an economist is that these statements ignore not only everything that is known about the logic of globalizing value chains but also the nature of past trends in industrial production and its future prospects. They therefore raise more perplexity than support (see the [note of X. Ragot](#) on macroeconomic policy).

The only truth in Trump's rhetoric is the fact of intense American deindustrialization. So let's start from the state of American industry to understand the grounds for the working-class nostalgia on which this rhetoric is based.

America's worn-out industrial fabric – fertile terrain for blue-collar nostalgia

Donald Trump taps into the wellsprings of voter nostalgia for a time when the manufacturing sector was in full swing. It is clear that America's deindustrialization was intense, even though it opened up commercially much less than Europe did. For the many workers who lack social protection it has been brutal. The countries where the discourse in favor of re-industrialization has been most widespread are those where the decline in industrial employment was most pronounced, namely the United States, the United Kingdom and France. All three have lost more than a quarter of manufacturing jobs since 1995[1].

Figure 1: Changes in jobs in manufacturing (base 100 in 1995)



Source: EU Klems for European countries. Federal Bank of St Louis (FRED) for the United States.

Figure 1 shows the similarity in the trends in these three economies since the end of the 1990s: France started to lose jobs a little after the United States and United Kingdom, and the end of this trend, which can be seen in the US and UK as of 2009, is still not clearly visible in France, which has continued to shed jobs, although at a slower pace than at the beginning of the period.

The United States lost more than 5 million jobs since 1995, compared to more than 1.5 million in the United Kingdom and 900,000 in France, representing 29%, 38% and 24%, respectively, of the losses over the period. Of course, at first gains in productivity permitted a smaller decline in value-added, but this was less the case from 2000 onwards, given the slowdown in productivity gains in the manufacturing sector. It should also be noted that manufacturing employment has risen since 2010 in the US, but once again slowed from 2015 (see [Bidet-Mayer and Frocain, 2017](#)).

The causes of deindustrialization have been clearly identified. Deindustrialization has affected all the old industrial powers because of both technical progress and the shift of manufacturing value into industrial services. At the global level, manufacturing output now represents only 16% of

GDP, making the 12% American level quite honorable. Moreover, the United States is still a major player in global manufacturing, second only to China in the volume of production.

Finally, once it is understood that the incorporation of technology in manufacturing value-added will not slow its pace and that the robotization of the repetitive tasks specific to mass production will continue or even accelerate, it is certain that future industrial production will be even less job-rich (on this topic see [M. Muro](#)).

In terms of the rise of the Trump electorate, only a small fraction of the voters located in a small part of the northern United States were actually victims of deindustrialization. But industry is a symbolic sector, an emblem of the economic power of yesteryear, of martial imperial power, of the birth of the consumer society and then of the emergence of Asia's economic powers, the new homes of the world's factories. This particularly affects a section of the middle and working class that has not seen its income improve over the last 20 years (as is suggested in the "elephant" graphic of [Branko Milanovic](#))^[2]). Finally, America's deindustrialization can be seen as symmetric with the industrialization of China and other emerging countries like Mexico, whose economic success is taken as a scapegoat by this middle class. But while globalization has had differentiated effects on individuals based on their qualifications, it cannot be superimposed on deindustrialization.

Starting from this nostalgia for the industrial might of yesteryear, Trump chose to become personally involved in companies' outsourcing decisions in order to win the vote of these middle class forces who'd suffered from deindustrialization. His interventions have consisted in directly going after companies by calling on them to modify their decisions. Let's take a look at the most striking episodes in order to grasp the respective motivations of the

actors.

Symbolic, eye-catching industrial symbols

First there was the case of Carrier, an equipment manufacturer in Indiana that makes heaters and air conditioners, which in February 2016 announced its decision to move 1,400 jobs to Mexico. Having seized on this case during his campaign, once elected Trump went on to negotiate in November with the heads of the company. In exchange for relief on taxes, charges and regulations, Trump demanded that some of the jobs be kept in Indiana. The local authorities also joined in the negotiations in an effort to coax the company. On November 30, the company announced its intention to retain 1000 jobs on the site. This victory was highly symbolic, in every sense of the word, given that the American economy creates more than 180,000 jobs every month. Carrier's parent company, United Technologies, conceded that this turnaround will not cost it that much, especially if it gets an attentive ear from the President, and also because United Technologies is a manufacturer of military equipment and is heavily dependent on public procurement (10% of its sales according to the *New York Times*).

Then there was the episode involving Foxconn, a Taiwanese company that assembles products by Apple – its biggest customer – that decided to set up an assembly plant in the United States, a decision that Trump then brandished as a personal victory. Foxconn already owns production units in the US. This was not *a priori* a relocation of activities, as the company does not envisage simultaneously “disinvesting” in Taiwan. If the company decides to invest in the US, it is because it has good reasons to do so. Among these are expectations about the growth of the US market, the trade obstacles that Trump is threatening to erect and the pressure that its main client (Apple) might bring to bear.

Finally, Trump has tackled the automotive industry. He had already lambasted Ford Motors' plan to build a plant in Mexico

back in the spring of 2016. On 3 January 2017, the company decided to cancel its USD 1.6 billion project in the state of San Luis Potosi in Mexico and announced a USD 700 million investment in a plant in Flat Rock, Michigan, to build electric cars and autonomous cars. Was this a turnaround by the company? In fact, the Mexican plant was designed to build the Ford Focus, small models for which demand has fallen sharply in favour of SUVs and other “crossovers”. Ford’s decision indicates that it is trying to reduce production of this range of vehicles, while Trump’s policy should lead to a revival of American demand for automobiles outside this range. The car maker is nevertheless confirming its decision to shift its production capacity for the Focus model from Wayne, Michigan to Hermosillo, Mexico ([The Economist, Wheel Spin, 2017](#)). These decisions therefore reflect more a repositioning by the company rather than a relocation.

The threat of a 35% customs duty on vehicles from Mexico or a tax on revenue from imports is obviously being taken seriously by manufacturers. In 2015, the United States imported more than 2 million vehicles from Mexico. Car makers have every interest in showing clean hands in order to obtain other benefits, such as the relaxation of emission regulations. In addition, with the ex-president of ExxonMobil, Rex Tillerson, assuming the post of Secretary of State and defending fossil fuels and Trump’s economic recovery programme, manufacturers anticipate a pick-up in purchases.

The series of challenges and reactions is continuing ([Hyundai](#), [Toyota](#), [BMW](#), etc.). Trump is going through all the manufacturers and suspects that any production overseas represents a raid on American jobs. It is not by chance that he is focusing on the automotive industry, as this sector is emblematic of the American way of life, a symbol of US industrial power at a time when the rust belt was still glitzy. But the sector is now highly globalized, and one wonders how at this point Trump can ignore or deny the way the

industry is organized and go on deceiving his supporters.

Is there really a pool of jobs to relocate?

Globalization can affect the way companies organize production in two ways. First, in combination with technical progress, it can lead to the disappearance of manufacturing following complete outsourcing, while maintaining control over the chains where profits are realized. This is for instance the case of Apple, which does not have its own plants abroad. Apple cannot be compelled to bring back what it has not taken away! If tariffs increase, Apple will import more expensive components, the State will recover part of the rent from innovation and consumers will pay part of the tax. Second, globalization may also result in outsourcing production, and in this case the company does own production sites abroad, such as in the automotive sector as well as in textiles and toys, like Mattel. Jobs have indeed been displaced, but sometimes the skills as well, which it is not necessarily easy to find again in the home country.

Mexico's cost advantage is also not about to disappear: the wage costs in Indiana per hour are equivalent to the wage costs in Mexico per day. The same is true for the cost in China. The relocation of this type of employment would entail a sharp drop in wages, unless higher customs duties (which raise foreign wages), lower energy and tax costs and higher productivity (which reduce American wages) led to a new trade-off. But this would require major changes that would inevitably impact the rest of the non-manufacturing economy, i.e. 92% of jobs.

In the end, the job content of imports is not "relocatable" in its entirety. Moreover, a large portion of imports fuel exports: in other words, a major part of Chinese and Mexican jobs activate American jobs whose output is sold abroad because the development of the emerging countries has led to the solvency of demand. There is such interdependence today

that no one knows what the consequences of a new employment equilibrium would be for future prices, profits, investments and jobs.

What would be the consequences of industrial relocation?

Consider again the case of Foxconn. If this company invests, it would be to serve the US market. Since production costs are higher there, this implies three possible non-mutually exclusive strategies. The company cuts its margins (Apple too) in order not to reduce its market share: Foxconn and Apple accept this reduction in margins in order to offset the negative impact on sales due to the stigma cast by Trump on the company. The second strategy would be to increase the prices of products on the US market: this would mean consumers are financing the few jobs created. The third strategy: the company develops different production processes, including intensive automation that cuts the labour costs while also reducing logistics costs to serve the US market. At the end of the day, Foxconn's decision, if it is confirmed, is a fairly standard economic rationale. The Trump effect figures in this mix in so far as it requires Apple to justify its strategy of localization. But if Trump's messages were to jeopardize the company's financial health (though it does of course have margins), then this would jeopardize a flagship of the US economy.

In the case of manufacturers, the multiplication of investments, if confirmed, will inflate both the supply of labour as well as supply of domestic production. This would increase competition among businesses. Not only would wages increase, but margins would be reduced due to higher production costs, higher prices for imported components and heightened competition in the domestic market. It is far from certain that it is US manufacturers who would come out on top. At that point, if it came to accepting the Chinese taking holdings in their capital, they would be hoisted on their own petard! The investment decisions taken by the car makers as a

whole could even result in labour shortages – the US job market is close to full employment – leading to higher wages (and hence production costs), resulting in turn in either accelerating robotization or bringing in foreign workers.

So ultimately, if we ask ourselves what would be the impact of additional investments on America, it all depends on what incentives they are responding to. If these respond to new, tighter constraints being put on companies by the new government, then microeconomic theory tells us that a company's output will fall or else be more expensive. If an external event increases a company's costs, it produces less 1) either immediately because it increases its prices, or 2) in the medium to long term because its margins are falling (it has not increased its prices) and it is investing less, or 3) in the long term because it leaves the market. If they are responding to expectations of an increase in demand, then Trump will need to stick to his promises of a recovery. Finally, if investment is made in exchange for fiscal expenditure (lower taxes, investment subsidies, financial support), then the cost to the public purse will result in lower present or future expenditure. In short, the investment will take place if it benefits the company: whether it locates in the country of origin or abroad, it is always conditional on the promise of future income.

But why defend the multinationals and renounce protectionism?

Proponents of protectionist measures respond: 1) what does it matter if firms produce less in total, if the distribution of their output is more advantageous to the domestic territory; 2) what does it matter if they make less profit, as these multinationals already make so much! This neglects that companies also have integrated strategies – that is, global strategies – and that if they earn less profits, they will invest less, which will eventually impact their future growth. It also neglects that the multinationals are the ones that invest the most in R&D, and that if their stock market value

rises they do not distribute all the dividends. It neglects that trade, while not balanced, is bilateral, that is, if we reduce the incomes of our partners by reducing their exports, we reduce our own exports. In other words, if the income of Mexicans falls substantially, they will buy a lot less American goods. Furthermore, protectionism – which always winds up being bilateral (retaliation requires it) – protects not the weak, but the profiteers.

Some argue that protectionist measures are a means of relocating production sites to consumption sites (in order to avoid barriers), and hence to recover activities that have been outsourced. It must be emphasized that protectionism protects the giants, the businesses that can deal with tariff barriers. And while it saves unskilled jobs a little longer, it maintains them in their “unskilled” state. Above all, it hampers the development of a middle class of both consumers and businesses. Inequalities will not be reduced through protectionism; instead, the society and the economy will freeze up. Protectionism is not the solution to the differentiated gains coming from globalization.

In the United States, the effects of globalization have been relatively pronounced, and despite a dynamic labour market, the distribution of the gains from growth has been very uneven. The constraints on skills adjustments have been intense: thus, the 12% of manufacturing value-added, while very honorable, is concentrated mainly in the electronics and information technologies sector (see [Baily and Bosworth, 2016](#)). A recent work by [D. Autor and his co-authors](#) at MIT demonstrates that the exposure to Chinese imports has led to polarizing votes towards candidates at the extremes of the political spectrum. This reveals the strong sensitivity of voters to the hallmarks of globalization.

Yet while the malaise is real, protectionist measures cannot fundamentally heal it because they will diminish the economic wealth of less well-off groups whose consumption basket

contains relatively more imported products, whereas few jobs will be created. Let's look once again at the case of the automobile sector, where the American consumer will see car prices go up: the purchasing power of consumers as a whole will go to the benefit of a small minority of workers in the automobile sector. The reduction in corporate taxation will reduce fiscal revenues and the resources for financing the public goods that benefit less well-off strata the most. And it is not at all certain that this reduction in taxation will have a positive impact on business if at the same time the latter also incurs additional customs duties.

In conclusion, industrial employment will not be revived by protectionist measures. Nor will it lessen the economic malaise of the middle class. With an economic and foreign policy that accentuates the present imbalances – isolationism, protectionism, the revival of full employment – Donald Trump is voluntarily taking his mandate into unstable, unknown territory. The cynical pragmatism of the world's economic players will not be stamped out by Trump's rhetoric, which will instead undoubtedly generate another type of cynicism, one marked by the horizons of an unexpected, personal mandate, with every man for himself.

[\[1\]](#) Manufacturing is a major subset of industry that excludes the energy business. It is common to associate industry with the manufacturing sector.

[\[2\]](#) Branko Milanovic, *Global Inequality*, 2016, HUP.

Balance sheets effects of a

euro break-up

By Cédric Durand (Université Paris 13), and [Sébastien Villemot](#)

When it was introduced at the turn of the millennium, the euro was widely perceived as a major achievement for Europe. The apparent economic successes, coupled with cross-country convergence of several economic indicators, fueled this sentiment of success. A couple of years later, the picture looks dramatically different. The world financial crisis has revealed imbalances that have led to the sovereign debt crisis and brought the euro area on the verge of dislocation. The austerity policies that became the norm on the continent in 2011 fueled a protracted stagnation^[1], with growth rates that look bleak in comparison to the United States and the United Kingdom.

This economic underperformance has fueled popular resentment against the euro, now seen by a growing number of European people as the problem rather than the solution. The financial community itself seems to be prepared to the possibility of an exit or a dissolution of the single currency by cutting back on cross-border positions. Greece was on the verge to leave in 2015. And the intellectual mood is also shifting: leading thinkers, such as US economist Joseph Stiglitz, or German Sociologist Wolfgang Streeck are among the most visible figures of a wider change of attitude.

A country exiting the euro, or even the dissolution of the single currency, has therefore become a concrete possibility. Such an event would obviously have a major impact in several dimensions. On the economic side, the most obvious consequence would be the changing conditions in products markets due to the new exchange rates; uncertainty would prevail in the short run, but in the longer run the possibility of adjusting nominal parities would help with the unfolding of current account imbalances.

There however exists another impact, less discussed, but potentially more disruptive: the changes in the balance sheet position of economic actors, resulting from the currency redenomination process. This process could introduce significant currency mismatches between the asset and liability sides. Assessing the unfolding of these balance sheet effects is crucial, because they could affect financial relations, investment and trade, have unexpected redistributive effects and, if not adequately managed, lead to productive disruption.

The concrete questions that we ask are the following. If a country exits the euro and depreciates its new national currency, what will be the consequences for domestic economic agents which have liabilities denominated in euros: will they be able to repay in the new national currency? and if not, will they be able to avoid bankruptcy despite the increase of their debt burden? Conversely, what are the consequences for exiting countries whose new currency appreciates and who have accumulated foreign assets?

In a [recent research paper](#), we propose such an assessment of the redenomination risk in the euro area, by country and by main institutional sector, for two scenarios: a single country exit and a complete break-up.

Our analysis relies on the concept of “relevant” liabilities and assets: those are the balance sheet items that will not be redenominated into the new currency after the exit, because of legal or economic reasons. In practice, the most important factor for determining which debt or assets are “relevant” is their governing law: if a financial contract is governed by domestic law, the chances are high that the government of the exiting country will be able to redenominate it into the new currency, by simply passing a law in parliament. Conversely, contracts under foreign law (typically English or New York law) will remain in euros—or be redenominated in some other foreign currency if the euro disappears. In the first case,

the lender bears the economic loss; in the second case, the risk is borne by the borrower whose debt burden is increased, unless she decides to default and therefore to impose losses on the lender.

Focusing on the liability side, Table 1 presents our estimates for the relevant debt, by country and institutional sector. It therefore gives an estimate of the exposure of the various sectors and countries to a euro-exit followed by a depreciation. Since the first months after a euro exit will be the most critical, potentially with an exchange rate overshooting, the short-term component of the relevant debt is also reported.

Table 1. Relevant debt by sector (% of GDP, Q3 2015)

In %

	Greece	Italy	Portugal	Spain	Ireland	France
General government	142	8	57	12	35	2
<i>incl. short term</i>	3	7	7	0	2	0
Financial corporations	42	30	18	43	395	42
<i>incl. short term</i>	29	4	2	8	98	8
Non-financial corps. + households	13	18	20	15	312	33
<i>incl. short term</i>	5	8	8	4	53	17

	Germany	Netherlands	Austria	Luxembourg	Belgium	Finland
General government	6	5	35	7	10	17
<i>incl. short term</i>	2	2	4	0	2	6
Financial corporations	28	225	35	876	22	59
<i>incl. short term</i>	9	36	8	135	7	17
Non-financial corps. + households	20	66	23	910	23	20
<i>incl. short term</i>	5	18	6	385	13	4

Sources : BIS, World Bank QEDS, authors' computations.

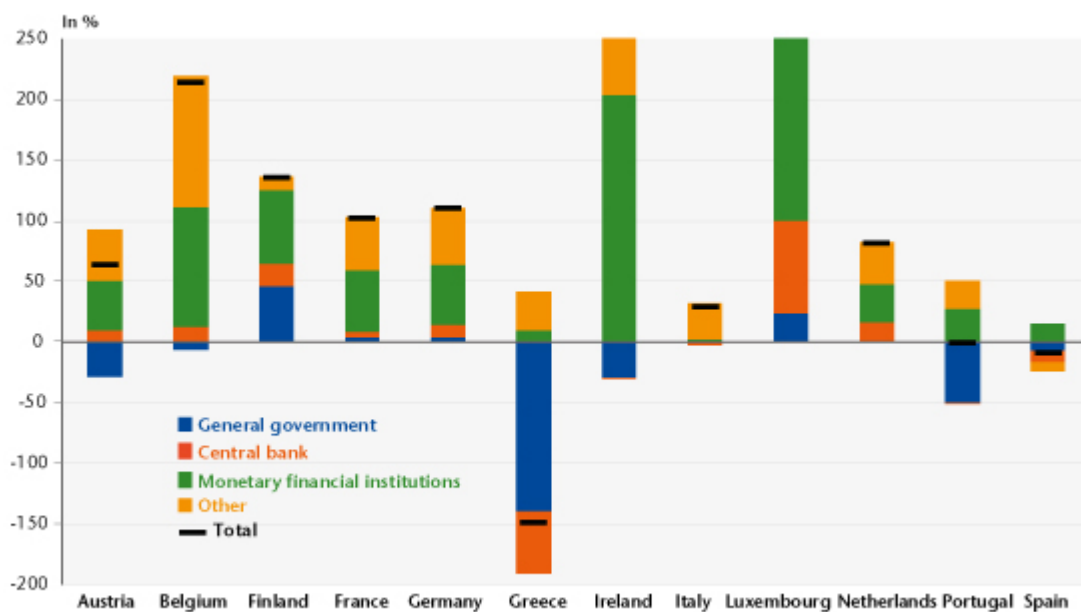
On the side of public debt, the countries most at risk are Greece and Portugal, since they have large external loans that will have to be reimbursed in euros. Conversely, France or Italy are quite safe on their public debt, because almost all of it is under domestic law and can therefore be easily redenominated into Francs or Lira. The financial sector is more exposed, especially in countries acting as financial intermediaries like Luxembourg, the Netherlands or Ireland. The exposure of the non-financial private sector looks much more limited (and due to data limitations, the figures are overestimated in countries with a highly developed non-banking

financial system).

However, relevant liabilities are not the whole story. Relevant assets also matter: for countries which are expected to depreciate (typically southern countries including France), those help mitigating the debt problem, since assets in foreign currency will become more valuable in the domestic currency; conversely, in the case of a currency appreciation (typically northern countries), it is from the asset side that difficulties can arise.

The figure shows our estimates for relevant net positions, *i.e.* for the difference between relevant liabilities and assets. A positive number means that a depreciation will improve the balance sheet, while an appreciation will deteriorate it.

Figure. Relevant net position (% of GDP, excl. fin. derivatives, Q3 2015)



Sources: Eurostat, IMF, BIS, World Bank, Banca d'Italia, Bank of Finland, authors' computations.

The striking fact is that, for most countries and sectors, the relevant net position is positive. This means that northern countries can make a significant loss on their foreign assets if they leave. Conversely, for southern countries and France, there is no aggregate balance sheet risk for the private sector (except for Spain), and even no risk for the public

sector in some cases. This does not mean that there is no problem because, at the micro level, the holders of the relevant assets may not be the same as those of the relevant liabilities, but at least there is room for maneuver.

In order to give a broader picture that takes into account the fact that assets can mitigate liabilities problem—but only to some extent—and that short-term debt is the most critical issue, we have constructed a composite risk index that synthesizes all these dimensions, as shown in Table 2. In particular, this indicator was constructed using estimates for the expected exchange rate movements after the exit from the euro.

Table 2. Composite risk index (Q3 2015)

	General government + central bank	Financial corporations	Non-financial corps. + households
Austria	0	1	1
Belgium	1	0	1
Finland	0	2	1
France	0	0	1
Germany	0	1	1
Greece	3	3	1
Ireland	1	3	2
Italy	0	0	0
Luxembourg	1	3	3
Netherlands	0	0	1
Portugal	2	1	1
Spain	1	1	1

Légend:

0 = No risk	2 = Medium risk
1 = Low risk	3 = High risk

Source: authors' computations.

Though this exercise necessarily entails some arbitrary thresholds, it helps identifying a few specific vulnerabilities: the public debts of Greece and Portugal, for which a substantial restructuring or even a default would be the likely outcome; the financial sectors of Greece, Ireland, Luxembourg, and potentially Finland, which would have to undergo a deep restructuring; and potentially the non-financial sector of Ireland and Luxembourg, though that latter

result may be an artifact caused by our data limitations.

The broad conclusion that can be drawn from our analysis is that, even though the problem of balance sheets is real and should be taken seriously, its overall order of magnitude is not as large as some claim. In particular, in the non-financial private sector, the issue should be manageable provided that proper policy measures are implemented, and disruptions should in that case be limited.

Assessing the costs of a euro exit obviously matters for properly dealing *ex post* with the event, if it were to materialize because of some unexpected political or economic shock. But this assessment is also interesting from an *ex ante* perspective, especially for a country which is considering whether to leave or to stay. In this respect, our analysis leads to a somewhat unexpected conclusion: the costs are probably not so high for some deficit countries (Italy, Spain), while they are higher than usually thought for surplus countries who could suffer capital losses through depreciations or defaults. The awareness of this fact should give a stronger bargaining power to southern countries in their negotiations with northern countries concerning the future of the Eurozone.

[1] See the [independent Annual Growth Survey \(iAGS\) reports](#).

Renew the mix: Carry out the

energy transition, at last!

By [Aurélien Saussay](#), [Gissela Landa Rivera](#) and [Paul Malliet](#)

The five-year presidential term in France will have been marked by the success of COP21, which led to the signing in December 2015 of the Paris Agreement to limit the rise in global temperatures to 2°C by the end of the century. Despite this, climate and energy issues do not seem to be priorities in the upcoming presidential debate.

These issues nevertheless deserve to be dealt with in depth, given that the decisions required entail a long-term commitment by France. In order to meet the goals France has set itself in the Law on the energy transition and green growth (LTECV), it is necessary as soon as possible to undertake the changes required in our energy mix and to improve its efficiency in order to hold down demand from the main energy-consuming sectors, i.e. residential, services, transport and industry.

The recent parliamentary report from the Committee on economic affairs (CAE) and the Commission on sustainable development (CDD) [\[1\]](#) pointedly notes the delay in the implementation of LTECV. In particular, the report highlights the limited progress made in exploiting the main source of energy-savings, the construction sector. It also notes the delay in increasing the share of renewable energies in our energy mix, particularly with regard to the generation of electricity.

To this end, the Multiannual electricity programme (PPE) for the period 2016-2023 does not seem sufficient, in the current situation, to meet the objective set in Article I, Section 3 (L100-4) , Paragraph 5 of the LTECV, which calls for reducing the share of nuclear power to 50% of France's electricity mix by 2025. To achieve this, it will be necessary to revise the PPE at the beginning of the next five-year term.

The main obstacles to the implementation of the ambitious investment plans needed to achieve the law's main objectives – France's transition towards a low-carbon economy – are fear that the economy will become less competitive, particularly energy-intensive industries [2], together with the low acceptability of carbon taxation and the risk that all this will have a recessionary economic impact.

While an analysis of the redistributive impacts of carbon taxation remains a topic for research, work done by the OFCE in partnership with the ADEME has shown that fears of a negative macroeconomic impact are unjustified. Far from weighing on the prospects for an economic recovery, the energy transition could, on the contrary, bring about a resurgence of growth for the French economy over the next thirty years – starting right in the next five-year term.

This result is the macroeconomic translation of the continuous reduction in the cost of the technologies needed for the transition, in all its dimensions: the production of renewable energy, the management of intermittence, and the improvement of energy efficiency. Our analysis shows that changes in the full cost of renewable electricity (i.e. the levelized cost of electricity, LCOE) make a complete change of the energy paradigm possible, without any major additional cost compared to traditional technologies – even in a country with an extensive nuclear power industry like France.

A policy brief recently published by the OFCE, "[Changing the mix: the urgency of an energy transition in France, and the opportunities](#)" [in French], presents the main conclusions of this work. First, it demonstrates that achieving an energy transition corresponding to the LTECV would generate about 0.4% additional GDP and more than 180,000 jobs by 2022, at the end of the next five-year term. While this is a modest effect, our projections indicate an expansionary impact of 3% of additional GDP over the longer term up to 2050 – i.e. additional annual growth of 0.1% over the period.

We have also estimated the impact of a more ambitious forward-looking effort to decarbonize the French economy: increasing the share of renewables to up to 100% of the electricity mix by 2050. This scenario presupposes accelerating the construction of the infrastructures generating renewable electricity – mainly onshore and offshore wind along with solar photovoltaic – starting in the next five-year term. This increased effort would result in a larger gain of 1.3% of GDP by 2022, reaching 3.9% by 2050.

This last exercise shows that an energy transition comparable in magnitude to Germany's *Energiewende* is definitely achievable in France, both technologically and economically.

Accelerating the energy transition in France during the next five-year term would meet a threefold objective: it would give the economy an additional boost to growth; meet the goals for the reduction of CO₂ emissions and energy consumption set by the LTECV; and achieve France's contribution to the goal endorsed by COP21 of limiting global warming to a rise of less than 2°C above pre-industrial temperatures.

[\[1\]](#) Joint information mission on the application of the Law of 17 August 2015 on the energy transition for green growth, 26 October 2016.

[\[2\]](#) See on this topic, « [L'état du tissu productif français : absence de reprise ou véritable décrochage?](#) » [France's production system: absence of a recovery or a genuine take-off?], OFCE Department of innovation and competition, 2016.