THE ANSWER IS WAGES, NOT CAPITAL

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As in any other religion, faith lies behind capitalism. Faith that capital is a panacea always and in any situation: to push economic growth or to help less developed countries to catch up. Yet the fact is that the EU countries that were the main receivers of cohesion funds, before the extension to the East, later became rescued countries – and we have never before had as much capital on tap along with current low growth.

Both these facts should be enough to break the faith in capital or, at least, to recognise its limits. Let's see those limits in the above-mentioned causes. The virtue of capital transfers to help low developed countries is based in old Marshall Plan history, which attributes the successful German recovery after WW2 to USA loans. Sure, those loans helped, but the necessary knowledge was already there and the capital transfers allowed the Germans to rebuild their supply capacity. Conversely, in the EU rescued countries, entering the EU came with a local supply capacity destruction, in Schumpeterian terms, for which cohesion funds were unable to compensate. As a result, their domestic demand outstripped internal supply and trade deficits became recurrent until the financial crash.

The key element was not capital but knowledge and its absence or availability in both situations; something very obvious but all too often forgotten. If capital has any virtue it comes from its origin: the capacity to produce output sufficient to recover the inputs used, to satisfy consumption needs and to save a part to be invested as new inputs for raising future output. It means that the virtue is not in the savings/capital itself but in the capacity to generate it. That's why capital transfers that simply increased the receivers' inputs provision, without increasing the output/input ratio –or system efficiency–, were in the end wasted money. To avoid this, it would have been necessary to increase the receivers' efficiency, which is much more correlated with parameters like educational levels than with capitalization! Again, knowledge is the key question.

Furthermore, capital on its own is not only unable to help less developed countries catch up on their wealthier peers but it's also unable to propel economic growth on its own, as we are now seeing. After years of letting profits grow at the cost of wages, hoping that greater capital would bring greater growth, now we hear companies claiming that they do not invest because they do not have sufficient demand to justify the investment. The clear solution would be to increase wages, but no single company will do it out of fear that the others won't follow suit. In fact, what any company hopes is that the others increase wages and salaries but not itself. That's why a global agent is needed: trade unions and the public administration! The latter to increase its spending to guarantee full employment and the former profiting from full employment to bargain higher salaries.

This is the way things go on. The way things have gone on historically. Any productivity gain came together with a wage increase to absorb the increased production. Because excess savings are wasted savings! To ensure economic growth savings are not enough to invest; what's also necessary is enough consumption to justify the investment. That's the present paradox: poverty and wasted savings; lack of real demand and unsatisfied potential demand; dormant capital and high unemployment.

Very high unemployment, in fact, if we add both the "mini-jobs" and the employment sustained by foreign demand (trade surplus) which constitute hidden unemployment. Because depending on external demand is too weak and requires financing the deficit customers.

How long will we have to wait to reverse the situation? How long will it take for Germany, the hidden unemployment champion in Europe, to react? Probably, it will be necessary they first lose faith in capital and abandon the absurd idea that trade surplus constitutes the real savings of a country, as the Deutsche Bank Research centre stated recently. It would mean that the whole world economy, where no surplus or deficit is possible, does not save and invest! Conversely, trade surplus implies investing outside, from where the demand is coming, rather than investing at home to generate domestic demand. A complete absurdity with very few winners: the surplus country exports companies, whose profits would decrease if domestic salaries increased.

So are those companies so strong as to end up killing their own country and the rest of us? •

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