

Waiting for the light... of a new star

July Comment 2020

There are stars that continue to shine in our eyes but are actually gone. The light that travels through space can take years before it reaches us: it orients us even though it is extinguished at the origin. Something similar happens with ideas, especially when they are rationally organized, becoming ideologies. These are born and die. But like distant stars, the perception of their decay can take years before our consciousness is awakened. In the world of politics, it happened some time ago with the end of communist ideology. It was annihilated by another form of total thought, so strong as to appear as indisputable evidence: the liberal-democratic ideology. Even, in the 1990s, the American political scientist Francis Fukuyama came to theorize the end of history, understood as the evolution of thought, because capitalist liberalism, by killing communism, proved to be the ultimate form of social organization. The *élite* of the Cold War victors, the United States and its allies, felt that the thoughts of politics confronting each other within states were weak, therefore preferring to

focus on the economic dimension of profit. A capitalist society, with open commercial and financial markets, would inevitably become liberal-democratic. So, there is no point in worrying about politics. These strategies of thought enabled millions of people to emerge from poverty, as capital flows were naturally directed towards those countries with low labour costs, creating preconditions for growth. People have continued to believe blindly in a sort of capitalism-liberal-democracy automatism. But communist China returned to great power using the advantages of the opening of the world market, while maintaining the strict political control of its economy. The signs that the assumptions of the liberal-democratic ideology had to be revised were long overdue. But the obligation to constantly improve the quarterly results of companies prevented the economic *élite* from facing the costly changes, while the political *élite* had abdicated, leaving all the space to the demiurges of the self-adjusting free market and therefore should not be disturbed. That enlightening liberal-

democratic ideology also established itself in the university professorships self-feeding an increasingly less questionable mainstream, where the ideas of the time are increasingly rationalized, but only within a defined framework, therefore an ideology. That light that comes from afar begins to fade, as doubts about certain automatisms increase. But the ideological dimension is difficult to overcome for those within this structure of thought. On a political level Donald Trump took care of bringing the bell tower back to the center of the village: those who voted for it, those who saw the darkness behind the light because its purchasing power decreased, wanted the break promised by the current president of the United States, an expression of the return of nationalism (*America First*). But when the light fades, there is a greyness in which many try to orient themselves as they can, trying to defend their interests. Trump's *America First* - no longer the absolute power and champion of the liberal-democratic ideology that allowed it to defeat the Soviet Union - knows that it is still the main relative power, but it cannot (or does not want) to afford the generosity of the strong anymore.

In order to slow down, or at least delay China's growth, it wants a return to the war economy and an end to the liberal-democratic globalization that has helped Xi Jinping's country so much.

This is probably the will of the America that voted for Trump and that, a few months ago, seemed, without a shadow of a doubt, ready to vote him again. But in the meantime, the COVID-19 has arrived. To extinguish a pandemic requires an economy of war: to defeat the virus it is necessary to have clarity in the objectives and strategies to be pursued, organization, sharing of responsibilities, therefore leadership. The virus could have really strengthened the Trump administration, which in the economic field has not hesitated to use tax leverage, helped also by the generous monetary policies of the Federal Reserve. Now the president is struggling to get a trillion dollar package from the Congress for infrastructure and jobs. But his credibility as a leader is being lost in the pandemic. While China, from which the virus started, manages to contain its expansion, in the United States, initially spared, the illness has spread, dividing the country more and more, opening many doubts about

Trump's leadership even among the Republicans. The Federal Reserve, last week, did not hesitate to say that the main risk for the American economy remains the COVID-19.

A completely different matter for the European Union. The light of the star lit by Jean Monnet, Robert Schuman, Alcide De Gasperi, Konrad Adenauer and others, after the Second World War, seemed to have blurred in the eyes of many. The idea that economic integration, through a single market, which would have required a common currency, would have led to the United States of Europe, lost its edge after the fall of the Berlin Wall in 1989: Jacques Delors' attempts to use the euro as a vector of prosperity for the whole continent failed. Germany, the undisputed leader after reunification, considered it more important to favour the world's large market, the globalisation expressed by the World Trade Organisation (WTO), rather than the complicated spaces occupied by European welfare. And other states, such as Marine Le Pen's France or Matteo Salvini's Italy, have revived the old nationalism against which the European institutions were born. The idea of liberal capitalism also contaminated the Europe

of the open but organized economy. Germany took advantage of the euro to have a currency less strong than the mark, favouring its exports. But it has in fact forced other countries to rely on the principles of its old currency (which it has had to give up), set up to combat inflation, even though the problem has been deflation for some time now. Globalization, through the euro, has been the driving force of Germany and other "frugal" countries, while countries like Italy have lost those jobs that are less paid in China: not being able to devalue, because there is no longer the lira, Italy has been forced to an internal deflation to maintain a minimum of competitiveness. The light of that liberal-democratic star prevented the European Union from using the euro as a vector of growth, turning it instead into an instrument for promoting austerity, just when the need to provoke demand was growing.

But two phenomena are totally changing this approach. The first is Trump himself. The war on China and its commercial expansionism also involves Europe, as American protectionism threatens its exports, particularly German exports. Germany now feels the need to

consolidate its home market and, perhaps, to resume the path of European integration, because its living space is in danger. It can no longer blindly rely on the defence of NATO, which Emmanuel Macron, by relaunching the political role of France in Europe, has described as "brain-dead". The second aspect concerns precisely the COVID-19 which, in fact, contrary to what happens in the United States, has, at least for the moment, proved to be - politically - a good thing for the Old Continent. It is precisely starting from the need for a common response to the pandemic that Germany and France have managed to coordinate those propulsive forces capable of provoking the solidarity necessary for the European Union's construction site, but for too long battered. The European Central Bank's readiness to react to the crisis was powerful and immediate (a total of €1,350 billion in emergency purchasing programmes). But the big news is the agreement that EU leaders reached on 21 July on a €750 billion recovery effort, the *Next Generation EU* instrument, to overcome the crisis caused by the pandemic. Heads of State and Government also agreed on a long-term EU budget for the period 2021-2027 of

€1,074.3 billion, which will support, among other things, investment in the digital and green transition. Together with the EUR 540 billion already available for safety nets (for workers, businesses and Member States), the overall recovery package amounts to EUR 2,364.3 billion. But, above all, the EU will raise funds by issuing bonds on the market, thus pooling debts and redistributing aid to those most in need. And this has happened by overcoming the clashes between the frugal countries of the North, which want rigour in public accounts, and the cicadas of the South, with Italy at the centre. This is an epochal change because Europe recognizes that liberal capitalism must be helped and guided: problems are not solved only through simple automatism. But for the moment it is premature to think about a conceptual return to the economic philosophy that led to the birth of the European Coal and Steel Community after the war, the core of the integration process. The pragmatism of Chancellor Angela Merkel has managed to drag her partners along the path of solidarity to overcome the urgency. Without these measures, the European Union would not have survived the crisis. But to move forward, we need a Community project

that cannot only express itself in an emergency. And in this area what has happened over the last twenty years is not encouraging.

The markets, in July, had contrasting movements, however, signalling the changes underway. The Dollar Index, which measures the strength of the greenback in relation to the major international currencies, lost 4% and against the euro almost 5%. Trump's US difficulties in the pandemic are partly the reason for this. But it is not yet clear whether the flight from the dollar has really begun: it could even be a rebalancing, as the American rate differential has narrowed. But gold has revalued by 13% in July and 30% since the beginning of the year and silver from lows has recovered 38% of its value. This, together with the rise of the Bitcoins (+58% since the beginning of the year, +24% in July), expresses the geopolitical uncertainties and the worried that concern the November vote on the US presidency.

EU initiatives have been well received by the currency markets. The euro managed to appreciate against the dollar, but also against the Swiss franc (+1% in the month, -0.89% since the beginning of the year).

However, the situation on the stock markets is very different. These give greater confidence to the United States and China. The country of Trump expresses the strength of its digital companies at the NASDAQ (+7.34% in July, +24.88% since the beginning of the year), but also the diversification of the production network and the flexibility of companies that in many cases recorded quarterly losses less than expected: the S&P gained 5.5% in July, but the Dow Jones Transport also rose by almost 9% in the month, although it still loses 8.3% since the beginning of the year, a sign that the economy is starting to move again despite the COVID-19. In China, the Shanghai Composite recorded +10.9% (+8.5% since the beginning of the year), an expression of the virus containment policy, but also of the ongoing repositioning on the domestic market. European stock exchanges are substantially negative. Only those expressing the strongest and best organized countries were partially spared, such as Germany, unchanged in the month, but still negative by 7% since the beginning of the year, or Switzerland, -0.38% and minus 5.75% since the beginning of the year. Eurostoxx at -15%

since the beginning of the year (-1.84% in July) indicates that the markets want operational evidence of the major initiatives undertaken. Above all, they expect greater clarity on the banking sector, which in the European system is the vector around which growth is organised.

Thinking of a world that is reorganising itself by favouring the geographical areas to which it belongs, the European Union is in a too early a stage of a more complex path compared to realities clearly defined as that of the United States or China. Certain taboos have been overcome, but now the markets are waiting for concrete proof. That light of universal liberalism-democraticism has perhaps gone out and the markets, like the states, are becoming aware of it, even if they continue blindly to see it waiting to rationalise new ideas that are timidly appearing. Central banks are providing all the necessary liquidity to support the international financial system in a phase of great transition to a new digital economy. The needle in the balance of the new geopolitics is the European Union, which for the moment remains a gamble for the markets, unable to assess

it: is it the star that does not exist or has its light not yet reached us?

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