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## **THE HIGH COST OF LOW PRICES. CHAP. 1: TIGER TIGER BURNING BRIGHT**

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*Macroeconomic and critical analysis of crisis. Historical outlines, prospects of growth, financial aspects and pro-European comments.*

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## Tiger tiger burning bright

It seems that the European golden age has really come to an end. The years included between the end of the Second World War and the first Oil Shock of 1977 laid the foundations for an organization of European Welfare that today seems to be, at least in some Countries, in decline. It is necessary to highlight how, in the period from 1950 to 1973, the average annual percentage rate of the inhabitants income growth of the 12 Western European States was of 3,9% (with the USA in rise of 2,4%). Between the 70s and the year two thousand, the growth was identical: all in all the western citizens incomes increased of 38,2%. The price trend at consumption presents incoherent features: superfluous things cost less than what is necessary.

Primary cause of this misalignment, whereunder harbour well past deeper and more serious problems, is the indivisible symbiotic relation between globalization and finance. Globalization, with the opening on wide spaces of the market with the fall of old boundaries of old controls, forged his new finance.

According to who writes, two are the dates that changed the world's economical organization.

The year 1989, with the fall of Berlin wall, marks the crisis both of liberalism and of communism. Indeed, a new ideology based on their fusion emerges. While in Western Europe liberalism was in use, that was based on the principle of freedom applied to the market, and in the Soviet Union communism was in use, that was founded on a development law based on society, from the fall of the opposition east-west emerges the marketism, that is its synthesis: a necessary and linear development law is applied to the market. The market is higher than any other social and cultural form, by degrading man at a mere consumer. He consumes as he exists and exists as he consumes. Pignatti says:

“ Theoretically, the principle of perfect competition, on which is based the economical and free trader thought, is not, as merkatism connoisseurs think, synonymous with the lack of rules and *laissez faire*, rather it identifies ideal features that allow to secure to the markets an efficient allocation of the resources among individuals. So, it is up to the policy making to move nearer the economic reality to that, unreachable, of perfect competition: by imposing adequate rules to the agents, by supervising and, in case, by sanctioning their anti-competitive behaviour through appropriate institutions.

The year 1994 saw the signing of the WTO agreement based on world trade. In five years with the entrance of China, the world changed into a single market, by then all the areas

more influential economically and politically in the world were united in an organization whose aim is the reduction of tariff barriers to international trade. This opening had considerable consequences firstly economically-financially, then socially. Capital, dematerialized on the internet, moved freely in search of cheap labour, of quicker bureaucratic systems and of lesser taxation, by making Europe, and the West, exporter of wealth and importer of poverty. Tremonti says:

“The principles and the form of the movement are different, but the overall effect is the same: the West exports wealth and imports poverty. The reasons of trade originally peculiar of colonialism are, in those terms, overturned. As a quid pro quo of its projection on foreign markets, the West doesn’t separate the colonial “dividend”, doesn’t benefit from the impressive flow of physical wealth that made opulent wide regions of the North.

On the contrary, the West started to operate and jointly to suffer a sort of huge “auto-takeover”. The poor’s immigration, in combination with the lengthening of life (ageing) of the western peoples, and “world” migration of capital activates, indeed, a process of “competition downwards” that erodes progressively the Western wealth. In particular, active egoism, typical of colonialism, by now is being replaced by a sort of passive altruism: historical colonialism and current auto-colonization are distinguished from the same economic Darwinism. Opposed, and above all regressive for the West, is instead the effect”.

This put directly in competition western salaries with eastern ones, by converging on a situation of eastern salaries and westerns costs. The fundamental issue, according to who writes, is that the WTO is an organization essentially economic, so it doesn’t set political aims. Nevertheless it would be advisable to put on strong positions on human rights plane. Because the state’s failed guarantee to Chinese workers of basic trade-union freedom, involves that one of the most influential productive economies in the world can produce in conditions aimed at slavery. The very low cost of Chinese exports is bound to realize a disloyal competition, all in all a dumping, on other Countries products that have to produce in conditions of better guarantees, but obviously of higher cost of labour and then of end product. The adjustment of manufacture’s conditions at lower cost will be, by then, the only way of survival at dumping. This, obviously, would involve not only the narrowing of trade-union freedom and of worker rights, but also the gradual fall of the middle classes towards poverty.

The world’s division between Asia producer of goods at low cost and America debt consumer, in turn drove to globalization, by exceeding by far, with its lots of numbers, smaller and more concrete numbers of productive economy.

Therefore, a strong double mutation developed; in a dimensional sense because the great

international banks took shape as ruler of mega-bank by becoming together “ universal” and “irresponsible”, in a functional sense as mega-banks applied in a radical way on global scale the new forms of techno finance, in particular the originate to distribute model.

The organization much more liquid, without barriers and dematerialized thanks to technology, of the capital market allowed a new and fresh redistribution of credit risk, the breaking of the old equilibrium between risk and liability and the opening of a clean asymmetry between the origin of the risk and liability for the risk. For all intents and purposes, through securitization, mega-banks gradually extricated themselves from their own original risk by transferring it on financial products purchased then by third parties attracted by the name of bond or by tempting yields, but also seriously unaware of the consequent assumption of the risk. However we are going to discuss it better in the fourth paragraph.

For years, then, after the fall of the control system of currency variations too, we lived in a dogmatic dream of market perfection urged by the 80s growth and the illusion of controlling politically and nationally a market that was by then, in fact, an international political power.

Ideological base was the neoliberal thought that, widespread beginning from the 70s in Anglo-Saxons academic environments, combined with the unhooking of dollar from gold, triggered a spiral of deregulation that reached all the economic sectors.

The renunciation of Ordoliberal thoughts led to the growth of world GDP , but also to a conjunction between “ monetary nationalism and market dictatorship” that prevents from conciliating low inflation , commercial freedom and financial stability. We should add that the barriers’ fall and the entire computerization lead to conclude that the number of the markets is decreasing and converging on currency or productive interconnected macro-areas. Therefore, it is clear that the critical situation of an area is bound to have direct effects on the other one and, then, on the entire market.

## Notes and list of references

[1] First line from The tiger by W. Blake, in Song of experience, London, 1794.

[2] Data provided by Maddison, updated by OECD and quoted in G. Toniolo, Produttività e benessere: Passato e Futuro dell'Europa, LUISS, the 28th of February 2013, p.8, available on <http://www.dis.uniroma1.it/~fsr/GT13AT.pdf>. Cf. also A. Rizzuto, L'Europa monetaria: dall'età dell'oro all'età dell'euro, Milan, Armando Editore, 2003, p. 258 and the following.

[3] The average annual charge for necessary goods per Italian family in 2012 is of 201,61 € (source istat: [http://dati.istat.it/Index.aspx?DataSetCode=DCCV\\_SPEMMFAM](http://dati.istat.it/Index.aspx?DataSetCode=DCCV_SPEMMFAM)), while the average minimum price of a low cost flight from Milan to London is of 7 €.

[4] Marx maintained: “ My point of view [...] conceives the development of the economical formation of society as a natural history process”. From this definition there were the following conclusions: 1) that the capitalist exploitation mechanism (that has its foundation in the surplus value's appropriation from the capitalist) represented a necessary phase to social development; 2) that all the countries during their modernization would have followed essentially the English way; 3) that the international socialist revolution would have occurred only when capitalism would have reached its maturity; 4) that the capitalism development arrived at a phase of full maturity would have produced firstly the passing of the middle classes and then the crucial dispute between a minority of great capitalists and the big working-class masses, on the basis of a huge process of concentration of productive assets; 5) that such concentration would have constituted the material basis, once achieved the process of capitalists' expropriation, of collectivistic production subjected to rules on socialist plane.

[5] Cf. D. Held and M.K. Archibugi, Timing globalization, Cambridge, Polity Press, 2008, pp. 93-118.

[6] Treccani, Dictionary of Economy and Finance, 2002.

[7] Useless would be the thesis according to that that China should take over the position that the Soviet Union had towards the USA. First of all because, unlike the USSR at that time, “ China has never had and has never thought of having an attractive and expansive ideological strength, [but] only an economic strength”. (G. Tremonti, La paura e la speranza, Milan, Mondadori, 2009, p.27). Secondly because is not clear yet if its return to world leaders will be in a Hobbesian way (through the rule of force ) or in a Kantian way (through the power of the law), but is at least sure that to this day China has been a pretty

diligent apprentice of the big international organizations (cf. Tommaso Padoa Schioppa, *La veduta corta*, Bologna, il Mulino, 2009, pp. 99 – 101).

[8] To the term *Geofinanza* in the *Encyclopaedia of Treccani*; term available on [http://www.treccani.it/enciclopedia/geofinanza\\_\(Enciclopedia\\_del\\_Novecento\)/](http://www.treccani.it/enciclopedia/geofinanza_(Enciclopedia_del_Novecento)/).

[9] Ziegler, *La privatizzazione del mondo. Predoni, predatori e mercenari del mercato globale*, Milan, Il saggiatore 2010, p. 157 and the following.

[10] Cf, among them, the article by M.Ricci *Da classe media a quasi poveri: ecco l'Italia degli sprofondati*, from *Repubblica* of the 12th of December 2013.

[11] Intermediation model for which the individual distributing a loan, after having chosen the debtors, transfers to others the loan by obtaining liquidity. The transfer occurs through securitization and/or credit derivatives, by allowing a quick conversion from illiquid asset to negotiable instrument, therefore liquidity (securitization).

[12] That saw following, in order, the gold standard until Bretton Woods, therefore, the gold exchange standard until the 15th of August of '71, and finally the current dollar standard; a historical path that privatized the changes and nationalized money.

[13] Above all in the so-called School of Chicago with L. Von Mises, but above all with M. Friedman.

[14] With, maybe, a straining, who writes sees in the Glass-Steagall Act the same inspiring ideas from Freiburg School. Indeed, the division between investment banks and savings banks, guaranteed a relative security on deposit in current account. The State, managed to co-ordinate both social justice requests, by aiming to avoid speculation with account holders money, and market freedom, because it didn't interfere with its natural outcomes, by leaving "free" investment banks. The abolition of this law allowed the unification of the two typologies of banks, by making the neoliberal State a mere spectator of market's matters by involving, according to who writes, the desertion of social economy of market.

[15] In ten years the rise was of around 11 billion of dollars (10,9845 billion of dollars in 1980 and 21, 9014 in 1990). However it wasn't an exceptional event because the trend was already rising from the second postwar period and only in the years from 2002 to 2008 rose of about 30 billion of dollars. Data provided by the World Bank, with the last updating on the 9th of November 2011, interesting graph available here.

[16] T. P. Schioppa, work quoted, p. 102.

[17] There will be, for example, a lot of hedge funds area euro, emerging market and global bond, too.

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