

NOTHING IS AS IT SEEMS. DIALOGUES ON DISPUTED ISSUES AND CONFLICTING THEORIES ON AUSTERITY, INEQUALITY AND THE EURO CRISIS

Theatrical adaptation by Mario Morroni and Riccardo Soliani on texts by Mario Morroni (2018)

SLIDE 1 - TITLES - (*music*)

[The protagonists are introduced on stage by the host. Max is wearing a suit and tie; Agatha a pantsuit, Forrest a pair of casual jeans; and Sarah a colourful pantsuit.]

HOST-

X Y interprets **Agatha**. Agatha is a professor at a British university.

X Y interprets **Max**. Max is a professor of Economics and Finance in the United States and consultant to a multinational financial company. He knows Agatha from many years.

X Y interprets **Forrest**. Forrest has recently completed his Ph.D. in Environmental Economics at the university where Agatha teaches.

X Y interprets **Sarah**. Sarah is in the third year of her Ph.D. in Anthropology at the same university as Agatha and Forrest. She has taken a few days' leave, to go with Forrest to a conference.

SLIDE 2 - DEPARTURE GATE - (*music*)

The protagonists casually meet at the airport. They are all heading to the same conference.
(The host retreats)

SLIDE 3 - FOG OUTSIDE THE AIRPORT

1. SARAH - Hey, look outside!
2. AGATHA - Oh yes, the fog's getting thicker.
3. MAX - The airport is completely blanketed.
4. FORREST - I can't see anything.
5. SARAH - I'm afraid we're going to be stuck here for a while.

SLIDE 4 - DEPARTURE PANEL

6. MAX - Stuck...and who knows for how long!
7. FORREST - Exactly.
8. SARAH - ...Listen, why don't we make the most of being stuck like this? ... I mean, could there ever be a better opportunity for someone like me, who understands very little of economics, to learn a bit from not one but three experts?
9. AGATHA - Well, why not. What would you like to know?
10. SARAH - For example, what happened to poor old Greece?
11. MAX - Oh right, "Poor old Greece"...
12. AGATHA - Why shouldn't she call it poor old Greece?
13. FORREST - Greece has had a real economic tragedy.
14. MAX - Alright, alright! I can see you're already ganging up on me.

15. AGATHA - (*laughing*) We can all learn a lot from discussing things with those who don't share our ideas. And this goes for you too, Max... shall we begin?
16. SARAH - Are people right to criticise austerity or not?
17. AGATHA - Stiglitz and many other Nobel prize winners, have openly challenged the policies of austerity.
18. SARAH - On what basis?
19. AGATHA - Actuating austerity during a full depression is a horrible idea. Even the International Monetary Fund (IMF) has admitted that some Mediterranean countries have gone too far in their implementation of restrictive fiscal policies.
20. MAX - It's all just talking! Sarah, don't listen to her... there are no alternatives to fiscal rigour! It's obvious that a country with too much public debt has to stop spending. It's inevitable.
21. SARAH - Well, that makes sense, does it not?
22. MAX - Exactly so, budgetary control creates confidence in the financial markets.
23. SARAH - Okay, confidence... but in what?
24. MAX - In the state's ability to pay back it's debt. If this doesn't happen, interest rates should then be raised. Their level is tied to the risk of not being repaid, and is run by the creditor if the state doesn't return the money at the due date.
25. SARAH - I see.
26. MAX - A lack of confidence means that interests must be high in order to attract stakeholders. Recall Argentina's crisis a few years ago: the Treasury Bonds interest rates shot through the roof, until inevitably they got to a point of insolvency which forced the government to repudiate it's own public debt.
27. SARAH - I'll admit that I have a very vague memory of Argentina's crisis.
28. MAX - Argentina's crisis is just one of many examples. A budgetary discipline favours confidence in the ability of government to pay off its debt; this reassures those who wish to buy Treasury Bonds, and also keeps interests rates low. Low interests also fosters economic growth because they encourage firms to invest. From this point of view, fiscal rigour can be considered as a route to growth.
29. SARAH - Yes, some political leaders used the metaphor of a household budget: the only way to pay off the debt is to reduce spending and make sacrifices.
30. MAX - Indeed, this example helps us understand that there is no alternative to a budgetary discipline. Does anyone want a coffee? The bar is closed, but there's a coffee machine further down.

SLIDE 5 - FOG OUTSIDE THE AIRPORT

31. SARAH - Look, the fog has thickened even more.
32. FORREST - However Sarah, the analogy between the household budget and the sovereign government budget is meaningless!
33. SARAH - Why would it be? It seems to me to make sense.
34. FORREST - Public debt isn't like the debt of a family.
35. AGATHA - You're right, Forrest: it's misleading, we can't envisage an economic system with the same mind-set that we adopt when we analyse the choices of individuals. Within an economic system, what one person spends is someone else's income. And let's not forget that the monetary authorities control the money supply and that governments can also regulate the level of taxation. Families don't have all these tools at their disposal.
36. SARAH - Yes, that's true!
37. AGATHA - But that's not all.
38. SARAH - What do you mean?
39. FORREST - You see, Sarah, if a family has a lot of debts, it's clear that it has to reduce its

- spending in order to repay the debt. However, when we're talking about the economic system, it's a different matter.
40. AGATHA - Exactly. An increase in public expenditure for the acquisition of goods and services may give rise to an increase in the national income, which makes it easier to pay off the public debt.
 41. SARAH - Really?
 42. AGATHA - This link between spending and income is counter-intuitive because it is in stark contrast to our individual experience of managing the family budget.
 43. FORREST - In other words, in macroeconomics nothing is as it seems.
 44. SARAH - Actually, the same thing often happens in physics: what is true isn't always what we see. We see the Sun change position during the day, not the Earth.
 45. FORREST - All we can see right now here is fog!
 - ...
 46. MAX - Here I am with the coffee!
 47. SARAH and FORREST - Thanks Max!
 48. AGATHA - This is exactly what I needed...
 49. MAX - (*turns to Sarah and Forrest with a joking tone*) During college Agatha was quite the coffee-dependent. She proudly represented the good ol' Italian with a healthy dose of passion for food.
 50. AGATHA - But I must admit I was, and still am, an awful cook.
 51. MAX - This we can overlook, the real problem is that you're a stubborn Keynesian! Saltwater economist.
 52. AGATHA - ... Yes, that's right..., I'm a true saltwater economist, as you call it.
 53. SARAH - I must confess I hadn't heard of that sort of economist.
 54. FORREST - Well, in the States they talk about economists as being freshwater or saltwater.
 55. SARAH - But what does freshwater or saltwater have to do with economics?
 56. FORREST - Freshwater economists are those, like Max, who teach at the universities near the Great Lakes. The most famous of these is the University of Chicago, a stronghold of the neoliberals, on the shores of Lake Michigan. The saltwater economists are those who work mainly at the various universities close to the Atlantic or Pacific coasts, and they belong to the various schools that are shaped, in one way or another, by the theories of John Maynard Keynes.
 57. SARAH - Now I understand.
 - ...
 58. MAX - On my way back I overheard that you were talking about astronomy...
 59. AGATHA - Even Adam Smith used to do it!
 60. FORREST - Nowadays hardly anyone dares to deny that the Earth goes around the Sun and spins on its own axis. However, the acceptance of the theory of heliocentricity was no easy feat. Just think about the trial, recantation and arrest of Galileo.

SLIDE 6 - GALILEO'S TRIAL

61. AGATHA - At least nowadays people aren't imprisoned for spreading scientific theories contrary to those that governments want their citizens to believe.
62. SARAH - Well, it's not exactly like that! Think of how many countries in the world are governed by ruthless dictators who use torture and the death penalty in order to dominate and terrorise their citizens. Even in some democratic states...
63. AGATHA - There's much hypocrisy around the subject... But then, in democratic countries authority doesn't show itself manifestly but instead as an anonymous and invisible force.
64. FORREST - The market is seen as an inhuman entity that dominates us and which must be heeded to. Often heard expressions are “reassure the markets”, “believe in the markets”, “the

markets are nervous”, “the markets require it”... Many believe that to placate the rage of the markets it’s necessary to sacrifice the largest number of victims possible: the younger generations that can’t find employment, the elderly that can’t take care of themselves, mothers or fathers that are unemployed, families that are forced to abandon their houses because they are not able to pay the mortgage. This deification of the market is one of the many exaggerations spread around. In reality, the markets are dictated by the interests of extremely powerful lobbies and reflect economic choices made by a limited number of big multinational enterprises.

65. AGATHA - You're right.
66. FORREST - The power of big enterprises affects public action. Think of the enormous influence on media, international organisations and governments exerted by the armaments, petroleum and automobile industries, not least the financial sector, which is now so dominant. And speaking of the power of finance and of Galileo...
67. MAX - Again?
68. FORREST - ...it's interesting to note that Bertolt Brecht advised directors intending to put the trial of Galileo on stage to have the cardinals played by actors resembling contemporary bankers.
69. MAX - (*Ironic*) Ah, that's where you were heading with the story of Galileo...

SLIDE 7 - THEORY OF HELIOCENTRICITY

70. AGATHA - Sometimes what appears to us be true is actually the opposite of the truth, just like the case of the Sun going around the Earth. The same thing can happen in macroeconomics. Take the idea of expansionary austerity: they play on deceptive personal experience, they are based on a flawed theoretical model, and they match the interests of those who hold power. Success guaranteed!
71. FORREST - Until someone, such as Galileo, comes along and demonstrates the inconsistency of these theories. And changes the course of events...
72. MAX - I don’t agree with you, it’s fundamental that within the South European countries a healthy budgetary discipline be applied that reduces the public debt across a gradual diminishing of the public spending.
73. SARAH - Of course, there’s no denying that a large public debt will weigh down on the future generations.

SLIDE 8 - FOG OUTSIDE THE AIRPORT

74. FORREST - Sorry for interrupting you Sarah, but take a look outside; the fog's really thick now. Strange, at this time of year.
75. SARAH - I think that Max’s right and that the example of the family makes perfect sense. It's obvious that if you're in debt you have to tighten your belt so you can pay off what you owe.
76. AGATHA - No, the comparison with a family in debt is misleading, as we said earlier, because it doesn’t take into account the link between spending and income, which is highlighted by the fiscal multiplier.
77. SARAH - Oh (*with excitement*), and what's this so-called multiplier?

SLIDE 9 - THE FISCAL MULTIPLIER

78. AGATHA - Putting it as simply as possible, the fiscal multiplier explains why an increase in public spending leads to an increase in national income, which ends up to be larger than the initial increase in public spending. For example, with a multiplier equal to five, an increase

in public spending for the acquisition of goods and services of £1,000 generates an increase in national income of £5,000

79. SARAH - I don't get it... It seems like the multiplication of the "loaves and the fishes".
80. AGATHA - No, it's macroeconomics.
81. SARAH - But how can an increase in public expenditure, in investment or in the acquisition of goods and services lead to a more than proportional increase in the national income?
82. AGATHA - You need to keep in mind that the spending of one person is the income of another, an income that itself will be spent and therefore becomes the income of others. This increase in their income boosts their consumption and generates an increase in income in their suppliers, which in its turn will be spent to buy goods and services. The process continues *ad infinitum*...
83. SARAH - It's like the idea of the perpetual motion machine!
84. AGATHA - No, because at each step only part of the new income is spent on consumption. A very simple mathematical equation, which calculates the progression to infinity, allows us to determine the total growth of national income due to the initial rise in public spending.
85. SARAH - So the multiplier demonstrates that the national income increases more than the initial increase in public spending.
86. AGATHA - Exactly. It's in every economic manual! Naturally, this is only true in conditions of underuse of productive capacity.
87. SARAH - What do you mean by underuse of productive capacity?
88. AGATHA - When there's availability of unemployed labourers and unoccupied infrastructures, the productivity can grow with the increase of demand. The problem is that the multiplier also works in the opposite way.
89. SARAH - That is?
90. AGATHA - In short, a reduction in public spending gives rise to a drop in income or GDP greater than the initial decrease in public spending. This drop in income leads to a lowering of taxes and revenue, which tends to raise the deficit and the public debt.
91. MAX - Agatha, in your example the value of the multiplier is really high! I'd like to point out that if this multiplier is equal to one, there isn't any multiplicative effect. Besides, it's not always easy to calculate how much the multiplier amounts to. It could be really low, almost zero.

SLIDE 10 - FISCAL MULTIPLIER - AN EXAMPLE

92. AGATHA - It was just an example to explain the concept clearly! But the International Monetary Fund (IMF) has acknowledged that in past years the values of the fiscal multipliers have been massively underestimated. The corrections made by the IMF itself were far too late, when the die had already been cast.
93. FORREST - One of the myriad cases of 'post-truth'!
94. AGATHA - Yes, unfortunately corrections of wrong estimates and computations are frequent and always much too late. It's estimated that after 2012, in the Mediterranean countries, the actual fiscal multiplier was about 1.5-2%.
95. SARAH - If I understand correctly, this has led to an underestimation of the negative effects of austerity policies.
96. AGATHA - Yes, exactly. The Monetary Fund had based itself on values registered before the crisis.
97. FORREST - Wrong estimations also depend on the econometric models based on the existence of a single perfectly rational, representative agent.
98. SARAH - (*quite surprised*) A representative agent?
99. FORREST - The representative agent is an analytical device, used to easily calculate the optimal aggregate choices of the people operating within an economic system. It falsely

bases itself on the existence of a single agent, meaning a single “representative” subject, whose economic decisions correspond to the average choices of all the consumers and all the suppliers.

- 100. MAX - The representative agent is mostly used for building macroeconomic models based on a rigorous analysis of the individual decisions.
- 101. AGATHA - In this case the rigour and formal elegance lead to wrong conclusions. A crucial aspect of the financial crisis isn't taken into account: what I'm talking about is the interaction between different operators that are either only partially or wrongly informed. Many research institutions were deceived by their very own models.
- 102. SARAH - (*incredulous*) I can't believe it. The use of an analysis instrument so rough, like the representative agent, makes me think of someone using a club to disassemble a delicate and complex contraption.
- 103. FORREST - (*with a resigned sigh*) A simple solution always exists to a complicated problem, but it's nearly always wrong.
- 104. AGATHA - The head of the economic studies of the IMF, recently revealed that they were flabbergasted when, at an in-house seminar, a young intern demonstrated that the estimates sent out by the IMF regarding the fiscal multiplier were totally wrong.
- 105. SARAH - Did this intern get the Nobel Prize for economics?
- 106. MAX - You're kidding!
- 107. FORREST - His name wasn't even mentioned. He was just referred to as an anonymous “intern kid”.
- 108. SARAH - So it was someone who wasn't part of the politics game... someone who didn't count for anything.
- 109. AGATHA - It's because of these skewed estimates that governments underestimated the negative impact of austerity on the GDP. As a consequence, they have systematically miscalculated production and employment forecasts. It's a sort of collective deception, and the truth always comes out too late.

SLIDE 11 - INCORRECT FORECASTS

- 110. FORREST - Yes, that's right.
- 111. MAX - The governments have made the mistake of implementing fiscal consolidation mainly through tax increases, whereas the beneficial type of austerity involves reducing the public debt through cuts in public spending.
- 112. AGATHA - Look, Max, your recipe for austerity through a reduction in public spending doesn't hold water, because it involves much wider recessive effects than policies of austerity based on raising taxes.
- 113. FORREST - All the South European governments have reduced public spending.
- 114. AGATHA - In 2012 all the members of the European Union accepted the so-called Fiscal Compact proposed by Germany.
- 115. SARAH - What does the Fiscal Compact involve?
- 116. AGATHA - It stipulates budgetary equilibrium and a progressive reduction in public debt over twenty years, to achieve the desired ratio of...
- 117. FORREST - ...of 60% of GDP!
- 118. AGATHA - Reducing the public debt by 60% in 20 years means facing a deep and prolonged recession.
- 119. SARAH - If so, why did they accept the Fiscal compact?
- 120. AGATHA - Fear of international speculation on government bonds.
- 121. SARAH - Why? Is it dangerous?
- 122. MAX - Yes, it's very dangerous for public finance, because it can lead to the unsustainability of the interest rate that countries have to pay to sell their bonds.

123. FORREST - Many thought that the Fiscal Compact was a way to gain respectability in the eyes of Germany.
124. MAX - Credibility plays a fundamental role in economics. The interest rates that the various countries have to pay to sell their government bonds are extremely susceptible to rises in the deficit of the public budget. That's why Germany wants the countries of the European Union to relinquish the power of control over their public budgets to the European Commission.
125. SARAH - But in that way there's less democracy!
126. MAX - There's no alternative to fiscal rigor. A large public debt slows economic growth.
127. AGATHA - This is what Rogoff and Reinhart maintained in a study that was considered by many politicians as the "definitive scientific proof". Now we all know that the study was seriously flawed, as the authors themselves later admitted.
128. SARAH - Really, is that so?
129. AGATHA - And it doesn't end here, some studies by the IMF have shown that the article by Alesina and Ardagna presenting the intellectual basis of the concept of expansionary austerity contained serious errors.
130. SARAH - How is that possible?
131. FORREST - Those errors were largely discussed within specialized newspapers.
132. AGATHA - The point is that slow growth isn't a consequence of public debt, but the opposite: slow growth gives rise to a high public debt-to-GDP ratio. To decrease the debt you need to encourage growth.
133. MAX - It's the crisis, not austerity, that's the cause of the increase in public debt.
134. AGATHA - Yes, Max, but you won't admit that austerity makes it worse, it increases, instead of reducing, the public debt. This has occurred in all the countries of Southern Europe. And this is due to the collapse of GDP. The default risk grows, and you can be sure to say goodbye to financial trust and stability!
135. FORREST - The case of Greece highlights the failure of the adopted policies of austerity: so many have lost their jobs, yet the public debt is still rising.
136. AGATHA - Contrary to what some think, it's clear that austerity is not expansive. The policies of austerity create a vicious circle: they become a noose around the neck that inhibits economic growth and thus prevents the government from paying the debt. Austerity is purely and simply masochistic.
137. FORREST - Furthermore, austerity has furthered inequalities in the distribution of income.
138. AGATHA - Truthfully, the rise of inequalities started long before the policies of austerity.

SLIDE 12 - INEQUALITY

139. MAX - I hope you both recognize that inequality is fundamental for economic growth. The financial rewards gained by those who produce wealth are incentives that favour the assumption of business risks, innovations and investments.
140. AGATHA - I don't deny it at all. Actually I'll remind you that Keynes affirms the necessity of a certain level of inequality in the distribution of wages.
141. MAX - So you're forced to say I'm right.

SLIDE 13 – ECONOMIC GROWTH AND INEQUALITY

142. AGATHA - No, I am not! Keynes intended a certain level of inequality in the distribution of income, not the enormous differences that have appeared in the last three decades. It's a matter of proportions. There's a big difference between 30 to one, and 300 to one!
143. MAX - In any case you'll agree with me that high taxes on the rich are very destructive because they lower investment.

144. AGATHA - No, data actually suggests the opposite. A redistribution of income in favour of the less privileged has a positive impact on growth.
145. FORREST - The policies of austerity have reduced the standard of living, security and individual opportunities. The process of growing inequality seems to me to be near the point of collapsing.
146. AGATHA - Inequality is harming our democracy.
147. SARAH - How much more can income inequalities increase without the destabilization of societies?
148. MAX - Frankly, to me all this interest in the distribution of income seems to be exaggerated!
149. FORREST - I had no doubt.
150. AGATHA - Can I tell you something, Max? At times you astound me! Yes, you, the young radical I once knew... In our discussions at college you were always criticising me from a Marxian position.
151. MAX - What can I say! Moving to the United States opened my eyes. Changing your mind is no more than proof of your intelligence.
152. AGATHA - Come on Max, don't be upset!
153. MAX - You know what? I'm going to head over the duty-free section.
154. AGATHA - Max...
155. MAX - I'll see you later...

SLIDE 14 - DUTY FREE

156. AGATHA - Don't take any notice of him. I've been used to his sudden outbursts since the days we were at university together. They blow over rapidly...
157. SARAH - Apart from this last little show, Max seemed very accommodating and nice, especially considering the amount of times he was backed into a corner by the pair of you.
158. FORREST - I really didn't expect it. I've assisted a few of his political debates... there he was very aggressive, to the point of being rude. On the other hand, it's not uncommon for insults to be exchanged between neoliberals and Keynesians.
159. AGATHA - Yes, I know very well, there's a complete lack of communication... But you all saw, between him and me it's different.
160. SARAH - How come?
161. AGATHA - He, too, knows, deep down, that the idea of expansive austerity is very weak. It's just that austerity is handy to him because it reduces the dimension of the state and weakens the committees.
162. FORREST - The fact that the anti-austerity positions won from the point of view of the intellectual debate and consent among economists, doesn't mean however that they won on the political plane. Expansive austerity still has wide consent.
163. AGATHA - Going back to Max, his attitude towards us reveals a normal trait of his personality.
164. SARAH - In what way?
165. AGATHA - In public he acts quite aggressively, but in private he usually changes completely. He doesn't care about winning at all costs.
166. FORREST - As long as the European governments keep on following neoliberal recipes, Max is the winner. And he's perfectly aware of this.
167. AGATHA - Look, Max is on his way back.
168. MAX - I just saw an announcement on the screen down there: for another hour they won't allow any departures. Such a fog in this season is quite strange.
169. SARAH - What a disaster!
170. MAX - It really is! Mightn't this too be the euro's fault?

171. SARAH - By the way, what do you think of the opponents to the euro?
172. AGATHA - In the past, countries with hegemony over a monetary zone tended to have an almost permanent trade deficit, as in the case of Britain in the 1930s and the United States after the Second World War.
173. MAX - You're going back a bit , Agatha.
174. AGATHA - The problem of the euro, dear Max, is that Germany has a considerable trade surplus. Its exports are by far larger than it's imports, with a surplus that rises to about 9% of the GDP.
175. MAX - Come on, Agatha, that doesn't make sense. Germany isn't responsible neither for the global financial crisis nor for the financial bankruptcy of Greece!
176. AGATHA - That's true, but Germany is definitely responsible for the inability of Europe to come out of the crisis. Germany imposed the policies of austerity that are destroying the economies of the Mediterranean countries because the ruling classes of the countries of Southern Europe accepted them.
177. MAX - They had no choice since they had no bargaining power. The countries of Southern Europe that have lost competitiveness should copy Germany: reduce labour costs so as to save themselves without having to turn to the other countries of the Eurozone for help. This should be seen by all as making sense.
178. SARAH - Put like that, it seems to me that Max is right. Countries in difficulty should copy the strategies of those who've met with success.
179. AGATHA - Oh yes, the Germans are proud of the gains in competitiveness of their manufacturing industry and of the success of their exports. I appreciate that, but Germany expects the other countries to do the same, forgetting that a policy based on lowering real salaries presupposes that the others don't follow the same policy.

SLIDE 15 - REAL WAGES

180. SARAH - Agatha, you speak of "real" wages, what does that mean? Are there "unreal" wages?
181. AGATHA - No, no. When we talk about real wages we mean the purchasing power of salaries.
182. SARAH - I get it.
183. AGATHA - Policies based on lowering real salaries cannot be followed by every country, because it's obvious that not all countries can simultaneously have commercial surplus, or rather, that in every country the exports are bigger than the imports.
184. SARAH - I see. If a country exports more than it imports, there has to be another that imports more than it exports.
185. AGATHA - Exactly. Anyone who thinks that recovery involves every country acquiring competitiveness and accumulating an exorbitant surplus in its foreign current accounts can't add up. Do you remember, Max? They used to tell us during our lessons for our masters!
186. FORREST - Yes, without the euro, Germany's gain in competitiveness would have led to an automatic re-evaluation of the mark, which would have penalised German exports, wiping out the competitive advantage.
187. SARAH - It's a bit complicated, but I'm beginning to understand.

SLIDE 16 - GERMAN TRADE SURPLUS

188. AGATHA - It's undeniable that the German trade surplus is to a great extent the other side of the coin to that of the trade deficit of the Southern European countries.
189. SARAH - How?

190. AGATHA - The Mediterranean countries would have devalued their currencies, making their exports less costly, while Germany would have seen the mark be revalued, with negative effects on its exports. But now that there's the euro, the Southern European countries can't devalue in relation to Germany. In order to restore equilibrium to the balance of payments, they've been forced to reduce domestic demand drastically to lower their imports.
191. SARAH - Of course! This is a crucial aspect of the euro that I hadn't considered.
192. AGATHA - Yes, it's wrong to think that market mechanisms in themselves will lead to integration between economic systems which have markedly differing characteristics.
193. FORREST - A monetary union between such economies gives rise to an increase in the divergences, not a convergence. To eliminate them it's necessary to adopt compensation mechanisms.
194. AGATHA - There's no doubt.
195. MAX - You don't understand that the countries that have lost competitiveness have to reduce costs. They have no alternative.
196. AGATHA - The aim of austerity isn't merely a reduction in the public debt, but also the re-balancing of the trade deficit of those countries that within the Eurozone had lost competitiveness and weren't able to devalue their currency. This re-balancing was deemed necessary to preserve the euro.
197. MAX - (*a bit irritated*) And the aim was achieved, given that in all the countries in deficit, the trade deficit was practically annulled.
198. AGATHA - Yes, but mainly thanks to the reduction in imports. In the Southern European countries many people are now realising how high and long lasting the cost of those policies has been.
199. FORREST - Not being able to devalue the currency, to make the euro work it's necessary to lower wages and the level of social protection. This is a lethal trap.
200. AGATHA - Today in the Mediterranean countries there are many who see them as having failed, but from Germany's point of view they haven't been a failure. The German banks and manufacturing industry are greatly advantaged because of the policies set in motion by the European Union.
201. FORREST - The policies of austerity are seen as a useful means of reducing the role of the state in the economy, weakening the bargaining power of trade unions, reducing labour costs and facilitating the approval of the so-called structural reforms.
202. AGATHA - Not only, the policies of austerity have greatly diminished competitiveness in the Southern European countries, because a weak demand means underuse of machinery, which, as we've seen, leads to a decrease in productivity, a rise in production costs per unit of production and a consequent reduction in competitiveness. But that's not all: with a weak demand, who would invest in research and development? And so we have further negative effects on competitiveness of the countries of Southern Europe. This was undoubtedly a big boost for the exports of German manufacturing firms...
203. MAX - Yet Germany implemented austerity policies and her competitiveness increased.

SLIDE 17 - AUSTERITY

204. AGATHA - Look, Max, since 2008 Germany has been under less austerity than any other country of the Eurozone.
205. FORREST - There are winners and losers.
206. MAX - The expansion of the German manufacturing industry and trade surplus are due to the success of the economic policies adopted since the beginning of the last decade, before the onset of the crisis. Whether you like it or not, all the Southern European countries should follow German economic policies.

207. FORREST - This is the point: Germany is seen by many in the Eurozone as a model to imitate, instead of the source of their current problems, as things in fact stand.
208. AGATHA - From the German perspective, the problems of the Eurozone are profligate governments. This is a totally inadequate view of the Eurozone's current situation. Yet, it's a point of view shared by many, even outside Germany.
209. FORREST - The value of the euro has become very low for Germany. This goes in favour of its exports. Whereas the inflexibility of the exchange rate prevents the southern European countries from regaining competitiveness.
210. AGATHA - The responsibility for the budget imbalances in foreign current accounts should be shared among the nations with a surplus and those with a deficit. The countries with a surplus should raise domestic demand by increasing salaries and public spending, so as to increase their imports from those countries with a deficit.
211. MAX - But it's very difficult to convince Germany and certain other countries of Northern Europe that have a trade surplus to increase labour costs and to consume and invest more. You can't force Germany to lose competitiveness, or to be less virtuous.
212. AGATHA - It would be enough to increase wages and investment in infrastructures to cancel out its trade surplus in relation to that of other European countries.
213. FORREST - In short, the euro has these serious faults: first, it requires an equal exchange rate among countries with very different economic structures; second, it doesn't provide adequate means for enacting effective anti-cyclic policies; and third, the public debt is in a currency that is not under the control of the central bank of the country issuing the debt. It's as if the public debt was in a foreign currency. The euro is unsustainable and, as I said before, the European Union is not reformable.
214. AGATHA - The risk is that the European Union breaks up.
215. SARAH - It's already starting to break up with Brexit.
216. FORREST - Anger has been building up everywhere. The outcome of the Brexit referendum was strongly influenced, on the one hand, by the opposition to the policies run by the European Union, on the other, by the fear of the increasing waves of immigrants.
217. AGATHA - Brexit is worrying, wouldn't you say?
218. MAX - For sure, Brexit will not make life easier for the British.
219. AGATHA - I'm worried by the possibility that Germany will gain even more power.
220. FORREST - The European Union might be over very soon with the progressive emergence of Eurosceptic governments.
221. MAX - If the European Union breaks up, it'll be ruinous for us all!
222. AGATHA - Including for the German people. The gains from their predominant position may turn out to be short-term for them.
223. SARAH - Look outside. It looks like the fog is clearing; the wind has picked up a bit.
224. FORREST - Yes, you're right... The boarding gate has just been opened. We need to go!
225. SARAH - Yes, we need to hurry as well. I really hope that there will be another chance to continue this discussion. I've understood many things that up until today weren't clear to me.
226. AGATHA - I'm happy that our discussion was useful.

SLIDE 18 – AIRPORT - STARS

227. FORREST - The wind has completely cleared the fog. Look at that magnificent starry sky.
228. AGATHA - Oh, I can't find my ticket!
229. MAX - It will be in your bag somewhere, don't worry.
230. AGATHA - Ah, here it is. Let's see where I'm sitting... 27B.
231. MAX - (*pleasantly surprised*) You're kidding me, we're sitting next to each other. (*Pleading and ironic at the same time*) But please, I beg you, enough of economics...

Notes

Cues 16-44, Morroni (2018, ch. 3).
Cues 51-56, Morroni (2018, Prologue).
Cues 60-96, Morroni (2018, ch. 3).
Cues 97-103, Morroni (2018, ch. 2).
Cues 104-136, Morroni (2018, ch.3).
Cues 137-151, Morroni (2018, ch.1).
Cues 153-166, Morroni (2018, ch. 5).
Cues 170-200, Morroni (2018, ch. 6).
Cues 201-204, Morroni (2018, ch. 3).
Cues 205-222, Morroni (2018, ch. 6).
Cues 223-231, Morroni (2018, ch. 9).

Reference

Morroni M. (2018), *What is the Truth About the Great Recession and Increasing Inequality? Dialogues on Disputed Issues and Conflicting Theories*, Cham, Springer Nature.