How the ECB destroys the industrial fabric: practical case and solutionDear reader, Mark is a buyer in an industrial group. The group manufactures jacks and, in particular, Marc is responsible for the purchase of the small engine that makes it work ...By The Valiant Small Economist/28 July 2017/0 Views

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By The Valiant Small Economist28 July 20173 Views

Dear reader,

Marc is a buyer in an industrial group.

The group manufactures jacks and, in particular, Marc is responsible for the purchase of the small engine that operates these cylinders.

It is a simple piece with little added value.

By the time Marc joined the company**This piece was made in China**. It cost 15 € to produce against 18 € in Western Europe.

Parenthesis: There is a tendency to believe that companies relocate to China to divide their production costs by two or three. This may have been true in the last century, but it has been a long time since reality has been in tens of percent ... at best.

The cost of the part is calculated on leaving the factory. From China it is also necessary to**transport**, the**storage**, the**insurance** and especially**The cost of capital**

In fact, Marc buys 20,000 pieces per year and has to keep one year of stock in Milan to deal with the vagaries of production, transport, clearance, etc.

Marc must therefore immobilize the equivalent of 300 000 € of stock permanently to bring his pieces from China.

It is 300,000 euros which do not serve to develop the company: There is a significant opportunity cost. How much would this capital bring us if we did something else and how much we expect today. That is the cost of capital.

Shareholders and creditors expect a certain return on capital used by the companyDepending on the risk and other investment opportunities.Given the low rates, creditors do not have many options to invest their money elsewhere and are therefore lowering their expectations.

In Marc's firm, however, for good or bad reasons, they charge 10% of the cost of capital, taking into account the expected return and the costs of the financial service.**Marc's stock costs him € 30,000 a year from an accounting point of view.**

It is necessary to add 10% of storage costs, 10% risk of obsolescence and 5% of insurance, that is to say in total:

10% capital deduction
+ 10% storage
+ 10% risk of obsolescence
+ 5% insurance
____
= 35% extra cost for a piece from China

However, none of its extra costs apply from Europe: proximity and industrial expertise make it possible to produce in tense flux: no immobilisation, no stock, no obsolescence, no insurance.

Finally in full costs the Chinese coin costs 20,25 € against 18 for the European coin.

And it's not counting the hidden costs of managing a partner in China, quality control reinforced on one side ... And the benefits of the proximity of a factory in Europe without jet lag or cultural barrier on the other .

And what do you think Marc did ... He relocated his play to Europe.

It so happens that Marc has the humanist fiber and fought for this project which had initially made his managers smile.

But many companies are not as good as Marc's and have only 1 or 2% capital cost (the effective rate if they had to borrow it from the bank).

Extremely low rates therefore do not encourage them to relocate their activities in Europe as they travel, transit and store millions and millions of coins across the globe against common sense.

But imagine that the ECB's key rates are no longer at 0 but at 3% or even more ... The cost of capital would increase so much ... And then you can be sure that the relocation movement will accelerate.

The low rates today prevent the relocation of our industries, even though this is a natural process.

On the other hand, Marc's engine that had been relocated from France to China did not return to France but to Italy.

The problem was not even directly the cost of production of the engine: it was simply no longer able to produce this single piece in the hexagon.

The case of Martin is not isolated. It is a movement that is almost invisible in France but very powerful in Germany, Austria and Italy.

And this despite**Sabotage on the part of the European Central Bank**Who prefers to save his bankers ripoux than his economy.

And this**Despite the sabotage of those who govern us**andWho want to put an end to the industry: Jean Pisani-Ferri, the economist who wrote Emmanuel Macron's program, predicts the disappearance of one million industrial jobs in the next 10 years. It would be more accurate to say that he programs them by pure ideology.

But the reality for those who deign to observe is that they are preventing the natural ebb of globalization, a movement of relocation that would nevertheless carry activity, jobs and growth if the state does not, Was so dependent on its free debt.

It is**The 4th industrial revolution**Which is played here (I'll tell you soon).

Fortunately, Germany is at the forefront on this subject ... At least we can always get a job in the Ruhr.

Meanwhile, it is urgent to support our most talented SMEs and all the Mark who are fighting against the desertification of our economy on a daily basis.

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And especially outside the pockets pierced by banks that deserted the ship a long time ago.

To your good fortune,

Olivier Perrin