

EAPN

# Getting Out of the Crisis Together

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The EuroMemo Group: [www.euromemo.eu](http://www.euromemo.eu)



# The EuroMemo Group

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- EuroMemo Group established in 1990s, now in its 17<sup>th</sup> year
- Brings together heterodox economists from all over Europe in a Think-Tank/ Network to promote alternatives to orthodox theories and policy practice
- A broad mix of economists/ political economists with common interests
- Publishes annual report in December, undersigned by 500+ European economists



# Fundamental Principles

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- Commitment to defending and improving social justice, the distribution of social resources and promoting sustainable economic and ecological development in Europe and beyond.
- Strong sympathy for the European Project but NOT for the recent neo-liberal European Project
- Strong commitment to collective solutions of social and economic deficiencies;
- Strengthening statehood at central but, above all, at local level through the creation of a strong democratic civil society



# Critique of Current European Project & EU Crisis Management

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- Fundamental deficiencies include:
- Asymmetrical Policy Architecture
- Imbalance of Policy Objectives
- Poor diagnosis of the Crisis
- Flawed prescriptions
- Conclusion: Inability to learn from and adjust to weaknesses of governance/ failed policy-mix



# Asymmetry of Policy Architecture

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- Institutional Subordination of Fiscal Policy to Monetary Policy (i.e. of democratically answerable to unanswerable ECB); SGP
- Consequent subordination of social policy to constrained fiscal policy
- Petrified separation; effective non-coordination of macro-economic policy  
Limited role for European Parliament
- Unanimity Principle Paralyzes Reform of macro-policy structures and policy preferences: Limited scope for QMV

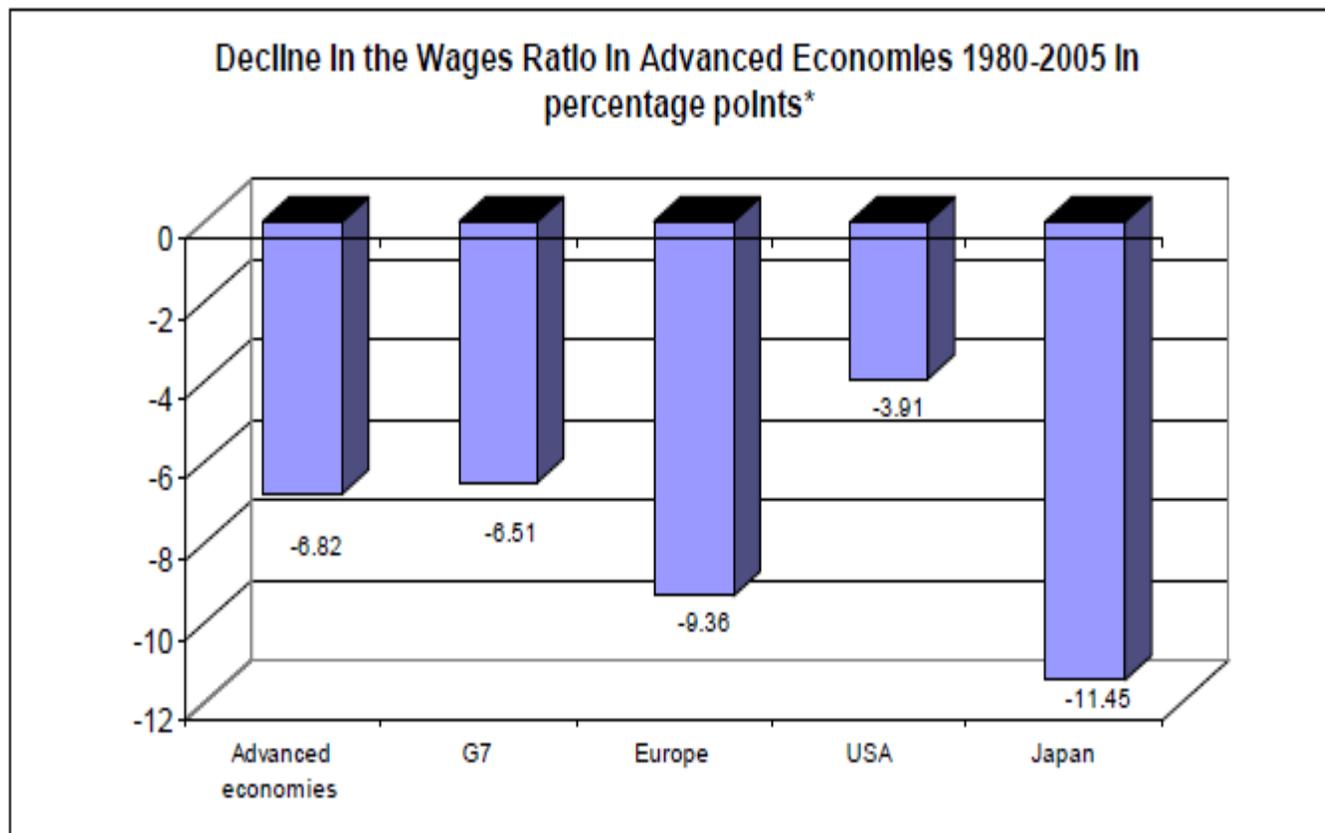


# Primacy of Fiscal Consolidation

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- German blueprint for a) EMU, strengthened by b) Stability and Growth Pact c) recent commitments to neutral budgets in the medium term and d) ‘debt-brakes’ (Germany and Spain)
- Deflationary imperative (Bundesbank) requires austerity, even when it is (cyclically) inappropriate
- Combination of ‘supply-side’ austerity and export-led growth models are worryingly naïve
- The neo-liberal paradigm is being reassembled despite the lessons of the global crisis

# A Further Redistribution in Favour of Capital? > Wage Ratio 1980-2005



Source: IMF, *World Economic Outlook* April 2007, Data for Figure 5.7



# Underestimation of the Nature of the Crisis

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- ❑ Not just a crisis of the financial sector, of the business and trade cycle BUT
- ❑ An existential crisis of capitalism and its over-dependence on monetary accumulation (casino capitalism)
- ❑ A structural crisis of industrialism: limits of quantitative growth; market saturation; resource depletion; ecological damage
- ❑ Global crises of demographic imbalances
- ❑ Sovereign debt not extreme (higher levels in wartime; Europe's crisis akin to shock of war)



# Wrong Prescriptions

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- ❑ ‘Crowding-In’ private investment via public and household austerity **WILL NOT WORK**
- ❑ Europe cannot export its way out of recession
- ❑ ‘Returning markets to normality’ (Trichet 2010) risks repeating past follies
- ❑ Austerity is already increasing social disparities, poverty **AND** nationalist preferences; i.e. threatening to destroy solidarity
- ❑ Austerity will make the sovereign debt crisis worse



## Failures to Coordinate & Harmonise

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- ❑ The global crisis was triggered by casino capitalism BUT advanced states presided over the birth of the casino (deregulation)
- ❑ The EU talks about ‘cohesion’, ‘coordination’ and even ‘harmonisation’ but has achieved limited success in vital fields
- ❑ Europe’s social ambitions are evidence of this mismatch between rhetoric and the real need to fix the gaping holes in fiscal and monetary policy



# What is needed: General Means

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- ❑ Co-ordinated Macro-economic Policy; removal of ECB independence for goal-setting
- ❑ Reform of the SGP to stress sustainable growth and employment as primary goals
- ❑ Strengthening the function of the state as provider of public goods
- ❑ Enhancing democracy through honest and pragmatic discourse at the level of local, national and regional (EU) civil society



# Practical Measures 1

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- ❑ Flexible anti-cyclical monetary and fiscal policy: enhanced macro-stabilisers
- ❑ Support for euro area through common Eurobonds and effective fiscal union
- ❑ An EU fiscal profile which includes EU-level taxation and deficit spending;
- ❑ Stronger EU structural policies to promote convergence of periphery; >>
- ❑ Sorting out chronic external imbalances through a European Clearing Union which commits MS to reduce surpluses as well as deficits
- ❑ Abolish the dysfunctional ‘debt-brake’



## Practical Measures 2

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- Strengthen solidarity by outlawing ‘free rider’ positions (low levels of capital taxation, weak regulation, lax compliance policing, secrecy)
- Harmonise tax systems:
  1. Minimum rates of Corporation Tax
  2. Common Consolidated Corporation Tax Base
  3. Country-by-Country Reporting of Turnover for Multi-National Corporations



# Practical Measures 3

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- ❑ Strengthen Progressivity in Income Tax as precondition of redistributive Social Policy
- ❑ Restore Progressivity in CEECs that have introduced Flat Tax Systems
- ❑ Reverse trend towards regressive dependence on indirect taxation
- ❑ Accelerate proposals for an international FTT
- ❑ Outlaw tax havens & secrecy jurisdictions
- ❑ Outlaw shadow banking
- ❑ Outlaw tax avoidance



# Practical Measures 4

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- Adjust state expenditure away from military and high-carbon technologies towards low-carbon technologies, education, training, innovation as real basis for SMART growth
- Explore introduction of a basic social income: ‘Poverty-Proof Minimum Income’
- Temporary public control of the banking system; separation of investment banking from retail banking
- Create EU-level independent Credit Ratings Agency



# Solidarity NOT Fragmentation

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- The remarkable success of the European Project in maintaining peace and establishing a vision of shared values must be enhanced, not eroded by further redistribution towards wealthy individuals and powerful corporations
- Further large-scale enlargement is very unlikely but this does not exclude the creation of a broader ‘commonwealth’ of European states committed to bequeathing a decent, humane and just Europe to future generations rather than to the ‘efficient market’ hypothesis



# ‘Improving Economic Governance in Europe’

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- Europe 2020 looks like an asymmetrical ‘business as usual’
- The record of the EU in the current crisis has been an object-lesson in mis-management
- See: [www.euromemo.eu](http://www.euromemo.eu)